

**WEST SUBURBAN HEALTH GROUP**  
BASIC FINANCIAL STATEMENTS AND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
WITH REQUIRED SUPPLEMENTARY INFORMATION  
YEARS ENDED JUNE 30, 2014 AND JUNE 30, 2013  
WITH INDEPENDENT AUDITORS' REPORTS

**WEST SUBURBAN HEALTH GROUP**  
**BASIC FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**WITH REQUIRED SUPPLEMENTARY INFORMATION**  
Years Ended June 30, 2014 and June 30, 2013

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**Lynch, Malloy, Marini, LLP**

*Certified Public Accountants & Advisors*

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## **INDEPENDENT AUDITORS' REPORT**

To the Steering Committee  
West Suburban Health Group

We have audited the accompanying financial statements of the West Suburban Health Group (Group) as of and for the years ended June 30, 2014 and 2013 and the related notes to the financial statements, which collectively comprise the Group's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

### **Auditors' Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of West Suburban Health Group, as of June 30, 2014 and 2013, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (MD&A) on pages v-vii and the claims development information on page 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Reporting Required by Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2015, on our consideration of West Suburban Health Group'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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering West Suburban Health Group's internal control over financial reporting and compliance.

*Lynch, Malloy, Marini, LLP*

Natick, Massachusetts  
January 29, 2015



Lynch, Malloy, Marini, LLP

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**INDEPENDENT AUDITORS' 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 Steering Committee  
West Suburban Health Group

We have audited, in accordance with the 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 of the United States, the financial statements of West Suburban Health Group (Group), as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Group's basic financial statements, and have issued our report thereon dated January 29, 2015.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Group's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. Accordingly, we do not express an opinion on the effectiveness of the Group'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 the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Group'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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

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 the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Lynch, Malloy, Marini, LLP*

Natick, Massachusetts

January 29, 2015

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## WEST SUBURBAN HEALTH GROUP

### Management's Discussion & Analysis

June 30, 2014 and 2013

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 years ended June 30, 2014 and 2013. 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 position, a statement of revenues, expenses and changes in net position; a statement of cash flows and notes to the financial statements.

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

The statement of revenues, expenses, and changes in net position 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 position reconciles to the net position 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 (net position) in 2014 and 2013 by \$9,558,331 and \$18,023,939 respectively, at the close of each fiscal year. The current year decrease in net position is a result of member contributions and premiums being lower than the Group's expenses for the year.
- Net position at June 30, 2014 represents 8.1% of the fiscal year's claims expenses. At June 30, 2013, net position represents 16.0% of the fiscal year's claims expenses.
- For the years ended June 30, 2014 and 2013, net position decreased by \$8,465,608 and 4,747,137 respectively.
- 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 \$3,444,857 for 2014 and a net decrease in cash of \$6,510,958 for 2013. The decrease in cash is a result of claims and other Group expenses exceeding member premiums during the fiscal year.

Of the total claims liability \$2,054,477 and \$22,189 represents claims payable and \$8,976,701 and \$7,954,512 represents an estimate for claims incurred but not reported as of June 30, 2014 and 2013, respectively.

See Independent Auditors' Report



**WEST SUBURBAN HEALTH GROUP**

## Management's Discussion &amp; Analysis

June 30, 2014 and 2013

Actuarial assumptions are used in projecting annual claims costs for each health plan on a per subscriber/per month basis and individual and Family plan rates, on a plan by plan basis, are set to fund the aggregate of the total projected claims and other Group costs.

The increase in plan rates for fiscal year 2014 range between 4% and 19% for active employee plans. All Rate Saver and Benchmark plans were assigned 4% increases, PPO/POS plans had increased rates of 12%, and EPO plan rates increased from 16-19%. The Group reduced FY14 active employee plan rates from those recommended through the rate projection process by projecting to use trust fund surplus. Effective January 1, 2014, the Group's self-funded Blue Cross Blue Shield Medex plan and Harvard Pilgrim Medicare Enhance plan had rates decrease 26.5% and 13.1%, respectively, from the prior calendar year.

