

**WEST SUBURBAN HEALTH GROUP**  
BASIC FINANCIAL STATEMENTS AND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
WITH REQUIRED SUPPLEMENTARY INFORMATION  
YEARS ENDED JUNE 30, 2016 AND JUNE 30, 2015  
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, 2016 and June 30, 2015

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**Lynch, Malloy, Marini, LLP**

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## **INDEPENDENT AUDITORS' REPORT**

To the Steering Committee  
West Suburban Health Group

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the West Suburban Health Group (the Group) as of and for the years ended June 30, 2016 and 2015, 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 opinions 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 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 opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Group, as of June 30, 2016 and 2015, and the respective changes in financial position, and cash flows thereof for the years 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), pages v – vii, and the claims development information, pages 14 – 15, 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 Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2017, on our consideration of the 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 the Group's internal control over financial reporting and compliance.



Natick, Massachusetts

February 13, 2017



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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 General of the United States, the financial statements of the West Suburban Health Group (the Group), as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Group's basic financial statements and have issued our report thereon dated February 13, 2017.

***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 and therefore, material weaknesses or significant deficiencies may exist that were not 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items.

***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  
February 13, 2017

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

## **WEST SUBURBAN HEALTH GROUP**

### **Management's Discussion and Analysis**

**June 30, 2016 and 2015**

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, 2016 and 2015. 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 statements of net position presents information on the assets and liabilities of the Group, with the difference being reported as net position.

The statements 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 statements 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 financial statements. The notes to the financial statements follow the basic financial statements described above.

#### **Financial Highlights**

- Assets exceeded liabilities (net position) as of June 30, 2016 and 2015 by \$6,236,969 and \$5,928,693 respectively. The current year increase in net position is a result of member contributions and premiums being higher than the Group's expenses for the year. The prior 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, 2016 represents 6.4% of the fiscal year's claims expenses. At June 30, 2015, net position represents 5.1% of the fiscal year's claims expenses.
- For the years ended June 30, 2016 and 2015, net position increased by \$308,276 and decreased 3,629,638 respectively.
- The statement of cash flows identifies the sources and uses of cash activity for the fiscal year and displays a net increase in cash of \$4,602,715 for year ending June 30, 2016 and a net decrease in cash of \$2,608,783 for the year ending June 30, 2015. The increase in cash as of June 30, 2016 is a result of member premiums exceeding claims along with an increase of advance member contributions by \$3,290,393. The decrease in cash as of June 30, 2015 is a result of claims exceeding member premiums.

As of June 30, 2016 and 2015, \$0 and \$1,502,078, respectively, represents claims liabilities and \$9,000,000 and \$9,000,000, respectively, represents an estimate for claims incurred but not reported.



## WEST SUBURBAN HEALTH GROUP

### Management's Discussion and Analysis

June 30, 2016 and 2015

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 funding rates for fiscal year 2016 range between 8.6% and 20.0% for active employee plans which operate on a fiscal year basis, July 1 – June 30. All Rate Saver and Benchmark EPO (HMO) plan rates increased from 8.6% to 14.0%. The PPO and POS plan rates increased 20.0%. The two self-funded senior plans, Medex 2 with Blue Medicare Rx PDP and Harvard Pilgrim Medicare Enhance with Coventry PDP until December 31, 2015 and then Aetna PDP, operate on a calendar year basis and had rate increase of 6% For CY16 and a decrease of 18% for CY15. These plans were changed to Employer Group Waiver Plans (EGWPs) effective January 1, 2014. Medical expenses for the two senior plans are self-funded and prescription drug expenses are fully insured through the PDPs.

