

BERKSHIRE HEALTH GROUP
BASIC FINANCIAL STATEMENTS AND
MANAGEMENT'S DISCUSSION AND ANALYSIS
WITH REQUIRED SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2016 AND 2015
WITH INDEPENDENT AUDITORS' REPORTS

BERKSHIRE HEALTH GROUP
BASIC FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS
WITH REQUIRED SUPPLEMENTARY INFORMATION
Years Ended June 30, 2016 and 2015

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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

Report on the Financial Statements

We have audited the accompanying financial statements of the Berkshire Health Group (Group) as of and for the years ended June 30, 2016 and 2015 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, 2016 and 2015, 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 on pages v–vii and 14-15, respectively, 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 March 2, 2017, 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.



Natick, Massachusetts
March 2, 2017



**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, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Group's basic financial statements, and have issued our report thereon dated March 2, 2017.

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
March 2, 2017



MANAGEMENT'S DISCUSSION AND ANALYSIS

BERKSHIRE HEALTH GROUP
Management's Discussion & Analysis
June 30, 2016 and 2015

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, 2016 and 2015. 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 financial statements. The notes to the financial statements follow the basic financial statements described above.

Financial Highlights

- Assets exceeded liabilities (net position) as of June 30, 2016 and 2015 by \$6,453,952 and \$6,594,289, respectively. Net position at June 30, 2016 and 2015 represents 16.4% and 17.4%, 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, 2016 and 2015, net position decreased by \$140,337 and \$2,060,737, respectively.
- The statement of cash flows identifies the sources and uses of cash activity for the fiscal year and displays a net increase in cash of \$624,318 for the year ended June 30, 2016 and a net decrease in cash of \$1,824,018 for June 30, 2015.

BERKSHIRE HEALTH GROUP
Management's Discussion & Analysis
June 30, 2016 and 2015

The decreases in net position for the years ended June 30, 2016 and 2015 were primarily a result of operating expenses exceeding operating revenues. The Board of Directors intentionally used surplus of unrestricted net position in the years ended June 30, 2016 and 2015 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>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 4,805,945	\$ 4,181,627
Investments	6,242,067	6,198,632
Other assets	<u>599,359</u>	<u>796,390</u>
Total assets	11,647,371	11,176,649
Incurred but not reported	3,841,006	3,400,000
Other current liabilities	<u>1,352,413</u>	<u>1,182,360</u>
Total liabilities	5,193,419	4,582,360
Unrestricted net position	<u><u>6,453,952</u></u>	<u><u>6,594,289</u></u>
Operating revenues	\$ 42,615,871	\$ 38,721,708
Less:		
Claims expense	39,607,491	37,830,845
Claims administration expenses	1,943,627	1,972,391
Other operating expenses	<u>1,319,723</u>	<u>1,269,647</u>
Total operating expenses	42,870,841	41,072,883
Plus:		
Net non-operating revenues	<u>114,633</u>	<u>290,438</u>
Increase/(decrease) in net position	<u><u>\$ (140,337)</u></u>	<u><u>\$ (2,060,737)</u></u>

Economic Factors Affecting the Subsequent Year

The Group's Board set the rate structure for fiscal 2017 plan participation. The rate structure resulted in increased rates for 2017 of 14.1% for all active plans and a decrease of 24.5% for the Medex plan.

Southwick Granville Regional School District, and its related entities the Town of Granville and the Town of Tolland, requested to withdraw from the Group effective July 1, 2016.

BERKSHIRE HEALTH GROUP
Management's Discussion & Analysis
June 30, 2016 and 2015

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

Statements of Net Position

June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
Assets:		
Cash and cash equivalents	\$ 4,805,945	\$ 4,181,627
Investments	6,242,067	6,198,632
Receivables:		
Reinsurance	327,127	316,550
Member assessments	6,466	7,423
Retiree drug subsidy	234,873	109,887
Total receivables	568,466	433,860
Prepaid expense	239	330,113
Accrued interest earned	29,463	32,297
Fixed assets, net of depreciation	1,191	120
Total assets	<u>\$ 11,647,371</u>	<u>\$ 11,176,649</u>
<u>LIABILITIES AND NET POSITION</u>		
Liabilities:		
Incurred but not reported	\$ 3,841,006	\$ 3,400,000
Accrued expenses	705,089	26,930
Advance collections - member assessments	647,324	1,155,430
Total liabilities	5,193,419	4,582,360
Total net position	<u>6,453,952</u>	<u>6,594,289</u>
Total liabilities and net position	<u>\$ 11,647,371</u>	<u>\$ 11,176,649</u>