**Condensed Financial Information**

A comparative summary of financial information is presented below:

	<u>2014</u>	<u>2013</u>	<u>% Change</u>
Cash	\$ 4,064,170	\$ 7,509,027	(45.88%)
Investments	15,702,918	15,421,837	1.82%
Other current assets	<u>2,610,229</u>	<u>3,151,984</u>	(17.19%)
Total assets	22,377,317	26,082,848	(14.21%)
Claims liabilities	11,031,178	7,976,701	38.29%
Other current liabilities	<u>1,787,808</u>	<u>82,208</u>	2074.74%
Total liabilities	<u>12,818,986</u>	<u>8,058,909</u>	59.07%
Unrestricted net position	<u>\$ 9,558,331</u>	<u>\$ 18,023,939</u>	(46.97%)
Members' contributions	\$ 127,080,569	\$ 121,835,836	4.30%
Other operating revenue	<u>883,793</u>	<u>1,602,718</u>	(44.86%)
Total operating revenues	127,964,362	123,438,554	3.67%
Claims expense	119,275,309	112,635,757	5.89%
Claims administration expenses	4,940,792	5,207,928	(5.13%)
Fixed premiums	9,610,577	7,070,860	35.92%
Stop loss insurance premiums	807,483	697,092	15.84%
Consulting and group administration	777,452	1,062,917	(26.86%)
Other administrative services	<u>1,313,727</u>	<u>414,854</u>	216.67%
Total operating expenses	<u>136,725,340</u>	<u>127,089,408</u>	7.58%
Operating income (loss)	(8,760,978)	(3,650,854)	139.97%
Investment income	295,370	257,502	14.71%
Distribution of RDS to members	-	<u>1,353,785</u>	(100.00%)
Change in net position	<u>\$ (8,465,608)</u>	<u>\$ (4,747,137)</u>	78.33%

See Independent Auditors' Report

**WEST SUBURBAN HEALTH GROUP**  
Management's Discussion & Analysis  
June 30, 2014 and 2013

**Economic Factors Affecting the Subsequent Year**

The Group's Board set the rate structure for fiscal 2015 and 2014 plan participation. The rate structure for 2015 resulted in rate increases of 1.5% to 17.8% and 4.0% to 19.1%, varying by plan. See details above regarding increased rates for fiscal year 2014.

**Request for information**

This financial report is intended to provide an overview of the finances of the Group. Questions about this report or requests for additional information may be directed to the Group's Treasurer, Ruth Hohenschau, at 7 Snow Street, Sherborn, MA 01770.

## **BASIC FINANCIAL STATEMENTS**

**WEST SUBURBAN HEALTH GROUP**

## Statement of Net Position

June 30, 2014 and June 30, 2013

	<u>2014</u>	<u>2013</u>
<b><u>ASSETS</u></b>		
Assets:		
Cash and cash equivalents	\$ 4,064,170	\$ 7,509,027
Investments	15,702,918	15,421,837
Receivables:		
Retiree Drug Subsidy (RDS)	-	645,511
Reinsurance claims	713,080	-
Due from members	-	621,988
Rebates from insurance carriers	-	741,212
Total receivables	<u>713,080</u>	<u>2,008,711</u>
Deposits with insurance carriers	<u>1,897,149</u>	<u>1,143,273</u>
Total assets	<u><u>\$ 22,377,317</u></u>	<u><u>\$ 26,082,848</u></u>
<b><u>LIABILITIES AND NET POSITION</u></b>		
Liabilities:		
Accounts payable	\$ 130	\$ -
Members' advance contributions	1,787,678	82,208
Claims liabilities	11,031,178	7,976,701
Total liabilities	<u>12,818,986</u>	<u>8,058,909</u>
Unrestricted/total net position	<u>9,558,331</u>	<u>18,023,939</u>
Total liabilities and net position	<u><u>\$ 22,377,317</u></u>	<u><u>\$ 26,082,848</u></u>

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

**WEST SUBURBAN HEALTH GROUP**  
Statement of Revenues, Expenses, and Changes in Net Position  
Years Ended June 30, 2014 and June 30, 2013

