

BERKSHIRE HEALTH GROUP
FINANCIAL STATEMENTS AND
MANAGEMENT'S DISCUSSION AND ANALYSIS
WITH REQUIRED SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2010 AND 2009
WITH INDEPENDENT AUDITOR'S REPORTS

BERKSHIRE HEALTH GROUP
FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS
WITH REQUIRED SUPPLEMENTARY INFORMATION
Years Ended June 30, 2010 and June 30, 2009

INDEX

INDEPENDENT AUDITOR'S REPORTS ON:

Financial statements	i
Internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	ii

MANAGEMENT'S DISCUSSION AND ANALYSIS	iv
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FINANCIAL STATEMENTS:

Statement of net assets at June 30, 2010 and June 30, 2009	1
Statement of revenues, expenses, and changes in net assets	2
Statement of cash flows	3
Notes to financial statements	4

REQUIRED SUPPLEMENTARY INFORMATION	11
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INDEPENDENT AUDITOR'S REPORT

To the Primary Board
Berkshire Health Group

We have audited the accompanying statement of net assets of Berkshire Health Group (Group) as of June 30, 2010 and June 30, 2009 and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of Berkshire Health Group as of June 30, 2010 and June 30, 2009 and changes in its financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2011, on our consideration of the Group's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Management's Discussion and Analysis (MD&A) and the ten-year claims development information on the accompanying pages are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and we express no opinion on it.

Malloy, Lynch, Bienvenue, LLP

January 11, 2011



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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 Primary Board
Berkshire Health Group

We have audited the financial statements of Berkshire Health Group (Group) as of and for the years ended June 30, 2010 and June 30, 2009 and have issued our report thereon dated January 11, 2011. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the Group's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Group's internal control over financial reporting.

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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the next paragraph that we consider to be significant deficiencies in internal control over financial reporting. 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 in governance.

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

Views of Responsible Officials: The Board intends to take this under advisement and to continue to monitor and evaluate financial reporting and internal controls on an ongoing basis.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Group's financial statements are free of 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*.

We noted certain matters that we reported to management of the Berkshire Health Group in a separate letter dated January 11, 2011.

This report is intended solely for the information and use of management, and other appropriate government agencies and is not intended to be and should not be used by anyone other than these specified parties.

Malloy, Lynch, Bienvenue, LLP

January 11, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

BERKSHIRE HEALTH GROUP
Management's Discussion & Analysis
June 30, 2010

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 year ended June 30, 2010. 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 assets, a statement of revenues, expenses and changes in net assets; a statement of cash flows and notes to the financial statements.

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

The statement of revenues, expenses, and changes in net assets 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 assets reconciles to the net assets 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 by \$10,391,091 (net assets) at the close of the fiscal year. Net assets at June 30, 2010 represent 33.5% of fiscal year 2010 claims expense.
- For the year ended June 30, 2010, net assets increased by \$1,318,825 or 14.3%.
- 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 \$1,158,132 for the year.

The increase in net assets is primarily a result of member premiums exceeding the cost of claims and other Group costs during the fiscal year. 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.

BERKSHIRE HEALTH GROUP
Management's Discussion & Analysis
June 30, 2010

Condensed Financial Information

A comparative summary of financial information is presented below:

	<u>2010</u>	<u>2009</u>	<u>Amount of Change</u>
Cash	\$ 5,722,565	\$ 6,880,697	\$ (1,158,132)
Investments	7,890,842	6,232,528	1,658,314
Other current assets	<u>506,227</u>	<u>382,768</u>	123,459
Total assets	14,119,634	13,495,993	623,641
Claims liabilities	2,932,199	3,437,551	(505,352)
Other current liabilities	<u>796,344</u>	<u>986,176</u>	(189,832)
Total liabilities	3,728,543	4,423,727	(695,184)
Unrestricted net assets	<u>10,391,091</u>	<u>9,072,266</u>	1,318,825
Total net assets	<u>\$ 10,391,091</u>	<u>\$ 9,072,266</u>	1,318,825
Operating revenues	\$ 34,410,117	\$ 33,283,107	1,127,010
Claims expense	31,012,900	30,090,166	922,734
Claims administration expenses	1,825,911	1,784,385	41,526
All other operating expenses	<u>723,864</u>	<u>766,066</u>	(42,202)
Total operating expenses	<u>33,562,675</u>	<u>32,640,617</u>	922,058
Operating income	847,442	642,490	204,952
Non-operating revenues, net	<u>471,383</u>	<u>132,854</u>	338,529
Change in net assets	<u>1,318,825</u>	<u>\$ 775,344</u>	\$ 543,481

