



Bill Fraher, CPA

**WEST SUBURBAN HEALTH GROUP
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 and 2018
WITH INDEPENDENT AUDITOR'S REPORT**

WEST SUBURBAN HEALTH GROUP
FINANCIAL STATEMENTS
Years Ended June 30, 2019 and 2018

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
West Suburban Health Group

Report on the Financial Statements

I have audited the accompanying financial statements of the West Suburban Health Group (the Group) as of and for the years ended June 30, 2019 and 2018.

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 misstatements, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 a 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 Group'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 Group's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my 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, 2019 and 2018, and the changes in financial position and cash flows for the year then ended in conformity 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 on pages 5 through 7 and the nine-year claims development information on page 17 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Government Auditing Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. I 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 regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements and other knowledge obtained during the audit of the financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards* I have also issued my report dated February 20, 2020 on my consideration of the Group's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the 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.



Bill Fraher, CPA
February 20, 2020



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**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**

Board of Directors
West Suburban Health Group

I have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the West Suburban Health Group (the Group) as of and for the years ended June 30, 2019 and 2018 and have issued my report thereon dated February 20, 2020.

Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I 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 my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. Accordingly, I 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Group's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My 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. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified. I consider the deficiency described in the following paragraph to be a significant deficiency in internal control over financial reporting.

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

The Group's Response to the Finding

The Group's Board intends to take this under advisement and to continue to monitor and evaluate financial reporting and internal controls on an ongoing basis and take corrective actions as necessary.

The Group's response to the finding identified during my audit is described above. The Group's response was not subjected to auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Group's financial statements are free of material misstatement, I performed tests of the Group's 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 my audit and, accordingly, I do not express such opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported herein under Government Auditing Standards.

I noted certain matters related to internal control over financial reporting and compliance and other matters that I reported to the Group in a separate letter dated February 20, 2020.

Purpose of this Report

This 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 Group'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 Group's internal control and compliance. Accordingly, this communication is not suitable for any other purpose



Bill Fraher, CPA
February 20, 2020

WEST SUBURBAN HEALTH GROUP
Management's Discussion & Analysis
June 30, 2019

The management of West Suburban Health Group (the Group) offers readers of our financial statements the following narrative overview and analysis of our financial activities for the year ended June 30, 2019. Please read this discussion and analysis in conjunction with the Group's basic financial statements on the accompanying pages.

Basic Financial Statements

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

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

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

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

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

Financial Highlights

- Assets exceeded liabilities by \$5,971,353 (net position) at the close of the fiscal year. This is a decrease of net assets of \$150,251 or -2.45% from the prior year. Net position at June 30, 2019 of \$5,971,353 represents 5.16% of fiscal year 2019 claims, claims administration and fixed premium expenses (5.06% at June 30, 2018 for 2018 expenses).
- For the year ended June 30, 2019, net position decreased by \$150,251 (-2.45%) compared to an increase of \$5,157,204 (535%) for fiscal year 2018.
- The statement of cash flows identifies the sources and uses of cash activity for the fiscal year and indicates a net decrease in cash of \$2,905,959 for fiscal year 2019 (mainly due to year end timing of receivables and payables) compared to a \$5,143,435 increase in cash for fiscal year 2018.
- The decrease net position for 2019 is a result of a small increase in member rates with an expectation that with the introduction of High Deductible Plans that claims expenses to the Group would decrease more than they did.

WEST SUBURBAN HEALTH GROUP
Management's Discussion & Analysis
June 30, 2019

For fiscal year 2019, the Group's operation resulted in a \$150,251 decrease in net position. This result was unexpected. Rates were estimated on an assumption that with the introduction of the High Deductible Plans, the cost of claims would be reduced. In fact, there was a reduction in claims expenses but not as much as anticipated. Actuarial assumptions are used in projecting annual claims costs for each health plan on a per member/per month basis and a rate, on a plan by plan basis, is set to fund the aggregate of the total projected claims and other Group costs.

The Group has adopted a fund balance policy which provides for a target range of unrestricted net position of between 8 – 12% of paid claims from the most recent twelve months for the Group to maintain for operating purposes.

