

Report of the Examination of
Lakeland Care, Inc.
Fond du Lac, Wisconsin
As of December 31, 2021

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March 27, 2023

Honorable Nathan D. Houdek
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:

LAKELAND CARE, INC.
Fond du Lac, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The current examination of Lakeland Care, Inc. (the company or LCI) covered the period
ending December 31, 2021, and included a review of such subsequent 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
- 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 concerning the alternative or additional examination steps performed during the examination.

II. HISTORY AND PLAN OF OPERATION

Lakeland Care, 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 (DHS) under s. 46.284, Wis. Stat., and enrolls only individuals who are eligible under s. 46.286, Wis. Stat.

The company was previously formed as a Long-Term Care District under the name Lakeland Care District (the District) in April 2009 to provide long-term care services to individuals who meet functional and financial requirements under Wisconsin's Family Care program. The District was created by resolutions adopted by Fond du Lac, Manitowoc, and Winnebago counties pursuant to s. 46.2895, Wis. Stat. The District was considered a special-purpose unit of government, separate and independent from all counties that acted to create the District. The District was granted powers necessary to carry out its business under ss. 46.2805 to 46.2895, Wis. Stat., which do not allow the District to issue bonds or levy a tax or assessment. The District was legally separate and fiscally independent of the county, local, and state governments.

On January 1, 2017, the company converted from a public Long-Term Care District to a private non-profit organization and changed its name to its current name. The company operates in four Geographic Service Regions (GSR) which are GSR 4, 9, 10, and 13. Counties under the four GSRs include:

GSR 4	GSR 9	GSR 10	GSR 13
Florence	Fond du Lac	Calumet	Brown
Forest	Manitowoc	Outagamie	Door
Langlade	Winnebago	Waupaca	Kewaunee
Lincoln			Marinette
Marathon			Menominee
Oneida			Oconto
Portage			Shawano
Vilas			
Wood			

The company derives its revenue from the Wisconsin Family Care Program which includes the services provided to two Wisconsin Tribes, Oneida Nation and Menominee Indian Tribe of Wisconsin.

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 elderly¹, physically disabled², and developmentally disabled³ individuals. LCI contracts directly with DHS to provide long-term care benefits to eligible members through its permit.

LCI 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 five-year term with subsequent one-year automatic renewals and may be terminated upon mutual consent or 60 days' prior written notice. 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

¹ 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)

² 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)

³ 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)

Marketing to individuals is restricted under the Medicaid regulations and operating procedures. Rates are determined by the contract between LCI 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 then adjusted for trend and administrative allowances. 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 by region.

The NH and non-NH level of care capitation rates are based on the utilization and expenditures of the state-based CMO cohort counties. 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.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of eight members. Under the company's bylaws, the company may have up to 15 board of directors and no fewer than five. The company is currently looking to add one more member to bring the total to nine. Directors are elected annually to serve a staggered three-year term and may serve three consecutive terms. A member may be reappointed following a minimal one-year absence to serve for up to two additional three-year terms. Officers of the board are elected by the board of directors for a two-year term and may hold the same office for no more than two consecutive terms. Officers of the company are not elected by the board of directors, with the exception of the Chief Executive Officer, who is appointed. Board members currently receive \$50 per meeting attended for serving on the board plus mileage reimbursement or the actual cost of special needs transportation.

Currently, the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Bob Ziegelbauer Manitowoc, WI	County Executive - Manitowoc Co.	2023
Todd Moely Fond du Lac, WI	Retail Clerk	2023
Barbara Larson-Herber Crivitz, WI	Retired	2024
Julie Spanbauer Oshkosh, WI	Finance/Banking	2024
Judy Ruggirello Manitowoc, WI	Retired	2025
Larry Lautenschlager Oshkosh, WI	Retired	2025
Michael Konecny Green Bay, WI	Retired	2025
Stuart Kuzik Holmen, WI	Finance/Banking	2025

Officers of the Company

The officers of the company serving at the time of this examination are as follows:

Name	Office
Sara Muhlbauer	Chief Executive Officer
Daniel Bizub	Chief Financial Officer
Jenifer Harrison	Chief Operations Officer
Suzanne Sinjakovic	Chief Administrative Officer

