

Report  
of the  
Examination of  
Care Wisconsin First, Inc.  
Madison, Wisconsin  
As of December 31, 2010

## TABLE OF CONTENTS

	<b>Page</b>
I. INTRODUCTION .....	1
II. HISTORY AND PLAN OF OPERATION .....	3
III. MANAGEMENT AND CONTROL.....	6
IV. AFFILIATED COMPANIES.....	9
V. FINANCIAL DATA .....	11
VI. SUMMARY OF EXAMINATION RESULTS.....	21
VII. CONCLUSION.....	22
VIII. SUMMARY OF COMMENTS AND RECOMMENDATIONS.....	23
IX. ACKNOWLEDGMENT.....	24



# State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor  
Theodore K. Nickel, Commissioner

Wisconsin.gov

January 26, 2012

125 South Webster Street • P.O. Box 7873  
Madison, Wisconsin 53707-7873  
Phone: (608) 266-3585 • Fax: (608) 266-9935  
E-Mail: [ociinformation@wisconsin.gov](mailto:ociinformation@wisconsin.gov)  
Web Address: [oci.wi.gov](http://oci.wi.gov)

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

This is the first examination of Care Wisconsin First, Inc. (the company or CWF). The current examination covered the period ending December 31, 2010, and included a review of such 2011 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
- Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination.

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., is described as a care management organization (CMO). A CMO is defined by s. 600.01 (1) (b) 10. a., Wis. Stat., as “long-term care services funded by the family care benefit, as defined in s. 46.2805 (4), that are provided by a care management organization that contracts with the department of health services under s. 46.284 and enrolls only individuals who are eligible under s. 46.286.”

The company was incorporated as a non-profit 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, CWF 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.

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 2007, CWF 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. On September 20, 2007, the company changed its name to its current name, Care Wisconsin First, Inc. CWF is organized under ch. 181, Wis. Stat., and is permitted under ch. 648, Wis. Stat.

On March 1, 2008, Washington County transferred a portion of its members to CWF.

Following March 2008, members were transferred to CWF as follows:

- April 2008: Columbia County
- May 2008: Waushara County
- June 2008: Marquette and Waukesha Counties
- July 2008: Dodge and Green Counties
- August 2008: Jefferson County

The company derives 85.7% of its revenue from the Wisconsin Family Care Program.

The remaining income is generated through grants, private pay clients, internal services provided to CWHP and Dane County. 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>. CWF contracts directly with the DHS to provide long-term care benefits to eligible members through its permit.

CWF 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 contract(s) have a one-year term and may be terminated with 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

---

<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]

- 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 CWF 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 frail elders generally utilize fewer services than the physically and developmentally disabled. 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 counties: Fond du Lac, La Crosse, Milwaukee, Portage, and Richland. 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.

### III. MANAGEMENT AND CONTROL

#### Board of Directors

The board of directors consists of 12 members. Four directors are elected annually to serve a three-year term. Officers are elected by the board of directors. Members of the company's board of directors may also be members of other boards of directors in the CMO holding group. 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>
Barb Bowers Madison, WI	Professor University of Wisconsin, School of Nursing	2013
Steve Cable Waunakee, WI	Chief Financial Officer Total Administrative Services, Corp.	2013
Iris Christenson Madison WI	Attorney Law Offices of Christenson & Alex, LLC	2014
Brian Hellmer Fitchburg, WI	Director Univ. of WI, Hawk Center for Applied Security Analysis	2013
Diane Krueger Madison, WI	Osteoporosis Clinical Research Program University of Wisconsin	2014
Mel McCartney Madison, WI	Retired Formerly of Wisconsin Lawyers Mutual Ins. Co.	2012
Karen Musser Middleton, WI	President/Chief Executive Officer Care Wisconsin First, Inc.	N/A <sup>4</sup>
Karen Paulson Sun Prairie, WI	Retired Formerly of American Family Insurance	2014
Anne Smith Fitchburg, WI	Adjunct Professor University of Wisconsin Law School	2012
Elaine Taylor Middleton, WI	Clinical Knowledge Management Univ. of WI Hospitals & Clinics	2012
Marsha Tesar Deforest, WI	Lawyer Tesar Law Group, S.C.	2014
Mary Pat Williams Madison, WI	Vice President US Bank	2012

---

<sup>4</sup> Per the bylaws, the President of the corporation shall be the Chief Executive Officer and shall serve as President as long as he or she holds the position of Chief Executive Officer.