	<u>2014</u>	<u>2013</u>
<b>Operating revenues:</b>		
Members' contributions	\$ 127,080,569	\$ 121,835,836
Retiree Drug Subsidy (RDS)	626,028	1,227,473
COBRA contributions	257,765	375,245
	<hr/>	<hr/>
Total operating revenues	127,964,362	123,438,554
 <b>Operating expenses:</b>		
Claims expense	119,275,309	112,635,757
Claims administration fees	4,940,792	5,207,928
Fixed premiums	9,610,577	7,070,860
Stop loss insurance premiums	807,483	697,092
Consulting and group administration services	777,452	1,062,917
Other administrative services	1,313,727	414,854
	<hr/>	<hr/>
Total operating expenses	136,725,340	127,089,408
 Operating income (loss)	 (8,760,978)	 (3,650,854)
 <b>Nonoperating revenues(expenses):</b>		
Investment income	295,370	257,502
Distribution of Retiree Drug Subsidy (RDS) to members	-	(1,353,785)
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Change in net position	(8,465,608)	(4,747,137)
Net position, beginning of year	18,023,939	22,771,076
	<hr/>	<hr/>
Net position, end of year	<u>\$ 9,558,331</u>	<u>\$ 18,023,939</u>

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

**WEST SUBURBAN HEALTH GROUP**  
Statement of Cash Flows  
Years Ended June 30, 2014 and June 30, 2013

	<u>2014</u>	<u>2013</u>
<b>Cash flows from operating activities:</b>		
Cash received from members	\$ 129,665,792	\$ 121,796,695
Cash received for Retiree Drug Subsidy (RDS)	1,271,539	930,962
Cash paid to insurance providers	(132,305,298)	(127,709,191)
Cash paid to other vendors	<u>(2,091,179)</u>	<u>(1,543,316)</u>
Net cash used by operating activities	(3,459,146)	(6,524,850)
<b>Cash flows from investing activities:</b>		
Change in investments, net	(281,081)	(243,610)
Interest on deposits	<u>295,370</u>	<u>257,502</u>
Net cash provided by investing activities	<u>14,289</u>	<u>13,892</u>
Net decrease in cash and cash equivalents	(3,444,857)	(6,510,958)
Cash and cash equivalents, beginning of year	<u>7,509,027</u>	<u>14,019,985</u>
Cash and cash equivalents, end of year	<u><u>\$ 4,064,170</u></u>	<u><u>\$ 7,509,027</u></u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income (loss)	\$ (8,760,978)	\$ (3,650,854)
Changes in operating assets and liabilities:		
Accounts receivable	1,295,631	(161,242)
Deposits with insurance carriers	(753,876)	(301,872)
Accounts payable	130	(65,545)
Distribution of Retiree Drug Subsidy (RDS) to members	-	(1,353,785)
Members' advance contributions	1,705,470	(13,741)
Claims liabilities	<u>3,054,477</u>	<u>(977,811)</u>
Net cash used by operating activities	<u><u>\$ (3,459,146)</u></u>	<u><u>\$ (6,524,850)</u></u>

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

## WEST SUBURBAN HEALTH GROUP

### Notes to Financial Statements

June 30, 2014 and 2013

#### 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, 2014 and 2013, participants are the Towns of Ashland, Dedham, Dover, Holliston, Natick, Needham, Sherborn, Shrewsbury, Walpole, Wayland, Wellesley, Westwood, and Wrentham; the Dover-Sherborn School District and South Middlesex Regional Vocational Technical School; 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 in writing 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 funding rates are determined by the Board based on recommendations from the health plans and its consultant and are 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, 2014 and 2013

#### **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) plans and Medex 3 with OBRA benefits; Fallon Health & Life Assurance Company's SelectCare and DirectCare EPOs; Harvard Pilgrim Health Care (HPHC) EPO plans, 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 and family plan subscribers for a particular month.

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

The Group employs the services of John R. Sharpy, 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 December 31, 2015, 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) 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 three-year term ending September 30, 2016, 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 with 90 days prior, written notice.

