

STATE OF MINNESOTA
DEPARTMENT OF COMMERCE
SAINT PAUL, MINNESOTA

REPORT OF EXAMINATION
OF
PRIMEWEST HEALTH
ALEXANDRIA, MINNESOTA
AS OF
DECEMBER 31, 2009



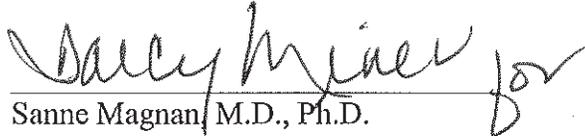
Protecting, maintaining and improving the health of all Minnesotans

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

PRIMEWEST HEALTH
Alexandria, 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 Primewest Health 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: 8/27/10

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Protecting, maintaining and improving the health of all Minnesotans

August 12, 2010

The Honorable Sanne Magnan
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

PRIMEWEST HEALTH
2209 Jefferson Street, Suite 101
Alexandria, Minnesota 56308

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 #10-008 directed that the examination include a determination of the financial condition of PrimeWest Health (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 two report findings which have been addressed by the Company.

HISTORY

The County Boards of Commissioners of Big Stone, Douglas, Grant, McLeod, Meeker, Pipestone, Pope, Renville, Stevens and Traverse Counties (hereinafter referred to as Member Counties) executed a Joint Powers Agreement, during December 1998, whereby, under authority granted by Minnesota Statute Section 471.59, they agreed to establish a Joint Powers board of directors to organize, govern, plan and administer a multi-county county based purchasing program for Medical Assistance and General Assistance Medical Care services as authorized by Minnesota Statute Section 256B.692. Effective during 2007, the Counties of Beltrami, Clearwater and Hubbard were added as new members of the Company. Services in these Counties commenced in 2008.

The legal name of the Joint Powers program was determined to be "Prime West Central County Based Purchasing Initiative". A board consisting of one County Commissioner from each member county governs the program.

The Minnesota Department of Health, by letter dated October 7, 2002, found that the Company met the requirements for a county-based purchasing arrangement. Effective July 1, 2003, the Company began coverage for enrollees under Medicaid and General Assistance Medical Care in the Member Counties. Effective during 2005, the Company began issuing coverage to enrollees in MinnesotaCare and certain additional Medicare and Medicaid programs provided through the Centers for Medicare and Medicaid Services. Medicare Part D coverage was added in 2006. Special Needs Basic Care programs were added in 2008.

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

Joint Powers Board of Directors

The Company is governed by the Joint Powers Board of Directors which consists of one County Commissioner from each of the Member Counties. Terms of service of the Board members are one year with eligibility for re-appointment. The Board also includes the Company's Chief Executive Officer and Medical Director as non-voting members. Board meetings are held monthly.

The Joint Powers Board of Directors consisted of the following thirteen individuals at December 31, 2009:

<u>Commissioner</u>	<u>County</u>
Brent C. Olson	Big Stone
David R. Naatz	Traverse
Larry J. Sayre	Stevens
Paul W. Setzepfandt	Renville
Larry D. Kittelson	Pope
Marvin J. Tinklenberg	Pipestone
Amy P. Wilde	Meeker
Beverly J. Wangerin	McLeod
Daniel L. Olson	Douglas
Ronald F. Woltjer	Grant
Joseph I. Vene	Beltrami
Donald O. Carlson	Hubbard
John A. Nelson	Clearwater

Company Officers

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

<u>Name</u>	<u>Position</u>
Marvin J. Tinklenberg	Chairperson - Joint Powers Board
Larry D. Kittelson	Vice Chairperson – Joint Powers Board
David R. Naatz	Treasurer
Joseph I. Vene	Secretary
James A. Przybilla	Chief Executive Officer
John D. Klein	Chief Financial Officer

Conflict of Interest

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

Corporate Records

The Company's By-laws were amended effective October 4, 2007 to allow for Company officers to execute contracts with Federal and State agencies in lieu of Director signatures when necessary. The Company's By-laws were amended in May 2009 to recognize the addition of three new member Counties.

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

AFFILIATED ENTITIES AND TRANSACTIONS

The initial ten member counties executed agreements that guarantee the required statutory surplus of the Company. Effective with the entrance of the three new member counties into the Joint Powers administration, the new member counties also executed agreements in 2007 to guarantee the surplus of the Company.

The three new member counties made an aggregate contribution of \$3,500,000 to the capital of the Company in 2008.

FIDELITY BOND AND OTHER COMPANY INSURANCE

The Company's fidelity coverage limits are in excess of the NAIC's suggested guidelines for minimum coverage.

The Company maintains corporate insurance coverages at levels, which management believes are sufficient to cover risks in the normal course of business.

EMPLOYEE WELFARE

Company employees are provided a traditional employee benefit package including pension coverage through the Public Employees Retirement Association. The Company does not offer any other employer paid deferred compensation plans, bonus plans or post retirement benefit plans.

