

WEST SUBURBAN HEALTH GROUP
BASIC FINANCIAL STATEMENTS AND
MANAGEMENT'S DISCUSSION AND ANALYSIS
WITH REQUIRED SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2017 AND JUNE 30, 2016
WITH INDEPENDENT AUDITOR'S REPORTS

WEST SUBURBAN HEALTH GROUP
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WITH REQUIRED SUPPLEMENTARY INFORMATION
Years Ended June 30, 2017 and June 30, 2016

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INDEPENDENT AUDITOR'S REPORT

To the Steering Committee
West Suburban Health Group
Sherborn, Massachusetts 01770

Report on the Financial Statements

We have audited the accompanying financial statements of the West Suburban Health Group as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the West Suburban Health 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.

Auditor's 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 auditor's 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 West Suburban Health Group, as of June 30, 2017 and 2016, 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, pages v – vii, and the claims development information, pages 13 – 14, 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 8, 2018, on our consideration of the 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 the West Suburban Health Group's internal control over financial reporting and compliance.



Natick, Massachusetts
February 8, 2018

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Steering Committee
West Suburban Health Group
Sherborn, Massachusetts 01770

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, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the West Suburban Health Group's basic financial statements and have issued our report thereon dated February 8, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the West Suburban Health 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 West Suburban Health Group's internal control. Accordingly, we do not express an opinion on the effectiveness of the West Suburban Health 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 West Suburban Health 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 Marini & Associates Inc

Natick, Massachusetts

February 8, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

WEST SUBURBAN HEALTH GROUP

Management's Discussion and Analysis June 30, 2017 and June 30, 2016

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, 2017 and 2016. 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 present 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 report 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, 2017 and 2016 by \$964,400 and \$6,236,969 respectively. The current year decrease in net position is a result of operating expenses exceeding operating revenues. The prior year increase in net position is a result of member contributions and premiums being higher than the Group's expenses for the year.
- Net position at June 30, 2017 represents 1.0% of the fiscal year's claims expenses. At June 30, 2016, net position represents 6.4% of the fiscal year's claims expenses.
- For the years ended June 30, 2017 and 2016, net position decreased by \$5,272,569 and increased \$308,276 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 \$5,194,653 for year ending June 30, 2017 and a net increase in cash of \$5,697,444 for the year ending June 30, 2016. The decrease in cash as of June 30, 2017 is a result of operating expenses exceeding operating revenues and a decrease of advanced contributions. The increase in cash as of June 30, 2016 is a result of member premiums exceeding claims.

As of June 30, 2017, the Group had claims liability of \$541,355. As of June 30, 2016, the Group did not have any claims liabilities. As of June 30, 2017 and 2016, \$8,000,000 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, 2017 and June 30, 2016

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 2017 range between 0% and 8.5% 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 0% to 8.5%. The PPO and POS plan rates increased 3%. The two self-funded senior plans, Medex 2 with Blue Medicare Rx PDP and Harvard Pilgrim Medicare Enhance with Aetna PDP, operate on a calendar year basis and had a rate increase of 5% For CY17 and a rate increase of 6% for CY16. 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>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 1,958,178	\$ 7,152,831
Investments	6,258,994	7,845,367
Other current assets	3,203,727	3,571,228
Total assets	<u>11,420,899</u>	<u>18,569,426</u>
Claims liabilities	541,355	-
Claims incurred but not reported	8,000,000	9,000,000
Other current liabilities	1,915,144	3,332,457
Total liabilities	<u>10,456,499</u>	<u>12,332,457</u>
Unrestricted net position	<u>\$ 964,400</u>	<u>\$ 6,236,969</u>
Revenues:		
Member contributions	\$ 114,854,572	\$ 116,163,604
Other operating revenue	124,333	191,968
Total operating revenues	<u>114,978,905</u>	<u>116,355,572</u>
Expenses:		
Claims expense	100,490,689	96,718,688
Claims administration fees	2,342,523	2,108,767
Health plan premiums	13,710,090	13,159,570
Stop loss insurance premiums	1,949,667	1,890,363
Regulatory fees	287,053	562,712
Consulting and group administration services	629,623	658,257
Other administrative	1,052,072	1,059,067
Total operating expense	<u>120,461,717</u>	<u>116,157,424</u>
Operating income (loss)	<u>(5,482,812)</u>	<u>198,148</u>
Investment income	<u>210,243</u>	<u>110,128</u>
Increase/(decrease) in net position	<u>\$ (5,272,569)</u>	<u>\$ 308,276</u>

