

WEST SUBURBAN HEALTH GROUP
FINANCIAL STATEMENTS AND
MANAGEMENT'S DISCUSSION AND ANALYSIS
WITH REQUIRED SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2011 AND JUNE 30, 2010
WITH INDEPENDENT AUDITOR'S REPORTS

WEST SUBURBAN HEALTH GROUP
FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS
WITH REQUIRED SUPPLEMENTARY INFORMATION
Years Ended June 30, 2011 and June 30, 2010

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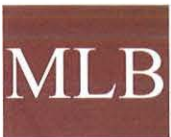
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
West Suburban Health Group

We have audited the accompanying statement of net assets of West Suburban Health Group (Group) as of June 30, 2011 and June 30, 2010, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Group's 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 our 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 above present fairly, in all material respects, the net assets of West Suburban Health Group as of June 30, 2011 and June 30, 2010, and changes in its financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2012 on our consideration of the Group's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audits.

Management's Discussion and Analysis (MD&A) and the six-year claims development information on the accompanying pages are not required parts of the financial statements, but are 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 we express no opinion on it.

Malloy, Lynch, Bienvenue, LLP

January 24, 2012



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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

To the Board of Directors
West Suburban Health Group

We have audited the financial statements of West Suburban Health Group (Group) as of and for the years ended June 30, 2011 and June 30, 2010, and have issued our report thereon dated January 24, 2012. 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 Group's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Group's internal control over financial reporting.

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 the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the next paragraph that we consider to be significant deficiencies in internal control over financial reporting. 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 in governance.

The Group's treasurer either performs or supervises all functions and controls that initiate, record, process all of the Group's transactions and financial reporting. The lack of segregation of duties is a combination of control deficiencies that we consider to be a significant deficiency.

Views of Responsible Officials: The Board intends to take this under advisement and to continue to monitor and evaluate financial reporting and internal controls on an ongoing basis.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Group's financial statements are free of 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 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*.

We noted certain matters that we reported to management of the West Suburban Health Group in a separate letter dated January 24, 2012.

This report is intended solely for the information and use of management, and other appropriate government agencies and is not intended to be and should not be used by anyone other than these specified parties.

Malloy, Lynol, Bionnonne, L.P.

January 24, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

WEST SUBURBAN HEALTH GROUP

Management's Discussion & Analysis

June 30, 2011

The management of West Suburban Health Group (the Group) offers readers of our financial statements the following narrative overview and analysis of our financial activities for the year ended June 30, 2011. Please read this discussion and analysis in conjunction with the Group's basic financial statements on the accompanying pages.

Basic Financial Statements

The basic financial statements are prepared using the accrual basis of accounting. Revenue is recorded when earned, and expenses are recorded when incurred. The basic financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets; a statement of cash flows and notes to the financial statements.

The statement of net assets presents information on the assets and liabilities of the Group, with the difference being reported as net assets.

The statement of revenues, expenses, and changes in net assets reports the operating and non-operating revenues and expenses of the Group for the fiscal year. The net result of these activities combined with the beginning of the year net assets reconciles to the net assets at the end of the current fiscal year.

The statement of cash flows reports the changes in cash for the year resulting from operating and investing activities. The net result of the changes in cash for the year, when added to the balance of cash at the beginning of the year, equals cash at the end of the year.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements follow the basic financial statements described above.

Financial Highlights

- Assets exceeded liabilities by \$20,927,486 (net assets) at the close of the fiscal year. Net assets at June 30, 2011 represent 18.8% of fiscal year 2011 claims expense. At June 30, 2010 net assets represented 19% of fiscal year 2010 claims expense.
- For the year ended June 30, 2011, net assets increased by \$670,828.
- The statement of cash flows identifies the sources and uses of cash activity for the fiscal year and displays a net decrease in cash of \$2,669,158 for the year.

