

Report  
Of the  
Examination of  
Care Wisconsin First, Inc.  
Madison, Wisconsin  
As of December 31, 2015

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# State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor  
Theodore K. Nickel, Commissioner

Wisconsin.gov

November 7, 2016

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Honorable Theodore K. Nickel  
Commissioner of Insurance  
State of Wisconsin  
125 South Webster Street  
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

CARE WISCONSIN FIRST, INC.  
Madison, Wisconsin

And this report is respectfully submitted.

## I. INTRODUCTION

The current examination of Care Wisconsin First, Inc. (CWF or the company) covered the period ending December 31, 2015, and included a review of such 2016 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Territory and Plan of Operations
- Affiliated Companies
- Growth of the Company
- Financial Statements
- Accounts and Records
- Information Technology

Emphasis was placed on those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 57.26, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

## II. HISTORY AND PLAN OF OPERATION

Care Wisconsin First, Inc., has received a permit to operate as a care management organization (CMO), pursuant to s. 648.05, Wis. Stat. A CMO provides long-term care services funded by the family care benefit, as defined in s. 46.2805 (4), Wis. Stat., that are provided by a CMO that contracts with the Wisconsin Department of Health Services under s. 46.284, Wis. Stat., and enrolls only individuals who are eligible under s. 46.286, Wis. Stat.

The company was incorporated as a nonprofit corporation on January 1, 1976, as Adult Day Center, Inc., for the purpose of providing adult day services in Dane County, Wisconsin. During the 1980s and early 1990s the company created other day centers and began serving older adults with developmental disabilities. In addition, the company contracted with Dane County to provide personal care to enabled frail elderly and adults with physical disabilities in their homes. In 1995, the company was selected to offer the Wisconsin Partnership Program [n/k/a Family Care Partnership (FCP)], which is an integrated Medicare/Medicaid product of dual-eligible enrollees. As the company's business evolved there were several name changes, as follows:

- April 16, 1981—Adult Day Center, Inc. – Circle of Friends
- October 31, 1984—Madison Area Adult Day Centers, Inc.
- January 23, 1999—Elder Care of Dane County, Inc.
- October 16, 2003—Elder Care of Wisconsin, Inc.
- September 20, 2007—Care Wisconsin First, Inc.

In 2003, the company created a subsidiary, Care Wisconsin Health Plan, Inc. (CWHP) (f/k/a Elder Care Health Plan, Inc.), that commenced business on January 1, 2005. CWHP was organized to obtain a health maintenance organization (HMO) license from the Wisconsin Office of the Commissioner of Insurance in order to continue operating the FCP. On January 1, 2005, the FCP began operating under CWHP.

In 2005, the company began operating the Partnership program, which is a FIDE-SNP (a fully integrated dual-eligible special needs plan). They have about 1,500 members in that program.

In 2007, the company received certification from the Wisconsin Department of Health Services (DHS) as a care management organization [a/k/a managed care organization (MCO)] to

begin operating the Wisconsin Family Care Program. The company is organized under ch. 181, Wis. Stat., and is permitted under ch. 648, Wis. Stat.

In 2008, the company began offering Family Care services in eight counties:

Columbia, Dodge, Green, Jefferson, Marquette, Washington, Waukesha and Waushara counties.

The company derives 94% of its revenue from the Wisconsin Family Care Program. The remainder is inter-company revenue from its subsidiary, Care Wisconsin Health Plan, Inc. The Family Care Program helps seniors and adults with disabilities to live as independently as possible in their own homes or other community care settings. Members are classified into one of three target groups: frail elders<sup>1</sup>, physically disabled<sup>2</sup>, and developmentally disabled<sup>3</sup>. Care Wisconsin First, Inc., contracts directly with DHS to provide long-term care benefits to eligible members through its permit.

Care Wisconsin First, Inc., provides long-term care services to its members through contractual arrangements with its providers. Providers are reimbursed based on mandated Medicaid rates and other agreed upon rates that are not determined by the Medicaid fee schedule.

The contracts include hold-harmless provisions for the protection of members. The contracts have a one-year term and are automatically renewed unless terminated with 60 days' prior written notice.

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<sup>1</sup> Frail elder is defined as an individual 65 and older who has a physical disability or an irreversible dementia that restricts the individual's ability to perform normal daily tasks or that threatens the capacity of the individual to live independently. [s. DHS 10.13 (25m), Wis. Adm. Code]

<sup>2</sup> Physically disabled is defined as a physical condition, including an anatomical loss or musculoskeletal, neurological, respiratory or cardiovascular impairment, that results from injury, disease or congenital disorder and that significantly interferes with or significantly limits at least one major life activity of a person. [s. DHS 10.13 (40), Wis. Adm. Code]

<sup>3</sup> Developmentally disabled is defined as a disability attributable to brain injury, cerebral palsy, epilepsy, autism, Prader-Willi syndrome, mental retardation, or another neurological condition closely related to mental retardation, that has continued or can be expected to continue indefinitely and constitutes a substantial handicap to the afflicted individual. [s. DHS 10.13 (16), Wis. Adm. Code]

Long-term care services provided through the Family Care Program include:

- Home health or personal care
- Supportive home care
- Nursing home
- Assisted living/residential care services
- Adult day or respite care
- Home delivered meals
- Home modifications
- Transportation
- Physical, speech or occupational therapy
- Wheelchairs and other equipment
- Adult diapers, gloves, and other medical supplies
- Mental health or drug and alcohol treatment
- Daily living skills training
- Communication aids/interpreter
- Employment services

Marketing to individuals is restricted under the Medicaid regulations and operation procedures. Rates are determined by the contract between Care Wisconsin First, Inc., and DHS for coverage provided under the Wisconsin Medical Assistance Program (Medicaid). Capitation rates are developed annually by the DHS-contracted actuarial firm on a regional basis and are adjusted to reflect the company's estimated population by target group. The capitation rate paid by DHS to the company is actuarially based on the functional level of care a member needs: Nursing Home (NH) or non-Nursing Home (non-NH). The NH level of care rate is initially developed for each target group by region and adjusted for trend and administrative allowances prior to determining a final blended NH level of care rate for the CMO, since different groups utilize services at different rates. The non-NH level of care rate is developed by using a functional status based model that stratifies claims experience based on an individual's level of care. Both the NH and non-NH level of care capitation rates are based on the utilization and expenditures of the original Family Care Program's pilot and select expansion counties as listed below:

<b>CMO</b>	<b>Pilot Counties</b>	<b>Expansion Counties</b>
Care Wisconsin First, Inc.		Columbia, Dodge, Green Lake, Jefferson, Marquette, Washington, Waukesha, Waushara
Community Care Connections of Wisconsin	Portage	Langlade, Lincoln, Marathon, Wood
Community Care, Inc.		Calumet, Kenosha, Outagamie, Racine, Washington, Waukesha, Waupaca

<b>CMO</b>	<b>Pilot Counties</b>	<b>Expansion Counties</b>
ContinuUs	Richland	Chippewa, Crawford, Dunn, Eau Claire, Grant, Green, Iowa, Juneau, LaFayette, Pierce, Richland, Sauk, St. Croix
Lakeland Care District	Fond du Lac	Manitowoc, Winnebago
Milwaukee County Department of Family Care	Milwaukee (elderly population)	Kenosha, Milwaukee (disabled population), Racine
Western Wisconsin Cares	La Crosse	Buffalo, Clark, Jackson, Monroe, Pepin, Trempealeau, Vernon

Under the federal regulations governing the federal- and state-funded Medicaid programs, the rates established by DHS must be “actuarially sound” and be certified by an independent actuary. The actuarial certification applies to the program as a whole, not each individual CMO.

Beginning June 2015, the company began enrolling members in 7 counties in Family Care Region 13<sup>4</sup>. To date, the company has about 1,500 members enrolled in that region. In addition, starting in June and July 2016, the company expanded into Family Care Regions 1 and 3 in the western part of Wisconsin<sup>5</sup>. This area covers 13 new counties for this program. As of October 2016 the company has about 100 members in Regions 1 and 3.

The company has a plan for the rollout of new services for 2017. The company has been approved to begin selling a new Dual-Eligible Special Needs Program in five Wisconsin counties (Columbia, Dane, Dodge, Jefferson and Waukesha) beginning January 1, 2017. No members are currently enrolled in that program. The rollout plan is currently in progress and includes work to ensure administrative processes, policies and regulatory requirements and filings are in place to begin serving members on January 1, 2017. CWHP also includes a sales and marketing strategy to support enrollment efforts.

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<sup>4</sup> Region 13 includes Brown, Door, Kewaunee, Marinette, Menominee, Oconto and Shawano counties.

<sup>5</sup> Region 1 includes Chippewa, Dunn, Eau Claire, Pierce, and St. Croix counties and Region 3 includes Crawford, Grant, Green, Iowa, Juneau, LaFayette, Richland, and Sauk counties.



### III. MANAGEMENT AND CONTROL

#### Board of Directors

The board of directors consists of nine members. Three directors are elected annually to serve a three-year term. Officers are appointed by the board of directors. Members of the company's board of directors may also be members of the board of directors in Care Wisconsin Health Plan, Inc. The board members currently receive no compensation for serving on the board.

Currently the board of directors consists of the following persons:

<b>Name and Residence</b>	<b>Principal Occupation</b>	<b>Term Expires</b>
Karen Musser Middleton, WI	President/CEO Care Wisconsin First, Inc.	Ex Officio
Melvin McCartney Madison, WI	Retired WI Lawyers Mutual Insurance	2017
Marsha Tesar DeForest, WI	Partner Tesar Law Group, S.C.	2018
Denise Delong Madison, WI	Retired WEA Insurance Trust	2019
Barbara Bowers Madison, WI	Associate Dean UW-Madison School of Nursing	2018
Gregory Thomas Madison, WI	Executive Director of Finance— Early Clinical Services Covance, Inc.	2017
Rolf Hanson Fish Creek, WI	Retired CEO, Northeast Wisconsin Family Care District	2018
Steven Cable Waunakee, WI	CFO, Total Administrative Services	2018
Glenn Johnston Sun Prairie, WI	CFO, Palmer Johnson Power Systems	2019

## Officers of the Company

The officers appointed by the board of directors and serving at the time of this examination are as follows:

<b>Name</b>	<b>Office</b>	<b>2015 Compensation*</b>
Karen Musser	President/Chief Executive Officer	\$397,760
Kenneth Eimers	Secretary/Chief Operating and Information Officer	275,119
Janette Townsend	Treasurer/Chief Financial Officer	357,279**

\* Officers are employed and compensated by Care Wisconsin First, Inc.

