

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

BERKSHIRE 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 Board of Directors
Berkshire Health Group

We have audited the accompanying financial statements of the Berkshire 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 Berkshire Health Group, as of June 30, 2015 and 2014, and the respective changes in financial position and, where applicable, 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) and the claims development information 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 15, 2016, on our consideration of Berkshire 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 Berkshire Health Group's internal control over financial reporting and compliance.

Lynch, Malloy, Marini, LLP

Natick, Massachusetts
January 15, 2016





Lynch, Malloy, Marini, LLP

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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 Board of Directors
Berkshire 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 Berkshire 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 15, 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 15, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

BERKSHIRE HEALTH GROUP
Management's Discussion & Analysis
June 30, 2015 and 2014

The management of Berkshire 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 \$6,594,289 and \$8,655,026, respectively, at the close of each fiscal year. Net position at June 30, 2015 and 2014 represents 17.4% and 24.0%, respectively, of medical and dental claims expense.
- The Group manages its financial obligations under a financial management guideline, "Fund Balance Policy," which sets a targeted range for the Net Position that is equal to ten to fifteen percent (10-15%) of total annual claims expense based on the most recent 12 months of paid claims.
- For the years ended June 30, 2015 and 2014, net position decreased by \$2,060,737 and \$1,654,027, 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 \$1,774,245 for 2015 and \$42,187 for 2014.

See Independent Auditors' Report

BERKSHIRE HEALTH GROUP
Management's Discussion & Analysis
June 30, 2015 and 2014

The decrease in net position is primarily a result of claims and other Group expenses exceeding member premiums during the fiscal year. In the current and prior year the Board of Directors intentionally used surplus of unrestricted net position to set the member rates lower than the projected annual claims expense which decreased overall net position at year-end. 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.

Condensed Financial Information

A comparative summary of financial information is presented below:

	<u>2015</u>	<u>2014</u>	<u>Percent Change</u>
Cash and cash equivalents	\$ 4,181,627	\$ 5,955,872	-29.79%
Investments	6,198,632	7,260,862	-14.63%
Other assets	<u>796,390</u>	<u>269,585</u>	195.41%
Total assets	11,176,649	13,486,319	-17.13%
Incurred but not reported	3,400,000	3,385,521	0.43%
Other current liabilities	<u>1,182,360</u>	<u>1,445,772</u>	-18.22%
Total liabilities	4,582,360	4,831,293	-5.15%
Unrestricted net position	<u>6,594,289</u>	<u>8,655,026</u>	-23.81%
Operating revenues	\$ 38,721,708	\$ 36,459,782	6.20%
Less:			
Claims expense	37,830,845	36,007,577	5.06%
Claims administration expenses	1,972,391	2,004,878	-1.62%
Other operating expenses	<u>1,269,647</u>	<u>886,323</u>	43.25%
Total operating expenses	41,072,883	38,898,778	5.59%
Plus:			
Net non-operating revenues	<u>290,438</u>	<u>784,969</u>	-63.00%
Change in net position	<u>\$ (2,060,737)</u>	<u>\$ (1,654,027)</u>	-24.59%

Economic Factors Affecting the Subsequent Year

The Group's Board set the rate structure for fiscal 2016 plan participation. The rate structure resulted in increased rates for 2016 of 15% for all plans except for Medex, which will increase 5.5%. In addition, the Group expects to use \$1,000,000 of trust fund surplus for a composite rate increase of approximately 13.5%.

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 Primary Board, Berkshire Health Group, c/o James M. Kelley, CPA, Treasurer, P.O. Box 45 Blandford, MA. 01008.