## Officers of the Company

The officers elected by the board of directors and serving at the time of this examination are as follows<sup>5</sup>:

<b>Name</b>	<b>Office</b>	<b>2010 Compensation</b>
Karen Musser	President/Chief Executive Officer	\$247,000
Ken Eimers	Secretary/Chief Operating Officer	192,931
Terry Metzger	Treasurer/Chief Financial Officer	**
Scott Johnson*	Executive Vice President	**
Kristin Jeffries*	Vice President of Planning & Development	127,000

\* Senior managers who run the day-to-day operations of the company.

\*\* Began working with CWF in 2011.

## 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**

Diane Krueger, Chair  
Iris Christenson  
Brian Hellmer  
Mel McCartney  
Karen Musser  
Mary Pat Williams

### **Finance & Investment Committee**

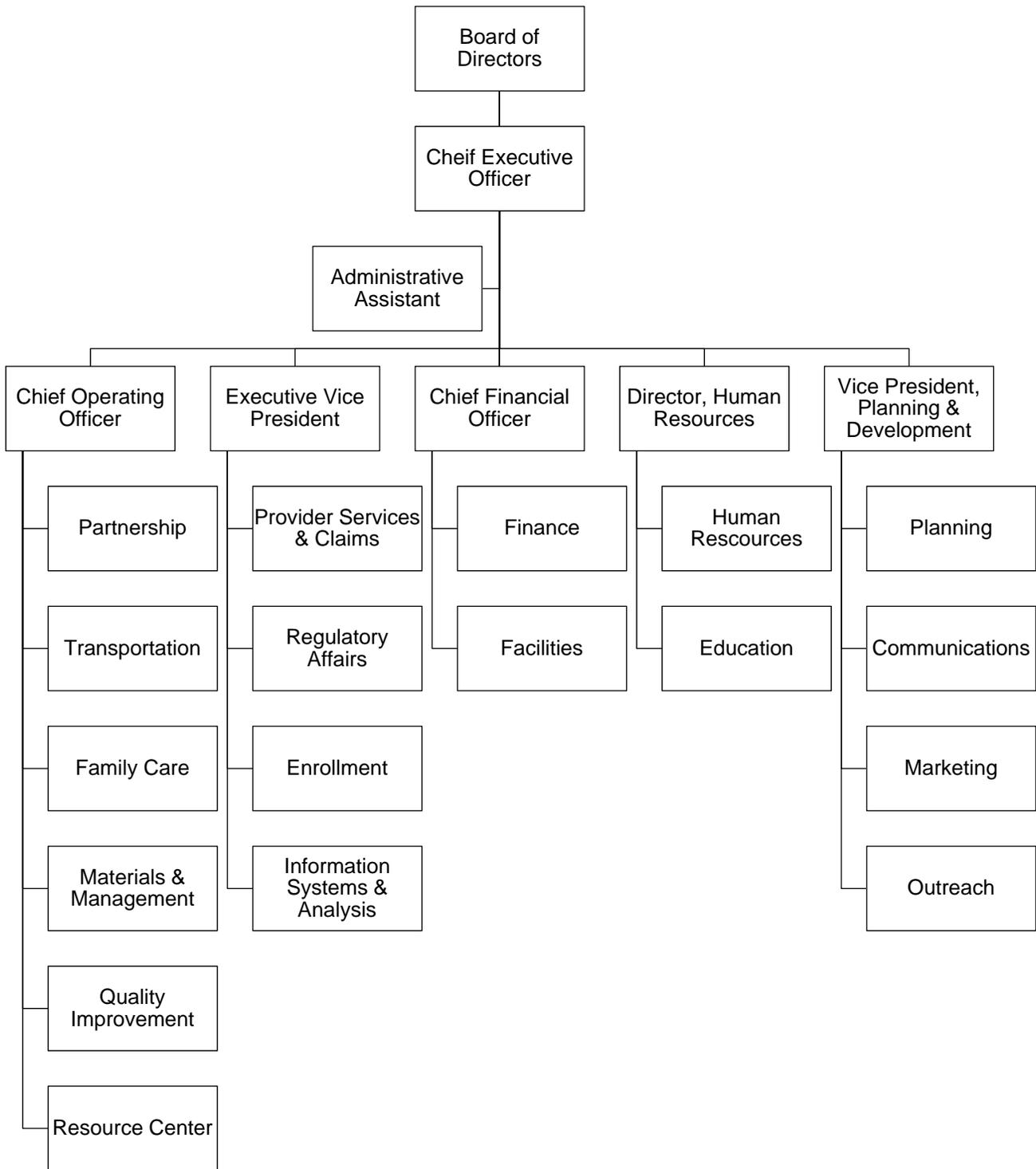
Mary Pat Williams, Chair  
Brian Hellmer  
Diane Krueger  
Karen Musser

