

**ROSELLI, CLARK & ASSOCIATES**  
Certified Public Accountants

**WEST SUBURBAN HEALTH GROUP**  
**REPORT ON EXAMINATION OF**  
**FINANCIAL STATEMENTS**  
**AND**  
**OTHER ADDITIONAL INFORMATION**  
**YEARS ENDED JUNE 30, 2023 and 2022**



**WEST SUBURBAN HEALTH GROUP**

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**YEARS ENDED JUNE 30, 2023 and 2022**

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## **INDEPENDENT AUDITORS' REPORT**

The Honorable Members of the Board of Representatives  
West Suburban Health Group

### **Opinions**

We have audited the accompanying financial statements of the West Suburban Health Group, (the “Group”) as of and for the years ended June 30, 2023 and 2022, and related notes to the financial statements, which collectively comprise the Group’s basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Group as of June 30, 2023 and 2022, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

### **Basis for Opinions**

We conducted our audit in accordance with auditing standards generally accepted in the United State of America. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of Financial Statements section of our report. We are required to be independent of the Group and to meet our other ethical responsibilities, in accordance with relevant ethical requirements related to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Responsibilities of Management 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; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Group’s ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### **Auditors’ Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements taken as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards we:


- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Group's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis section in the accompanying table of contents which is the responsibility of management, be presented to supplement the basic financial statements. Such information, although not 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.



Roselli, Clark & Associates  
Certified Public Accountants  
Woburn, Massachusetts  
February 1, 2024

## Management Discussion and Analysis

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, 2023 and 2022. 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 on the accrual basis of accounting. Revenue is recorded when earned, and expenses are recorded when incurred. The basic financial statements include a statement of net position, a statement of revenues, expenses and changes in net position, a statement of cash flows and notes to the financial statements.

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

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

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

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

### **Financial Highlights**

- Assets exceeded liabilities by nearly \$11.7 million (net position) at June 30, 2023, as compared to nearly \$14.8 million at June 30, 2022. Net position at June 30, 2023 represents 8.9% of fiscal year 2023 claims, claims administration and premium expenses (10.9% for June 30, 2022).
- For the year ended June 30, 2023, net position decreased by nearly \$3.1 million (-20.9%) compared to a decrease of approximately \$5.8 million (-28.2%) for fiscal year 2022.

These changes are primarily attributed to:

- Change in plan offerings and models with the loss of a significant insurance carrier for some plans and resulting switch to another insurance carrier for those covered,
- The loss of a member entity from the Group at the beginning of fiscal year 2023,
- An overall inflationary increase in medical services,
- Offset by improvements in investment performance due to a more favorable investment environment.

As changes were made to plan design in mid-fiscal year 2022, the whole annualized impact on costs was not realized until fiscal year 2023. The costs included switching the Tufts plans from premium based to self-insured as of January 1, 2022, and increasing the reinsurance stop loss attachment had a direct impact on health claims costs.

- 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 over \$9.9 million for fiscal year 2023 (mainly due to current year net loss offset by year-end timing of receivables/prepays and claims incurred liabilities) compared to a decrease of approximately \$4.5 million for fiscal year 2022.

As disclosed in the notes to the financial statements, the Group participates in a pooled reinsurance arrangement in lieu of purchasing traditional stop-loss insurance policies directly. Financial performance of this pool, Massachusetts Municipal Reinsurance Arrangement (MMRA), affects the financial results of the Group and is reflected in the financial statements as “Deposit with Reinsurance Pool”.

Investment income on the Group’s investment portfolio, when applied to the operating income (loss) and less the return of Medicare Part D subsidies, results in the net increase or decrease of the Group’s net position. Increases or decreases in net position also reflect any provisions for Member Termination Payments for withdrawing members.

