



Protecting, maintaining and improving the health of all Minnesotans

September 27, 2010

Debbie Harris
Sanford Health Plan of Minnesota
300 Cherapa Place, Suite 201
Sioux Falls, South Dakota 57109

Dear Ms. Harris:

Enclosed please find a copy of original Examination Report for Sanford Health Plan of Minnesota as of December 31, 2009, 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.

If you have any questions or wish to discuss the Examination Report further, please feel free to contact Jacqueline L. Gardner at 651-297-7030.

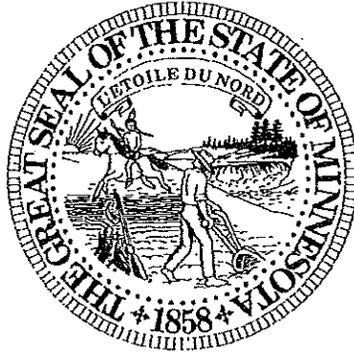
Sincerely,

A handwritten signature in black ink, appearing to read "Sanne Magnan for".

Sanne Magnan, M.D., Ph.D.
Commissioner of Health

Enc.

cc: Margie Pinedo, Minnesota Department of Commerce



STATE OF MINNESOTA
DEPARTMENT OF COMMERCE
SAINT PAUL, MINNESOTA

REPORT OF EXAMINATION
OF
SANFORD HEALTH PLAN OF MINNESOTA
SIOUX FALLS, SOUTH DAKOTA
AS OF
DECEMBER 31, 2009



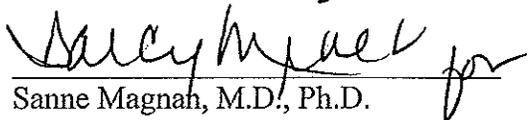
Protecting, maintaining and improving the health of all Minnesotans

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

SANFORD HEALTH PLAN OF MINNESOTA
Sioux Falls, South Dakota

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 Sanford Health Plan of Minnesota 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 Magnah, M.D., Ph.D.
Commissioner of Health

Dated: 9/29/10



Protecting, maintaining and improving the health of all Minnesotans

September 27, 2010

The Honorable Sanne Mangan
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

Sanford Health Plan of Minnesota
300 Cherapa Place, Suite 201
Sioux Falls, South Dakota 57109

The following examination report is respectfully submitted.

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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 #10-003 directed that the examination include a determination of the financial condition of Sanford Health Plan of Minnesota (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, to the date of this examination report, which were noted during the course of this examination.

The examination report for the period ending December 31, 2006 contained no findings or recommendations.

HISTORY

The Company was incorporated during July 1997 and was authorized, by the Minnesota Department of Health, to operate as a Health Maintenance Organization in the State of Minnesota, effective January 16, 1998. The Company provides comprehensive health maintenance services in certain counties of Southwest Minnesota.

The Company has one corporate member, Sanford Health (hereinafter referred to as the Parent). The Parent is an integrated health care delivery system, located in Sioux Falls, South Dakota. Effective in March 2007, the Company adopted its current name.

SUBSEQUENT EVENTS/CONTINGENT LIABILITIES

This examination found no indication of any contingent liabilities or commitments, outside the course of normal operations, existing at year end 2009, which would have materially adverse impact on the Company's operations or financial position.

The Company has made application with the Minnesota Department of Health to allow expansion of its territory in Minnesota to an additional thirty-five counties.

MANAGEMENT

Board of Directors and Officers

The Company's Board of Directors at December 31, 2009 consisted of the following members:

<u>Directors</u>	<u>Position/Employer</u>
Pamela Ephgrave MD	Member Physician
Kelby K. Krabbenhoft	CEO Sanford Health
David C. Link	EVP Sanford Health
Kathrine G. Schnabel	Consumer Representative
Clayton VanBalen MD	Member Physician

Officers of the Company are elected by the Board of Directors, at its annual meetings, for terms of one year, and serve at the discretion of the Board. The principal officers of the Company at December 31, 2009 were as follows:

<u>Officers</u>	<u>Position</u>
Kelby K. Krabbenhoft	Chief Executive Officer
Ruth A. Krystopolski	President
David C. Link	Executive Vice President
Cecily L. Tucker	Chief Financial Officer

Conflict of Interest

The Board of Directors completes conflict of interest statements annually. The executed statements for the years under examination were reviewed with no material conflicts noted.