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

Todd Moely, Chair
Bob Ziegelbauer
Michael Konecny

Finance Committee

Bob Ziegelbauer, Chair
Larry Lautenschlager
Stuart Kuzik

Strategic Planning Committee

Michael Konecny, Chair
Barbara Larson-Herber
Bob Ziegelbauer

Quality/Risk Compliance Comm

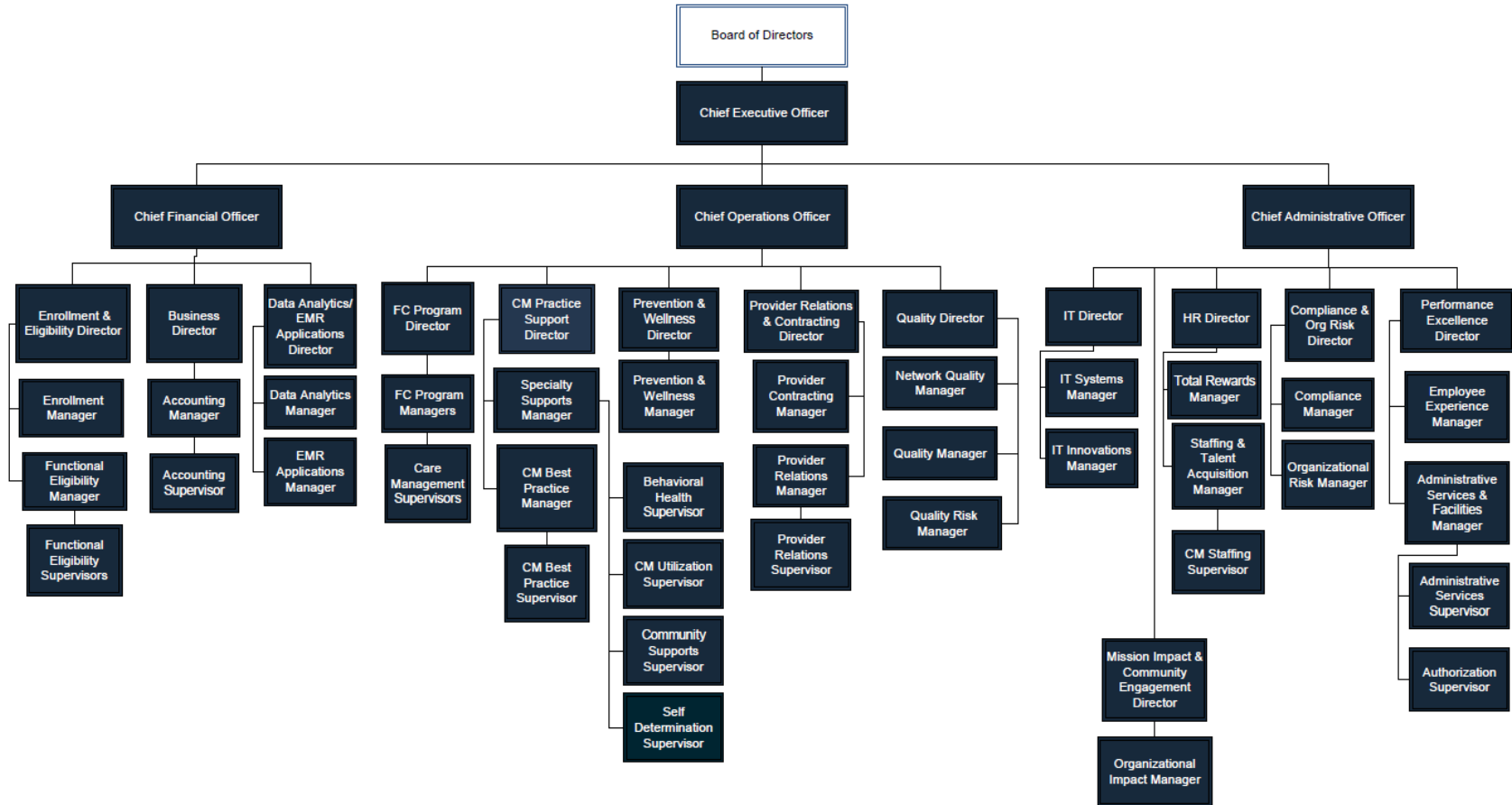
Barbara Larson-Herber, Chair
Todd Moely
Judy Ruggirello
Julie Spanbauer

The company has its own employees. A high-level personnel organization chart is included below.