	<u>2018</u>	<u>2019</u>	<u>\$ Change</u>	<u>% Change</u>
Cash	\$7,105,312	\$4,199,353	(\$2,905,959)	(40.9%)
Investments	7,852,473	8,226,895	\$374,422	4.8%
Other current assets	<u>3,902,074</u>	<u>5,511,951</u>	<u>\$1,609,877</u>	<u>41.3%</u>
Total assets	18,859,859	17,938,199	(\$921,660)	(4.9%)
Claims liabilities	9,612,047	10,072,122	\$460,075	4.8%
Other current liabilities	<u>3,126,208</u>	<u>1,894,724</u>	<u>(\$1,231,484)</u>	<u>(39.4%)</u>
Total liabilities	<u>12,738,255</u>	<u>11,966,846</u>	<u>(\$771,409)</u>	<u>(6.1%)</u>
Unrestricted net position	<u>\$6,121,604</u>	<u>\$5,971,353</u>	<u>(\$150,251)</u>	<u>(2.5%)</u>
Member assessments	\$126,921,044	\$116,008,220	(\$10,912,824)	(8.6%)
Other operating revenues	154,552	99,590	(\$54,962)	(35.6%)
Claims expense	(100,095,734)	(93,371,241)	\$6,724,493	(6.7%)
Claims administration expenses	(2,233,240)	(1,914,015)	\$319,225	(14.3%)
Fixed premium expenses	(15,306,984)	(16,748,424)	(\$1,441,440)	9.4%
Other group expenses	<u>(4,392,759)</u>	<u>(4,618,937)</u>	<u>(\$226,178)</u>	<u>5.1%</u>
Operating income (loss)	5,046,879	(544,807)	(\$5,591,686)	(110.8%)
Investment income (loss) & other	<u>110,325</u>	<u>394,556</u>	<u>\$284,231</u>	<u>257.6%</u>
Change in net position	<u>\$5,157,204</u>	<u>(\$150,251)</u>	<u>(\$5,307,455)</u>	<u>102.9%</u>

Economic Factors Affecting the Subsequent Year

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

The Massachusetts Municipal Health Care Reform Law provides municipal employers with an expedited collective bargaining process to negotiate plan design changes provided the plan design changes do not go beyond the plan design of the Group Insurance Commission's (GIC) most popular plan. The law also

gives joint purchase groups the authority to approve such plan design changes and then requires each participating employer to follow the expedited bargaining process or other approved bargaining process.

Prior to June 30, 2018 the Group's Board of Directors set the rate structure for fiscal year 2019 plan participation. The rate structure resulted in a premium rate increase of 6.5% to 9%. The rates were set to fund the estimated cost of claims, plus other group expenses and to maintain compliance with its fund balance policy.

Request for information

This financial report is intended to provide an overview of the finances of the Group. Any questions concerning this report, or for additional information, please contact the Group's benefit administrator, Group Benefits Strategies at 800-229-8008, or Treasurer, Ruth Hohenschau.

WEST SUBURBAN HEALTH GROUP

Statement of Net Position

June 30, 2019 and 2018

(Notes 1 and 2)

	<u>2019</u> <u>Total</u>	<u>2018</u> <u>Total</u>
<u>ASSETS</u>		
Current Assets:		
Cash and cash equivalents	\$ 4,199,353	\$ 7,105,312
Investments	8,226,895	7,852,473
Receivables:		
Member accounts	2	-
Reinsurance claims	2,672,562	2,121,577
Rebates	<u>293,521</u>	<u>-</u>
Total receivables	2,966,085	2,121,577
Prepaid expenses	369,236	711,380
Deposits with insurance carriers	1,019,271	1,069,117
Deposits with reinsurance pool	<u>1,157,359</u>	<u>-</u>
Total assets	<u>\$ 17,938,199</u>	<u>\$ 18,859,859</u>
<u>LIABILITIES</u>		
Current Liabilities:		
Accounts payable	\$ 101,671	\$ 25,331
Claims liabilities	10,072,122	9,612,047
Participants' advance contributions	<u>1,793,053</u>	<u>3,100,877</u>
Total liabilities	11,966,846	12,738,255
<u>Net Position</u>		
Unrestricted:		
Unrestricted	<u>5,971,353</u>	<u>6,121,604</u>
Total unrestricted/net position	<u>5,971,353</u>	<u>6,121,604</u>
Total liabilities and net position	<u>\$ 17,938,199</u>	<u>\$ 18,859,859</u>

See the accompanying notes to the financial statements.

