Inclusa, Inc. and Subsidiary

Consolidated Financial Statements and Supplementary Information

Five-Month Period Ended May 31, 2023, and Year Ended December 31, 2022

WIPFLI

WIPFLI

Independent Auditor's Report

Board of Directors
Inclusa, Inc.
Stevens Point, Wisconsin

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying consolidated financial statements (the ''financial statements'') of Inclusa, Inc. and Subsidiary, a nonprofit organization, which comprise the consolidated statements of financial position as of May 31, 2023 and December 31, 2022, and the related consolidated statements of activities and cash flows for the five-month period ended May 31, 2023, and the year ended December 31, 2022, and the related notes to the consolidated financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Inclusa, Inc. and Subsidiary as of May 31, 2023 and December 31, 2022, and the changes in their net assets and their cash flows for the five-month period ended May 31, 2023, and the year ended December 31, 2022, in accordance with accounting principles generally accepted in the United States of America (''GAAP'').

Emphasis of a Matter

As discussed in Note 12 to the financial statements, during 2022, the Organization and Humana executed an asset purchase agreement under which substantially all of the assets of Inclusa would be acquired by Humana (with the exception of a building located in Stevens Point, Wisconsin and the contents of that building). The purchase went through a regulatory review process and was granted approval by the Wisconsin Department of Health Services on May 25, 2023. Our opinion is not modified with respect to that matter.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States of America, and the *Department of Health Services Audit Guide,* 2018 Revision, issued by the Wisconsin Department of Health Services. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Inclusa, Inc. and Subsidiary and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Inclusa, Inc. and Subsidiary's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards*, and the *Department of Health Services Audit Guide*, 2018 Revision, issued by the Wisconsin Department of Health Services, will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards,* and the *Department of Health Services Audit Guide*, 2018 Revision, issued by the Wisconsin Department of Health Services, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Inclusa, Inc. and Subsidiary's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Inclusa, Inc. and Subsidiary's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

WIPFLI

Other Matter

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules of consolidating information are presented for purposes of additional analysis and are 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 audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards* and the *Department of Health Services Audit Guide*, 2018 Revision, issued by the Wisconsin Department of Health Services, we have also issued our report dated October 23, 2023, on our consideration of Inclusa, Inc. and Subsidiary's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of Inclusa, Inc. and Subsidiary's 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 the *Department of Health Services Audit Guide*, 2018 Revision, issued by the Wisconsin Department of Health Services, in considering Inclusa, Inc. and Subsidiary's internal control over financial reporting and compliance.

Wipfli LLP

Wipfli LLP

Wausau, Wisconsin
October 23, 2023

Inclusa, Inc. and Subsidiary

Consolidated Statements of Financial Position

May 31 and December 31	2023	2022
Current assets:		
Cash and cash equivalents	$ 148,457,370	$ 157,097,230
Accounts receivable - Net:		
Members	1,427,194	1,309,728
Other	1,609,796	1,253,667
Amounts due from State of Wisconsin	2,818,433	2,660,821
Advances to member service providers	219,708	237,408
Prepaid and other	3,840,000	2,012,610
Total current assets	158,372,501	164,571,464
Investments	6,779,497	6,676,642
Restricted investments	13,025,233	12,901,425
Right-of-use assets	5,049,290	5,590,299
Property and equipment - Net	17,722,064	17,505,468
TOTAL ASSETS	$ 200,948,585	$ 207,245,298
Current liabilities:		
Current portion of lease obligations	$ 1,163,607	$ 1,261,560
Accounts payable	2,723,009	4,870,918
Accrued liabilities:		
Member services	62,291,554	65,168,437
Payroll and withholdings	4,072,828	1,979,413
Compensated absences	4,633,386	3,913,968
Other	16,716	42,573
Amounts due to State of Wisconsin - Retrospective rate adjustments	10,030,068	9,990,341
Total current liabilities	84,931,168	87,227,210
Lease obligations - Net of current portion	3,916,616	4,359,675
Total liabilities	88,847,784	91,586,885
Net assets without donor restrictions	112,100,801	115,658,413
TOTAL LIABILITIES AND NET ASSETS	$ 200,948,585	$ 207,245,298

See accompanying notes to consolidated financial statements.

Inclusa, Inc. and Subsidiary

Consolidated Statements of Activities

Five-Month Period Ended May 31 and Year Ended December 31	2023	2022
Revenue:		
Medicaid capitation	$ 317,866,627	$ 753,017,973
Room and board	23,270,943	52,164,795
Other	58,631	1,000,382
Total revenue	341,196,201	806,183,150
Expenses:		
Program services:		
Direct member services - Contracted services	294,668,257	676,459,705
Care management:		
Salaries	24,032,901	58,381,985
Employee benefits	10,456,954	21,908,263
Contracted services and other	3,602,291	7,882,948
Rent, utilities, and other occupancy	726,571	2,402,573
Depreciation and amortization	988,843	1,347,435
Administrative and general:		
Salaries	6,839,473	15,213,951
Employee benefits	2,723,412	5,336,243
Contracted services and other	1,888,317	6,659,445
Rent, utilities, and other occupancy	226,267	386,078
Depreciation and amortization	522,566	890,297
Total expenses	346,675,852	796,868,923
Income (loss) from operations	(5,479,651)	9,314,227
Nonoperating income (expense):		
Interest income	1,770,035	1,525,345
Net unrealized gain (loss) on investments	152,004	(673,568)
Other	-	(90,699)
Total nonoperating income	1,922,039	761,078
Change in net assets	(3,557,612)	10,075,305
Net assets without donor restrictions at beginning	115,658,413	105,583,108
Net assets without donor restrictions at end	$ 112,100,801	$ 115,658,413

See accompanying notes to consolidated financial statements.