Lakeland Care, Inc. Leadership

April 2023

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IV. FINANCIAL DATA

The following financial statements reflect the financial condition of Lakeland Care, Inc. as reported in the December 31, 2021, financial statements. 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 Lakeland Care, Inc.'s operating results by target group and the growth of the company for the period under examination.

Lakeland Care, Inc.
Balance Sheet
As of December 31, 2021

Current Assets

Cash and cash equivalents, operating	\$45,159,362
Cash and cash equivalents, other	517,295
Capitation receivable net of allowance	1,458,021
Other DHS receivables net of allowance	11,258,370
Cost-share receivable net of allowance	366,855
Room and board receivable net of allowance	506,009
Prepaid Insurance	57,038
Prepaid providers (member service expenses)	128,979
Prepaid expenses - other	689,133
Supply inventory	<u>77,863</u>
<i>Total Current Assets</i>	60,218,925

Long-Term Assets

Risk reserve funds – FC Permitted MCO	\$ 4,126,203
Solvency reserve/guaranty funds on deposit permitted MCO	1,924,460
Leasehold improvements (cost)	370,613
Accumulated depreciation – leasehold improvements	(370,613)
Furniture, equipment, and software (cost)	6,223,226
Accumulated depreciation – furniture, equipment, and software	<u>(3,815,795)</u>
<i>Total Long-Term Assets</i>	<u>8,458,095</u>

Total Assets

\$68,677,020

Current Liabilities

Capitation payable	\$ 277,965
Accrued salaries	600,464
Accrued taxes and benefits (current)	1,466,689
IBNR member services – current year	26,048,198
Accounts payable – claims processed, TPA	379,387
Accounts payable – general	2,973,553
Due to other	<u>97,543</u>
<i>Total Current Liabilities</i>	31,843,799

Long-Term Liabilities

Other long-term liabilities	<u>27,143</u>
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Total Liabilities

\$31,870,942

Equity

Beginning equity	\$27,317,336
Current year net income	<u>9,488,742</u>
<i>Total Equity</i>	<u>36,806,078</u>

Total Liabilities and Equity

\$68,677,020

Lakeland Care, Inc.
Profit and Loss Statement
For the Period Ending December 31, 2021

Revenues

MA. capitation (net of cost share)	\$307,134,664
Cost share revenue	9,223,020
Room and board revenue	26,925,763
Other third-party payer revenues	103,534
Other current year retro adjustments, DHS	11,426,620
Other income/funding	<u>362,728</u>
Total Revenue	355,176,359

Long Term Care Services (All Programs)

Adaptive equipment	\$ 6,415,820	
Adult day activities	470,541	
Habilitation/health	11,957,958	
Home care	50,935,851	
Home health care	5,543,417	
Institutional (NH/ICF-MR)	29,282,894	
Residential care	177,098,919	
Respite care	1,697,630	
Transportation	7,693,742	
Vocational	5,514,282	
Financial Management	1,938,451	
Other FC LTC services	<u>265,651</u>	
<i>Total Member Service Expenses</i>		298,815,154

Care Management Expenses

Care management (Internal)	33,983,159	
Care management admin – allocated	4,754,520	
<i>Total Care Management Expenses</i>		38,737,679

Administrative Expenses

Wages and benefits	9,121,916	
Contracted TPA expense	1,730,575	
Occupancy	883,470	
Office expenses	228,641	
Legal/accounting/audit	201,804	
Other professional services	884,966	
Depreciation expense	837,711	
Insurance expense	190,521	
Travel/training/conference expense	201,829	
Other administrative expenses	2,455,999	
Administrative allocation to care management	(4,754,520)	
<i>Total Administrative Expenses</i>		<u>11,982,912</u>

Total Operating Expenses

349,535,745

Income (Loss) from Operations, current year

5,640,614

Other (Income) Expenses, ordinary

Investment income – reserve funds	(8,290)	
Prior year adjustment – IBNR	(797,113)	
Prior year adjustment – other DHS Revenue	(3,040,009)	
Prior year adjustment – other DHS Expenses	(2,716)	
<i>Total Other Expenses</i>		(3,848,128)

Net Income (Loss)

\$ 9,488,742

Lakeland Care, Inc.
Statement of Cash Flows
For the Period Ending December 31, 2021