\*\* Projected compensation due to the individual being hired in January 2016 and not holding the position for the year 2015.

## Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

### **Executive Committee**

Steven Cable, Chair  
Melvin McCartney  
Denise DeLong  
Karen Musser

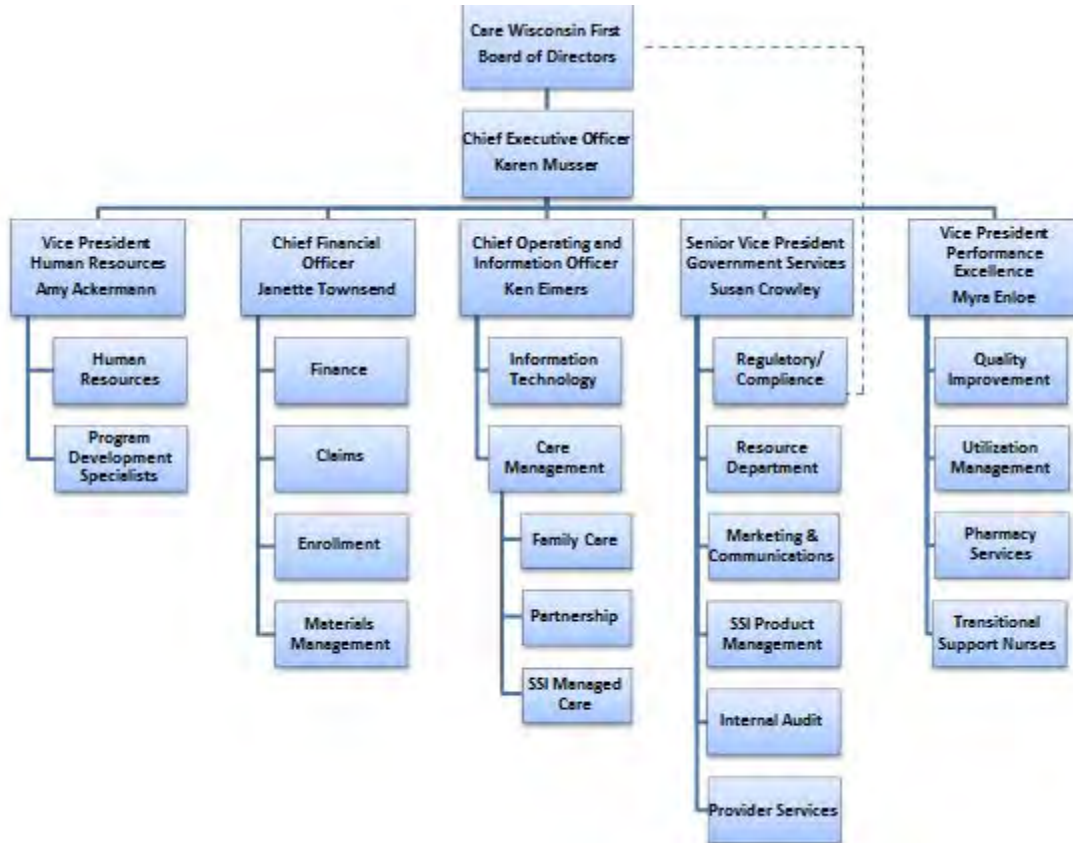
### **Finance and Investment Committee**

Melvin McCartney, Chair  
Karen Musser  
Rolf Hanson  
Steven Cable  
Shawn Liverseed  
Gregory Thomas

### **Nominating/Leadership Development Committee**

Karen Musser, Chair  
Barbara Bowers  
Melvin McCartney  
Marsha Tesar

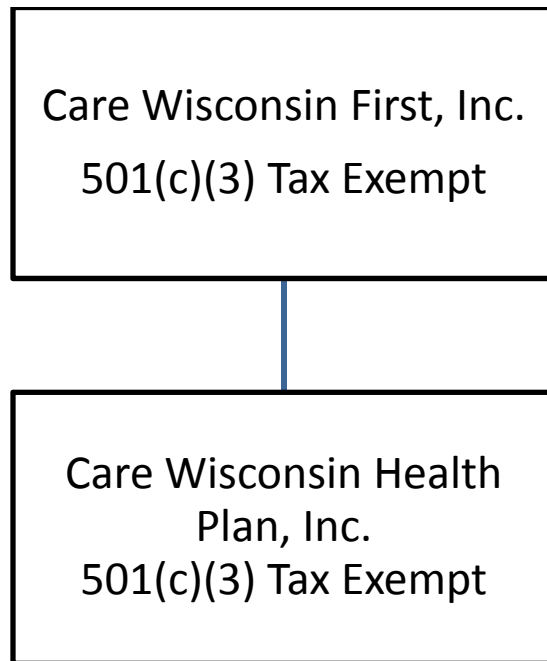
The company has its own employees. The senior management team consists of Karen Musser, CEO, Susan Crowley, SVP, Janette Townsend, CFO, Kenneth Eimers, COO/CIO, Myra Enloe, VP, and Amy Ackerman, VP.



