



STATE OF MINNESOTA
DEPARTMENT OF COMMERCE
SAINT PAUL, MINNESOTA

REPORT OF EXAMINATION
OF
UCARE MINNESOTA

MINNEAPOLIS, MINNESOTA
NAIC # 52629
AS OF
DECEMBER 31, 2010



MINNESOTA
DEPARTMENT OF
COMMERCE

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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

**UCARE MINNESOTA
MINNEAPOLIS, 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, 2010 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

Blaine Shepherd

By: Blaine Shepherd
Acting Assistant Commissioner

Dated: January 18, 2012

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Protecting, maintaining and improving the health of all Minnesotans

January 20, 2012

The Honorable Edward Ehlinger, MD, MPH
Commissioner of Health
State of Minnesota
Department of Health
85 7th Place East, Suite 400
St. Paul, Minnesota 55101

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

Dear Honorable Commissioners:

In compliance with your instructions and pursuant to statutory provisions, an association examination has been made of the affairs and financial condition of

UCARE MINNESOTA

The home office of UCare Minnesota (hereinafter referred to as the Company) is located at 500 Stinson Boulevard NE, Minneapolis, Minnesota, 55413. The Company's telephone number is (612) 676-6500.

The report of examination is respectfully submitted.

SCOPE OF EXAMINATION

The examination was a comprehensive examination, conducted by the Minnesota Department of Commerce, observing the guidelines and procedures in the NAIC "Financial Condition Examiners Handbook." The Department of Commerce Examination Order 11-005 directed the examination to include a determination of the financial condition of the Company and a general review of its corporate affairs and insurance operations to determine compliance with Minnesota statutes.

This examination included a review of the Company's systems and internal control environment and an assessment of its risk exposure level and the adequacy of its current and planned surplus to support future operations.

The examination covered the period January 1, 2008, through December 31, 2010, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination. The work papers of the Company's designated certified public accountant, for the audit year 2010, were reviewed and copies included as part of the examination files where utilized.

Risk Assessment

The examination was conducted as a risk-focused examination. Information about the Company's organizational structure, business approach, and control environment were utilized to develop the examination approach that would be most appropriate for the Company. The Company's risks and management activities were evaluated based upon the NAIC's nine branded risk categories. The categories below represent a measure of the risk areas judgmentally evaluated by the examiners to determine the Company's exposure to prospective risk that could potentially result in hazardous financial condition. The Control Evaluation Level, as indicated in the table below, is defined in the Financial Condition Examiners Handbook as:

- Strong Risk Management - Management effectively identifies and controls all material types of risk posed by the relevant activity.
- Moderate Risk Management – The insurer's risk management practices, although largely effective, may be lacking in some modest degree.
- Weak Risk Management – Risk management processes that are lacking in important ways and therefore, are a cause for above normal supervisory attention.

Category	<u>Risk Definition</u>	<u>Control/Risk Evaluation Level</u>	<u>Observation</u>
Pricing/ Underwriting	Pricing and underwriting practices are inadequate to provide for risks assumed.	Strong	Pricing/Underwriting risk exposure is limited due to the type of risk underwritten by the Company. The Company has adequate evaluation and oversight controls in place to effectively mitigate this risk to a reasonably low level.
Reserving	Actual losses or other contractual payments reflected in reported reserves or other liabilities will be greater than estimated.	Strong	The Company has controls in place to reasonably ensure that claim liabilities are established at an adequate level. Historically, the Company has been redundant in its claim liability reporting.
Operational	Operational problems such as inadequate information systems, breaches in internal controls, fraud or unforeseen catastrophes will result in unexpected losses.	Moderate	The Company's documentation supporting some of its management oversight procedures is in process of being enhanced and certain potential information system weaknesses are being reviewed and strengthened.
Strategic	Inability to implement appropriate business plans, to make decisions, to allocate resources or to adapt to changes in the business environment will adversely affect competitive position and financial condition.	Strong	The Company has a formal comprehensive strategic planning and enterprise risk management program in place.
Credit	Amounts actually collected or collectible are less than	Moderately Strong	No material credit related control deficiencies were