Inclusa, Inc. and Subsidiary

Consolidated Statements of Cash Flows

Five-Month Period Ended May 31 and Year Ended December 31	2023	2022
Change in cash, cash equivalents, and restricted cash equivalents:		
Cash flows from operating activities:		
Change in net assets	$ (3,557,612)	$ 10,075,305
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	1,511,409	2,237,732
Net unrealized (gain) loss on investments	(152,004)	673,568
Changes in operating assets and liabilities:		
Accounts receivable	(473,595)	(677,806)
Amounts due from State of Wisconsin	(157,612)	13,267,183
Advances to member service providers	17,700	(1,771)
Prepaid and other	(1,827,390)	(211,191)
Right-of-use operating asset and lease obligations	(3)	30,936
Accounts payable	(1,818,279)	2,319,006
Accrued liabilities	(89,907)	15,751,676
Amounts due to State of Wisconsin - Retrospective rate adjustments	39,727	10,001,040
Total adjustments	(2,949,954)	43,390,373
Net cash from operating activities	(6,507,566)	53,465,678
Net cash flows from investing activities:		
Purchase of property and equipment	(2,057,635)	(8,679,217)
Net purchases of investments and restricted investments	(110,580)	(2,577,097)
Net cash from investing activities	(2,168,215)	(11,256,314)
Net change in cash, cash equivalents, and restricted cash equivalents	(8,675,781)	42,209,364
Cash, cash equivalents, and restricted cash equivalents at beginning	157,211,242	115,001,878
Cash, cash equivalents, and restricted cash equivalents at end	$ 148,535,461	$ 157,211,242
Reconciliation to the statements of financial position:		
Cash and cash equivalents	$ 148,457,370	$ 157,097,230
Restricted cash equivalents	78,091	114,012
Cash, cash equivalents, and restricted cash equivalents at end	$ 148,535,461	$ 157,211,242
Noncash investing activities:		
Property and equipment in accounts payable at year-end	$ 149,656	$ 479,286

See accompanying notes to consolidated financial statements.

Note 1: Summary of Significant Accounting Policies

The Entity and Principles of Consolidation

Inclusa, Inc. ("Inclusa") is a tax-exempt managed care organization (MCO), established to provide high-quality, individualized services to frail elders and individuals with disabilities through the Family Care program to 68 counties throughout Wisconsin. The State of Wisconsin's Family Care program helps seniors and individuals with disabilities (members) to live as independently as possible in their own homes or other community care settings. The Family Care program combines funding and services from a variety of existing programs into one flexible long-term care benefit tailored to each individual's need and circumstances. Services are funded primarily by per member capitation revenues received under Inclusa's contract with the State of Wisconsin Department of Health Services (DHS). Inclusa is regulated by DHS and the Wisconsin Office of the Commissioner of Insurance (OCI). DHS regulates contractual and programmatic areas, and OCI regulates solvency and fiscal matters.

Annova, Inc. ("Annova"), a for-profit corporation wholly owned by Inclusa, was established in June 2019 to provide thought leader and system transformation services for care management support organizations.

The accompanying financial statements include the accounts and operations of Inclusa and Annova (collectively the "Organization") after elimination of all significant intercompany accounts and transactions.

As discussed in Note 12 to the financial statements, during 2022, the Organization and Humana executed an asset purchase agreement under which substantially all of the assets of Inclusa would be acquired by Humana (with the exception of a building located in Stevens Point, Wisconsin and the contents of that building). The purchase went through a regulatory review process and was granted approval by the Wisconsin Department of Health Services on May 25, 2023.

Financial Statement Presentation

The Organization follows accounting standards contained in the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). The ASC is the single source of authoritative accounting principles generally accepted in the United States of America (GAAP) to be applied to nongovernmental entities.

Use of Estimates in Preparation of Financial Statements

The preparation of the accompanying financial statements in conformity with GAAP requires management to make estimates and assumptions that directly affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates.

Cash Equivalents

The Organization considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents, excluding amounts whose use is limited or restricted.

Note 1: Summary of Significant Accounting Policies (Continued)

Investments, Restricted Investments, and Interest Income

Investments and restricted investments are recorded at fair value in the accompanying consolidated statements of financial position with the changes in fair value during the period included in nonoperating income in the accompanying consolidated statements of activities.