See Independent Auditors' Report

BASIC FINANCIAL STATEMENTS

BERKSHIRE HEALTH GROUP

Statement of Net Position

June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<u>ASSETS</u>		
Assets:		
Cash and cash equivalents	\$ 4,181,627	\$ 5,955,872
Investments	6,198,632	7,260,862
Receivables:		
Reinsurance	316,550	168,033
Member assessments	7,423	3,769
Retiree drug subsidy	109,887	57,488
Total receivables	433,860	229,290
Prepaid expense	330,113	249
Accrued interest earned	32,297	39,721
Fixed assets, net of depreciation	120	325
Total assets	<u>\$ 11,176,649</u>	<u>\$ 13,486,319</u>
<u>LIABILITIES AND NET POSITION</u>		
Liabilities:		
Incurred but not reported	\$ 3,400,000	\$ 3,385,521
Accrued expenses	26,930	210,950
Advance collections - member assessments	1,155,430	1,234,822
Total liabilities	4,582,360	4,831,293
Total net position	<u>6,594,289</u>	<u>8,655,026</u>
Total liabilities and net position	<u>\$ 11,176,649</u>	<u>\$ 13,486,319</u>

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

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

	<u>2015</u>	<u>2014</u>
Operating revenues:		
Member assessments	\$ 38,117,508	\$ 35,908,982
Medicare Part D subsidy	604,200	550,800
Total operating revenues	38,721,708	36,459,782
Operating expenses:		
Medical and dental claims	37,830,845	36,007,577
Claims administration fees	1,972,391	2,004,878
Reinsurance premiums	618,007	473,845
Health Plan Premium	243,032	-
Group administration services	408,403	412,273
Depreciation	205	205
Total operating expenses	41,072,883	38,898,778
Operating income (loss)	(2,351,175)	(2,438,996)
Nonoperating revenues (expenses):		
Investment income	371,939	401,685
Investment management fees	(21,322)	(26,224)
Unrealized gain (loss) on investments	(60,179)	409,508
Total nonoperating revenues	290,438	784,969
Change in net position	(2,060,737)	(1,654,027)
Net position, beginning of year	8,655,026	10,309,053
Net position, end of year	<u>\$ 6,594,289</u>	<u>\$ 8,655,026</u>

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

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

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Received from member assessments	\$ 37,833,546	\$ 36,054,339
Cash received for Medicare Part D subsidy	604,200	550,800
Cash paid to insurance providers and other	<u>(41,572,288)</u>	<u>(38,967,271)</u>
Net cash used by operating activities	(3,134,542)	(2,362,132)
Cash flows from investing/nonoperating activities:		
Interest on cash, cash equivalents and investments	228,449	283,364
Paid to investment manager	(21,322)	(26,224)
Transfers from investment account	750,000	1,650,000
Change in investments, net	<u>403,170</u>	<u>412,805</u>
Net cash provided (used) by investing activities	<u>1,360,297</u>	<u>2,319,945</u>
Net decrease in cash and cash equivalents	(1,774,245)	(42,187)
Cash and cash equivalents, beginning of year	<u>5,955,872</u>	<u>5,998,059</u>
Cash and cash equivalents, end of year	<u><u>\$ 4,181,627</u></u>	<u><u>\$ 5,955,872</u></u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating loss	\$ (2,351,175)	\$ (2,438,996)
Changes in operating assets and liabilities:		
(Increase)/decrease in receivables	(204,570)	6,466
(Increase)/decrease in prepaid expenses	(329,864)	2,689
Increase/(decrease) in incurred but not reported	14,479	
Increase/(decrease) in unpaid claims expenses		(267,327)
Increase/(decrease) in accrued expenses	(184,020)	196,145
Increase/(decrease) in member's advance collections	<u>(79,392)</u>	<u>138,891</u>
Net cash used by operating activities	<u><u>\$ (3,134,542)</u></u>	<u><u>\$ (2,362,132)</u></u>

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

BERKSHIRE HEALTH GROUP

Notes to Financial Statements

June 30, 2015 and 2014

Note 1. Description of Group

Berkshire Health Group (Group) was organized on May 10, 1990, as a Massachusetts Municipal Joint Purchase Health Insurance Trust, under Chapter 32B section 12 of the Massachusetts General Laws to negotiate and purchase hospital, surgical, medical, dental, health maintenance organization coverage, preferred provider organization coverage, claims administration/administrative services only coverage, and other health care and life coverage for its participating governmental units. The Group became operational July 1, 1991. The Group is governed by a Board (the Board), comprised of representatives from each of the participating governmental units. A Treasurer has been appointed by the Board to receive member assessments, issue checks, make transfers, and maintain bank accounts.