	those contractually due.		noted. See Note #1.
Market	Movement in market rates or prices such as interest rates, foreign exchange rates or equity prices adversely affect the reported and/or market value of investments.	Moderately Strong	No material market related control deficiencies were noted. See Note #2.
Liquidity	Inability to meet contractual obligations as they become due because of an inability to liquidate assets or obtain adequate funding without incurring unacceptable losses.	Strong	Liquidity related control environment appears sound. The Company has historically had sufficient liquidity from underwriting to meet normal operating needs.
Legal	Non-conformance with laws, rules, regulations, prescribed practices or ethical standards in any jurisdiction in which the entity operates will result in a disruption in business and financial loss.	Moderate	No material legal related control deficiencies were noted. See Note #3.
Reputation	Negative publicity, whether true or not, causes a decline in the customer base, costly litigation and/or revenue reductions.	Strong	The Company has policies and procedures in place to effectively mitigate this exposure to a relatively low level.

Note #1: The Company has a certain degree of residual credit risk related to its invested asset portfolio. Most of the Company's receivable assets are with Federal and State government agencies. The current economic environment potentially exposes State receivables to some collection risk exposure.

Note #2: The Company retains some market reinvestment and interest rate risk after control systems mitigation.

Note #3: The Company generates, either directly or indirectly, all its business through government programs. The Company retains exposure to legal political risk to the extent that it

cannot control the impact of actions taken by regulatory bodies on the Company's base of operations.

The corporate systems and internal control structure were discussed with management through questionnaires, interviews and a review of the work performed by the Company'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. The overall enterprise risk exposure of the Company, as determined by the examiners' risk review assessment, is considered low.

Status of Prior Examination Findings

The examination included a review to determine the current status of the recommendations noted in the previous Report of Examination as of December 31, 2007. No comments or recommendations were made in the previous examination report.

SUBSEQUENT EVENTS/CONTINGENT LIABILITIES

The Company's Board of Directors authorized a \$30 million contribution to the State of Minnesota, at its April 2011 Board Meeting. The payment is expected to be paid during the third quarter 2011.

The examination found no other indication of any events subsequent to December 31, 2010, or any contingent liabilities at or after December 31, 2010, to the date of this examination report that would have a material effect on either Company operations, financial stability or management oversight.

COMPANY HISTORY

The Company was established, in 1984, by the Department of Family Practice at the University of Minnesota Medical School. On September 22, 1989, the Minnesota Department of Health issued the Company a certificate of authority, in accordance with Minnesota Statutes, section 62D, to operate as a not-for-profit health maintenance organization.

MANAGEMENT AND CONTROL

Corporate Governance

Corporate governance is provided by the Company's Board of Directors, and is carried out by Company management. The Board is made up of seven members of the University of Minnesota Medical School's Department of Family Medicine and Community Health, one member

appointed by the Dean of the University of Minnesota, one member elected by the Board and six enrollee members nominated by the Board's Governance Committee. The Board's Governance Committee is appointed by the Chairperson of the Company's Board of Directors.

Board of Directors

The Company's Board of Directors consisted of fifteen members at December 31, 2010, as required by its By-laws. The Company is in compliance with the Minnesota Statutes, section 62D.06 limitation on the number of directors practicing in the health services.

Directors are appointed to serve terms varying in length depending on classification type of the director. There are no limits on the number of terms that a director may serve nor are there any age limitations with the exception that enrollee directors are limited to no more than three consecutive terms.

Director's fees are paid to Board members for attendance at Board and Committee meetings.

At December 31, 2010, the Board of Directors of the Company consisted of the following individuals:

<u>Director</u>	<u>First Elected</u>	<u>Principal Business Affiliation</u>
Macaran Baird, M.D. – Chair	2002	Chair, Dept of Family Medicine – U of M
Patricia Adam, M.D.	2008	Practicing Physician
William Brombach	2006	Enrollee Member
Kimberly Carter	2009	Enrollee Member
Catherine Godlewski	2003	Financial Officer – Dept of Family Medicine
John Harris	2004	Enrollee Member
P. Jay Kiedrowski	2007	Senior Fellow – U of M Humphrey Institute
Teresa McCarthy, M.D.	2000	Practicing Physician
James Miller	2009	Enrollee Member
Peter Mitsch	2004	Dir. Financial Svcs – U of M Medical School
William Roberts, M.D.	2007	Practicing Physician
Mary J. Schneeman	2005	Enrollee Member
Sharon Shonka	2007	Enrollee Member
James Van Vooren, M.D.	2000	Practicing Physician
Michael Wootten, M.D.	2009	Practicing Physician