The company has its own employees. CWF has established five divisions that work under the direction of the CEO. The company's functional organizational chart is on the following page.

---

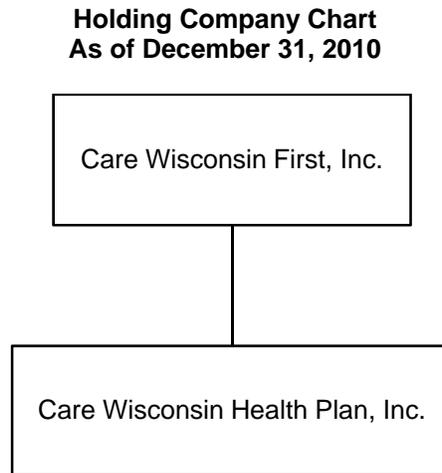
<sup>5</sup> Officers are employed and compensated by the company.

**Care Wisconsin First, Inc.  
Functional Organizational Chart**



#### IV. AFFILIATED COMPANIES

The company is a member of a holding company system. Care Wisconsin First, Inc. is the ultimate parent in the group. 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.



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

Care Wisconsin Health Plan, Inc. (CWHP) is a non-profit mixed model HMO insurer in Wisconsin organized to offer services under the Family Care Partnership Program. FCP is an integrated Medicare/Medicaid product for dual-eligible enrollees. FCP's benefits include all Wisconsin Medicaid-covered benefits, all Medicare Advantage benefits, all Medicare Part D benefits, and "necessary long-term care services and support," including services to assist enrollees with daily living activities. As of December 31, 2010, the CWHP's statutory annual statement reported assets of \$39.0 million, liabilities of \$23.8 million, and capital and surplus of \$15.2 million. Operations for 2010 produced net income of \$3.3 million on revenues of \$73.5 million.

CWHP does not have any employees. Necessary services are provided through CWHP's administrative and health care services agreements with CWF, discussed below:

- Administrative Service Agreement: Under the administrative services agreement, effective June 1, 2005, CWF agrees to perform administrative services necessary for CWHP's operations including, but not limited to: marketing, information systems,

financial and other specified general and administrative services. As compensation for these services, CWHP agrees to reimburse CWF 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 June 1, 2005, CWF agrees to provide the specified health care services on behalf of CWHP's participants enrolled in CWHP's Partnership Program. As compensation for these services, CWHP agrees to reimburse CWF 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.

## **V. FINANCIAL DATA**

The following financial statements reflect the financial condition of the company as reported in the December 31, 2010, financial statements. 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. 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."

