

WEST SUBURBAN HEALTH GROUP
BASIC FINANCIAL STATEMENTS AND
MANAGEMENT'S DISCUSSION AND ANALYSIS
WITH REQUIRED SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2015 AND JUNE 30, 2014
WITH INDEPENDENT AUDITORS' REPORTS

WEST SUBURBAN HEALTH GROUP
BASIC FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS
WITH REQUIRED SUPPLEMENTARY INFORMATION
Years Ended June 30, 2015 and June 30, 2014

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Lynch, Malloy, Marini, LLP

Certified Public Accountants & Advisors

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INDEPENDENT AUDITORS' REPORT

To the Steering Committee
West Suburban Health Group

We have audited the accompanying financial statements of the West Suburban Health Group (Group) as of and for the years ended June 30, 2015 and 2014 and the related notes to the financial statements, which collectively comprise the Group's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of West Suburban Health Group, as of June 30, 2015 and 2014, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (MD&A) on pages v-vii and the claims development information on pages 13 and 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 *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2016, on our consideration of West Suburban Health Group's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering West Suburban Health Group's internal control over financial reporting and compliance.

Lynch, Malloy, Marini, LLP

Natick, Massachusetts
January 12, 2016



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

To the Steering Committee
West Suburban Health Group

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller of the United States, the financial statements of West Suburban Health Group (Group), as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Group's basic financial statements, and have issued our report thereon dated January 12, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Group's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. Accordingly, we do not express an opinion on the effectiveness of the Group's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Group's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lynch, Malloy, Marini, LLP

Natick, Massachusetts

January 12, 2016



MANAGEMENT'S DISCUSSION AND ANALYSIS

WEST SUBURBAN HEALTH GROUP

Management's Discussion and Analysis

June 30, 2015 and 2014

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, 2015 and 2014. Please read this discussion and analysis in conjunction with the Group's basic financial statements on the accompanying pages.

Basic Financial Statements

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

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

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

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

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

Financial Highlights

- Assets exceeded liabilities (net position) in 2015 and 2014 by \$5,928,693 and \$9,558,331 respectively, at the close of each fiscal year. The current year decrease in net position is a result of member contributions and premiums being lower than the Group's expenses for the year.
- Net position at June 30, 2015 represents 5.1% of the fiscal year's claims expenses. At June 30, 2014, net position represents 8.1% of the fiscal year's claims expenses.
- For the years ended June 30, 2015 and 2014, net position decreased by \$3,629,638 and 8,465,608 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 \$2,608,783 for 2015 and a net decrease in cash of \$3,444,857 for 2014. The decrease in cash is a result of claims and other Group expenses exceeding member premiums during the fiscal year.

Of the total claims liability \$1,502,078 and \$2,054,477 represents claims liabilities and \$9,000,000 and \$8,976,701 represents an estimate for claims incurred but not reported as of June 30, 2015 and 2014, respectively.

See Independent Auditors' Report

WEST SUBURBAN HEALTH GROUP

Management's Discussion and Analysis

June 30, 2015 and 2014

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 (decrease)/increase in plan funding rates for fiscal year 2015 range between 1.5% and 17.8% 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 1.5% to 17.8%. The PPO and POS plan rates increased 8.0%. The Group reduced the FY15 active employee plan funding rates from those recommended by carriers and the consultant through the use of trust fund surplus. The two self-funded senior plans, Medex 2 with Blue Medicare Rx PDP and Harvard Pilgrim Medicare Enhance with Coventry PDP, operate on a calendar year basis and had rate decreases of 18% and 26.5% for CY15 and CY14 respectively. 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. The change to EGWP plans resulted in lower rates; however, these plans are not eligible for the Retiree Drug Subsidy (RDS) which the Group had been receiving prior to the change.