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

BERKSHIRE HEALTH GROUP
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating revenues:		
Member assessments	\$ 41,706,963	\$ 38,117,508
Medicare Part D subsidy	908,908	604,200
Total operating revenues	42,615,871	38,721,708
Operating expenses:		
Medical and dental claims	39,607,491	37,830,845
Claims administration fees	1,943,627	1,972,391
Reinsurance premiums	720,697	618,007
Health Plan Premium	165,088	243,032
Group administration services	433,798	408,403
Depreciation	140	205
Total operating expenses	42,870,841	41,072,883
Operating income (loss)	(254,970)	(2,351,175)
Nonoperating revenues (expenses):		
Investment income	190,701	371,939
Investment management fees	(18,059)	(21,322)
Unrealized loss on investments	(58,009)	(60,179)
Total nonoperating revenues	114,633	290,438
Increase/(decrease) in net position	(140,337)	(2,060,737)
Net position, beginning of year	6,594,289	8,655,026
Net position, end of year	<u>\$ 6,453,952</u>	<u>\$ 6,594,289</u>

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

BERKSHIRE HEALTH GROUP
Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Received from member assessments	\$ 41,064,250	\$ 37,833,546
Cash received for Medicare Part D subsidy	908,908	604,200
Cash paid to insurance providers and other	<u>(41,421,802)</u>	<u>(41,572,288)</u>
Net cash used by operating activities	551,356	(3,134,542)
Cash flows from investing/nonoperating activities:		
Interest on cash, cash equivalents and investments	135,527	228,449
Acquisition of capital assets, net of depreciation	(1,071)	(205)
Paid to investment manager	(18,059)	(21,322)
Change in investments, net	<u>(43,435)</u>	<u>1,103,602</u>
Net cash provided by investing activities	<u>72,962</u>	<u>1,310,524</u>
Net increase (decrease) in cash and cash equivalents	624,318	(1,824,018)
Cash and cash equivalents, beginning of year	<u>4,181,627</u>	<u>6,005,645</u>
Cash and cash equivalents, end of year	<u><u>\$ 4,805,945</u></u>	<u><u>\$ 4,181,627</u></u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	\$ (254,970)	\$ (2,351,175)
Changes in operating assets and liabilities:		
(Increase)/decrease in receivables	(134,606)	(204,570)
(Increase)/decrease in prepaid expenses	329,874	(329,864)
Increase/(decrease) in incurred but not reported	441,006	14,479
Increase/(decrease) in accrued expenses	678,159	(184,020)
Increase/(decrease) in member's advance collections	<u>(508,107)</u>	<u>(79,392)</u>
Net cash provided (used) by operating activities	<u><u>\$ 551,356</u></u>	<u><u>\$ (3,134,542)</u></u>

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

BERKSHIRE HEALTH GROUP

Notes to Financial Statements

June 30, 2016 and 2015

Note 1. Description of the 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, 2016 and 2015, 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. Southwick Granville Regional School District, along with its related entities; the Towns of Granville and Tolland, elected to withdraw from the Group effective July 1, 2016. There were no member units that elected to withdraw from the Group for the year ended June 30, 2015.

The Group operates under a joint purchase agreement which was amended on October 3, 2016. 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.

During the years ended June 30, 2016 and 2015, 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 amended joint purchase agreement requires any participating governmental unit to provide written notification of withdrawal to the Group by December 1, 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 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, 2016 and 2015

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. Sharry, 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 (GAAP), using the economic resources measurement focus and the accrual basis of accounting, and reflect transactions by and on behalf of the Group. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP that are used by the Group are discussed below.

Member contributions include the monthly assessments charged to each participating governmental unit 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. 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, 2016 and 2015

B. Fair Value Measurement

The Group measures assets and liabilities at fair value according to the hierarchy established by generally accepted accounting principles. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The hierarchy is based upon valuation inputs, which are assumptions that market participants would use when pricing an asset or liability, including assumptions about risk. The following are levels considered.

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 inputs are directly observable for an asset or a liability (including quoted prices for similar assets or liabilities), as well as inputs that are indirectly observable for the asset or liability.
- Level 3 inputs are unobservable for the asset or liability.

C. Cash, Cash Equivalents and Investments

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

Investments are defined as securities or other assets that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or be sold to generate cash. Generally, investments are reported according to the fair value hierarchy established by generally accepted accounting principles.

Certain investments, such as money market investments and 2a7-like external investment pools, are reported at amortized cost, as determined by the reporting investment company. 2a7-like pools are external investment pools that operate in conformity with the Securities and Exchange Commission's (SEC) Rule 2a7 as promulgated under the Investment Company Act of 1940, as amended and should be measured at the net asset value per share provided by the pool.

Additional investment disclosures are presented in these Notes.

D. 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 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.

BERKSHIRE HEALTH GROUP

Notes to Financial Statements

June 30, 2016 and 2015

E. Health 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.

F. 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 with an aggregating specific deductible of \$100,000.

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.

G. 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.

H. Transitional Reinsurance Program fee

The Group was required to pay \$165,088 and \$243,032 for the years ending June 30, 2016 and 2015, respectively, 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.