Participating governmental units consist of those entities that have signed the Berkshire Health Group Agreement for Negotiation and purchase of Health Coverage. As of June 30, 2015 and 2014, participants included the Towns of Adams, Great Barrington, Lanesborough, Lenox, and Williamstown; the Adams Cheshire Regional School District (RSD), Berkshire Hills RSD, Central Berkshire RSD, Mt. Greylock RSD, North Berkshire Vocational School, Southern Berkshire RSD, Southwick Tolland Granville RSD, and Berkshire County Insurance Group. The Towns of Granville and Tolland participate in the Group through the representation of the Southwick Tolland Granville Regional School District.

Governmental units applying for membership in the Group may do so on approval of a two-thirds vote of the Group's board. An entrance fee is due upon approval equal the greater of \$5,000 or \$50 per subscriber.

Any participating governmental unit may withdraw from the Group at its discretion upon written notification of the Board at least 90 days prior to the anniversary date of health care coverage contracts purchased by the group. The Board may terminate a participating governmental unit by a two-thirds vote of all Board members if the unit is in arrears for any payment due to the Group.

There is no liability for premiums and expenses following the effective date of the withdrawal or termination of a participating governmental unit except for its (1) proportional share of any deficits in self-funded plans, (2) open premium expense and (3) any subsequent expense to cover its subscribers remaining (where required by law) on plans after withdrawal or termination. Any deficit owed by the withdrawing or terminating governmental unit shall be paid within sixty (60) days following written demand for payment. A participating governmental unit's proportionate share of a deficit in the self-funded plans shall be the deficiency certified as of as of June 30 in the fiscal year of withdrawal or termination multiplied by the quotient as defined in the agreement. A withdrawn or terminated participating governmental unit shall not be entitled to any share of any surplus in the trust.

All surpluses or deficits of the Group are shared on a proportional and collective basis by non-terminating members. It is at the sole discretion of the Group's Board whether any surplus is to be distributed to the participating governmental units through rate reduction. In the case of a deficit, additional revenue may be raised from each participating governmental unit.

BERKSHIRE HEALTH GROUP

Notes to Financial Statements

June 30, 2015 and 2014

The Group provides health benefits to active employees and non-Medicare eligible retirees under three types of self-funded health benefits plans administered by Blue Cross & Blue Shield of Massachusetts (BCBSMA), a Preferred Provider Organization (PPO) plan ("Blue Care Elect Preferred"), a Point of Service (POS) plan ("Blue Choice New England), and an Exclusive Provider Organization (EPO) plan ("Network Blue New England"). The Group provides a Medicare supplement plan ("Medex 3 Enhanced") for its Medicare eligible retirees and a fully insured Managed Blue for Seniors plan. The Group also provides a self-funded contributory dental plan administered by Blue Cross & Blue Shield of Massachusetts. Administrative fees are paid to BCBSMA for administering these plans on a per subscriber, per month basis.

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. Funding rates are approved by the Group board and are set so as to cover all projected claims for services incurred during the policy period, including those not paid during the policy period, and group administration expenses, as established through underwriting and/or actuarial estimates. On occasion the Group applies a portion of unrestricted net position to reduce funding rates as determined above.

The Group employs the services of John R. Sharpy, Incorporated, d/b/a Group Benefits Strategies (GBS), as central benefit administrator to provide certain management, consulting, enrollment, COBRA administration and technical functions and to audit medical claims paid. The current agreement with GBS is for a three-year term ending June 30, 2017, and provides for a monthly fee based upon the number of subscribers. The agreement may be terminated by the Group, at any time with 60 days prior, written notice.

Note 2. Summary of Significant Accounting Policies

A. Basis of Accounting

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 assessments 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.

BERKSHIRE HEALTH GROUP

Notes to Financial Statements

June 30, 2015 and 2014

B. Cash, Cash Equivalents and Investments

Cash and cash equivalents consist of cash on hand, cash in checking, savings, or money market accounts, repurchase agreements, and other short-term investments with original maturities of three months or less.

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

C. Member Assessments and Advance Collections

Member assessments are billed to each participating governmental unit in the form of monthly funding rates. Assessments are recorded and recognized during the period in which the assessment is earned. Assessments collected in advance by the Group have been recorded as liabilities at year-end.