Principal Officers

At December 31, 2010, the principal operating officers of the Company and their positions were as follows:

<u>Name</u>	<u>Position</u>
Nancy J. Feldman	President and Chief Executive Officer
Mark Traynor	Senior Vice President, General Counsel & Secretary
Beth A. Monsrud	Senior Vice President, Chief Financial Officer & Treasurer
Russel J. Kuzel, M.D., M.M.M.	Senior Vice President & Chief Medical Officer
Hilary Marden-Resnik	Senior Vice President – Administration
Laurie Heyer-Dean	Senior Vice President – Operations
Thomas Mahowald	Senior Vice President – Product Development
Ghitiann Worcester	Senior Vice President – Public Affairs & Marketing

Enterprise-Wide Risk Management

Risk management activities are coordinated with the corporate strategic planning and budgeting process through various management reporting functions. Management of risks is done on an operating and quality control basis throughout the various departmental functions.

Strategic Planning

The Company has a formal corporate wide strategic planning process in place that incorporates strategies and objectives that includes both the current and prospective operating environment. The planning process is inclusive of procedures for monitoring and amending the plan on an on-going basis.

Conflict of Interest

The Company has a conflict of interest policy in place which requires completion of conflict of interest statements annually by all Board members and Senior Management. The conflict of interest statements, for the period under examination, were reviewed and no material conflicts were noted.

CORPORATE RECORDS

Articles of Incorporation and By-laws

The Articles of Incorporation were not amended during the period under examination.

The By-laws were amended during 2008 to: 1) change the term length of enrollee directors from two years to three years, 2) limit the number of consecutive terms of an enrollee director to three

and, 3) allow the Board Chair to remove any elected or appointed director who has three unexcused Board meeting absences.

Board of Directors Minutes

The minutes of the Board of Directors meetings for the period under examination were reviewed and indicated that all meetings were held in accordance with the By-laws and the laws of the State of Minnesota.

Policies, Procedures and Internal Controls

The Company has no formal internal audit departmental function. The Company's external auditors perform certain reviews of the corporate system of internal controls as part of the annual audits. Accountability for managing the Company's risks resided primarily at the corporate senior management level.

AFFILIATED COMPANIES AND RELATED PARTIES

Affiliated Companies

The Company is the "ultimate controlling person" of a holding company system and is subject to certain filing requirements of Minnesota Statutes, section 60D. The downstream affiliated company is UCare Wisconsin (UCW), a Wisconsin domiciled non-profit service insurance corporation. The Company has no stockholders nor is it subject to the control of any other organization.

UCW, formed in December 2006, provides medical services to qualified enrollees of the CMS Medicare Advantage program in twenty three western Wisconsin counties. The State of Wisconsin issued UCW a certificate of authority on March 5, 2007.

The Company has a 100% controlling interest in UCW. The Company provided UCW with start-up capital of a \$2 million cash contribution and an additional \$3 million in exchange for a surplus note. The Company made additional cash contributions to UCW of \$2.5 million and \$9 million in 2009 and 2011 respectively. The Company carries its investment in UCW, on an equity basis, as an Other Long-Term Asset.

Affiliated Agreements

Administrative Services Agreement

The Company and UCW entered into an administration agreement effective June 7, 2007. The Company has agreed to provide all personnel, marketing, management and administrative needs of UCW. As compensation for these services, the Company is reimbursed for all direct costs and an allocation of indirect costs paid and/or incurred on behalf of UCW. Expenses

incurred for the years 2008 through 2010 were: 2008 - \$2.0 million, 2009 - \$2.3 million, 2010 - \$7.9 million.

Related Parties

Minnesota Health Information Exchange

The Company participated in the formation of Minnesota Health Information Exchange, LLC (MnHIE), a Delaware domiciled company, formed September 7, 2007. The Company is currently one of six governing members of MnHIE. Voting rights are shared equally by the six members. MnHIE was formed to offer various electronic health information exchange capabilities and services, within Minnesota and adjacent geographic areas, to a variety of potential participants.