Operating Activities

Net income per GL		\$ 9,488,742
Add: Depreciation		837,711
(Increase) Decrease Accounts receivable, capitation and DHS other		(6,732,385)
(Increase) Decrease Accounts receivable general		(165,764)
(Increase) Decrease Inventory/supplies		(2,286)
(Increase) Decrease Prepaid insurance		2,778
(Increase) Decrease Prepaid other		(16,447)
Increase (Decrease) IBNR		1,101,878
Increase (Decrease) Accounts payable		2,050,640
Increase (Decrease) Wages/taxes/ben. payable		904,428
Increase (Decrease) Due to other payable		(39,064)
Increase (Decrease) Unearned revenues		(317,696)
<i>Net Cash Provided by Operating Activities</i>		7,112,534

Investing Activities

Change in property, plant, and equipment:	\$(755,556)	
Change in long-term investments	<u>(491,038)</u>	
<i>Net Cash Used in Investing Activities</i>		(1,246,594)

Financing Activities

<i>Net Cash Used in Financing Activities</i>		<u>(275)</u>
Net increase in cash and cash equivalents		<u>5,865,665</u>
Cash and Cash Equivalents Beginning of Period		<u>39,810,991</u>
Cash and Cash Equivalents End of Period		<u>\$45,676,656</u>

Growth of Lakeland Care, Inc.

Year	Assets	Liabilities	Equity	Capitation Revenue	Member Service Expenses	Net Income	Member Months
2021	\$68,677,020	\$31,870,942	\$36,806,078	\$307,134,664	\$298,815,154	\$9,488,742	92,301
2020	55,488,367	28,171,031	27,317,336	308,914,796	295,841,073	8,244,905	91,700
2019	46,562,741	27,490,310	19,072,431	248,030,279	237,819,210	6,018,077	74,373
2018	36,942,586	23,888,234	13,054,352	205,312,044	209,675,964	(2,994,981)	65,937

Year	Profit Margin	Member Service Cost Ratio	Care Management Service Cost Ratio	Combined Member Service Cost Ratio	Administrative Expense Ratio	Change in Member Months
2021	1.8%	82.3%	12.2%	94.5%	3.8%	0.7%
2020	2.6	82.8	11.5	94.3	3.5	23.3
2019	2.4	82.1	12.1	94.2	3.7	12.8
2018	-1.4	85.9	12.0	97.9	3.8	15.8

Per Member Per Month Information

	2021	2020	Percentage Change
Revenues			
Capitation	\$3,327.53	\$3,368.75	-1.2%
Other revenue	<u>520.49</u>	<u>447.88</u>	16.2
Total revenue	3,848.02	3,816.63	0.8
Expenses:			
Member service costs	3,237.40	3,226.18	0.3
Care management	419.68	394.03	6.5
Administrative	<u>129.82</u>	<u>119.14</u>	9.0
Total operating expenses	3,786.90	3,739.35	1.3
Other non-operating expenses	<u>(41.69)</u>	<u>(12.63)</u>	230.0
Net income (loss)	<u>102.80</u>	<u>89.91</u>	14.3
Member months	92,301	91,700	

As of December 31, 2021, LCI reported assets of \$68.7 million, liabilities of \$31.9 million, and equity of \$36.8 million. LCI reported a net income of \$9.5 million on total capitated revenues of \$307.1 million. Member months continued to climb during every year of the examination with the 2020 to 2021 growth being the smallest growth during the examination period at 0.7%. Cost ratios and profit margins were stable across the examination period. Per Member Per Month (PMPM) capitation revenue dropped 1.2% and PMPM total revenue increased 0.8% while PMPM total operating expenses increased 1.3% and PMPM net income increased 14.1% from 2020 to 2021.

In late 2019, a CMO in GSR 13 was removed and the company experienced a 23.3% increase in member months in 2020. In 2021, DHS added a third MCO in two of the service regions resulting in minimal growth for the company. Member service costs mirrored the changes in enrollment. Capitation rates in 2019 and 2020 were increased by DHS in the form of Market Variable Adjustment (MVA) to all Family Care CMOs. The company saw capitation revenue increase as a result of the MVAs in 2019 and 2020, and COVID-19 decreased service utilization in 2020 which helped generate a positive net income in those years. In 2021, DHS removed the MVA and the company moved from a facility-based residential services payment model to an acuity-based residential services payment model in which acuity drives expenditures. The removal of MVA was responsible for the slight decline in capitation revenue from 2020 to 2021, but LCI's residential services funding model transition and COVID-19 decreased service utilization yielded a positive surplus. The consecutive years of positive net income drove the year-over-year equity growth during the examination.