The Company has executed an employment contract with the Chief Executive Officer, effective January 1, 2007. Provisions of the contract include guaranteed minimum salary level, company payment of specified health, life and disability benefits and severance benefit provisions.

STATUTORY DEPOSITS

The Company, as a county based purchasing program, must meet the financial solvency requirements of Minnesota Statutes 62D and 62N. In lieu of the net worth and deposit requirements of these Statutes, the Department of Health has allowed guaranteeing entities to fund this deposit. The Member Counties have agreed by resolution to serve as the guaranteeing organizations 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 health care services to qualified enrollees in certain DHS and CMS programs. These coverages are provided to qualified residents of the member counties.

Coverage plans available through the Company include:

- Prepaid Medical Assistance Program (PMAP) – this program provides certain family and child health care coverage to those eligible enrollees under the age of 65. (Effective July 2003)
- General Assistance Medical Care (GAMC) – this program provides certain health care coverage to qualifying adults under the age of 65. (Effective July 2003)
- MinnesotaCare (MNCare) – this program provides certain health care coverage to any eligible Minnesota resident under the age of 65. (Effective January 2005)
- Minnesota Senior Care Plus (MSC+) - this program provides PMAP type coverage to eligible enrollees age 65 and over. (Effective June 2005)
- Minnesota Senior Health Option (MSHO) – this is a dual Medicare/Medicaid eligible program, on a voluntary basis, which includes Medicare Part D coverage. (Effective August 2005)
- Special Needs BasicCare – these are voluntary programs designed to meet the health care needs of eligible enrollees who are disabled and may or may not have Medicare coverage. (Effective January 2008)

The Company receives monthly capitation payments from DHS and CMS for all enrollees.

The Company does not market its products through traditional insurance sales channels. Coverage is available to enrollees only through that person's eligibility for one of the aforementioned public programs, within the stated geographical regions. The Company has no appointed agents, except as required by law or agency contracts and has no liability for commissions.

REINSURANCE

The Company ceded eligible hospital and physician services, on an excess basis to a reinsurer authorized in the State of Minnesota. Reinsurance coverage for 2009 was on a co-insurance basis after application of a per-member per year deductible of \$125,000. The maximum reinsurance coverage payable per member per year was \$1,000,000 and per lifetime was \$2,000,000. The reinsurance contract effectively passed risk.

Effective January 1, 2010, the Company changed reinsurance carriers. Coverage under the new agreement is for eligible inpatient hospital services. The Company retention is the first \$125,000 per member per year with a 10% co-insurance liability in excess of the retention. The maximum reinsurance payable per member per year and per lifetime is \$2,000,000.

ACCOUNTS AND RECORDS

Financial Reporting

The Company contracts with an independent consulting firm to produce its quarterly and annual regulatory financial reporting statements and it uses an independent actuarial services firm to attest to its reported loss and LAE reserves.

Third-Party Administrators

The Company employs third-party administrators for dental and pharmacy claims processing and related functions. An outside service is also used to administer the accounting and reporting systems. Delegation agreements were executed where required by Minnesota Rules Part 4685.1110, Subpart 6.

Independent Certified Public Accountant

The Company was audited annually, for the years 2007 through 2009, by the accounting firm of Larson, Allen, Weishair & Co., 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.

PRIMEWEST HEALTH
STATEMENT OF ASSETS, LIABILITIES AND SURPLUS
AS OF DECEMBER 31,

<u>ADMITTED ASSETS</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Real estate – occupied	\$ 3,605,692	\$ 3,766,533	\$ 2,966,856
Cash and short-term investments	17,496,891	24,611,849	35,625,413
Subtotals, Cash and Invested Assets	21,102,583	28,378,382	38,592,269
Accrued investment income	46,479	12,200	0
Uncollected premiums	8,789,373	2,964,400	2,255,700
Recoverable from reinsurers	443,716	186,602	148,288
Receivable from uninsured plans	177,024	281,500	0
Furniture and equipment	122,010	136,250	141,046
Health care receivable	662,510	866,115	510,223
Aggregate write-ins	119,004	45,000	607,318
Total Admitted Assets	<u>\$ 31,422,699</u>	<u>\$ 32,870,449</u>	<u>\$ 42,254,844</u>
<u>LIABILITIES</u>			
Claims unpaid	\$ 18,269,900	\$ 18,171,142	\$ 14,973,714
Unpaid claims adjustment expenses	50,000	50,000	50,000
Aggregate health policy reserves	394	393,862	541,075
Advance premium	0	0	5,176,848
General expenses due or accrued	1,262,766	1,616,324	2,712,184
Amounts held under uninsured plans	0	0	315,352
Aggregate liability write-ins	1,001	300,608	3,710,223
Total Liabilities	19,584,061	20,531,936	27,479,396
Gross paid-in & contributed surplus	3,500,001	3,500,001	0
Unassigned funds (surplus)	8,338,637	8,838,512	14,775,449
Total Surplus	<u>11,838,638</u>	<u>12,338,513</u>	<u>14,775,449</u>
Total Liabilities and Surplus	<u>\$ 31,422,699</u>	<u>\$ 32,870,449</u>	<u>\$ 42,254,845</u>