The Company and the other members of MnHIE are parties to a Limited Liability Company Agreement effective December 14, 2007, as amended. The agreement provides for the Company's possible future capital commitment of up to \$2 million. As of year end 2010, the Company had an equity balance of \$110 thousand and a capital trust account balance of \$551 thousand committed to the Exchange. The Company carries these balances as non-admitted assets.

Medical Research Contributions

The Company has made periodic contributions to help fund medical research and education projects at the University of Minnesota School of Medicine. Certain Company Board members are affiliated with medical school departments that are recipients of these contributions.

FIDELITY BOND AND OTHER INSURANCE

The Company's fidelity bond provides limits of coverage that are in excess of the minimum suggested NAIC guidelines. The Company carries general insurance coverages which it feels are sufficient to cover risk exposures in the normal course of business.

EMPLOYEE BENEFITS

The Company provides certain employee benefits to selected personnel as follows:

Post Retirement Health Plan

The Company established an early retirement health program for qualifying employees, effective July 1, 2006. The program covers retired employees, between the ages of 55 and 64, having at least 10 years of service with the Company. The Company carried an estimated liability of \$2.7

million at year end 2010 for this program. The Company's independent actuarial firm attested to the reasonableness of the year end 2010 liability.

Supplemental Executive Benefit Plan

The Company established a non-qualified Supplemental Executive Benefit Plan, effective August 1, 2002, covering Company executive management personnel, as selected by the Board of Directors. The plan administrator is the Company. The plan program includes deferred compensation and disability components. The plan is funded through split dollar flexible premium variable universal life policies and the general assets of the Company. The Company, as owner of the insurance policies to the extent of the premiums paid by it, carried an asset, at year end 2010, of \$900 thousand which was the confirmed cash surrender value of the policies.

Incentive Bonus Plan

The Company has established an annual incentive bonus program for all personnel. The Company's estimated year end 2010 liability for this program was \$2.4 million.

Executive Employment Contract

The Company has one employment contract, with the President and CEO. Provisions of this contract include, but are not limited to: retirement and severance provisions, incentive compensation and confidentiality considerations.

STATUTORY & SPECIAL DEPOSITS

The Company met the requirements of Minnesota Statute, section 62D.041, as of December 31, 2010, for deposits to be held in the event of insolvency. The Company had no other restricted admitted asset balances at December 31, 2010.

TERRITORY AND PLAN OF OPERATION

The Company is authorized in Minnesota as a health maintenance organization.

The Company contracts with the Minnesota Department of Human Services (DHS) and the Centers for Medicare and Medicaid Services (CMS) to provide health care services to qualified enrollees in certain DHS and CMS programs. The Company also offers individual benefit plans in conjunction with the Medicare Advantage Programs.

The Company receives monthly capitation payments from DHS and CMS for enrollees in the government sponsored plans. Medicare individual benefit plan premiums are billed directly to the contract holders.

The Company contracts out to third-party administrators the pharmacy, dental and behavioral health aspects of the programs. The pharmacy and dental administrators also process and pay claims.

With the exception of the individual Medicare plans, 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.

Third Party Administrators

Behavioral Healthcare Providers

Effective January 1, 2007, the Company entered into a restated management administration agreement with Behavioral Healthcare Providers (BHP). BHP is a Minnesota company in the business of administering behavioral health service programs. The agreement provides, in part, that BHP will provide the Company's enrollees with necessary behavioral health services through a network of BHP providers. Compensation to BHP for these services is on a per member per month basis plus reimbursement of certain credentialing fees and possible eligibility for other incentive payments.

Express Scripts, Inc.

Effective January 1, 2010, the Company entered into a pharmacy benefits agreements with Express Scripts, Inc. (ESI). These agreements provide management and administrative services for prescription drug benefit plans to various types of health plan/provider organizations and to certain Medicare beneficiaries. The agreements provide, in part, that ESI will provide for a network of pharmacies to dispense drugs to Company enrollees and will provide for the administration thereof. ESI administration includes but is not limited to pharmacy network oversight, network contracting, formulary services, claims processing and customer service. Compensation to ESI for core services is on a per claim basis plus reimbursement for claims paid.