### Condensed Financial Information

A comparative summary of financial information is presented below:

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 6,058,102	\$ 1,455,387
Investments	8,940,096	11,840,757
Other current assets	<u>3,571,228</u>	<u>3,176,691</u>
Total assets	18,569,426	16,472,835
Claims payable	-	1,502,078
Claims incurred but not reported	9,000,000	9,000,000
Other current liabilities	<u>3,332,457</u>	<u>42,064</u>
Total liabilities	<u>12,332,457</u>	<u>10,544,142</u>
Unrestricted net position	<u>\$ 6,236,969</u>	<u>\$ 5,928,693</u>
Members' contributions	\$ 116,163,604	\$ 134,314,479
Other operating revenue	<u>191,968</u>	<u>424,462</u>
Total operating revenues	116,355,572	134,738,941
Claims expense	96,718,688	116,255,693
Claims administration expenses	2,108,767	4,730,087
Health plan premiums	13,159,570	12,514,531
Stop loss insurance premiums	1,890,363	2,157,926
Regulatory fees	562,712	862,097
Consulting and group administration	658,257	830,517
Other administrative services	<u>1,059,067</u>	<u>1,166,071</u>
Total operating expenses	<u>116,157,424</u>	<u>138,516,922</u>
Operating income (loss)	198,148	(3,777,981)
Investment income	<u>110,128</u>	<u>148,343</u>
Increase/(decrease) in net position	<u>\$ 308,276</u>	<u>\$ (3,629,638)</u>

## **WEST SUBURBAN HEALTH GROUP**

### **Management's Discussion and Analysis**

**June 30, 2016 and 2015**

#### **Economic Factors Affecting the Subsequent Year**

The Group's Board set the funding rates for self-funded plans for fiscal 2016 and 2015 with increases ranging from 8.6% to 20% and 1.5% to 17.8% respectively.

The Town of Sherborn elected to withdraw from the Group effective June 30, 2016. The Town of Sherborn's notification of withdrawal came after the Joint Purchase Agreement was amended on January 14, 2016. As such, under the new agreement, the Town of Sherborn is responsible for paying the first month of its run out claims that were incurred prior to July 1, 2016 but paid on or after July 1, 2016. The Group is responsible for paying the remainder of Town of Sherborn's runout claims.

South Middlesex Regional Vocational Technical School elected to withdraw from the Group effective June 30, 2016 and notified the Group prior to the changes to the Joint Purchase Agreement. As such, the Group is responsible for the claims incurred by South Middlesex Regional Vocational Technical School prior to July 1, 2016. This obligation of the Group will result in an unanticipated impact on the fund balance within the first quarter of fiscal year 2017.

The Town of Ashland elected to withdraw from the Group effective June 30, 2015. As such, the Group is responsible for the claims incurred by the Town of Ashland prior to July 1, 2015.

The Town of Walpole elected to withdraw from the Group effective June 30, 2015. As such, the Group is responsible for the claims incurred by the Town of Walpole prior to July 1, 2015.

The Town of Westwood elected to withdraw from the Group effective June 30, 2015. As such, the Group is responsible for the claims incurred by the Town of Westwood prior to July 1, 2015.

The Education Cooperative elected to withdraw from the Group effective June 30, 2015. As such, the Group is responsible for the claims incurred by the Education Cooperative prior to July 1, 2015.

#### **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**

## Statements of Net Position

June 30, 2016 and June 30, 2015

	<u>2016</u>	<u>2015</u>
<b><u>ASSETS</u></b>		
Assets:		
Cash and cash equivalents	\$ 6,058,102	\$ 1,455,387
Investments	8,940,096	11,840,757
Receivables:		
Reinsurance claims	1,104,589	866,129
Due from members	-	59,122
Receivable from insurance carrier	50,745	421,718
Total receivables	<u>1,155,334</u>	<u>1,346,969</u>
Deposits with insurance carriers	<u>2,415,894</u>	<u>1,829,722</u>
Total assets	<u><u>\$ 18,569,426</u></u>	<u><u>\$ 16,472,835</u></u>
<b><u>LIABILITIES AND NET POSITION</u></b>		
Liabilities:		
Members' advance contributions	3,332,457	42,064
Claims liabilities	-	1,502,078
Claims incurred but not reported	9,000,000	9,000,000
Total liabilities	<u>12,332,457</u>	<u>10,544,142</u>
Unrestricted/total net position	<u>6,236,969</u>	<u>5,928,693</u>
Total liabilities and net position	<u><u>\$ 18,569,426</u></u>	<u><u>\$ 16,472,835</u></u>