#### IV. AFFILIATED COMPANIES

The company is the ultimate parent of a holding company system. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates of the company follows the organizational chart.

##### Holding Company Chart As of December 31, 2015



Care Wisconsin Health Plan, Inc., is the sole subsidiary of the company and an examination report for Care Wisconsin Health Plan, Inc., is being issued concurrently with this examination report.

##### **Care Wisconsin Health Plan, Inc.**

Care Wisconsin Health Plan, Inc., is an HMO that provides Medicare and SSI coverage to members of the company. As of December 31, 2015, CWHP's audited statutory financial statements reported assets of \$34.5 million, liabilities of \$12.7 million, and capital and surplus of \$21.8 million. Operations for 2015 produced net income of \$11.0 million on revenues of \$118.8 million.

The company has two intercompany agreements, one covering administrative services the company provides to CWHP and a second covering health services that the company provides to CWHP.

- Administrative Services Agreement: Under the administrative services agreement, effective June 1, 2005, the company agrees to perform administrative services necessary for CWHP's operations, including, but not limited to: marketing, information systems, financial, general and administrative, Medicare Advantage and WI DHS Program services, and management of clinical records. As compensation for these services, CWHP agrees to reimburse the company for the cost of direct services and its allocated portion of indirect services. The agreement may be terminated without cause by either party with at least 180 days' advance written notice of the intention to terminate.
- Health Care Services Agreement: Under the health care services agreement, effective January 1, 2005, the company agrees to provide the specified health care services on behalf of CWHP's participants. As compensation for these services, CWHP agrees to reimburse the company for the cost of direct services and its allocated portion of indirect services. The agreement may be terminated without cause by either party with at least 180 days' advance written notice of the intention to terminate.

An expense (and other cost) allocation methodology is signed off by the senior managers of the areas affected and reviewed for possible changes each month. Each month, expenses are first allocated to programs and then re-allocated to the entity involved based on the allocation methodology.

## **V. FINANCIAL DATA**

The following financial statements reflect the financial condition of the company as reported in the December 31, 2015, financial statements, which are prepared in accordance with generally accepted accounting principles. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Equity per Examination." Also included in this section are schedules that reflect the company's operating results by target group and the growth of the company for the period under examination.

**Care Wisconsin First, Inc.**  
**Balance Sheet**  
**As of December 31, 2015**

**Current Assets**

Cash and cash equivalents, operating	\$40,612,002
Capitation receivable net of allowance	432,216
Other DHS receivables net of allowance	1,618,362
Cost share receivable net of allowance	214,698
Room and board receivable net of allowance	298,293
Spend down receivable net of allowance	11,339
Other short-term receivables net of allowance	17,898
Parent, subsidiary, affiliate receivable	304,602
Prepaid insurance	174,845
Prepaid providers (member service expenses)	21,406
Prepaid expenses – other	<u>454,481</u>
<i>Total Current Assets</i>	44,160,142

**Long-Term Assets**

Risk reserve funds – FC permitted MCO	\$ 2,804,746
Solvency reserve/guaranty funds on deposit permitted MCO	750,000
Leasehold improvements (cost)	1,761,773
Accumulated depreciation – leasehold improvements	(532,881)
Furniture, equipment, and software (cost)	6,559,251
Accumulated depreciation – furniture, equipment, and software	(4,975,386)
Other long-term assets	<u>792,133</u>
<i>Total Long-Term Assets</i>	<u>7,159,636</u>

**Total Assets**

\$51,319,778

**Current Liabilities**

Capitation payable	252,105
Unearned revenue – other	57,657
Accrued salaries	468,620
Accrued taxes and benefits (current)	1,606,260
IBNR member services – current year	24,002,714
Accounts payable – care management	1,215
Accounts payable – general	1,097,612
Other current liabilities	<u>204,694</u>
<i>Total Current Liabilities</i>	27,690,876

**Long-Term Liabilities**

Due to other, long-term	171,865
Deferred compensation plans liability	<u>306,351</u>
<i>Total Long-Term Liabilities</i>	<u>478,216</u>

**Total Liabilities**

28,169,092

**Equity**

Beginning equity	22,739,726
Current year net income	<u>410,961</u>
<i>Total Equity</i>	<u>23,150,687</u>

**Total Liabilities and Equity**

\$51,319,779

**Care Wisconsin First, Inc.**  
**Profit and Loss Statement**  
**For the Period Ending December 31, 2015**

**Revenues**

MA capitation (net of cost share)	\$188,209,932
Cost share revenue	5,686,724
Room and board revenue	18,054,908
Spend down revenue	886,604
Interest/investment income – operating account	100,506
Inter-company revenue	15,473,686
Other current year retro adjustments, DHS	1,821,732
Other income/funding	<u>183,547</u>
<b>Total Revenue</b>	<b>230,417,640</b>