Of the total claims liability \$59,845 represents claims payable and \$8,370,527 represents an estimate for claims incurred but not reported as of June 30, 2011. The decrease in cash is a result of claims and other Group expenses exceeding member premiums during the fiscal year. Actuarial assumptions are used in projecting annual claims costs for each health plan on a per member/per month basis and a rate, on a plan by plan basis, is set to fund the aggregate of the total projected claims and other Group costs. The increase in plan rates for fiscal year 2011 range between 5.0% and 9.5% for standard active plans and between 3.4% and 8.1% for self-funded Medicare supplement plans.

WEST SUBURBAN HEALTH GROUP
Management's Discussion & Analysis
June 30, 2011

Condensed Financial Information

A comparative summary of financial information is presented below:

	<u>2011</u>	<u>2010</u>	<u>Amount of Change</u>	<u>% Change</u>
Cash	\$ 12,323,893	\$ 14,993,051	\$ (2,669,158)	(17.80)
Investments	13,676,389	13,430,006	246,383	1.83
Other current assets	<u>6,228,057</u>	<u>2,157,401</u>	4,070,656	188.68
Total assets	32,228,339	30,580,458	1,647,881	5.39
Claims liabilities	8,430,372	10,134,466	(1,704,094)	(16.81)
Other current liabilities	<u>2,870,481</u>	<u>189,334</u>	2,681,147	1416.09
Total liabilities	<u>11,300,853</u>	<u>10,323,800</u>	977,053	9.46
unrestricted net assets	<u>\$ 20,927,486</u>	<u>\$ 20,256,658</u>	670,828	3.31
Members' contributions	\$ 124,988,791	\$ 119,492,344	5,496,447	4.60
Medicare Part D subsidy	<u>1,436,577</u>	<u>1,511,831</u>	(75,274)	(4.98)
Total operating revenues	126,426,348	121,004,175	5,421,173	4.48
Claims expense	111,004,736	106,531,464	4,473,272	4.20
Claims administration expenses	5,958,212	5,475,637	482,575	8.81
Fixed premiums	5,768,048	4,979,826	788,222	15.83
Stop loss insurance premiums	950,158	1,187,610	(237,452)	(19.99)
Consulting and group administration	969,497	800,706	168,791	21.08
Other administrative services	<u>109,191</u>	<u>146,385</u>	(37,194)	(25.41)
Total operating expenses	<u>124,759,842</u>	<u>119,121,628</u>	5,638,214	4.73
Operating income	1,665,506	1,882,547	(217,041)	(11.53)
Investment income	361,137	569,662	(208,525)	(36.61)
Refund of medicare part D to members	<u>1,355,815</u>	<u>0</u>	1,355,815	100.00
Change in net assets	<u>\$ 670,828</u>	<u>\$ 2,452,209</u>	\$ (1,781,381)	(72.64)

Economic Factors Affecting the Subsequent Year

The Group is operating in an environment of escalating health care costs. Given this environment the Group is actively participating in ongoing wellness programs to promote healthier lifestyles and ultimately to reduce health claim costs.

Prior to June 30, 2011, the Group's Board set the rate structure for fiscal year 2012 plan participation. The rate structure resulted in rate increases for active care plans and for self-funded senior plans.

WEST SUBURBAN HEALTH GROUP

Management's Discussion & Analysis

June 30, 2011

Request for information

This financial report is intended to provide an overview of the finances of the Group. Any questions concerning this report, or for additional information, please contact Marc Waldman, Chairman of the Board, or Ruth Hohenschau, Treasurer.

BASIC FINANCIAL STATEMENTS

WEST SUBURBAN HEALTH GROUPStatement of Net Assets
June 30, 2011 and June 30, 2010