Condensed Financial Information

A comparative summary of financial information is presented below:

	<u>2015</u>	<u>2014</u>	<u>% Change</u>
Cash and cash equivalents	\$ 1,455,387	\$ 4,064,170	(64.19%)
Investments	11,840,757	15,702,918	(24.60%)
Other current assets	<u>3,176,691</u>	<u>2,610,229</u>	21.70%
Total assets	16,472,835	22,377,317	(26.39%)
Claims payable	1,502,078	2,054,477	(26.89%)
Claims incurred but not reported	9,000,000	8,976,701	0.26%
Other current liabilities	<u>42,064</u>	<u>1,787,808</u>	(97.65%)
Total liabilities	<u>10,544,142</u>	<u>12,818,986</u>	(17.93%)
Unrestricted net position	<u>\$ 5,928,693</u>	<u>\$ 9,558,331</u>	(37.73%)
Members' contributions	\$ 134,314,479	\$ 127,080,569	5.69%
Other operating revenue	<u>424,462</u>	<u>883,793</u>	(51.97%)
Total operating revenues	134,738,941	127,964,362	5.29%
Claims expense	116,255,693	119,275,309	(2.53%)
Claims administration expenses	4,730,087	4,940,792	(4.26%)
Fixed premiums	12,514,531	9,610,577	30.22%
Stop loss insurance premiums	2,157,926	807,483	167.24%
Regulatory fees	862,097	-	-
Consulting and group administration	830,517	777,452	6.83%
Other administrative services	<u>1,166,071</u>	<u>1,313,727</u>	(11.24%)
Total operating expenses	<u>138,516,922</u>	<u>136,725,340</u>	1.31%
Operating income (loss)	(3,777,981)	(8,760,978)	(56.88%)
Investment income	<u>148,343</u>	<u>295,370</u>	(49.78%)
Change in net position	<u>\$ (3,629,638)</u>	<u>\$ (8,465,608)</u>	(57.40%)

See Independent Auditors' Report

WEST SUBURBAN HEALTH GROUP
Management's Discussion and Analysis
June 30, 2015 and 2014

Economic Factors Affecting the Subsequent Year

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

The town of Ashland elected to withdraw from the Group effective June 30, 2015. As such, the Group is responsible for the claims incurred by the town of Ashland prior to July 1, 2015. This obligation of the Group will result in an unanticipated impact on the fund balance within the first quarter of fiscal year 2016.

The town of Walpole elected to withdraw from the Group effective June 30, 2015. As such, the Group is responsible for the claims incurred by the town of Walpole prior to July 1, 2015. This obligation of the Group will result in an unanticipated impact on the fund balance within the first quarter of fiscal year 2016.

The town of Westwood elected to withdraw from the Group effective June 30, 2015. As such, the Group is responsible for the claims incurred by the town of Westwood prior to July 1, 2015. This obligation of the Group will result in an unanticipated impact on the fund balance within the first quarter of fiscal year 2016.

The Education Cooperative elected to withdraw from the Group effective June 30, 2015. As such, the Group is responsible for the claims incurred by the Education Cooperative prior to July 1, 2015. This obligation of the Group will result in an unanticipated impact on the fund balance within the first quarter of fiscal year 2016.

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 GROUPStatement of Net Position
June 30, 2015 and June 30, 2014

	<u>2015</u>	<u>2014</u>
<u>ASSETS</u>		
Assets:		
Cash and cash equivalents	\$ 1,455,387	\$ 4,064,170
Investments	11,840,757	15,702,918
Receivables:		
Reinsurance claims	866,129	713,080
Due from members	59,122	-
Rebates from insurance carriers	421,718	-
Total receivables	<u>1,346,969</u>	<u>713,080</u>
Deposits with insurance carriers	<u>1,829,722</u>	<u>1,897,149</u>
Total assets	<u><u>\$ 16,472,835</u></u>	<u><u>\$ 22,377,317</u></u>
<u>LIABILITIES AND NET POSITION</u>		
Liabilities:		
Accounts payable	\$ -	\$ 130
Members' advance contributions	42,064	1,787,678
Claims liabilities	1,502,078	2,054,477
Claims incurred but not reported	9,000,000	8,976,701
Total liabilities	<u>10,544,142</u>	<u>12,818,986</u>
Unrestricted/total net position	<u>5,928,693</u>	<u>9,558,331</u>
Total liabilities and net position	<u><u>\$ 16,472,835</u></u>	<u><u>\$ 22,377,317</u></u>