Restricted investments consist of amounts designated for risk and solvency reserves under terms of the MCO contract with DHS. The purpose of the risk reserve is to provide continuity of care for enrolled members, accountability to taxpayers, and effective Family Care program administration including the ability to manage the operation of the MCO as a separate and distinct organization with adequate liquid assets to manage volatility of the Family Care program.

The solvency reserve provides for continuity of services and smooth transition of members from an existing MCO to another entity in the event an existing MCO becomes irreversibly insolvent. DHS may assess an MCO for amounts held in its solvency reserve to pay for services for enrollees of an insolvent or financially distressed MCO.

The required level of risk and solvency reserves are calculated annually by DHS and are based upon the Organization’s estimated budgeted enrollment and annual capitation payments.

All investment income (including realized and unrealized gains and losses and interest) is reported as non-operating income (expense) unless the income or loss is restricted by donor or law. Realized gains or losses are determined by specific identification. Investment-related fees are recorded as a reduction of investment earnings.

Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Organization measures fair value of its financial instruments using a three-tier hierarchy that prioritizes the inputs used in measuring fair value. These tiers include Level 1, defined as observable inputs such as quoted market prices in active markets; Level 2, defined as inputs other than quoted market prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Member Accounts Receivable and Credit Policy

Member accounts receivable are reported at the amount that reflects the consideration to which the Organization expects to be entitled in exchange for making available the services authorized in the member's benefit package. Member obligations are primarily from residents of the counties that the Organization serves. The members are billed directly for their cost-share portion of capitation and room and board services. The Organization does not have a policy to charge interest on past due accounts.

Note 1: Summary of Significant Accounting Policies (Continued)

Member Accounts Receivable and Credit Policy (Continued)

Member accounts receivable are recorded in the accompanying consolidated statements of financial position net of allowances for implicit price concessions based upon historical experience and estimates of collectibility of member accounts receivable balances. The initial estimate of the transaction price is determined based upon negotiated agreements and historical experience. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to Medicaid capitation revenue and room and board revenue in the period of change.

Property, Equipment, Depreciation and Amortization

Property and equipment acquisitions are recorded at cost. Depreciation and amortization is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful life. Estimated useful lives are 39 years for buildings and range from two to ten years for leasehold improvements, three to seven years for furniture and equipment, three to five years for software, and three to seven years for building improvements.

The Organization periodically evaluates whether events and circumstances have occurred that may affect the carrying value of property and equipment. If such events or circumstances indicate the carrying value may not be recoverable, impairment is determined by comparing the carrying value with the estimated future net undiscounted cash flows expected to result from the use of the assets, including cash flows from disposition. Should the sum of the expected future net cash flows be less than the carrying value, the Organization would recognize an impairment loss. During 2023 and 2022, the Organization recorded no losses due to impairment.

Leases

The Organization is a lessee in multiple noncancelable operating leases. If the contract provides the Organization the right to substantially all the economic benefits and the right to direct the use of the identified asset, it is considered to be or contain a lease. Right-of-use (ROU) assets and lease liabilities are recognized at the lease commencement date based on the present value of the future lease payments over the expected lease term. The ROU asset is also adjusted for any lease prepayments made, lease incentives received, and initial direct costs incurred.

The lease liability is initially and subsequently recognized based on the present value of its future lease payments. Variable payments are included in the future lease payments when those variable payments depend on an index or a rate. Increases (decreases) to variable lease payments due to subsequent changes in an index or rate are recorded as variable lease expense (income) in the future period in which they are incurred.

The Organization has elected to use a risk-free rate for a term similar to the underlying lease as the discount rate if the implicit rate in the lease contract is not readily determinable.

Note 1: Summary of Significant Accounting Policies (Continued)

Leases (Continued)

The ROU asset for operating leases is subsequently measured throughout the lease term at the amount of the remeasured lease liability (i.e., present value of the remaining lease payments), plus unamortized initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received, and any impairment recognized. For operating leases with lease payments that fluctuate over the lease term, the total lease costs are recognized on a straight-line basis over the lease term.

For all underlying classes of assets, the Organization has elected to not recognize ROU assets and lease liabilities for short-term leases that have a lease term of 12 months or less at lease commencement and do not include an option to purchase the underlying asset that the Organization is reasonably certain to exercise. Leases containing termination clauses in which either party may terminate the lease without cause and the notice period is less than 12 months are deemed short-term leases with lease costs included in short-term lease expense. The Organization recognizes short-term lease cost on a straight-line basis over the lease term.

The Organization made an accounting policy election for all leases to not separate the lease components and its associated non-lease components (i.e., lessor-provided maintenance and other services).

Operating leases are included in right-of-use assets and current and long-term lease obligations on the accompanying consolidated statements of financial position.

Direct Member Services Expense and Accrued Member Services Payable

The Organization contracts with various housing and healthcare providers for the provision of certain housing and healthcare services to its members. The Organization generally compensates those providers under negotiated fee arrangements. Member services expense includes all amounts incurred by the Organization for housing and healthcare services provided to members under these arrangements.