	<u>2011</u> <u>Total</u>	<u>2010</u> <u>Total</u>
<u>ASSETS</u>		
Current Assets:		
Cash and cash equivalents	\$ 12,323,893	\$ 14,993,051
Investments	13,676,389	13,430,006
Receivables:		
Medicare Part D subsidy	514,000	865,641
Reinsurance claims	1,103,409	86,948
Due from members	645,300	
Rebates from insurance carriers	<u>3,011,796</u>	<u>624,430</u>
Total receivables	5,274,505	1,577,019
Deposits with insurance carriers	<u>953,552</u>	<u>580,382</u>
Total assets	<u>\$ 32,228,339</u>	<u>\$ 30,580,458</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Accounts payable	\$ -	\$ 21,747
Members' advance contributions	1,514,666	167,587
Medicare part D due to members	1,355,815	
Claims liabilities (Note 5)	<u>8,430,372</u>	<u>10,134,466</u>
Total liabilities	11,300,853	10,323,800
Unrestricted/total net assets	<u>20,927,486</u>	<u>20,256,658</u>
Total liabilities and net assets	<u>\$ 32,228,339</u>	<u>\$ 30,580,458</u>

The accompanying notes are an integral part of these financial statements.

WEST SUBURBAN HEALTH GROUP
Statement of Revenues, Expenses, and Changes in Net Assets
Years Ended June 30, 2011 and June 30, 2010

	<u>2011</u> <u>Total</u>	<u>2010</u> <u>Total</u>
Operating revenues:		
Members' contributions	\$ 124,316,629	\$ 118,928,140
Medicare Part D subsidy	1,436,557	1,511,831
COBRA contributions	<u>672,162</u>	<u>564,204</u>
Total operating revenues	126,425,348	121,004,175
Operating expenses:		
Claims expense	111,004,736	106,531,464
Claims administration fees	5,958,212	5,475,637
Fixed premiums	5,768,048	4,979,826
Stop loss insurance premiums	950,158	1,187,610
Consulting and group administration services	969,497	800,706
Other administrative services	<u>109,191</u>	<u>146,385</u>
Total operating expenses	<u>124,759,842</u>	<u>119,121,628</u>
Operating income (loss)	1,665,506	1,882,547
Nonoperating revenues/expenses:		
Investment income	361,137	569,662
Refund of medicare part D to members	<u>1,355,815</u>	<u> </u>
Change in net assets	670,828	2,452,209
Net assets, beginning of year	<u>20,256,658</u>	<u>17,804,449</u>
Net assets, end of year	<u>20,927,486</u>	<u>\$ 20,256,658</u>

The accompanying notes are an integral part of these financial statements.

WEST SUBURBAN HEALTH GROUP
Statement of Cash Flows
Years Ended June 30, 2011 and June 30, 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Cash received from members	\$ 125,690,570	\$ 118,671,438
Cash received for Medicare Part D subsidy	1,788,198	975,422
Cash paid to insurance providers	(129,162,245)	(118,146,086)
Cash paid to other vendors	<u>(1,100,435)</u>	<u>(925,698)</u>
Net cash provided (used) by operating activities	(2,783,912)	575,076
Cash flows from investing activities:		
Change in investments, net	(246,383)	(354,095)
Interest on deposits	<u>361,137</u>	<u>569,662</u>
Net cash provided (used) by investing activities	<u>114,754</u>	<u>215,567</u>
Net increase (decrease) in cash and cash equivalents	(2,669,158)	790,643
Cash and cash equivalents, beginning of year	<u>14,993,051</u>	<u>14,202,408</u>
Cash and cash equivalents, end of year	<u>\$ 12,323,893</u>	<u>\$ 14,993,051</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	\$ 1,665,506	\$ 1,882,547
Changes in operating assets and liabilities:		
Accounts receivable	(3,697,486)	(515,639)
Deposits with insurance carriers	(373,170)	133,691
Accounts payable	(21,747)	21,393
Members' advance contributions	1,347,079	(820,906)
Claims liabilities	<u>(1,704,094)</u>	<u>(126,010)</u>
Net cash provided (used) by operating activities	<u>\$ (2,783,912)</u>	<u>\$ 575,076</u>

The accompanying notes are an integral part of these financial statements.

WEST SUBURBAN HEALTH GROUP

Notes to Financial Statements

June 30, 2011 and 2010

Note 1. Description of Group

West Suburban Health Group (the Group) was organized in July 1990 under Chapter 32B, Section 12 of the Massachusetts General Laws to obtain health insurance for its member governments that have signed the Joint Negotiation and Purchase of Health Coverage governmental agreement. The Group is governed by the West Suburban Health Group Board (the Board), comprised of representatives from each of the member governmental units. The Board has elected a Steering Committee to oversee the business of the Group. As a governmental entity, the Group is not subject to the provisions of the Employee Retirement Income Security Act of 1974 nor is it subject to federal and state income taxes.