### **Condensed Financial Information**

A comparative summary of financial information is presented below:

	June 30,		Increase/ Decrease
	2023	2022	
Cash	\$ 5,683,128	\$ 15,600,213	\$ (9,917,085)
Investments	9,458,833	9,122,524	336,309
Other current assets	10,105,569	5,606,175	4,499,394
Total assets	<u>25,247,530</u>	<u>30,328,912</u>	<u>(5,081,382)</u>
Claims incurred liability	9,100,000	13,449,295	(4,349,295)
Other current liabilities	4,484,102	2,126,443	2,357,659
Total liabilities	<u>13,584,102</u>	<u>15,575,738</u>	<u>(1,991,636)</u>
Unrestricted net position	<u>\$ 11,663,428</u>	<u>\$ 14,753,174</u>	<u>\$ (3,089,746)</u>
Member assessment	128,778,295	131,741,803	(2,963,508)
Claims expense	(108,157,524)	(113,281,397)	5,123,873
Claims administration expenses	(6,299,376)	(2,373,414)	(3,925,962)
Other group expenses	(17,705,966)	(21,404,928)	3,698,962
Operating income (loss)	<u>(3,384,571)</u>	<u>(5,317,936)</u>	<u>1,933,365</u>
Investment income (loss) & other	294,825	(482,554)	777,379
Change in net position	<u>\$ (3,089,746)</u>	<u>\$ (5,800,490)</u>	<u>\$ 2,710,744</u>

For fiscal year 2023, the Group’s activities resulted in an approximately \$3.1 million decrease in net position. Overall, the operating loss of nearly \$3.4 million is an improvement over the prior year operating loss of \$5.3 million by over \$1.9 million. For the current year, operating revenues were reduced by nearly \$3.0 million despite a composite, effective rate increase of 3.5% for fiscal year 2023. This was primarily due to the loss of one member from the group at the beginning of fiscal year 2023 and a change in plan offerings. In fiscal year 2022, the Group strategically utilized a portion of its net position equal to approximately 4.0% of revenue to limit the increases in the fiscal year 2022 plan rates to an effective composite rate of 3.4%; this was effectively attributable to reducing member appropriations and employee withholdings for health care costs by approximately \$2.8 million. 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.

Anticipating claim projections continues to be challenging, especially emerging from nearly four years of inconsistent insurance claim activity largely resulting from costs associated with the worldwide pandemic impact of COVID-19. Many healthcare services were not readily available or utilized during the pandemic and resulted in delayed treatments which are now being completed along with a normalized amount of annual, newly identified health issues resulting in a significantly higher level of claims within the industry the past two years. This has caused management to seek cost reducing remedies such as the aforementioned mid-fiscal year 2022 change of Tufts coverage shifting from fixed premium-based costs model to a claims-based cost model. In addition, there was a significant reduction in expenses due to reduced claims as a result of losing a member at the beginning of fiscal 2023. Other expenses, in total are consistent with prior year but individually fluctuated due to a change in classification.

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. For both fiscal year 2023 and 2022, the Group's net position reflected a ratio versus claims expenses within that target range, but there is still uncertainty over possible increases in future medical costs due to ongoing inflationary pressures.

#### **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. They also enacted some plan changes in mid-fiscal year 2022 which will not be fully realized on a full annual basis until the conclusion of fiscal year 2023.

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.

Through its participation in the MMRA reinsurance pool, stop-loss deductible and covered range of loss remained consistent from \$400,000 up to \$1,000,000 in fiscal years 2023 and 2022.

Prior to June 30, 2023, the Group's Board of Directors set the rate structure for fiscal year 2024 plan participation. The rate structure resulted in an effective, composite rate increase of 10.0% to plans' premium rates. The rates were set to fund the estimated cost of claims, plus other group expenses and to maintain compliance with its fund balance policy. There are no anticipated contribution holidays planned for fiscal year 2024.

#### **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, Gallagher Benefit Services at (800) 229-8008, or Treasurer, Richard D. Bienvenue, CPA.