Reconciliation of Equity per Examination

No adjustments were made to the surplus as a result of the examination. The amount of equity reported by the company as of December 31, 2021, is accepted.

Examination Reclassifications

No reclassifications were made to the surplus as a result of the examination. The amount of equity reported by the company as of December 31, 2021, is accepted.

V. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were three specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Audit Engagement Letter – It is recommended that the company have the indemnification clause in the engagement letter removed in future audits or replaced the accounting firm with one that is qualified by s. Ins 57.32 (1) (b), Wis. Adm Code to render and opinion.

Action—Compliance.

2. Business Continuity Plan – It is recommended that the company test its BCP on a regular basis but not less than annually.

Action—Compliance.

3. Monitoring of Third-party Providers – It is recommended that the company develop a formal internal review process to review the SOC reports and other audit reports obtained from its key third-party providers and complete the reviews on an annual basis.

Action—Compliance.

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.

There were no adverse findings of significance that resulted in a recommendation.

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, 2021, are as follows:

	Amount Required
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	\$20 x Total yearly budgeted member months - not less than \$250,000.

The company's financial requirement calculations as of December 31, 2021, are as follows:

Working Capital

Current Assets	\$60,218,925
Current Liabilities	<u>31,843,799</u>
Working Capital	28,375,126
Working Capital Requirement	<u>9,354,321</u>
Excess/(shortage)	<u>\$19,020,805</u>

Restricted Reserves

Current Restricted Reserves	\$ 4,126,203
Restricted Reserve Requirement	<u>4,118,107</u>
Excess/(shortage)	<u>\$ 8,096</u>

Solvency Fund

Current Solvency Fund	\$ 1,924,460
Solvency Fund Requirement	<u>1,924,460</u>
Excess/(shortage)	<u>\$ 0</u>

The company was meeting its financial requirements as of December 31, 2021.

VI. CONCLUSION

Lakeland Care, Inc., is a private non-profit organization that has a permit to operate as a CMO, pursuant to s. 648.05, Wis. Stat. in the State of Wisconsin. The company primarily provides Family Care services as part of its contract with DHS in the following counties: Brown, Calumet, Door, Florence, Fond du Lac, Forest, Kewaunee, Langlade, Lincoln, Manitowoc, Marathon, Marinette, Menominee, Oconto, Oneida, Outagamie, Portage, Shawano, Vilas, Waupaca, Winnebago, and Wood.

As of December 31, 2021, LCI reported assets of \$68.7 million, liabilities of \$31.9 million, and equity of \$36.8 million. LCI reported a net income of \$9.5 million on total capitated revenues of \$307.1 million. Member months continued to climb during every year of the examination with the 2020 to 2021 growth being the smallest growth during the examination period at 0.7%. Cost ratios and profit margins were stable across the examination period. The removal of a CMO from GSR 13 in late 2019 caused a 23.3% member month increase in 2020. A MVA to rates by DHS in 2019 and 2020 spurred strong capitation revenue growth. Once the MVA was removed for 2021, which resulted in a slight decline in capitation revenue, the company changed from a facility-based residential services payment model to an acuity-based residential services payment model. The successful residential services funding model transition and COVID-19 decreased services utilization resulted in a net income for 2021. All years of the examination noted a positive net income which resulted in equity growth every year under examination. As of December 31, 2021, the company met its financial requirements.

The prior examination had three recommendations of which all were in full compliance as of this examination. The current examination has no recommendations.

VII. SUMMARY OF COMMENTS AND RECOMMENDATIONS

There were no adverse findings of significance that resulted in a recommendation.

VIII. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of Lakeland Care, Inc. are acknowledged.

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

Name	Title
James Krueger	Insurance Financial Examiner
Junji Nartatez, CISA	IT Specialist
Nicholas Hartwig, AFE	Workpaper Specialist

Respectfully submitted,



Kenton Harrison
Examiner-in-Charge