DentaQuest of Minnesota, LLC

Effective January 1, 2001, the Company entered into an administrative services agreement with DentaQuest of Minnesota, LLC formerly known as Doral Dental Services of Minnesota, Inc. DentaQuest is a Minnesota corporation in the business of administering dental service programs to members of healthcare plans and employer groups. The agreement provides, in part, that DentaQuest will provide or arrange for certain dental services for Company enrollees through DentaQuest authorized providers and will provide for the administration thereof. DentaQuest administration includes but is not limited to claims processing, complaint management and customer service functions. Compensation to DentaQuest for these services is on a per member per month basis plus reimbursement for claims paid.

MARKET CONDUCT

Claims Settlement Practices

Procedures performed in conjunction with the claims review work indicated that the Company investigates and settles claims on a timely and equitable basis.

Complaint Procedures

The Company has formalized procedures for addressing and documenting insured member complaints. These procedures indicate that complaints are adjudicated by the Company in a fair and equitable manner.

Advertising and Sales Materials

The Company's advertising and sales materials were found to comply with Minnesota Rules, chapter 2790.2000.

REINSURANCE

The Company cedes excess scheduled risks on a per member per year basis to an "A" rated international reinsurance carrier that is authorized in the State of Minnesota. Reinsured coverage is on a 90% coinsurance basis for amounts in excess of \$500,000. The maximum liability of the reinsurer, per member per contract year and per lifetime, is \$2,000,000.

The Company does not assume insured risk from any other company.

ACCOUNTS AND RECORDS

Systems/Operations Databases & Business Continuation

The Company's books and records are maintained on electronic information systems at its home office location. Company information systems functions include applications delivery, operations, logical and physical security and systems governance.

The Company has in place a formal comprehensive business continuation/disaster recovery program. The elements of the program are being tested on an incremental phase basis.

Safekeeping of Assets and Investment Policy

The Company's investments in securities are held, under a custodial agreement, in book entry form with a national banking association.

The Company has an investment policy that is reviewed annually for compliance with stated Company policy and Minnesota Statutes, section 60A.112. The investment policy is reaffirmed annually by the Board of Directors and a sworn affidavit is filed annually with the Minnesota Department of Commerce. This examination found the Company's investment policy to be in compliance with Minnesota Statutes, section, 60A.112.

The investment advisor under contract with the Company is given discretionary authority, as limited by the advisor agreement and the Company's investment policy, over the investment of Company assets under its management.

Designated Independent Public Accountants

The books and records of the Company are audited annually by independent public accountants in accordance with Minnesota Statutes, section 62D.08. During the period under examination, the designated independent public accounting firm was LarsonAllen, LLP. The Company received unqualified audit opinions in all examination years.

Loss Reserves

The Minnesota Department of Commerce developed claim liability projections and compared them to values carried by the Company at December 31, 2010. The examination consisted of review of the underlying data using procedures prescribed by the NAIC Financial Condition Examiners Handbook and other procedures as determined necessary by the Department actuary to provide adequate validation of the data. Based on the procedures applied, the claim liabilities appear to be reasonably stated and have been accepted for the purposes of this report.

Federal and State Taxes

The Company is exempt from Federal income taxation under IRC section 501(c)(3) and is exempt from State income taxation under Minnesota Statutes, section 290.05. The Company is subject to taxation on premium.

FINANCIAL STATEMENTS

The following are the company's reported statutory statements of admitted assets, liabilities and unassigned funds as of December 31, for the years 2008 through 2010, and the related statutory statements of operations and cash flows for the years then ended, as reported by the Company. The examiners have incorporated these statements into this report without adjustments.

