

ANNUAL STATEMENT

OF THE

PREFERREDONE COMMUNITY HEALTH PLAN

OF

GOLDEN VALLEY, MINNESOTA

TO THE

DEPARTMENT OF COMMERCE

OF THE STATE OF

MINNESOTA

FOR THE YEAR ENDING
DECEMBER 31, 2010

2010

STATEMENT OF REVENUE AND EXPENSES

| | Current Year | | Prior Year |
|---|----------------|-------------|-------------|
| | 1 Uncovered | 2 Total | 3 Total |
| 1. Member Months | XXX | 475,878 | 491,084 |
| 2. Net premium income (including \$ non-health premium income) | XXX | 137,574,266 | 136,054,481 |
| 3. Change in unearned premium reserves and reserve for rate credits | XXX | | |
| 4. Fee-for-service (net of \$ medical expenses) | XXX | | |
| 5. Risk revenue | XXX | | |
| 6. Aggregate write-ins for other health care related revenues | XXX | 500,000 | |
| 7. Aggregate write-ins for other non-health revenues | XXX | | |
| 8. Total revenues (Line 2 to Line 7) | XXX | 138,074,266 | 136,054,481 |
| Hospital and Medical: | | | |
| 9. Hospital/medical benefits | 221,084 | 94,239,408 | 94,800,067 |
| 10. Other professional services | 480 | 2,999,327 | 2,774,186 |
| 11. Outside referrals | 1,545,304 | 1,908,049 | 2,001,968 |
| 12. Emergency room and out-of-area | 7,780 | 3,981,453 | 3,647,413 |
| 13. Prescription drugs | | 17,040,486 | 17,837,976 |
| 14. Aggregate write-ins for other hospital and medical | | | |
| 15. Incentive pool, withhold adjustments, and bonus amounts | | | |
| 16. Subtotal (Line 9 to Line 15) | 1,774,648 | 120,168,723 | 121,061,610 |
| Less: | | | |
| 17. Net reinsurance recoveries | | 185,880 | 994,155 |
| 18. Total hospital and medical (Line 16 minus Line 17) | 1,774,648 | 119,982,843 | 120,067,455 |
| 19. Non-health claims (net) | | | |
| 20. Claims adjustment expenses, including \$ 698,304 cost containment expenses | | 3,021,727 | 3,294,752 |
| 21. General administrative expenses | | 16,242,389 | 16,528,124 |
| 22. Increase in reserves for life and accident and health contracts (including \$ increase in reserves for life only) | | | |
| 23. Total underwriting deductions (Line 18 through Line 22) | 1,774,648 | 139,246,959 | 139,890,331 |
| 24. Net underwriting gain or (loss) (Line 8 minus Line 23) | XXX | (1,172,693) | (3,835,850) |
| 25. Net investment income earned (Exhibit of Net Investment Income, Line 17) | | 607,487 | 897,821 |
| 26. Net realized capital gains (losses) less capital gains tax of \$ | | 989,543 | 813,307 |
| 27. Net investment gains (losses) (Line 25 plus Line 26) | | 1,597,030 | 1,711,128 |
| 28. Net gain or (loss) from agents' or premium balances charged off [(amount recovered \$ (amount charged off \$)] | | | |
| 29. Aggregate write-ins for other income or expenses | | | |
| 30. Net income or (loss) after capital gains tax and before all other federal income taxes (Line 24 plus Line 27 plus Line 28 plus Line 29) | XXX | 424,337 | (2,124,722) |
| 31. Federal and foreign income taxes incurred | XXX | | |
| 32. Net income (loss) (Line 30 minus Line 31) | XXX | 424,337 | (2,124,722) |
| DETAILS OF WRITE-INS | | | |
| 0601. Other fee revenue | XXX | 500,000 | |
| 0602. | XXX | | |
| 0603. | XXX | | |
| 0698. Summary of remaining write-ins for Line 6 from overflow page | XXX | | |
| 0699. Totals (Line 0601 through Line 0603 plus Line 0698) (Line 6 above) | XXX | 500,000 | |
| 0701. | XXX | | |
| 0702. | XXX | | |
| 0703. | XXX | | |
| 0798. Summary of remaining write-ins for Line 7 from overflow page | XXX | | |
| 0799. Totals (Line 0701 through Line 0703 plus Line 0798) (Line 7 above) | XXX | | |
| 1401. | | | |
| 1402. | | | |
| 1403. | | | |
| 1498. Summary of remaining write-ins for Line 14 from overflow page | | | |
| 1499. Totals (Line 1401 through Line 1403 plus Line 1498) (Line 14 above) | | | |
| 2901. | | | |
| 2902. | | | |
| 2903. | | | |
| 2998. Summary of remaining write-ins for Line 29 from overflow page | | | |
| 2999. Totals (Line 2901 through Line 2903 plus Line 2998) (Line 29 above) | | | |