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

WEST SUBURBAN HEALTH GROUP
Statement of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2015 and June 30, 2014

	<u>2015</u>	<u>2014</u>
Operating revenues:		
Members' contributions	\$ 134,314,479	\$ 127,080,569
Retiree drug subsidy	96,092	626,028
COBRA contributions	328,370	257,765
Total operating revenues	134,738,941	127,964,362
Operating expenses:		
Claims expense	116,255,693	119,275,309
Claims administration fees	4,730,087	4,940,792
Fixed premiums	12,514,531	9,610,577
Stop loss insurance premiums	2,157,926	807,483
Regulatory fees	862,097	-
Consulting and group administration services	830,517	777,452
Other administrative services	1,166,071	1,313,727
Total operating expenses	138,516,922	136,725,340
Operating loss	(3,777,981)	(8,760,978)
Nonoperating revenues(expenses):		
Investment income	148,343	295,370
Change in net position	(3,629,638)	(8,465,608)
Net position, beginning of year	9,558,331	18,023,939
Net position, end of year	<u>\$ 5,928,693</u>	<u>\$ 9,558,331</u>

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

WEST SUBURBAN HEALTH GROUP
Statement of Cash Flows
Years Ended June 30, 2015 and June 30, 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Cash received from members	\$ 132,838,104	\$ 129,665,792
Cash received for Retiree drug subsidy	96,092	1,271,539
Cash paid to insurance providers	(136,694,797)	(132,305,298)
Cash paid to other vendors	<u>(2,858,686)</u>	<u>(2,091,179)</u>
Net cash used by operating activities	(6,619,287)	(3,459,146)
Cash flows from investing activities:		
(Increase) / decrease in investments, net	3,862,161	(281,081)
Interest on deposits	<u>148,343</u>	<u>295,370</u>
Net cash provided by investing activities	<u>4,010,504</u>	<u>14,289</u>
Net decrease in cash and cash equivalents	(2,608,783)	(3,444,857)
Cash and cash equivalents, beginning of year	<u>4,064,170</u>	<u>7,509,027</u>
Cash and cash equivalents, end of year	<u><u>\$ 1,455,387</u></u>	<u><u>\$ 4,064,170</u></u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating loss	\$ (3,777,981)	\$ (8,760,978)
Changes in operating assets and liabilities:		
Accounts receivable	(633,889)	1,295,631
Deposits with insurance carriers	67,427	(753,876)
Accounts payable	(130)	130
Members' advance contributions	(1,745,614)	1,705,470
Claims incurred but not reported	(552,399)	1,022,189
Claims liabilities	<u>23,299</u>	<u>2,032,288</u>
Net cash used by operating activities	<u><u>\$ (6,619,287)</u></u>	<u><u>\$ (3,459,146)</u></u>

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

WEST SUBURBAN HEALTH GROUP

Notes to Financial Statements

June 30, 2015 and 2014

Note 1. Description of Group

West Suburban Health Group (the Group) was organized in July 1990 under Chapter 32B, Section 12 of the Massachusetts General Laws to obtain health insurance for its member 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, 2015 and 2014, participants are the Towns of Ashland, Dedham, Dover, Holliston, Natick, Needham, Sherborn, Shrewsbury, Walpole, Wayland, Wellesley, Westwood, and Wrentham; the Dover-Sherborn School District and South Middlesex Regional Vocational Technical School; the ACCEPT Educational Collaborative and The Education Cooperative. Effective June 30, 2015 the town of Ashland, the town of Walpole, the town of Westwood and the Education Cooperative elected to withdraw from the Group.