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

**WEST SUBURBAN HEALTH GROUP**  
Statements of Revenues, Expenses, and Changes in Net Position  
Years Ended June 30, 2016 and June 30, 2015

	<u>2016</u>	<u>2015</u>
<b>Operating revenues:</b>		
Members' contributions	\$ 116,163,604	\$ 134,314,479
Retiree drug subsidy	-	96,092
COBRA contributions	191,968	328,370
	<u>116,355,572</u>	<u>134,738,941</u>
Total operating revenues		
<b>Operating expenses:</b>		
Claims expense	96,718,688	116,255,693
Claims administration fees	2,108,767	4,730,087
Health plan premiums	13,159,570	12,514,531
Stop loss insurance premiums	1,890,363	2,157,926
Regulatory fees	562,712	862,097
Consulting and group administration services	658,257	830,517
Other administrative services	1,059,067	1,166,071
	<u>116,157,424</u>	<u>138,516,922</u>
Total operating expenses		
Operating income/(loss)	198,148	(3,777,981)
<b>Nonoperating revenues(expenses):</b>		
Investment income	110,128	148,343
	<u>308,276</u>	<u>(3,629,638)</u>
Increase/(decrease) in net position		
Net position, beginning of year	5,928,693	9,558,331
	<u>6,236,969</u>	<u>5,928,693</u>
Net position, end of year		

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



**WEST SUBURBAN HEALTH GROUP**  
Statements of Cash Flows  
Years Ended June 30, 2016 and June 30, 2015

	<u>2016</u>	<u>2015</u>
<b>Cash flows from operating activities:</b>		
Cash received from members	\$ 119,705,087	\$ 132,838,104
Cash received for retiree drug subsidy	-	96,092
Cash paid to insurance providers	(115,833,125)	(136,694,797)
Cash paid to other vendors	<u>(2,280,036)</u>	<u>(2,858,686)</u>
Net cash provided/(used) by operating activities	1,591,926	(6,619,287)
<b>Cash flows from investing activities:</b>		
(Increase)/Decrease in investments, net	2,900,661	3,862,161
Interest on deposits	<u>110,128</u>	<u>148,343</u>
Net cash provided by investing activities	<u>3,010,789</u>	<u>4,010,504</u>
Net (decrease)/increase in cash and cash equivalents	4,602,715	(2,608,783)
Cash and cash equivalents, beginning of year	<u>1,455,387</u>	<u>4,064,170</u>
Cash and cash equivalents, end of year	<u>\$ 6,058,102</u>	<u>\$ 1,455,387</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income/(loss)	\$ 198,148	\$ (3,777,981)
Changes in operating assets and liabilities:		
Accounts receivable	191,635	(633,889)
Deposits with insurance carriers	(586,172)	67,427
Accounts payable	-	(130)
Members' advance contributions	3,290,393	(1,745,614)
Claims incurred but not reported	-	(552,399)
Claims liabilities	<u>(1,502,078)</u>	<u>23,299</u>
Net cash provided/(used) by operating activities	<u>\$ 1,591,926</u>	<u>\$ (6,619,287)</u>

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

## WEST SUBURBAN HEALTH GROUP

Notes to Financial Statements

June 30, 2016 and 2015

### **Note 1. Description of the 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 governmental units 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, 2016, participants are the Towns of: Dedham, Dover, Holliston, Natick, Needham, Sherborn, Shrewsbury, Wayland, Wellesley, and Wrentham; the Dover-Sherborn School District and South Middlesex Regional Vocational Technical School; the ACCEPT Educational Collaborative. As of June 30, 2015, participants were 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. Effective June 30, 2016 South Middlesex Regional Vocational Technical School and the Town of Sherborn elected to withdraw from the Group. Effective June 30, 2015 the Town of Ashland, the Town of Walpole, the Town of Westwood and the Education Cooperative elected to withdraw from the Group.

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 December 31 in order for the withdrawal 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. The joint purchase agreement does not allow a withdrawing or terminated 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, 2016 and 2015

### **Note 1. Description of the Group (continued)**

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 contribution rates, remain in the trust fund as working capital, or be distributed to the participating governmental units through the joint negotiation and purchase agreement according to each participating governmental units proportionate share as described in the joint purchase agreement, Article 3, Section D. 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 share as outlined in Article 3, Section D of the joint purchase agreement.