**Operating Expenses**

**Direct Member Service Expenses**

**Long-Term Care Services (All Programs)**

Adaptive equipment	\$ 3,687,561	
Adult day activities	10,177,187	
Habilitation/health	1,579,427	
Home care	32,458,061	
Home health care	1,245,578	
Institutional (NH/ICF-MR)	12,980,269	
Residential care	87,111,516	
Respite care	528,357	
Transportation	4,984,968	
Vocational	7,472,686	
Room and board – expenses	20,120,078	
Other FC LTC services	<u>342,808</u>	
<i>Total LTC Services</i>		\$182,688,496
Other member expenses (outside the benefit package)		<u>1,676</u>
<i>Total Member Service Expenses</i>		182,690,172

**Care Management Expenses**

Care management (CMUs/External)	1,479,607	
Care management (Internal)	29,701,336	
Care management admin – allocated	<u>1,940,518</u>	
<i>Total Care Management Expenses</i>		33,121,461



**Care Wisconsin First, Inc.**  
**Profit and Loss Statement**  
**For the Period Ending December 31, 2015 (cont.)**

**Administrative Expenses**

Wages and benefits	\$17,298,044	
Contracted TPA expense	965,975	
Occupancy	5,156,345	
Office expenses	2,702,648	
Legal/accounting/audit	238,544	
Contracted IT development	480,565	
Other professional services	1,461,632	
Depreciation expense	712,040	
Insurance expense	379,537	
Travel/training/conference expense	478,506	
Other administrative expenses	(13,681,240)	
Administrative allocation to care management	<u>(1,940,518)</u>	
<i>Total Administrative Expenses</i>		<u>\$ 14,252,078</u>
		<u>\$230,063,711</u>

**Total Operating Expenses**

**Income (Loss) from Operations, current year** 353,928

**Other (Income) Expenses, ordinary**

Investment income – reserve funds	(8,492)	
Gain(loss) in investments (unrealized)	10,922	
Gain(loss) in sale of investments (realized)	(8,922)	
(Gain)Loss in sale of LT asset	14,083	
Prior year adjustment – IBNR	(250,994)	
Prior year adjustment – other DHS	<u>186,370</u>	
<i>Total Other Expenses</i>		<u>(57,033)</u>

**Net Income (Loss)** \$ 410,961

**Care Wisconsin First, Inc.**  
**Statement of Cash Flows**  
**For the Period Ending December 31, 2015**

**Operating Activities**

Net income per GL		\$ 410,961
Add: Depreciation		712,040
Add: Gain(loss) on sale of LT assets		14,083
(Increase)Decrease accounts receivable, capitation and DHS other		(464,646)
(Increase)Decrease accounts receivable general		(113,542)
(Increase)Decrease prepaid insurance		(66,594)
(Increase)Decrease prepaid other		(60,957)
Increase(Decrease) IBNR		7,673,972
Increase(Decrease) accounts payable		464,387
Increase(Decrease) wages/taxes/ben. payable		660,428
Increase(Decrease) unearned revenues		(190,158)
Increase(Decrease) other current liabilities		<u>204,694</u>
<i>Net Cash Provided by Operating Activities</i>		9,244,667

**Investing Activities**

Change in property, plant and equipment	\$(2,518,486)	
Change in long-term investments	(178,270)	
Other long-term assets	<u>(420,738)</u>	
<i>Net Cash Used in Investing Activities</i>		(3,117,494)

**Financing Activities**

Other financing activities		<u>193,800</u>
Net increase in cash and cash equivalents		6,320,973
Cash and cash equivalents beginning of period		<u>34,291,028</u>
Cash and Cash Equivalents End of Period		<u><u>\$40,612,000</u></u>

**Care Wisconsin First, Inc.  
Consolidated Balance Sheet  
As of December 31, 2015**

	CWHP	CWF	Eliminations	Consolidated Total
<b>Current Assets</b>				
Cash and cash equivalents, operating	\$16,434,026	\$40,612,002	\$	\$57,046,028
Short-term investments (unrestricted)	15,593,028			15,593,028
Capitation receivable net of allowance	1,263,129	432,216		1,695,345
Other DHS receivables net of allowance	794,418	1,618,362		2,412,780
Cost share receivable net of allowance	32,897	214,698		247,595
Room and board receivable net of allowance	103,426	298,293		401,719
Spend down receivable net of allowance	7,474	11,339		18,813
Other short-term receivables net of allowance	352,574	17,898		370,472
Parent, subsidiary, affiliate receivable		304,602	(304,602)	0
Prepaid Insurance		174,845		174,845
Prepaid providers (member service expense)	7,841	21,406		29,247
Prepaid expenses – other	150,061	454,481		604,542
Other current assets	14,000			14,000
<i>Total Current Assets</i>	<u>34,752,874</u>	<u>44,160,142</u>	<u>(304,602)</u>	<u>78,608,414</u>
<b>Long-Term Assets</b>				
Risk reserve funds – FC permitted MCO		2,804,746		2,804,746
Solvency reserve/guaranty funds on deposit permitted MCO		750,000		750,000
Leasehold improvements (cost)		1,761,773		1,761,773
Accumulated depreciation – leasehold improvements		(532,881)		(532,881)
Furniture, equipment, and software (cost)		6,559,251		6,559,251
Accumulated depreciation – furniture, equipment, and software		(4,975,386)		(4,975,386)
Other long-term assets	182,167	792,133		974,300
<i>Total Long-Term Assets</i>	<u>182,167</u>	<u>7,159,636</u>	<u>0</u>	<u>7,341,803</u>
<b>Total Assets</b>	<u><b>\$34,935,041</b></u>	<u><b>\$51,319,778</b></u>	<u><b>\$(304,602)</b></u>	<u><b>\$85,950,217</b></u>