The Group appoints a Treasurer and an Assistant Treasurer who collect payments 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, 2014 and 2013

#### **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 unit 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, 2014 and 2013. The Group uses the latest reported claims to record the Group's liability 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 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 requests. 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 purchased stop loss insurance (reinsurance) to limit loss exposures. 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 \$300,000, specific deductible per individual, and a \$500,000 aggregating specific deductible, to an annual maximum amount payable per claimant of \$2,000,000 for both 2014 and 2013.

## WEST SUBURBAN HEALTH GROUP

Notes to Financial Statements

June 30, 2014 and 2013

### **Note 2. Summary of Significant Accounting Policies (continued)**

#### **C. Reinsurance (continued)**

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 fiscal basis within 12 months and paid within 24 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**

Cash and cash equivalents consist of cash on hand, cash in checking, savings or money market accounts, repurchase agreements, and other short-term investments with original maturities of three months or less.

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

#### **E. Medicare Retirees Drug Subsidy (RDS) Program**

The Group acts as the Retiree Drug Subsidy (RDS) 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, 2014 and 2013

### 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, 2014 and June 30, 2013, deposits totaled \$3,942,820 and \$7,533,310, respectively. The carrying amounts of these deposits at June 30, 2014 and June 30, 2013, were \$4,064,170 and \$7,509,027, respectively. Of the deposit amounts \$3,527,666 and \$7,451,102 was exposed to custodial credit risk at June 30, 2014 and 2013, respectively. 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, 2014:					
Government securities	\$ 191,513	\$ -	\$ 127,157	\$ 64,356	\$ -
MMDT	8,077,540	8,077,540	-	-	-
Asset backed securities	2,932,811	-	-	208,362	2,724,449
Money market funds	2,744,721	2,744,721	-	-	-
Negotiable Certificates of Deposit	190,193	100,434	89,579	-	-
Corporate notes	1,566,140	379,306	387,555	799,279	-
	<u>\$ 15,702,918</u>	<u>\$ 11,302,001</u>	<u>\$ 604,471</u>	<u>\$ 1,071,997</u>	<u>\$ 2,724,449</u>
As of June 30, 2013:					
Government securities	\$ 150,436	\$ -	\$ -	\$ 150,436	\$ -
MMDT	8,062,171	8,062,171	-	-	-
Asset backed securities	1,807,043	159	-	85,186	1,721,698
Money market funds	2,487,391	2,487,391	-	-	-
Negotiable Certificates of Deposit	50,112	50,112	-	-	-
Corporate notes	2,864,684	180,929	412,069	1,891,168	380,518
	<u>\$ 15,421,837</u>	<u>\$ 10,780,762</u>	<u>\$ 412,069</u>	<u>\$ 2,126,790</u>	<u>\$ 2,102,216</u>

# WEST SUBURBAN HEALTH GROUP

## Notes to Financial Statements

June 30, 2014 and 2013

### 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	
<b>As of June 30, 2014:</b>							
Government securities	\$ 191,513	\$ -	\$ -	\$ 64,356	\$ -	\$ 127,157	\$ -
MMDT	8,077,540	8,077,540	-	-	-	-	-
Asset backed securities	2,932,811	2,932,811	-	-	-	-	-
Money market funds	2,744,721	-	-	-	-	-	2,744,721
Negotiable Certificates of Deposit	190,193	-	-	-	-	-	190,193
Corporate notes	1,566,140	-	-	1,034,422	531,718	-	-
	<u>\$ 15,702,918</u>	<u>11,010,351</u>	<u>\$ -</u>	<u>\$ 1,098,778</u>	<u>\$ 531,718</u>	<u>\$ 127,157</u>	<u>\$ 2,934,914</u>
<b>As of June 30, 2013:</b>							
Government securities	\$ 150,436	\$ -	\$ -	\$ -	\$ 150,436	\$ -	\$ -
MMDT	8,062,171	8,062,171	-	-	-	-	-
Money market funds	1,807,043	1,807,043	-	-	-	-	-
Negotiable Certificates of Deposit	2,487,391	-	-	-	-	-	2,487,391
Asset backed securities	50,112	-	-	-	-	-	50,112
Corporate notes	2,864,684	-	-	1,391,688	1,254,151	-	218,845
	<u>\$ 15,421,837</u>	<u>\$ 9,869,214</u>	<u>\$ -</u>	<u>\$ 1,391,688</u>	<u>\$ 1,404,587</u>	<u>-</u>	<u>\$ 2,756,348</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. Deposits with Insurance Carriers

