



STATE OF MINNESOTA  
DEPARTMENT OF COMMERCE  
SAINT PAUL, MINNESOTA

EXAMINATION REPORT  
OF

PRIMEWEST HEALTH  
ALEXANDRIA, MINNESOTA

NAIC # 11678

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:

**PRIMEWEST HEALTH  
NAIC #11678  
3905 Dakota Street  
Alexandria, MN 56308**

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.

A handwritten signature in black ink, appearing to read 'Ehlinger' with a flourish underneath, 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

**PRIMEWEST HEALTH  
NAIC #11678  
3905 Dakota Street  
Alexandria, MN 56308**

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: \_\_\_\_\_

4/2/17

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June 21, 2017

Honorable Mike Rothman  
Commissioner of Commerce  
Minnesota Department of Commerce  
85 7<sup>th</sup> 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

**PRIMEWEST HEALTH**  
**NAIC #11678**  
3905 Dakota Street  
Alexandria, MN 56308

(hereinafter referred to as "PWH" or the "Company")

The following report of examination is respectfully submitted.

## SCOPE OF EXAMINATION

The examination of PrimeWest Health, (PWH), 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 #16-015 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 were reviewed as part of the examination included Financial Reporting, Cash and Investments, Premiums, 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 PWH 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 Baker Tilly Virchow Krause, LLP (BT or the CPA). Among the procedures incorporated into this examination was a review of the annual audit work papers prepared by BT. 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**

The examination resulted in no reportable findings or recommendations.

### **COMPANY HISTORY**

#### **General**

PWH was created on December 1, 1998, under Minnesota Statute 471.59. This was done in accordance with Minnesota Statute 256B.692. This statute provides for the formation of a joint powers organization and board of directors to operate, control, and manage County Based Purchasing (CBP) functions for persons enrolled in public healthcare programs.

Under contracts with the Minnesota Department of Human Services (DHS) and the Center for Medicare and Medicaid Services (CMS), PWH is authorized to provide comprehensive health maintenance services to persons enrolled under public healthcare programs in each of the thirteen member counties.

PWH is jointly owned by the same thirteen Minnesota counties: Beltrami, Big Stone, Clearwater, Douglas, Grant, Hubbard, McLeod, Meeker, Pipestone, Pope, Renville, Stevens and Traverse counties.

### **MANAGEMENT AND CONTROL**

#### **Corporate Governance**

PWH is governed by a Board, consisting of one primary representative County Commissioner and one alternate representative County Commissioner from each participating county. The alternate County Commissioner represents their county on the Board in the absence of the appointed County Commissioner representative. The alternate County Commissioner succeeds the representative County Commissioner when the representative County Commissioner ceases to participate or no longer meets the eligibility requirements of membership on the Board.

PWH's Chief Executive Officer and Chief Medical Director are ex-officio members of the Board. Each county is allowed only one vote on each PWH governance and operational matter requiring Board approval, authorization, or adoption. The Board meets on a monthly basis.

The Board consisted of the following thirteen County Commissioners as of December 31, 2015:

<u>Commissioner</u>	<u>County</u>
Brent C. Olson	Big Stone County
Todd Schneeberger	Grant County
Ron Shimanski	McLeod County
Jerry Remund	Pipestone County
Joseph I. Vene	Beltrami County
David Salberg	Traverse County
Mike Huberty	Meeker County
Matt Dotta	Hubbard County
Larry D. Kittelson	Pope County
Bev Bales	Douglas County
Paul W. Setzepfandt	Renville County
Jeanne Ennen	Stevens County
John A. Nelson	Clearwater County

Officers as of December 31, 2015

James Przybilla, Chief Executive Officer  
 John Klein, Chief Financial Officer

Committees:

PWH had the following Board committee and members as of December 31, 2015:

Executive:

Joseph I. Vene  
 Paul W. Setzepfandt  
 Bev Bales  
 Larry D. Kittelson

Finance and Contracting:

Larry D. Kittelson  
 Jeanne Ennen  
 Joseph I. Vene

Compliance and Security Oversight:

Bob Kopitzki  
 David Salberg  
 Gordy Wagner  
 Larry D. Kittelson  
 Mike Huberty  
 Paul W. Setzepfandt

Quality and Care Coordination:

Bev Bales  
 Bob Kopitzki  
 David Salberg  
 Jeanne Ennen  
 Larry D. Kittelson  
 Richard Anderson

## Related Party Agreements & Transactions

The Member Counties have executed agreements that guarantee the required net worth and solvency requirements of Minnesota law. There were no contributions from the Member Counties during the exam period.

## **TERRITORY AND PLAN OF OPERATION**

PWH is authorized to provide comprehensive health maintenance services to persons enrolled under public healthcare programs in member counties under contracts with DHS and CMS. PWH had over 24,000 members as of December 31, 2015 and offered services in the following thirteen counties: Beltrami, Big Stone, Clearwater, Douglas, Grant, Hubbard, McLeod, Meeker, Pipestone, Pope, Renville, Stevens and Traverse. PWH offers the following programs to enrollees in its service area: Medical Assistance (MA), MinnesotaCare (MNCare), Minnesota Senior Care Plus (MSC+), Minnesota Senior Health Options (MSHO), Special Needs BasicCare (SNBC) and Medicare Parts C and D.