WEST SUBURBAN HEALTH GROUP
Statement of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2019 and 2018
(Notes 1 and 2)

	<u>2019</u>	<u>2018</u>
	<u>Total</u>	<u>Total</u>
Operating revenues:		
Member contributions	\$ 116,008,220	\$ 126,921,044
COBRA contributions	<u>99,590</u>	<u>154,552</u>
Total operating revenues	<u>116,107,810</u>	<u>127,075,596</u>
Operating expenses:		
Health claims incurred	93,371,241	100,095,734
Claims administration charges	1,914,015	2,233,240
Fixed premiums	16,748,424	15,306,984
Stop loss insurance premiums	2,997,538	2,738,641
Consulting services	571,295	562,789
Diabetes and wellness programs	906,276	941,925
Other administrative services	<u>143,828</u>	<u>149,404</u>
Total operating expenses	<u>116,652,617</u>	<u>122,028,717</u>
Operating income	(544,807)	5,046,879
Nonoperating revenues (expenses):		
Investment income	394,556	110,325
Other income (expense)	<u>-</u>	<u>-</u>
Total nonoperating revenues (expenses):	<u>394,556</u>	<u>110,325</u>
Changes in Net position	(150,251)	5,157,204
Net position, beginning of year	<u>6,121,604</u>	<u>964,400</u>
Net position, end of year	<u><u>\$ 5,971,353</u></u>	<u><u>\$ 6,121,604</u></u>

See the accompanying notes to the financial statements.

WEST SUBURBAN HEALTH GROUP

Statement of Cash Flows

Years Ended June 30, 2019 and 2018

(Notes 1 and 2)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Cash received from participants	\$ 114,799,984	\$ 128,365,957
Cash paid to insurance providers and other vendors	<u>(117,726,077)</u>	<u>(121,739,368)</u>
Net cash provided (used) by operating activities	(2,926,093)	6,626,589
Cash flows from investing activities:		
Purchases and sales of investments (net)	(374,422)	(1,593,479)
Investment income and interest income on deposits	<u>394,556</u>	<u>110,325</u>
Net cash (used) by investing activities	<u>20,134</u>	<u>(1,483,154)</u>
Net (decrease) in cash	(2,905,959)	5,143,435
Cash, beginning of year	<u>7,105,312</u>	<u>1,961,877</u>
Cash, end of year	<u>\$ 4,199,353</u>	<u>\$ 7,105,312</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	\$ (544,807)	\$ 5,046,879
RDS amounts paid to members and other	-	-
Changes in operating assets and liabilities:		
Receivables	(2)	87,500
Reinsurance and rebates	(844,506)	(1,227,120)
Prepays	342,144	(68,828)
Deposits	(1,107,513)	506,402
Accounts payable	76,340	8,203
Claims liabilities	460,075	1,070,692
Other liabilities	<u>(1,307,824)</u>	<u>1,202,861</u>
Net cash provided by operating activities	<u>\$ (2,926,093)</u>	<u>\$ 6,626,589</u>

See the accompanying notes to the financial statements.

WEST SUBURBAN HEALTH GROUP

Notes to Financial Statements

June 30, 2019 and 2018

Note 1. Description of Group

West Suburban Health Group (the Group) is a Massachusetts Municipal Joint Health Insurance Purchase Group formed pursuant to Massachusetts General Laws, Chapter 32B, Section 12, under a certain joint purchase agreement which became effective in July 1990. The Group is governed by a Board of Directors (the Board) which is comprised of one representative from each unit. The Board has elected a Steering Committee from its Board members 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. Participating governmental units consist of those municipal entities that have signed an agreement of Joint Negotiation and Purchase of Health and Life Coverage. At June 30, 2019, participants are the towns of Dedham, Dover, Holliston, Natick, Needham, Shrewsbury, Wayland, Wellesley and Wrentham; the Dover-Sherborn School District and the ACCEPT Education Collaborative.