The Group generates its revenue from funding rate billings to its participating governmental units (as defined in Note 1 above) and provides health insurance benefits to their employees and retirees.

Although the Group is dependent on the economic environment of its participating Towns and Districts, Massachusetts General Laws mandates funding by the Group to meet its obligations under insurance contracts by including the amount of the obligation in determining future tax rates.

D. Claims Liabilities

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

E. Reinsurance

The Group uses reinsurance agreements to reduce its exposure to large losses on insured events. Reinsurance permits recovery of a portion of losses from the reinsurer, although it does not discharge the primary liability of the Group as the insurer of the risk.

The Group has a specific excess medical and prescription drug claims reinsurance contract with an insurance carrier covering claims paid on self-funded plans, except Medicare supplement and dental plans, in excess of \$200,000 per individual.

BERKSHIRE HEALTH GROUP

Notes to Financial Statements

June 30, 2015 and 2014

The policy period covers claims incurred, on a health plan policy year 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.

F. Medicare Part D Prescription Drug Benefit Program

The Group acts as plan sponsor on behalf of its members, for the purpose of applying for the subsidy payment provided for under The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (Subpart R). Subsidies billed or unbilled and earned under this program are recorded as revenue, and as receivable until collected in the accompanying financial statements.

The Group was required to pay \$243,032 in 2015 and \$0.00 in 2014 for Transitional Reinsurance Program (TRP) fees. The TRP fees are associated with the Affordable Care Act. These fees are classified as health plan premiums within the financial statements.

G. Accounting Estimates

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

H. Capital Assets

Capital assets are recorded at cost and consist of computer equipment, software and system design costs. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets.

Note 3. Cash, Cash Equivalents and Investments

Generally, the Treasurer is authorized to invest in the following investments: term deposits or certificates of deposits, 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 invest the same in such securities as are legal for the investment of funds under the laws of the Commonwealth of Massachusetts. Fixed income investments shall be limited to US Treasury or Federal Agency obligations, and US corporate obligations rated A or better by one or more nationally recognized bond rating organizations. Debt securities of any one issuer shall not exceed 5% of fund assets, nor 20% in any single industry. The average length of maturity of fixed income investments shall be left to the investment Manager's discretion, but a laddered average maturity is to be maintained for liquidity purposes. Securities issued by or guaranteed by the US Government or its agencies shall not be subject to such limitations. The Group may invest in units of the Massachusetts Municipal Depository Trust (MMDT), an

BERKSHIRE HEALTH GROUP

Notes to Financial Statements

June 30, 2015 and 2014

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

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

The Group maintains deposits in 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, 2015 and 2014 deposits totaled \$4,181,627 and \$5,423,129, respectively. The carrying amount of cash reported at June 30, 2015 and 2014 were \$4,181,627 and \$5,955,872, respectively. Of the deposit amounts, \$0 and \$4,923,129 was exposed to custodial credit risk at June 30, 2015 and 2014, respectively, because it was uninsured and uncollateralized. The difference between deposit amounts and carrying amounts generally represents outstanding checks and deposits in transit.

Investment income reported in the financial statements is made up of the following:

	<u>2015</u>	<u>2014</u>
Interest and Dividend Income	\$ 221,025	\$ 275,530
Realized Gain on Investments	<u>150,914</u>	<u>126,155</u>
Total Investment Income	<u>\$ 371,939</u>	<u>\$ 401,685</u>

Custodial credit risk for investments is the risk that, in the event of the failure of the counter party to a transaction, the Group 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 a formal investment policy covering custodial credit risk. In the year ending June 30, 2015 the Group implemented a letter of credit totaling \$7,500,000 which will cover up to \$7,500,000 of custodial credit risk.

Interest rate risk is the risk that changes in market interest rates that will adversely affect the fair market value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair market value to changes in market interest rates. The Group has an investment policy, which provides the average length of maturity of fixed income investments shall be left to the investment Manager's discretion, but a laddered average maturity is to be maintained for liquidity purposes. Securities issued by or guaranteed by the US Government or its agencies shall not be subject to such limitations.