The Group offers the following self-insured plans: Blue Cross Blue Shield of MA (BCBSMA) Network Blue New England Exclusive Provider Organization (EPO) plans, Fallon Health Select Care and Direct Care EPO plans, Harvard Pilgrim Health Care (HPHC) EPO plans and Preferred Provider Organization (PPO) plan, and Tufts Health Plan EPO plans. Each of the EPO plans is offered at two plan design levels, i.e. Rate Saver and Benchmark plan designs. The Group also offers two Medicare plans that are self-funded for medical claims and fully insured for pharmacy claims through Medicare Prescription Drug Plans (PDPs). These are BCBSMA Medex 2 with Blue Medicare Rx PDP and HPHC Medicare Enhance with Aetna PDP.

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: BCBS MA 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 June 30, 2019, 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 of 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 the agreement 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, 2016 and 2015

### **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 (GAAP), using the economic resources measurement focus and the accrual basis of accounting, and reflect transactions by and on behalf of the Group. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP that are used by the Group are discussed below.

Member contributions include the monthly funding rates and 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. Operating revenues and expenses result from providing health insurance to its member governments. All other revenues and expenses are reported as non-operating.

#### **B. Fair Value Measurement**

The Group measures assets and liabilities at fair value according to the hierarchy established by generally accepted accounting principles. 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 hierarchy is based upon valuation inputs, which are assumptions that market participants would use when pricing an asset or a liability, including assumptions about risk. The following are levels considered.

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 inputs are directly observable for an asset or a liability (including quoted prices for similar assets or liabilities), as well as inputs that are indirectly observable for the asset or liability.
- Level 3 inputs are unobservable for the asset or liability.

#### **C. Claims liabilities and claims incurred but not reported**

The Group's obligations include estimated health claims incurred but not reported at June 30, 2016 and 2015. 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

## WEST SUBURBAN HEALTH GROUP

Notes to Financial Statements

June 30, 2016 and 2015

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

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. The claims liability represents the difference between the estimated monthly level amount paid and the amount owed. All 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.

#### **D. Reinsurance**

On July 1, 2014 the Group, along with two other Mass. Municipal Joint Purchase Groups, entered into a new reinsurance pooling arrangement, the Massachusetts Municipal Reinsurance Arrangement Series of Sentinel Indemnity, LLC (MMRA). This is the first Massachusetts municipal reinsurance pooling arrangement. The policy year is July 1<sup>st</sup> through June 30<sup>th</sup>. All participants share the same rates for coverage of claims exceeding \$300,000. There is no Aggregating Specific Deductible. If claims experience is below projections, participants are dividend eligible on a collective and proportional basis. Participating governmental entities have agreed to participate for a minimum of three years. During the year ending on June 30, 2016, the Group maintained a deposit of \$1,282,659 and paid \$1,889,001 for premiums, operating expenses, and reserves. For the year ended June 30, 2015, the Group maintained a deposit of \$759,566 to MMRA, and paid \$2,157,926 for reinsurance premiums, operating expenses, and reserves.

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.

#### **E. 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 defined as securities or other assets that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or be sold to generate cash. Generally, investments are reported according to the fair value hierarchy established by generally accepted accounting principles. Certain investments, such as money market investments and 2a7-like external investment pools, are reported at amortized cost, as determined by the reporting investment company. 2a7-like pools are external investment pools that operate in conformity with the Securities and Exchange Commission's (SEC) rule 2a7 as promulgated under the Investment Company Act of 1940, as amended and should be measured at the net asset value per share provided by the pool.



## WEST SUBURBAN HEALTH GROUP

Notes to Financial Statements

June 30, 2016 and 2015

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

#### **F. Medicare Part D Prescription Drug Benefit Program**

Effective January 1, 2014, the Group changed its two self-funded Medicare supplement plans from Retiree Drug Subsidy (RDS)-eligible plans to Employer Group Waiver Plans (EGWPs) which have lower rates but are not RDS-eligible. The Group, which was the RDS Plan Sponsor, continued to receive subsidies on open and unreconciled applications filed with Center for Medicare and Medicaid Services (CMS) for years prior to 2014.