Corporate Records

The Articles of Incorporation and By-laws were amended during 2007 to adopt the Company's current name.

The minutes of the meetings of the Board of Directors, for the period under examination, were reviewed and found to properly reflect the approval of investment transactions, review and re-affirmation of the investment policy and other pertinent matters.

Intercompany Agreements

Administrative services are provided to the Company by Sanford Health Plan (hereinafter referred to as SHP), an affiliated South Dakota private investment plan. Services provided include personnel, space, support services and equipment. Reimbursement is based on a percentage of membership.

The Parent provides accounts payable processing services to on a monthly reimbursement basis.

EMPLOYEE WELFARE

SHP provides all personnel resources, under an inter-company administrative services agreement. The Company has no direct employee related liabilities.

STATUTORY DEPOSITS

Minnesota Statutes, Section 62D.041 requires all domiciled HMO's to have on deposit, in a custodial account, funds for the protection of its insureds in the amount of at least 33% of the previous year's uncovered expenditures. The Company had securities, with a year end 2009 reported market value of \$566,446, on deposit in a custodial account with a nationally chartered financial institution, which meets Statutory requirements.

TERRITORY AND PLAN OF OPERATIONS

The Company has a certificate of authority to write health coverages, as a health maintenance organization, in the State of Minnesota. It provides comprehensive group health and Medicare supplement coverage to members in Southwestern Minnesota counties, through an independent brokerage system.

REINSURANCE

The Company cedes eligible hospital and physician services, on an excess of loss basis to a reinsurer authorized in the State of Minnesota. 2009 reinsurance coverage was on a 90%/10% co-insurance basis after application of a per-member per-year deductible of \$160,000. The maximum reinsurance coverage payable per member per year is \$2,000,000. The reinsurance contract effectively passes risk.

ACCOUNTS AND RECORDS

Financial Reporting

The Company's accounting records are maintained on SHP's data processing equipment that includes client/server platforms and desktop computers.

Independent Certified Public Accountant

The Company was audited annually, for the years 2007 through 2009, by the accounting firm of Deloitte & Touche, LLP. An unqualified opinion was received in all three years. Certain audit work papers of the accounting firm were reviewed and relied upon in conjunction with this examination.

Investment Policy

The Company's investment policy meets the requirements of Minnesota Statutes 62D.045 and 60A.112. The Board of Directors reviewed and re-affirmed the investment policy annually as required by Statute.

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 Company's reported financial statements as a result of this examination.

**SANFORD HEALTH PLAN OF MINNESOTA
STATEMENT OF ASSETS, LIABILITIES AND SURPLUS
AS OF DECEMBER 31,**

<u>ADMITTED ASSETS</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Bonds	\$ 99,950	\$ 149,967	\$ 400,112
Cash and short-term investments	2,166,586	2,250,568	2,468,566
Subtotals, Cash and Invested Assets	2,266,536	2,400,535	2,868,677
Investment income due and accrued	1,805	2,895	7,685
Uncollected premiums	264	17,849	0
Federal income tax recoverable	0	103,966	0
Net deferred tax asset	0	0	12,300
Health care receivable	0	38	160
Total Admitted Assets	\$ 2,268,604	\$ 2,525,282	\$ 2,888,823
<u>LIABILITIES</u>			
Claims unpaid	\$ 338,156	\$ 301,779	\$ 141,428
Unpaid claims adjustment expenses	11,000	6,000	5,000
Advance premiums	24,846	45,876	166,780
General expenses due or accrued	133,570	110,248	89,563
Current federal income tax payable	0	0	63,000
Amounts due to affiliates	54,718	41,736	31,684
Total Liabilities	\$ 562,290	\$ 505,639	\$ 497,455
Paid-in and contributed surplus	2,159,398	2,159,398	2,159,398
Unassigned funds (surplus)	(453,085)	(139,755)	231,969
Total - Capital & Surplus	\$ 1,706,313	\$ 2,019,643	\$ 2,391,367
Total Liabilities, Surplus & Other Funds	\$ 2,268,604	\$ 2,525,282	\$ 2,888,823