Governmental units may apply for membership and be added to the Group, commencing on a date mutually agreed upon, provided that no less than two-thirds of Board members representing the participating governmental units vote to accept such additional participants.

Any participating governmental unit may withdraw participation at its discretion, but withdrawal is only effective on June 30 of a given year. A governmental unit that elects to terminate participation in the Group must notify the Board in writing by March 31 in order for the withdrawal to be effective for the following June 30. In addition, any participating governmental unit which is 60 days in arrears for payments may be terminated at the discretion of the Board. In lieu of termination, the Board may take other appropriate action.

There is no liability for premium or administrative expense following the effective date of termination of a participating governmental unit's coverage under a contract purchased through the Group except for the governmental unit's proportionate share of any deficit in the trust, as of its termination date, or of any premium expense or any subsequent expense for its covered individuals continued on the plan after termination, as well as for any unpaid contributions or assessments attributable to periods prior to the effective date of the participating governmental units termination. In the case of a certified surplus, the joint purchase agreement does not allow a withdrawing unit to receive any portion of the Group's surplus.

Contributions to the Group's trust fund from participating governmental units are on a monthly basis, based upon plan specific funding rates for coverage provided on individual and family enrollments for self-insured plans. The funding rates are determined by the Board based on recommendations from the health plans and its consultant and are determined to be 100% of the cost of coverage of the Group as a whole (including, but not limited to, anticipated incurred claims, retention risk, and Group administration expenses) as established through underwriting and/or actuarial estimates. Premiums for insured plans are set by the health plans.

WEST SUBURBAN HEALTH GROUP

Notes to Financial Statements

June 30, 2015 and 2014

Note 1. Description of Group (continued)

All refunds, surplus, and deficits are dealt with on a proportional and collective basis. In the case of a certified surplus, the Board determines whether the excess funds will remain in the trust fund for the purpose of reducing the participants' future premium cost or be distributed to the participating governmental units in proportion to the number of participating governmental unit's employees and retirees covered under the contract purchased at the time the surplus was incurred. In the case of a certified deficit, the Board will determine to resolve the deficit through increasing participant's future contributions or whether additional revenue will be raised through direct assessment and paid by the participating governmental units in proportion to the number of participating governmental unit's employees and retirees covered under the contract purchased at the time the deficit was incurred.

The Group offers the following self-insured plans: Blue Cross Blue Shield of MA (BCBSMA) Network Blue New England Exclusive Provider Organization (EPO) plans, 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 and Tufts Point of Service (POS) plan. 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 Coventry First Health 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: BCBSMA Managed Blue for Seniors, Fallon Senior Plan, Tufts Medicare Prime Supplement, and Tufts Medicare Preferred HMO.

The Group employs the services of John R. Sharry, Incorporated, d/b/a Group Benefits Strategies (GBS), as central benefit administrator to provide certain management, consulting, enrollment, COBRA and technical functions and to audit medical claims paid. The current agreement with GBS is for a three year term ending December 31, 2015, and provides for a monthly fee based upon the number of subscribers. The agreement may be terminated by either party, at any time with 60 days prior, written notice.

The Group employs the services of Prescription Benefits Services, Inc. (PBS) as benefit administrator to provide certain management, consulting, and technical functions for the Group's alternative prescription drug program. The current agreement with PBS is for a three-year term ending September 30, 2016, and provides for a monthly fee based upon the number of subscribers, a one time set up fee and an annual incentive fee paid in monthly installments. The agreement may be terminated by the Group, at any time after the initial term the agreement with 90 days prior, written notice.

The Group appoints a Treasurer and an Assistant Treasurer who collects payment 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, 2015 and 2014

Note 2. Summary of Significant Accounting Policies

A. Basis of Presentation

The financial statements of the Group are prepared in accordance with accounting principles generally accepted in the United States of America, using the economic resources measurement focus and the accrual basis of accounting, and reflect transactions by and on behalf of the Group.