The cost of contracted housing and healthcare services is accrued in the period in which the services are provided to a member based, in part, on estimates, including an accrual for member services provided but not reported to the Organization. Accrued member services represents management’s best estimate of the ultimate net cost of all reported and incurred but not reported claims as of the consolidated statement of financial position date. These estimates are calculated using individual case-basis valuations and statistical analysis, and estimates are subject to the effects of trends in loss of severity and frequency. Although considerable variability is inherent in such estimates, management believes the accrued member services liability is adequate. These estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known. Such adjustments are included in current operations.

Net Assets

Net assets without donor restrictions are those not subject to donor-imposed stipulations and includes those expendable resources which have been designated for special use by the Board of Directors. Net assets with donor restrictions are those whose use by the Organization has been limited by donors to a specific time period or purpose. For the periods presented, the Organization has no net assets with donor restrictions.

Note 1: Summary of Significant Accounting Policies (Continued)

Medicaid Capitation, Room and Board, and Other Revenue

Revenue is reported at amounts that reflect the consideration to which the Organization expects to be entitled in exchange for making available the goods and services in the benefits packages included in the Family Care program and room and board to members.

The Organization's primary source of revenue is Medicaid capitation payments which are due from DHS, and from certain members who are required to share a cost of the program as a condition of their enrollment for housing and healthcare services provided to members enrolled in the Family Care program. Capitation payments are received on a per member per month basis during the month to which the services are related. The capitation rates are calculated to provide an actuarially sound payment methodology which is approved by the Centers for Medicare and Medicaid Services. Capitation revenue also includes variable consideration for retroactive revenue adjustments and member cost share and room and board revenue. The Organization bills the member for cost-share amounts at the beginning of the month the services are provided to the member.

Performance obligations are determined based on the nature of the member services provided. Revenue from performance obligations satisfied over time is recognized based on a predetermined rate formula under a contractual arrangement with DHS or the member. Generally, performance obligations satisfied over time relate to members' housing and healthcare services since the members simultaneously receive and consume the benefits of the services provided. In this case, recognition of the obligation over time yields the same result as recognizing the obligation at a point in time. The Organization believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Monthly capitation is received from DHS at the beginning of each month. Member cost-share and room and board fees are billed by the Organization at the beginning of each month as well. The Organization is obligated to make available the goods and services in the member's benefit package during the month; therefore the Organization recognizes the revenue over the month the member receives the services.

The Organization determines the Medicaid capitation transaction price for member services based on the per member per month capitation rates as set by DHS on an annual basis. Room and board revenue transaction price is determined as the portion of the member’s monthly room and board placement costs that the member is required to pay based upon the member’s annual income and is determined by DHS guidelines. For the amounts due from members, the Organization reduces the member cost share and room and board revenue by implicit price concessions provided to members. The estimates of the price concessions are based upon historical collection experience with its members. Subsequent changes that are determined to be the result of an adverse change in the member's ability to pay are recorded as bad debt expense. Bad debt expense for the five-month period ended May 31, 2023, and year ended December 31, 2022, was not significant.

Note 1: Summary of Significant Accounting Policies (Continued)

Medicaid Capitation, Room and Board, and Other Revenue (Continued)

Under the contract with DHS, the Medicaid capitation received is subject to a year-end retrospective rate adjustment calculation which is considered variable consideration and is included in the determination of the estimated transaction price for providing member services. The retrospective rate adjustments take into consideration the level of acuity and target group and also include payments for pay-for-performance and risk-sharing incentives. These retroactive rate adjustments are estimated based on DHS-determined methodologies, current-year member activity, correspondence from DHS, and the Organization's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Final retroactive rate settlements are adjusted in the period they become known (i.e., as new information becomes available). Retroactive rate adjustments recorded as a decrease in Medicaid capitation revenue was approximately $92,000 in 2023 and an increase in Medicaid capitation revenue of approximately $3,055,000 in 2022. Changes in estimated retroactive rate adjustments that relate to prior years are reported in Medicaid capitation revenue in the accompanying consolidated statements of activities. The impact of such items in Medicaid capitation revenue was a decrease of approximately $888,000 in 2023 and an increase of approximately $2,366,000 in 2022. The amounts due to the State of Wisconsin was $10,035,639 and $10,001,040 as of May 31, 2023 and December 31, 2022, respectively, for retrospective rate adjustments.

The Organization has a contract with DHS to provide services to qualified Medicaid recipients under the Family Care program. The contract with DHS is renewable annually. The current contract with DHS expires on December 31, 2023. As discussed in Note 12, the Organization assigned its rights and obligations, under the contract with DHS, to Humana effective June 1, 2023.

Grants and Contributions

Revenue from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Contributions are reported as nonoperating revenue.

Allocation of Functional Expenses

The consolidated statements of activities report certain categories of expenses that are attributable to both the program services and administrative and general services of the Organization. Those expenses include employee benefits, depreciation, and information technology. Employee benefits are allocated based on salaries, depreciation is allocated based upon a combination of direct costing and square footage, and information technology is allocated based upon an estimate of time and costs of specific technology utilized.