**Care Wisconsin First, Inc.**  
**Balance Sheet**  
**As of December 31, 2010**

**Current Assets**

Cash and cash equivalents held by MCO	\$43,066,331
Short-term investments (unrestricted)	60,822
Capitation receivable net of allowance	315,551
Other DHS receivables net of allowance	1,498,280
Cost share receivable net of allowance	35,744
Room and board receivable net of allowance	115,629
Spend down receivable net of allowance	23,312
Prepaid providers (member service expenses)	488,658
Prepaid Insurance	172,828
Prepaid expense - other	338,167
Other short term receivables net of allowance	<u>470,454</u>
<i>Total Current Assets</i>	46,585,776

**Long-Term Assets**

Restricted assets:	
Risk reserve funds – FC MCO	\$ 1,727,337
Solvency reserve/guaranty funds on deposit	250,000
Building/land (cost)	3,346,276
Accumulated depreciation – building/land	(1,288,006)
Leasehold improvements (cost)	478,138
Accumulated depreciation – leasehold improvements	(234,668)
Furniture and equipment (cost)	8,283,754
Accumulated depreciation – furniture & equipment	(6,172,560)
Other long-term assets	<u>39,366</u>
<i>Total Long-Term Assets</i>	<u>6,429,637</u>

**Total Assets**

\$53,015,413

**Current Liabilities**

Deferred capitation revenue	38,012,215
Accrued salaries	1,002,560
Accrued taxes and benefits	927,072
IBNR member services – current year	11,641,489
IBNR member services – prior year	2,021,076
Accounts payable – member services – other	6,129
Accounts payable/accrued administrative expense	920,818
Current portion of long-term debt	128,266
Other current liabilities	<u>443,790</u>
<i>Total Current Liabilities</i>	55,103,416

**Long-Term Liabilities**

Loans payable	<u>621,734</u>
<b>Total Liabilities</b>	55,725,150

**Equity**

Beginning equity	(3,564,522)
Other changes to equity	250,000
Current year net income	<u>604,785</u>
<i>Total Equity</i>	<u>(2,709,737)</u>
<b>Total Liabilities and Equity</b>	<u>\$53,015,413</u>

**Care Wisconsin First, Inc.**  
**Profit and Loss Statement**  
**For the Period Ending December 31, 2010**

**Revenues**

MA capitation (net of cost share)		\$116,640,235
Cost share revenue		1,500,560
Room and board revenue		11,914,566
Spend down revenue		741,412
Other third party payer revenues		52,668
ICF-MR relocation revenues		4,368,185
Interest/investment income – operating account		24,604
Inter-company revenue		19,041,864
Other retro adjustments, DHS		2,204,159
Other income/funding		<u>3,966,216</u>
<b>Total Revenue</b>		<b>160,454,469</b>

**Operating Expenses**

**Direct Member Service Expenses**

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

Residential services (community based)	\$65,993,772	
Personal care/supportive home care	16,344,538	
Transportation	5,435,161	
Nursing home	2,241,798	
DME	1,097,112	
Other FC LTC services	<u>29,624,324</u>	
<i>Total Member Service Expenses</i>		120,736,705

**Care Management Expenses**

Care management (CMUs/External)	46,446	
Care management (Internal)	21,118,175	
Care management admin – allocated if not included above	<u>607,446</u>	
<i>Total Care Management Expenses</i>		21,772,067

**Administrative Expenses**

Wages and benefits	16,144,820	
Contracted TPA expense	1,173,380	
Occupancy	3,967,196	
Office expenses	1,583,901	
Legal/accounting/audit	225,745	
Other professional services	1,412,970	
Interest expense	83,204	
Depreciation expense	1,991,751	
Insurance expense	536,713	
Travel/training/conference expense	854,181	
Other administrative expenses	<u>(10,469,829)</u>	
<i>Total Administrative Expenses</i>		<u>17,504,033</u>