#### **G. Transitional Reinsurance Program fee**

In the years ending June 30, 2016 and 2015 the Group was required to pay \$562,712 and \$862,097, respectively, for Transitional Reinsurance Program (TRP) fees. The TRP fees are associated with the Affordable Care Act. The TRP fees are classified as regulatory fees within the financial statements.

#### **H. 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), an external investment pool managed by the Treasurer of the Commonwealth of Massachusetts. Cash deposits are reported at carrying amount, which reasonably approximates fair value.

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, 2016 and 2015, deposits totaled \$6,075,589 and \$1,496,603, respectively. The carrying amounts of these deposits at June 30, 2016 and 2015, were \$6,058,102 and \$1,455,387, respectively. The difference between deposit amounts and carrying amounts generally represents outstanding checks and deposits in transit. Of the deposit amounts \$5,779,253 and \$924,100 was exposed to custodial credit risk at June 30, 2016 and 2015, respectively.

## WEST SUBURBAN HEALTH GROUP

Notes to Financial Statements

June 30, 2016 and 2015

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

The Group invests some of its funds in MMDT, an external investment pool for political subdivisions of the Commonwealth of Massachusetts designed as a legal means to invest temporarily available cash. The state treasurer serves as trustee of MMDT and has sole authority pertaining to rules, regulations, and operations of the Trust. Investment options offered by MMDT are (1) a cash portfolio, which offers participation in a diversified portfolio of high-quality money market instruments that seek the highest possible level of current income consistent with preservation of capital and liquidity and (2) a short-term bond portfolio, which offers participation in a diversified portfolio of investment-grade, short-term, fixed-income securities that seeks to generate performance exceeding the Barclays 1-5 Year Government/Credit Bond Index, presenting a fixed-income alternative with a longer time horizon than the cash portfolio. A participant's holdings in the Trust are not subject to creditors of the Commonwealth, nor will the Trust itself be affected by the financial difficulties of any participant. Amounts held at MMDT are uninsured and uncollateralized.

The Group's investment balance at MMDT as of June 30, 2016 and 2015 was solely in the cash portfolio. The cash portfolio is not registered with the Securities and Exchange Commission (SEC) as an investment company, but maintains a policy to operate in a manner as a qualifying external investment pool as defined by the Governmental Accounting Standards Board. Additionally, the cash portfolio adheres to GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, which amended Statement No. 31 and established accounting and financial reporting statements for state and local governments that participate in a qualifying external investment pool that measures all of its investments for financial reporting purposes at amortized cost. A copy of MMDT's financial statements can be obtained by contacting the Office of the Treasurer and Receiver General of Massachusetts directly at One Ashburton Place #1207, Boston, Massachusetts 02108.

# WEST SUBURBAN HEALTH GROUP

## Notes to Financial Statements

June 30, 2016 and 2015

Investment Type	Fair Value Measurement	Value	Maturity			
			12 months or less	13 – 24 months	25 – 60 months	Thereafter
As of June 30, 2016:						
Government securities	Level I	\$ 114,135	\$ 43,501	\$ -	\$ 70,634	\$ -
MMDT–cash portfolio	Amortized Cost	1,094,729	1,094,729	-	-	-
Asset backed securities	Level I	2,837,198	26,058	11,012	145,301	2,654,827
Money market funds	Level I	2,369,828	2,369,828	-	-	-
Negotiable Certificates of Deposit	Level I	182,847	82,030	100,817	-	-
Corporate notes	Level I	2,341,359	182,709	148,780	1,533,987	475,883
		<u>\$ 8,940,096</u>	<u>\$ 2,704,125</u>	<u>\$ 260,609</u>	<u>\$ 1,749,922</u>	<u>\$3,130,710</u>
As of June 30, 2015:						
Government securities	Level I	\$ 152,324	\$ 83,814	\$ -	\$ 68,510	\$ -
MMDT – cash portfolio	Amortized Cost	4,089,968	4,089,968	-	-	-
Asset backed securities	Level I	3,411,010	-	46,780	143,882	3,220,348
Money market funds	Level I	864,154	864,154	-	-	-
Negotiable Certificates of Deposit	Level I	200,246	110,190	90,056	-	-
Corporate notes	Level I	3,123,055	879,030	2,244,025	-	-
		<u>\$ 11,840,757</u>	<u>\$ 6,027,156</u>	<u>\$ 2,380,861</u>	<u>\$ 212,392</u>	<u>\$3,220,348</u>