Member contributions include the monthly funding rates and premiums charged to each participating governmental units and include costs for administrative services as well as insurance charges. Contributions are recorded as revenue during the period in which the Group is obligated to provide services to its members. The unearned portion of contributions for a coverage period is reported as advance collections.

Under Governmental Accounting Standards Boards (GASB) Statement No. 20, *Accounting and Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, the Group has elected to apply accounting standards applicable to the private sector issued on or before November 30, 1989, unless those standards conflict with or contradict pronouncements of the Governmental Accounting Standards Board. Operating revenues and expenses result from providing health insurance to its member governments. All other revenues and expenses are reported as non-operating.

B. Claims liabilities and claims incurred but not reported

The Group's obligations include estimated health claims incurred but not reported at June 30, 2015 and 2014. The Group uses the latest reported claims to record the Group's liability of reported claims and to estimate health claims incurred but not reported as of that date. The Group pays self-funded claims weekly for Tufts Health Plan, Harvard Pilgrim Health Care (HPHC) and Fallon, for actual claims to be paid and the central benefits administrator, Group Benefits Strategies, is sent supporting detail for the funding requests. The Group pays Blue Cross/Blue Shield (BCBS) a level- monthly payment each month to cover the expected cost of claims for that month. The amount has been mutually agreed upon to represent approximately one month of projected claims for the BCBS plans. There is a quarterly reconciliation and settle-up against actual claims payments made by BCBS on behalf of the Group. Actual claims reported differ from claims estimated, but the Group's size and stop-loss coverage minimize the risk of a significant difference. 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.

C. 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

WEST SUBURBAN HEALTH GROUP

Notes to Financial Statements

June 30, 2015 and 2014

Note 2. Summary of Significant Accounting Policies (continued)

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, 2015, the Group paid \$2,157,926 for premiums, operating expenses and reserves. For the year ended June 30, 2014, the Group paid a deposit of \$759,566 to MMRA, which carried over to 2015, and paid \$807,483 for reinsurance premiums for a policy which had a \$500,000 Aggregating Specific Deductible payable by the Group.

The policy period covers claims incurred on a fiscal basis within 12 months and paid within 24 months.

The Group does not include reinsured risks as liabilities unless it is probable that those risks will not be covered by the re-insurer. Amounts recoverable through re-insurers on paid claims are classified as receivable and as a reduction of claims expense.

D. Cash, Cash Equivalents and Investments

The Group considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

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

E. Medicare Part D Prescription Drug Benefit Program

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

In the year ending June 30, 2015 and June 30, 2014 the Group was required to pay \$862,097 and \$0, 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.

F Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results will differ from those estimates.

WEST SUBURBAN HEALTH GROUP

Notes to Financial Statements

June 30, 2015 and 2014

Note 3. Cash, Cash equivalents and Investments

The Group maintains deposits in authorized financial institutions. Authorized deposits include demand deposits, term deposits, and certificates of deposit in trust companies, national banks, savings banks, and certain other financial institutions. Deposits may not exceed certain levels without collateralization of the excess by the financial institution involved. The Group may also invest in securities issued by or unconditionally guaranteed by the U.S. Government or an agency thereof, and having a maturity from date of purchase of one year or less. The Group may also invest in repurchase agreements guaranteed by such government securities with maturity dates of not more than ninety days from date of purchase. The Group may invest in units of the Massachusetts Municipal Depository Trust (MMDT), and external investment pool managed by the Treasurer of the Commonwealth of Massachusetts. Cash deposits are reported at carrying amount, which reasonably approximates fair value.