WEST SUBURBAN HEALTH GROUP

Management's Discussion and Analysis

June 30, 2017 and June 30, 2016

Economic Factors Affecting the Subsequent Year

The Group's Board set the funding rates for self-funded plans for fiscal 2018 and 2017 with increases ranging from 5.5% to 15% and 8.6% to 20%, respectively.

No members elected to withdraw from the Group during the fiscal year ended June 30, 2017.

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.

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

As of June 30, 2017 and June 30, 2016

	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 1,958,178	\$ 7,152,831
Investments	6,258,994	7,845,367
Receivables:		
Reinsurance claims	894,457	1,104,589
Claims - Town of Sherborn	87,500	-
Receivable from insurance carrier	642,552	50,745
Total receivables	<u>1,624,509</u>	<u>1,155,334</u>
Deposits with insurance carriers	<u>1,579,218</u>	<u>2,415,894</u>
Total assets	<u><u>\$ 11,420,899</u></u>	<u><u>\$ 18,569,426</u></u>
<u>LIABILITIES AND NET POSITION</u>		
Accounts payable	\$ 17,128	\$ -
Members' advance contributions	1,898,016	3,332,457
Claims liabilities	541,355	-
Claims incurred but not reported	8,000,000	9,000,000
Total liabilities	<u>10,456,499</u>	<u>12,332,457</u>
Unrestricted/total net position	<u>964,400</u>	<u>6,236,969</u>
Total liabilities and net position	<u><u>\$ 11,420,899</u></u>	<u><u>\$ 18,569,426</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
 For the Years Ended June 30, 2017 and June 30, 2016

	<u>2017</u>	<u>2016</u>
Operating revenues:		
Member contributions	\$ 114,854,572	\$ 116,163,604
COBRA contributions	124,333	191,968
Total operating revenues	114,978,905	116,355,572
Operating expenses:		
Claims expense	100,490,689	96,718,688
Claims administration fees	2,342,523	2,108,767
Health plan premiums	13,710,090	13,159,570
Stop loss insurance premiums	1,949,667	1,890,363
Regulatory fees	287,053	562,712
Consulting and group administration services	629,623	658,257
Other administrative services	1,052,072	1,059,067
Total operating expenses	120,461,717	116,157,424
Operating income/(loss)	(5,482,812)	198,148
Nonoperating revenues (expenses):		
Investment income	210,243	110,128
Increase/(decrease) in net position	(5,272,569)	308,276
Net position, beginning of year	6,236,969	5,928,693
Net position, end of year	<u>\$ 964,400</u>	<u>\$ 6,236,969</u>

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

WEST SUBURBAN HEALTH GROUP
 Statements of Cash Flows
 For the Years Ended June 30, 2017 and June 30, 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Cash received from members	\$ 113,456,964	\$ 119,705,087
Cash paid to insurance providers	(118,496,613)	(115,833,125)
Cash paid to other vendors	<u>(1,951,620)</u>	<u>(2,280,036)</u>
Net cash provided/(used) by operating activities	(6,991,269)	1,591,926
Cash flows from investing activities:		
(Increase)/Decrease in investments, net	1,586,373	3,995,390
Investment income	<u>210,243</u>	<u>110,128</u>
Net cash provided by investing activities	<u>1,796,616</u>	<u>4,105,518</u>
Net (decrease)/increase in cash and cash equivalents	(5,194,653)	5,697,444
Cash and cash equivalents, beginning of year	<u>7,152,831</u>	<u>1,455,387</u>
Cash and cash equivalents, end of year	<u><u>\$ 1,958,178</u></u>	<u><u>\$ 7,152,831</u></u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income/(loss)	\$ (5,482,812)	\$ 198,148
Changes in operating assets and liabilities:		
Accounts receivable	(469,175)	191,635
Deposits with insurance carriers	836,676	(586,172)
Accounts payable	17,128	-
Members' advance contributions	(1,434,441)	3,290,393
Claims incurred but not reported	(1,000,000)	-
Claims liabilities	<u>541,355</u>	<u>(1,502,078)</u>
Net cash provided/(used) by operating activities	<u><u>\$ (6,991,269)</u></u>	<u><u>\$ 1,591,926</u></u>