**Care Wisconsin First, Inc.**  
**Consolidated Balance Sheet**  
**As of December 31, 2015 (cont.)**

	<b>CWHP</b>	<b>CWF</b>	<b>Eliminations</b>	<b>Consolidated Total</b>
<b>Current Liabilities</b>				
Capitation payable	\$ 255,566	\$ 252,105	\$	\$ 507,671
Unearned capitation revenue	6,995			6,995
Unearned revenue – other		57,657		57,657
Accrued salaries		468,620		468,620
Accrued taxes and benefits (current)		1,606,260		1,606,260
IBNR member services – current year	11,366,890	24,002,714		35,369,604
Accounts payable – member services, claims processed	16,851			16,851
Accounts payable – care management	1,268	1,215		2,483
Accounts payable – general	728,781	1,097,612		1,826,393
Parent, subsidiary, affiliate payable	304,602		(304,602)	0
Income tax payable	80,000			80,000
Other current liabilities		204,694		204,694
<i>Total Current Liabilities</i>	<u>12,760,953</u>	<u>27,690,877</u>	<u>(304,602)</u>	<u>40,147,228</u>
<b>Long-Term Liabilities</b>				
Due to other, long-term		171,865		171,865
Other long-term liabilities		306,351		306,351
<i>Total Long-Term Liabilities</i>	<u>0</u>	<u>478,216</u>	<u>0</u>	<u>478,216</u>
<b>Total Liabilities</b>	12,760,953	28,169,093	(304,602)	40,625,444
<b>Equity</b>				
Beginning equity	12,637,107	22,739,726		35,376,833
Current year net income	9,536,981	410,961		9,947,942
<i>Total Equity</i>	<u>22,174,088</u>	<u>23,150,687</u>	<u>0</u>	<u>45,324,775</u>
<b>Total Liabilities and Equity</b>	<u>\$34,935,041</u>	<u>\$51,319,780</u>	<u>\$(304,602)</u>	<u>\$85,950,219</u>

**Care Wisconsin First, Inc.**  
**Profit and Loss Statement**  
**For the Period Ending December 31, 2015**

	CWHP	CWF	Eliminations	Consolidated Total
<b>Revenues</b>				
MA capitation (net of cost share)	\$ 72,081,779	\$188,209,932	\$	\$260,291,711
MC capitation	41,757,678			41,757,678
Cost share revenue	1,644,401	5,686,724		7,331,125
Room and board revenue	2,867,060	18,054,908		20,921,968
Spend down revenue	131,384	886,604		1,017,988
Interest/investment income – operating account	31,949	100,506		132,455
Inter-company revenue		15,473,686	(15,473,686)	0
Other current year retro adjustments, DHS	484,736	1,821,732		2,306,468
Other income/funding	<u>49,395</u>	<u>183,547</u>		<u>232,942</u>
<b>Total Revenue</b>	<u>119,048,382</u>	<u>230,417,639</u>	<u>(15,473,686)</u>	<u>333,992,335</u>
<b>Operating Expenses</b>				
<b>Direct Member Service Expenses</b>				
<b>Acute and Primary Services (FCP/PACE Programs)</b>				
Dental	404,421			404,421
Pharmacy	14,724,553			14,724,553
In-patient hospital	14,928,180			14,928,180
Out-patient hospital	2,247,114			2,247,114
Other acute and primary services	<u>10,061,596</u>			<u>10,061,596</u>
<i>Total Acute and Primary</i>	42,365,864	<u>0</u>	<u>0</u>	42,365,864
<b>Long-Term Care Services (All Programs)</b>				
Adaptive equipment	3,780,217	3,687,561		7,467,778
Adult day activities	1,048,405	10,177,187		11,225,592
Habilitation/health	2,115,110	1,579,427		3,694,537
Home care	10,306,294	32,458,061		42,764,355
Home health care	3,751,864	1,245,578		4,997,442
Institutional (NH/ICF-MR)	10,494,263	12,980,269		23,474,532
Residential care	12,973,919	87,111,516		100,085,435
Respite care	262,400	528,357		790,757
Transportation	3,286,732	4,984,968		8,271,700
Vocational	144,944	7,472,686		7,617,630
Room and board – expenses	3,269,078	20,120,078		23,389,156
Other FC LTC services	<u>3,260</u>	<u>342,808</u>		<u>346,068</u>
<i>Total LTC Services</i>	51,436,486	182,688,496	<u>0</u>	234,124,982
Other member expenses (Outside the benefit package)	<u>3,424,910</u>	<u>1,676</u>		<u>3,426,586</u>
<i>Total Member Service Expenses</i>	<u>\$ 97,227,260</u>	<u>\$182,690,172</u>	<u>\$ 0</u>	<u>\$279,917,432</u>