**SANFORD HEALTH PLAN OF MINNESOTA
STATEMENT OF REVENUE AND EXPENSES
FOR PERIOD ENDING DECEMBER 31,**

<u>STATEMENT OF REVENUE AND EXPENSE</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Net premium income	\$ 3,034,576	\$ 2,462,239	\$ 1,563,292
Total Revenues	\$ 3,034,576	\$ 2,462,239	\$ 1,563,292
Hospital/medical benefits	2,139,264	1,703,173	768,028
Other professional services	66,284	150,212	18,654
Outside referrals	201,456	268,273	32,606
Emergency room and out-of-area	5,717	5,417	5,227
Prescription drugs	355,835	360,299	199,197
Total Medical and Hospital	2,768,556	2,487,373	1,023,713
Claims adjustment expenses	98,057	69,314	44,928
General administrative expenses	492,807	420,460	275,585
Total Underwriting Deductions	3,359,420	2,977,147	1,344,226
Net Underwriting Gain or (Loss)	(324,844)	(514,909)	219,066
Net investment income earned	11,622	45,399	110,157
Federal income taxes incurred	0	(98,122)	105,299
Net Income	(\$ 313,222)	(\$ 371,387)	\$ 223,925
 <u>CAPITAL & SURPLUS ACCOUNT</u>			
Capital & Surplus, prior reporting year	\$ 2,019,643	\$ 2,391,367	\$ 2,150,652
Net income	(313,222)	(371,387)	223,925
Change in net deferred income tax	106,500	61,200	(6,200)
Change in non-admitted assets	(106,607)	(61,537)	22,990
Net change in surplus for the year	(313,329)	(371,725)	240,714
Capital & Surplus End of Reporting Year	\$ 1,706,313	\$ 2,019,643	\$ 2,391,367

**SANFORD HEALTH PLAN OF MINNESOTA
STATEMENT OF CASH FLOWS
FOR PERIOD ENDED DECEMBER 31,**

<u>Cash from Operations</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Premiums collected net of reinsurance	\$ 3,031,132	\$ 2,323,486	\$ 1,730,072
Net investment income	12,729	50,334	113,782
Miscellaneous income	(4,119)	(2,865)	(443)
Total Income from Operations	<u>3,039,742</u>	<u>2,370,955</u>	<u>1,843,411</u>
Benefit and loss payments	2,732,179	2,327,021	1,044,557
General administrative expenses	562,542	468,089	285,641
Federal income taxes paid	(103,966)	68,844	43,000
Total Expenses from Operations	<u>3,190,755</u>	<u>2,863,954</u>	<u>1,373,197</u>
Net Cash from Operations	<u>(\$ 151,013)</u>	<u>(\$ 492,999)</u>	<u>\$ 470,214</u>
<u>Cash from Investments</u>			
Proceeds from bonds	\$ 50,000	\$ 250,000	\$250,000
Cost of bonds	0	0	100,000
Net Cash from Investments	<u>\$50,000</u>	<u>\$ 250,000</u>	<u>\$ 150,000</u>
<u>Cash from Financing</u>			
Other cash provided (applied)	17,031	25,001	(18,118)
Net Cash from Financing	<u>\$ 17,031</u>	<u>\$ 25,001</u>	<u>(\$ 18,118)</u>
<u>Reconciliation of Cash & ST Investments</u>			
Net change in cash and ST investments	(83,982)	(217,998)	602,096
Cash and short-term investments			
Beginning of year	2,250,568	2,468,566	1,866,468
End of period	<u>\$ 2,166,586</u>	<u>\$ 2,250,568</u>	<u>\$ 2,468,564</u>

EXAMINATION NOTES TO FINANCIAL STATEMENTS

Reserves for Losses and Loss Adjustment Expenses

Review of reserve factors utilizing procedures prescribed in the *NAIC Financial Condition Examiners Handbook*, and other procedures as determined necessary, were performed by the Minnesota Department of Commerce actuary.

The Minnesota Department of Commerce developed reserve projections and compared them to values carried by the Company at December 31, 2009. The examination consisted of a review of testing done by the Company's independent auditors on the underlying data and other procedures as determined necessary by the department actuary to provide adequate validation of reserves. Based on the procedures applied, the Loss and Loss Adjustment Expense reserves, in total, appear to be reasonably stated and have been accepted for the purposes of this report.

Statutory Net Worth Requirement

The Company met the net worth requirement of Minnesota Statute 62D.042 at December 31, 2009.

CONCLUSION

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

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