**WEST SUBURBAN HEALTH GROUP**

**STATEMENT OF NET POSITION**

**JUNE 30, 2023 AND 2022**

<b><u>ASSETS</u></b>	<b><u>2023</u></b>	<b><u>2022</u></b>
Current Assets:		
Cash and cash equivalents	\$ 5,683,128	\$ 15,600,213
Investments	9,458,833	9,122,524
Receivables:		
Member accounts	2,090,006	5,826
Reinsurance claims	1,185,384	2,280,131
Refund from insurance carrier	398,096	-
Other receivables	8,327	-
Total receivables	<u>3,681,813</u>	<u>2,285,957</u>
Prepaid expenses	2,320,301	-
Deposits with insurance carriers	1,045,363	993,379
Deposits with reinsurance pool	<u>3,058,092</u>	<u>2,326,839</u>
Total assets	<u><u>\$ 25,247,530</u></u>	<u><u>\$ 30,328,912</u></u>
<b><u>LIABILITIES</u></b>		
Current Liabilities:		
Accounts payable	\$ 156,027	\$ 107,654
Accrued claims obligated	496,980	-
Claims incurred liability	9,100,000	13,449,295
Participants' advance contributions	3,827,392	2,007,689
Other liabilities	3,703	11,100
Total liabilities	<u>13,584,102</u>	<u>15,575,738</u>
<b><u>NET POSITION</u></b>		
Unrestricted:		
Medical and dental programs	<u>11,663,428</u>	<u>14,753,174</u>
Total unrestricted net position	<u>11,663,428</u>	<u>14,753,174</u>
Total liabilities and net position	<u><u>\$ 25,247,530</u></u>	<u><u>\$ 30,328,912</u></u>

See accompanying notes to financial statements.

**WEST SUBURBAN HEALTH GROUP**

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
JUNE 30, 2023 AND 2022**

	<b>2023</b>	<b>2022</b>
<b>Operating revenues:</b>		
Participants' contributions	\$ 128,534,948	\$ 131,645,656
COBRA contributions	243,347	96,147
Total operating revenue	128,778,295	131,741,803
<b>Operating expenses:</b>		
Health claims incurred	108,157,524	113,281,397
Claims administration charges	6,299,376	2,373,414
Fixed premiums	10,837,301	15,712,827
Reinsurance (stop loss) premiums	5,345,073	3,978,777
Consulting services	565,239	592,786
Wellness program	865,182	1,005,951
Other administrative services	93,171	114,587
Total operating expenses	132,162,866	137,059,739
Operating income (loss)	(3,384,571)	(5,317,936)
<b>Nonoperating revenues:</b>		
Investment income (loss)	294,825	(482,554)
Total nonoperating revenues	294,825	(482,554)
Changes in net position	(3,089,746)	(5,800,490)
Net position, beginning of year	14,753,174	20,553,664
Net position, end of year	\$ 11,663,428	\$ 14,753,174

See accompanying notes to financial statements.

**WEST SUBURBAN HEALTH GROUP**

**STATEMENTS OF CASH FLOWS  
JUNE 30, 2023 AND 2022**

	<b>2023</b>	<b>2022</b>
<b>Cash flows from operating activities:</b>		
Cash received from participants	\$ 128,506,421	\$ 131,761,781
Cash paid to insurance providers and other vendors	(138,382,022)	(136,380,879)
Net cash provided by (used in) operating activities	(9,875,601)	(4,619,098)
<b>Cash flows from investing activities:</b>		
Purchases and sales of investments (net)	(336,309)	640,048
Investment and interest income (loss) on deposits	294,825	(482,554)
Net cash provided by (used in) investing activities	(41,484)	157,494
Net increase in cash	(9,917,085)	(4,461,604)
Cash, beginning of year	15,600,213	20,061,817
Cash, end of year	\$ 5,683,128	\$ 15,600,213
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income (loss)	\$ (3,384,571)	\$ (5,317,936)
Changes in operating assets and liabilities:		
Member receivable	(2,084,180)	(4,730)
Reinsurance receivable	1,094,747	1,094,079
Refunds	(398,096)	-
Rebates	-	37,115
Other receivables	(8,327)	-
Prepaid expenses	(2,320,301)	-
Deposits	(783,237)	(2,043,842)
Accounts payable	48,373	17,718
Accounts expenses	496,980	-
Claims incurred liabilities	(4,349,295)	1,573,790
Advanced contributions	1,819,703	13,608
Other liabilities	(7,397)	11,100
Net cash provided by (used in) operating activities	\$ (9,875,601)	\$ (4,619,098)

See accompanying notes to financial statements.

## WEST SUBURBAN HEALTH GROUP

### NOTES TO BASIC FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2023 and 2022

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#### 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. On June 30, 2023, the eleven participating governmental units are:

<u>Towns</u>	<u>Educational Entities</u>
Town of Dedham	Dover-Sherborn Regional School District
Town of Dover	ACCEPT Educational Collaborative
Town of Holliston	
Town of Natick	
Town of Needham	
Town of Shrewsbury	
Town of Wayland	
Town of Wellesley	

Note: A change to the Group occurred at the beginning of fiscal year 2023, when the Town of Wrentham ended its membership in the Group as of June 30, 2022.