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

WEST SUBURBAN HEALTH GROUP

Notes to Financial Statements

June 30, 2017 and 2016

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, 2017, participants are the Towns of: Dedham, Dover, Holliston, Natick, Needham, Shrewsbury, Wayland, Wellesley, and Wrentham; the Dover-Sherborn School District; and the ACCEPT Educational Collaborative. As of June 30, 2016, participants were 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. Effective June 30, 2016 South Middlesex Regional Vocational Technical School and the Town of Sherborn elected to withdraw from the Group. During the fiscal year ended June 30, 2017, there were no members that requested 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 government unit may withdraw participation at its discretion effective on June 30, midnight, i.e. "on-anniversary" of a given year. To withdraw on-anniversary a governmental unit must provide written notification to the Group of its intent to withdraw by December 31st of the previous year and written notification of the Appropriate Public Authority's vote to withdraw no later than February 15 of the year of intended withdrawal. A unit that withdraws on-anniversary is required to reimburse the Group for the first month of its run-out claims. A governmental unit may also withdraw "off anniversary" to be effective at midnight on December 31st. A governmental unit intending to withdraw off-anniversary must provide the Group with written notification of intent to withdraw by July 1st and written notification no later than September 30th of the Appropriate Public Authority's vote to withdraw. A governmental unit withdrawing off-anniversary is required to reimburse the Group for all of its run-out claims. A governmental unit that has withdrawn is not entitled to any surplus in the Trust Fund. 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.

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, 2017 and 2016

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 Preferred Supplement with PDP Plus, 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 employed 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 agreement with PBS ended on September 30, 2016; however, services continued to be provided through September 30, 2017 by mutual agreement under the terms of the expired agreement. PBS was paid a monthly fee based upon the number of health plan subscribers. The arrangement with PBS was ended at midnight September 30, 2017, and the services were then performed by the program's product provider at no additional fees.

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, 2017 and 2016

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 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. 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, 2017 and 2016. 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, 2017 and 2016

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 1st through June 30th. 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, 2017, the Group maintained a deposit of \$528,210 and paid \$1,949,667 for premiums, operating expenses, and reserves. For the year ended June 30, 2016, the Group maintained a deposit of \$1,282,659, and paid \$1,889,001 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, 2017 and 2016

Note 2. Summary of Significant Accounting Policies (continued)

F. Transitional Reinsurance Program fee

In the years ending June 30, 2017 and 2016 the Group was required to pay \$287,053 and \$562,712, 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.

G. 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, 2017 and 2016, deposits totaled \$1,976,991 and \$7,170,318, respectively. The carrying amounts of these deposits at June 30, 2017 and 2016, were \$1,958,178 and \$7,152,831, respectively. The difference between deposit amounts and carrying amounts represents outstanding checks and deposits in transit. Of the deposit amounts \$1,669,219 and \$6,873,982 was exposed to custodial credit risk at June 30, 2017 and 2016, respectively. The financial statements for the year ended June 30, 2016 classified MMDT as investments. For the year ended June 30, 2017, the MMDT account is classified as cash equivalents. The June 30, 2016 figures have been reclassified for comparative purposes.