**Care Wisconsin First, Inc.**  
**Profit and Loss Statement**  
**For the Period Ending December 31, 2015 (cont.)**

	CWHP	CWF	Eliminations	Consolidated Total
<b>Care Management Expenses</b>				
Care management (CMUs/External)	\$ 477,802	\$ 1,479,607	\$ (71,099)	\$ 1,886,310
Care management (Internal)	9,618,437	29,701,336	(10,356,288)	28,963,485
Care management admin – allocated	<u>807,723</u>	<u>1,940,518</u>	<u>                    </u>	<u>2,748,241</u>
<i>Total Care Management Expenses</i>	10,903,962	33,121,461	(10,427,387)	33,598,036
<b>Administrative Expenses</b>				
Stop loss premiums	198,165			198,165
Wages and benefits	4,669,538	17,298,044		21,967,582
Contracted TPA expense	951,978	965,975		1,917,953
Occupancy	705,111	5,156,345		5,861,456
Office expenses	718,997	2,702,648		3,421,645
Legal/accounting/audit	65,442	238,544		303,986
Contracted IT development	290,674	480,565		771,239
Other professional services	566,289	1,461,632		2,027,921
Interest expense	3,046			3,046
Depreciation expense		712,040		712,040
Insurance expense	89,676	379,537		469,213
Travel/training/conference expense	107,801	478,506		586,307
Other administrative expenses	68,374	114,180		182,554
Administrative allocation to care management	<u>(807,723)</u>	<u>(15,735,938)</u>	<u>(5,046,299)</u>	<u>(21,589,960)</u>
<i>Total Administrative Expenses</i>	7,627,368	14,252,078	(5,046,299)	16,833,147
<b>Total Operating Expenses</b>	<u>115,758,590</u>	<u>230,063,711</u>	<u>(15,473,686)</u>	<u>330,348,615</u>
<b>Income (Loss) from Operations, current year</b>	3,289,792	353,928	0	3,643,720
<b>Other (Income) Expenses, ordinary</b>				
Investment income – reserve funds	(446,157)	(8,492)		(454,649)
Gain(loss) in investments (unrealized)	396,684	10,922		407,606
Gain(loss) in sale of investments (realized)	131,259	(8,922)		122,337
(Gain)Loss in sale of LT asset		14,083		14,083
Prior year adjustment – IBNR	(916,718)	(250,994)		(1,167,712)
Prior year adjustment – other DHS	(9,000)	186,370		177,370
Prior year adjustment – other	(161,914)			(161,914)
Other non-operating and PDR	<u>(5,241,341)</u>	<u>                    </u>	<u>                    </u>	<u>(5,241,341)</u>
<i>Total Other Expenses</i>	(6,247,187)	(57,033)	0	(6,304,220)
<b>Net Income (Loss)</b>	<u>\$ 9,536,979</u>	<u>\$ 410,961</u>	<u>\$ 0</u>	<u>\$ 9,947,940</u>

**Growth of Care Wisconsin First, Inc.**

Year	Assets	Liabilities	Equity	Capitation Revenue	Member Service Expenses	Net Income	Member Months
2015	\$51,319,778	\$28,169,092	\$23,150,687	\$188,209,932	\$182,690,172	\$ 410,961	58,089
2014	41,901,694	19,161,968	22,739,726	149,723,753	150,010,912	(4,405,582)	48,300
2013	45,401,124	18,255,817	27,145,307	175,553,938	135,027,105	9,489,282	44,625
2012	36,117,013	18,460,988	17,656,025	179,009,225	132,355,043	9,224,516	42,409
2011	26,648,111	18,216,600	8,431,509	174,976,491	128,841,850	8,141,246	40,192

Year	Profit Margin	Member Service Cost Ratio	Care Management Service Cost Ratio	Combined Member Service Cost Ratio	Administrative Expense Ratio	Change in Member Months
2015	0.2%	76.8%	16.1%	92.9%	6.9%	20.3%
2014	(2.9)	86.4	11.9	98.3	4.5	8.2
2013	6.1	74.2	14.5	88.6	6.2	5.2
2012	5.7	71.1	15.5	86.6	7.6	5.5
2011	5.1	71.0	16.3	87.3	8.5	10.0

**Per Member Per Month Information**

	2015	2014	Percentage Change
<b>Revenues</b>			
Capitation	\$3,240.03	\$3,099.87	4.5%
Other revenue	<u>726.60</u>	<u>729.61</u>	(0.4)
Total revenue	3,966.63	3,829.48	3.6
<b>Expenses:</b>			
Member service costs	3,145.00	3,105.82	1.3
Care management	570.18	581.28	(1.9)
Administrative	<u>245.35</u>	<u>230.55</u>	6.4
Total operating expenses	3,960.54	3,917.65	1.1
Other non-operating expenses	<u>(0.98)</u>	<u>(1.61)</u>	(39.1)
Net income (loss)	<u>\$ 7.07</u>	<u>\$ (91.21)</u>	(107.8)
Member months	58,089	48,300	

The company has grown substantially, realizing an increase of 58.9% in annual member months over the examination period to 58,089 for 2015 from 36,546 for 2010. Capitation revenue has grown similarly over the examination period, increasing 61.4% to \$188.2 million during 2015 from \$116.6 million during 2010. The company's administrative expense ratio has trended downward over the examination period to 6.9% for 2015.