The Group offers health benefits to all eligible employees and retirees of its participating governmental units. At June 30, 2011, participants are the Towns of Ashland, Dedham, Dover, Holliston, Natick, Needham, Sherborn, Shrewsbury, Walpole, Wayland, Wellesley, Westwood, and Wrentham; the Dover-Sherborn School District; the ACCEPT Educational Collaborative and The Education Cooperative.

Governmental units may apply for membership and be added to the Group, commencing on a date mutually agreed upon, provided that no less than two-thirds of Board members representing the participating governmental units vote to accept such additional participants.

Any participating governmental unit may withdraw participation at its discretion, but withdrawal is only effective on June 30 of a given year. A governmental unit that elects to terminate participation in the Group must notify the Board by March 31 in order to be effective for the following June 30. In addition, any participating governmental unit which is 60 days in arrears for payments may be terminated at the discretion of the Board. In lieu of termination, the Board may take other appropriate action.

There is no liability for premium or administrative expense following the effective date of termination of a participating governmental unit's coverage under a contract purchased through the Group except for the governmental unit's proportionate share of any deficit in the trust, as of its termination date, or of any premium expense or any subsequent expense for its covered individuals continued on the plan after termination, as well as for any unpaid contributions or assessments attributable to periods prior to the effective date of the participating governmental units termination. In the case of a certified surplus, the joint purchase agreement does not allow a withdrawing unit to receive any portion of the Group's surplus.

Contributions to the Group's trust fund from participating governmental units are on a monthly basis, based upon plan specific funding rates for coverage provided on individual and family enrollments for self-insured plans. The payment is calculated by the Board and is determined to be 100% of the cost of coverage of the Group as a whole (including, but not limited to, anticipated incurred claims, retention risk, and Group administration expenses) as established through underwriting and/or actuarial estimates. Premiums for insured plans are set by the health plans.

WEST SUBURBAN HEALTH GROUP

Notes to Financial Statements

June 30, 2011 and 2010

Note 1. Description of Group (continued)

All refunds, surplus, and deficits are dealt with on a proportional and collective basis. In the case of a certified surplus, the Board determines whether the excess funds will remain in the trust fund for the purpose of reducing the participants' future premium cost or be distributed to the participating governmental units in proportion to the number of participating governmental unit's employees and retirees covered under the contract purchased at the time the surplus was incurred. In the case of a certified deficit, the Board will determine to resolve the deficit through increasing participant's future contributions or whether additional revenue will be raised through direct assessment and paid by the participating governmental units in proportion to the number of participating governmental unit's employees and retirees covered under the contract purchased at the time the deficit was incurred.

The Group offers the following self-insured plans: Blue Cross Blue Shield of MA (BCBSMA) Network Blue New England Exclusive Provider Organization (EPO) plan and Medex 3 with OBRA90 benefits; Fallon Health & Life Assurance Company's SelectCare and DirectCare EPOs; Harvard Pilgrim Health Care (HPHC) EPO plan, HPHC Preferred Provider Organization (PPO) plan, and HPHC Medicare Enhance; Tufts Health Plan EPO plan and Tufts Point of Service ((POS) plan.

These plans are administered by the respective insurance companies for a monthly administration fee based on the number of individual, single parent/single child, and family plan subscribers for a particular month.

The Group offers the following health plans on a fully insured basis: BCBSMA Medicare HMO Blue, BCBSMA Managed Blue for Seniors, Fallon Senior Plan, HPHC First Seniority, Tufts Medicare Complement, and Tufts Medicare Preferred.