ANNUAL STATEMENT FOR THE YEAR 2010 OF THE PreferredOne Community Health Plan

ANALYSIS OF OPERATIONS BY LINES OF BUSINESS

| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|--|-------------|---|------------------------|----------------|----------------|--|-------------------------|-----------------------|-----------------|--------------------------|
| | Total | Comprehensive (Hospital and Medical) | Medicare Supplement | Dental Only | Vision Only | Federal Employees Health Benefit Plan | Title XVIII Medicare | Title XIX Medicaid | Other Health | Other Non-Health |
| 1. Net premium income | 137,574,266 | 137,574,266 | | | | | | | | |
| 2. Change in unearned premium reserves and reserve for rate credit | | | | | | | | | | |
| 3. Fee-for-service (net of \$ medical expenses) | | | | | | | | | | |
| 4. Risk revenue | | | | | | | | | | |
| 5. Aggregate write-ins for other health care related revenues | | | | | | | | | | |
| 6. Aggregate write-ins for other non-health care related revenues | | | | | | | | | | |
| 7. Total revenues (Line 1 through Line 6) | 500,000 | 500,000 | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX |
| 8. Hospital/medical benefits | 138,074,266 | 138,074,266 | | | | | | | | |
| 9. Other professional services | 94,239,408 | 94,239,408 | | | | | | | | |
| 10. Outside referrals | 2,999,327 | 2,999,327 | | | | | | | | |
| 11. Emergency room and out-of-area | 1,908,049 | 1,908,049 | | | | | | | | |
| 12. Prescription drugs | 3,981,453 | 3,981,453 | | | | | | | | |
| 13. Aggregate write-ins for other hospital and medical | 17,040,486 | 17,040,486 | | | | | | | | |
| 14. Incentive pool, withhold adjustments, and bonus amounts | | | | | | | | | | |
| 15. Subtotal (Line 8 through Line 14) | 120,168,723 | 120,168,723 | | | | | | | | |
| 16. Net reinsurance recoveries | 185,880 | 185,880 | | | | | | | | |
| 17. Total hospital and medical (Line 15 minus Line 16) | 119,982,843 | 119,982,843 | | | | | | | | |
| 18. Non-health claims (net) | | | | | | | | | | |
| 19. Claims adjustment expenses including \$ | 3,021,727 | 3,021,727 | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX |
| 20. General administrative expenses | 16,242,389 | 16,242,389 | | | | | | | | |
| 21. Increase in reserves for accident and health contracts | | | | | | | | | | |
| 22. Increase in reserves for life contracts | | | | | | | | | | |
| 23. Total underwriting deductions (Line 17 through Line 22) | 139,246,959 | 139,246,959 | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX |
| 24. Net underwriting gain or (loss) (Line 7 minus Line 23) | (1,172,693) | (1,172,693) | | | | | | | | |
| DETAILS OF WRITE-INS | | | | | | | | | | |
| 0501. Other fee revenue | 500,000 | 500,000 | | | | | | | | |
| 0502. | | | | | | | | | | |
| 0503. | | | | | | | | | | |
| 0598. Summary of remaining write-ins for Line 5 from overflow page | | | | | | | | | | |
| 0599. Total (Line 0501 through Line 0503 plus Line 0598) (Line 5 above) | 500,000 | 500,000 | | | | | | | | |
| 0601. | | | | | | | | | | |
| 0602. | | | | | | | | | | |
| 0603. | | | | | | | | | | |
| 0698. Summary of remaining write-ins for Line 6 from overflow page | | | | | | | | | | |
| 0699. Total (Line 0601 through Line 0603 plus Line 0698) (Line 6 above) | | | XXX | XXX | XXX | XXX | XXX | XXX | XXX | XXX |
| 1301. | | | | | | | | | | |
| 1302. | | | | | | | | | | |
| 1303. | | | | | | | | | | |
| 1398. Summary of remaining write-ins for Line 13 from overflow page | | | | | | | | | | |
| 1399. Total (Line 1301 through Line 1303 plus Line 1398) (Line 13 above) | | | | | | | | | | XXX XXX XXX XXX |