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 the Board members representing the participating governmental units vote to accept such additional participants.

Any participating governmental unit may withdraw participation at its discretion effective on June 30th, midnight, i.e. "on anniversary" of a given year. To withdraw on-anniversary, a governmental unit must notify the Board of its intent to withdraw by no later than December 31st of the previous year and written notification of the appropriate public authority's vote to withdraw no later than February 15th 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 withdraw "off-anniversary" to be effective at midnight, December 31st. A governmental unit withdrawing "off-anniversary" must provide the Group written notification by July 1st and written notification of the appropriate public authority's vote to withdraw no later than September 30th of the year of intended withdrawal. A unit that withdraws off-anniversary is required to reimburse the Group for all of its run-out claims. A governmental unit that withdraws 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 on 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 consultants 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. Rates may be reduced if the Board decides to use excess net position to cover some expenses. Premiums for insured plans are set by health plans.

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 premiums, remain as working capital or be distributed to the participating governmental units according to each unit's 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 either through increasing participants' future contributions or whether additional revenue will be raised through direct assessment and paid by the participating governmental units.

WEST SUBURBAN HEALTH GROUP

Notes to Financial Statements

June 30, 2019 and 2018

Note 1. Description of Group (continued)

according to each unit's proportionate share as described in the joint purchase agreement, Article 3, Section D.

The Group offers the following self-insured plan types: Blue Cross and Blue Shield of Massachusetts (BCBSMA) Network Blue Exclusive Provider Organization (EPO) plan, Fallon Health Select Care and Direct Care EPO plans, Harvard Pilgrim Health Care (HPHC) EPO and Preferred Provider Organization (PPO) plan, and Tufts EPO plans. Each of the EPO plans is offered at two design levels – Rate Saver and Benchmark plan designs. The Group also has 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 Enhanced Medicare 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 also 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 Gallagher Benefit Services, Inc., to provide certain management, consulting, 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 an annual fee based on the number of subscribers. The agreement may be terminated by either party at any time with sixty (60) days prior, written notice.

The Group appoints a Treasurer and Assistant Treasurer who collect payments from member units, pays claims and vendor expenses and maintains the financial records of the Group.

Note 2. Summary of Significant Accounting Policies

Financial statements present net position at June 30, revenues, expenses, and changes in net position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America (GAAP), using the economic measurement focus and the accrual basis of accounting. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements.

Contributions to the plans from participating governmental units are determined annually for the next fiscal year based on current operating results and estimated program costs for that year. Participants are billed monthly, and revenues are recognized in the period the Group is obligated to provide member services. Participant advance contributions are recorded as liabilities until earned.

WEST SUBURBAN HEALTH GROUP

Notes to Financial Statements

June 30, 2019 and 2018

Note 2. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

Generally, the Group is authorized to invest in the following investments: term deposits or certificates of deposit, trust companies, national banks, savings banks or banking companies, or obligations issued or unconditionally guaranteed by the United States Government or an agency thereof and having a maturity from date of purchase of one year or less with certain other limitations, or such securities as are legal for the investment of funds of savings banks under the bank's laws of the Commonwealth of Massachusetts based on a legal opinion received by the Group.

Cash and cash equivalents consist of cash on hand; cash in checking, savings or money market accounts and other short-term investments with original maturities of three months or less. Investments are stated at fair value. Where applicable, fair values are based on quotations from national security exchanges.

Claims Liabilities

The Group's obligations include estimated health claims incurred but not reported at year end. The Group uses the latest reported claims to record the Group's payable of reported claims and to estimate health claims incurred but not reported as of that date. The Group pays self-funded claims weekly for HPHC, Tufts and Fallon for actual claims to be paid. The Group pays BCBS a level monthly payment to cover the cost of claims for that month. The amount is mutually agreed upon to represent approximately one month of projected claims. There is a quarterly reconciliation and settle-up against actual claims paid on behalf of the Group. Actual claims reported differ from claims estimated, but the Group's size and stop-loss coverage minimize the risk of a significant difference. Claims liabilities are reviewed periodically using claims data adjusted for the Group's current experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

Reinsurance

In 2014, the Group, along with two other Massachusetts Municipal Joint Purchase Groups, entered into a reinsurance pooling arrangement, the Massachusetts Reinsurance Arrangement Series of Sentinel Indemnity, LLC (MMRA), the first such reinsurance pooling arrangement established in Massachusetts. The policy year is July 1st through June 30th. All participants share the same rates for coverage of claims exceeding \$300,000 up to \$800,000. 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 ended June 30, 2019, the Group paid \$3,114,275 for coverage and made non-premium funding to MMRA of \$1,040,622.