Unemployment Compensation

Inclusa has elected reimbursement financing under provisions of the Wisconsin unemployment compensation laws. Unemployment claims are paid to the State of Wisconsin as incurred. Inclusa has obtained a $735,000 surety bond, which expires December 31, 2025, to meet state funding requirements.

Note 1: Summary of Significant Accounting Policies (Continued)

Income Taxes

Inclusa is a nonprofit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and is exempt from federal income tax on related income pursuant to Section 501(a) of the Code. Inclusa is also exempt from state income tax on related income.

Annova is a for-profit corporation. Income taxes for Annova were not material for the five-month period ended May 31, 2023, and year ended December 31, 2022.

Subsequent Events

Subsequent events have been evaluated through October 23, 2023, which is the date the financial statements were available to be issued. See Note 12 for information related to a subsequent event.

Note 2: Investments and Restricted Investments

Investments

Investments consisted of the following at:

	May 31, 2023	December 31, 2022
Cash and cash equivalents - Money market funds	$ 57,849	$ 80,453
Government bonds	1,055,866	1,332,580
Corporate bonds	1,464,861	1,908,186
Agency bonds	2,405,599	2,209,371
Treasury bonds	1,757,864	1,109,660
Accrued interest	37,458	36,392
Totals	$ 6,779,497	$ 6,676,642

Note 2: Investments and Restricted Investments (Continued)

Restricted Investments

The Family Care program requires the Organization to maintain certain levels of investments to meet risk reserve and solvency requirements. The Organization is also required to meet a minimum working capital level based on a predetermined percentage of budgeted capitation payments.

Amounts designated to meet these requirements are reflected in the accompanying consolidated statements of financial position as restricted investments and consisted of the following at:

	May 31, 2023	December 31, 2022
Cash and cash equivalents - Money market funds	$ 78,091	$ 114,012
Negotiable certificates of deposit	4,194,184	4,194,184
Government bonds	1,823,893	2,212,760
Corporate bonds	433,393	601,812
Agency bonds	2,857,134	2,059,952
Treasury bonds	3,586,817	3,674,057
Accrued interest	51,721	44,648
Total restricted investments	$ 13,025,233	$ 12,901,425

Investments, including those reflected as restricted investments, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of certain investments will occur in the near term and that such changes could materially affect the amounts reported in the accompanying consolidated financial statements.

Note 3: Fair Value Measurements

The following is a description of the valuation methodologies used for assets measured at fair value.

Money market funds are valued using a net asset value (NAV) of $1. Negotiable certificates of deposit and government, corporate, agency, and treasury bonds are valued using quotes from pricing vendors based on recent trading activity and other observable market data.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization's valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Note 3: Fair Value Measurements (Continued)

The following sets forth by level, within the fair value hierarchy, the Organization's assets measured at fair value on a recurring basis:

	May 31, 2023			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents - Money market funds	$ -	$ 135,940	$ -	$ 135,940
Negotiable certificates of deposit	-	4,194,184	-	4,194,184
Government bonds	-	2,879,759	-	2,879,759
Corporate bonds	-	1,898,254	-	1,898,254
Agency bonds	-	5,262,733	-	5,262,733
Treasury bonds	-	5,344,681	-	5,344,681
Totals	$ -	$ 19,715,551	$ -	$ 19,715,551

	December 31, 2022			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents - Money market funds	$ -	$ 194,465	$ -	$ 194,465
Negotiable certificates of deposit	-	4,194,184	-	4,194,184
Government bonds	-	3,545,340	-	3,545,340
Corporate bonds	-	2,509,998	-	2,509,998
Agency bonds	-	4,269,323	-	4,269,323
Treasury bonds	-	4,783,717	-	4,783,717
Totals	$ -	$ 19,497,027	$ -	$ 19,497,027

Reconciliation of the fair value hierarchy tables to the consolidated financial statements is as follows as of :

	May 31, 2023	December 31, 2022
Investments	$ 6,779,497	$ 6,676,642
Restricted investments	13,025,233	12,901,425
Less - Accrued interest included in investments and restricted investments not included in the fair value hierarchy tables	89,179	81,040
Totals	$ 19,715,551	$ 19,497,027

Note 4: Liquidity

Financial assets and liquidity resources available within one year for general expenditure, such as operating expenses and capital items, were as follows as of :

	May 31, 2023	December 31, 2022
Cash and cash equivalents	$ 148,457,370	$ 157,097,230
Accounts receivable - Net	3,036,990	2,563,395
Amounts due from State of Wisconsin	2,818,433	2,660,821
Investments	6,779,497	6,676,642
Totals	$ 161,092,290	$ 168,998,088

As described in Note 2, the Organization holds funds restricted under Family Care program requirements. Since DHS approval is required for utilization of the funds, the restricted funds are not considered available under the Organization's liquidity management. These restricted funds totaled $13,025,233 and $12,901,425 as of May 31, 2023 and December 31, 2022, respectively.