UNDERWRITING AND INVESTMENT EXHIBIT
PART 2B - ANALYSIS OF CLAIMS UNPAID - PRIOR YEAR - NET OF REINSURANCE

| Line of Business | Claims Paid During the Year | | Claim Reserve and Claim Liability December 31 of Prior Year | 4 | | 5 | 6 |
|--|--|---|---|---|------------------------------------|------------|---|
| | 1 On Claims Incurred Prior to January 1 of Current Year | 2 On Claims Incurred During the Year | | 3 On Claims Unpaid December 31 of Prior Year | On Claims Incurred During the Year | | |
| 1. Comprehensive (hospital and medical) | 11,169,970 | 107,284,326 | | 13,487,152 | 11,169,970 | 11,958,605 | |
| 2. Medicare Supplement | | | | | | | |
| 3. Dental Only | | | | | | | |
| 4. Vision Only | | | | | | | |
| 5. Federal Employees Health Benefits Plan | | | | | | | |
| 6. Title XVIII - Medicare | | | | | | | |
| 7. Title XIX - Medicaid | | | | | | | |
| 8. Other health | | | | | | | |
| 9. Health subtotal (Line 1 through Line 8) | 11,169,970 | 107,284,326 | | 13,487,152 | 11,169,970 | 11,958,605 | |
| 10. Healthcare receivables (a) | | | | | | | |
| 11. Other non-health | | | | | | | |
| 12. Medical incentive pools and bonus amounts | | | | | | | |
| 13. Totals (Line 9 minus Line 10 plus Line 12) | 11,169,970 | 107,284,326 | | 13,487,152 | 11,169,970 | 11,958,605 | |

(a) Excludes \$ loans or advances to providers not yet expensed.