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 amounts, other claim advance amounts, and amounts owed at June 30, 2014 and 2013, are as follows:

Administrator	June 30, 2014	June 30, 2013
Fallon Health & Life	\$ 43,958	\$ 60,611
Abacus Diabetes program	(26,258)	195,794
Harvard Pilgrim	451,749	494,897
Prescription drug plan	63,160	243,644
Berkley Life & Health	759,566	-
Tufts	<u>604,974</u>	<u>148,327</u>
Total deposits	<u>\$ 1,897,149</u>	<u>\$ 1,143,273</u>

**WEST SUBURBAN HEALTH GROUP**

## Notes to Financial Statements

June 30, 2014 and 2013

**Note 5. Health Claims Incurred but not Reported**

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, 2014 and June 30, 2013:

	<u>2014</u>	<u>2013</u>
Claims liabilities—beginning of year	\$ 7,976,701	\$ 8,954,512
Incurred claims and claims' adjustment expenses:		
Provision for insured events of the current fiscal year	119,040,184	113,398,568
Increase (decrease) in provision for insured events of prior fiscal years	<u>235,125</u>	<u>(762,811)</u>
	119,275,309	112,635,757
Payments:		
Claims and claims' adjustment expenses attributable to insured events of the current fiscal year	(108,009,006)	(105,424,762)
Claims and claims' adjustment expenses attributable to insured events of prior fiscal years	<u>(8,211,826)</u>	<u>(8,188,806)</u>
	<u>(116,220,832)</u>	<u>(113,613,568)</u>
Claims liabilities—end of year	<u>\$ 11,031,178</u>	<u>\$ 7,976,701</u>

**Note 6. Subsequent Events**

The Group has evaluated subsequent events through January 29, 2015, which is the date the financial statements were available to be issued. Effective, July 1, 2015, the Towns of Ashland, Walpole, and Westwood will be leaving the Group.

**Note 7. GASB Pronouncements Recently Issued**

The following are pronouncements issued by the Governmental Accounting Standards Board (GASB), which the Group believes are applicable to its financial statements.

**Current pronouncements**

The GASB issued Statement #66, *Technical Corrections - 2012, an amendment of GASB Statements No. 10 and No. 62*, which was required to be implemented in fiscal year 2014. The pronouncement resolves conflicting guidance from issued pronouncement No. 54, regarding fund based reporting of risk financing activities. Also, it amends No. 62 by modifying the specific guidance on accounting for (1) operating lease payments, (2) purchase of a loan or a group of loans, and (3) service fees. This pronouncement had no effect on the Group in the current year.

The GASB issued Statement #69, *Government Combinations and Disposals of Government Operations*, which was required to be implemented in fiscal year 2014. The pronouncement addresses accounting and financial reporting issues associated with a variety of transactions, such as mergers, acquisitions, disposals and transfer of governmental operations. This pronouncement had no effect on the Group in the current year.

## WEST SUBURBAN HEALTH GROUP

### Notes to Financial Statements

June 30, 2014 and 2013

The GASB issued Statement #70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which as required to be implemented in fiscal year 2014. The pronouncement addresses accounting and financial reporting for financial guarantees extended by a government for the obligations of another government, not-for-profit, or private entity without directly receiving equal or approximately equal value in exchange for the guarantee. This pronouncement had no effect on the Group in the current year.

**WEST SUBURBAN HEALTH GROUP**  
Required Supplementary Information  
Ten-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 ten 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.