**Total Operating Expenses**

160,012,802

**Other (Income) Expenses**

Investment income – reserve funds	(6,471)	
Gain(loss) in investments (unrealized)	(4,498)	
Gain(loss) in sale of investments (realized)	(403)	
Prior year adjustment – other	<u>(151,748)</u>	
<i>Total Other Expenses</i>		<u>(163,120)</u>

**Total Expenses**

159,849,685

**Net Income (Loss)**

\$ 604,784

**Care Wisconsin First, Inc.**  
**Statement of Cash Flows**  
**For the Period Ending December 31, 2010**

**Operating Activities**

Net income per GL	\$ 604,784
Add: Depreciation	1,711,216
Add: Gain(loss) on sale of LT assets	(7,301)
(Increase) Decrease Accounts receivable general	2,736,705
(Increase) Decrease Prepaid insurance	14,383
(Increase) Decrease Other current assets	(649,965)
Increase (Decrease) IBNR	(7,778,779)
Increase (Decrease) Accounts payable	(607,761)
Increase (Decrease) Wages/taxes/ben. payable	58,867
Increase (Decrease) Unearned revenues	37,996,198
Increase (Decrease) Other current liabilities	<u>408,048</u>
<i>Net Cash Provided by Operating Activities</i>	<u>34,486,395</u>

**Investing Activities**

Change in property plant and equipment	\$(772,912)
Change in long-term investments	<u>(585)</u>
<i>Net Cash used in Investing Activities</i>	(773,498)

**Financing Activities**

Loans payable, > 1 year	<u>(75,000)</u>
-------------------------	-----------------

Net increase in cash and cash equivalents 33,637,897

Cash and Cash Equivalents Beg of Period 9,428,432

Cash and Cash Equivalents End of Period \$43,066,329

**Care Wisconsin First, Inc.  
Consolidated Balance Sheet  
December 31, 2010**

	<b>Care Wisconsin First, Inc.</b>	<b>Care Wisconsin Health Plan, Inc.</b>	<b>Eliminations</b>	<b>Consolidated Total</b>
<b>Current Assets</b>				
Cash and cash equivalents held by MCO	\$43,066,331	\$24,889,051	\$	\$67,955,382
Short-term investments (unrestricted)	60,822	13,018,608		13,079,430
Capitation receivable net of allowance	315,551	501		316,052
Other DHS receivables net of allowance	1,498,280	837,168		2,335,448
Cost-share receivable net of allowance	35,744	36,697		72,441
Room-and-board receivable net of allowance	115,629	57,713		173,342
Spend-down receivable net of allowance	23,312	3,387		26,699
Prepaid providers (member service expense)	488,658	36,705		525,363
Prepaid insurance	172,828			172,828
Prepaid expenses – other	338,167	185,070		523,237
Other short-term receivables net of allowance	470,454	260,678	(431,643)	299,489
Other current assets		<u>268,252</u>		<u>268,252</u>
<i>Total Current Assets</i>	<u>46,585,776</u>	<u>39,593,830</u>	<u>(431,643)</u>	<u>85,747,963</u>
<b>Long-Term Assets</b>				
Restricted assets:				
Risk reserve funds – FC MCO	1,727,337			1,727,337
Reserve guaranty funds on deposit FCP/PACE MCO		224,537		224,537
Solvency reserve/guaranty funds on deposit	250,000			250,000
Building/land (cost)	3,346,276			3,346,276
Accumulated depreciation – building/land	(1,288,006)			(1,288,006)
Leasehold improvements (cost)	478,138			478,138
Accumulated depreciation – leasehold improvements	(234,668)			(234,668)
Furniture and equipment (cost)	8,283,754			8,283,754
Accumulated depreciation – furniture and equipment	(6,172,560)			(6,172,560)
Other long-term assets	39,366			39,366
<i>Total Long-Term Assets</i>	<u>6,429,637</u>	<u>224,537</u>		<u>6,654,174</u>
<b>Total Assets</b>	<u>\$53,015,413</u>	<u>\$39,818,367</u>	<u>\$(431,643)</u>	<u>\$92,402,137</u>