The approximate maturities of the Group's debt investments are disclosed in the following table:

<u>Investment Type</u>	<u>Fair Market Value</u>	<u>Maturity</u>				<u>Thereafter</u>	<u>N/A</u>
		<u>12 months or less</u>	<u>13 – 24 months</u>	<u>25 – 60 months</u>			
As of June 30, 2015:							
Mutual-exchange traded funds	\$ 112,634	\$ 112,634	\$ -	\$ -	\$ -	\$ -	-
MMDT	49,772	49,772	-	-	-	-	-
Certificates of deposit	204,234	-	204,234	-	-	-	-
Domestic equities	2,695,684	-	-	-	-	-	2,695,684
Corporate notes	<u>3,136,308</u>	<u>458,861</u>	<u>787,900</u>	<u>1,358,721</u>	<u>530,826</u>	<u>-</u>	<u>-</u>
	<u>\$6,198,632</u>	<u>\$ 621,267</u>	<u>\$ 992,134</u>	<u>\$ 1,358,721</u>	<u>\$ 530,826</u>	<u>\$2,695,684</u>	

BERKSHIRE HEALTH GROUP

Notes to Financial Statements

June 30, 2015 and 2014

Investment Type	Fair Market Value	Maturity				
		12 months or less	13 – 24 months	25 – 60 months	Thereafter	N/A
As of June 30, 2014:						
Federal agency bonds	\$ 103,988	\$ 103,988	\$ -	\$ -	\$ -	\$ -
Mutual exchange traded funds	62,710	62,710	-	-	-	-
MMDT	49,673	49,673	-	-	-	-
Certificates of deposit	206,486	-	-	206,486	-	-
Domestic equities	2,835,772	-	-	-	-	2,835,772
Corporate notes	<u>4,002,233</u>	<u>-</u>	<u>806,639</u>	<u>2,032,528</u>	<u>1,163,066</u>	<u>-</u>
	<u>\$ 7,260,862</u>	<u>\$ 216,371</u>	<u>\$ 806,639</u>	<u>\$ 2,239,014</u>	<u>\$ 1,163,066</u>	<u>\$ 2,835,772</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 below table. Equity securities and equity mutual funds are not rated as to credit risk. Fixed income investments shall be limited to US Treasury or Federal Agency obligations, and US corporate obligations rated A or better by one or more nationally recognized bond rating organizations. If any bonds in the Group's portfolio present a split rating of BBB or lower, the Board of Directors will vote on whether or not to keep the bonds in their portfolio. The split rated BBB investments below were approved to keep by the Board of Directors. The following table discloses the approximate amount of debt investments in each rating classification using Standard & Poor's rating classifications:

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:								
Money market funds	\$ 112,634	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 112,634
MMDT	49,772	-	-	-	-	-	-	49,772
Certificates of deposit	204,234	-	-	-	-	-	-	204,234
Domestic equities	2,695,684	-	-	-	-	-	-	2,695,684
Corporate notes	<u>3,136,308</u>	<u>-</u>	<u>161,528</u>	<u>2,626,362</u>	<u>239,672</u>	<u>-</u>	<u>-</u>	<u>108,746</u>
	<u>\$ 6,198,632</u>	<u>\$ -</u>	<u>\$ 161,528</u>	<u>\$ 2,626,362</u>	<u>\$ 239,672</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,171,070</u>
As of June 30, 2014:								
Federal agency securities	\$ 103,988	\$ 103,988	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Money market funds	62,710	-	-	-	-	-	-	62,710
MMDT	49,673	-	-	-	-	-	-	49,673
Certificates of deposit	206,486	-	-	-	-	-	-	206,486
Domestic equities	2,835,772	-	-	-	-	-	-	2,835,772
Corporate notes	<u>4,002,233</u>	<u>-</u>	<u>107,582</u>	<u>3,599,254</u>	<u>185,401</u>	<u>-</u>	<u>-</u>	<u>109,996</u>
	<u>\$ 7,260,862</u>	<u>\$ 103,988</u>	<u>\$ 107,582</u>	<u>\$ 3,599,254</u>	<u>\$ 185,401</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,264,637</u>

BERKSHIRE HEALTH GROUP

Notes to Financial Statements

June 30, 2015 and 2014

Concentration of credit risk – Debt securities of any one issuer shall not exceed 5% of fund assets, nor 20% in any single industry. Investment in common stocks shall not exceed 50% of the total investment portfolio. 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. Capital Assets