UCare Minnesota
Statements of Assets, Liabilities, Surplus and Other Funds
As of December 31,

	<u>2010</u>	<u>2009</u>	<u>2008</u>
<u>Admitted Assets</u>			
Bonds	\$ 323,129,270	\$ 280,877,952	\$ 219,688,603
Common Stocks	32,948,293	26,287,825	38,189,993
Cash and Short-Term Investments	145,102,699	142,597,129	117,683,132
Other Invested Assets	8,752,837	3,120,361	2,404,944
Receivables for Securities	61,554	0	0
Cash and Invested Assets	<u>\$ 509,994,653</u>	<u>\$ 452,883,267</u>	<u>\$ 377,966,672</u>
Investment Income Due and Accrued	2,098,783	2,020,318	1,953,463
Uncollected Premiums	2,759,895	2,219,507	1,587,060
Deferred Premiums	49,759,693	39,983,481	21,180,847
Receivable from Uninsured Plans	2,986,129	87,435	0
Data Processing Equipment & Software	4,541,139	2,053,162	2,417,864
Furniture & Equipment	789,351	376,756	405,954
Receivable from Affiliates	617,994	216,501	108,658
Healthcare Receivables	0	2,568,552	2,187,984
Aggregate Write-ins for Non-invested Assets	899,087	685,543	456,669
Total Admitted Assets	<u>\$ 574,446,724</u>	<u>\$ 503,094,522</u>	<u>\$ 408,265,171</u>
<u>Liabilities</u>			
Claims Unpaid	\$ 168,846,694	\$ 182,330,500	\$ 162,716,286
Accrued Medical Incentive Pool	16,709,450	12,814,792	17,124,075
Unpaid Claim Adjustment Expenses	3,679,098	4,019,054	3,566,263
Aggregate Health Policy Reserves	490,393	5,273,892	562,029
Premiums Received in Advance	10,698,521	12,010,222	2,690,465
General Expenses Due or Accrued	26,510,164	17,291,505	14,511,164
Amounts Held for the Account of Others	26,067	36,827	0
Amounts Due to Affiliates	9,000,000	0	0
Payable for Securities	1,555,590	0	0
Liabilities Under Uninsured Plans	299,780	6,142,831	1,599,553
Aggregate Write-in Liabilities	28,254,711	17,040,680	1,667,333
Total Liabilities	<u>\$ 266,070,468</u>	<u>\$ 256,960,303</u>	<u>\$ 204,437,168</u>
<u>Surplus</u>			
Unassigned Funds	<u>\$ 308,376,256</u>	<u>\$ 246,134,219</u>	<u>\$ 203,828,003</u>
Total Surplus	<u>\$ 308,376,256</u>	<u>\$ 246,134,219</u>	<u>\$ 203,828,003</u>
Total Liabilities and Surplus	<u>\$ 574,446,724</u>	<u>\$ 503,094,522</u>	<u>\$ 408,265,171</u>

UCare Minnesota
Statements of Income and Reconciliation of Surplus
Years ended December 31,

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Net Premium Income	\$ 1,604,236,295	\$ 1,461,266,070	\$ 1,152,164,364
Other Health Care Related Revenues	57,996	60,741	79,434
Total Revenues:	<u>\$ 1,604,294,291</u>	<u>\$ 1,461,326,811</u>	<u>\$ 1,152,243,798</u>
Hospital/Medical Benefits	\$ 745,979,198	\$ 690,894,156	\$ 573,552,932
Other Professional Services	449,613,924	432,944,297	333,410,735
Outside Referrals	21,329,697	24,192,031	21,137,121
Emergency Room & Out of Area	54,306,909	55,745,057	43,498,386
Prescription Drugs	152,175,579	119,463,732	99,128,230
Incentive Pool, Withhold Adjustments & Bonus Amts.	17,895,797	9,248,614	4,905,034
Subtotal	<u>\$ 1,441,301,104</u>	<u>\$ 1,332,487,887</u>	<u>\$ 1,075,632,438</u>
Net Reinsurance Recoveries	1,645,103	1,331,917	1,878,554
Total Hospital and Medical	<u>\$ 1,439,656,001</u>	<u>\$ 1,331,155,970</u>	<u>\$ 1,073,753,884</u>
Claim Adjustment Exp. including Cost Containment	26,058,128	14,892,539	12,929,309
General Administrative Expenses	93,130,710	86,606,825	64,766,049
Increase (Decrease) in Reserves	(1,081,042)	821,213	(60,229)
Total Underwriting Deductions	<u>\$ 1,557,763,797</u>	<u>\$ 1,433,476,547</u>	<u>\$ 1,151,389,013</u>
Net Underwriting Gain or (Loss)	<u>\$ 46,530,494</u>	<u>\$ 27,850,264</u>	<u>\$ 854,785</u>
Net Investment Income Earned	7,766,714	10,731,935	4,427,461
Net Realized Capital Gains (Losses)	6,752,401	(977,764)	(2,069,633)
Net Loss from Balances Charged Off	(54,755)	(62,172)	0
Net Income (Loss)	<u>\$ 60,994,854</u>	<u>\$ 37,542,263</u>	<u>\$ 3,212,613</u>
<u>Surplus Account</u>			
Surplus – Beginning of Year	\$ 246,134,219	\$ 203,828,003	\$ 198,850,017
Net Income (Loss)	60,994,854	37,542,263	3,212,613
Change in Unrealized Capital Gains(Losses)	(222,422)	6,118,547	0
Change in Non-admitted Assets	1,469,605	(1,354,594)	1,765,373
Net Change in Surplus for the Year	<u>62,242,037</u>	<u>42,306,216</u>	<u>4,977,986</u>
Surplus – End of Year	<u>\$ 308,376,256</u>	<u>\$ 246,134,219</u>	<u>\$ 203,828,003</u>