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Deposit accounts	\$ 1,862,125	\$ 6,058,102
MMDT - cash portfolio	96,053	1,094,729
Total cash and cash equivalents	<u>\$ 1,958,178</u>	<u>\$ 7,152,831</u>

WEST SUBURBAN HEALTH GROUP

Notes to Financial Statements

June 30, 2017 and 2016

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, 2017 and 2016 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.

Investment Type	Fair Value Measurement	Value	Maturity			
			12 months or less	13-24 months	25-60 months	Thereafter
As of June 30, 2017						
Government securities	Level 1	\$ 51,000	\$ 51,000	\$ -	\$ -	\$ -
Asset backed securities	Level 1	2,652,502	1,851	78,532	44,032	2,528,087
Money market funds	Amortized cost	273,140	273,140	-	-	-
Negotiable Certificates of Deposit	Level 1	100,792	100,792	-	-	-
Corporate notes	Level 1	3,181,560	1,853,435	320,128	744,391	263,606
		<u>\$ 6,258,994</u>	<u>\$ 2,280,218</u>	<u>\$ 398,660</u>	<u>\$ 788,423</u>	<u>\$ 2,791,693</u>
(Reclassified)						
As of June 30, 2016						
Government securities	Level 1	\$ 114,135	\$ 43,501	\$ -	\$ 70,634	\$ -
Asset backed securities	Level 1	2,837,198	26,058	11,012	145,301	2,654,827
Money market funds	Amortized cost	2,369,828	2,369,828	-	-	-
Negotiable Certificates of Deposit	Level 1	182,847	82,030	100,817	-	-
Corporate notes	Level 1	2,341,359	182,709	148,780	1,533,987	475,883
		<u>\$ 7,845,367</u>	<u>\$ 2,704,126</u>	<u>\$ 260,609</u>	<u>\$ 1,749,922</u>	<u>\$ 3,130,710</u>

WEST SUBURBAN HEALTH GROUP

Notes to Financial Statements

June 30, 2017 and 2016

	S&P Rating as of Year End						
Investment Type	Value	Exempt from Disclosure	AAA	AA to A	BBB	BB to B	Not Rated
As of June 30, 2017							
Government securities	\$ 51,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 51,000
Asset backed securities	2,652,502	-	-	-	-	-	2,652,502
Money market funds	273,140						273,140
Negotiable Certificates of Deposit	100,792	-	-	-	-	-	100,792
Corporate notes	3,181,560	-	10,050	460,930	2,692,000	-	18,580
	<u>\$ 6,258,994</u>	<u>\$ -</u>	<u>\$ 10,050</u>	<u>\$ 460,930</u>	<u>\$ 2,692,000</u>	<u>\$ -</u>	<u>\$ 3,096,014</u>
(Reclassified)							
As of June 30, 2016							
Government securities	\$ 114,135	\$ -	\$ -	\$ 70,634	\$ -	\$ -	\$ 43,501
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>\$ 7,845,367</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 169,789</u>	<u>\$ 1,349,834</u>	<u>\$ 870,750</u>	<u>\$ 5,454,994</u>

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 table on page 9.

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, 2017 and 2016, the Group had an unrealized loss of \$99,000 and \$106,500, respectively, due to a municipal security defaulting.

WEST SUBURBAN HEALTH GROUP

Notes to Financial Statements

June 30, 2017 and 2016

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

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. There are no issuers which represent more than 5% of the total investments.

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Group does not maintain any policies that address this risk.

Note 4. Claims Receivable – Town of Sherborn

The Town of Sherborn requested to withdraw from the Group in February 2016. According to the joint purchase agreement, a governmental unit's written request after December 31 results in the governmental unit reimbursing the Group for the full amount of the first month of run-out claims for covered services rendered to the governmental unit's employees, retirees, and other eligible individuals. The Group agreed to a one-time payment of \$87,500 for these claims and services. This amount is classified as claims receivable – Town of Sherborn within the financial statements.