Economic Factors Affecting the Subsequent Year

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

Prior to June 30, 2010, the Group's Board set the rate structure for fiscal year 2011 plan participation. The rate structure resulted in rate increases ranging from 5.0% for active care plans and from 5.3% for self-funded senior plans, depending upon the plan selected.

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.

BASIC FINANCIAL STATEMENTS

BERKSHIRE HEALTH GROUP

Statement of Net Assets

June 30, 2010 and 2009

	<u>2010</u> <u>Total</u>	<u>2009</u> <u>Total</u>
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 5,722,565	\$ 6,880,697
Investments	7,890,842	6,232,528
Receivables:		
Reinsurance	295,856	183,437
Member assessments	10,270	5,656
Retiree drug subsidy	<u>148,624</u>	<u>128,265</u>
Total receivables	454,750	317,358
Prepaid expense	217	217
Accrued interest earned	<u>51,260</u>	<u>65,193</u>
Total current assets	<u>14,119,634</u>	<u>13,495,993</u>
Total assets	<u>\$ 14,119,634</u>	<u>\$ 13,495,993</u>
<u>LIABILITIES</u>		
Current liabilities:		
Unpaid claims	\$ 2,932,199	\$ 3,437,551
Accrued expenses	4,934	3,538
Advance collections - member assessments	<u>791,410</u>	<u>982,638</u>
Total liabilities	3,728,543	4,423,727
<u>NET ASSETS</u>		
Unrestricted net assets	<u>10,391,091</u>	<u>9,072,266</u>
Total net assets	<u>10,391,091</u>	<u>9,072,266</u>
Total liabilities and net assets	<u>\$ 14,119,634</u>	<u>\$ 13,495,993</u>

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

BERKSHIRE HEALTH GROUP
Statement of Revenues, Expenses, and Changes in Net Assets
Years Ended June 30, 2010 and 2009

	2010	2009
	Total	Total
Operating revenues:		
Member assessments	\$ 33,968,517	\$ 32,714,959
Medicare Part D subsidy	441,600	568,148
Total operating revenues	34,410,117	33,283,107
Operating expenses:		
Medical and dental claims	31,012,900	30,090,166
Claims administration fees	1,825,911	1,784,385
Reinsurance premiums	441,258	498,686
Group administration services	282,606	267,380
Total operating expenses	33,562,675	32,640,617
Operating income (loss)	847,442	642,490
Nonoperating revenue/expense:		
Investment income	292,154	301,143
Investment management fees	(18,117)	(12,723)
Net change in fair value of investments	197,346	(155,566)
Total nonoperating revenues	471,383	132,854
Change in net assets	1,318,825	775,344
Net assets, beginning of year	9,072,266	8,296,923
Net assets, end of year	\$ 10,391,091	\$ 9,072,266