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 estimates.

WEST SUBURBAN HEALTH GROUP

Notes to Financial Statements

June 30, 2019 and 2018

Note 3. Cash, cash equivalents and investments

The Group maintains deposits in several authorized financial institutions. 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, 2019 and 2018 deposits totaled \$4,099,338 and \$7,017,269, respectively and had a carrying amount of \$4,107,432 and \$7,007,735, respectively. Of the deposit amounts at June 30, 2019 and 2018, \$3,857,432 and \$6,767,269, respectively, was exposed to custodial credit risk because it was uninsured and uncollateralized. The difference between deposit amounts and carrying amounts generally represents outstanding checks and deposits in transit.

The Group holds investments that are measured at fair value on a recurring basis. Because investing is not a core part of the Group's mission, the Group determines that disclosures related to these investments only need to be disaggregated by major type. The Group chooses a narrative format for the fair value disclosures.

The Group categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs use to measure the fair value of an asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. At June 30, 2019, and 2018 asset backed securities, certificates of deposit, government securities and money market mutual funds are categorized as Level 1 and corporate bonds are categorized as Level 2. MMDT cash portfolio investments are valued at amortized cost. Under this method, an investment is initially valued at its cost and adjusted for the amount if income accrued each day over the investment term to account for the difference between the initial cost and the amount payable at maturity. If amortized cost is determined not to approximate fair value, the value will be established under procedures established by the investment advisor.

The Group maintains accounts for investments which hold the following at June 30, 2019 and 2018:

<u>Type</u>	<u>Fair Value</u> <u>June 30, 2019</u>	<u>Fair Value</u> <u>June 30, 2018</u>
Asset backed securities	\$1,794,201	\$2,272,643
Certificates of deposit	-	149,111
Money market funds	301,332	-
Government securities	449,901	59,250
Corporate bonds	5,596,474	5,366,497
Money market mutual funds	84,987	4,972
MMDT (cash equivalents)	<u>100,015</u>	<u>97,577</u>
	<u>\$8,326,910</u>	<u>\$7,950,050</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 has an investment subcommittee that monitors this risk however the Group does not have a specific investment policy covering custodial credit risk. Investments in open-end mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. The investment account is insured by Securities Investor Protection Corporation (SIPC) up to \$500,000 and is 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 which limits the overall weighted investment maturities of fixed income securities to 2.5 years. The approximate

WEST SUBURBAN HEALTH GROUP

Notes to Financial Statements

June 30, 2019 and 2018

Note 3. Cash, cash equivalents and investments (continued)

maturities of the Group's debt investments are disclosed in the following table as of June 30, 2019:

<u>Investment Type</u>	<u>Fair Market Value</u>	<u>Maturity (In Years)</u>			
		<u>One or Less</u>	<u>One to Two</u>	<u>Three to Five</u>	<u>Thereafter</u>
Asset backed securities	\$1,794,201	\$33	\$ 8,974	\$202,911	\$1,572,283
Money market funds	301,332	301,332	-	-	-
Government securities	449,901	449,901	-	-	-
Corporate bonds	5,596,474	654,203	2,253,251	1,028,313	1,660,707
Money market mutual funds	84,987	84,987	-	-	-
Total	<u>\$8,226,895</u>	<u>\$1,490,456</u>	<u>\$ 2,272,225</u>	<u>\$1,231,224</u>	<u>\$3,232,990</u>

Note that asset backed securities are listed at their final maturity date. These securities have redemptions, which can occur on a monthly basis. The average duration of these securities is estimated to be 1.48 years at June 30, 2019.