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, 2015 and June 30, 2014, deposits totaled \$1,496,603 and \$3,942,820, respectively. The carrying amounts of these deposits at June 30, 2015 and June 30, 2014, were \$1,455,387 and \$4,064,170, respectively. The difference between deposit amounts and carrying amounts generally represents outstanding checks and deposits in transit. Of the deposit amounts \$924,100 and \$3,527,666 was exposed to custodial credit risk at June 30, 2015 and 2014, respectively. The Group maintains accounts for investment of funds.

Custodial credit risk for investments is the risk that, in the event of the failure of the counter party to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Group does not have an investment policy covering custodial credit risk. Two of the Groups accounts are insured by Securities Investor Protection Corporation (SIPC) up to \$500,000 and are otherwise uninsured and uncollateralized.

Interest rate risk is the risk that changes in market interest rates that will adversely affect the fair market value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair market value to changes in market interest rates. The Group has an investment policy, included as part of its joint purchase agreement, which provides for the investment of funds in securities with a weighted average maturity not to exceed 2.5 years. The approximate maturities of the Group's debt investments are disclosed in the following table:

WEST SUBURBAN HEALTH GROUP

Notes to Financial Statements

June 30, 2015 and 2014

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

Investment Type	Fair Market Value	Maturity			
		12 months or less	13 – 24 months	25 – 60 months	Thereafter
As of June 30, 2015:					
Government securities	\$ 152,323	\$ 83,813	\$ -	\$ 68,510	\$ -
MMDT	4,089,968	4,089,968	-	-	-
Asset backed securities	3,411,010	-	46,780	143,882	3,220,348
Money market funds	864,154	864,154	-	-	-
Negotiable Certificates of Deposit	200,246	110,190	90,056	-	-
Corporate notes	3,123,055	879,030	2,244,025	-	-
	<u>\$ 11,840,756</u>	<u>\$ 6,027,155</u>	<u>\$ 2,380,861</u>	<u>\$ 212,392</u>	<u>\$ 3,220,348</u>
As of June 30, 2014:					
Government securities	\$ 191,513	\$ -	\$ 127,157	\$ 64,356	\$ -
MMDT	8,077,540	8,077,540	-	-	-
Asset backed securities	2,932,811	-	-	208,362	2,724,449
Money market funds	2,744,721	2,744,721	-	-	-
Negotiable Certificates of Deposit	190,193	100,434	89,759	-	-
Corporate notes	1,566,140	379,306	387,555	799,279	-
	<u>\$ 15,702,918</u>	<u>\$ 11,302,001</u>	<u>\$ 604,471</u>	<u>\$ 1,071,997</u>	<u>\$ 2,724,449</u>

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. Credit risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. Obligations of the U.S. Government and certain of its agencies are not considered to have credit risk and therefore no rating is disclosed in the above table. Equity securities and equity mutual funds are not rated as to credit risk. The Group does not have an investment policy which would limit its investment choices. The following table discloses the approximate amount of debt investments in each rating classification using Standard & Poor's rating classifications:

WEST SUBURBAN HEALTH GROUP

Notes to Financial Statements

June 30, 2015 and 2014

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

Investment Type	Fair Market Value	Exempt from Disclosure	S&P Rating as of Year End				Not Rated
			AAA	AA to A	BBB	BB to B	
As of June 30, 2015:							
Government securities	\$ 152,323	\$ -	\$ -	\$ 68,510	\$ -	\$ -	\$ 83,813
MMDT	4,089,968	4,089,968	-	-	-	-	-
Asset backed securities	3,411,010	3,411,010	-	-	-	-	-
Money market funds	864,154	864,154	-	-	-	-	-
Negotiable Certificates of Deposit	200,246	-	-	-	-	-	200,246
Corporate notes	<u>3,123,055</u>	<u>-</u>	<u>-</u>	<u>553,716</u>	<u>1,218,471</u>	<u>1,350,868</u>	<u>-</u>
	<u>\$ 11,840,756</u>	<u>\$ 8,365,132</u>	<u>\$ -</u>	<u>\$ 622,226</u>	<u>\$ 1,218,471</u>	<u>\$ 1,350,868</u>	<u>\$ 284,059</u>
As of June 30, 2014:							
Government securities	\$ 1,513	\$ -	\$ -	\$ 64,356	\$ -	\$ 127,157	\$ -
MMDT	8,077,540	8,077,540	-	-	-	-	-
Asset backed securities	2,932,811	2,932,811	-	-	-	-	-
Money market funds	2,744,721	-	-	-	-	-	2,744,721
Negotiable Certificates of Deposit	190,193	-	-	-	-	-	190,193
Corporate notes	<u>1,566,140</u>	<u>-</u>	<u>-</u>	<u>1,034,422</u>	<u>531,718</u>	<u>-</u>	<u>-</u>
	<u>\$ 15,702,918</u>	<u>\$ 11,010,351</u>	<u>\$ -</u>	<u>\$ 1,098,778</u>	<u>\$ 531,718</u>	<u>\$ 127,157</u>	<u>\$ 2,934,914</u>

Concentration of credit risk – The Group does not have an investment policy which limits the amount that can be invested in any one issuer or security. Excluding U.S. federal agency securities, and external investment pools, there are no securities or issuers which represent more than 5% of the total investments of the governmental activities.

Note 4. Plan Deposits

The Group has established deposits with certain health plan 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, 2015 and 2014, are as follows:

<u>Administrator</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Fallon Health & Life	\$ 16,383	\$ 43,958
Abacus Diabetes program	(30,872)	(26,258)
Harvard Pilgrim	438,718	451,749
Prescription Benefit Services	39,024	63,160
MMRA	759,566	759,566
Tufts	<u>606,903</u>	<u>604,974</u>
Total deposits	<u>\$ 1,829,722</u>	<u>\$ 1,897,149</u>

WEST SUBURBAN HEALTH GROUP

Notes to Financial Statements

June 30, 2015 and 2014

Note 5. Health Claims Incurred but not Reported

The Group establishes a liability for both reported and unreported insured events, which include estimates of both future payments of losses and related adjustment expenses, if any. The following table represents changes in claims' liabilities for the years ended June 30, 2015 and June 30, 2014:

	<u>2015</u>	<u>2014</u>
Total claims incurred but not reported—beginning of year	\$ 8,976,701	\$ 7,976,701
Incurred claims and claims' adjustment expenses:		
Provision for insured events of the current fiscal year	115,708,989	119,040,184
Increase (decrease) in provision for insured events of prior fiscal years	<u>546,704</u>	<u>235,125</u>
	116,255,693	119,275,309
Payments:		
Claims and claims' adjustment expenses attributable to insured events of the current fiscal year	(106,708,989)	(110,063,483)
Claims and claims' adjustment expenses attributable to insured events of prior fiscal years	<u>(9,523,405)</u>	<u>(8,211,826)</u>
	<u>(116,232,394)</u>	<u>(118,275,309)</u>
Total claims incurred but not reported	<u>\$ 9,000,000</u>	<u>\$ 8,976,701</u>

Note 6. Subsequent Events

The Group has evaluated subsequent events through January 12, 2016, which is the date the financial statements were available to be issued.

Note 7. GASB Pronouncements Recently Issued

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

Current pronouncements

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

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

WEST SUBURBAN HEALTH GROUP

Notes to Financial Statements

June 30, 2015 and 2014

Note 7. GASB Pronouncements Recently Issued (continued)

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

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

The table on the next page illustrates how the Group's earned revenues and investment income compare to related costs of loss and other expenses assumed by the Group as of the end of each of the last ten years. The rows in the table are defined as follows: (1) This line shows the total of each fiscal year's earned contribution revenues and investment revenues. (2) This line shows each fiscal year's HMO fixed premiums paid and other operating costs of the Group including overhead and claims' expense not allocated to individual claims. (3) This line shows the Group's incurred self-insured claims and allocated claims' adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event triggered coverage under the contract occurred (called *policy year*). (4) This section of rows shows the cumulative amounts paid as of the end of successive years for each policy year. (5) This section of rows shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. (6) This line compares the latest re-estimated incurred claims' amount to the originally established (line 3) and shows whether this latest estimate of claims' cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