Changes in capital assets during fiscal year 2015 are as follows:

	Balance 6/30/2014	Additions	Deletions	Balance 6/30/2015
Furniture and equipment	\$ 13,960	\$ -	\$ -	\$ 13,960
Total capital assets	13,960	-	-	13,960
Less accumulated depreciation:				
Furniture and equipment	13,635	205	-	13,840
Total accumulated depreciation	13,635	205	-	13,840
Capital assets, net	\$ 325	\$ (205)	\$ -	\$ 120

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 2014:

	2015	2014
Unpaid claims and claims' adjustment expenses—beginning of year	\$ 3,385,521	\$ 3,652,848
Incurred claims and claims' adjustment expenses:		
Provision for insured events of the current fiscal year	37,783,227	37,476,314
Increase/(Decrease) in provision for insured events of prior fiscal years	47,618	(1,468,737)
	37,830,845	36,007,577
Payments:		
Claims and claims' adjustment expenses attributable to insured events of the current fiscal year	(34,383,227)	(34,090,793)
Claims and claims' adjustment expenses attributable to insured events of prior fiscal years	(3,433,139)	(2,184,111)
	(37,816,366)	(36,274,904)
Total unpaid claims and claims' adjustment expenses—end of year	\$ 3,400,000	\$ 3,385,521

Note 6. Subsequent Events

The Group has evaluated subsequent events through January 15, 2016, which is the date the financial statements were available to be issued.

BERKSHIRE HEALTH GROUP

Notes to Financial Statements

June 30, 2015 and 2014

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 #68, *Accounting and Financial Reporting for Pension*, which was required to be implemented in fiscal year 2015. The pronouncement required governments providing defined benefit pensions to recognize their long term obligation for pension benefits as a liability and to more comprehensively and comparably measure the annual cost of pension benefits. It also enhanced accountability and transparency through revised and additional note disclosures and required supplementary information. This procurement had no effect on the Group in the current year.

The GASB issued Statement #71, *Pension Transition for Contributions Made Subsequent to the Measurement Date- An Amendment of GASB Statement No. 68*, which was required to be implemented in fiscal year 2015. The pronouncement addressed application of the transition provisions of Statement No. 68, associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This procurement had no effect on the Group in the current year.

Future pronouncements

The GASB issued Statement #72, *Fair Value Measurement and Application*, which is required to be implemented in fiscal year 2016. The pronouncement addresses accounting and financial reporting issues related to fair value measurements. The Group will evaluate the implementation of the pronouncement as applicable.

The GASB issued Statement #74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which is required to be implemented in fiscal year 2016. The pronouncement objective is to improve the usefulness of information about other postemployment benefits (OPEB) included in the general purpose external financial reports. The Group will evaluate the implementation of the pronouncement as applicable.

The GASB issued Statement #75, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions*, which is required to be implemented in fiscal year 2018. The pronouncement replaces previously issued guidance and establishes new accounting and financial reporting requirements for governments whose employees are provided other post-employment benefits. The Group will evaluate the implementation of the pronouncement as applicable.

The GASB issued Statement #76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which is required to be implemented in fiscal year 2017. The pronouncement replaces previously issued guidance and improves financial reporting by redefining the hierarchy of generally accepted accounting principles (GAAP). The Group will evaluate the implementation of the pronouncement as applicable.

BERKSHIRE 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, the amount of contribution revenue ceded, and the amount of net earned revenues. (2) This line shows each fiscal year's other operating costs of the Group including overhead and claims' expense not allocated to individual claims. (3) This line shows the Group's incurred claims and allocated claims adjustment expenses, claims assumed by reinsurers, and net incurred claims and allocated adjustment expenses (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 net amounts paid as of the end of successive years for each policy year. (5) This line shows the latest re-estimated amount of claims assumed by reinsurers as of the end of the current year for each accident year. (6) This section of rows shows how each policy year's net 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, and emergence of new claims not previously known. (7) 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 net incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

See Independent Auditors' Report

BERKSHIRE HEALTH GROUP
REQUIRED SUPPLEMENTARY INFORMATION
Ten-Year Claims' Development Information
(Unaudited)