The total number of subscribers participating in the various health plans total approximately 9,600 with about 8,900 being covered by the self-funded medical plans in fiscal year 2023. For fiscal year 2022, the total participation was approximately 9,950 with about 9,100 being covered by self-funded medical plans.

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 30<sup>th</sup>, 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 31<sup>st</sup> of the previous year and written notification of the appropriate public authority’s vote to withdraw no later than February 15<sup>th</sup> 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 31<sup>st</sup>. A governmental unit withdrawing “off-anniversary” must provide the Group written notification by July 1<sup>st</sup> and written notification of the appropriate public authority’s vote to withdraw no later than September 30<sup>th</sup> 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 according to each unit's proportionate share as described in the joint purchase agreement, Article 3, Section D.

The Group offers the following plan types:

Plan Name	Medical Claims		Pharmacy Claims	
	Self	Fully	Self	Fully
	Insured	Insured	Insured	Insured
Blue Cross and Blue Shield of Massachusetts Exclusive Provider Organization Plans	X		X	
Blue Cross and Blue Shield of Massachusetts Medex 2 with Blue Medicare PDP	X			X
Harvard Pilgrim Health Care Exclusive and Preferred Provider Organization Plans	X		X	
Harvard Pilgrim Health Care Enhanced Medicare with Aetna PDP	X			X
Tufts Exclusive Provider Organization Plan	X		X	
Tufts Medicare Preferred Supplement with PDP Plus	X		X	
Fallon Senior Plan		X		X
Blue Cross and Blue Shield of Massachusetts - Managed Blue for Seniors		X		X
Tufts Medicare Preferred HMO		X		X

Each of the exclusive provider organization plans is offered at two design levels –Benchmark (low deductible plans) and HSA-Qualified High Deductible Plans. 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 employs the services of Gallagher Benefit Services, Inc. They provide certain management, consulting, and technical functions and audit medical claims paid. It 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, which recognize revenues from contributions and earnings when earned and expenditures when liabilities are incurred. 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.

### **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; other short-term investments with original maturities of three months or less; and the Commonwealth of Massachusetts Municipal Depository Trust (MMDT) which has legislative approval for municipal use. 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 Municipal Reinsurance Arrangement Series of Sentinel Indemnity, LLC (MMRA). the first such reinsurance pooling arrangement established in Massachusetts. The policy year is July 1<sup>st</sup> through June 30<sup>th</sup>. All participants share the same rates for coverage of claims exceeding \$400,000 up to \$1,000,000. There is no aggregating specific deductible.

Losses in excess of that range, if any, are covered through a separate reinsurance policy. 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, 2023, the Group paid \$5,345,073 in Stop Loss Insurance Premiums for coverage and made net non-premium funding to MMRA of \$1,496,230, some of which is still on deposit.

In addition, the Group has a specific excess medical and prescription drug claims reinsurance contract with an insurance carrier covering claims paid in excess of \$1,000,000 per individual. The policy period covers claims incurred within 12 months and paid within 24 months. The Group does not reinsure Medex and Medicare Enhance medical plans.

### 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.

### Note 3 - Cash, Cash Equivalents and Investments

*Custodial Credit Risk: Deposits* – 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, 2023 and 2022 the carrying amount of the Group's deposits was \$5,561,483 and \$15,381,599, respectively and the bank balances totaled \$5,475,253 and \$15,336,984, respectively. Of the Group's bank balances, the full amount was covered by either Federal Depository Insurance Corporation (FDIC) or the Depositors' Insurance Fund (DIF) as of June 30, 2023 and 2022.

In addition to these bank deposit amounts at June 30, 2023 and 2022, \$121,645 and \$218,614, respectively, which represent money market mutual funds in the Group's investment accounts and MMDT deposits, are included as cash equivalents. Money market mutual funds and MMDT account holdings were not insured.

*Custodial Credit Risk: Investments* – 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.

*Fair Value of Investments* – 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 categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used 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.