See Independent Auditors' Report

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

	<u>6/30/2015</u>	<u>6/30/2014</u>	<u>6/30/2013</u>	<u>6/30/2012</u>	<u>6/30/2011</u>	<u>6/30/2010</u>	<u>6/30/2009</u>	<u>6/30/2008</u>	<u>6/30/2007</u>	<u>6/30/2006</u>	<u>6/30/2005</u>
1. Earned member assessments, other and investment revenues	134,887,284	128,259,732	123,696,056	127,831,044	126,786,485	121,573,836	114,994,091	110,744,575		90,244,549	72,472,587
2. HMO fixed premiums paid and other operating expenses	22,261,229	17,450,031	14,451,651	13,531,905	13,755,106	12,590,164	11,521,971	10,558,928	9,308,954	9,329,425	10,039,714
3. Estimated incurred, self-insured claims and expense, end of fiscal year	116,571,086	119,040,184	113,398,568	113,515,498	112,640,161	108,039,538	99,860,561	95,819,229	89,205,017	87,471,102	66,464,025
4. Paid (cumulative) as of:											
End of fiscal year	106,708,989	110,063,483	105,424,762	104,563,881	104,212,684	97,907,967	89,602,981	85,176,530	78,904,946	74,903,229	58,381,021
One year later		119,709,640	113,634,646	112,720,084	111,621,430	106,474,559	98,290,428	95,733,731	88,871,478	83,118,800	64,861,744
Two years later			113,567,129	112,707,795	111,682,108	106,451,253	98,277,910	95,796,458	88,761,224	83,010,897	65,120,834
Three years later				112,664,812	111,687,403	106,432,807	98,263,634	95,770,988	88,786,385	83,003,414	65,099,507
Four years later					111,675,450	106,438,316	98,263,630	95,768,763	88,754,592	82,977,736	65,093,733
Five years later						106,438,018	98,264,162	95,763,671	88,752,650	82,976,885	65,093,917
Six years later							98,264,162	95,763,671	88,748,601	82,976,881	65,094,103
Seven years later								95,763,671	88,748,601	82,976,859	65,094,639
Eight years later									88,748,601	82,976,859	65,094,177
Nine years later										82,976,859	65,094,177
5. Re-estimated incurred, self-insured claims and expense:											
End of fiscal year	115,708,989	119,040,184	113,398,568	113,515,498	112,640,161	108,039,538	99,860,561	95,819,229	89,205,017	87,471,102	66,461,025
One year later		119,709,640	113,634,646	112,720,084	111,621,430	106,474,559	98,290,428	95,733,731	88,871,478	83,118,800	64,861,744
Two years later			113,567,129	112,707,795	111,682,108	106,451,253	98,277,910	95,796,458	88,761,224	83,010,897	65,120,834
Three years later				112,664,812	111,687,403	106,432,807	98,263,634	95,770,988	88,786,385	83,003,414	65,099,507
Four years later					111,675,450	106,438,316	98,263,630	95,768,763	88,754,592	82,977,736	65,093,733
Five years later						106,438,018	98,264,162	95,763,671	88,752,650	82,976,885	65,093,917
Six years later							98,264,162	95,763,671	88,748,601	82,976,881	65,094,103
Seven years later								95,763,671	88,748,601	82,976,859	65,094,639
Eight years later									88,748,601	82,976,859	65,094,177
Nine years later										82,976,859	65,094,177
6. (Increase) decrease in estimated, incurred, self-insured claims and expense from the end of the original policy year.		(669,456)	(168,561)	850,686	964,711	1,601,520	1,596,399	55,558	456,416	4,494,243	1,369,848