The Group employs the services of John R. Sharry, Incorporated, d/b/a Group Benefits Strategies (GBS), as central benefit administrator to provide certain management, consulting, enrollment, COBRA and technical functions and to audit medical claims paid. The current agreement with GBS is for a three-year term ending June 30, 2011, and provides for a monthly fee based upon the number of subscribers. The agreement may be terminated by either party, at any time with 60 days prior, written notice.

The Group employs the services Prescription Benefits Services, Inc. (PBS), a related party to Group Benefits Strategies, as benefit administrator to provide certain management, consulting, and technical functions for the Group's alternative prescription drug program. The current agreement with PBS is for a two-year term ending September 30, 2011, and provides for a monthly fee based upon the number of subscribers, a one time set up fee and an annual incentive fee paid in monthly installments. The agreement may be terminated by the Group, at any time after the initial term the agreement with 90 days prior, written notice.

The Group appoints a Treasurer and an Assistant Treasurer who collect payment from member units, pay claims and vendor expenses, maintain the financial records of the Group, and oversee investments.

WEST SUBURBAN HEALTH GROUP

Notes to Financial Statements

June 30, 2011 and 2010

Note 2. Summary of Significant Accounting Policies

A. Basis of Presentation

The financial statements of the Group are prepared in accordance with accounting principles generally accepted in the United States of America, using the economic resources measurement focus and the accrual basis of accounting, and reflect transactions by and on behalf of the Group.

Member contributions include the monthly premiums charged to each participating governmental units and include costs for administrative services as well as insurance charges. Contributions are recorded as revenue during the period in which the Group is obligated to provide services to its members. The unearned portion of contributions for a coverage period is reported as advance collections.

Under Governmental Accounting Standards Boards (GASB) Statement No. 20, *Accounting and Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, the Group has elected to apply accounting standards applicable to the private sector issued on or before November 30, 1989, unless those standards conflict with or contradict pronouncements of the Governmental Accounting Standards Board. Operating revenues and expenses result from providing health insurance to its member governments. All other revenues and expenses are reported as non-operating.

B. Claims liabilities

The Group's obligations include estimated health claims incurred but not reported at June 30. The Group uses the latest reported claims to record the Group's payable of reported claims and to estimate health claims incurred but not reported as of that date. The Group pays self-funded claims weekly for Tufts Total Health Plan, Harvard Pilgrim Health Care (HPHC) and Fallon, for actual claims to be paid and the central benefits administrator, Group Benefits Strategies, is sent supporting detail for the funding request. The Group pays Blue Cross/Blue Shield (BCBS) a level, monthly payment each month to cover the expected cost of claims for that month. The amount has been mutually agreed upon to represent approximately one month of projected claims for the BCBS plans. There is a quarterly reconciliation and settle-up against actual claims payments made by BCBS on behalf of the Group. Actual claims reported differ from claims estimated, but the Group's size and stop-loss coverage minimize the risk of a significant difference. Claims liabilities are reviewed periodically using claims data adjusted for the Group's current experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

C. Reinsurance

The Group has a specific excess medical and prescription drug claims reinsurance contract with an insurance carrier covering claims paid on all self-funded plans, except HPHC Medicare Enhance and Medex, in excess of \$250,000 and \$225,000 per individual to a lifetime maximum amount payable of \$2,000,000 and \$2,225,000, for each individual member within any one-policy period for the years ended June 30, 2011 and 2010, respectively.

WEST SUBURBAN HEALTH GROUP

Notes to Financial Statements

June 30, 2011 and 2010

Note 2. Summary of Significant Accounting Policies (continued)

C. Reinsurance (continued)

Additionally, each policy has an Aggregating Specific Deductible premium of \$500,000 for the years ended June 30, 2011 and June 30, 2010. The Aggregating Specific Deductible is the amount of excess claims the Group must pay before the policy begins to pay.

The policy period covers claims incurred, on a calendar basis, within 12 months and paid within 18 months.

The Group does not include reinsured risks as liabilities unless it is probable that those risks will not be covered by the re-insurer. Amounts recoverable through re-insurers on paid claims are classified as receivable and as a reduction of claims expense.

D. Cash, Cash Equivalents and Investments

The Group considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Investments are stated at fair value. Where applicable, fair values are based on quotations from national securities exchanges.