The Group's investments by fair value level are disclosed by year in the following table:

	Totals at June 30, 2023	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
<u>Investments by fair value level</u>				
Debt securities:				
U.S. Government obligations	\$ 1,265,396	\$ 74,844	\$ 1,190,552	\$ -
Corporate bonds	7,680,134	-	7,680,134	-
Preferred securities - fixed income	513,303	-	513,303	-
Total debt securities	9,458,833	74,844	9,383,989	-
Total investments by fair value level	9,458,833	\$ 74,844	\$ 9,383,989	\$ -
<u>Investments measured at amortized cost</u>				
State investment pool (MMDT)	106,361			
Mutual funds - money markets	15,284			
Total investments measured at fair value	\$ 9,580,478			

	Totals at June 30, 2022	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
<u>Investments by fair value level</u>				
Debt securities:				
U.S. Government obligations	\$ 499,878	\$ 499,878	\$ -	\$ -
Corporate bonds	6,551,503	-	6,551,503	-
Preferred securities - fixed income	512,389	-	512,389	-
Total debt securities	7,563,770	499,878	7,063,892	-
Total investments by fair value level	7,563,770	\$ 499,878	\$ 7,063,892	\$ -
<u>Investments measured at amortized cost</u>				
State investment pool (MMDT)	102,214			
Mutual funds - fixed income	1,558,754			
Mutual funds - money markets	116,400			
Total investments measured at fair value	\$ 9,341,138			

*Concentration of Credit Risk* – The risk of loss attributed to the magnitude of a government's investment in a single issuer. The Group has an investment policy which prohibits any one issue (excluding U.S. Government securities) from making up more than 5% of the portfolio. As of June 30, 2023 or 2022, there are no securities exceeding this threshold.

The Group maintains accounts for investments held which are disclosed by year in the following table:

Description	Investment Grouping Holdings			
	June 30, 2023		June 30, 2022	
	Fair Market	% of total	Fair Market	% of total
Government securities	\$ 1,265,396	13.4%	\$ 499,878	5.5%
Corporate bonds	7,680,134	81.2%	6,551,503	71.8%
Preferred securities - fixed income	513,303	5.4%	512,389	5.6%
Mutual funds - fixed income	-	0.0%	1,558,754	17.1%
Totals	<u>\$ 9,458,833</u>		<u>\$ 9,122,524</u>	

*Interest Rate Risk* – 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 maturities of the Group’s debt investments are disclosed by year in the following tables:

Investments	Totals at June 30, 2023	Time Until Maturity (Years)			
		<1	1 - 5	6 - 10	>10
U.S. Government obligations	\$ 1,265,396	\$ 81,083	\$ 76,080	\$ 139,638	\$ 968,595
Corporate bonds	7,680,134	1,546,855	5,630,722	-	502,557
Preferred securities - fixed income	513,303	513,303	-	-	-
State investment pool (MMDT)	106,361	106,361	-	-	-
Total Investments with Maturities	<u>\$ 9,565,194</u>	<u>\$ 2,247,602</u>	<u>\$ 5,706,802</u>	<u>\$ 139,638</u>	<u>\$ 1,471,152</u>

Investments	Totals at June 30, 2022	Time Until Maturity (Years)			
		<1	1 - 5	6 - 10	>10
U.S. Government obligations	\$ 499,878	\$ 499,878	\$ -	\$ -	\$ -
Corporate bonds	6,551,503	1,824,866	3,534,940	-	1,191,697
State investment pool (MMDT)	102,214	102,214	-	-	-
Total Investments with Maturities	<u>\$ 7,153,595</u>	<u>\$ 2,426,958</u>	<u>\$ 3,534,940</u>	<u>\$ -</u>	<u>\$ 1,191,697</u>

*Credit Risk: Investments* – Credit risk is the risk of loss due to the failure of the security issuer or backer to not fulfill its obligation to the holder of the investment. The Group has not adopted a formal policy related to credit risk but does manage credit risk for deposits and investments through its careful selection of depository institutions and investment instruments. The Group also follows the prudent investor standard and invests only in financial instruments that are allowable under Massachusetts General Laws. The Group’s investment in some corporate bonds, preferred securities, and MMDT is unrated; other securities with maturities have published credit ratings.