### S&P Rating as of Year End

Investment Type	Value	Exempt from				Not Rated	
		Disclosure	AAA	AA to A	BBB		BB to B
As of June 30, 2016:							
Government securities	\$ 114,135	\$ -	\$ -	\$ 70,634	\$ -	\$ -	\$ 43,501
MMDT – cash portfolio	1,094,729	-	-	-	-	-	1,094,729
Asset backed securities	2,837,196	-	-	-	-	-	2,837,196
Money market funds	2,369,828	-	-	-	-	-	2,369,828
Negotiable Certificates of Deposit	182,849	-	-	-	-	-	182,849
Corporate notes	2,341,359	-	-	99,155	1,349,834	870,750	21,620
	<u>\$ 8,940,096</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 169,789</u>	<u>\$ 1,349,834</u>	<u>\$ 870,750</u>	<u>\$ 6,549,723</u>
As of June 30, 2015:							
Government securities	\$ 152,324	\$ -	\$ -	\$ 68,510	\$ -	\$ -	\$ 83,814
MMDT – cash portfolio	4,089,968	-	-	-	-	-	4,089,968
Asset backed securities	3,411,010	-	-	-	-	-	3,411,010
Money market funds	864,154	-	-	-	-	-	864,154
Negotiable Certificates of Deposit	200,246	-	-	-	-	-	200,246
Corporate notes	3,123,055	-	-	553,716	1,218,471	1,350,868	-
	<u>\$ 11,840,757</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 622,226</u>	<u>\$ 1,218,471</u>	<u>\$ 1,350,868</u>	<u>\$ 8,649,192</u>

## WEST SUBURBAN HEALTH GROUP

Notes to Financial Statements

June 30, 2016 and 2015

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

*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 investments are disclosed in the above table.

*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 above table discloses the approximate amount of investments in each rating classification using Standard & Poor's rating classifications. In the years ending June 30, 2016 and 2015, the Group had an unrealized loss of \$106,500 and \$0, respectively, due to a municipal security defaulting.

*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 health plans and program administrators which 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, 2016 and 2015, are as follows:

<u>Administrator</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Fallon Health & Life	\$ 27,157	\$ 16,383
Abacus Diabetes program	37,156	(30,872)
Harvard Pilgrim	433,619	438,718
Prescription Benefit Services	38,108	39,024
MMRA	1,282,659	759,566
Tufts	597,195	606,903
Total deposits	<u>\$ 2,415,894</u>	<u>\$ 1,829,722</u>

## WEST SUBURBAN HEALTH GROUP

Notes to Financial Statements  
June 30, 2016 and 2015

### **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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Total claims incurred but not reported—beginning of year	\$ 9,000,000	\$ 8,976,701
Incurred claims and claims' adjustment expenses:		
Provision for insured events of the current fiscal year	95,387,172	115,708,989
Increase (decrease) in provision for insured events of prior fiscal years	<u>1,331,516</u>	<u>546,704</u>
	96,718,688	116,255,693
Payments:		
Claims and claims' adjustment expenses attributable to insured events of the current fiscal year	(86,387,172)	(106,708,989)
Claims and claims' adjustment expenses attributable to insured events of prior fiscal years	<u>(10,331,516)</u>	<u>(9,523,405)</u>
	<u>(96,718,688)</u>	<u>(116,232,394)</u>
Total claims incurred but not reported	<u>\$ 9,000,000</u>	<u>\$ 9,000,000</u>

### **Note 6. Subsequent Events**

The Group has evaluated subsequent events through February 13, 2017, which is the date the financial statements were available to be issued.