## **REINSURANCE**

During the period under examination PWH had excess reinsurance coverage with American National Insurance Company. The Company's retention is \$200,000. PWH retains 10% of losses in excess of \$200,000 up to \$2,000,000 per member per year. The agreement covers inpatient hospital services only. PWH ceded approximately \$789,000 of premiums to American National Insurance Company in 2015.

Cirdan Health Systems and Consulting (Cirdan) manages PWH's reinsurance program including large claim tracking, claim submission, contracting and renewals and regular assessments of reinsurance structure, value and performance.

PWH does not assume any reinsurance.

## **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.)

PRIMEWEST HEALTH  
Statement of Assets, Liabilities, Surplus and Other Funds  
December 31, 2015  
(in 000)

ASSETS	
Bonds	\$ 7,149
Properties occupied by company	5,148
Properties held for production of income	475
Properties held for sale	1,354
Cash and short-term Investments	95,115
Cash and invested assets	\$ 109,240
Investment income due and accrued	25
Uncollected premiums and agents balances	18,637
Amounts recoverable from reinsurers	467
Electronic data processing equipment and software	204
Furniture and equipment, including healthcare delivery assets	68
Healthcare and other amounts receivable	415
Aggregate write-ins	<u>333</u>
Total Assets	<u>\$ 129,389</u>
LIABILITIES	
Claims unpaid	\$ 30,396
Unpaid claims adjustment expense	472
Aggregate health policy reserves	10,397
Premiums received in advance	15,826
General Expenses due or accrued	1,917
Aggregate write-ins for liabilities	<u>6,899</u>
Total Liabilities	\$ 65,907
Gross Paid in and Contributed Surplus	\$ 3,500
Unassigned Funds	<u>59,982</u>
Surplus	\$ 63,482
Total Liabilities and Surplus	<u>\$ 129,389</u>

PRIMEWEST HEALTH  
Statement of Revenue and Expenses  
December 31, 2015  
(in 000)

Member months	444
Net premium income	\$ 259,986
Aggregate write-ins for health care related revenues	3
Aggregate write-ins for non-health care related revenues	<u>1,518</u>
Total Revenue	\$ 261,507
Hospital/medical benefits	\$ 142,816
Other professional services	36,830
Emergency room and out-of-area	6,423
Prescription drugs	31,868
Aggregate write-ins for other hospital and medical	<u>4,018</u>
Sub-total	\$ 221,955
Net reinsurance recoveries	<u>444</u>
Total hospital and medical	\$ 221,511
Claims adjustment expenses	\$ 8,343
General administrative expenses	13,637
Increase in reserves for life and accident and health contracts	<u>4,059</u>
Total Underwriting	\$ 247,550
Net underwriting gain	<u>\$ 13,958</u>
Net investment income earned	127
Net realized gains	14
NET INCOME	<u>\$ 14,098</u>
SURPLUS ACCOUNT	
Surplus, December 31, previous year	\$ 50,005
Net income	14,098
Change in non-admitted assets	<u>(621)</u>
Change in surplus for year	\$ 13,477
Surplus as of 12/31/15	<u>\$ 63,482</u>

PRIMEWEST HEALTH  
Statement of Cash Flow  
December 31, 2015  
(in 000)

Cash from operations:	
Premiums collected net of reinsurance	\$ 250,940
Net investment income	129
Miscellaneous income	<u>1,965</u>
Total	\$ 253,034
Benefit and loss related payments	\$ 223,730
Commissions, expense paid and aggregate write-ins for deductions	<u>22,517</u>
Total	<u>\$ 246,247</u>
Net cash from operations	\$ 6,787
Cash from investments:	
Bonds	\$ 10,037
Total investment proceeds	\$ 10,037
Cost of investments acquired:	
Bonds	\$ 9,634
Real estate	377
Total investments acquired	<u>\$ 10,011</u>
Net cash from investments	\$ 27
Other cash provided (applied)	(\$122)
Net cash from financing and miscellaneous	(\$122)
Net change in cash, cash equivalents, and short-term investments	<u>\$ 6,693</u>
Cash and short-term investments:	
Beginning	\$ 88,422
Ending	\$ 95,115

PRIMEWEST HEALTH  
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	\$129,389,467	\$129,389,467	\$0
Total Liabilities	\$65,907,411	\$65,907,411	\$0
Surplus at December 31, 2015	\$63,482,055	\$63,482,055	\$0

**SUBSEQUENT EVENTS**

No significant subsequent events were noted.

## CONCLUSION

As a result of this examination, the financial condition of PrimeWest Health as of December 31, 2015 is summarized as follows:

Admitted assets	\$129,389,467
Liabilities	\$ 65,907,411
Surplus	\$ 63,482,055
Total liabilities and surplus	\$ 129,389,467

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