In March 2011, the company received an additional \$3 million from Care Wisconsin Health Plan, Inc. This contribution, together with \$5.1 million net income for 2011, brought the company into a positive equity position of \$8.4 million at year-end 2011. In addition,

this allowed the company to make its final installment payment into the solvency fund in September 2011. Since 2011, the company's equity position has increased to \$23.2 million at year-end 2015, thus providing a greater cushion to absorb possible losses and still meet obligations to members.

#### **Reconciliation of Equity per Examination**

No adjustments were made to equity as a result of the examination. The amount of equity reported by the company as of December 31, 2015, is accepted.

There were no examination reclassifications as a result of this examination.



## **VI. SUMMARY OF EXAMINATION RESULTS**

### **Compliance with Prior Examination Report Recommendations**

There were no specific comments and recommendations in the previous examination report.

## **Summary of Current Examination Results**

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

### **Bylaws**

The bylaws of Care Wisconsin First, Inc., call for the term for members of the board of directors to be staggered. The company's bylaws state: "The terms of the Directors shall be staggered such that approximately one-third of the elected Directors have terms that expire each year." The examination found that the company has not been staggering their board according to the bylaws inasmuch as four members of the board have terms which expire simultaneously. It is recommended that the company stagger the expiration dates of the board members in accordance with their bylaws.

Under s. Ins 57.06, Wis. Adm. Code, a care management organization shall notify this office at least 30 days prior to a substantial change in its business plan, which includes amendments to the articles or bylaws of the organization. The examination found that Care Wisconsin First, Inc., amended its bylaws in September 2015 and failed to notify this office of the change. It is recommended that the company inform this office of changes to its bylaws 30 days prior to the effective date pursuant to s. Ins 57.06, Wis. Adm. Code.

### **Affiliated Agreements**

The examination found that the company had made revisions to the Administrative Services Agreement and Health Care Services Agreement which were not submitted to this office. Under s. Ins 57.12 (2) (c), Wis. Adm. Code, management and service agreements with affiliates shall be reported to the commissioner at least 30 days before the insurer enters into the transaction, unless the commissioner approves a shorter period. It is recommended that the company file any amendments to its affiliated agreements with this office for non-disapproval in accordance with s. Ins 57.12 (2) (c), Wis. Adm. Code.

## Financial Requirements

The financial requirements for a CMO under s. 648.75, Wis. Stat., and s. Ins 57.04, Wis. Adm. Code, for the period ending December 31, 2015, are as follows:

	<b>Amount Required</b>
1. Working capital	Not less than 3.0% of the budgeted annual capitation payments from DHS.
2. Restricted reserves	The required minimum balance is calculated as follows:  8% of the first \$5 million annual budgeted capitation 4% of the next \$5 million annual budgeted capitation 3% of the next \$10 million annual budgeted capitation 2% of the next \$30 million annual budgeted capitation 1% of annual budgeted capitation in excess of \$50 million
3. Solvency fund	\$750,000

The company's financial requirement calculations as of December 31, 2015, are as follows:

### **Working Capital**

Current Assets	\$44,160,142
Current Liabilities	<u>27,690,876</u>
Working Capital	16,469,266
Working Capital Requirement	<u>5,400,169</u>
Excess/(shortage)	<u>\$11,069,097</u>

### **Restricted Reserves**

Current Restricted Reserves	\$ 2,804,746
Restricted Reserve Requirement	<u>2,800,056</u>
Excess/(shortage)	<u>\$ 4,690</u>

### **Solvency Fund**

Current Solvency Fund	\$ 750,000
Solvency Fund Requirement	<u>750,000</u>
Excess/(shortage)	<u>\$ 0</u>

The company is meeting its financial requirements at December 31, 2015.

## **VII. CONCLUSION**

Care Wisconsin First, Inc., is a care management organization participating in the Wisconsin Family Care Program. CWF is organized to develop and demonstrate innovative, flexible, community-based approaches to care for at-risk adults, in order to optimize their quality of life and optimize the allocation of community resources in its eight-county service area.

CWF reported net income of \$411 thousand in 2015 and a net loss of \$4.4 million in 2014. The company's equity increased to \$23.2 million at year-end 2015 but remains below the high of \$27.1 million at year-end 2013.

The examination resulted in three recommendations relating to bylaws and affiliated agreements.

### VIII. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 24 - Bylaws—It is recommended that the company stagger the expiration dates of the board members in accordance with their bylaws.
2. Page 24 - Bylaws—It is recommended that the company inform this office of changes to its bylaws 30 days prior to the effective date pursuant to s. Ins 57.06, Wis. Adm. Code.
3. Page 24 - Affiliated Agreements—It is recommended that the company file any amendments to its affiliated agreements with this office for non-disapproval in accordance with s. Ins 57.12 (2) (c), Wis. Adm. Code.

## IX. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company is acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

<b>Name</b>	<b>Title</b>
Stephanie Falck	Insurance Financial Examiner
Jacob Burkett	Insurance Financial Examiner
Karl Albert	Advanced Ins. Financial Examiner
Jerry DeArmond	Advanced Ins. Financial Examiner
John Litweiler	Workpaper Specialist
David Jensen	IT Specialist

Respectfully submitted,

John Ebsen  
Examiner-in-Charge