### **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 #72, Fair Value Measurement and Application, which was required to be implemented in fiscal year 2016. The pronouncement addresses accounting and financial reporting issues related to fair value measurements. The Group implemented the pronouncement as applicable.

The GASB issued Statement #76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, which was required to be implemented in fiscal year 2016. The pronouncement replaces previously issued guidance and improves financial reporting by redefining the hierarchy of generally accepted accounting principles (GAAP). The Group implemented the pronouncement as applicable.

The GASB issued Statement #79, *Certain External Investment Pools and Pool Participants*, which was required to be implemented in fiscal year 2016. The pronouncement issued accounting and financial reporting guidance regarding qualifying external investment pools and state and local governments that participate in such external investment pools. The Group implemented the pronouncement as applicable.



**WEST SUBURBAN HEALTH GROUP**

Notes to Financial Statements

June 30, 2016 and 2015

Future pronouncements

There are no additional GASB issued pronouncements as of the date of these financial statements which the Group believes will be applicable to its financial statements.

**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

	<u>6/30/2016</u>	<u>6/30/2015</u>	<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>
1. Earned member assessments, other and investment revenues	116,465,700	134,887,284	128,259,732	123,696,056	127,831,044	126,786,485	121,573,836	114,994,091	110,744,575	
2. HMO fixed premiums paid and other operating expenses	19,438,736	22,261,229	17,450,031	14,453,651	13,531,905	13,755,106	12,590,164	11,521,971	10,558,928	9,308,954
3. Estimated incurred, self-insured claims and expense, end of fiscal year	95,387,172	115,708,989	119,040,184	113,398,568	113,515,498	112,640,161	108,039,538	99,860,561	95,819,229	89,205,017
4. Paid (cumulative) as of:										
End of fiscal year	86,387,172	106,708,989	110,063,483	105,424,762	104,563,881	104,212,684	97,907,967	89,602,981	85,176,530	78,904,946
One year later		116,154,533	119,709,640	113,634,646	112,720,084	111,621,430	106,474,559	98,290,428	95,733,731	88,871,478
Two years later			120,582,729	113,567,129	112,707,795	111,682,108	106,451,253	98,277,910	95,796,458	88,761,224
Three years later				113,600,958	112,664,812	111,687,403	106,432,807	98,263,634	95,770,988	88,786,385
Four years later					112,655,638	111,675,450	106,438,316	98,263,630	95,768,763	88,754,592
Five years later						111,674,831	106,438,018	98,264,162	95,763,671	88,752,650
Six years later							106,426,864	98,264,162	95,763,671	88,748,601
Seven years later								98,264,162	95,763,671	88,748,601
Eight years later									95,763,671	88,748,601
Nine years later										88,748,601
5. Re-estimated incurred, self-insured claims and expense:										
End of fiscal year	95,387,172	115,708,989	119,040,184	113,398,568	113,515,498	112,640,161	108,039,538	99,860,561	95,819,229	89,205,017
One year later		116,154,533	119,709,640	113,634,646	112,720,084	111,621,430	106,474,559	98,290,428	95,733,731	88,871,478
Two years later			120,582,729	113,567,129	112,707,795	111,682,108	106,451,253	98,277,910	95,796,458	88,761,224
Three years later				113,600,958	112,664,812	111,687,403	106,432,807	98,263,634	95,770,988	88,786,385
Four years later					112,655,638	111,675,450	106,438,316	98,263,630	95,768,763	88,754,592
Five years later						111,674,831	106,438,018	98,264,162	95,763,671	88,752,650
Six years later							106,426,864	98,264,162	95,763,671	88,748,601
Seven years later								98,264,162	95,763,671	88,748,601
Eight years later									95,763,671	88,748,601
Nine years later										88,748,601
6. (Increase) decrease in estimated, incurred, self-insured claims and expense from the end of the original policy year.		(445,544)	(1,542,545)	(202,390)	859,860	965,330	1,612,674	1,596,399	55,558	456,416

See Independent Auditors' Report