The approximate maturities of the Group's debt investments are disclosed in the following table as of June 30, 2018:

<u>Investment Type</u>	<u>Fair Market Value</u>	<u>Maturity (In Years)</u>			
		<u>One or Less</u>	<u>One to Two</u>	<u>Three to Five</u>	<u>Thereafter</u>
Asset backed securities	\$2,272,643	\$19,921	\$ 164	\$202,481	\$2,050,077
Certificates of deposit	149,111	149,111	-	-	-
Government securities	59,250	59,250	-	-	-
Corporate bonds	5,366,497	2,833,742	653,432	959,289	920,034
Money market funds	4,972	4,972	-	-	-
Total	<u>\$7,852,473</u>	<u>\$3,066,996</u>	<u>\$ 653,596</u>	<u>\$1,161,770</u>	<u>\$2,970,111</u>

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. Money market funds, government securities, asset backed securities, certificates of deposit are not rated as to credit risk. The Group has an investment policy which limits the overall portfolio allocation but is not specific as to limit investment choices to certain ratings. The following table discloses the approximate amount of debt investments in each rating classification using Standard & Poor's rating classifications as of June 30, 2019:

<u>Investment Type</u>	<u>Fair Market Value</u>	<u>S&P Rating as of Year End</u>			
		<u>AAA to AA+</u>	<u>A to AA</u>	<u>BAA to B</u>	<u>Not Rated</u>
Asset backed securities	\$1,794,201	\$ -	\$ -	\$ -	\$ 1,794,201
Money market funds	301,332	-	-	-	301,332
Government securities	449,901	449,901	-	-	-
Corporate bonds	5,596,474	-	645,774	4,553,797	396,903
Money market mutual funds	84,987	-	-	-	84,987
Total	<u>\$8,226,895</u>	<u>\$ 449,901</u>	<u>\$645,774</u>	<u>\$4,553,797</u>	<u>\$ 2,577,423</u>

The following table discloses the approximate amount of debt investments in each rating classification using Standard & Poor's rating classifications as of June 30, 2018:

WEST SUBURBAN HEALTH GROUP

Notes to Financial Statements

June 30, 2019 and 2018

Note 3. Cash, cash equivalents and investments (continued)

Investment Type	Fair Market Value	S&P Rating as of Year End			
		AAA to AA+	A to AA	BAA to B	Not Rated
Asset backed securities	\$2,272,643	\$ -	\$ -	\$ -	\$2,272,643
Certificates of deposit	149,111	-	-	-	149,111
Government securities	59,250	-	-	-	59,250
Corporate bonds	5,366,497	-	725,523	4,640,974	-
Money market funds	4,972	-	-	-	4,972
Total	<u>\$7,852,473</u>	<u>\$ -</u>	<u>\$725,523</u>	<u>\$4,640,974</u>	<u>\$2,485,976</u>

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Group does not have an investment policy for concentration of credit risk.

Note 4. Reinsurance Receivable, Prepaid Expenses and Deposits

Based on current year experience with larger claims, the Group may have an amount due from its reinsurance carrier at year end. At June 30, 2019 there was a balance receivable of \$2,672,562 while at June 30, 2018 the balance was \$2,212,577.

At year end, if monthly estimated payments made by the Group to Blue Cross Blue Shield exceed actual claims paid, the Group will have a prepaid amount for the final quarterly settlement of the fiscal year. This amount was \$369,236 at June 30, 2019 and \$711,380 at June 30, 2018.

In addition, the Group has established deposits with certain insurance carriers so that weekly claims can be paid on a timely basis. The balance of these deposits at June 30, 2019 were \$1,019,271 and at June 30, 2018 were \$1,069,117.

Finally, based on current year experience with larger claims, the Group may have a balance in its reinsurance pool (Massachusetts Reinsurance Arrangement Series – MMRA) at year end. At June 30, 2019 the balance was \$1,157,359 while at June 30, 2018 the balance was \$0.