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

BERKSHIRE HEALTH GROUPStatement of Cash Flows
Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Received from member assessments	\$ 33,772,674	\$ 32,988,782
Cash received for Medicare Part D subsidy	421,241	612,883
Paid to suppliers of goods and services	<u>(34,179,050)</u>	<u>(31,794,341)</u>
Net cash provided by operating activities	14,865	1,807,324
Cash flows from investing activities:		
Interest on cash, cash equivalents and investments	306,088	255,852
Paid to investment manager	(18,117)	(12,723)
Purchases of investments	(1,658,314)	(964,428)
Proceeds from sale and redemptions of investments	<u>197,346</u>	<u>178,695</u>
Net cash used by investing activities	<u>(1,172,997)</u>	<u>(542,604)</u>
Net decrease in cash and cash equivalents	(1,158,132)	1,264,720
Cash and cash equivalents, beginning of year	<u>6,880,697</u>	<u>5,615,977</u>
Cash and cash equivalents, end of year	<u>\$ 5,722,565</u>	<u>\$ 6,880,697</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	\$ 847,442	\$ 642,490
Adjustments to reconcile operating income to net cash provided by operating activities:		
Changes in assets and liabilities:		
(Increase)/decrease in receivables	(137,392)	(66,840)
(Increase)/decrease in prepaid expenses		(92)
Increase/(decrease) in unpaid claims expenses	(505,352)	953,439
Increase/(decrease) in accrued expenses	1,396	434
Increase/(decrease) in advance collections - member assessments	<u>(191,229)</u>	<u>277,893</u>
Net cash used by operating activities	<u>\$ 14,865</u>	<u>\$ 1,807,324</u>

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

BERKSHIRE HEALTH GROUP

Notes to Financial Statements

June 30, 2010 and 2009

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, 2010, participants included one Municipal Joint Purchase Health Insurance Group (comprised of fifteen towns, two fire/water districts and one educational collaborative), seven regional school districts and four towns.

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 it 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 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.

The Group provides health benefits to active employees and non-Medicare eligible retirees under four types of self-funded health benefits plans administered by Blue Cross & Blue Shield of Massachusetts (BCBSMA): traditional indemnity plans ("Master Health Plus" and "Master Medical"), 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

BERKSHIRE HEALTH GROUP

Notes to Financial Statements

June 30, 2010 and 2009

(EPO) plan ("Network Blue New England"). The Group provides Medicare supplement plans ("Medex 3" and Medex 3 Enhanced") for its retirees with Medicare Part A & Part B. 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.

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 June 30, 2011, 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 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 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.

BERKSHIRE HEALTH GROUP

Notes to Financial Statements

June 30, 2010 and 2009

B. Cash, Cash Equivalents and Investments

For the purpose of the statement of cash flows, 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.

In accordance with GASB Statement No. 31 investments have been reported at fair value. Securities traded on national or local exchanges are valued at the last sales price at current exchange prices. Net increases (decreases) in the fair value of investments, which is defined as the difference between the fair value of the investments at the beginning of the year and at the end of the fiscal year, have been recorded as such in the statement of revenues and expenses.

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.

BERKSHIRE HEALTH GROUP

Notes to Financial Statements

June 30, 2010 and 2009

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 \$150,000 and \$125,000 per individual to a lifetime maximum amount payable of \$1,850,000 and \$1,875,000 for each individual member within any one-policy period for June 30, 2010 and 2009, respectively.

The policy period covers claims incurred, on a calendar basis, within 12 months and paid within 18 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.

G. Accounting Estimates

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

Note 3. Cash, Cash Equivalents and Investments

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

BERKSHIRE HEALTH GROUP

Notes to Financial Statements

June 30, 2010 and 2009

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, 2010 and 2009 deposits totaled \$5,699,008 and \$6,885,871, respectively. The carrying amount of cash reported at June 30, 2010 and 2009 were \$5,740,191 and \$6,880,697, respectively. Of the deposit amounts, \$5,055,315 and \$6,385,876 was exposed to custodial credit risk at June 30, 2010 and 2009, respectively, because it was uninsured and uncollateralized. The difference between deposit amounts and carrying amounts generally represents outstanding checks and deposits in transit.