Note 5. 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, 2017 and 2016, are as follows:

<u>Administrator</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Fallon Health & Life	\$ 13,439	\$ 27,157
Abacus Diabetes program	33,897	37,156
Harvard Pilgrim	429,172	433,619
Prescription Benefit Services	5,692	38,108
MMRA	528,210	1,282,659
Tufts	568,808	597,195
Total deposits	<u>\$ 1,579,218</u>	<u>\$ 2,415,894</u>

WEST SUBURBAN HEALTH GROUP

Notes to Financial Statements

June 30, 2017 and 2016

Note 6. 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, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Total claims incurred but not reported—beginning of year	\$ 9,000,000	\$ 9,000,000
Incurred claims and claims' adjustment expense:		
Provision for insured events of the current fiscal year	101,300,302	95,387,172
Increase (decrease) in provision for insured events of prior fiscal years	<u>(809,613)</u>	<u>1,331,516</u>
	100,490,689	96,718,688
Payments:		
Claims and claims' adjustment expenses attributable to insured events of the current fiscal year	(93,300,302)	(86,387,172)
Claims and claims' adjustment expenses attributable to insured events of prior fiscal years	<u>(8,190,387)</u>	<u>(10,331,516)</u>
	<u>(101,490,689)</u>	<u>(96,718,688)</u>
Total claims incurred but not reported	<u>\$ 8,000,000</u>	<u>\$ 9,000,000</u>

Note 7. Subsequent Events

The Group has evaluated subsequent events through February 8, 2018, which is the date the financial statements were available to be issued.

Note 8. GASB Pronouncements Recently Issued

There are currently no recently released GASB pronouncements, current or future, 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 Auditor's Report

WEST SUBURBAN HEALTH GROUP
REQUIRED SUPPLEMENTARY INFORMATION
Ten-Year Claims Development Information

	<u>6/30/2017</u>	<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>
1. Earned member assessments, other and investment revenues	115,189,148	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	19,982,042	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
3. Estimated incurred, self-insured claims and expense, end of fiscal year	101,300,302	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
4. Paid (cumulative) as of:										
End of fiscal year	93,300,302	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
One year later		94,421,715	116,154,533	119,709,640	113,634,646	112,720,084	111,621,430	106,474,559	98,290,428	95,733,731
Two years later			116,144,890	120,582,729	113,567,129	112,707,795	111,682,108	106,451,253	98,277,910	95,796,458
Three years later				120,745,055	113,600,958	112,664,812	111,687,403	106,432,807	98,263,634	95,770,988
Four years later					113,601,486	112,655,638	111,675,450	106,438,316	98,263,630	95,768,763
Five years later						112,655,638	111,674,831	106,438,018	98,264,162	95,763,671
Six years later							111,675,024	106,426,864	98,264,162	95,763,671
Seven years later								106,426,890	98,264,162	95,763,671
Eight years later									98,264,162	95,763,671
Nine years later										95,766,086
5. Re-estimated incurred, self-insured claims and expense:										
End of fiscal year	101,300,302	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
One year later		94,421,715	116,154,533	119,709,640	113,634,646	112,720,084	111,621,430	106,474,559	98,290,428	95,733,731
Two years later			116,144,890	120,582,729	113,567,129	112,707,795	111,682,108	106,451,253	98,277,910	95,796,458
Three years later				120,745,055	113,600,958	112,664,812	111,687,403	106,432,807	98,263,634	95,770,988
Four years later					113,601,486	112,655,638	111,675,450	106,438,316	98,263,630	95,768,763
Five years later						112,655,638	111,674,831	106,438,018	98,264,162	95,763,671
Six years later							111,675,024	106,426,864	98,264,162	95,763,671
Seven years later								106,426,890	98,264,162	95,763,671
Eight years later									98,264,162	95,763,671
Nine years later										95,766,086
6. (Increase) decrease in estimated, incurred, self-insured claims and expense from the end of the original policy year.		965,457	(435,901)	(1,704,871)	(202,918)	859,860	965,137	1,612,648	1,596,399	53,143

See Independent Auditor's Report