UCare Minnesota
Statements of Cash Flows
Years ended December 31,

	<u>2010</u>	<u>2009</u>	<u>2008</u>
<u>Cash from Operations</u>			
Premiums Collected Net of Reinsurance	\$ 1,598,547,827	\$ 1,470,574,250	\$ 1,103,488,495
Net Investment Income	9,446,643	11,374,643	12,676,855
Miscellaneous Income	70,089	73,365	79,434
Total	<u>1,608,064,559</u>	<u>1,482,022,258</u>	<u>1,116,244,784</u>
Benefit and Loss Related Payments	1,445,568,446	1,317,045,401	1,035,515,390
Commissions & Expenses Paid	116,504,096	92,544,775	76,788,794
Total	<u>1,562,072,542</u>	<u>1,409,590,176</u>	<u>1,112,304,184</u>
Net Cash from Operations	\$ 45,992,017	\$ 72,432,082	\$ 3,940,600
<u>Cash from Investments</u>			
Proceeds from Investments Sold, Matured or Repaid:			
Bonds	\$ 277,573,096	\$ 144,882,857	\$ 67,350,434
Stocks	26,084,630	50,195,782	24,034,713
Miscellaneous Proceeds	1,942,861	0	1,910,646
Total Investment Proceeds	<u>305,600,587</u>	<u>195,078,639</u>	<u>93,295,793</u>
Cost of Investments Acquired (Long-Term Only):			
Bonds	315,684,495	204,950,143	77,848,778
Stocks	27,979,906	32,781,544	25,365,848
Real Estate	0	0	75,508
Other Invested Assets	450,000	3,000,000	450,000
Miscellaneous Applications	0	495,500	0
Total Investments Acquired	<u>344,114,401</u>	<u>241,227,187</u>	<u>103,740,134</u>
Net Cash from Investments	(\$ 38,513,814)	(\$ 46,148,548)	(\$ 10,444,341)
<u>Cash from Financing and Miscellaneous Sources</u>			
Cash Provided (Applied):			
Other Cash Provided (Applied)	(4,972,633)	(1,369,537)	(645,375)
Net Cash from Financing & Misc. Sources	(\$ 4,972,633)	(\$ 1,369,537)	(\$ 645,375)
<u>Reconciliation of Cash & Short-Term Investments</u>			
Net Change in Cash and Short-Term Investments	\$ 2,505,570	\$ 24,913,997	(\$ 7,149,116)
Cash & Short-Term Investments:			
Beginning of Year	\$ 142,597,129	\$ 117,683,132	\$ 124,832,248
End of Year	<u>\$ 145,102,699</u>	<u>\$ 142,597,129</u>	<u>\$ 117,683,132</u>

CONCLUSION

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

Participating in the examination were James Carr and Rick Theisen (actuarial review) of the Minnesota Department of Commerce. Philip McMurray of the RSM McGladrey, Inc. consulting firm performed the information systems review. .

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