	<b>Care Wisconsin First, Inc.</b>	<b>Care Wisconsin Health Plan, Inc.</b>	<b>Eliminations</b>	<b>Consolidated Total</b>
<b>Current Liabilities</b>				
Capitation payable	\$	\$ 819,071	\$	\$ 819,071
Deferred capitation revenue	38,012,215	13,912,257		51,924,472
Accrued salaries	1,002,560			1,002,560
Accrued taxes and benefits	927,072			927,072
IBNR member services – current year	8,899,289	6,833,050		15,732,339
IBNR member services – prior year	4,763,276			4,763,276
Accounts payable – member services - other	6,129	6,764		12,893
Accounts payable/accrued administrative expenses	920,819	2,280,727	(431,643)	2,769,903
Current portion of long-term debt	128,266			128,266
Other current liabilities	<u>6,386</u>			<u>6,386</u>
<i>Total Current Liabilities</i>	54,666,012	23,851,869	(431,643)	78,086,238
<b>Long Term Liabilities</b>				
Loans payable	<u>621,734</u>			<u>621,734</u>
<b>Total Liabilities</b>	55,287,746	23,851,869	(431,643)	78,707,972
<b>Equity</b>				
Beginning equity	(3,564,522)	12,961,740		9,397,218
Other changes to equity	250,000	(250,000)		0
Current year net income	<u>1,042,189</u>	<u>3,254,758</u>		<u>4,296,947</u>
<b>Total Equity</b>	<u>(2,272,333)</u>	<u>15,966,498</u>		<u>13,694,165</u>
<b>Total Liabilities and Equity</b>	<u>\$53,015,413</u>	<u>\$39,818,367</u>	<u>\$(431,643)</u>	<u>\$92,402,137</u>

**Care Wisconsin First, Inc.**  
**Consolidated Profit and Loss Statement**  
**For the Period Ending December 31, 2010**

	<b>Care Wisconsin First, Inc.</b>	<b>Care Wisconsin Health Plan, Inc.</b>	<b>Eliminations</b>	<b>Consolidated Total</b>
<b>Revenues</b>				
MA capitation (net of cost share)	\$118,161,965	\$44,269,391	\$	\$162,431,356
MC capitation		27,961,424		27,961,424
Cost-share revenue	1,500,560	1,133,602		2,634,162
Room-and-board revenue	11,914,566	2,088,778		14,003,344
Spend-down revenue	741,412	138,999		880,411
Other third-party payer revenues	52,668			52,668
ICF-MR relocation revenues	4,368,185	229,229		4,597,414
Interest/investment income – operating account	24,604	28,958		53,562
Stop-loss income recovery		86,402		86,402
Risk sharing		(10,123)		(10,123)
Inter-company revenue	19,041,864		(19,041,864)	0
Other retro adjustments, DHS	682,429	(573,093)		109,336
Other income/funding	<u>3,966,216</u>		<u>(1,350)</u>	<u>3,964,866</u>
<b>Total Revenue</b>	<u>160,454,469</u>	<u>75,353,567</u>	<u>(19,043,214)</u>	<u>216,764,822</u>
<b>Operating Expenses</b>				
<b>Direct Member Service Expenses</b>				
<b>Acute and Primary Services</b>				
Dental		546,979		546,979
Pharmacy		4,383,368		4,383,368
In-patient hospital		9,876,315		9,876,315
Other acute and primary services		<u>6,725,004</u>		<u>6,725,004</u>
<i>Total Acute and Primary Services</i>	<u>0</u>	<u>21,531,666</u>	<u>0</u>	<u>21,531,666</u>
<b>Long-Term Care Services (All Programs)</b>				
Residential services (community based)	65,993,772	9,776,313		75,770,085
Personal care/supportive home care	16,344,538	7,162,101	(173,076)	23,333,563
Transportation	5,435,161	2,913,684	(1,878,188)	6,470,657
Nursing home	2,241,798	7,749,243		9,736,041
DME	1,097,112	1,608,620	(70)	2,705,662
Other FC LTC services	<u>29,624,324</u>	<u>4,151,884</u>	<u>(1,500,990)</u>	<u>32,275,218</u>
<i>Total Member Service Expenses</i>	<u>120,736,705</u>	<u>33,106,845</u>	<u>(3,552,324)</u>	<u>150,291,226</u>
<b>Total Member Service Expense</b>	120,736,705	54,638,511	(3,552,324)	171,822,892
<b>Care Management Expenses</b>				
Care management (CMUs/External)	46,446	339	(4,401)	42,384
Care management (Internal)	21,118,175	10,966,390	(10,522,916)	21,561,649
Care management admin – allocated if not included above	<u>607,446</u>	<u>813,200</u>		<u>1,420,646</u>
<i>Total Care Management Expenses</i>	<u>21,772,067</u>	<u>11,779,929</u>	<u>(10,527,317)</u>	<u>23,024,679</u>