E. Medicare Part D Prescription Drug Benefit Program

The Group Acts as plan sponsor, on behalf of its members, for the purpose of applying for the subsidy payment provided for under The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (subpart R).

F. Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results will differ from those estimates.

Note 3. Cash, Cash equivalents and Investments

The Group maintains deposits in authorized financial institutions. Authorized deposits include demand deposits, term deposits, and certificates of deposit in trust companies, national banks, savings banks, and certain other financial institutions. Deposits may not exceed certain levels without collateralization of the excess by the financial institution involved. The Group may also invest in securities issued by or unconditionally guaranteed by the U.S. Government or an agency thereof, and having a maturity from date of purchase of one year or less. The Group may also invest in repurchase agreements guaranteed by such government securities with maturity dates of not more than ninety days from date of purchase. The Group may invest in units of the Massachusetts Municipal Depository Trust (MMDT), and external investment pool managed by the Treasurer of the Commonwealth of Massachusetts. Cash deposits are reported at carrying amount, which reasonably approximates fair value.

WEST SUBURBAN HEALTH GROUP

Notes to Financial Statements

June 30, 2011 and 2010

Note 3. Cash, Cash equivalents and Investments (continued)

In the case of deposits, custodial credit risk is the risk that in the event of a bank failure, the Group's deposits may not be returned. The Group does not have a formal deposit policy for custodial credit risk. At June 30, 2011 and June 30, 2010, deposits totaled \$12,324,157 and \$14,998,893, respectively. The carrying amounts of these deposits at June 30, 2011 and June 30, 2010, were \$12,323,893 and \$14,993,051, respectively. Of the deposit amounts \$12,221,705 and \$14,896,138 was exposed to custodial credit risk at June 30, 2011 and June 30, 2010, respectively because it was uninsured and uncollateralized. The difference between deposit amounts and carrying amounts generally represents outstanding checks and deposits in transit.

The Group maintains accounts for investment of funds.

Custodial credit risk for investments is the risk that, in the event of the failure of the counter party to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Group does not have an investment policy covering custodial credit risk. Two of the Groups accounts are insured by Securities Investor Protection Corporation (SIPC) up to \$500,000 and are otherwise uninsured and uncollateralized.

Interest rate risk is the risk that changes in market interest rates that will adversely affect the fair market value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair market value to changes in market interest rates. The Group has an investment policy, included as part of its joint purchase agreement, which provides for the investment of funds in securities with a weighted average maturity not to exceed 2.5 years. The approximate maturities of the Group's debt investments are disclosed in the following table:

Investment Type	Fair Market Value	Maturity			
		12 months or less	13 – 24 months	25 – 60 months	Thereafter
As of June 30, 2011:					
Government securities	\$ 27,147	\$ -	\$ -	\$ -	\$27,147
MMDT	8,022,620	8,022,620			-
Asset backed securities	1,214,959		7,877	15,915	1,191,167
Money market funds	1,168,751	1,168,751			
Negotiable Certificates of Deposit	62,730	51,245	11,285		
Corporate notes	<u>3,180,182</u>	<u>519,923</u>	<u>446,607</u>	<u>2,176,162</u>	<u>37,490</u>
	<u>\$ 13,676,389</u>	<u>\$ 9,762,539</u>	<u>\$ 465,969</u>	<u>\$ 2,192,077</u>	<u>\$ 1,255,804</u>
As of June 30, 2010:					
Government securities	\$ 252,371		\$ -	\$252,371	\$ -
MMDT	7,998,195	7,998,195			
Asset backed securities	713,725	41,373		85,233	587,119
Money market funds	114,004	114,004			
Negotiable Certificates of Deposit	147,011	119,604	27,407		
Corporate notes	<u>4,204,700</u>	<u>268,466</u>	<u>568,478</u>	<u>3,238,106</u>	<u>129,650</u>
	<u>\$ 13,430,006</u>	<u>\$ 8,541,642</u>	<u>\$ 595,885</u>	<u>\$ 3,575,710</u>	<u>\$ 716,769</u>