Note 5: Property and Equipment - Net

Property and equipment consisted of the following at :

	May 31, 2023	December 31, 2022
Land	$ 274,944	$ 274,944
Building	3,459,566	3,459,566
Building improvements	2,350,489	2,295,334
Leasehold improvements	1,494,228	1,957,325
Furniture and equipment	4,747,215	4,632,765
Software	12,331,390	9,536,894
Total property and equipment	24,657,832	22,156,828
Less - Accumulated depreciation	8,112,271	7,158,371
Net depreciated value	16,545,561	14,998,457
Construction in progress	1,176,503	2,507,011
Property and equipment - Net	$ 17,722,064	$ 17,505,468

At May 31, 2023 and December 31, 2022, construction in progress includes amounts primarily for building improvement and information technology projects to be funded with operating funds.

Note 6: Leases

The Organization leases office space and vehicles. The majority of leases include one or more options to renew. The renewal terms can extend the lease term from one to eight years. The exercise of lease renewal options is at the Organization's sole discretion. Renewal option periods are included in the measurement of the ROU asset and lease liability when the exercise is reasonably certain to occur.

The Organization intends to exercise the renewal options for some of their office space at various extension terms specific to each lease agreement. The renewal options for the office space leases that are intended to be extended have been recognized in the respective ROU assets and lease obligations. The Organization does not intend to exercise the renewal options for vehicles and the extended periods have not been recognized in respective ROU assets and lease obligations.

The depreciable life of assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise.

The Organization's lease agreements do not contain any material residual value guarantees or material restrictive covenants. Payments due under the lease contracts include fixed payments plus, for many of the Organization’s leases, variable payments. The Organization’s office space leases require it to make variable payments for the Organization’s proportionate share of the building’s property taxes, insurance, and common area maintenance. These variable lease payments are not included in lease payments used to determine the lease liability and are recognized as variable costs when incurred.

Operating leases are included in right-of-use assets, current portion of lease obligations and lease obligations - net of current portion on the accompanying consolidated statements of financial position.,

Components of lease expense were as follows for the five-month period ended May 31, 2023, and the year ended December 31, 2022:

	May 31, 2023	December 31, 2022
Lease cost:		
Operating lease cost	$ 706,342	$ 1,757,539
Short-term lease cost	3,600	-
Total lease cost	$ 709,942	$ 1,757,539

Note 6: Leases (Continued)

Supplemental cash flow information related to leases is as follows for the five-month period ended May 31, 2023, and the year ended December 31, 2022:

	2023	2022
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 692,026	$ 1,726,604
Operating cash flows from variable payments	-	51,624
Right-of-use assets obtained in exchange for new operating lease liabilities	-	956,128
Net right-of-use remeasurement	$ -	$ (140,370)
Weighted-average remaining lease term - Operating leases	5.36 years	5.57 years
Weighted-average discount rate - Operating leases	1.75 %	1.73 %

Maturities of lease liabilities are as follows for the five-month period ended May 31, 2023:

2024	$ 1,205,168
2025	1,014,436
2026	911,832
2027	800,003
2028	601,133
Thereafter	780,356
Total lease payments	5,312,928
Less imputed interest	(232,705)
Total	$ 5,080,223

Note 7: Direct Member Services Expense and Accrued Member Services Payable

The Organization contracts with various housing and healthcare providers for the provision of certain housing and healthcare services to its members. The Organization generally compensates those providers under negotiated fee arrangements. Direct member services expense includes all amounts incurred by the Organization for services provided to members under these arrangements.

The following table provides a reconciliation of the beginning and ending balances of accrued member services at May 31, 2023 and December 31, 2022:

	May 31, 2023	December 31, 2022
Accrued member services at beginning	$ 65,168,437	$ 48,135,057
Add provision for claims occurring in:		
Current period	300,037,409	678,349,650
Prior periods	(5,369,152)	(1,889,945)
Deduct payments for claims occurring in:		
Current period	237,745,855	613,181,213
Prior periods	59,799,285	46,245,112
Accrued member services at end	$ 62,291,554	$ 65,168,437

Note 8: Comprehensive General and Professional Liability Insurance

The Organization's general and professional liability insurance covers losses up to $1 million per claim with $3 million annual aggregate for claims incurred during a policy year (occurrence coverage). The professional liability policy is renewable annually and has been renewed by the insurance carrier for the period extending through January 1, 2024.

In addition, the Organization maintains umbrella coverage for claims in excess of the professional liability limits to a maximum of $10 million per occurrence and $10 million per year.

Note 9: Retirement Plan

The Organization sponsors a defined contribution retirement plan covering all employees who meet specific criteria. Employees are eligible for matching contributions up to 4% of the employee's gross compensation upon hire. Total retirement expense for the five-month period ended May 31, 2023, and the year ended December 31, 2022, was $1,123,755 and $2,791,450, respectively.