	6/30/2015	6/30/2014	6/30/2013	6/30/2012	6/30/2011	6/30/2010	6/30/2009	6/30/2008	6/30/2007	6/30/2006	6/30/2005
1. Member assessments, other and investment revenues											
Earned	38,721,708	37,270,975	36,567,714	36,017,525	37,851,195	34,899,617	33,584,250	31,196,116	29,189,336	25,740,584	21,296,413
Ceded	861,039	473,845	558,761	535,651	504,871	441,258	498,686	448,556	406,113	551,650	492,352
Net earned	37,860,669	36,797,130	36,008,953	35,481,874	37,346,324	34,458,359	33,085,564	30,747,560	28,783,223	25,188,934	20,804,061
2. Unallocated expenses	2,462,500	2,443,580	2,450,987	2,360,865	2,220,119	2,126,634	2,220,054	1,999,235	1,819,017	1,770,119	1,604,362
3. Estimated claims and expense, end of fiscal year											
Incurred	38,792,783	37,938,654	36,648,182	35,351,133	33,964,995	33,017,424	31,040,661	26,741,508	25,741,632	22,956,934	19,726,973
Ceded	1,009,556	462,340	708,587	273,941	500,437	1,465,716	475,129	138,723	230,613	324,446	86,529
Net incurred	37,783,227	37,476,314	35,939,595	35,077,192	33,464,558	31,551,708	30,565,532	26,602,785	25,511,019	22,632,488	19,640,444
4. Net paid (cumulative) as of:											
End of fiscal year	34,383,227	34,090,793	32,286,747	31,542,687	29,884,399	28,619,508	27,127,980	24,118,673	21,732,748	20,020,434	17,393,074
One year later		37,508,779	34,491,141	33,818,879	32,398,912	31,141,651	30,040,275	26,180,615	25,144,861	22,460,300	18,856,217
Two years later			34,497,057	33,806,991	32,341,249	31,126,035	30,023,342	26,173,716	25,130,728	22,486,781	18,847,981
Three years later				33,815,472	32,332,471	31,125,596	30,024,903	26,166,568	25,131,346	22,479,540	18,840,841
Four years later					32,332,991	31,125,272	30,024,673	26,160,611	25,131,062	22,479,975	18,829,786
Five years later						31,125,490	30,024,444	26,160,686	25,133,281	22,477,247	18,822,081
Six years later							30,024,462	26,161,624	25,133,222	22,477,247	18,822,059
Seven years later								26,161,624	25,133,222	22,477,247	18,822,059
Eight years later									25,133,222	22,477,247	18,822,059
Nine years later										22,477,247	18,822,059
5. Reestimated ceded claims and expenses	1,009,556	462,340	708,587	273,941	500,437	1,465,716	475,129	214,655	260,625	335,317	177,130
6. Re-estimated incurred, self-insured claims and expense:											
End of fiscal year	37,783,227	37,476,314	35,939,595	35,077,192	33,464,558	31,551,708	30,565,532	26,602,785	25,511,019	22,632,488	19,640,444
One year later		37,508,779	34,491,141	33,818,879	32,398,912	31,141,651	30,040,275	26,180,615	25,144,861	22,460,300	18,860,870
Two years later			34,497,057	33,806,991	32,341,249	31,126,035	30,023,342	26,173,716	25,130,728	22,486,781	18,847,981
Three years later				33,815,472	32,332,471	31,125,596	30,024,903	26,166,568	25,131,346	22,479,540	18,840,841
Four years later					32,332,471	31,125,272	30,024,673	26,160,611	25,131,062	22,479,975	18,829,786
Five years later					32,332,991	31,125,272	30,024,444	26,160,686	25,133,281	22,477,247	18,822,081
Six years later						31,125,490	30,024,462	26,161,624	25,133,222	22,477,247	18,822,059
Seven years later								26,161,624	25,133,222	22,477,247	18,822,059
Eight years later									25,133,222	22,477,247	18,822,059
Nine years later										22,477,247	18,822,059
7. (Increase) decrease in estimated net incurred claims and expense from the end of the original policy year.		(32,465)	1,442,538	1,261,720	1,131,567	426,218	541,070	441,161	377,797	155,241	818,385