WEST SUBURBAN HEALTH GROUP

Notes to Financial Statements

June 30, 2011 and 2010

Note 3. Cash, Cash equivalents and Investments (continued)

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. Credit risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. Obligations of the U.S. Government and certain of its agencies are not considered to have credit risk and therefore no rating is disclosed in the above table. Equity securities and equity mutual funds are not rated as to credit risk. The Group does not have an investment policy which would limit its investment choices. The following table discloses the approximate amount of debt investments in each rating classification using Standard & Poor's rating classifications:

		S&P Rating as of Year End					
Investment Type	Fair Market Value	Exempt					Not Rated
		from Disclosure	AAA	AA to A	BBB	BB to B	
As of June 30, 2011:							
Government securities	\$ 27,147	\$ 27,147	\$ -	\$ -	\$ -	\$ -	\$ -
MMDT	8,022,620	8,022,620					
Asset backed securities	1,214,959	1,214,959					
Money market funds	1,168,751						1,168,751
Negotiable Certificates of Deposit	62,730						62,730
Corporate notes	<u>3,180,182</u>	<u>-</u>	<u>-</u>	<u>1,524,023</u>	<u>1,013,728</u>	<u>365,517</u>	<u>276,914</u>
	<u>\$13,676,389</u>	<u>\$9,264,726</u>	<u>\$ -</u>	<u>\$ 1,524,023</u>	<u>1,013,728</u>	<u>\$ 365,517</u>	<u>\$1,508,395</u>
As of June 30, 2010:							
Government securities	\$ 252,371	\$ 252,371	\$ -	\$ -	\$ -	\$ -	\$ -
MMDT	7,998,195	7,998,195					
Money market funds	114,004						114,004
Negotiable Certificates of Deposit	147,004						147,004
Asset backed securities	713,725	713,725					
Corporate notes	<u>4,204,700</u>	<u>-</u>	<u>-</u>	<u>2,158,461</u>	<u>1,404,638</u>	<u>287,744</u>	<u>353,857</u>
	<u>\$ 13,430,006</u>	<u>\$ 8,964,291</u>	<u>-</u>	<u>\$ 2,158,461</u>	<u>1,404,638</u>	<u>\$ 287,744</u>	<u>\$ 614,872</u>

Concentration of credit risk – The Group does not have an investment policy which limits the amount that can be invested in any one issuer or security. Excluding U.S. federal agency securities, and external investment pools, there are no securities or issuers which represent more than 5% of the total investments of the governmental activities.

Note 4. Plan Deposits

The Group has established deposits with certain insurers who draw upon these accounts to pay claims. Fallon, Tufts, and Harvard Pilgrim notify the Group of the funding required on a weekly basis, and the Group transfers that funding into the appropriate account. These deposits and other claim advance amounts at June 30, 2011 and 2010, are as follows:

<u>Administrator</u>	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Fallon Health & Life	\$ 47,376	\$ 29,535
Harvard Pilgrim	774,998	446,502
Prescription drug plan	552	1,405
Tufts	130,626	102,940
Total deposits	<u>\$ 953,552</u>	<u>\$ 580,382</u>

WEST SUBURBAN HEALTH GROUP

Notes to Financial Statements

June 30, 2011 and 2010

Note 5. Unpaid Claims

The Group establishes a liability for both reported and unreported insured events, which include estimates of both future payments of losses and related adjustment expenses, if any. The following table represents changes in claims' liabilities for the years ended June 30, 2011 and June 30, 2010:

	<u>2011</u>	<u>2010</u>
Unpaid claims and claims' adjustment expenses—beginning of year	\$ 10,134,466	\$ 10,260,476
Incurring claims and claims' adjustment expenses:		
Provision for insured events of the current fiscal year	112,640,161	108,039,538
Increase (decrease) in provision for insured events of prior fiscal years	<u>(1,635,425)</u>	<u>(1,508,074)</u>
	111,004,736	106,531,464
Payments:		
Claims and claims' adjustment expenses attributable to insured events of the current fiscal year	(104,212,684)	(97,907,967)
Claims and claims' adjustment expenses attributable to insured events of prior fiscal years	<u>(8,496,146)</u>	<u>(8,749,507)</u>
	<u>(112,708,830)</u>	<u>(106,657,474)</u>
Total unpaid claims and claims' adjustment expenses—end of year	<u>\$ 8,430,372</u>	<u>\$ 10,134,466</u>