	Care Wisconsin First, Inc.	Care Wisconsin Health Plan, Inc.	Eliminations	Consolidated Total
<b>Administrative Expenses</b>				
Stop-loss premiums		207,854		207,854
Wages and benefits	16,144,820	2,145,183		18,290,004
Contracted TPA expense	1,173,380	589,542		1,762,922
Occupancy	3,967,196	279,572		4,246,768
Office expenses	1,583,901	282,712		1,866,613
Legal/accounting/audit	225,745	129,174		354,919
Other professional services	1,412,970	469,209	(65,152)	1,817,028
Interest expense	83,204	12,257		95,462
Depreciation expense	1,991,751	300,825		2,292,576
Insurance expense	536,713	99,866	(20,628)	615,952
Travel/training/conference expense	854,181	39,106		893,287
Other administrative expenses	(10,469,829)	316,014	(4,877,794)	(15,031,609)
<i>Total Administrative Expenses</i>	<u>17,504,033</u>	<u>4,871,316</u>	<u>(4,963,573)</u>	<u>17,411,776</u>
<b>Total Operating Expenses</b>	160,012,805	71,289,756	(19,043,214)	212,259,347
<b>Other (Income) Expenses</b>				
Investment income – reserve funds	(6,471)	(427,064)		(433,535)
Gain(loss) in investments (unrealized)	(4,498)	96,989		92,491
Gain(loss) in sale of investments (realized)	(403)	(403,549)		(403,952)
Prior year adjustment – other	(151,749)	1,542,676		1,390,927
<i>Total Other Expenses</i>	<u>(163,121)</u>	<u>809,052</u>		<u>645,931</u>
<b>Total Expenses</b>	<u>159,849,684</u>	<u>72,098,808</u>	<u>(19,043,214)</u>	<u>212,905,278</u>
<b>Net Income (Loss)</b>	<u>\$ 604,785</u>	<u>\$ 3,254,758</u>	<u>\$ 0</u>	<u>\$ 3,859,543</u>

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

Year	Assets	Liabilities	Equity	Capitation Revenue	Member Service Expenses	Net Income (Loss)	Member Months
2010	\$53,015,413	\$55,725,150	\$(2,709,737)	\$116,640,235	\$120,736,705	\$ 604,784	36,546
2009	22,159,054	25,723,576	(3,564,522)	99,430,848	115,807,011	(2,862,413)	33,702

Year	Profit Margin	Member Service Cost Ratio	Care Management Service Cost Ratio	Combined Member Service Cost Ratio	Administrative Expense Ratio	Change In Member Months
2010	0.4%	72.8%	14.9%	87.7%	12.0%	8.5%
2009	-2.0	71.8	16.2	87.9	14.0	