FIVE - YEAR HISTORICAL DATA

| | 1 | 2 | 3 | 4 | 5 |
|---|-------------|-------------|-------------|-------------|-------------|
| | 2010 | 2009 | 2008 | 2007 | 2006 |
| BALANCE SHEET (Page 2 and Page 3) | | | | | |
| 1. Total admitted assets (Page 2, Line 28) | 30,411,216 | 27,933,244 | 34,008,659 | 40,575,316 | 40,121,894 |
| 2. Total liabilities (Page 3, Line 24) | 18,462,128 | 16,513,059 | 19,293,583 | 21,439,264 | 18,137,548 |
| 3. Statutory surplus | | | | | |
| 4. Total capital and surplus (Page 3, Line 33) | 11,949,088 | 11,420,185 | 14,715,076 | 19,136,052 | 21,984,346 |
| INCOME STATEMENT (Page 4) | | | | | |
| 5. Total revenues (Line 8) | 138,074,266 | 136,054,481 | 157,002,612 | 153,182,232 | 134,803,259 |
| 6. Total medical and hospital expenses (Line 18) | 119,982,843 | 120,067,455 | 136,937,877 | 134,709,163 | 122,142,682 |
| 7. Claims adjustment expenses (Line 20) | 3,021,727 | 3,294,752 | 3,938,193 | 4,205,398 | 3,925,662 |
| 8. Total administrative expenses (Line 21) | 16,242,389 | 16,528,124 | 19,838,571 | 19,557,084 | 14,763,336 |
| 9. Net underwriting gain (loss) (Line 24) | (1,172,693) | (3,835,880) | (3,712,029) | (5,289,413) | (6,028,421) |
| 10. Net investment gain (loss) (Line 27) | 1,597,030 | 1,711,128 | (549,268) | 3,231,696 | 1,851,478 |
| 11. Total other income (Line 28 plus Line 29) | | | | | |
| 12. Net income or (loss) (Line 32) | 424,337 | (2,124,722) | (4,261,297) | (2,057,717) | (4,176,943) |
| CASH FLOW (Page 6) | | | | | |
| 13. Net cash from operations (Line 11) | 2,240,617 | (3,090,907) | (4,152,863) | (859,641) | (3,043,215) |
| RISK-BASED CAPITAL ANALYSIS | | | | | |
| 14. Total adjusted capital | 11,949,088 | 11,420,185 | 14,715,076 | 19,136,052 | 21,984,346 |
| 15. Authorized control level risk-based capital | 5,350,611 | 5,358,693 | 6,162,131 | 6,145,082 | 5,693,707 |
| ENROLLMENT (Exhibit 1) | | | | | |
| 16. Total members at end of period (Column 5, Line 7) | 39,457 | 39,883 | 48,908 | 52,286 | 50,798 |
| 17. Total members months (Column 6, Line 7) | 475,878 | 491,084 | 610,289 | 634,811 | 589,953 |
| OPERATING PERCENTAGE (Page 4) (Item divided by Page 4, sum of Line 2, Line 3, and Line 5) X 100.0 | | | | | |
| 18. Premiums earned plus risk revenue (Line 2 plus Line 3 plus Line 5) | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| 19. Total hospital and medical plus other non-health (Line 18 plus Line 19) | 87.2 | 88.2 | 87.2 | 87.9 | 90.6 |
| 20. Cost containment expenses | 0.5 | 0.8 | 0.8 | 0.5 | 0.6 |
| 21. Other claims adjustment expenses | 1.7 | 1.7 | 1.8 | 2.2 | 2.3 |
| 22. Total underwriting deductions (Line 23) | 101.2 | 102.8 | 102.4 | 103.5 | 104.5 |
| 23. Total underwriting gain (loss) (Line 24) | (0.9) | (2.8) | (2.4) | (3.5) | (4.5) |
| UNPAID CLAIMS ANALYSIS (U and I Exhibit, Part 2B) | | | | | |
| 24. Total claims incurred for prior years (Line 13, Column 5) | 11,169,970 | 14,069,236 | 15,892,998 | 14,831,381 | 14,276,222 |
| 25. Estimated liability of unpaid claims of prior year (Line 13, Column 6) | 11,958,605 | 14,680,658 | 16,050,315 | 15,375,550 | 13,419,361 |
| INVESTMENTS IN PARENT, SUBSIDIARIES, AND AFFILIATES | | | | | |
| 26. Affiliated bonds (Schedule D Summary, Line 12, Column 1) | | | | | |
| 27. Affiliated preferred stocks (Schedule D Summary, Line 18, Column 1) | | | | | |
| 28. Affiliated common stocks (Schedule D Summary, Line 24, Column 1) | | | | | |
| 29. Affiliated short-term investments (subtotal included in Schedule DA Verification, Column 5, Line 10) | | | | | |
| 30. Affiliated mortgage loans on real estate | | | | | |
| 31. All other affiliated | | | | | |
| 32. Total of above Line 26 to Line 31 | | | | | |

Note: If a party to a merger, have the two most recent years of this exhibit been restated due to a merger in compliance with the disclosure requirements of SSAP No. 3, Accounting Changes and Correction of Errors?

Yes () No ()

If no, please explain: