Report 09-11
October 2009

An Audit

Health Insurance Risk-Sharing Plan Authority

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Janice Mueller
State Auditor

October 22, 2009

Senator Kathleen Vinehout and
Representative Peter Barca, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Vinehout and Representative Barca:

As required under s. 13.94(1)(dh), Wis. Stats., we have completed our annual financial audit of the Wisconsin Health Insurance Risk-Sharing Plan (HIRSP) Authority for 2008. The HIRSP Authority provides medical and prescription drug insurance for individuals who are unable to obtain coverage in the private market or who have lost employer-sponsored group health insurance. As of December 31, 2008, 16,252 policyholders were enrolled in one of the HIRSP Authority's plans.

We have provided an unqualified audit opinion on the HIRSP Authority's financial statements. However, our report on internal control and compliance includes a recommendation that the HIRSP Authority implement a more thorough review process to ensure its financial statements are free from material misstatement.

Following years of significant increases during the early 2000s, policyholder enrollment has decreased in recent years, in part because of the availability of the federal Medicare Part D program. In addition, beginning in 2008, individuals under the age of 19 who are eligible for the State's BadgerCare Plus program are no longer eligible to participate in the HIRSP Authority's plans.

The HIRSP Authority has maintained a sound financial position, with net assets totaling $35.4 million at the end of 2008. In December 2008, the HIRSP Authority Board of Directors approved distribution of a portion of the surplus net asset balance totaling approximately $12.0 million to HIRSP policyholders.

We appreciate the courtesy and cooperation extended to us by the HIRSP Authority and the plan administrator. A response from the HIRSP Authority follows our report.

Respectfully submitted,

Janice Mueller

Janice Mueller
State Auditor

JM/DA/ss

Introduction ■

The Wisconsin Health Insurance Risk-Sharing Plan (HIRSP) Authority provides medical and prescription drug insurance for individuals who cannot obtain coverage in the commercial health insurance market because of the severity of their health conditions. In the late 1990s, HIRSP was also designated as Wisconsin's plan to meet federal Health Insurance Portability and Accountability Act (HIPAA) regulations and to provide health insurance to people who lose employer-sponsored group health insurance and meet other specified criteria.

The HIRSP Authority, which was created under 2005 Wisconsin Act 74 as a public body corporate and politic, assumed responsibility for HIRSP on July 1, 2006. HIRSP was initially administered by the Office of the Commissioner of Insurance when it was established in 1980, and subsequently administered by the Department of Health Services from 1998 through June 30, 2006. The HIRSP Authority is governed by its Board of Directors. The Board of Directors consists 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 serves as a nonvoting member. The HIRSP Authority, which employs four staff members, contracts with Wisconsin Physicians Service Insurance Corporation (WPS) to function as the plan administrator.

At the request of the HIRSP Authority and as required under s. 13.94 (1)(dh), Wis. Stats., we have completed a financial statement audit for 2008. We reviewed the HIRSP Authority's control procedures, assessed the fair presentation of its financial statements, and reviewed compliance with selected statutory provisions.

Plan Provisions

Various eligibility requirements must be met to participate in HIRSP. All applicants must be Wisconsin residents who are not eligible for employer-sponsored group health insurance, Medicaid, or BadgerCare Plus. Applicants then must meet specified criteria based on their medical condition or loss of employer-sponsored group health insurance.

Since January 1, 2007, the HIRSP Authority has been allowed to establish the plan design. Previously the plan design had been defined largely in Wisconsin Statutes. Certain services specified by statutes must still be covered, but the HIRSP Authority may change benefit levels, deductibles, copayment and coinsurance requirements, exclusions, and limitations that it determines generally reflect and are commensurate with comprehensive health insurance coverage offered in the private individual market in Wisconsin.

HIRSP currently offers eligible applicants five plans.

The HIRSP Authority currently offers eligible applicants five plans, including one Medicare supplement plan and four other plans for policyholders who are not eligible for Medicare. These four plans offer identical coverage and differ primarily in their premiums and deductible amounts.

- HIRSP 1,000 offers the lowest deductible with the highest premium levels.
- HIRSP 2,500 offers a moderate deductible with moderate premium levels.
- HIRSP 5,000 offers the highest deductible with the lowest premium levels.
- HIRSP HSA qualifies policyholders to open a health savings account to pay for health-related expenses and to save for future medical expenses on a tax-free basis.
- HIRSP Medicare supplement plan is for participants under the age of 65 who participate in the Medicare program because of a disability.

The HIRSP 1,000, HIRSP 2,500, and HIRSP Medicare supplement plan were referred to as Plans 1A, 1B, and 2, respectively, until 2008. HIRSP 5,000 and HIRSP HSA plans were first offered at the beginning of 2008.

Policyholders who have annual household incomes below $25,000 may be eligible for premium, medical deductible, and drug coinsurance subsidies. In 2008, 18.0 percent of HIRSP policyholders received subsidies from the program at a cost of $8.2 million. 2007 Wisconsin Act 39 provided greater flexibility for the Board to set subsidy rates for HIRSP policyholders. In response, several changes were made to the subsidy program. One of the major changes was the extension of the subsidy program to all plans in 2008; previously, only policyholders enrolled in certain plans were eligible for subsidies. Act 39 also allowed the Board to adjust the annual household income limit for subsidy eligibility. Beginning in 2009, the Board increased the annual household income limit from $25,000 to $33,000.

Funding

Program costs are shared by policyholders, health insurance companies, and health care providers.

Program costs are funded primarily through policyholder premiums, financial assessments on health insurance companies that do business in Wisconsin, and reduced reimbursements to health care providers. None of the funding is from general purpose revenue tax dollars. The HIRSP Authority also earns interest income and periodically receives federal grants from the federal Centers for Medicare and Medicaid Services, which are available to qualified high-risk state health insurance pools that meet certain criteria. Statutes require that these federal grants be used to help fund subsidy costs. In 2008, the HIRSP Authority was awarded bonus grant funds totaling $957,000, which it began to use in 2009 to implement a diabetes disease management program.

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

Enrollment

HIRSP enrollment totaled 16,252 policyholders on December 31, 2008.

Enrollment in HIRSP plans increased significantly during the early 2000s but subsequently moderated and then declined. As shown in Table 1, enrollment declined 5.2 percent during 2007 and 5.1 percent during 2008, which ended with 16,252 policyholders as of December 31. Enrollment increased slightly to 16,577 as of June 30, 2009.

Table 1

HIRSP Enrollment

Date	Total Policyholders	Percentage Change
December 31, 1999	7,904	–
December 31, 2000	10,042	27.0
December 31, 2001	12,606	25.5
December 31, 2002	15,882	26.0
December 31, 2003	17,447	9.9
December 31, 2004	18,341	5.1
December 31, 2005	18,947	3.3
December 31, 2006	18,058	(4.7)
December 31, 2007	17,126	(5.2)
December 31, 2008	16,252	(5.1)

At least part of the decline in enrollment during 2006 and 2007 was associated with a decrease in the number of policyholders in the Medicare supplement plan, which is attributable to the availability of the federal Medicare Part D program in January 2006. In addition, during 2008 the State's BadgerCare Plus program was expanded to all children under the age of 19, regardless of income. As a result, approximately 500 HIRSP policyholders under the age of 19 were no longer eligible to participate in the HIRSP Authority's plans.

Over one-half of policyholders were enrolled in the HIRSP 2,500 plan at the end of 2008.

Over the past five years, enrollments have increasingly shifted away from the HIRSP plan with the lowest deductible and the highest premium levels—HIRSP 1,000, which was formerly Plan 1A—to the more moderate HIRSP 2,500, which was formerly Plan 1B, and the two new high-deductible, low-premium plans—HIRSP 5,000 and HIRSP HSA. In 2003, almost 50.0 percent of policyholders were enrolled in the highest-premium, lowest-deductible plan. However, as of December 31, 2008, enrollment in that plan had declined to 23.1 percent of policyholders. In contrast, as shown in Table 2, 53.7 percent of policyholders were enrolled in HIRSP 2,500, the plan offering moderate deductible and premium levels. That enrollment trend is continuing in 2009. As of June 30, 2009, only 15.3 percent of policyholders were enrolled in HIRSP 1,000.

Table 2

Enrollment by Plan
As of December 31, 2008

Plan	Plan Description	Enrollment	Percentage of Total Enrollment
HIRSP 1,000 (1A)	Offers lowest deductible and highest premium levels	3,752	23.1%
HIRSP 2,500 (1B)	Offers moderate deductible and premium levels	8,732	53.7
HIRSP 5,000	Offers highest deductible and lowest premium levels	2,376	14.6
HIRSP HSA	Qualifies policyholders to open health savings account	455	2.8
HIRSP Medicare Supplement	Available to participants under age 65 in the Medicare program because of a disability	937	5.8
Total		**16,252**	**100.0%**

HIRSP enrollment has not yet been significantly affected by recent increases in unemployment rates in Wisconsin because of the availability of premium reductions and additional election opportunities for COBRA benefits under the American Recovery and Reinvestment Act of 2009. COBRA is a federal provision that provides former employees and certain other individuals the right to temporary continuation of health coverage at group rates. However, the HIRSP Authority anticipates increased enrollment in 2010 as individuals who have lost employer-sponsored group coverage exhaust their COBRA benefits.

Financial Status of the HIRSP Authority

The HIRSP Authority has maintained a sound financial position.

Since its inception on July 1, 2006, the HIRSP Authority has maintained a sound financial position. It ended both 2007 and 2008 with a net asset balance in excess of $35.0 million. Contributing to the HIRSP Authority's positive financial experience has been a moderation in claims costs in recent years, including a 12.2 percent decrease in 2008. The HIRSP Authority attributes the recent decrease in claims costs to reduced enrollments, the shift toward higher-deductible plans, and an increased use of generic rather than brand drugs.

In April 2007, the HIRSP Authority established a policy regarding a minimum net asset level based on an analysis of other states' high-risk insurance pools, capital requirements for health insurance companies doing business in Wisconsin, and an opinion from the Office of the Commissioner of Insurance. The HIRSP Authority targeted a balance of $16.8 million for 2008 and for 2007, and it ended each year with a net asset balance that was more than two times its targeted minimum balance.

In December 2008, the HIRSP Authority Board approved a distribution of approximately $12.0 million of a surplus balance to certain policyholders.

As part of its funding structure, the HIRSP Authority separately accounts for each funding party's share of the net asset balance. The balances at the end of 2007 and 2008 are shown in Table 3. The HIRSP Authority takes these balances into account when establishing funding levels for the next year. For example, to limit increases in premium levels for 2008, the HIRSP Authority planned on applying $9.3 million of the policyholders' net asset balance toward the policyholders' 60 percent share of costs. However, because of unexpected decreases in enrollment and claims costs, the policyholders' net asset balance continued to increase during 2008. In light of the increasing policyholders' net asset balance, the HIRSP Authority reduced premiums in April 2008, and in December 2008 the Board approved a distribution or refund of approximately $12.0 million to policyholders meeting certain criteria.

Table 3

Net Assets by Funding Party
As of December 31
(in millions)

Funding Party	2008	2007
Policyholders	$15.9	$24.6
Providers	9.6	4.7
Insurers	9.9	5.8
Total	**$35.4**	**$35.1**

To further reduce the net asset balances, the Board approved a budget for 2009 that applied $8.9 million of the policyholders' net asset balance to help fund the policyholders' share of estimated plan costs. The 2009 budget also applied $5.3 million and $4.5 million of the providers' and insurers' respective net asset balances toward their shares of estimated plan costs. However, the HIRSP Authority continues to experience more favorable results than projected, and as a result the net asset balances are not decreasing as quickly as expected in 2009.

The Board therefore recently approved a budget for 2010 that sets premiums at a level expected to cover 56.8 percent of estimated plan costs. Based on the approved budget, the HIRSP Authority projects that the providers' and insurers' net asset balances will be reduced to their targeted minimum levels by the end of 2010, and the policyholders' net asset balance will be reduced to its targeted minimum level by the end of 2011.

Audit Follow-Up

The HIRSP Authority was awarded a federal grant in 2006, which it expended in 2006 and 2007. As a result, during our previous audit of the HIRSP Authority for 2006 and 2007 we completed additional audit work to satisfy audit requirements under the federal Single Audit Act of 1984, as amended, and Office of Management and Budget Circular A-133. Based on our audit work, we issued Finding WI HIRSP 07-1, which concerned a federal cash management issue. During our current audit, we found that HIRSP Authority management worked with the Centers for Medicare and Medicaid Services as recommended and resolved the outstanding cash management issue.

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Audit Opinion ▪

Independent Auditor's Report on the Financial Statements of the Wisconsin Health Insurance Risk-Sharing Plan Authority

We have audited the accompanying financial statements of the Wisconsin Health Insurance Risk-Sharing Plan (HIRSP) Authority as of and for the years ended December 31, 2008 and 2007, as listed in the table of contents. These financial statements are the responsibility of HIRSP Authority management. Our responsibility is to express an opinion 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*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the HIRSP Authority as of December 31, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The required supplementary information included as Management's Discussion and Analysis on pages 13 through 19 is not a required part of the financial statements of the HIRSP Authority, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 15, 2009, on our consideration of the HIRSP Authority's internal control over financial reporting; our tests of its compliance with certain provisions of laws, regulations, grant agreements, and contracts; 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

LEGISLATIVE AUDIT BUREAU

October 15, 2009 by Diann Allsen

Diann Allsen
Audit Director

Management's Discussion and Analysis ▪

Prepared by the Health Insurance Risk-Sharing Plan Authority

The Health Insurance Risk-Sharing Plan 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 due to high costs 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 section provides management's discussion and analysis (MD&A) of the HIRSP Authority's financial statements for the calendar year ended December 31, 2008, and for comparative purposes the calendar years ended December 31, 2007, and December 31, 2006. 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 upon the financial position, changes in financial position, and cash flows of the HIRSP Authority and include accompanying notes. The financial statements, notes to the financial statements, and MD&A are the responsibility of management.

Through June 30, 2007, HIRSP Authority operations, budgeting, and assessments were conducted on a state fiscal year basis. A calendar year convention was used for financial reporting for calendar year 2007. Effective January 1, 2008, a calendar year convention was implemented for budgeting and assessments, premium rates, and eligibility for low-income subsidies.

Financial Position

The overall financial position of the HIRSP Authority as of December 31, 2008, was virtually unchanged from 2007. As shown in Table A, total assets increased from 2007 to 2008, but total liabilities also increased. As a result, total net assets increased $343,000, or 1.0 percent, in 2008 and equaled $35.4 million as of December 31, 2008. From 2006 to 2007, total net assets increased $6.8 million, or 23.9 percent, from $28.3 million as of December 31, 2006, to $35.1 million as of December 31, 2007.

Table A

Condensed Financial Information
As of December 31

	2008	Percentage Change from 2007	2007	Percentage Change from 2006	2006
Total Assets	$73,823,989	8.4%	$68,133,050	(14.2)%	$79,429,816
Total Liabilities	38,381,372	16.2	33,033,856	(35.4)	51,098,808
Total Net Assets	**$35,442,617**	1.0	**$35,099,194**	23.9	**$28,331,008**

Assets

From 2006 to 2007, total assets decreased $11.3 million, or 14.2 percent, but they increased by $5.7 million, or 8.4 percent, in 2008 and were $73.8 million as of December 31, 2008. The most significant change in assets in 2008 was an increase in cash assets, which increased by $5.9 million, or 9.1 percent. Approximately $4.3 million of the increase was a result of collecting more premium and assessment revenue than was needed to make payment for medical and pharmacy costs and administrative expenses. The remaining $1.6 million increase in cash represented investment income.

Liabilities

Total liabilities increased $5.4 million, or 16.2 percent, in 2008 and were $38.4 million as of December 31, 2008, compared to $33.0 million as of December 31, 2007. Liabilities as of December 31, 2007, were $18.1 million, or 35.4 percent, lower than liabilities as of December 31, 2006.

The primary source for the overall decrease in liabilities in 2007 was $19.2 million in unearned assessment liability as of December 31, 2006. One-half of fiscal year 2006-07 assessment revenue was unearned as of December 31, 2006, and was collected and earned during the first half of 2007. At the end of 2007, all assessments levied in 2007 had been earned because the HIRSP Authority had transitioned to a calendar year budget by that time.

The primary source for the overall increase in liabilities in 2008 was an $11.9 million liability for policyholder distribution. There was no liability for policyholder distribution in 2007. The HIRSP Authority Board of Directors approved a distribution to policyholders in order to refund a portion of policyholder surplus that had accumulated over a period of years when premiums collected exceeded the required 60 percent share of program costs. At its December 2008 meeting, the Board authorized approximately $12.0 million to be refunded to certain policyholders in the first quarter of 2009.

As of December 31, 2008, unpaid medical loss liabilities decreased 24.3 percent, to $11.8 million, and unpaid pharmacy loss liabilities decreased 57.3 percent, to $359,000. The reduction in loss liabilities reflects lower per member per month (PMPM) medical and prescription drug claim costs in 2008 compared to 2007, which are a result of both lower utilization and lower costs for services in 2008.

Change in Financial Position

As shown in Table B, the change in net assets in 2008 decreased by $6.4 million, or 94.9 percent, compared to 2007. This change was primarily due to the $11.9 million policyholder distribution. Without the expense of the distribution, the change in net assets for 2008 would have been $12.2 million, which would have represented an increase from 2007.

Policyholder surplus accumulates when the premiums collected in a year exceed the required 60 percent of plan costs. As a result of an accumulating policyholder surplus over the past few years, decreased net income was an objective of management's operating budgets for the second half of 2007 and for calendar year 2008. In other words, it was anticipated that the premiums collected in 2008 would be insufficient to cover the policyholders' required contribution, and that a portion of the accumulated surplus would be used to make up the difference. When the anticipated losses did not materialize, the Board decided at its December 2008 meeting to distribute a portion of the policyholder surplus through direct reimbursement to qualifying policyholders to ensure that the original objective of "spending down" policyholder surplus was met.

Net income decreased in 2007 because decreases in operating revenues exceeded decreases in operating expenses. As noted, decreased net income was an objective of management's operating budget for the second half of 2007.

Table B

Condensed Financial Information
For 2008, 2007, and 2006

	2008	Percentage Change from 2007	2007	Percentage Change from 2006	2006
Total Operating Revenues	$128,482,946	(4.4)%	$134,405,542	(7.5)%	$145,229,753
Total Operating Expenses	117,588,033	(11.6)	132,955,160	(1.4)	134,813,302
Operating Income	10,894,913	651.2	1,450,382	(86.1)	10,416,451
Total Nonoperating Income	(10,551,490)	(298.4)	5,317,804	7.9	4,926,693
Change in Net Assets	**$ 343,423**	(94.9)	**$ 6,768,186**	(55.9)	**$ 15,343,144**

Operating Revenues

Total operating revenues in 2008 were $128.5 million, a decrease of $5.9 million, or 4.4 percent, compared to 2007 operating revenues. Total operating revenues in 2007 were $10.8 million, or 7.5 percent, less than in 2006. The two sources of operating revenues for the HIRSP Authority are policyholder premiums and insurer assessments. Budgeted insurer assessments for 2008 were $5.7 million higher than the 2007 assessments, as the Board anticipated higher losses in 2008 than 2007. Premium revenues were $11.6 million less in 2008 compared to 2007 as a result both of somewhat lower enrollment in 2008 and of policyholders shifting away from the HIRSP plan with the lowest deductible and the highest premium levels to other plans.

Both the budget for 2007 and the budget for 2008 had the objective of decreased operating revenues relative to plan costs. Therefore, premiums for each year were established at levels that should have resulted in operating losses, and thereby necessitated using a portion of accumulated net assets to fund HIRSP Authority operations. When operating expenses were instead below budget, so that the expected operating losses did not occur, the Board of Directors decided to distribute a portion of accumulated policyholder assets directly through refund checks issued to policyholders who met certain criteria.

Operating Expenses

Total operating expenses in 2008 were $15.4 million, or 11.6 percent less than in 2007. Total operating expenses in 2007 were $1.8 million, or 1.4 percent, less than in 2006.

Total medical losses incurred as operating expenses in 2008 were $78.2 million, which is a decrease of $11.0 million, or 12.3 percent, from total medical losses of $89.2 million in 2007. Total pharmacy losses in 2008 were $32.9 million, which is a decrease of $4.4 million, or 11.8 percent, from total pharmacy losses of $37.3 million in 2007. The 2008 decrease in total pharmacy losses was partly due to increased use of generic drugs and decreased use of branded drugs, as the proportion of generic drugs to total dispensed drugs increased from 62.0 percent in 2007 to 66.0 percent in 2008 and resulted in lower per member per month prescription costs. Utilization of prescription drugs decreased in 2008 to 2.9 prescriptions per member per month, compared to 3.2 prescriptions per member per month in 2007.

Nonoperating Income

In 2008, the HIRSP Authority experienced a total nonoperating loss of $10.6 million compared to a total nonoperating income of $5.3 million in 2007. The 2008 loss was a result of the $11.9 million policyholder distribution expense, offset by $1.3 million in investment income. In 2006, total nonoperating income was $4.9 million. Nonoperating income in both 2006 and 2007 included federal grant revenues and interest income.

Plan Enrollment

Plan enrollment as of December 31, 2007, was 17,126, a decrease of 932 policyholders, or 5.2 percent, compared to enrollment of 18,058 in December 2006. Plan enrollment further decreased by 874 policyholders, or 5.1 percent, to a total of 16,252 as of December 31, 2008. Approximately 500 of the individuals who left HIRSP in 2008 were children who qualified for the State's BadgerCare Plus program effective February 1, 2008. Because of their BadgerCare Plus eligibility, these children were no longer eligible for HIRSP and transitioned to BadgerCare Plus during the first quarter of 2008.

Per Member per Month (PMPM) Plan Costs

As shown in Table C, PMPM gross claim costs in 2008 were $768.63, a decrease of 4.4 percent from PMPM gross claim costs of $803.89 in 2007. The 2007 PMPM gross claims costs were 7.9 percent higher than the $745.00 PMPM gross claims costs in 2006. The reduction in PMPM claims costs from 2007 to 2008 reflects the implementation of a 2008 provider fee schedule that was budget neutral to 2007 provider payment rates and decreased utilization of HIRSP health care services during 2008.

Table C

Plan Cost Summary on a per Member per Month (PMPM) Basis
2008, 2007, and 2006

Description	2008	2007	2006	2008 PMPM	2007[1] PMPM	2006[1] PMPM
Member Months (Sum of Total Members Enrolled in Each Month)	196,441	209,966	221,216			
Gross Claims (Costs before Provider Contributions Are Deducted)	$150,990,734	$168,788,865	$164,805,399	$768.63	$803.89	$745.00
Administrative Expenses	$6,486,953	$6,407,505	$6,615,812	$33.02	$30.52	$29.91

[1] The amounts for 2006 and 2007 were restated to reflect more current data received subsequent to the 2007 audit report.

Administrative expenses incurred in 2008 equaled 4.1 percent of total plan costs. Administrative expenses equaled 3.7 percent of total plan costs in 2007 and 3.9 percent of total plan costs in 2006. The majority of costs are incurred on a per member per month basis, and therefore vary by year according to plan membership. In 2008, enrollment as measured by member months declined by 6.4 percent compared to 2007, while gross claim costs declined by 10.5 percent. As a result, administrative costs were a higher percentage of total costs in 2008 compared to 2007. Administrative expenses were higher in 2008 than in 2007 due to a number of computer system changes that were necessary to implement new pharmacy benefit management and disease management contracts and to issue the policyholder refund checks.

HIRSP Authority Contact Information

General information regarding the risk-sharing plan may be obtained from the HIRSP Authority's Web site at *http://www.hirsp.org*.

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

HIRSP Authority
33 East Main Street, Suite 230
Madison, WI 53703
Phone: (608) 441-5777
Fax: (608) 441-5776

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Financial Statements

Balance Sheet
December 31, 2008, and December 31, 2007

	December 31, 2008	December 31, 2007
ASSETS		
Cash and Cash Equivalents (Note 2)	$ 71,325,612	$ 65,405,499
Drug Rebates Receivable (Note 3)	1,445,188	2,012,513
Premiums Receivable (Note 3)	472,998	257,062
Claims Recoverable (Note 3)	479,307	169,814
Assessments Receivable	44,391	0
Prepaid Items	14,030	18,092
Other Assets	42,463	270,070
TOTAL ASSETS	$ 73,823,989	$ 68,133,050
LIABILITIES AND NET ASSETS		
Liabilities:		
Unpaid medical loss liabilities (Note 6)	$ 11,831,369	$ 15,627,420
Unpaid pharmacy loss liabilities (Note 6)	358,899	841,155
Unpaid loss adjustment expenses (Note 6)	780,000	770,000
Unearned premiums (Note 1E)	11,221,087	13,673,031
Payments to providers (Note 3)	1,467,479	1,492,659
Distribution to policyholders (Note 5)	11,892,065	0
Accrued administrative expenses	830,473	629,591
Total Liabilities	**38,381,372**	**33,033,856**
NET ASSETS		
Invested in Capital Assets Net of Related Debt	23,733	29,290
Unrestricted	35,418,884	35,069,904
Total Net Assets	**35,442,617**	**35,099,194**
TOTAL LIABILITIES AND NET ASSETS	$ 73,823,989	$ 68,133,050

The accompanying notes are an integral part of this statement.

Statement of Revenues, Expenses, and Changes in Net Assets for the Years Ended December 31, 2008, and December 31, 2007

	For the Year Ended December 31, 2008	For the Year Ended December 31, 2007
OPERATING REVENUES		
Premiums (Note 1E)	$ 89,191,448	$ 100,822,871
Insurers' Assessments (Note 1E)	39,291,498	33,582,671
Total Operating Revenues	**128,482,946**	**134,405,542**
OPERATING EXPENSES		
Losses:		
Gross medical losses	123,458,024	130,017,451
Provider contributions (Note 8)	(39,942,539)	(42,296,580)
Increase (Decrease) in unpaid medical losses (Note 6)	(5,349,426)	1,481,144
Total medical losses	78,166,059	89,202,015
Gross pharmacy losses	33,364,392	37,243,581
Increase (Decrease) in unpaid pharmacy losses (Note 6)	(482,256)	46,689
Total pharmacy losses	32,882,136	37,290,270
Total Losses	**111,048,195**	**126,492,285**
General and Administrative Expenses (Note 9)	6,486,953	6,407,505
Referral Fees (Note 1E)	52,885	55,370
Total Operating Expenses	**117,588,033**	**132,955,160**
OPERATING INCOME	**10,894,913**	**1,450,382**
NONOPERATING REVENUES AND EXPENSES		
Federal Grant Revenue (Notes 1E and 4)	0	2,089,225
Investment Income	1,340,575	3,228,579
Distributions to Policyholders (Note 5)	(11,892,065)	0
Total Nonoperating Income (Loss)	**(10,551,490)**	**5,317,804**
CHANGE IN NET ASSETS	**343,423**	**6,768,186**
NET ASSETS		
Total Net Assets—Beginning of the Year	35,099,194	28,331,008
Total Net Assets—End of the Year	**$ 35,442,617**	**$ 35,099,194**

The accompanying notes are an integral part of this statement.

Statement of Cash Flows
for the Years Ended December 31, 2008, and December 31, 2007

	For the Year Ended December 31, 2008	For the Year Ended December 31, 2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received for Premiums	$ 86,523,566	$ 101,152,825
Cash Received for Assessments	39,247,107	32,068,001
Cash Received for Federal Grant	0	4,422,935
Cash Payments for Medical Losses	(82,217,890)	(88,164,531)
Cash Payments for Pharmacy Losses	(32,822,198)	(37,748,140)
Cash Payments for Other Expenses	(6,373,098)	(6,489,265)
Net Cash Provided by Operating Activities	**4,357,487**	**5,241,825**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of Capital Assets	0	(19,304)
Net Cash Used for Capital and Related Financing Activities	**0**	**(19,304)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income	1,562,626	3,238,798
Net Cash Provided by Investing Activities	**1,562,626**	**3,238,798**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**5,920,113**	**8,461,319**
Cash and Cash Equivalents, Beginning of Year	65,405,499	56,944,180
Cash and Cash Equivalents, End of Year	$ 71,325,612	$ 65,405,499
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net Operating Income	$ 10,894,913	$ 1,450,382
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities:		
Depreciation expense	5,557	5,310
Federal grant revenue reported as nonoperating revenue	0	2,089,225
Changes in assets and liabilities:		
Decrease (Increase) in receivables	(2,496)	19,757,100
Decrease (Increase) in prepaids	4,062	4,759
Increase (Decrease) in accounts payable	161,744	(19,209,263)
Increase (Decrease) in unearned premiums	(2,451,944)	231,617
Increase (Decrease) in medical loss liabilities	(3,746,961)	909,744
Increase (Decrease) in pharmacy loss liabilities	(507,388)	2,951
Total Adjustments	(6,537,426)	3,791,443
Net Cash Provided by Operating Activities	**$ 4,357,487**	**$ 5,241,825**

The accompanying notes are an integral part of this statement.

Notes to the Financial Statements ■

1. Summary of Significant Accounting Policies

A. Description of the HIRSP Authority

The Health Insurance Risk-Sharing Plan 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 coverages under federal law, including the Health Insurance Portability and Accountability Act (HIPAA) under Title XXII, P.L. 104-191.

The HIRSP Authority qualifies as exempt from federal income taxation pursuant to Internal Revenue Code Section 501(c)(26). An application for recognition of the HIRSP Authority's status as a tax-exempt public corporation is currently pending before the Internal Revenue Service.

The HIRSP Authority derives all funding for its 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 $25,000 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.

B. 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 HIRSP Authority has not applied Financial Accounting Standards Board pronouncements issued after November 30, 1989.
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.

C. Financial Statement Reporting Period

The HIRSP Authority's budgeting and financial reporting were previously conducted on a state fiscal year basis. The HIRSP Authority's Board of Directors adopted a calendar year convention for the annual operating budget commencing with calendar year 2008. To establish comparable audited financial statements on a calendar year basis going forward, financial statements were issued to report on the calendar year ended December 31, 2007.

D. 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 1E and 6 and the health care provider contributions as described in Note 8.

E. 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, 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.

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. Refer to Note 2 for further information regarding cash deposits.

c) Premium Income Recognition

Premiums are recognized as earned in the period in which policyholders are entitled to receive services and are reported in the financial statements net of allowed premium subsidies. A 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.

d) Assessment Revenue Recognition

An assessment to provide a funding contribution for HIRSP Authority program costs is levied on commercial insurance companies that issue health insurance coverages in Wisconsin. The commercial insurers have a statutory requirement to fund 20 percent of HIRSP Authority plan costs, plus one-half of the premium, deductible, and copayment subsidies granted to eligible low-income policyholders 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 health insurance coverages 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.

e) Federal Grant Revenue Recognition

Federal grant funds received from the Centers for Medicare and Medicaid Services are used to fund premium subsidies and are recorded as revenue when the expense is incurred.

f) Policyholder, Insurer, and Health Care Provider Contribution

The HIRSP Authority uses fund accounting methodology to provide for equitable accounting of contributed funds and to ensure that HIRSP program funding operates in conformity with the funding model mandated by s. 149.143, Wis. Stats. An annual operating budget based on actuarial analysis of projected revenues and program costs determines contribution amounts required from policyholders, assessed insurers, and participating health care providers. Inception-to-date funding contributions, plan cost participation, and surplus or deficit net asset positions of each of the three funding constituencies are maintained in three separate, closed fund accounts.

Contributions and surplus net assets 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 asset position of the other two funding constituencies. The surplus or deficit net asset 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.

g) 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. Unpaid loss liabilities are reported net of estimated health care provider discounts and 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 in prior accounting periods are continually reviewed by management and adjusted as necessary, with resulting adjustments to the liabilities reflected in current operations. In 2008, the cost to process outstanding claims was re-estimated based on current administrative costs and resource estimates, and the unpaid loss adjustment expense liability was increased by $10,000 to reflect the revised estimate.

h) Referral Fees

Insurance agents who assist individuals with the HIRSP application process are paid a one-time nominal referral fee of $40. Referral fees represent the sole policy acquisition cost of the HIRSP Authority and are recorded as incurred.

i) 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

2. DEPOSITS

The HIRSP Authority maintains three bank accounts under a bank services contract at a commercial bank. Under the bank services contract, the HIRSP Authority's average collected deposits balance is paid interest at an agreed-upon HIRSP interest rate.

As of December 31, 2007, all of HIRSP's cash assets were deposited with the bank, and the entire balance was collateralized with federal agency securities having market value in excess of the HIRSP Authority's cash deposit balance. The securities were pledged as collateral for the benefit of the HIRSP Authority and were held in a restricted securities account under the control of a federal reserve bank. The HIRSP Authority held a perfected security interest in the pledged securities. During 2008, the bank as a matter of policy began securing deposits in excess of the Federal Deposit Insurance Corporation (FDIC) limit through letters of credit, rather than pledged securities.

As of December 31, 2008, $15,851,417 was on deposit with the bank. Of this amount $15,601,417 was not covered by the FDIC and was exposed to custodial credit risk. At that time, the HIRSP Authority did not have a written investment policy in place regarding custodial credit risk. However, the HIRSP Authority's cash assets on deposit at the bank were secured by an irrevocable, unconditional, and nontransferable letter of credit issued by the Federal Home Loan Bank of Cincinnati. The applicable letter of credit had a termination date of January 21, 2009, and there is no interest liability under the letter. The HIRSP Authority did not draw against the letter of credit. As of December 31, 2008, $56,301,795 of the remaining HIRSP cash assets was deposited with the Local Government Investment Pool.

The Local Government Investment Pool 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 State of Wisconsin and its agencies and are managed in a single fund called the State Investment Fund. The State Investment Fund is managed by the State of Wisconsin Investment Board, with oversight by its Board of Trustees and in accordance with Wisconsin Statutes. The State Investment Fund is not registered with the Securities and Exchange Commission.

Sections 25.17(3)(b), (ba), and (dg), Wis. Stats., enumerate the various types of securities in which the State Investment Fund may be invested, which include direct obligations of the United States or its agencies, corporations wholly owned by the United States or charged 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 State Investment Fund please see *www.swib.state.wi.us.*

3. 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; however, it can sometimes take more than one year for final settlement of drug rebate balances to occur.

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.

4. Federal Grant Revenue

In certain years, the federal government has appropriated monies 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 Centers for Medicare and Medicaid Services. In September 2006, the HIRSP Authority received a $4.4 million federal grant award. Of this total, $2,089,225 was applied to offset premium subsidy costs in 2007.

There were no grants awarded in 2007, but the HIRSP Authority was awarded $2,561,169 in federal grant funds in July 2008. The intent of the grant application was to apply the funds to low-income subsidy and disease management program costs in 2009. Therefore, none of the funds were disbursed in 2008, and because revenue recognition is based on when funds are expended for this reimbursement-type grant, no federal grant revenue is reported for 2008.

5. DISTRIBUTION TO POLICYHOLDERS

The HIRSP Authority Board of Directors approved a distribution to certain policyholders in order to refund a portion of the policyholder surplus that had accumulated over a period of years when premiums collected exceeded the required 60 percent share of program costs. At its December 2008 meeting, the Board authorized approximately $12.0 million to be refunded to certain policyholders in the first quarter of 2009. The amount paid in March 2009 is reported as an expense and a liability on the 2008 financial statements. In order to be eligible for the distribution in 2009, an individual was required to have had a HIRSP policy in effect as of December 31, 2008, and at the time of the distribution. The amount of the distribution was calculated by the HIRSP actuary and varied based on the policyholder's HIRSP tenure and the HIRSP plan in which the policyholder was enrolled as of December 31, 2008.

6. 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 2008 and 2007.

	2008	2007
Balance—Beginning of the Year	$17,238,575	$16,289,654
Incurred Claims:		
Provision for insured events of the current fiscal year	117,852,638	133,041,670
Changes in provision for insured events of prior fiscal years	(3,077,460)	(1,722,105)
Total Incurred	114,775,178	131,319,565
Payments:		
Claims attributable to insured events of the fiscal year	105,164,318	116,433,316
Claims attributable to insured events of prior fiscal years	13,879,167	13,937,328
Total Paid	119,043,485	130,370,644
Balance—End of the Year	$12,970,268	$17,238,575

7. Premium, Deductible, and Drug Coinsurance Subsidies

The HIRSP Authority provides subsidies to eligible low-income policyholders. The subsidies reduce the amounts these policyholders are required to pay for premiums, health care deductibles, and prescription drug costs.

During 2008, policyholders with any HIRSP plan who had annual household incomes below $25,000 were eligible for various premium, deductible, and drug coinsurance subsidies. The subsidies available to HIRSP policyholders on each of the HIRSP plans are shown in the following table.

Plan	Subsidized Premium Discount	Subsidized Medical Deductible Discount	Subsidized Drug Copayment Out-of-Pocket Maximum
HIRSP 1,000, 2,500, 5,000	25–43%	$100–$500	$375–$750
HIRSP HSA	25–43%	$100–$500	Not Applicable[1]
Medicare Supplement	15–35%	Not Applicable[2]	$125

[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.
[2] A medical deductible discount is not available for the Medicare supplement plan.

Ch. 149, Wis. Stats., requires that the HIRSP Authority Board of Directors provide policyholders with low-income deductible subsidies and permits the Board to provide policyholders a subsidy for prescription drug expenses. Wisconsin statutes authorize the Board to establish the amounts of the deductible and the prescription drug expense subsidies.

In 2008, 18.0 percent of HIRSP policyholders received premium, deductible, and/or drug expense subsidies totaling $8,248,318. In 2007, 16.0 percent of HIRSP policyholders received premium, deductible, and/or drug expense subsidies totaling $5,781,505. The following table summarizes the subsidies provided for each subsidy type during those periods.

Subsidy Type	2008	2007
Premium	$6,914,095	$4,844,378
Deductible	622,125	620,445
Out-of-Pocket Drug Expense	712,098	316,682
Total	$8,248,318	$5,781,505

For 2007, federal grant funds totaling $2,089,225 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 $1,846,140. In 2008, there were no federal grant funds available to support the subsidies and the costs were shared by health care providers in the amount of $4,124,161, and by health insurers in the amount of $4,124,157.

8. HEALTH CARE PROVIDER CONTRIBUTIONS

Statutes require that 20.0 percent of HIRSP plan costs be funded by health care providers. In addition, 50.0 percent of the plan subsidies not covered by federal funding are funded by health care providers. Under current HIRSP practice, only nonpharmacy providers supply the funding for provider contributions. Provider contributions are not a source of revenue; rather they 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 rate paid by the HIRSP Authority to participating providers for approved services.

Effective January 1, 2008, the HIRSP Authority adopted a fee schedule to serve as usual and customary rates. For most health care services, a discount factor of 29.0 percent is applied to the HIRSP Authority's fee schedule rates to derive the HIRSP-allowed or reimbursed amount.

9. 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 2008 include policyholder and provider services, claims and systems administration, medical management, data collection and reporting, subrogation, coordination of benefits, disaster recovery, pharmacy benefit management, and actuarial services. WPS maintains service contracts with third-party contractors, whereby HIRSP Authority pharmacy benefit management services were performed by Navitus Health Solutions, and HIRSP Authority actuarial services were performed by Milliman Consultants and Actuaries.

During 2008, a procurement was conducted to identify a vendor to manage the new diabetes disease management program. The procurement resulted in the award of a three-year contract to LifeMasters Supported SelfCare, Inc. in July 2008. The program was implemented in December 2008.

10. LEASES

A. Operating Leases

The HIRSP Authority has entered into a lease for administrative office space for a lease term of five years and ten months. The lease term commenced on March 1, 2007, and will terminate December 31, 2012. Office lease rental payments charged to expenses were $47,917 for 2008 and $44,041 for 2007.

The HIRSP Authority has entered into an equipment operating lease for office copier equipment. The lease has a term of 60 months and commenced November 15, 2006. The equipment lease rental payments charged to expenses during 2008 and 2007 were $2,916 annually.

B. Noncancelable Lease Terms

As of January 1, 2009, the minimum aggregate rental commitments are as follows:

Year	Commitment
2009	53,159
2010	55,168
2011	56,773
2012	56,516

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

11. PENSION BENEFITS

During 2008, 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 may be obtained by writing to:

Department of Employee Trust Funds
P.O. Box 7931
Madison, WI 53707-7931

The most current financial report is also available on the Department of Employee Trust Funds’ Web site, *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.

HIRSP Authority employees began participation in the WRS in November of 2007. For the first ten months of 2007, HIRSP Authority employees participated in a Section 457 deferred compensation plan. The employer contributions to the plan were up to 3.0 percent of the employee's gross salary. In addition, the HIRSP Authority contributed up to 2.0 percent of the employee's gross salary to an Individual Retirement Account (IRA) for each HIRSP Authority employee.

12. CAPITAL ASSETS

The HIRSP Authority purchased office equipment and furniture during 2007 but made no additional purchases in 2008. The capital assets are included in other assets on the Balance Sheet and depreciation expense is included in general and administrative expenses.

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Being Depreciated:				
Equipment, at Historical Cost	$34,843	$ 0	$ 0	$34,843
Less Accumulated Depreciation for:				
Equipment	(5,553)	(5,557)	0	(11,110)
Total Capital Assets Being Depreciated, Net	$29,290	$(5,557)	0	$23,733

13. SUBSEQUENT EVENTS

Effective January 1, 2009, the HIRSP Authority indexed the income level for the low-income subsidy program under s 149.165 (3m), Wis. Stats., and increased the qualifying threshold from $25,000 to $33,000. During 2008, the HIRSP Authority conducted two competitive procurements for direct contracts with its actuary and pharmacy benefit manager, rather than contracting for these services through WPS. Beginning, January 1, 2009, MedTrak became the HIRSP Authority pharmacy benefit manager. Milliman was awarded the actuarial services contract, and its direct contract with the HIRSP Authority began February 1, 2009.

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Auditor's Report ▪

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

We have audited the financial statements of the Wisconsin Health Insurance Risk-Sharing Plan (HIRSP) Authority as of and for the years ended December 31, 2008, and 2007, and have issued our report thereon dated October 15, 2009. 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*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits, we considered the HIRSP Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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 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 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses as defined in the preceding paragraph. However, we consider the HIRSP Authority's and its plan administrator's lack of adequate review procedures to ensure the HIRSP Authority's financial statements are fairly presented in accordance with governmental accounting standards to be a significant deficiency. A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

As part of our 2008 audit, we identified an error on the draft financial statements. The HIRSP Authority incorrectly included a $2.6 million federal grant receivable and liability on its 2008 Balance Sheet. Although the HIRSP Authority was awarded a federal grant in 2008, the funds related to the federal grant award were neither earned nor received by the end of 2008 and therefore should have been excluded from the 2008 financial statements. The misstatement did not have an effect on the operating statement or net assets, but it caused both total assets and total liabilities to be overstated by $2.6 million.

During our 2007 audit, we discussed proper recognition of federal grant revenue with staff of the HIRSP Authority and of the plan administrator. However, because of an unexpected absence and subsequent departure by the HIRSP Authority's accounting manager, the HIRSP Authority did not complete a comprehensive review of the financial statements prepared by the plan administrator and thereby ensure that the federal grant transaction was properly presented in the 2008 financial statements.

In response to the recommended audit adjustment, staff of the plan administrator corrected the misstatements and provided revised financial statements. HIRSP Authority management agrees with the recommendation to implement a more thorough review process to ensure the HIRSP Authority's financial statements are free from material misstatement and has recently filled the vacant accounting manager position at the HIRSP Authority.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the HIRSP Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, grant agreements, and contracts, 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*.

The HIRSP Authority's written response to the finding identified in our audit is described in the preceding narrative. We did not audit the HIRSP Authority's response and, accordingly, express no opinion on it.

We noted certain additional matters pertaining to immaterial overpayments of pharmacy claims caused by the implementation of a new claims adjudication system used by the HIRSP Authority's pharmacy benefits manager. The information was communicated to HIRSP Authority management in a separate communication dated August 31, 2009.

This independent auditor's report is intended solely for the information and use of HIRSP Authority management, the HIRSP Authority Board of Directors, and the Wisconsin Legislature. This report is a matter of public record and its distribution is not limited. However, because we do not express an opinion on the effectiveness of the HIRSP Authority's internal control or on compliance, this report is not intended to be used by anyone other than these specified parties.

LEGISLATIVE AUDIT BUREAU

October 15, 2009 by Diann Allsen

Diann Allsen
Audit Director

HIRSP
AUTHORITY

October 15, 2009

Ms. Janice Mueller
State Auditor
22 East Mifflin Street, Suite 500
Madison, WI 53703

Dear Ms. Mueller:

This is in response to the Legislative Audit Bureau (LAB) report regarding the audit of the Health Insurance Risk-Sharing Plan (HIRSP) Authority for the calendar year 2008. In your report you address two issues that I have responded to below:

Internal Control over Financial Reporting

We agree with your finding that our 2008 federal grant award should not have been recorded as a receivable and a liability on our balance sheet. However the misstatement did not have an effect on the operating statement or net assets as the receivable recorded was offset by a corresponding liability. Therefore, the readers of the HIRSP Authority's financial statements would not be misled in regards to the financial position of the HIRSP Authority due to this error.

As you also stated in your report the HIRSP Authority Finance and Accounting Manager who was the staff person in charge of the comprehensive review of the financial statements prepared by the plan administrator was on emergency leave at the time the financial statements were prepared and the error occurred, in part, because the statements did not have that second level of review. We now have on staff someone capable of providing that comprehensive review. Therefore we view this as an isolated incident and are confident that we have sound controls in place to ensure that HIRSP financial statements are reviewed and presented accurately in all material respects.

Compliance and Other Matters

As you stated in your report HIRSP Authority's pharmacy benefits manager implemented a new claims processing system January 1, 2008. Consequently, we requested the LAB to focus on pharmacy claims as an area of risk in the 2008 audit. We appreciate the thoroughness of the LAB's testing of the pharmacy claims. As a result of this testing and the analysis conducted by the pharmacy benefits manager we are confident that the pharmacy claims for the calendar year 2008 have been processed correctly in all material respects.

We appreciate the opportunity to have our response included in the final report.

Sincerely,

Amie Goldman
CEO

33 E. Main Street • Suite 230 • Madison, WI 53703 • Phone 608-441-5777 • Fax 608-441-5776