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, 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 an investment policy covering 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>12 months or less</u>	<u>13 – 24 months</u>	<u>25 – 60 months</u>	<u>Thereafter</u>
As of June 30, 2010:					
U.S. Treasury Notes	\$ 154,852	\$	\$	\$ 154,852	\$
Federal agency bonds	615,361			615,361	
Mutual-exchange traded funds	901,243	901,243			
MMDT	1,757,003	1,757,003			
Certificates of deposit	198,487			102,700	95,787
Domestic equities	793,452	539,738			253,714
Corporate notes	<u>3,470,444</u>	<u>299,488</u>	<u>425,479</u>	<u>1,467,718</u>	<u>1,277,759</u>
	<u>\$ 7,890,842</u>	<u>\$ 3,497,472</u>	<u>\$ 425,479</u>	<u>\$ 2,340,631</u>	<u>\$1,627,260</u>

BERKSHIRE HEALTH GROUP

Notes to Financial Statements

June 30, 2010 and 2009

Investment Type	Fair Market Value	Maturity			
		12 months or less	13 – 24 months	25 – 60 months	Thereafter
As of June 30, 2009:					
U.S. Treasury Notes	\$ 100,563	\$ 100,563	\$	\$	\$
Federal agency bonds	196,910			196,910	
Money market funds	561,654	561,654			
MMDT	1,749,326	1,749,326			
Certificates of deposit	289,387	190,000		99,387	
Domestic equities	514,427	232,271			282,156
Corporate notes	<u>2,820,261</u>	<u>172,985</u>	<u>394,868</u>	<u>1,619,441</u>	<u>632,968</u>
	\$ 6,232,528	\$ 3,006,799	\$ 394,868	\$ 1,915,738	\$ 915,123

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. 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, 2010:							
U.S. Treasury Notes	\$ 154,852	\$ 154,852	\$	\$	\$	\$	\$
Federal agency securities	615,361	615,361					
Money market funds	901,243						901,243
MMDT	1,757,003						1,757,003
Certificates of deposit	198,487						198,487
Domestic equities	793,452						793,452
Corporate notes	<u>3,470,444</u>		<u>102,543</u>	<u>3,367,901</u>			
	<u>\$ 7,890,842</u>	<u>\$ 770,213</u>	<u>\$ 102,543</u>	<u>\$ 3,367,901</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,650,185</u>
As of June 30, 2009:							
U.S. Treasury Notes	\$ 100,563	\$ 100,563	\$	\$	\$	\$	\$
Federal agency securities	196,910	196,910					
Money market funds	561,654						561,654
MMDT	1,749,326						1,749,326
Certificates of deposit	289,387						289,387
Domestic equities	514,427						514,427
Corporate notes	<u>2,820,261</u>			<u>2,493,799</u>	<u>96,806</u>		<u>229,656</u>
	<u>\$ 6,232,528</u>	<u>\$ 297,473</u>	<u>\$ -</u>	<u>\$ 2,493,799</u>	<u>\$ 96,806</u>	<u>\$ -</u>	<u>\$ 3,344,450</u>

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 25% 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.

BERKSHIRE HEALTH GROUP

Notes to Financial Statements

June 30, 2010 and 2009

Note 4. Fixed Assets

Fixed 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 5. Unpaid Claims

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, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Unpaid claims and claims' adjustment expenses—beginning of year	\$ 3,437,551	\$ 2,484,112
Incurring claims and claims' adjustment expenses:		
Provision for insured events of the current fiscal year	31,551,708	30,565,532
(Decrease) in provision for insured events of prior fiscal years	<u>(538,808)</u>	<u>(475,366)</u>
	31,012,900	30,090,166
Payments:		
Claims and claims' adjustment expenses attributable to insured events of the current fiscal year	(28,619,508)	(27,127,980)
Claims and claims' adjustment expenses attributable to insured events of prior fiscal years	<u>(2,898,744)</u>	<u>(2,008,747)</u>
	<u>(31,518,252)</u>	<u>(29,136,727)</u>
Total unpaid claims and claims' adjustment expenses—end of year	\$ <u>2,932,199</u>	\$ <u>3,437,551</u>

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.