**Per Member Per Month Information**

	2010	2009	Percentage Change
<b>Revenues</b>			
Capitation	\$3,371.44	\$3,059.00	10.2%
Other revenue	<u>1,019.04</u>	<u>1,581.94</u>	-35.5
Total revenue	4,390.48	4,640.93	-5.3
<b>Expenses:</b>			
Member service costs	3,303.69	3,436.16	-3.8
Care management	595.74	690.55	-13.7
Administrative	<u>478.96</u>	<u>599.66</u>	-20.1
Total operating expenses	4,378.40	4,726.37	-7.3
Other non-operating expenses	<u>(4.46)</u>	<u>(0.51)</u>	774.5
Net income (loss)	<u><u>16.55</u></u>	<u><u>(84.93)</u></u>	180.5
Member months	36,546	33,702	8.4

The net loss of \$2.9 million in 2009 is the result of the company's cost being higher than its capitation. The higher costs are attributable to expansion in 2008. During expansion, CMOs generally have higher costs related to expansion as they invest in the required infrastructure and transition members from the higher-cost, county-run Waiver Program. As member care plans are reviewed and assessed by care management staff, member services are unbundled to eliminate duplicate services, and as provider contracts are re-negotiated, member service costs begin to decline and CMOs generally begin to report improved operating results.

In April 2010, CWF received \$250,000 from its subsidiary CWHP. The funds were used by CWF to make its first installment deposit into the state solvency fund.

**Subsequent Event**

In March 2011, CWF received an additional \$3 million from CWHP. This contribution brought CWF into a positive equity position. In addition, this allowed CWF to make its final installment payment into the solvency fund in September 2011.

**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, 2010, is accepted.

## VI. SUMMARY OF EXAMINATION RESULTS

### Summary of Current Examination Results

The current examination resulted in no adverse or material findings.

### Financial Requirements

The financial requirements for a CMO under contract with the DHS for the period ending December 31, 2010, are as follows:

	<b>Amount Required</b>
1. Working capital	Not less than 2.5% 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, 2010, are as follows:

#### **Working Capital**

Current Assets	\$ 46,585,776
Current Liabilities	<u>55,103,416</u>
Working Capital	(8,517,640)
Working Capital Requirement	<u>3,226,829</u>
Excess/(shortage)	<u><u>\$(11,744,469)</u></u>

#### **Restricted Reserves**

Current Restricted Reserves	\$ 1,727,337
Restricted Reserve Requirement	<u>2,290,732</u>
Excess/(shortage)	<u><u>\$(563,395)</u></u>

#### **Solvency Fund**

Current Solvency Fund	\$ 250,000
Solvency Fund Requirement	<u>750,000</u>
Excess/(shortage)	<u><u>\$(500,000)</u></u>

The company was not meeting its financial requirements at December 31, 2010. CWF has filed a 3-year business plan with DHS and this office to show their plan for coming into compliance with the financial requirements.

## **VII. CONCLUSION**

Care Wisconsin First, Inc., began operations on January 1, 1976, as Adult Day Center, Inc., to provide adult day services in Dane County. On March 1, 2008, CWF accepted its first Family Care member from Washington County. CWF provides long-term care services to an eight-county region in south-central Wisconsin and operates an adult day center in Dane County.

At December 31, 2010, CWF reported assets of \$53.0 million, liabilities of \$55.7 million, and negative equity of \$2.7 million. CWF reported net income of \$604,785 on \$160.5 million of total revenues. Additionally, CWF did not meet the financial requirements at December 31, 2010, as outlined in its contract with the Wisconsin Department of Health Services. CWF received a \$3 million contribution from its subsidiary, Care Wisconsin Health Plan, Inc., in March 2011, which brought CWF into a positive equity position.

This examination resulted in no recommendations.

## **VIII. SUMMARY OF COMMENTS AND RECOMMENDATIONS**

The examination resulted in no adverse or material findings.

## 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>
Margaret E. Callahan	Insurance Financial Examiner
Rachel Liu	Insurance Financial Examiner
Richard A. Onasch	Insurance Financial Examiner
Gene M. Renard, CFE	Insurance Financial Examiner
Victoria Chi	Insurance Financial Examiner – Advanced, Data Processing Audit Specialist

Respectfully submitted,

Amy J. Malm, CFE  
Examiner-in-Charge