Note 5. Unpaid Claims

The Group establishes a liability for both reported and unreported incurred events which includes estimates of both future payments of losses and related adjustment expenses, if any. The following represents changes in claims liabilities during the years ended June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Unpaid claims and claims adjustment expenses—beginning of year	\$9,612,047	\$8,541,355
Incurred claims and claims adjustment expenses:		
Provision for insured events of the current fiscal year	94,010,777	101,260,291
Increase (decrease) in provision for insured events of prior fiscal years	<u>(162,912)</u>	<u>(1,164,557)</u>
	93,847,865	100,095,734
Payments:		
Claims and expenses, net, attributable to insured events – current year	(85,642,874)	(92,187,906)
Claims and expenses, net, attributable to insured events – prior years	<u>(7,744,916)</u>	<u>(6,837,136)</u>
	<u>(93,387,790)</u>	<u>(99,025,042)</u>
Total unpaid claims and claim adjustment expenses—end of year	<u>\$ 10,072,122</u>	<u>\$ 9,612,047</u>

WEST SUBURBAN HEALTH GROUP
Required Supplementary Information
Ten-Year Claims Development Information

The table below 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 other operating costs of the Group including overhead and claims expense not allocated to individual claims. (3) This line shows the Group's incurred 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 how each policy year's paid claims increased or decreased as of the end of successive years. (5) This annual re-estimation of claims expense 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:

		6/30/2019	6/30/2018	6/30/2017	6/30/2016	6/30/2015	6/30/2014	6/30/2013	6/30/2012	6/30/2011	6/30/2010
1	Earned member assessments, refunds and investment revenues	116,502,366	127,185,921	115,189,148	116,465,700	134,887,284	128,259,732	123,696,056	127,831,044	126,786,485	121,573,836
2	Fixed premiums paid and administrative/operating expenses	22,804,752	21,932,983	19,971,028	19,438,736	22,261,229	17,450,031	14,453,651	13,531,905	13,755,106	12,590,164
3	Estimated incurred claims and expense, end of fiscal year	93,847,865	100,095,734	101,300,302	95,387,172	115,708,989	119,040,184	113,398,568	113,515,498	112,640,161	108,039,538
4	Paid (cumulative) as of:										
	End of fiscal year	85,642,874	92,187,906	93,300,302	86,387,172	106,708,989	110,063,483	105,424,762	104,563,881	104,212,684	97,907,967
	One year later		99,932,822	100,254,539	94,421,715	116,154,533	119,709,640	113,634,646	112,720,084	111,621,430	106,474,559
	Two years later			100,119,479	94,382,514	116,144,890	120,582,729	113,567,129	112,707,795	111,682,108	106,451,253
	Three years later				94,375,786	116,065,986	120,745,055	113,600,958	112,664,812	111,687,403	106,432,807
	Four years later					116,022,136	120,746,059	113,601,486	112,655,638	111,675,450	106,438,316
	Five years later						120,746,010	113,601,486	112,655,638	111,675,450	106,438,018
	Six years later							113,601,520	112,655,638	111,674,831	106,426,864
	Seven years later								112,655,638	111,675,024	106,426,890
	Eight years later									111,675,215	106,426,890
	Nine years later										106,426,890
5	Re-estimated incurred claims and expense										
	End of fiscal year	93,847,865	100,095,734	101,300,302	95,387,172	115,708,989	119,040,184	113,398,568	113,515,498	112,640,161	108,039,538
	One year later		99,932,822	100,267,393	94,421,715	116,154,533	119,709,640	113,634,646	112,720,084	111,621,430	106,474,559
	Two years later			100,119,479	94,378,460	116,144,890	120,582,729	113,567,129	112,707,795	111,682,108	106,451,253
	Three years later				94,375,786	116,055,439	120,745,055	113,600,958	112,664,812	111,687,403	106,432,807
	Four years later					116,022,136	120,746,059	113,601,486	112,655,638	111,675,450	106,438,316
	Five years later						120,746,010	113,601,486	112,655,638	111,675,450	106,438,018
	Six years later							113,601,520	112,655,638	111,674,831	106,426,864
	Seven years later								112,655,638	111,675,024	106,426,890
	Eight years later									111,675,215	106,426,890
	Nine years later										106,426,890
6	(Increase) decrease in estimated, incurred claims and expense from the end of the original policy year		162,912	1,180,823	1,001,386	-313,147	-1,705,826	-202,952	859,860	964,946	1,612,648

See independent auditor's report