Note 10: Concentration of Risk

On an annual basis, the Organization enters into a contract with DHS. Through this contract, the Organization earned approximately 93% of its revenue via capitation income based on members enrolled during the five-month period ended May 31, 2023, and the year ended December 31, 2022. This contract may be modified at any time by written mutual consent of the Organization and DHS or when modifications are necessary due to mandated changes in federal or state laws, rules, regulations, and amendments to Wisconsin's Centers for Medicare and Medicaid Services approved waivers or the state plan. As discussed in Note 12, the Organization assigned its rights and obligations, under the contract with DHS, to Humana effective June 1, 2023.

Note 11: Concentration of Credit Risk

Financial instruments that potentially subject the Organization to possible credit risk consist principally of accounts receivable, cash deposits in excess of insured limits in financial institutions, and investments.

The Organization maintains depository relationships with area financial institutions that are Federal Deposit Insurance Corporation (FDIC) insured institutions. Depository accounts at these institutions are insured by the FDIC up to $250,000. Operating cash needs often require that amounts on deposit exceed FDIC limits. At May 31, 2023, the amount of the Organization's bank balances in excess of FDIC limits was approximately $153,627,000. One of the financial institutions has pledged a letter of credit as collateral for approximately $149,683,000 of the Organization's deposits in excess of FDIC limits. In addition, other investments held by financial institutions are uninsured.

Note 12: Subsequent Events

During 2022, the Organization and Humana executed an asset purchase agreement under which substantially all of the assets of Inclusa would be acquired by Humana (with the exception of assets associated with Annova, a building located in Stevens Point, Wisconsin and the contents of that building). The purchase went through a regulatory review process and was granted approval by the Wisconsin Department of Health Services on May 25, 2023.

Inclusa, Inc. will receive proceeds from the asset purchase agreement and plans to transition to a 501(c)3 Private Foundation status with a mission of supporting organizations involved in services provided to the elderly and disabled.

Effective June 1, 2023, Inclusa is providing services to Humana under a transition service agreement. Inclusa and Humana will operate under the terms of the transition service agreement through the date upon which substantially all Inclusa employees will become employees of Humana. This is scheduled to occur no later than January 1, 2024.

Effective June 1, 2023, Humana will lease space in a building owned by Inclusa under a lease agreement which expires on May 31, 2028 with options to renew beyond that date.

Note 12: Subsequent Events (Continued)

Under the terms of the transition service agreement:

- iCare (a subsidiary of Humana) assumed the Family Care contract for all regions previously supported by Inclusa effective June 1, 2023.
- Inclusa will continue to employ all employees supporting the Family Care contract with DHS.
- Inclusa will continue to pay all member service costs and care management/administrative operating costs related to the Family Care contract with DHS.
- Inclusa will continue to utilize existing systems and processes during the transition service agreement timeframe.
- Humana will reimburse Inclusa for all agreed-upon costs during the period of time covered by the transition service agreement.

A final settlement of the asset purchase agreement will occur 90 days after June 1, 2023, and will be based on the unaudited May 31, 2023, financial statements of the Organization.

Supplementary Information

Inclusa, Inc. and Subsidiary

Consolidating Statements of Financial Position

	May 31				December 31
	Inclusa	Annova	Elimination	2023	2022
Current assets:					
Cash and cash equivalents	$ 147,854,257	$ 603,113	$ -	$ 148,457,370	$ 157,097,230
Accounts receivable - Net:					
Members	1,427,194	-	-	1,427,194	1,309,728
Other	1,609,796	-	-	1,609,796	1,253,667
Amounts due from State of Wisconsin	2,818,433	-	-	2,818,433	2,660,821
Advances to member service providers	219,708	-	-	219,708	237,408
Prepaid and other	3,840,000	-	-	3,840,000	2,012,610
Total current assets	157,769,388	603,113	-	158,372,501	164,571,464
Investments	6,779,497	-	-	6,779,497	6,676,642
Restricted investments	13,025,233	-	-	13,025,233	12,901,425
Right-of-use assets	5,049,290	-	-	5,049,290	5,590,299
Property and equipment - Net	17,722,064	-	-	17,722,064	17,505,468
TOTAL ASSETS	$ 200,345,472	$ 603,113	$ -	$ 200,948,585	$ 207,245,298
Current liabilities:					
Current portion of lease obligations	$ 1,163,607	$ -	$ -	$ 1,163,607	$ 1,261,560
Accounts payable	2,723,009	-	-	2,723,009	4,870,918
Accrued liabilities:					
Member services	62,291,554	-	-	62,291,554	65,168,437
Payroll and withholdings	4,072,828	-	-	4,072,828	1,979,413
Compensated absences	4,633,386	-	-	4,633,386	3,913,968
Other	12,144	4,572	-	16,716	42,573
Amounts due to State of Wisconsin - Retrospective rate adjustments	10,030,068	-	-	10,030,068	9,990,341
Total current liabilities	84,926,596	4,572	-	84,931,168	87,227,210
Lease obligations - Net of current portion	3,916,616	-	-	3,916,616	4,359,675
Total liabilities	88,843,212	4,572	-	88,847,784	91,586,885
Net assets without donor restrictions	111,502,260	598,541	-	112,100,801	115,658,413
TOTAL LIABILITIES AND NET ASSETS	$ 200,345,472	$ 603,113	$ -	$ 200,948,585	$ 207,245,298

See Independent Auditor's Report.