The credit quality ratings of investments are disclosed by year in the following tables:

Bond Ratings	Investment Ratings Classifications						
	June 30, 2023				June 30, 2022		
	Government Securities	Corporate Bonds	Preferred Securities - Fixed Income	State Investment Pool	Government Securities	Corporate Bonds	State Investment Pool
Aaa	\$ 1,265,396	\$ -	\$ -	\$ -	\$ 499,878	\$ -	\$ -
Aa3	-	-	-	-	-	300,291	-
A1	-	474,560	-	-	-	9,975	-
A2	-	-	-	-	-	94,949	-
A3	-	526,483	-	-	-	94,949	-
Baa1	-	690,307	-	-	-	900,488	-
Baa2	-	1,036,729	-	-	-	1,216,599	-
Baa3	-	3,648,885	-	-	-	3,612,512	-
B2	-	145,793	-	-	-	-	-
B1	-	-	-	-	-	123,250	-
Ba1	-	165,625	-	-	-	-	-
Ba2	-	93,256	-	-	-	-	-
Not rated	-	898,496	513,303	106,361	-	293,439	102,214
	<u>\$ 1,265,396</u>	<u>\$ 7,680,134</u>	<u>\$ 513,303</u>	<u>\$ 106,361</u>	<u>\$ 499,878</u>	<u>\$ 6,646,452</u>	<u>\$ 102,214</u>

#### **Note 4 - Receivables, Prepaid Expenses and Deposits**

Group members are assessed monthly for their calculated portion of contributions towards the insurance pool for payment of claims and premiums. At June 30, 2023, there was a receivable balance from members of \$2,090,006, while at June 30, 2022, the balance was \$5,826.

Based on the current year experience with larger claims, it's possible for the Group to have an amount due from its reinsurance carrier at year-end. As of June 30, 2023, the balance was \$1,185,384, while the June 30, 2022, balance was \$2,280,131.

The Group discontinued insurance coverage through a carrier as of June 30, 2022. As part of the conclusion of coverage, an amount was held by the carrier to cover runout claims extending into subsequent periods. A final analysis of runout was performed in the subsequent year, and it was determined that a portion of the deposit would be refunded to the Group. As of June 30, 2023, the refund balance was \$398,096.

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 expense amount for the final quarterly settlement of the fiscal year. At June 30, 2023, the amount was \$2,320,301, while at June 30, 2022, there was an amount owed by the Group of \$1,431,925, which is reflected as part of the claims incurred liability balance.

In addition, the Group has established deposits with certain insurance carriers so that weekly claims can be paid on a timely basis. As of June 30, 2023, the balance was \$1,045,363, while the June 30, 2022, balance was \$993,379.

Also, based on the current year experience with larger claims, it's possible for the Group to have a balance in its reinsurance pool (Massachusetts Reinsurance Arrangement Series – MMRA) at year end. As of June 30, 2023, the balance was \$3,058,092, while the June 30, 2022, balance was \$2,326,839.

### **Note 5 - Plan Deposits and Payment Arrangements**

The Group pays Blue Cross & Blue Shield (BC/BS) a level, monthly payment each month to cover the expected cost of claims for that month. The amount represents approximately one month of projected claims for BC/BS plans. There is a quarterly reconciliation and settle-up against actual claims payments made by BC/BS on behalf of the Group. Quarterly settlements are generally made for the 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup>, and 4<sup>th</sup> fiscal year quarters in December, March, June, and September respectively. The Group pays BC/BS monthly administrative fees for self-funded health plans based on the number of individual and family subscribers covered under each health plan for the month.

### **Note 6 - 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,	
	2023	2022
Unpaid claims and claims adjustment expenses - beginning of year	\$ 13,449,295	\$ 11,875,505
Incurred claims and claims adjustment expenses:		
Provision for insured events of the current fiscal year	108,157,524	113,281,397
Increase (decrease) in provision for insured events of prior fiscal year	<u>(3,570,950)</u>	<u>(3,193,787)</u>
	104,586,574	110,087,610
Payments		
Claims and expenses, net, attributable to insured events - current year	(96,885,206)	(99,321,182)
Claims and expenses, net, attributable to insured events - prior year	<u>(12,050,663)</u>	<u>(9,192,638)</u>
	(108,935,869)	(108,513,820)
Total unpaid claims and claim adjustment expenses - end of year	<u>\$ 9,100,000</u>	<u>\$ 13,449,295</u>

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