

Report
of the
Examination of
Community Care, Inc.
Brookfield, Wisconsin
As of December 31, 2012

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K. Nickel, Commissioner

Wisconsin.gov

March 13, 2014

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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:

COMMUNITY CARE, INC.
Brookfield, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

This is the first examination of Community Care, Inc. (the company, CCI, or Community Care). The current examination covered the period ending December 31, 2012, and included a review of such 2013 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

Community Care, Inc., is a care management organization (CMO) as defined by s. 600.01 (1) (b) 10. a., Wis. Stat., as an organization providing “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.” CMOs are issued permits under s. 648.05, Wis. Stat.

Community Care, Inc., is an IRC Section 501(c) 3 public charity, incorporated in 1977 in the state of Wisconsin, governed by a volunteer board of directors with between 12 and 20 members. The board is responsible for the overall policy and fiduciary oversight for all operations within Community Care, Inc., including oversight of Community Care Health Plan, Inc. (CCHP), and Community Care HUD Housing, Inc. (CC HUD), both wholly owned subsidiaries of Community Care, Inc. CCI 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 11-county service area. Since its founding, Community Care has established and operated more than a dozen programs to achieve these objectives. Community Care, Inc., was titled Community Care Organization (CCO) until 2005, when the company formed the HMO Community Care Health Plan, Inc., to offer the PACE and Family Care Partnership programs which had previously been offered by CCO.

When it was originally formed in 1977, the company was organized to develop and operate a comprehensive, coordinated system of in-home, community-based services for the functionally disabled and frail elderly. A Kellogg Foundation grant and a federal waiver funded the original Community Care program. The statewide initiative Community Options program was modeled on this program. In 1990, Community Care became one of the first organizations to administer programs using the nationally renowned PACE model, or Program for All-Inclusive Care for the Elderly. Community Care’s PACE program has been supported by the Robert Wood Johnson Foundation and aided by grants from more than 25 other local and national foundations. In 2003 Community Care’s PACE (now provided through CCHP) moved

beyond demonstration status to become an official PACE Medicare provider program. PACE is currently provided in Milwaukee and Waukesha counties.

Another Community Care program, the Family Care Partnership Program, was created by the Wisconsin Department of Health Services in 1996 and it allows participants age 18 and older to see a community-based physician rather than a PACE panel physician. The Partnership Program (through CCHP) is operated in Calumet, Kenosha, Milwaukee, Outagamie, Ozaukee, Racine, Washington, Waupaca and Waukesha counties.

In 2006 CCI was awarded a planning grant to expand long-term care in southeast Wisconsin beyond Milwaukee through the program called Family Care. In 2007 CCI was contracted to expand its Family Care services to Kenosha and Racine; in 2008 to Sheboygan, Ozaukee, Washington and Waukesha; and finally to Calumet, Outagamie, Waupaca and Walworth counties.

The company receives nearly 100% of its revenue from the Wisconsin Family Care Program. 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 elders¹, physically disabled², and developmentally disabled³. Community Care, Inc., contracts directly with the Wisconsin Department of Health Services (DHS) to provide long-term care benefits to eligible members through its permit.

Community Care, Inc., provides long-term care services to its members through contractual arrangements with its providers. Providers are reimbursed based on mandated

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)

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 may be terminated without cause by either party by giving 60-calendar-day written notice to the other party during the initial term, or 90 days after the initial one-year term.

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 Community Care, Inc., and DHS for coverage provided under the Wisconsin Medical Assistance Program (Medicaid). Capitation rates are developed annually on a regional basis by an actuarial firm contracted by DHS and are adjusted to reflect the company's estimated population by target group. The capitation rate paid by DHS to the company is 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 (elderly population), Portage, and Richland; plus Racine and Kenosha 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.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of between 12 and 20 members, and is currently made up of 14 members elected annually to serve staggered three-year terms. Officers are elected by the board of directors every two years at the annual meeting with the exception of the President/Chief Executive Officer who serves as an Ex-Officio member of the board. Members of the company's board of directors may also be members of other boards of directors in the holding CMO group. The board members currently receive no compensation for serving on the board.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Robert Goldstein (Chair) Milwaukee, WI	Attorney Law Office and Center for Nonprofit Excellence	2016
Doris Chortek* Milwaukee, WI	Community Representative	2015
Brenda Gray Milwaukee, WI	Executive Director Milwaukee Area Health Education Center	2014
Ben Greenebaum Racine, WI	Retired Professor	2015
Ed Corrigan (Vice Chair) Whitefish Bay, WI	CEO Diachemix, LLC	2015
Anne Kiekhofer Elm Grove, WI	Former Registered Nurse	2016
Edmund Duthie, Jr. MD Milwaukee, WI	Physician Div. of Geriatrics VA Medical Center	2014
Gil Llanas South Milwaukee, WI	Manager Northwestern Mutual Foundation	2016
John Plant Mequon, WI	Advocate	2015
Virginia Thomas Cedar Grove, WI	Retired Public Health Planning Manager Milwaukee Health Department	2015
Patricia Schroeder Mequon, WI	Community Representative	2014
Martha Valerio Whitefish Bay, WI	Manager Treasury Operations Northwestern Mutual	2014

Name and Residence	Principal Occupation	Term Expires
Richard Theado Greenfield, WI	Executive Director (retired) Planning Council for Health & Human Services	2014
Stephen VanderBloemen (Sec./Tres.) Waukesha, WI	CPA The VanderBloemen Group	2016
Kenneth Munson (President/CEO) Milwaukee, WI	Chief Executive Officer Community Care, Inc.	Ex-Officio

* Note: Doris Chortek passed away in March 2014, and has not yet been replaced on the board.

Officers of the Company

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

Name	Office	2012 Compensation
Robert Goldstein	Board Chair	\$ 0
Ed Corrigan	Vice Chair	0
Stephen VanderBloemen	Secretary/Treasurer	0
Kenneth Munson	President/Chief Executive Officer	368,346*
Alicia Modjeska	Chief Operating Officer	248,237*
Lawrence Papham	Chief Financial Officer	257,880

* Kenneth Munson succeeded Kriby Shoaf in April 2013; 2012 compensation shown is for Mr. Shoaf. Alicia Modjeska resigned in 2013.

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

Robert Goldstein, Chair
Doris Chortek
Ed Corrigan
Richard Theado
Virginia Thomas
Stephen VanderBloemen

Finance Committee

Robert Goldstein, Chair
Doris Chortek
Ed Corrigan
Rick Gebhardt, Jr.
Brenda Gray
Martha Valerio
Stephen VanderBloemen

Governance Committee

Richard Theado, Chair
John Plant
Patricia Schroeder
Ben Greenbaum
Virginia Thomas
Robert Goldstein

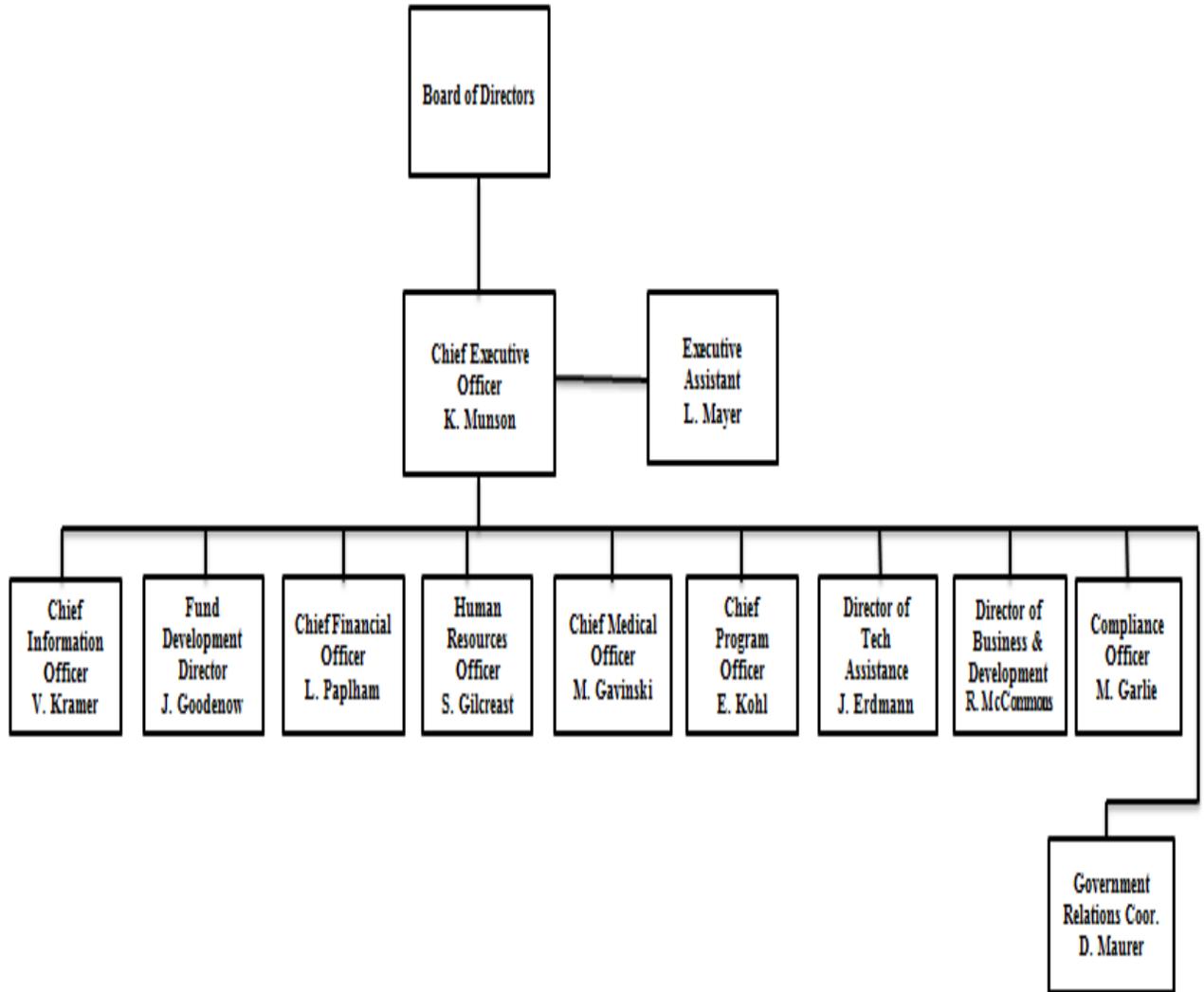
The company has its own employees. Under an Administrative Services Agreement, it provides necessary staff to Community Care Health Plan, Inc., which employs no staff of its own, and it receives monthly compensation for services rendered under the agreement. The company's operations are organized into the following service areas:

- Corporate Administration
- Compliance
- Risk Management
- Utilization Management
- Community Care Health Plan Operations
- Community Care Family Care Operations
- Human Resources
- Marketing
- Provider Management
- Claims Management
- Fiscal Management
- Quality Management
- Information Management

Community Care does not contract with external vendors for claims processing, case management, program or quality activities. The IT department uses contractors or consultants for administrative services on a limited project-specific basis. All ongoing IT maintenance, support and administration of applications are handled internally. The company contracts with Emdeon Business Services for electronic medical claims integration, PharmaStar for pharmacy claim administration services, Brightree LLC for durable medical equipment/supplies inventory and billing, Halogen Software for hosted software application for human resources, and for several service-specific professional services such as actuary, legal, and financial audit.

Community Care, Inc.'s organizational overview chart is shown in the following diagram:

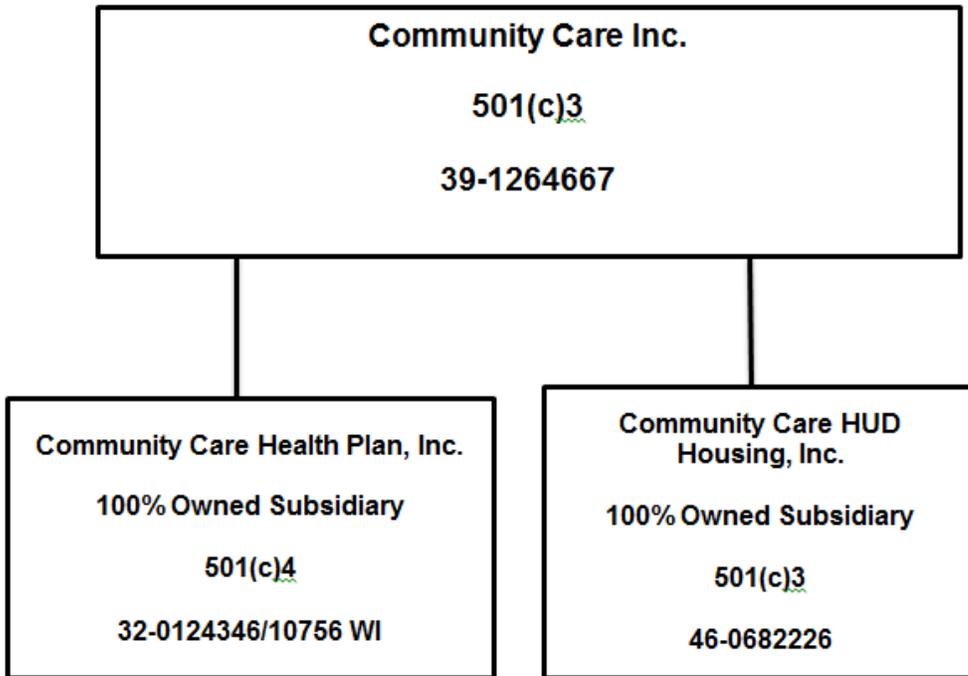
Organizational Overview



IV. AFFILIATED COMPANIES

The company is a member of a holding company system. It is the ultimate parent of 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.

Holding Company Chart



Community Care Health Plan, Inc.

Community Care Health Plan, Inc. (CCHP) is described as a nonprofit mixed model health maintenance organization (HMO) insurer. CCHP was incorporated on August 12, 2004, and commenced business on July 1, 2005. The company was capitalized by its sole member, Community Care Organization (CCO), and was granted its Certificate of Authority on June 24, 2005. Community Care Organization then changed its legal name to Community Care, Inc., effective December 19, 2005. Community Care Health Plan, Inc., provides care under two programs, the Program of All-Inclusive Care for the Elderly (PACE) and the Family Care Partnership Program (Partnership) which had been previously provided under an exemption order

since 1991 through Community Care, Inc. (then named Community Care Organization), which were transferred to CCHP in 2005.

As of December 31, 2012, CCHP's statutory financial statement reported assets of \$23,693,634 liabilities of \$7,967,855, and capital and surplus of \$15,725,779. Operations for 2012 produced a net loss of \$23,493 on revenues of \$88,952,417.

Community Care HUD Housing, Inc.

Community Care HUD Housing, Inc.'s incorporation was filed on July 24, 2012, with the State of Wisconsin, Department of Financial Institutions. A determination letter requesting 501(c)3 status has been filed with the IRS and is currently outstanding. The purpose of Community Care HUD Housing, Inc., is to hold HUD facilities which can be used by Community Care program members. Community Care HUD Housing, Inc., is a wholly owned subsidiary overseen by the Community Care, Inc., board of directors. The Community Care HUD Housing, Inc., board contains between three and seven members.

As of December 31, 2012, Community Care HUD Housing, Inc.'s financial statement reported assets of \$363,233, liabilities of \$390,425, and total equity of \$(27,192). Operations for 2012 produced a net loss of \$27,192 on revenues of \$0.

Community Care, Inc., and its subsidiaries function as independent business enterprises. The subsidiaries' boards may act independently from the Community Care, Inc., board.

V. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported in the December 31, 2012, financial statements (the company's statements are prepared on a GAAP basis). Also included in this section are schedules that reflect the company's growth 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."

Community Care, Inc.
Balance Sheet
As of December 31, 2012

Current Assets

Cash and cash equivalents, operating	\$39,652,130
Capitation receivable net of allowance	2,094,301
Other DHS receivables net of allowance	5,639,679
Cost share receivable net of allowance	184,930
Room and board receivable net of allowance	581,829
Spend down receivable net of allowance	49,588
Other third-party receivable net of allowance	465,358
Other short-term receivables net of allowance	66,838
Parent, subsidiary, affiliate receivable	278,532
Prepaid Insurance	328,732
Prepaid providers (member service expenses)	132,354
Prepaid expenses - other	1,468,300
Supply inventory	<u>318,808</u>
<i>Total Current Assets</i>	<u>51,261,378</u>

Long-Term Assets

Restricted assets:	
Risk reserve funds – FC Permitted MCO	\$ 3,890,483
Building/land (cost)	9,108,424
Accumulated depreciation – building/land	(1,725,725)
Leasehold improvements (cost)	978,100
Accumulated depreciation – leasehold improvements	(414,243)
Furniture, equipment, and software (cost)	9,627,247
Accumulated depreciation – furniture, equipment, and software	(7,457,191)
Other long-term assets	<u>3,923,722</u>
<i>Total Long-Term Assets</i>	<u>17,930,817</u>

Total Assets

\$69,192,195

Community Care, Inc.
Balance Sheet
As of December 31, 2012 (cont.)

Current Liabilities

Capitation payable	\$ 778,650	
Accrued salaries	1,657,349	
Accrued taxes and benefits (current)	4,303,830	
IBNR member services – current year	27,004,970	
Accounts payable – member services, claims processed	412,707	
Accounts payable – general	1,542,505	
Current portion of long-term debt	135,000	
Other current liabilities	<u>1,405,628</u>	
<i>Total Current Liabilities</i>		\$37,240,640

Long-Term Liabilities

Loans payable	<u>4,280,000</u>	
<i>Total Long-Term Liabilities</i>		<u>4,280,000</u>

Total Liabilities

41,520,640

Equity

Beginning equity	16,606,826	
Current year net income	<u>11,064,730</u>	
<i>Total Equity</i>		<u>27,671,556</u>

Total Liabilities and Equity

\$69,192,196

Community Care, Inc.
Profit and Loss Statement
For the Period Ending December 31, 2012

Revenues

MA capitation (net of cost share)	\$293,079,840
Cost share revenue	6,128,366
Room and board revenue	27,121,602
Spend down revenue	2,171,589
Other current year retro adjustments, DHS	5,639,678
Other income/funding	<u>132,288</u>
Total Revenue	334,273,362

Long-Term Care Services (All Programs)

Adaptive equipment	\$ 4,348,658	
Adult day activities	20,109,302	
Habilitation/health	565,627	
Home care	51,909,502	
Home health care	2,612,992	
Institutional (NH/ICF-MR)	19,436,837	
Residential care	132,266,225	
Respite care	1,649,328	
Transportation	9,135,873	
Vocational	10,592,998	
Room and board - expenses	28,990,739	
Other FC LTC services	<u>3,010,195</u>	
<i>Total LTC Services</i>	284,628,276	
Other member expenses (Outside the benefit package)	<u>45,031</u>	
<i>Total Member Service Expenses</i>		\$284,673,308

Care Management Expenses

Care management (CMUs/External)	22	
Care management (Internal)	27,159,449	
Care management admin – allocated	<u>2,629,382</u>	
<i>Total Care Management Expenses</i>		29,788,853

Administrative Expenses

Wages and benefits	7,285,450	
Occupancy	241,908	
Office expenses	1,082,867	
Legal/accounting/audit	132,338	
Contracted IT development	1,317	
Depreciation expense	1,485,753	
Insurance expense	1,045	
Travel/training/conference expense	839,720	
Other administrative expenses	1,637,848	
Administrative allocation to care management	(2,629,382)	
Administrative allocation to internally provided services	<u>(1,038,331)</u>	
<i>Total Administrative Expenses</i>		<u>9,103,546</u>

Total Operating Expenses

323,565,707

Income (Loss) from Operations, current year

10,707,655

Community Care, Inc.
Profit and Loss Statement
For the Period Ending December 31, 2012 (cont.)

Income (Loss) from Operations, current year		\$10,707,655
Other (Income) Expenses, ordinary		
Investment income – reserve funds	\$ (84,182)	
Gain(loss) in investments (unrealized)	(6,376)	
(Gain)Loss in sale of LT asset	(28,371)	
Prior year adjustment – IBNR	(1,476,558)	
Prior year adjustment – other	95,423	
Other non-operating and PDR	<u>392,990</u>	
<i>Total Other Expenses</i>		(1,107,076)
Other (Income) Expenses, extraordinary		<u>750,000</u>
Net Income (Loss)		<u>\$11,064,729</u>

Community Care, Inc.
Statement of Cash Flows
For the Period Ending December 31, 2012

Operating Activities

Net income per GL		\$11,064,730
Add: Depreciation		1,485,753
Add: Gain(loss) on sale of LT assets		(28,371)
(Increase) Decrease Accounts receivable, capitation and DHS other		172,887
(Increase) Decrease Accounts receivable general		(256,327)
(Increase) Decrease Inventory/supplies		(102,674)
(Increase) Decrease Prepaid insurance		(38,276)
(Increase) Decrease Prepaid other		(233,081)
Increase (Decrease) Notes payable (within 1 yr)		5,000
Increase (Decrease) IBNR		(736,705)
Increase (Decrease) Accounts payable		(1,359,492)
Increase (Decrease) Wages/taxes/ben. payable		801,971
Increase (Decrease) Unearned revenues		778,650
Increase (Decrease) Other current liabilities		598,485
Increase (Decrease) Other operating activities		<u>(684,167)</u>
<i>Net Cash Provided by Operating Activities</i>		<u>11,468,385</u>

Investing Activities

Change in property, plant and equipment:	\$ 4,262,684	
Change in long-term investments	1,451,569	
Proceeds from sale	28,371	
Other long-term assets	(3,523,938)	
Other investing activities	<u>(3,796,470)</u>	
<i>Net Cash used in Investing Activities</i>		<u>(1,577,785)</u>

Financing Activities

Other financing activities, investments	5,000	
Other financing activities, other	<u>(135,000)</u>	
<i>Net Cash used in Financing Activities</i>		<u>(130,000)</u>

Net increase in cash and cash equivalents 9,760,601

Cash and Cash Equivalents Beg of Period 29,891,529

Cash and Cash Equivalents End of Period \$39,652,130

Community Care, Inc.
Consolidated Balance Sheet
As of December 31, 2012
(in \$000)

	CCI, Inc.	CCHP, Inc.	CC HUD	Eliminations	Consolidated Total
Current Assets					
Cash and cash equivalents, operating	\$39,652	\$ 8,830	\$ 26	\$	\$48,508
Short-term investments (unrestricted)		5,675			5,675
Capitation receivable net of allowance	2,094	745			2,839
Other DHS receivables net of allowance	5,640	37			5,677
Cost share receivable net of allowance	185	55			240
Room and board receivable net of allowance	582	74			656
Spend down receivable net of allowance	50	4			54
Other third party receivable net of allowance	465				465
Other short-term receivables net of allowance	67	17			84
Parent, subsidiary, affiliate receivable	279			(279)	0
Prepaid Insurance	329				329
Prepaid providers (member service expense)	132	18			150
Prepaid expenses - other	1,468	1			1,469
Supply inventory	319				319
Other current assets	<u>0</u>	<u>183</u>			<u>183</u>
<i>Total Current Assets</i>	<u>51,261</u>	<u>15,641</u>	<u>26</u>	<u>(279)</u>	<u>66,650</u>
Long-Term Assets					
Restricted assets:					
Risk reserve funds – FC Permitted MCO	3,890				3,890
Reserve guaranty funds on deposit, HMO		8,406			8,406
Building/land (cost)	9,108				9,108
Accumulated depreciation – building/land	(1,726)				(1,726)
Leasehold improvements (cost)	978				978
Accumulated depreciation – leasehold improvements	(414)				(414)
Furniture, equipment, and software (cost)	9,627				9,627
Accumulated depreciation – furniture, equipment, and software	(7,457)				(7,457)
Other long-term assets	<u>3,924</u>			<u>(321)</u>	<u>3,939</u>
<i>Total Long-Term Assets</i>	<u>17,931</u>	<u>8,406</u>	<u>337</u>	<u>(321)</u>	<u>26,353</u>
Total Assets	<u>\$69,192</u>	<u>\$24,047</u>	<u>\$363</u>	<u>\$(600)</u>	<u>\$93,002</u>

Community Care, Inc.
Consolidated Balance Sheet
As of December 31, 2012 (cont.)
(in \$000)

	CCI, Inc.	CCHP, Inc.	CC HUD	Eliminations	Consolidated Total
Current Liabilities					
Capitation payable	\$ 779	\$ 309	\$	\$	\$ 1,087
Accrued salaries	1,657				1,657
Accrued taxes and benefits (current)	4,304				4,304
IBNR member services – current year	27,005	5,738			32,743
Accounts payable – member services , claims processed	413	245			658
Accounts payable – general	1,543	1,243	5		2,791
Parent, subsidiary, affiliate payable	0	215	64	(279)	0
Current portion of long-term debt	135				135
Other current liabilities	<u>1,406</u>	<u>228</u>	<u>—</u>	<u>—</u>	<u>1,634</u>
<i>Total Current Liabilities</i>	<u>37,241</u>	<u>7,978</u>	<u>69</u>	<u>(279)</u>	<u>45,009</u>
Long-Term Liabilities					
Loans payable	<u>4,280</u>	<u>—</u>	<u>321</u>	<u>(321)</u>	<u>4,280</u>
<i>Total Long-Term Liabilities</i>	<u>41,521</u>	<u>7,978</u>	<u>390</u>	<u>(600)</u>	<u>49,289</u>
Total Liabilities					
Equity					
Beginning equity	16,607	16,139			32,746
Current year net income	<u>195</u>	<u>(70)</u>	<u>(27)</u>	<u>—</u>	<u>10,968</u>
<i>Total Equity</i>	<u>27,672</u>	<u>16,069</u>	<u>(27)</u>	<u>0</u>	<u>43,714</u>
Total Liabilities and Equity	<u>\$69,192</u>	<u>\$24,047</u>	<u>\$363</u>	<u>\$(600)</u>	<u>\$93,002</u>

Community Care, Inc.
Profit and Loss Statement
For the Period Ending December 31, 2012
(,000)

	CCI, Inc.	CCHP, Inc.	CC HUD	Eliminations	Consolidated Total
Revenues					
MA capitation (net of cost share)	\$293,080	\$ 54,647	\$	\$	\$347,727
MC capitation		35,195			35,195
Cost share revenue	6,128	1,527			7,655
Room and board revenue	27,122	2,847			2,296
Spend down revenue	2,172	124			2,296
Other current year retro adjustments, DHS	5,640	(141)			5,499
Other income/funding	<u>132</u>	<u>665</u>	—	—	<u>797</u>
Total Revenue	<u>334,273</u>	<u>94,864</u>	—	—	<u>429,137</u>
Operating Expenses					
Direct Member Service Expenses					
Acute and Primary Services (FCP/PACE Programs)					
Dental		518			518
Pharmacy		8,385			8,385
In-patient hospital		10,663			10,663
Out-patient hospital		5,557			5,557
Other acute and primary services	—	<u>13,380</u>	—	—	<u>13,380</u>
<i>Total Acute and Primary</i>	—	<u>38,502</u>	—	—	<u>38,502</u>
Long-Term Care Services (All Programs)					
Adaptive equipment	4,349	1,279			5,628
Adult day activities	20,109	3,309			23,418
Habilitation/health	566	134			700
Home care	51,910	5,431			57,340
Home health care	2,613	92			2,705
Institutional (NH/ICF-MR)	19,437	8,736			28,173
Residential care	132,266	13,925			146,192
Respite care	1,649				1,649
Transportation	9,136	4,315			13,451
Vocational	10,593	176			10,769
Room and board - expenses	28,991	3,385,841			32,377
Other FC LTC services	<u>3,010</u>	<u>8,993</u>	—	—	<u>12,004</u>
<i>Total LTC Services</i>	<u>284,628</u>	<u>49,777</u>	—	—	<u>334,405</u>
Other member expenses (Outside the benefit package)	<u>45</u>	<u>4</u>	—	—	<u>49</u>
<i>Total Member Service Expenses</i>	<u>284,673</u>	<u>88,283</u>	—	—	<u>372,956</u>
Care Management Expenses					
Care management (CMUs/External)	22	0			22
Care management (Internal)	27,159	4,958			32,117
Care management admin – allocated	<u>2,629</u>	<u>873</u>	—	—	<u>3,502</u>
<i>Total Care Management Expenses</i>	<u>29,789</u>	<u>5,831</u>	—	—	<u>35,620</u>

Community Care, Inc.
Profit and Loss Statement
For the Period Ending December 31, 2012 (cont.)
(,000)

	CCI, Inc.	CCHP, Inc.	CC HUD	Eliminations	Consolidated Total
Occupancy	\$ 242	\$ 3	\$	\$	\$ 245
Office expenses	1,083	275	5	(3)	1,360
Legal/accounting/audit	132	36	12		180
Contracted IT development	1	1			2
Depreciation expense	1,486				1,486
Insurance expense	1				1
Travel/training/conference expense	840	34			873
Other administrative expenses	1,638	776	10		2,424
Administrative allocation to care management	(2,629)	(873)			(3,502)
Administrative allocation to internally provided services	(1,038)	(1,301)			(2,340)
<i>Total Administrative Expenses</i>	<u>9,104</u>	<u>1,704</u>	<u>27</u>	<u>(3)</u>	<u>10,832</u>
Total Operating Expenses	<u>323,224</u>	<u>95,818</u>	<u>27</u>	<u>(3)</u>	<u>419,408</u>
Income (Loss) from Operations, current year					
Other (Income) Expenses, ordinary					
Investment income – reserve funds	(84)	(101)			(185)
Gain(loss) in investments (unrealized)	(6)			3	(3)
(Gain)Loss in sale of LT asset	(28)				(28)
Prior year adjustment – IBNR	(1,477)	(546)			(2,022)
Prior year adjustment – other	95	(350)			(254)
Other non-operating and PDR	393	111			504
<i>Total Other Expenses</i>	<u>(1,107)</u>	<u>(885)</u>			<u>(1,988)</u>
Other (Income) Expenses, extraordinary	<u>750</u>				<u>750</u>
Net Income (Loss)	<u>\$ 11,065</u>	<u>\$ (70)</u>	<u>\$(27)</u>	<u>\$ 0</u>	<u>\$ 10,968</u>

**Growth of Community omitted Care, Inc.
(,000 except enrollment)**

Year	Assets	Liabilities	Equity	Capitation Revenue	Member Service Expenses	Net Income	Enrollment
2012	\$ 69,192	\$ 41,520	\$27,672	\$293,080	\$284,673	\$11,065	94,097
2011	58,175	41,568	16,607	286,117	274,278	11,431	88,706
2010	132,831	127,655	5,176	225,292	229,611	(4,121)	70,612

Year	Profit Margin	Member Service Cost Ratio	Care Management Service Cost Ratio	Combined Member Service Cost Ratio	Administrative Expense Ratio	Change in Enrollment
2012	3.8%	83.4%	9.9%	93.3%	3.0%	6.1%
2011	4.0	85.0	8.8	93.8	2.7	25.6
2010	-1.8	88.0	8.6	96.6	4.7	

Per Member Per Month Information

	2012	2011	Percentage Change
Revenues			
Capitation	\$3,174.59	\$3,276.05	-3.1%
Other revenue	<u>376.44</u>	<u>359.61</u>	4.7
Total revenue	3,551.03	3,635.66	-2.3
Expenses:			
Member service costs	3,025.32	3,091.99	-2.2
Care management	314.17	315.53	-0.4
Administrative	<u>95.12</u>	<u>95.98</u>	-0.9
Total operating expenses	3,434.60	3,503.50	-2.0
Other non-operating expenses	<u>2.97</u>	<u>(0.71)</u>	518.3
Net income (loss)	<u>\$ 119.40</u>	<u>\$ 131.45</u>	-9.2
Member months	94,097	88,706	6.1

Community Care, Inc., has generated favorable results in the years ended December 2012 and 2011. It had reported a net loss of \$4.1 million in 2010, but has increased its service area and member months increased by 25.6% between 2010 and 2011. CCI's equity had been deteriorating due to poor operating results in 2010, and results would have been worse if not for risk-sharing agreements with DHS resulting in \$2.4 million of additional revenues in 2010 which limited the loss to \$4 million. Year-end assets and liabilities for 2010 were inflated due to DHS advancing four months' capitation payments to the company in December 2010. In 2011, equity increased by 221% due to the net income of \$11.4 million; care management and

administrative expenses were also kept in check. CCI was under a corrective action plan until mid-2013, due to it not meeting the required working capital requirement. As a result of its positive operating results in 2011, 2012 and through the first half of 2013, it was able to meet the working capital requirements in June 2013. The solvency fund deficiency was due to the liquidation of the solvency fund for another CMO and has been remedied. In addition, the company has replenished the required amount of \$750,000 in advance of the required date.

In 2012, the company reported net income of \$11.0 million and its equity increased by 54.4% from the prior year-end. Positive operating results have continued through 2013, with the company reporting net income of \$4.9 million through the end of 2013.

Reconciliation of Equity per Examination

There were no adjustments to the company's equity or any account reclassifications made as a result of the examination. The amount of equity reported by the company as of December 31, 2012, is accepted.

VI. SUMMARY OF EXAMINATION RESULTS

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.

Investments

Approval of Investments

The examiners reviewed the meeting minutes of the Finance Committee of CCI (which also acts as the Finance Committee for CCHP), and it was noted that the committee takes action on a "consent agenda" that includes action to approve the investment transactions since the previous meeting. In reviewing the materials presented to the committee, it was noted that the account statements from The Northern Trust included only summary positions of the account activities of the relevant account that holds the company's investable securities and did not show the buy/sell and maturity transactions for the account. It is recommended that the company act to approve the investment transactions as a separate item on the Finance Committee agenda and provide the committee members with the account detail showing the buy/sell and maturity transactions in the statements, rather than just the summary of account holdings from the statements.

Investment Performance Review

The examination reviewed the Finance Committee minutes regarding the activity of the investment portfolio and noted that the "consent agenda" action taken by the committee did not include a review of the portfolio performance. As noted in the recommendation above, the committee is not getting the essential parts of the portfolio account statement that would show the transactions that took place in the account, and a review of performance was not evidenced by the minutes that were reviewed. It is recommended that the Finance Committee receive a report on investment performance, at least quarterly, as a part of its oversight of the investment transactions that have taken place since the previous meeting.

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, 2012, 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	\$750,000

The company's financial requirement calculations as of December 31, 2012, are as follows:

Working Capital	
Current Assets	\$51,261,378
Current Liabilities	<u>37,240,640</u>
Working Capital	14,020,739
Working Capital Requirement	<u>8,614,501</u>
Excess/(shortage)	<u>\$ 5,406,237</u>
Restricted Reserves	
Current Restricted Reserves	\$ 3,890,483
Restricted Reserve Requirement	<u>3,871,500</u>
Excess/(shortage)	<u>\$ 18,983</u>
Solvency Fund	
Current Solvency Fund	\$
Solvency Fund Requirement	<u>750,000</u>
Excess/(shortage)	<u>\$ (750,000)</u>

CCI did not meet its financial requirements at December 31, 2012. All permitted CMOs were not meeting the solvency requirement at that date because of the liquidation of all deposits in the Solvency Fund for the insolvency of CHP-LTS in December 2012. CCI replenished its deposit in the Solvency Fund in November 2013, in accordance with the replenishment plan issued by this office.

VII. CONCLUSION

Community Care, Inc., is a care management organization (CMO) that has not previously been examined by the Office of the Commissioner of Insurance. When it was originally formed in 1977, the company was organized to develop and operate a comprehensive, coordinated system of in-home, community-based services for the functionally disabled and frail elderly. Community Care, Inc., was titled Community Care Organization (CCO) until 2005, when the company formed the HMO Community Care Health Plan, Inc., to offer the PACE and Family Care Partnership programs which had previously been offered by CCO. In 2006 Community Care, Inc., was awarded a planning grant to expand long-term care in southeast Wisconsin beyond Milwaukee through the program called Family Care. In 2007 CCI was contracted to expand its Family Care services to Kenosha and Racine; in 2008 to Sheboygan, Ozaukee, Washington and Waukesha; and finally to Calumet, Outagamie, Waupaca and Walworth counties.

At December 31, 2012, CCI reported assets of \$69.2 million, liabilities of \$41.5 million, and equity of \$27.7 million. In 2012, CCI reported income from operations of \$10.7 million, net income of \$11.1 million, on total revenues of \$334.1 million. The company generated favorable results in both the years ended December 2012 and 2011 earning \$11.1 million and \$11.4 million, respectively, after reporting a net loss of \$4.1 million in 2010. Its most recent results reflect an increased service area with member months increasing by 25.6% between 2010 and 2011.

The examination resulted in two recommendations relating to investments.

VIII. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 25 - Investments—It is recommended that the company act to approve the investment transactions as a separate item on the Finance Committee agenda and provide the committee members with the account detail showing the buy/sell and maturity transactions in the statements, rather than just the summary of account holdings from the statements.
2. Page 25 - Investments—It is recommended that the Finance Committee receive a report on investment performance, at least quarterly, as a part of its oversight of the investment transactions that have taken place since the previous meeting.

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:

Name	Title
Holly Poore	Insurance Financial Examiner
Robert McLaughlin	Insurance Financial Examiner
David Jensen	IT Specialist

Respectfully submitted,

Richard Janosik
Examiner-in-Charge