PRIMEWEST HEALTH
STATEMENT OF REVENUE AND EXPENSES
FOR PERIOD ENDING DECEMBER 31,

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Net premium income	\$ 153,413,354	\$ 122,581,260	\$ 89,713,504
Aggregate write-ins for other revenues	135,769	251,298	55,500
Total Revenues	<u>153,549,123</u>	<u>122,832,558</u>	<u>89,769,004</u>
Hospital/medical benefits	83,189,464	67,003,629	49,110,766
Other professional services	35,565,479	27,534,089	14,668,012
Emergency room and out-of-area	2,841,025	1,933,557	1,177,791
Prescription drugs	14,250,934	10,962,565	6,584,189
Aggregate write-ins medical & hospital	3,199,778	2,934,861	4,126,016
Less: Net reinsurance recoveries	469,860	186,602	235,258
Total Medical and Hospital	<u>138,576,820</u>	<u>110,182,099</u>	<u>75,431,516</u>
Claims adjustment expenses	10,048,825	13,504,723	5,742,792
General administrative expenses	5,662,010	5,951,505	8,428,547
Total Underwriting Deductions	<u>154,287,655</u>	<u>129,638,327</u>	<u>89,602,855</u>
Net underwriting gain or (loss)	(738,532)	(6,805,769)	166,149
Net investment income earned	72,776	675,313	1,764,721
Aggregate write-ins for other expenses	0	0	50,942
Net Income (Loss)	<u><u>(\$ 665,756)</u></u>	<u><u>(\$ 6,130,456)</u></u>	<u><u>\$ 1,981,812</u></u>
<u>SURPLUS ACCOUNT</u>			
Surplus, prior reporting year	\$ 12,338,513	\$ 14,775,449	\$ 14,001,731
Net income	(665,756)	(6,130,456)	1,981,812
Change in non-admitted assets	165,880	193,416	(1,208,790)
Surplus paid in	0	3,500,001	0
Aggregate write-ins	1	103	696
Net change in surplus	<u>(499,875)</u>	<u>(2,436,936)</u>	<u>773,718</u>
Surplus End of Reporting Year	<u><u>\$ 11,838,638</u></u>	<u><u>\$ 12,338,513</u></u>	<u><u>\$ 14,775,449</u></u>

**PRIMEWEST HEALTH
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	\$ 147,194,913	\$ 116,548,499	\$ 94,665,306
Net investment income	38,497	663,113	1,764,721
Miscellaneous income	135,769	251,298	55,500
Total income from operations	147,369,179	117,462,910	96,485,527
Benefit and loss payments	139,218,740	111,336,642	78,722,393
General administrative expenses	15,606,359	20,053,080	13,958,046
Total expenses from operations	154,825,099	131,389,722	92,680,439
Net cash from operations	<u>(\$ 7,455,920)</u>	<u>(\$ 13,926,812)</u>	<u>\$ 3,805,088</u>
<u>Cash from Investments</u>			
Miscellaneous proceeds	\$ 160,841	\$ 160,658	\$ 106,122
Miscellaneous applications	0	0	64,119
Real estate sold	0	0	1,235,040
Real estate acquired	0	945,723	2,858,566
Net cash from investments	<u>\$ 160,841</u>	<u>(\$ 785,065)</u>	<u>(\$ 1,581,523)</u>
<u>Cash from Financing</u>			
Surplus paid in	\$ 0	\$ 3,500,001	\$ 0
Other cash provided (applied)	180,121	198,312	(1,289,655)
Net cash from financing	<u>\$ 180,121</u>	<u>\$ 3,698,313</u>	<u>(\$ 1,289,655)</u>
<u>Reconciliation of Cash & ST Investments</u>			
Net change in cash and ST investments	(\$ 7,114,958)	(\$ 11,013,564)	\$ 933,910
Cash and short-term investments			
Beginning of year	24,611,849	35,625,413	34,691,503
End of period	<u>\$ 17,496,891</u>	<u>\$ 24,611,849</u>	<u>\$ 35,625,413</u>

EXAMINATION NOTES TO FINANCIAL STATEMENTS

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.

Expansion of Operations

Fluctuations in the Company's operating results, balance sheet assets, liabilities and surplus are primarily the result of 1) the addition of new coverage plans and expansion of geographic member base, 2) start-up costs related to its increased insured base and in-house claims processing, and 3) adverse claim experience.

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 PrimeWest Health during the course of this examination.

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