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

	<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>	<u>6/30/2004</u>	<u>6/30/2003</u>	<u>6/30/2002</u>	<u>6/30/2001</u>
1. Member assessments, other and investment revenues										
Earned	\$ 34,899,617	\$ 33,584,250	\$ 31,196,116	\$ 29,189,336	\$ 25,740,284	\$ 21,296,413	\$ 19,157,413	\$18,165,413	\$ 16,674,603	\$ 13,493,171
Ceded	<u>441,258</u>	<u>498,686</u>	<u>448,556</u>	<u>406,113</u>	<u>551,650</u>	<u>492,352</u>	<u>495,893</u>	<u>518,953</u>	<u>418,009</u>	<u>345,019</u>
Net earned	34,458,359	33,085,564	30,747,560	28,783,223	25,188,634	20,804,061	18,661,520	17,646,460	16,256,594	13,148,152
2. Unallocated expenses	2,126,634	2,220,054	1,999,235	1,819,017	1,770,119	1,604,362	1,556,694	1,521,762	1,598,239	1,602,161
3. Estimated claims and expense, end of fiscal year										
Incurred	33,017,424	31,040,661	26,741,508	25,741,632	22,956,934	19,726,973	16,675,409	14,953,403	14,187,423	12,900,474
Ceded	<u>1,465,716</u>	<u>475,129</u>	<u>138,723</u>	<u>230,613</u>	<u>324,446</u>	<u>86,529</u>	<u>68,771</u>		<u>191,673</u>	<u>377,149</u>
Net incurred	31,551,708	30,565,532	26,602,785	25,511,019	22,632,488	19,640,444	16,606,638	14,953,403	13,995,750	12,523,325
4. Net paid (cumulative) as of:										
End of fiscal year	28,619,508	27,127,980	24,118,673	21,732,748	20,020,434	17,393,074	15,174,649	13,499,193	12,282,499	11,207,934
One year later		30,040,275	26,180,615	25,144,861	22,460,300	18,856,217	16,318,847	14,737,191	13,690,110	12,296,750
Two years later			26,173,716	25,130,728	22,486,781	18,847,981	16,325,565	14,749,804	13,689,888	12,304,368
Three years later				25,131,346	22,479,540	18,840,841	16,326,817	14,749,795	13,696,379	12,329,720
Four years later					22,479,975	18,829,786	16,326,726	14,745,802	13,696,528	12,334,911
Five years later						18,822,081	16,305,959	14,745,690	13,695,121	12,335,019
Six years later							16,305,959	14,745,690	13,693,900	12,335,019
Seven years later								14,745,690	13,693,900	12,335,019
Eight years later									13,693,900	12,335,019
Nine years later										12,335,019
5. Reestimated ceded claims and expenses	1,465,716	475,129	214,655	260,625	335,317	177,130	69,809		194,079	377,743
6. Re-estimated incurred, self-insured claims and expense:										
End of fiscal year	31,551,708	30,565,532	26,602,785	25,511,019	22,632,488	19,640,444	16,606,638	14,953,403	13,995,750	12,523,325
One year later		30,040,275	26,180,615	25,144,861	22,460,300	18,860,870	16,322,544	14,741,504	13,687,353	12,291,829
Two years later			26,173,716	25,130,728	22,486,781	18,847,981	16,328,339	14,749,794	13,692,839	12,304,638
Three years later				25,131,346	22,479,540	18,840,841	16,326,817	14,749,015	13,696,967	12,334,674
Four years later					22,479,975	18,829,786	16,326,726	14,745,802	13,695,121	12,334,911
Five years later						18,822,081	16,305,959	14,745,690	13,695,121	12,335,019
Six years later							16,305,959	14,745,690	13,693,900	12,335,019
Seven years later								14,745,690	13,693,900	12,335,019
Eight years later									13,693,900	12,335,019
Nine years later										12,335,019
7. Increase (decrease) in estimated net incurred claims and expense from the end of the original policy year.		(525,257)	(429,069)	(379,673)	(152,513)	(818,363)	(300,679)	(207,713)	(301,850)	(188,306)