See Independent Auditors' Report

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

	<u>6/30/2014</u>	<u>6/30/2013</u>	<u>6/30/2012</u>	<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>	<u>6/30/2005</u>
1. Earned member assessments, other and investment revenues	\$ 128,259,732	\$ 123,696,056	\$ 127,831,044	\$ 126,786,485	\$ 121,573,836	\$ 114,994,091	\$ 110,744,575	\$ 102,055,287	\$ 90,244,549	\$ 72,472,587
2. HMO fixed premiums paid and other operating expenses	\$ 17,450,031	\$ 14,453,651	\$ 13,531,905	\$ 13,755,106	\$ 12,590,164	\$ 11,521,971	\$ 10,558,928	\$ 9,308,954	\$ 9,329,425	\$ 10,039,714
3. Estimated incurred, self-insured claims and expense, end of fiscal year	\$ 119,040,184	\$ 113,398,568	\$ 113,515,498	\$ 112,640,161	\$ 108,039,538	\$ 99,860,561	\$ 95,819,229	\$ 89,205,017	\$ 87,471,102	\$ 66,464,025
4. Paid (cumulative) as of:										
End of fiscal year	\$ 108,009,006	\$ 105,424,762	\$ 104,563,881	\$ 104,212,684	\$ 97,907,967	\$ 89,602,981	\$ 85,176,530	\$ 78,904,946	\$ 74,903,229	\$ 58,381,021
One year later	\$	\$ 113,634,646	\$ 112,720,084	\$ 111,621,430	\$ 106,474,559	\$ 98,290,428	\$ 95,733,731	\$ 88,871,478	\$ 83,118,800	\$ 64,861,744
Two years later			\$ 112,707,795	\$ 111,682,108	\$ 106,451,253	\$ 98,277,910	\$ 95,796,458	\$ 88,761,224	\$ 83,010,897	\$ 65,120,834
Three years later				\$ 111,687,403	\$ 106,432,807	\$ 98,263,634	\$ 95,770,988	\$ 88,786,385	\$ 83,003,414	\$ 65,099,507
Four years later					\$ 106,438,316	\$ 98,263,630	\$ 95,768,763	\$ 88,754,592	\$ 82,977,736	\$ 65,093,733
Five years later						\$ 98,264,162	\$ 95,763,671	\$ 88,752,650	\$ 82,976,885	\$ 65,093,917
Six years later							\$ 95,763,671	\$ 88,748,601	\$ 82,976,881	\$ 65,094,103
Seven years later								\$ 88,748,601	\$ 82,976,859	\$ 65,094,639
Eight years later									\$ 82,976,859	\$ 65,094,177
Nine years later										\$ 65,094,177
5. Re-estimated incurred, self-insured claims and expense:										
End of fiscal year	\$ 119,040,184	\$ 113,398,568	\$ 113,515,498	\$ 112,640,161	\$ 108,039,538	\$ 99,860,561	\$ 95,819,229	\$ 89,205,017	\$ 87,471,102	\$ 66,461,025
One year later	\$	\$ 113,634,646	\$ 112,720,084	\$ 111,621,430	\$ 106,474,559	\$ 98,290,428	\$ 95,733,731	\$ 88,871,478	\$ 83,118,800	\$ 64,861,744
Two years later			\$ 112,707,795	\$ 111,682,108	\$ 106,451,253	\$ 98,277,910	\$ 95,796,458	\$ 88,761,224	\$ 83,010,897	\$ 65,120,834
Three years later				\$ 111,687,403	\$ 106,432,807	\$ 98,263,634	\$ 95,770,988	\$ 88,786,385	\$ 83,003,414	\$ 65,099,507
Four years later					\$ 106,438,316	\$ 98,263,630	\$ 95,768,763	\$ 88,754,592	\$ 82,977,736	\$ 65,093,733
Five years later						\$ 98,264,162	\$ 95,763,671	\$ 88,752,650	\$ 82,976,885	\$ 65,093,917
Six years later							\$ 95,763,671	\$ 88,748,601	\$ 82,976,881	\$ 65,094,103
Seven years later								\$ 88,748,601	\$ 82,976,859	\$ 65,094,639
Eight years later									\$ 82,976,859	\$ 65,094,177
Nine years later										\$ 65,094,177
6. (Increase) decrease in estimated, incurred, self-insured claims and expense from the end of the original policy year.	\$	\$ (236,078)	\$ 807,703	\$ 952,758	\$ 1,601,222	\$ 1,596,399	\$ 55,558	\$ 456,416	\$ 4,494,243	\$ 1,366,848