Inclusa, Inc. and Subsidiary

Consolidating Statements of Activities

	Five-Month Period Ended May 31				Year Ended December 31
	Inclusa	Annova	Elimination	2023	2022
Revenue:					
Medicaid capitation	$ 317,866,627	$ -	$ -	$ 317,866,627	$ 753,017,973
Room and board	23,270,943	-	-	23,270,943	52,164,795
Other	58,631	-	-	58,631	1,000,382
Total revenue	341,196,201	-	-	341,196,201	806,183,150
Expenses:					
Program services:					
Direct member services - Contracted services	294,668,257	-	-	294,668,257	676,459,705
Care management:					
Salaries	24,032,901	-	-	24,032,901	58,381,985
Employee benefits	10,456,954	-	-	10,456,954	21,908,263
Contracted services and other	3,602,291	-	-	3,602,291	7,882,948
Rent, utilities, and other occupancy	726,571	-	-	726,571	2,402,573
Depreciation and amortization	988,843	-	-	988,843	1,347,435
Administrative and general:					
Salaries	6,839,473	-	-	6,839,473	15,213,951
Employee benefits	2,723,412	-	-	2,723,412	5,336,243
Contracted services and other	1,888,317	-	-	1,888,317	6,659,445
Rent, utilities, and other occupancy	226,267	-	-	226,267	386,078
Depreciation and amortization	522,566	-	-	522,566	890,297
Total expenses	346,675,852	-	-	346,675,852	796,868,923
Income (loss) from operations	(5,479,651)	-	-	(5,479,651)	9,314,227
Nonoperating income (expense):					
Interest income	1,770,035	-	-	1,770,035	1,525,345
Net unrealized gain (loss) on investments	152,004	-	-	152,004	(673,568)
Other	-	-	-	-	(90,699)
Total nonoperating income	1,922,039	-	-	1,922,039	761,078
Change in net assets	(3,557,612)	-	-	(3,557,612)	10,075,305
Net assets without donor restrictions at beginning	115,059,872	598,541	-	115,658,413	105,583,108
Net assets without donor restrictions at end	$ 111,502,260	$ 598,541	$ -	$ 112,100,801	$ 115,658,413

See Independent Auditor's Report.

Other Reports

WIPFLI

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* and the *Department of Health Services Audit Guide*, 2018 Revision, issued by the Wisconsin Department of Health Services

Board of Directors
Inclusa, Inc.
Stevens Point, Wisconsin

We have audited, 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, and the *Department of Health Services Audit Guide*, 2018 Revision, issued by the Wisconsin Department of Health Services, the consolidated financial statements (the "financial statements") of Inclusa, Inc. and Subsidiary, as of and for the five-month period ended May 31, 2023, and the related notes to the consolidated financial statements, which collectively comprise the Inclusa, Inc. and Subsidiary's basic financial statements, and have issued our report thereon dated October 23, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Inclusa, Inc. and Subsidiary's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Inclusa, Inc. and Subsidiary's internal control. Accordingly, we do not express an opinion on the effectiveness of Inclusa, Inc. and Subsidiary'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 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 Inclusa, Inc. and Subsidiary’s financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or 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.

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 or significant deficiencies. Given these limitations, during our audit, 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.

WIPFLI

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Inclusa, Inc. and Subsidiary's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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*, and the *Department of Health Services Audit Guide*, 2018 Revision, issued by the Wisconsin Department of Health Services.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Inclusa, Inc. and Subsidiary's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and the *Department of Health Services Audit Guide*, 2018 Revision, issued by the Wisconsin Department of Health Services, in considering Inclusa, Inc. and Subsidiary's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Wipfli LLP

Wipfli LLP

Wausau, Wisconsin
October 23, 2023

Inclusa, Inc. and Subsidiary

Schedule of Findings and Questioned Costs

Five-Month Period Ended May 31, 2023

Section I – Summary of Auditor's Results

Type of Auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified	No
Noncompliance material to consolidated financial statements noted?	No

Section II – Financial Statement Findings

None.

Section III – State Award Findings and Questioned Costs

None.

Section IV – Other Issues

Does the auditor's report or the notes to the consolidated financial statements include disclosure with regard to substantial doubt as to the auditee's ability to continue as a going concern?	No
Does the audit report show audit issues (i.e., material noncompliance, nonmaterial noncompliance, questioned costs, material weakness, significant deficiencies, management letter comment, excessive revenue, or excessive reserve) related to grants/contracts with funding agencies that require audits to be in accordance with the Department of Health Services Audit Guide, 2018 Revision, issued by the Wisconsin Department of Health Services?	No
Was a management letter or other document conveying audit comments issued as a result of this audit?	No

Kimberly K. Heller

Name and Signature of Partner	Kimberly K. Heller, CPA
Date of Report	October 23, 2023