Note 6. Subsequent events

The Municipal Health Care Reform Bill was passed on July 12, 2011. This bill may significantly alter the plans offered by the Group and the service delivery options of its members but the effect of the bill at this time is unknown.

WEST SUBURBAN HEALTH GROUP
Required Supplementary Information
Six-Year Claims' Development Information

The table on the next page illustrates how the Group's earned revenues and investment income compare to related costs of loss and other expenses assumed by the Group as of the end of each of the last six years. The rows in the table are defined as follows: (1) This line shows the total of each fiscal year's earned contribution revenues and investment revenues. (2) This line shows each fiscal year's HMO fixed premiums paid and other operating costs of the Group including overhead and claims' expense not allocated to individual claims. (3) This line shows the Group's incurred self-insured claims and allocated claims' adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event triggered coverage under the contract occurred (called *policy year*). (4) This section of rows shows the cumulative amounts paid as of the end of successive years for each policy year. (5) This section of rows shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. (6) This line compares the latest re-estimated incurred claims' amount to the originally established (line 3) and shows whether this latest estimate of claims' cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

WEST SUBURBAN HEALTH GROUP
REQUIRED SUPPLEMENTARY INFORMATION
Six-Year Claims' Development Information
(Unaudited)

	<u>6/30/2011</u>	<u>6/30/2010</u>	<u>6/30/2009</u>	<u>6/30/2008</u>	<u>6/30/2007</u>	<u>6/30/2006</u>
1. Earned member assessments, other and investment revenues	\$ 126,786,485	\$ 121,573,836	\$ 114,994,091	\$ 110,744,575	\$ 102,055,287	\$ 90,244,549
2. HMO fixed premiums paid and other operating expenses	\$ 13,755,106	\$ 12,590,164	\$ 11,521,971	\$ 10,558,928	\$ 9,308,954	\$ 9,329,425
3. Estimated incurred, self-insured claims and expense, end of fiscal year	\$ 112,640,161	\$ 108,039,538	\$ 99,860,561	\$ 95,819,229	\$ 89,205,017	\$ 87,471,102
4. Paid (cumulative) as of:						
End of fiscal year	\$ 104,212,684	\$ 97,907,967	\$ 89,602,981	\$ 85,176,530	\$ 78,904,946	\$ 74,903,229
One year later		\$ 106,474,559	\$ 98,290,428	\$ 95,733,731	\$ 88,871,478	\$ 83,118,800
Two years later			\$ 98,277,910	\$ 95,796,458	\$ 88,761,224	\$ 83,010,897
Three years later				\$ 95,770,988	\$ 88,786,385	\$ 83,003,414
Four years later					\$ 88,754,592	\$ 82,977,736
						\$ 82,976,885
5. Re-estimated incurred, self-insured claims and expense:						
End of fiscal year	\$ 112,640,161	\$ 108,039,538	\$ 99,860,561	\$ 95,819,229	\$ 89,205,017	\$ 87,471,102
One year later		\$ 106,474,559	\$ 98,290,428	\$ 95,733,731	\$ 88,871,478	\$ 83,118,800
Two years later			\$ 98,277,910	\$ 95,796,458	\$ 88,761,224	\$ 83,010,897
Three years later				\$ 95,770,988	\$ 88,786,385	\$ 83,003,414
Four years later					\$ 88,754,592	\$ 82,977,736
						\$ 82,976,885
6. (Increase) decrease in estimated, incurred, self-insured claims and expense from the end of the original policy year.	\$ -	\$ 1,564,979	\$ 1,570,133	\$ 22,771	\$ 418,632	\$ 4,493,366