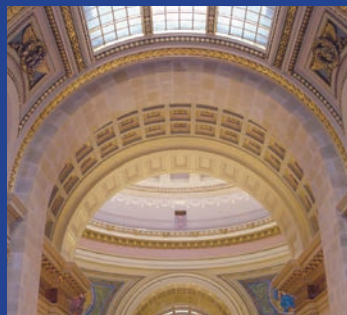


**Report 14-7
June 2014**

Health Insurance Risk-Sharing Plan Authority

STATE OF WISCONSIN



Legislative Audit Bureau ■

Health Insurance Risk-Sharing Plan Authority

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Joe Chrisman
State Auditor

June 4, 2014

Senator Robert Cowles and
Representative Samantha Kerkman, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Cowles and Representative Kerkman:

As required by s. 13.94 (1)(dh), Wis. Stats., and nonstatutory provisions of 2013 Wisconsin Act 20, we have completed our annual financial audit of the Wisconsin Health Insurance Risk-Sharing Plan (HIRSP) Authority for 2013 and have provided an unmodified audit opinion on its financial statements.

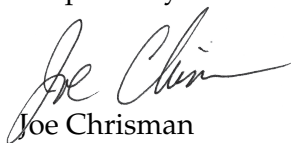
The HIRSP Authority provided medical and prescription drug insurance for individuals who were unable to obtain coverage in the commercial market or who had lost employer-sponsored group health insurance. The state-based insurance plan was designed in accordance with statutes to generally reflect the comprehensive health insurance coverage offered in the private individual market. As a provision of the federal Affordable Care Act, and under federal contract, the HIRSP Authority also operated a temporary federal high-risk insurance pool.

Implementation of the Affordable Care Act reduced the need for state-run high-risk insurance pools because, for example, individuals may no longer be denied insurance coverage because of pre-existing conditions. In anticipation of these changes, 2013 Wisconsin Act 20, the 2013-15 Biennial Budget Act, included provisions to dissolve the HIRSP Authority and end HIRSP insurance coverage. Subsequently, 2013 Wisconsin Act 116 extended coverage under the state-based HIRSP Plan through March 31, 2014. On February 28, 2014, Act 116 transferred administrative responsibility for the operation and eventual dissolution of HIRSP to the Office of the Commissioner of Insurance.

As directed by 2013 Wisconsin Act 20, the HIRSP Authority Board recommended a plan for disbursing any remaining cash balance of the HIRSP plan. We will review this distribution as part of our final audit of HIRSP, which will be issued in 2015.

We appreciate the courtesy and cooperation extended to us by the HIRSP Authority, the plan administrator, the pharmacy benefit manager, and the Office of the Commissioner of Insurance.

Respectfully submitted,



Joe Chrisman
State Auditor

JC/BN/ss

Introduction ■

The Wisconsin Health Insurance Risk-Sharing Plan (HIRSP) Authority was created to provide medical and prescription drug insurance for individuals who could not obtain coverage in the commercial health insurance market because of high costs or adverse health circumstances. HIRSP also was designated as Wisconsin's plan to meet federal Health Insurance Portability and Accountability Act (HIPAA) requirements by making health insurance available to individuals who lost employer-sponsored group health insurance and met other specified criteria.

The HIRSP Authority's governing Board of Directors consisted of 13 voting members—representatives of insurers, health care providers, small businesses, and HIRSP policyholders, as well as a consumer advocate—and the Commissioner of Insurance or a designee who served as a nonvoting member. The HIRSP Authority employed four staff and contracted with Wisconsin Physicians Service Insurance Corporation (WPS), located in Madison, to function as the plan administrator, and with MedTrak Services, LLC located in Overland Park, Kansas, to function as the pharmacy benefit manager.

In accordance with statutes, the HIRSP Authority established the design of the state-based insurance plan known as the HIRSP Plan to generally reflect and be commensurate with comprehensive health insurance coverage offered in the private individual market in Wisconsin. Since 2010, as a provision of the federal Affordable Care Act and under contract with the U.S. Department of Health and Human Services, the HIRSP Authority also operated a temporary federal high-risk pool, which was known as the HIRSP Federal Plan and was originally intended to operate until January 1, 2014.

Implementation of the federal Affordable Care Act reduced the need for the state-based HIRSP Plan.

Implementation of major provisions under the Affordable Care Act on January 1, 2014, reduced the continued need for high-risk pools, such as the state-based HIRSP Plan administered by the HIRSP Authority. Effective January 1, 2014, a HIRSP policyholder may obtain insurance through the commercial insurance market because health care insurers are now prohibited from denying insurance coverage because of an individual's pre-existing condition, charging premiums based on health, and applying annual benefit limits. In addition, health insurance exchanges were established to assist consumers in buying insurance.

2013 Wisconsin Act 116 extended coverage under the state-based HIRSP Plan through March 31, 2014.

In anticipation of these changes, 2013 Wisconsin Act 20, the 2013-15 Biennial Budget Act, included provisions to dissolve the HIRSP Authority and end HIRSP insurance coverage. Subsequently, 2013 Wisconsin Act 116 extended coverage under the state-based HIRSP Plan through March 31, 2014, and set February 28, 2014, as the date the administrative responsibility of the HIRSP Authority would be transferred to the Office of the Commissioner of Insurance (OCI).

Coverage under the HIRSP Federal Plan was extended through March 31, 2014.

Act 116 also included provisions that permitted the HIRSP Authority to continue to administer the HIRSP Federal Plan in the event the federal government decided to extend its contract with the HIRSP Authority beyond December 31, 2013. In December 2013, the U.S. Department of Health and Human Services notified the HIRSP Authority that coverage could be extended under the HIRSP Federal Plan through January 31, 2014. In January 2014, the U.S. Department of Health and Human Services announced that coverage could be extended a second time through March 31, 2014. As permitted by Act 116, the HIRSP Authority signed two contract amendments with the U.S. Department of Health and Human Services to administer the HIRSP Federal Plan through March 31, 2014.

As required by s. 13.94 (1)(dh), Wis. Stats., as required by nonstatutory provisions included in Section 9122 of 2013 Wisconsin Act 20, and as requested by the HIRSP Authority to meet requirements included in its contract with the U.S. Department of Health and Human Services, we have completed a financial and federal compliance audit of the HIRSP Authority for 2013. We reviewed the HIRSP Authority's internal control procedures, assessed the fair presentation of its financial statements, and reviewed compliance with selected federal requirements and state statutory provisions.

State-Based HIRSP Plan

Policyholders in the state-based HIRSP Plan were required to be Wisconsin residents who were not eligible for employer-sponsored group health insurance, Medical Assistance, or Wisconsin's BadgerCare Plus Standard plan and who met specified criteria based on their medical conditions or loss of employer-sponsored group health insurance. In 2013, the HIRSP Authority offered eligible applicants seven options under the state-based HIRSP Plan. These included one Medicare supplement plan and, for applicants who were not eligible for Medicare, six other plans that offered identical coverage and differed primarily in their premium and deductible amounts.

Policyholders who had annual household incomes below a specified threshold were eligible for premium, medical deductible, and drug coinsurance subsidies. As of October 1, 2010, the annual household income limit for subsidy eligibility was \$33,999.

Funding

Costs for the state-based HIRSP Plan were primarily shared by policyholders, health insurance companies, and health care providers.

The state-based HIRSP Plan was funded primarily through policyholder premiums, financial assessments on health insurance companies that do business in Wisconsin, and reduced payments to health care providers for their services. None of the funding was obtained from state general purpose revenue. The HIRSP Authority also earned investment income and received an annual grant that the U.S. Department of Health and Human Services—Centers for Medicare and Medicaid Services made available to qualified high-risk state health insurance pools that met certain criteria. The HIRSP Authority spent \$2.1 million in federal grant awards in 2012, and \$3.9 million in 2013, to help fund subsidies for the state-based HIRSP Plan. The HIRSP Authority also spent \$431,000 in federal grant awards in 2012 and \$440,000 in 2013 to administer a diabetes disease management program.

Statutes required that policyholder premiums fund 60 percent of estimated operating and administrative costs of the state-based HIRSP Plan. The remaining 40 percent of program costs were to be funded equally by insurers and health care providers who also were equally responsible for the premium, deductible, and drug coinsurance subsidies not funded by federal grants. Insurers were charged their share of operating and administrative costs through annual assessments that were proportionately based on their annual revenue from health insurance premiums in Wisconsin. Health care providers contributed through reduced payments for billed services.

Net Position

The state-based HIRSP Plan had a net position of \$10.0 million as of December 31, 2013.

As shown in Table 1, the state-based HIRSP Plan's net position decreased from \$27.5 million as of December 31, 2009, to \$10.0 million as of December 31, 2013. The decrease began in 2010 when the HIRSP Authority experienced a large enrollment increase and an unexpected increase in large-dollar medical claims. Because the passage of the Affordable Care Act in 2010 created uncertainty for the future of the HIRSP Authority, the HIRSP Authority Board opted not to rebuild the net position at that time.

Table 1

State-Based HIRSP Plan Net Position, by Funding Party
As of December 31
(in millions)

Funding Party	2013	2012	2011	2010	2009
Policyholders	\$ 3.8	\$ 5.7	\$ 5.9	\$11.8	\$19.5
Providers	2.3	(1.1)	(0.2)	1.0	3.0
Insurers	3.9	7.9	3.8	0.9	5.0
Total Net Position¹	\$10.0	\$12.5	\$9.5	\$13.7	\$27.5

¹ Net Position is the difference between the Plan's assets and liabilities.

In addition to managing the state-based HIRSP Plan's net position, the HIRSP Authority also helped to ensure the aforementioned funding requirements for each funding party were being met. For example, the HIRSP Authority Board approved a 3.0 percent increase in premium rates for 2013 in an attempt to ensure that policyholders funded their required 60 percent of program costs. In addition, the HIRSP Authority decreased insurer assessments by 17.4 percent for 2013 and adjusted provider rates to allow for a 15.5 percent increase in provider contributions for 2013, in an effort to ensure these parties met their required 20 percent of program costs.

Enrollment

The state-based HIRSP Plan reached a high of 22,564 policyholders as of June 30, 2013.

Enrollment in the state-based HIRSP Plan had been increasing since 2009. The increases continued until June 30, 2013, when enrollment in the state-based HIRSP Plan reached a high of 22,564 policyholders. As shown in Table 2, as of December 31, 2013, the state-based HIRSP Plan had 21,418 policyholders.

Table 2
Enrollment in the State-Based HIRSP Plan
 As of December 31

Date	Enrollment	Percentage Change
2004	18,341	–
2005	18,947	3.3
2006	18,058	(4.7)
2007	17,126	(5.2)
2008	16,252	(5.1)
2009	16,381	0.8
2010	18,965	15.8
2011	21,317	12.4
2012	21,974	3.1
2013	21,418	(2.5)

The state-based HIRSP Plan had 6,873 policyholders as of January 31, 2014.

The HIRSP Authority originally anticipated that the majority of policyholders would maintain coverage for the extension period from January 1, 2014, through March 31, 2014. However, only 6,873 policyholders maintained coverage as of January 31, 2014.

HIRSP Federal Plan

The Affordable Care Act allocated each state a portion of \$5.0 billion in federal funding for the federal temporary high-risk pool program. In July 2010, the U.S. Department of Health and Human Services contracted with the HIRSP Authority to administer the program in Wisconsin. Wisconsin was one of 27 states that originally contracted to administer their own pools. In the other 23 states and the District of Columbia, the federal government administered the pools.

The HIRSP Authority administered the HIRSP Federal Plan separately from the state-based HIRSP Plan. Although medical and drug benefits were comparable, the federal and state plans had different eligibility requirements; premium levels; and deductible, coinsurance, and maximum out-of-pocket cost levels. The HIRSP Authority offered eligible applicants four options under the HIRSP Federal Plan that offered identical coverage and differed primarily in their premium and deductible amounts.

Operating and administrative costs of the HIRSP Federal Plan were funded, in part, by policyholder premiums. Until recent changes to the program in 2013, costs in excess of premiums were entirely

funded by the U.S. Department of Health and Human Services under its contract with the HIRSP Authority. However, in response to higher-than-expected costs nationwide in the federal temporary high-risk pool program, the U.S. Department of Health and Human Services took action in 2013 to limit the costs of the program. Two such actions significantly affected state-administered pools, like the HIRSP Federal Plan.

In response to a federal directive, the HIRSP Authority stopped accepting new applications for enrollment in the HIRSP Federal Plan as of March 2, 2013.

First, acceptance of new applications for enrollment in the program was suspended as of March 2, 2013. Until that time, enrollment in the HIRSP Federal Plan had rapidly grown from 307 as of December 31, 2010, to 2,186 as of February 28, 2013, or by 612.1 percent. The suspension of new applicants continued and by December 31, 2013, the HIRSP Federal Plan had 1,935 policyholders.

Second, in April 2013 the U.S. Department of Health and Human Services notified state-administered pools that, effective June 1, 2013, the federal government would establish a maximum amount it would reimburse states that administered their own insurance plans, such as the HIRSP Federal Plan, for the remainder of the program's existence. This action essentially transferred the financial risk of administering the HIRSP Federal Plan from the federal government to the HIRSP Authority.

To address the potential risk exposure, the HIRSP Authority contracted with three insurance companies for a total of \$662,000 to provide reinsurance from June 1, 2013, through December 31, 2013, for any claims costs that exceeded the amount reimbursed by the U.S. Department of Health and Human Services. The HIRSP Authority was able to negotiate additional funds from the U.S. Department of Health and Human Services to cover the cost of the reinsurance. However, because actual claims costs did not exceed the federal maximum, no reinsurance recoveries were sought during 2013.

The HIRSP Federal Plan had 706 policyholders as of January 31, 2014.

The HIRSP Authority also anticipated that the majority of federal policyholders would maintain coverage for the extension period. However, only 706 policyholders maintained coverage as of January 31, 2014.

Close Out of HIRSP

As required by 2013 Wisconsin Act 116, the administrative responsibility of the HIRSP Authority was transferred to OCI on February 28, 2014. In addition, on that date all assets and liabilities were to be transferred to the State and recorded in appropriations created by 2013 Wisconsin Act 20 for that purpose. However, OCI had not made the necessary arrangements to record this activity on the State's central accounting system. In response to our inquiries, OCI is currently working with the State Controller's Office in the Department of Administration to address this concern.

Administrative responsibility of the HIRSP Authority was transferred to OCI on February 28, 2014.

On February 28, 2014, the HIRSP Authority Board of Directors was terminated and a HIRSP advisory committee, which consists of the former board members, was created to advise and assist OCI with the dissolution of the HIRSP Authority and close out of the state-based HIRSP Plan. The HIRSP advisory committee will terminate 60 days after our final audit of the plan is issued in 2015. Act 20 and Act 116 also established certain key dates for the close out of the state-based HIRSP Plan, as shown in Table 3. The close out of the HIRSP Federal Plan will follow the same timeline.

Table 3
Timeline
State-Based HIRSP Plan

Date	Action or Event
2013	
December 31	Original end-date for insurance coverage. (Act 20) ¹
2014	
February 28	Administrative responsibility transferred to OCI. (Act 116)
March 31	Insurance coverage ended as of midnight. (Act 116)
June 1	Deadline for medical and prescription drug claims to be submitted to be eligible for payment. (Act 116)
June 30	Any additional supporting documentation for claims must be submitted by this date in order for the claims to be paid.
July 1	Date by which all grievances on denied claims must be filed. (Act 116)
August 1	Date by which all requests for independent reviews of denied grievances must be submitted.
September 15	Date by which all independent reviews must be finalized in order to process claims.
September 30	Last date that claims will be paid.
2015	
January 1	Chapter 149, Wis. Stats., is repealed and the HIRSP Authority is dissolved. (Act 20)
June 30	Date by which the final audit of the plan is required to be issued by the Legislative Audit Bureau. (Act 116)

¹ Act 20 set the end date for insurance coverage as either December 31, 2013, or the date that any health insurance coverage accessed through the exchange was effective (if the exchange was operational later than January 1, 2014).

As directed by 2013 Wisconsin Act 20, and before administrative responsibility of the HIRSP Authority transferred to OCI, the HIRSP Authority Board approved in October 2013, a recommended plan to return any remaining cash balances for the state-based HIRSP Plan to the three funding parties. No cash balances are expected to remain for the HIRSP Federal Plan.

The HIRSP Authority Board recommended a plan to return any remaining cash balance to the three funding parties.

The Board recommended the following method and timing for disbursement of any remaining cash balance of the state-based HIRSP Plan:

- The policyholders' share of any cash balance was recommended to be returned through a "premium refund." In order to qualify, policyholders must have paid at least 12 months of premiums and have had coverage as of December 31, 2013. Premium refunds were recommended for distribution in August 2014.
- The providers, which contributed through a discount taken in the amounts paid to providers for services to HIRSP policyholders, received a reduction in the provider discount for medical claims paid in the later part of 2013 and first quarter of 2014. In effect, providers were paid more for their services, which reduced their share of the state-based HIRSP Plan's net position. Any remaining cash balance attributable to providers was recommended for distribution in October 2014 to the Wisconsin Hospital Association Foundation, Inc., to support the initiatives of the Wisconsin Council on Medical Education and Workforce.
- The insurers' share of any cash balance was recommended to be returned through an assessment refund in October 2014. It was recommended that the allocation be calculated on the same basis that was used to calculate the assessments for 2013.

Barring unforeseen circumstances, OCI has indicated its intention to follow the HIRSP Authority Board recommendation. No later than 30 days before final distribution of any remaining cash assets, and as required by 2013 Act 116, OCI must submit a final report to the Joint Committee on Finance on the operation and dissolution of HIRSP, including the proposed distribution of any remaining surplus. As of March 31, 2014, the unaudited net position of the state-based HIRSP Plan was \$7.3 million. The final cash balance will likely differ from that amount because the actual amounts that will be paid for claims are not yet known.

After the remaining equity is disbursed, it is possible that additional funds, such as subrogation lawsuit settlements and awards, or claims or provider recovery payments, may be received. These funds are to be forwarded by WPS to OCI and would remain in state appropriations until the appropriations are ultimately repealed. At that time, the funds would lapse to the General Fund unless otherwise directed by law.

■ ■ ■ ■

Audit Opinion ■



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Legislative Audit Bureau

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Joe Chrisman
State Auditor

Independent Auditor's Report on the Financial Statements and Other Reporting Required by *Government Auditing Standards*

Senator Robert Cowles and
Representative Samantha Kerkman, Co-chairpersons
Joint Legislative Audit Committee

Mr. Theodore K. Nickel, Commissioner
Office of the Commissioner of Insurance

Report on the Financial Statements

We have audited the accompanying financial statements and the related notes of the Wisconsin Health Insurance Risk-Sharing Plan (HIRSP) Authority's state-based HIRSP Plan and the HIRSP Federal Plan as of and for the year ended December 31, 2013, and December 31, 2012, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Prior to the transfer of administrative responsibilities to the Office of the Commissioner of Insurance, management of the HIRSP Authority was responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This included the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, which is issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor

considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on these financial statements.

Opinions

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the state-based HIRSP Plan and the HIRSP Federal Plan as of December 31, 2013, and December 31, 2012, and the respective changes in the financial positions and the cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, 2013 Wisconsin Act 20 and 2013 Wisconsin Act 116 extended coverage under the state-based HIRSP Plan through March 31, 2014. In addition, the HIRSP Authority signed contract amendments to extend coverage under the HIRSP Federal Plan through the same date. Act 116 also transferred all assets, liabilities, and contract agreements, as well as administrative responsibilities of the HIRSP Authority, to the Office of the Commissioner of Insurance on February 28, 2014. As a result, the HIRSP Authority is not considered a going concern. Management's plans in regard to these matters are described in Note 1. Our opinions are not modified with respect to these matters.

Other Matters

Required Supplementary Information—Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 19 through 25 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, which considers it to be essential for placing the financial statements in an appropriate operational, economic, or historical context. In accordance with auditing standards generally accepted in the United States of America, we have applied certain limited procedures to the required supplementary information that included inquiries of management about the methods of preparing the information. We further compared the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to do so.

Accompanying Information—Our audits were conducted for the purpose of forming opinions on the financial statements of the state-based HIRSP Plan and the HIRSP Federal Plan. The accompanying Schedule of Expenditures of Federal Award for the year ended December 31, 2013, is presented for purposes of additional analysis as required by OMB Circular A-133, and is not a required part of

the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements for the year ended December 31, 2013, and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Award is fairly stated in all material respects in relation to the financial statements as a whole for the year ended December 31, 2013.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated May 20, 2014, on our consideration of the HIRSP Authority's internal control over financial reporting; our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements; and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the HIRSP Authority's internal control over financial reporting and compliance.

LEGISLATIVE AUDIT BUREAU



Joe Chrisman
State Auditor

May 20, 2014

Management's Discussion and Analysis ■

Prepared by the Health Insurance Risk-Sharing Plan Authority

The Health Insurance Risk-Sharing Plan (HIRSP) Authority is a Wisconsin state government public body corporate and politic. The HIRSP Authority was established effective July 1, 2006, by ch. 149, Wis. Stats., to administer the insurance risk-sharing pool known as HIRSP, which provides individual health insurance policies to Wisconsin residents who are unable to obtain coverage from commercial insurers because of high cost or adverse health circumstances, and to persons who are entitled to continuation of coverage under federal law, including the Health Insurance Portability and Accountability Act (HIPAA) under Title XXII, P.L. 104-191. This activity is referred to as the HIRSP Plan or HIRSP in the following Management's Discussion and Analysis (MD&A), the financial statements, and accompanying notes. In addition, beginning in 2010, the HIRSP Authority operates a temporary federal high-risk pool under contract with the U.S. Department of Health and Human Services (HHS). Temporary federal high-risk pools were created under Section 1101 of Title I of the Patient Protection and Affordable Care Act of 2010. This activity is referred to as the HIRSP Federal Plan or HIRSP Federal in the following MD&A, the financial statements, and accompanying notes.

This section provides the MD&A of the HIRSP Authority's financial statements for the calendar year ended December 31, 2013, and for comparative purposes the calendar years ended December 31, 2012, and December 31, 2011. To provide further insight into the MD&A, the HIRSP Federal Plan activity is broken out where appropriate. The financial statements are prepared in conformity with generally accepted accounting principles for governments as prescribed by the Governmental Accounting Standards Board. The financial statements report the financial position, changes in financial position, and cash flows of the HIRSP Authority and include the accompanying notes. The financial statements, notes to the financial statements, and MD&A are the responsibility of management.

Financial Highlights

The HIRSP Authority's financial operations and financial position have been affected by the following events or trends over the last two years:

- As of March 2, 2013, new enrollment in the HIRSP Federal Plan under direction of HHS was suspended. The HIRSP Federal Plan had 2,010 participants as of December 31, 2012, and 1,935 participants as of December 31, 2013. Despite the overall decrease in enrollment during 2013, the membership activity increased. The member months, or the sum of the total members enrolled for the 12-month period, for the plan increased by 39.0 percent in 2013.
- Membership in the HIRSP Plan also decreased from 21,974 as of December 31, 2012, to 21,418 as of December 31, 2013. Similar to the HIRSP Federal Plan, and despite the overall decrease in enrollment during 2013, the membership activity increased. Total member months for the plan increased by 2.3 percent in 2013.
- There was an increase in claims costs in large part due to increased membership activity for the HIRSP Federal Plan and increased pharmacy per member per month (PMPM) costs for both the HIRSP Plan and the HIRSP Federal Plan.

The enactment of 2013 Wisconsin Act 20 and 2013 Wisconsin Act 116 ended coverage for HIRSP members after March 31, 2014, and ended coverage for HIRSP Federal Plan members as of January 1, 2014, or a later date under specified conditions. These conditions have been met and HIRSP federal coverage will also end after March 31, 2014. The legislation dissolves the Authority and its administrative offices will close as of February 28, 2014. At that time, the Wisconsin Office of the Commissioner of Insurance will oversee the "wind down" of plan activities. Please see Note 1A in the Notes to the Financial Statements for more details of the impact of this legislation.

Financial Position

In 2012, in order to avoid significant premium increases, the Board approved a budget that would maintain the 2012 total net position below targeted reserve levels. Actual results for 2012 were better than anticipated and resulted in a 31.0 percent increase in total net position to \$12.5 million. For 2013, given the uncertainty surrounding implementation of the Affordable Care Act and its impact on HIRSP operations, the Board adopted a policy that changed the target reserve levels from 175 percent to 100 percent of the Authorized Control Level Risk-Based Capital, based on the National Association of Insurance Commissioners Securities Risk-Based Capital model. Therefore, the initial budget for 2013 anticipated a decrease in the total net position to an estimated \$10.3 million at year end. As shown in Table A, actual results for 2013 were in line with this budget and resulted in a decrease in net position of 20.2 percent, or \$2.5 million, to end the year with a total net position of \$10.0 million.

Table A

Condensed Financial Information
As of December 31

	2013	Percentage Change from 2012	2012	Percentage Change from 2011	2011
Total Assets	\$35,130,347	(25.7)%	\$47,296,605	15.1%	\$41,100,423
Total Liabilities	25,162,535	(27.7)	34,800,014	10.3	31,559,480
Total Net Position	\$ 9,967,812	(20.2)	\$12,496,591	31.0	\$ 9,540,943

Assets

In 2013, total assets decreased \$12.2 million, or by 25.7 percent. The decrease in total assets is largely reflected in decreased cash and investment balances as cash payments for claims and other operating expenses exceeded cash inflows for operating revenues. In addition, there was a significant decrease in premiums received at the end of the year for policies in force for the next year due to a large number of members taking advantage of new commercial insurance and terminating or "termining" their HIRSP coverage. In 2012, total assets increased by 15.1 percent. The increase in total assets is largely reflected in increased cash and investment balances as cash inflows from increased operating revenue exceeded payments for claims and other operating expenses. Another notable change in 2012 was the increase in the federal contract receivable of \$1.4 million. The increase was the result of increased enrollment and PMPM medical and pharmacy costs for the HIRSP Federal Plan.

Liabilities

Total liabilities decreased \$9.6 million, or by 27.7 percent, in 2013. The decrease in total liabilities is largely due to the \$11 million, or 87.1 percent, decrease in unearned premiums. The decrease in unearned premiums is due to a significant number of members taking advantage of new commercial insurance and terming their HIRSP coverage. Total liabilities increased by 10.3 percent in 2012. The majority of that increase is due to the \$3.3 million, or 23.0 percent, increase in the unpaid medical loss liabilities in 2012. The increase in unpaid medical loss liabilities in 2012 reflects higher PMPM gross medical claims costs the HIRSP Plan and the HIRSP Federal Plan experienced in 2012 as well as an increase in membership.

Change in Financial Position

The Board approved a break-even budget for 2012 that included increases in premium rates and insurer assessment rates and maintained provider reimbursement levels. Actual results for 2012 were better than anticipated and resulted in a \$3.0 million increase in the total net position. Given the expected sunset of the program, the Board approved a budget for 2013 that would spend down reserves. Actual results were very close to the original budget and resulted in a decrease in total net position of \$2.5 million, as shown in Table B.

Table B

Condensed Financial Information 2013, 2012, and 2011

	2013	Percentage Change from 2012	2012	Percentage Change from 2011	2011
Total Operating Revenues	\$175,713,650	(1.9)%	\$179,110,653	22.5%	\$146,218,469
Total Operating Expenses	182,639,365	2.1	178,852,048	16.8	153,137,508
Operating Income (Loss)	(6,925,715)	(2,778.1)	258,605	103.7	(6,919,039)
Total Nonoperating Income (Loss)	4,396,936	63.0	2,697,043	(0.9)	2,720,668
Change in Total Net Position	\$ (2,528,779)	(185.6)	\$ 2,955,648	170.4	\$ (4,198,371)

Operating Revenues

Total operating revenues in 2013 were \$175.7 million, which was a decrease of \$3.4 million, or 1.9 percent, compared to 2012 operating revenues. From 2011 to 2012, total operating revenues increased \$32.9 million, or by 22.5 percent.

During 2013, premium revenue increased by \$2.6 million, or 2.2 percent, compared to 2012 premium revenue. The premium revenue increase was the result of a premium rate increase for the HIRSP Plan in 2013 and increased membership for both the HIRSP Plan and the HIRSP Federal Plan being offset by more members choosing higher deductible lower premium plans. In 2012, total premium revenue increased by \$18.2 million, or 18.4 percent, compared to 2011 premium revenue. The premium revenue increase was the result of increased membership and premium rate increases for the HIRSP Plan in 2011 and 2012.

During 2013, insurer assessments decreased \$8.5 million, or 17.4 percent. The insurer assessment decrease was implemented to spend down insurer reserves. The insurer assessment increased \$5.1 million, or by 11.7 percent, in 2012 in order to have the insurers fund the statutorily required 20.0 percent of plan costs.

The HIRSP Authority also received federal contract revenue to cover excess losses for the HIRSP Federal Plan. In 2013, federal contract revenue was \$3.1 million, or 23.4 percent higher than the 2012 federal contract revenue of \$13.4 million. The 2012 federal contract revenue increased by \$9.6 million, or 250.8 percent, compared to federal contract revenue of \$3.8 million in 2011. The increase in 2013 was due to increased enrollment activity in the plan and increased PMPM pharmacy losses. The increase in 2012 was due to increased enrollment in the plan as well as the increase in the PMPM medical and pharmacy losses.

Operating Expenses

Total operating expenses increased \$3.8 million, or by 2.1 percent, in 2013, and \$25.7 million, or by 16.8 percent, in 2012, largely because of increases in medical and pharmacy losses associated with increased enrollment activity in the HIRSP Federal Plan. The significant increase in the HIRSP Federal Plan's PMPM pharmacy and medical losses also impacted operating expenses in 2012. In addition, the increase in PMPM pharmacy losses for the HIRSP Plan and HIRSP Federal Plans impacted operating expenses during 2013.

Nonoperating Income

In 2013, the HIRSP Authority had nonoperating income of \$4.4 million, which consisted of federal grant revenue of \$4.3 million and investment income of \$58,000. In 2012, the HIRSP Authority had nonoperating income of \$2.7 million, which included federal grant revenue of \$2.6 million and investment income of \$142,000. In 2011, the HIRSP Authority had nonoperating income of \$2.7 million, which included federal grant revenue of \$2.5 million and investment income of \$214,000. The fluctuation in the federal grant revenue is related to two grant awards being spent in 2013, compared to only one grant award each in 2012 and 2011.

Plan Enrollment

HIRSP Plan enrollment was 21,418 as of December 31, 2013. This was a decrease of 2.5 percent, or 556 policyholders, compared to December 31, 2012, when HIRSP Plan enrollment was 21,974. In 2012, HIRSP Plan enrollment increased by 657 policyholders, or 3.1 percent, compared to 21,317 policyholders as of December 31, 2011.

As of March 2, 2013, new enrollment in the HIRSP Federal Plan was suspended under the direction of HHS. HIRSP Federal Plan enrollment was 1,935 as of December 31, 2013. This was a decrease of 3.7 percent, or 75 policyholders, compared to December 31, 2012, when HIRSP Federal Plan enrollment was 2,010 policyholders. In 2012, HIRSP Federal Plan enrollment increased 101.4 percent, or 1,012 policyholders, compared to December 31, 2011, when HIRSP Federal Plan enrollment was 998 policyholders.

Per Member per Month Plan Costs

As shown in Table C, PMPM gross claims costs for the HIRSP Plan in 2013 were \$738.91, a decrease of 1.0 percent from PMPM gross claims costs of \$746.37 in 2012. The decrease is a result of the net impact of changes in utilization, an increase to the provider fee schedule, an increase in pharmacy PMPM costs, and a membership shift to higher deductible plans. The PMPM gross claims costs in 2012 increased 3.6 percent from PMPM gross claims costs of \$720.46 in 2011, in part because of adverse claims experience for 2011 flowing through the financial statements in 2012.

Also, as shown in Table C, PMPM gross claims costs for the HIRSP Federal Plan in 2013 were \$860.28, a decrease of 10.8 percent from the PMPM gross claims costs of \$964.06 in 2012. The decrease is due to the net impact of utilization changes, increased pharmacy PMPM costs, and more members enrolling in higher deductible plans. The PMPM gross claims costs for the HIRSP Federal Plan in 2012 increased 48.2 percent from the PMPM gross claims costs of \$650.73 in 2011. This increase was due to the increase in the provider payment rates and an increase in pharmacy specialty and brand drug costs on a PMPM basis.

Table C

HIRSP Plan Cost Summary on a per Member per Month Basis 2013, 2012, and 2011

Description	2013	2012	2011	2013 PMPM	2012 PMPM	2011 PMPM
Member Months (Sum of total members enrolled in each month)	266,783	260,716	247,363			
Gross Claims (Costs before provider contributions are deducted)	\$197,128,576	\$194,589,654	\$178,214,105	\$738.91	\$746.37	\$720.46
Administrative Expenses	\$9,119,760	\$8,677,163	\$7,821,735	\$34.18	\$33.28	\$31.62

HIRSP Federal Plan Cost Summary on a per Member per Month Basis 2013, 2012, and 2011

Description	2013	2012	2011	2013 PMPM	2012 PMPM	2011 PMPM
Member Months (Sum of total members enrolled in each month)	26,056	18,745	8,133			
Gross Claims	\$22,415,377	\$18,071,271	\$5,292,378	\$860.28	\$964.06	\$650.73
Administrative Expenses	\$1,342,693	\$893,536	\$1,034,266	\$51.53	\$47.67	\$127.17

Administrative expenses incurred for the HIRSP Plan equaled 4.4 percent of total plan costs in 2013 and 4.3 percent of total plan costs in 2012. Administrative expenses equaled 4.2 percent of total plan costs in 2011. Because the majority of the administrative costs are incurred on a PMPM basis, they vary by year according to plan membership. Total administrative expenses increased by 5.1 percent in 2013 and 10.9 percent in 2012. The increase in administrative expenses for 2013 is in large part due to the increase in enrollment activity and costs associated with the anticipated 2014 dissolution of the plan. The 2013 administrative costs on a PMPM basis increased 2.7 percent as a result of costs associated with the anticipated dissolution of the plan. The increase in administrative expenses for 2012 was a result of enrollment activity, the implementation of a medication management program in June 2011, and a care management program in June 2012. The 2012 administrative costs on a PMPM basis increased 5.2 percent as a result of the increased costs related to the medication management and care management programs.

For the HIRSP Federal Plan, 2013 total administrative costs increased by 50.3 percent due to the increase in administrative costs related to enrollment activity and the accrual of costs related to the anticipated dissolution of the plan in 2014. Total member months in 2013 increased 39.0 percent when compared to total member months for 2012. Total administrative expenses in 2012 decreased by 13.6 percent due to the increase in administrative costs related to enrollment growth being offset by the decrease in marketing campaign costs in 2012. Administrative expenses on a PMPM basis for 2013 increased by 8.1 percent, which is due to the accrual of costs related to the anticipated dissolution of the plan. Administrative expenses on a PMPM basis for 2012 decreased by 62.5 percent, which is due to the decrease in marketing campaign costs in 2012.

HIRSP Authority Contact Information

Questions concerning any of the information provided in the HIRSP Authority's financial reports, or requests for additional information, should be directed to:

Wisconsin Office of the Commissioner of Insurance
125 South Webster Street
Madison, WI 53703-3474
Phone: (608) 226-3585

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Financial Statements ■

Statement of Net Position

December 31, 2013

	<u>HIRSP</u>	<u>HIRSP Federal</u>	<u>Total HIRSP and HIRSP Federal</u>
ASSETS			
Current Assets:			
Cash and Cash Equivalents (Note 3)	\$ 28,256,043	\$ 10,396	\$ 28,266,439
Investments (Note 3)	0	0	0
Interest Receivable (Note 4)	0	0	0
Drug Rebates Receivable (Note 4)	3,412,399	210,489	3,622,888
Premiums Receivable (Note 4)	207,147	21,389	228,536
Claims Recoverable (Note 4)	198,959	73,015	271,974
Assessments Receivable (Note 4)	124,109	0	124,109
Interfund Receivable (Payable)	247,302	(247,302)	0
Prepaid Items	25,740	0	25,740
Federal Grant Revenue Receivable (Note 5)	0	0	0
Federal Contract Revenue Receivable (Note 6)	0	2,588,210	2,588,210
Total Current Assets	<u>32,471,699</u>	<u>2,656,197</u>	<u>35,127,896</u>
Noncurrent Assets:			
Investments (Note 3)	0	0	0
Capital Assets, Net of Accumulated Depreciation	2,451	0	2,451
Total Noncurrent Assets	<u>2,451</u>	<u>0</u>	<u>2,451</u>
TOTAL ASSETS	<u>\$ 32,474,150</u>	<u>\$ 2,656,197</u>	<u>\$ 35,130,347</u>
LIABILITIES AND NET POSITION			
Liabilities:			
Unpaid Medical Loss Liabilities (Note 7)	\$ 15,798,936	\$ 2,197,650	\$ 17,996,586
Unpaid Pharmacy Loss Liabilities (Note 7)	845,500	67,606	913,106
Unpaid Loss Adjustment Expenses (Note 7)	776,000	79,000	855,000
Unearned Premiums (Note 2C)	1,610,637	18,823	1,629,460
Payments to Providers (Note 4)	2,242,809	204,247	2,447,056
Accounts Payable and Accrued Administrative Expenses	1,232,456	88,871	1,321,327
Total Liabilities	22,506,338	2,656,197	25,162,535
Net Position:			
Net Investment in Capital Assets	2,451	0	2,451
Unrestricted	9,965,361	0	9,965,361
Total Net Position	<u>9,967,812</u>	<u>0</u>	<u>9,967,812</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 32,474,150</u>	<u>\$ 2,656,197</u>	<u>\$ 35,130,347</u>

Statement of Net Position

December 31, 2012

	<u>HIRSP</u>	<u>HIRSP Federal</u>	<u>Total HIRSP and HIRSP Federal</u>
ASSETS			
Current Assets:			
Cash and Cash Equivalents (Note 3)	\$ 23,426,277	\$ 677,234	\$ 24,103,511
Investments (Note 3)	15,799,391	0	15,799,391
Interest Receivable (Note 4)	40,564	0	40,564
Drug Rebates Receivable (Note 4)	2,968,407	92,049	3,060,456
Premiums Receivable (Note 4)	459,464	25,637	485,101
Claims Recoverable (Note 4)	158,526	53,025	211,551
Assessments Receivable (Note 4)	109,009	0	109,009
Interfund Receivable (Payable)	102,768	(102,768)	0
Prepaid Items	17,738	0	17,738
Federal Grant Revenue Receivable (Note 5)	249,714	0	249,714
Federal Contract Revenue Receivable (Note 6)	0	2,480,114	2,480,114
Total Current Assets	<u>43,331,858</u>	<u>3,225,291</u>	<u>46,557,149</u>
Noncurrent Assets:			
Investments (Note 3)	733,988	0	733,988
Capital Assets, Net of Accumulated Depreciation	5,468	0	5,468
Total Noncurrent Assets	<u>739,456</u>	<u>0</u>	<u>739,456</u>
TOTAL ASSETS	<u>\$ 44,071,314</u>	<u>\$ 3,225,291</u>	<u>\$ 47,296,605</u>
LIABILITIES AND NET POSITION			
Liabilities:			
Unpaid Medical Loss Liabilities (Note 7)	\$ 15,389,654	\$ 2,248,940	\$ 17,638,594
Unpaid Pharmacy Loss Liabilities (Note 7)	827,793	90,506	918,299
Unpaid Loss Adjustment Expenses (Note 7)	814,000	81,000	895,000
Unearned Premiums (Note 2C)	12,038,740	596,420	12,635,160
Payments to Providers (Note 4)	1,685,945	140,896	1,826,841
Accounts Payable and Accrued Administrative Expenses	818,591	67,529	886,120
Total Liabilities	<u>31,574,723</u>	<u>3,225,291</u>	<u>34,800,014</u>
Net Position:			
Net Investment in Capital Assets	5,468	0	5,468
Unrestricted	12,491,123	0	12,491,123
Total Net Position	<u>12,496,591</u>	<u>0</u>	<u>12,496,591</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 44,071,314</u>	<u>\$ 3,225,291</u>	<u>\$ 47,296,605</u>

Statement of Revenues, Expenses, and Changes in Net Position for the Year Ended December 31, 2013

	<u>HIRSP</u>	<u>HIRSP Federal</u>	<u>Total HIRSP and HIRSP Federal</u>
OPERATING REVENUES			
Premiums (Note 2C)	\$ 111,729,633	\$ 7,870,991	\$ 119,600,624
Reinsurance Premiums Ceded (Notes 2C and 8)	<u>0</u>	<u>(662,262)</u>	<u>(662,262)</u>
Net Premiums	<u>111,729,633</u>	<u>7,208,729</u>	<u>118,938,362</u>
Insurers' Assessments (Note 2C)	40,205,607	0	40,205,607
Federal Contract Revenue (Notes 2C and 6)	<u>0</u>	<u>16,569,681</u>	<u>16,569,681</u>
Total Operating Revenues	<u>151,935,240</u>	<u>23,778,410</u>	<u>175,713,650</u>
OPERATING EXPENSES			
Losses:			
Gross Medical Losses	149,604,258	17,583,143	167,187,401
Provider Contributions (Note 10)	(47,646,041)	0	(47,646,041)
Increase (Decrease) in Unpaid Medical Losses (Note 7)	<u>716,907</u>	<u>(51,290)</u>	<u>665,617</u>
Total Medical Losses	<u>102,675,124</u>	<u>17,531,853</u>	<u>120,206,977</u>
Gross Pharmacy Losses	46,789,704	4,906,424	51,696,128
Increase (Decrease) in Unpaid Pharmacy Losses (Note 7)	<u>17,707</u>	<u>(22,900)</u>	<u>(5,193)</u>
Total Pharmacy Losses	<u>46,807,411</u>	<u>4,883,524</u>	<u>51,690,935</u>
Total Losses	<u>149,482,535</u>	<u>22,415,377</u>	<u>171,897,912</u>
General and Administrative Expenses (Note 11)	9,119,760	1,342,693	10,462,453
Referral Fees (Note 2C)	<u>258,660</u>	<u>20,340</u>	<u>279,000</u>
Total Operating Expenses	<u>158,860,955</u>	<u>23,778,410</u>	<u>182,639,365</u>
OPERATING INCOME	<u>(6,925,715)</u>	<u>0</u>	<u>(6,925,715)</u>
NONOPERATING REVENUES AND EXPENSES			
Federal Grant Revenue (Notes 2C and 5)	4,338,719	0	4,338,719
Investment Income	57,792	0	57,792
Miscellaneous Income (Expense)	<u>425</u>	<u>0</u>	<u>425</u>
Total Nonoperating Income (Loss)	<u>4,396,936</u>	<u>0</u>	<u>4,396,936</u>
CHANGE IN NET POSITION	<u>(2,528,779)</u>	<u>0</u>	<u>(2,528,779)</u>
NET POSITION			
Total Net Position—Beginning of the Year	<u>12,496,591</u>	<u>0</u>	<u>12,496,591</u>
Total Net Position—End of the Year	<u>\$ 9,967,812</u>	<u>\$ 0</u>	<u>\$ 9,967,812</u>

Statement of Revenues, Expenses, and Changes in Net Position for the Year Ended December 31, 2012

	<u>HIRSP</u>	<u>HIRSP Federal</u>	<u>Total HIRSP and HIRSP Federal</u>
OPERATING REVENUES			
Premiums (Note 2C)	\$ 111,407,580	\$ 5,588,879	\$ 116,996,459
Insurers' Assessments (Note 2C)	48,688,106	0	48,688,106
Federal Contract Revenue (Notes 2C and 6)	0	13,426,088	13,426,088
Total Operating Revenues	160,095,686	19,014,967	179,110,653
OPERATING EXPENSES			
Losses:			
Gross Medical Losses	149,461,379	13,430,000	162,891,379
Provider Contributions (Note 10)	(43,717,556)	0	(43,717,556)
Increase (Decrease) in Unpaid Medical Losses (Note 7)	2,352,392	1,505,727	3,858,119
Total Medical Losses	108,096,215	14,935,727	123,031,942
Gross Pharmacy Losses	42,706,659	3,079,692	45,786,351
Increase (Decrease) in Unpaid Pharmacy Losses (Note 7)	69,224	55,852	125,076
Total Pharmacy Losses	42,775,883	3,135,544	45,911,427
Total Losses	150,872,098	18,071,271	168,943,369
General and Administrative Expenses (Note 11)	8,677,163	893,536	9,570,699
Referral Fees (Note 2C)	287,820	50,160	337,980
Total Operating Expenses	159,837,081	19,014,967	178,852,048
OPERATING INCOME	258,605	0	258,605
NONOPERATING REVENUES AND EXPENSES			
Federal Grant Revenue (Notes 2C and 5)	2,557,401	0	2,557,401
Investment Income	141,602	0	141,602
Miscellaneous Income (Expense)	(1,960)	0	(1,960)
Total Nonoperating Income (Loss)	2,697,043	0	2,697,043
CHANGE IN NET POSITION	2,955,648	0	2,955,648
NET POSITION			
Total Net Position—Beginning of the Year	9,540,943	0	9,540,943
Total Net Position—End of the Year	\$ 12,496,591	\$ 0	\$ 12,496,591

Statement of Cash Flows for the Year Ended December 31, 2013

	<u>HIRSP</u>	<u>HIRSP Federal</u>	<u>Total HIRSP and HIRSP Federal</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received for Premiums	\$ 101,584,464	\$ 7,267,026	\$ 108,851,490
Cash Received for Assessments	40,190,507	0	40,190,507
Cash Received for Federal Contract	0	16,461,585	16,461,585
Cash Payments for Miscellaneous Expense	425	0	425
Cash Payments for Medical Losses	(102,208,973)	(17,585,439)	(119,794,412)
Cash Payments for Pharmacy Losses	(46,676,832)	(4,961,514)	(51,638,346)
Cash Payments for Reinsurance Premiums Ceded	0	(662,262)	(662,262)
Cash Payments for Other Expenses	(9,279,012)	(1,186,234)	(10,465,246)
Net Cash Provided (Used) by Operating Activities	(16,389,421)	(666,838)	(17,056,259)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Cash Received for Federal Grant	4,588,433	0	4,588,433
Net Cash Provided by Noncapital Financing Activities	4,588,433	0	4,588,433
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchases of Capital Assets	(981)	0	(981)
Net Cash Used for Capital and Related Financing Activities	(981)	0	(981)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net (Purchase) and Sales of Investments	16,463,946	0	16,463,946
Investment Income	167,789	0	167,789
Net Cash Provided (Used) by Investing Activities	16,631,735	0	16,631,735
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,829,766	(666,838)	4,162,928
Cash and Cash Equivalents, Beginning of Year	23,426,277	677,234	24,103,511
Cash and Cash Equivalents, End of Year	<u>\$ 28,256,043</u>	<u>\$ 10,396</u>	<u>\$ 28,266,439</u>
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Net Operating Income (Loss)	\$ (6,925,715)	\$ 0	\$ (6,925,715)
Adjustments to Reconcile Net Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	3,998	0	3,998
Miscellaneous Expense Reported as Nonoperating Expense	425	0	425
Changes in Assets and Liabilities:			
Decrease (Increase) in Receivables	(391,743)	(97,744)	(489,487)
Decrease (Increase) in Prepaids	(8,002)	0	(8,002)
Increase (Decrease) in Medical Loss Liabilities	409,282	(51,290)	357,992
Increase (Decrease) in Pharmacy Loss Liabilities	17,707	(22,900)	(5,193)
Increase (Decrease) in Unpaid Loss Adjustment Expenses	(38,000)	(2,000)	(40,000)
Increase (Decrease) in Unearned Premiums	(10,428,102)	(577,597)	(11,005,699)
Increase (Decrease) in Liability for Payments to Providers	556,864	63,351	620,215
Increase (Decrease) in Accounts Payable and Accrued Administrative Expenses	413,865	21,342	435,207
Total Adjustments	(9,463,706)	(666,838)	(10,130,544)
Net Cash Provided (Used) by Operating Activities	\$ (16,389,421)	\$ (666,838)	\$ (17,056,259)

The accompanying notes are an integral part of this statement.

Statement of Cash Flows for the Year Ended December 31, 2012

	<u>HIRSP</u>	<u>HIRSP Federal</u>	<u>Total HIRSP and HIRSP Federal</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received for Premiums	\$ 110,726,873	\$ 5,856,832	\$ 116,583,705
Cash Received for Assessments	48,652,225	0	48,652,225
Cash Received for Federal Contract	0	11,962,991	11,962,991
Cash Payments for Miscellaneous Expense	(1,960)	0	(1,960)
Cash Payments for Medical Losses	(106,286,521)	(13,437,309)	(119,723,830)
Cash Payments for Pharmacy Losses	(42,473,035)	(3,025,876)	(45,498,911)
Cash Payments for Other Expenses	(8,961,784)	(792,413)	(9,754,197)
Net Cash Provided (Used) by Operating Activities	<u>1,655,798</u>	<u>564,225</u>	<u>2,220,023</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Cash Received for Federal Grant	2,360,459	0	2,360,459
Net Cash Provided by Noncapital Financing Activities	<u>2,360,459</u>	<u>0</u>	<u>2,360,459</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchases of Capital Assets	(1,494)	0	(1,494)
Net Cash Used for Capital and Related Financing Activities	<u>(1,494)</u>	<u>0</u>	<u>(1,494)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Net (Purchase) and Sales of Investments	(2,500,777)	0	(2,500,777)
Investment Income	308,715	0	308,715
Net Cash Provided (Used) by Investing Activities	<u>(2,192,062)</u>	<u>0</u>	<u>(2,192,062)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>1,822,701</u>	<u>564,225</u>	<u>2,386,926</u>
Cash and Cash Equivalents, Beginning of Year	21,603,576	113,009	21,716,585
Cash and Cash Equivalents, End of Year	<u>\$ 23,426,277</u>	<u>\$ 677,234</u>	<u>\$ 24,103,511</u>
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Net Operating Income (Loss)	<u>\$ 258,605</u>	<u>\$ 0</u>	<u>\$ 258,605</u>
Adjustments to Reconcile Net Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	3,797	0	3,797
Miscellaneous Expense Reported as Nonoperating Expense	(1,960)	0	(1,960)
Changes in Assets and Liabilities:			
Decrease (Increase) in Receivables	161,348	(1,436,601)	(1,275,253)
Decrease (Increase) in Prepaids	(5,700)	0	(5,700)
Increase (Decrease) in Medical Loss Liabilities	1,787,516	1,505,727	3,293,243
Increase (Decrease) in Pharmacy Loss Liabilities	69,224	55,852	125,076
Increase (Decrease) in Unpaid Loss Adjustment Expenses	38,000	45,000	83,000
Increase (Decrease) in Unearned Premiums	(604,464)	276,510	(327,954)
Increase (Decrease) in Liability for Payments to Providers	(79,095)	87,291	8,196
Increase (Decrease) in Accounts Payable and Accrued Administrative Expenses	28,527	30,446	58,973
Total Adjustments	<u>1,397,193</u>	<u>564,225</u>	<u>1,961,418</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 1,655,798</u>	<u>\$ 564,225</u>	<u>\$ 2,220,023</u>

The accompanying notes are an integral part of this statement.

Notes to the Financial Statements ■

1. DESCRIPTION OF THE HEALTH INSURANCE RISK-SHARING PLAN AUTHORITY

The Health Insurance Risk-Sharing Plan (HIRSP) Authority is a Wisconsin state government public body corporate and politic. The HIRSP Authority was established by ch. 149, Wis. Stats., for the purpose of maintaining and administering the insurance risk-sharing pool that provides individual health care insurance policies to Wisconsin residents who are at high risk for adverse health care costs and who cannot obtain health insurance in the commercial individual health insurance market. HIRSP also provides health care policies to persons who are entitled to continuation of coverage under federal law, including the Health Insurance Portability and Accountability Act (HIPAA) under Title XXII, P.L. 104-191. These activities are referred to as HIRSP or the HIRSP Plan in the statements and in the notes accompanying the statements. In addition, the HIRSP Authority operates a temporary federal high-risk pool under contract with the U.S. Department of Health and Human Services (HHS). Temporary risk pools were created under Section 1101 of Title I of the Patient Protection and Affordable Care Act of 2010. The temporary federal high-risk pool operated by the HIRSP Authority is referred to as HIRSP Federal or the HIRSP Federal Plan in the statements and the notes accompanying the statements. The HIRSP Authority qualifies as exempt from federal income taxation pursuant to Internal Revenue Code Section 501(c)(26).

The HIRSP Authority derives funding for HIRSP Plan costs and policyholder subsidy costs through a funding formula prescribed by s. 149.143, Wis. Stats. Insurance policy premiums paid by policyholders fund 60 percent of plan costs. Assessments levied on insurance companies that write health insurance

policies in Wisconsin and discounts on payments to health care providers for health care services rendered to HIRSP policyholders each fund 20 percent of plan costs.

HIRSP policyholders who have annual incomes of \$33,999 or less are eligible for subsidized assistance for premium payments, health care deductible payments, and drug copayments. Premium subsidies are first funded by any available federal grant funds. The remaining premium subsidy costs, plus the deductible and drug copayment subsidy costs, are paid on an equal-share basis by the assessed insurance companies and the participating health care providers.

The HIRSP Authority derives funding for the HIRSP Federal Plan through insurance policy premiums paid by policyholders. The HIRSP Federal Plan costs not supported by premiums are funded through the federal contract entered into with HHS and the reinsurance contract as discussed further in Note 8.

A. Going Concern Considerations and the Impact of Legislation Enacted in 2013

2013 Wisconsin Act 20 and 2013 Wisconsin Act 116 make a number of changes to Wisconsin law relating to the HIRSP Authority. The effect of these changes is to end coverage for HIRSP members after March 31, 2014, and to end coverage for HIRSP Federal members as of January 1, 2014, or a later date under specified conditions. These conditions have been met and coverage for HIRSP Federal plan members will also end after March 31, 2014.

There are agreements in place to ensure key personnel will remain with the Authority through February 2014 at which time the Wisconsin Office of the Commissioner of Insurance (OCI) will oversee the “wind down” of plan activities. On February 28, 2014, the assets, liabilities, and contract agreements of the HIRSP Authority will also transfer to OCI. There are also agreements in place to ensure that the vendors will carry out their contractual duties during the wind down period. Due to the aforementioned funding structure of the Authority, there are no concerns that the financial obligations of the Authority will not be met and all recorded receivables are expected to be collected.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Practices

The financial statements of the HIRSP Authority have been prepared in conformity with generally accepted accounting principles (GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB) for determining and reporting the financial position, changes in financial position, and cash flows of a governmental

enterprise. The financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under accrual accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

B. Use of Estimates in Preparation of the Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's estimates. Estimates that are particularly susceptible to significant change are the unpaid loss liabilities as described in Notes 2C and 7 and the health care provider contributions as described in Note 10.

C. Accounting Policy

a) Operating Revenues and Operating Expenses

The HIRSP Authority's operating revenues and operating expenses arise from transactions that are directly related to ongoing indemnity health care insurance and services activities. Nonoperating revenues, including investment income and federal grant funds, are not directly related to ongoing indemnity health care insurance and services. On the financial statements for the HIRSP Plan, both policyholder premiums, net of allowed policyholder premium subsidies, and insurer assessments are reported as elements of total operating revenues. Provider funding contributions, which are derived from discounted payments for provider services, are reported as a deduction from gross medical losses and therefore as a reduction of total operating expenses. For the HIRSP Federal Plan, policyholder premiums, net of reinsurance premiums ceded, and federal contract revenue are reported as elements of total operating revenues.

b) Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits maintained by the HIRSP Authority at a commercial bank and with the State of Wisconsin Local Government Investment Pool. Cash and cash equivalents also consist of a money market account held at a commercial bank. Refer to Note 3 for further information regarding cash deposits.

c) Investments

Investments are carried at fair value based on quoted market prices. Refer to Note 3 for further information regarding investments.

d) *Premium Income Recognition*

Premiums are recognized as earned in the period in which policyholders are entitled to receive services. For the HIRSP Plan, premiums are reported in the financial statements net of allowed premium subsidies. For both the HIRSP Plan and the HIRSP Federal Plan, the liability for unearned premiums is established to properly recognize the liability for premiums that have been written but will be earned in subsequent accounting periods.

e) *Reinsurance Premiums*

Payments to reinsurers are treated as a reduction of premium income and claim payments received are treated as a reduction of claims expense. See Note 8 for further information regarding reinsurance.

f) *Assessment Revenue Recognition*

An assessment to provide a funding contribution for the HIRSP Plan program costs is levied on commercial insurance companies that issue health insurance coverage in Wisconsin. The commercial insurers have a statutory requirement to fund 20 percent of the HIRSP Plan cost, plus one-half of the premium, deductible, and copayment subsidies granted to eligible low-income policyholders enrolled in the HIRSP Plan and not otherwise funded by federal grants.

Insurers that have written health insurance premiums in one calendar year are legally obligated to participate in the HIRSP Authority assessment that will be issued in the subsequent calendar year. As provided by s. 149.13, Wis. Stats., each insurer that participates in the assessment pays a proportionate share of the total assessment corresponding to that insurer's proportionate share of the aggregate premiums charged for specified health insurance coverage issued in Wisconsin in the prior calendar year.

Assessment receipts are recognized as earned revenue during the budget period for which the assessments are levied as a funding contribution.

g) *Federal Contract Revenue Recognition*

Federal contract funds received from HHS are used to fund program costs for the HIRSP Federal Plan in excess of premium revenue and are recorded as revenue when the expense is incurred.

h) *Federal Grant Revenue Recognition*

Federal grant funds received from the U.S. Department of Health and Human Services—Centers for Medicare and Medicaid Services are used to fund premium subsidies and disease management program costs for the HIRSP Plan and are recorded as revenue when the expense is incurred.

i) *Policyholder, Insurer, and Health Care Provider Contributions*

The HIRSP Authority maintains records to separately account for each funding constituency's contributed funds and to ensure that HIRSP Plan program funding operates in conformity with the funding model mandated by s. 149.143, Wis. Stats. An annual operating budget based on an actuarial analysis of projected revenues and program costs determines contribution amounts required from policyholders, assessed insurers, and participating health care providers. To-date funding contributions, plan cost participation, and surplus or deficit net position of each of the three funding constituencies are separately accounted for in the HIRSP Authority's records.

Contributions and surplus net position provided by any one constituency group are restricted to that constituency's account and are not available to offset the program cost obligations or deficit net position of the other two funding constituencies. The surplus or deficit net position interest of each funding constituency is carried forward from one accounting period to the next and is applied solely to the ongoing contribution requirements of the respective funding constituency.

j) *Unpaid Loss Liabilities*

Unpaid loss liabilities consist of health care claims incurred and reported but not paid prior to the close of the accounting period, plus estimates of claims incurred during the accounting period but not reported as of the financial statement date. The HIRSP Plan's unpaid loss liabilities are reported net of estimated health care provider discounts. The HIRSP Plan's and the HIRSP Federal Plan's unpaid loss liabilities are estimated using actuarial methods and assumptions based on claim payment patterns, historical developments such as claim inventory levels, and other relevant factors. Corresponding administrative costs to process outstanding claims are estimated and accrued as unpaid loss adjustment expense liabilities.

Estimates of future payments related to claims incurred in the current and prior accounting periods are continually reviewed by management and adjusted as necessary, with resulting adjustments to the liabilities reflected in current operations.

k) *Referral Fees*

Through October 2011, insurance agents who assisted individuals with the HIRSP application process were paid a one-time nominal referral fee of \$40. Starting in November 2011, agents who completed the HIRSP training and certification process are paid a one-time fee of \$100 and all other agents are paid a one-time fee of

\$40 per approved application. Referral fees represent the sole policy acquisition cost of the HIRSP Authority and are reported as incurred.

l) *Depreciation*

Depreciation and amortization of property and equipment are provided in amounts sufficient to relate the cost of the related assets to operations over their estimated service lives by the straight-line method for financial reporting purposes. The estimated useful lives are as follows:

Office Furniture and Equipment	5 to 7 years
Computer Equipment and Software	3 to 5 years

3. DEPOSITS AND INVESTMENTS

A. Deposits

The HIRSP Authority maintains bank accounts under a banking services contract at a financial institution. As of December 31, 2013, and December 31, 2012, \$5,132,042 and \$9,461,501, respectively, of the HIRSP Plan’s cash and cash equivalents were deposited with the bank. As of December 31, 2013, and December 31, 2012, \$142,945 and \$772,569, respectively, of the HIRSP Federal Plan’s cash and cash equivalents were deposited with the bank. The entire cash deposit balance in 2013 in excess of the Federal Deposit Insurance Corporation (FDIC) limit of \$250,000 was secured by an irrevocable, unconditional, and nontransferable letter of credit issued by the Federal Home Loan Bank of Cincinnati. The entire cash deposit balance on December 31, 2012, was fully insured by the FDIC. Under the Dodd-Frank Wall Street Reform and Consumer Protection Act, unlimited insurance coverage was provided for noninterest-bearing transaction accounts at all FDIC-insured institutions from December 31, 2010, through December 31, 2012.

The HIRSP Authority also during 2012 and during the majority of 2013 maintained a money market account with the same financial institution. As of December 31, 2012, \$764,976 of the HIRSP Plan’s cash and cash equivalents were deposited in the money market account and were uninsured.

B. Investments

As of December 31, 2013, and December 31, 2012, \$24,350,240 and \$14,375,380, respectively, of HIRSP Plan cash assets were invested with the Local Government Investment Pool (LGIP). These funds are reported as cash and cash equivalents on the Statement of Net Position

but are subject to the investment risk note disclosure. The LGIP is a short-term investment pool of local funds whose goal is to provide for the prudent management of public funds. These funds are combined with the cash balances of the Wisconsin Retirement System and other funds of the State and are managed in a single fund called the State Investment Fund (SIF). The SIF is managed by the State of Wisconsin Investment Board, with oversight by its Board of Trustees and in accordance with Wisconsin Statutes. The SIF is not registered with the U.S. Securities and Exchange Commission.

Sections 25.17(3)(b), (ba), (bd), and (dg), Wis. Stats., enumerate the various types of securities in which the SIF may be invested, which include direct obligations of the United States or its agencies, corporations wholly owned by the United States or chartered by an act of Congress, securities guaranteed by the United States, the unsecured notes of financial and industrial issuers, direct obligations of or guaranteed by the government of Canada, certificates of deposit issued by banks in the United States and solvent financial institutions in Wisconsin, and bankers acceptances. The Board of Trustees may specifically approve other prudent legal investments. For more information on the SIF please see www.swib.state.wi.us.

Late in 2010, the HIRSP Authority entered into an investment management relationship with a financial institution. During 2013 the entire investment portfolio was liquidated. The HIRSP Plan’s investments as of December 31, 2012, are as follows:

	December 31, 2012
	<u>Fair Value</u>
U.S. Treasury	\$ 0
U.S. Agencies	6,941,799
Certificates of Deposit	5,541,796
Corporate Bonds	<u>4,049,784</u>
Total	<u>\$16,533,379</u>

Credit Risk—Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The HIRSP Authority’s investment policy limits investment in securities that have been rated by a nationally recognized statistical rating organization as being of the highest investment grade. Securities authorized under the investment policy are restricted to Class 1 investment grade securities as classified by the National Association of Insurance Commissioners Securities Valuation Office. As of December 31, 2013, the HIRSP Authority had \$24,350,240 invested in the LGIP and it was not rated. Aggregate exposures by investment type as of December 31, 2012, are as follows:

		December 31, 2012
	<u>Rating</u>	<u>Fair Value</u>
U.S. Agencies	AA+	\$ 6,941,799
Certificates of Deposit	NA	5,541,796
Corporate Bonds	A- to AA+	<u>4,049,784</u>
Subtotal		16,533,379
LGIP	Not Rated	<u>14,375,380</u>
Total		<u>\$30,908,759</u>

Concentration of Credit Risk—Concentration of credit risk is the risk of loss attributed to the magnitude of an organization’s investment in a single issuer. The HIRSP Authority’s investment policy limits concentration of credit risk by establishing maximum issuer limits by the type of investment. However, the HIRSP Authority’s investment policy does not place a limit on the maximum exposure for U.S. Treasury or U.S. agency securities. As of December 31, 2012, the HIRSP Authority had more than five percent of its investments invested with the following issuers:

<u>Issuer</u>	<u>Percentage of Portfolio December 31, 2012</u>
Federal Home Loan Bank (FHLB)	6.5%
Federal Home Loan Mortgage Corp (FHLMC)	6.5
Federal National Mortgage Association (FNMA)	6.2

Interest Rate Risk—Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The HIRSP Authority’s investment policy does not address interest rate risk. However, the investment policy does restrict the time limit for longer-term investments to a maximum of three years. As of December 31, 2013, the HIRSP Authority had \$24,350,240 invested in LGIP with a weighted average maturity of 0.2 years. As of December 31, 2012, the investments of the HIRSP Plan had the following weighted average maturity:

	December 31, 2012	Weighted Average
	<u>Fair Value</u>	<u>Maturity (Years)</u>
U.S. Agencies	\$ 6,941,799	0.8
Certificates of Deposit	5,541,796	0.7
Corporate Bonds	<u>4,049,784</u>	0.5
Subtotal	16,533,379	0.7
LGIP	<u>14,375,380</u>	0.2
Total	<u>\$30,908,759</u>	0.5

4. RECEIVABLES AND PAYABLES

Unless otherwise noted, receivable balances are expected to be collected within the following year. Management expects that all reported drug rebates will be received.

The financial statements report a liability balance labeled Payments to Providers. The reported liability is for pharmacy claims that were adjudicated and paid by the third-party pharmacy benefit manager in the final two weeks of the reporting period. As of the close of the reporting period, the pharmacy benefit manager was in the process of billing the HIRSP Authority for reimbursement of the paid claims, and HIRSP Authority payment had not yet been remitted.

5. FEDERAL GRANT REVENUE AND FEDERAL GRANT REVENUE RECEIVABLE

In certain years, the federal government has appropriated funds for federal grants that are awarded to state high-risk pools to support the pools' operational losses and other specified bonus activities. The grants are awarded by the U.S. Department of Health and Human Services—Centers for Medicare and Medicaid Services. The HIRSP Authority was awarded a supplemental federal grant of \$2,098,226 in September 2012. These funds were applied to low-income subsidy and disease management program costs for the HIRSP Plan in 2012 and 2013, respectively. The HIRSP Authority was awarded an additional supplemental federal grant award of \$2,240,493 in September 2013. These funds were also applied to low-income subsidy and disease management program costs for the HIRSP Plan in 2013.

The financial statements report a receivable labeled Federal Grant Revenue Receivable for grant funds that had yet to be received for funds expended for the low-income subsidy and disease management program costs as of December 31, 2012.

6. FEDERAL CONTRACT REVENUE AND FEDERAL CONTRACT REVENUE RECEIVABLE

As of July 2, 2010, the HIRSP Authority entered into a contract with HHS to establish a temporary high-risk health insurance pool. Temporary risk pools were created under Section 1101 of Title I of the Patient Protection and Affordable Care Act of 2010. Under this contract, HHS is to reimburse the HIRSP Authority for all costs in excess of premiums for the temporary high-risk health insurance pool known as the HIRSP Federal Plan through May 31, 2013. For the period of June 1, 2013, through March 31, 2014, the HIRSP Authority has entered into a fixed reimbursement contract, under which HHS is to reimburse all costs in excess of premiums up to a capped amount specified in the contract. The operating revenue labeled Federal Contract Revenue represents the funding from HHS to support HIRSP Federal Plan costs. The receivable labeled Federal Contract Revenue Receivable is for contract funds that are yet to be received for HIRSP Federal Plan costs.

7. LIABILITY FOR UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

The following is a reconciliation of changes in the combined unpaid liabilities for medical and pharmacy losses, together with unpaid loss adjustment expense liabilities for 2013 and 2012.

<u>HIRSP Plan</u>	<u>2013</u>	<u>2012</u>
Balance—Beginning of the Year	\$ <u>17,031,447</u>	\$ <u>15,136,707</u>
Incurring Claims:		
Provision for insured events of the current fiscal year	158,864,958	153,508,371
Changes in provision for insured events of prior fiscal years	<u>(4,190,760)</u>	<u>1,818,297</u>
Total Incurred	<u>154,674,198</u>	<u>155,326,668</u>
Payments:		
Claims attributable to insured events of the fiscal year	141,876,863	137,124,882
Claims attributable to insured events of prior fiscal years	<u>12,408,346</u>	<u>16,307,046</u>
Total Paid	<u>154,285,209</u>	<u>153,431,928</u>
Balance—End of the Year	<u>\$ 17,420,436</u>	<u>\$ 17,031,447</u>

<u>HIRSP Federal Plan</u>	<u>2013</u>	<u>2012</u>
Balance—Beginning of the Year	\$ <u>2,420,446</u>	\$ <u>813,867</u>
Incurring Claims:		
Provision for insured events of the current fiscal year	22,434,635	17,982,141
Changes in provision for insured events of prior fiscal years	<u>432,343</u>	<u>225,349</u>
Total Incurred	<u>22,866,978</u>	<u>18,207,490</u>
Payments:		
Claims attributable to insured events of the fiscal year	20,117,319	15,579,371
Claims attributable to insured events of prior fiscal years	<u>2,825,849</u>	<u>1,021,540</u>
Total Paid	<u>22,943,168</u>	<u>16,600,911</u>
Balance—End of the Year	<u>\$ 2,344,256</u>	<u>\$ 2,420,446</u>

8. REINSURANCE

As a result of the fixed reimbursement contract entered into as of June 1, 2013, with HHS for the HIRSP Federal Plan, the HIRSP Authority entered into a medical aggregate excess of loss reinsurance contract with Sirius America Insurance Company, Platinum Underwriters Reinsurance, Inc., and Transatlantic Reinsurance Company for medical and pharmacy losses related to the HIRSP Federal Plan. The agreement was effective from June 1, 2013, until January 1, 2014. The terms of this agreement stipulate that the reinsurers will cover all medical and pharmacy claims that exceed \$18.2 million for the contract period. However, the agreement also stipulates that the reinsurers' total liability for that time period is not to exceed \$6.6 million. The fund is contingently liable should the reinsurer be unable to meet its assumed obligations.

Payments to the reinsurer are treated as a reduction of premium income and claim payments received are treated as a reduction of claims expense. There were no transactions recorded in 2013 related to reinsurance recoveries.

9. PREMIUM, DEDUCTIBLE, AND DRUG COINSURANCE SUBSIDIES

Chapter 149, Wis. Stats., requires the HIRSP Authority Board of Directors to provide policyholders enrolled in the HIRSP Plan with low-income premium subsidies and deductible subsidies and permits the Board to also offer them a subsidy for prescription drug expenses. Wisconsin Statutes authorize the Board to establish the amounts of the deductible and the prescription drug expense subsidies and, while minimum premium subsidy levels are defined in statute, the Board may establish more generous levels. The subsidies reduce the amounts that these policyholders are required to pay for premiums, health care deductibles, and prescription drug expenses. Policyholders enrolled in the HIRSP Federal Plan are not eligible for these subsidies.

During 2013 and 2012, the HIRSP Plan policyholders whose annual household incomes did not exceed \$33,999 were eligible for various premium, deductible, and drug coinsurance subsidies. The 2013 and 2012 subsidies available to HIRSP policyholders in each of seven HIRSP plans are shown in the following table.

<u>Plan</u>	<u>Subsidized Premium Discount</u>	<u>Subsidized Medical Deductible Discount</u>	<u>Subsidized Drug Copayment Out-of-Pocket Maximum</u>
HIRSP 1,000, 2,500, 5,000, 7,500	15–43%	\$150–\$750	\$425–\$1,500
HIRSP HSA 2,500, 3,500	15–43%	\$150–\$750	Not Applicable ¹
Medicare Supplement	10–35%	Not Applicable ²	\$150–\$750

¹ The medical and drug benefit in the HSA plan is a combined benefit. The maximum unsubsidized out-of-pocket cost for HSA policyholders is \$5,600 for the HIRSP HSA 3,500 plan and \$4,600 for the HIRSP HSA 2,500 plan.

² A medical deductible discount is not available for the HIRSP Medicare Supplement plan.

As of December 31, 2013, and December 31, 2012, 25.1 percent and 27.5 percent, respectively, of HIRSP policyholders were approved for premium, deductible, and/or drug expense subsidies. The cost of the subsidies totaled \$10,884,183 during 2013 and \$11,067,196 during 2012. The following table summarizes the amounts provided for each subsidy type during those periods.

<u>Subsidy Type</u>	<u>2013</u>	<u>2012</u>
Premium	\$ 8,771,001	\$ 8,850,780
Deductible	1,009,723	977,143
Out-of-Pocket Drug Expense	<u>1,103,459</u>	<u>1,239,274</u>
Total	\$10,884,183	\$11,067,197

In 2013, federal grant funds totaling \$3,898,223 were applied to premium subsidies. The remaining premium, deductible, and drug expense subsidy costs were shared equally by health insurers and health care providers, with each contributing \$3,492,980. For 2012, federal grant funds totaling \$2,126,533 were applied to premium subsidies. The remaining premium, deductible, and drug expense subsidy costs were shared equally by health insurers and health care providers, with each contributing \$4,470,332.

10. HEALTH CARE PROVIDER CONTRIBUTIONS

Wisconsin Statutes require that 20 percent of the HIRSP Plan costs be funded by health care providers. In addition, 50 percent of the plan subsidies not covered by federal grant funds are required to be funded by health care providers. Under current HIRSP practice, only non-pharmacy providers fund the provider contributions. Provider contributions are not a source of revenue but represent a decrease in expenses and are therefore reflected in the financial statements as a reduction to gross medical losses and a decrease to total operating expenses. Provider contributions are obtained by reducing the usual and customary rates established by the HIRSP Authority before paying participating providers for approved services.

Effective January 1, 2008, the HIRSP Authority adopted a fee schedule to establish its usual and customary rates. The fee schedule is reviewed and updated if necessary on an annual basis. For most health care services, a discount factor of 24.4 percent was applied to the HIRSP Authority's 2012 fee schedule rates to derive the HIRSP-allowed amount and to capture the full amount necessary to meet the statutory funding requirement. A discount factor of 27.0 percent was utilized from January through October 2013. In November 2013, the HIRSP Authority Board, in order to spend down provider reserves, decreased the rate to 22.6 percent. In December 2013, the rate was increased to 27.0 percent as a result of the uncertainty around the potential extension of the program into 2014.

The provider contribution is not required for the HIRSP Federal Plan, which reimburses providers using rates based on the Medicaid fee schedule. These rates were increased to 191 percent of Medicaid rates in 2012, and these rates were unchanged through 2013. The rates were increased in 2012 to begin to move toward paying HIRSP usual and customary rates within the constraints of the available federal funding.

11. GENERAL AND ADMINISTRATIVE EXPENSES

HIRSP Authority indemnity insurance operations are performed by HIRSP Authority staff and a third-party plan administrator under an administrative services agreement with Wisconsin Physicians Service Insurance Corporation (WPS).

Services provided under the administrative services agreement in 2012 and 2013 include policyholder and provider services, claims and systems administration, medical management, data collection and reporting, subrogation, coordination of benefits, and disaster recovery. A change order effective June 10, 2012, expanded the care management services provided under the contract. As of December 31, 2013, the expanded care management services provided under the contract ended due to the close out of the program.

The HIRSP Authority has a contract with MedTrak Services, LLC for pharmacy benefit management services and Milliman, Inc., for actuarial services. The HIRSP Authority also has a contract with the Staywell Company, LLC for diabetes-related care management services and with Tria Health, LLC (formally known as WellTrak, LLC) for medication management services. The contracts with Staywell Company, LLC and Tria Health, LLC were terminated as of December 31, 2013, due to the anticipated close out of the program.

Under its contract with HHS, the HIRSP Authority allocates staff costs and other administrative costs of the HIRSP Authority based on the proportion of staff time spent on activities related to the HIRSP Federal Plan.

12. LEASES

A. Operating Leases

The HIRSP Authority entered into a lease for administrative office space for a term of five years and three months. The lease term commenced on September 27, 2012, and under normal circumstances would have terminated on December 31, 2017. However, the HIRSP Authority's current office space lease agreement includes a clause that allows termination of the lease without penalty if legislation is passed that eliminates or significantly reduces the size or activities of the

HIRSP Authority. As a result of the Authority’s anticipated dissolution, the lease will terminate as of February 28, 2014. Office lease rental payments charged to expenses were \$58,587 for 2013 and \$42,296 for 2012.

The HIRSP Authority has entered into an equipment operating lease for office copier equipment. The lease has a term of 36 months and commenced on January 9, 2012. This is a non-cancelable lease and as a result of the close out of the program, the HIRSP Authority will be required to buy out the lease. See Note B regarding lease commitments. The equipment lease rental payments totaling \$6,091 for 2013 and \$6,036 for 2012 were charged to expenses under the current operating lease for the office copier equipment.

B. Lease Commitments

As of January 1, 2014, the minimum aggregate office space rental and equipment rental lease buyout commitments are as follows:

<u>Year</u>	<u>Commitment</u>
2014	\$15,407

The HIRSP Authority is not party to any sales-leaseback transactions.

13. PENSION BENEFITS

During 2013 and 2012, eligible HIRSP Authority employees participated in the Wisconsin Retirement System (WRS), a cost-sharing, multiple-employer, defined benefit plan governed by ch. 40, Wis. Stats. Under the WRS, employees are entitled to an annual formula retirement benefit based on: 1) the employee’s final average earnings; 2) years of creditable service; and 3) a formula factor. If an employee’s contributions, matching employer’s contributions, and interest credited to the employee’s account exceed the value of the formula benefit, the retirement benefit may instead be calculated as a money purchase benefit. Copies of the separately issued financial report that includes financial statements and required supplementary information of the WRS are available on the Department of Employee Trust Funds’ website, <http://etf.wi.gov>.

The WRS requires employee contributions equal to specified percentages of qualified earnings based on the employee’s classification, plus employer contributions at a rate determined annually. Employee and employer contributions totaled 13.3 percent of employees’ gross salaries for 2013 and 11.8 percent of employees’ gross salaries for 2012. The relative position of the HIRSP Authority in the WRS is not available because the WRS is a statewide, multi-employer plan.

14. TERMINATION BENEFITS

The HIRSP Authority has entered into agreements to ensure its four key personnel will remain with the Authority until February 28, 2014, after which the Wisconsin Office of the Commissioner of Insurance will oversee the “wind down” of plan activities. The termination benefits related to these agreements include severance, retention bonuses, and partial payment of health insurance premiums. The cost of the termination benefits and the related taxes is estimated to be \$416,332. This estimate assumes that all eligible employees meet the terms of their agreements and will be eligible for payment of these benefits when administrative responsibility transfers to OCI in February 2014. The estimate is based on actual cost of the benefits as of the payment date. The December 31, 2013 Statement of Net Position includes an accrual of \$356,856, related to termination benefits.

15. CAPITAL ASSETS

The capital assets are included in Capital Assets, Net of Accumulated Depreciation on the Statement of Net Position, and depreciation expense is included in general and administrative expenses. The HIRSP Authority did purchase additional office furniture in 2013 and 2012. The change in book value for 2013 is summarized as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Being Depreciated:				
Equipment, at Historical Cost	\$37,439	\$ 981	\$ 0	\$38,420
Less Accumulated Depreciation for:				
Equipment	<u>(31,971)</u>	<u>(3,998)</u>	<u>0</u>	<u>(35,969)</u>
Total Capital Assets Being Depreciated, Net	<u>\$ 5,468</u>	<u>\$(3,017)</u>	<u>\$ 0</u>	<u>\$ 2,451</u>

The change in book value for 2012 is summarized as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Being Depreciated:				
Equipment, at Historical Cost	\$35,945	\$ 1,494	\$ 0	\$37,439
Less Accumulated Depreciation for:				
Equipment	<u>(28,174)</u>	<u>(3,797)</u>	<u>0</u>	<u>(31,971)</u>
Total Capital Assets Being Depreciated, Net	<u>\$ 7,771</u>	<u>\$(2,303)</u>	<u>\$ 0</u>	<u>\$ 5,468</u>



Auditor's Report ■





STATE OF WISCONSIN
Legislative Audit Bureau

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Joe Chrisman
State Auditor

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters

Senator Robert Cowles and
Representative Samantha Kerkman, Co-chairpersons
Joint Legislative Audit Committee

Mr. Theodore K. Nickel, Commissioner
Office of the Commissioner of Insurance

We have audited the financial statements and the related notes of the Wisconsin Health Insurance Risk-Sharing Plan (HIRSP) Authority's state-based HIRSP Plan and HIRSP Federal Plan as of and for the years ended December 31, 2013, and December 31, 2012, and have issued our report thereon dated May 20, 2014. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, which is issued by the Comptroller General of the United States. Our report includes an emphasis of matter paragraph that the HIRSP Authority will not continue as a going concern and, as of February 28, 2014, all assets, liabilities, and contract agreements, as well as administrative responsibilities, were transferred to the Office of the Commissioner of Insurance.

Internal Control over Financial Reporting

Management of the HIRSP Authority was responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audits of the financial statements, we considered the HIRSP Authority's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the HIRSP Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the HIRSP Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent misstatements, or to detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the HIRSP Authority's financial

statements will not be prevented, or that a material misstatement will not be detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the HIRSP Authority's financial statements are free from material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the HIRSP Authority's internal control and compliance. The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the HIRSP Authority's internal control or on compliance. Accordingly, this report is not suitable for any other purpose.

LEGISLATIVE AUDIT BUREAU



Joe Chrisman
State Auditor

May 20, 2014

Auditor's Report on the Major Federal Program ■



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Independent Auditor's Report on the Major Federal Program

Senator Robert Cowles and
Representative Samantha Kerkman, Co-chairpersons
Joint Legislative Audit Committee

Mr. Theodore K. Nickel, Commissioner
Office of the Commissioner of Insurance

Report on Compliance for the HIRSP Authority's Major Federal Program

We have audited the Wisconsin Health Insurance Risk-Sharing Plan (HIRSP) Authority's compliance with the types of compliance requirements described in the federal Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on the HIRSP Authority's major federal program for the year ended December 31, 2013. The HIRSP Authority's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs, as well as in Note 1 of the accompanying Notes to the Schedule of Expenditures of Federal Award for the year ended December 31, 2013.

Management's Responsibility

Management of the HIRSP Authority was responsible for compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to the federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the HIRSP Authority's major federal program based on our audit of the types of compliance requirements referred to in the first paragraph. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, which is issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to in the first paragraph that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the HIRSP Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination on the HIRSP Authority's compliance.

Opinion on the Major Federal Program

In our opinion, the HIRSP Authority complied, in all material respects, with the types of compliance requirements referred to in the first paragraph of this report that could have a direct and material effect on its major federal program for the year ended December 31, 2013.

Report on Internal Control Over Compliance

Management of the HIRSP Authority was responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to in the first paragraph. In planning and performing our audit, we considered the HIRSP Authority's internal control over compliance with the types of compliance requirements that could have a direct and material effect on a major federal program. This consideration was solely to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133. This consideration was not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the HIRSP Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent noncompliance with a type of compliance requirement of a federal program, or to detect and correct such noncompliance on a timely basis. *A material weakness in internal control over compliance* is a deficiency or a combination of deficiencies in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or that material noncompliance will not be detected and corrected on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses. Given these limitations, we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

LEGISLATIVE AUDIT BUREAU



Joe Chrisman
State Auditor

May 20, 2014

Schedule of Expenditures of Federal Award ■

**Schedule of Expenditures of Federal Award
for the Year Ended December 31, 2013**

FEDERAL GRANTOR/Program Title	<u>CFDA Number</u>	<u>Federal Expenditures</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES— Centers for Medicare and Medicaid Services		
<i>Grants to States for Operation of Qualified High-Risk Pools</i>	93.780	<u>\$4,338,719</u>
TOTAL EXPENDITURES OF FEDERAL AWARD		<u><u>\$4,338,719</u></u>

The accompanying notes are an integral part of this schedule.

Notes to the Schedule of Expenditures of Federal Award ■

1. PURPOSE

The Schedule of Expenditures of Federal Award includes the federal grant activity of the Wisconsin Health Insurance Risk-Sharing Plan Authority for the year ended December 31, 2013. The Grants to States for Operation of Qualified High-Risk Pools is a major federal program that was tested for compliance with federal requirements for 2013.

Because the schedule presents only a selected portion of the activities of the HIRSP Authority, it is not intended to and does not present the financial position or results of the operation of the HIRSP Authority.

2. BASIS OF ACCOUNTING

The information in the schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The amounts in the schedule are presented on the accrual basis of accounting, which is the same basis as used in the financial statements.

The information included in the schedule may not fully agree with other federal award reports that the HIRSP Authority submits directly to the federal granting agency because the award reports may be prepared for different fiscal periods and may include cumulative data from a prior period rather than data for the current period only.

3. AMOUNT PROVIDED TO SUBRECIPIENTS

OMB Circular A-133 requires the Schedule of Expenditures of Federal Awards, to the extent practical, to include the amount provided to subrecipients under each federal program. The HIRSP Authority did not provide any federal awards to subrecipients during 2013.

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Schedule of Findings and Questioned Costs ■

OMB Circular A-133 requires the auditor to prepare a schedule of findings and questioned costs that includes the following three sections:

- 1) a summary of the auditor's results;
- 2) findings related to the financial statements, which are required to be reported in accordance with *Government Auditing Standards*; and
- 3) findings and questioned costs for federal awards.

Section I

Summary of Auditor's Results

As required by OMB Circular A-133, the Wisconsin Legislative Audit Bureau is providing the following summary information related to the Wisconsin HIRSP Authority's single audit for the year ended December 31, 2013:

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified?	None Reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major program:	
Material weaknesses identified?	No
Significant deficiencies identified?	None Reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	No
Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as a low-risk auditee?	Yes

The HIRSP Authority's major federal program is the Grants to States for Operation of Qualified High-Risk Pools, CFDA 93.780, which was awarded by the U.S. Department of Health and Human Services—Centers for Medicare and Medicaid Services.

Section II**Financial Statement Findings**

This section of the schedule includes all deficiencies related to internal control over financial reporting and compliance and other matters that are required to be reported by auditing standards generally accepted in the United States of America and by *Government Auditing Standards*, including those that do not affect federal awards. No financial statement findings are reported for the year ended December 31, 2013.

Section III**Federal Award Findings and Questioned Costs for 2013**

This section of the schedule includes all significant deficiencies, material weaknesses, and material instances of noncompliance, including questioned costs and other matters that are required to be reported by section 510(a) of OMB Circular A-133. No federal award findings or questioned costs are reported for the year ended December 31, 2013.

**Federal Award Summary Schedule of
Prior Audit Findings**

No federal award findings or questioned costs were reported for the prior period.

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