BERKSHIRE HEALTH GROUP

Notes to Financial Statements

June 30, 2016 and 2015

I. 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.

J. Capital Assets

Capital assets are recorded at cost and consist of computer equipment and software 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

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, 2016 and 2015 deposits totaled \$4,805,987 and \$4,181,627, respectively. The carrying amounts of cash reported at June 30, 2016 and 2015 were \$4,805,944 and \$4,181,627, respectively. The Group's deposits were not exposed to custodial credit risk as of June 30, 2016 and 2015 because the deposit balances that exceed the Federal Deposit Insurance Corporation (FDIC) Insurance were collateralized. The difference between deposit amounts and carrying amounts generally represents outstanding checks and deposits in transit.

The Group invests some of its funds in MMDT, an external investment pool for political subdivisions of the Commonwealth of Massachusetts designed as a legal means to invest temporarily available cash. The state treasurer serves as trustee of MMDT and has sole authority pertaining to rules, regulations, and operations of the Trust. Investment options offered by MMDT are (1) a cash portfolio, which offers participation in a diversified portfolio of high-quality money market instruments that seek the highest possible level of current income consistent with preservation of capital and liquidity and (2) a short-term bond portfolio, which offers participation in a diversified portfolio of investment-grade, short-term, fixed-income securities that seeks to generate performance exceeding the Barclays 1-5 Year Government/Credit Bond Index, presenting a fixed-income alternative with a longer time horizon than the cash portfolio. A participant's holdings in the Trust are not subject to creditors of the Commonwealth, nor will the Trust itself be affected by the financial difficulties of any participant. Amounts held at MMDT are uninsured and uncollateralized.

The Group's investment balance at MMDT as of June 30, 2016 and 2015 were solely in the cash portfolio. The cash portfolio is not registered with the Securities and Exchange Commission (SEC) as an investment company, but maintains a policy to operate in a manner as a qualifying external investment pool as defined by the Governmental Accounting Standards Board. Additionally, the cash portfolio adheres to GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, which amended Statement No. 31 and established accounting and financial reporting statements for state and local governments that participate in a qualifying external investment pool that measures all of its investments for financial reporting purposes at amortized cost. A copy of MMDT's financial statements can be obtained by contacting the Office of the Treasurer and Receiver General of Massachusetts directly at One Ashburton Place #1207, Boston, Massachusetts 02108.

BERKSHIRE HEALTH GROUP

Notes to Financial Statements

June 30, 2016 and 2015

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. Cash deposits are reported at carrying amount, which reasonably approximates fair value.

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

	<u>2016</u>	<u>2015</u>
Interest and dividend income	\$ 199,288	\$ 221,025
Realized gain/(loss) on investments	<u>(8,587)</u>	<u>150,914</u>
Total investment income	<u>\$ 190,701</u>	<u>\$ 371,939</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. The Group maintains an irrevocable standby letter of credit, undersigned by the Federal Home Loan Bank of Boston in the amounts of \$6,000,000 and \$7,500,000 for the years ending June 30, 2016 and 2015, respectively.

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.

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

Investment Type	Fair Value Measurement	Value	Maturity				Thereafter	N/A
			12 months or less	13 – 24 months	25 – 60 months			
As of June 30, 2016:								
Mutual-exchange traded funds	Level I	\$ 111,304	\$ 111,304	\$ -	\$ -	\$ -	\$ -	
MMDT – cash portfolio	Amortized Cost	49,982	49,982	-	-	-	-	
Certificates of deposit	Level I	200,817	200,817	-	-	-	-	
Domestic equities	Level I	2,608,658	-	-	-	-	-	2,608,658
Municipal notes	Level I	373,300	101,348	-	271,952	-	-	-
Corporate notes	Level I	<u>2,898,006</u>	<u>561,096</u>	<u>259,587</u>	<u>1,459,177</u>	<u>618,146</u>	-	-
		<u>\$6,242,067</u>	<u>\$ 1,024,547</u>	<u>\$ 259,587</u>	<u>\$ 1,731,129</u>	<u>\$ 618,146</u>		<u>\$2,608,658</u>

<u>Investment Type</u>	<u>Fair Value Measurement</u>	<u>Value</u>	<u>Maturity</u>				<u>N/A</u>
			<u>12 months or less</u>	<u>13 – 24 months</u>	<u>25 – 60 months</u>	<u>Thereafter</u>	
As of June 30, 2015:							
Mutual exchange traded funds	Level I	\$ 112,634	\$ 112,634	\$ -	\$ -	\$ -	\$ -
MMDT – cash portfolio	Amortized Cost	49,772	49,772	-	-	-	-
Certificates of deposit	Level I	204,234	-	204,234	-	-	-
Domestic equities	Level I	2,695,684	-	-	-	-	2,695,684
Municipal notes	Level I	424,371	50,004	104,093	163,281	106,993	-
Corporate notes	Level I	<u>2,711,937</u>	<u>408,857</u>	<u>683,807</u>	<u>1,195,440</u>	<u>423,833</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>

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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 investments in each rating classification using Standard & Poor's rating classifications:

Investment Type	Value	S&P Rating as of Year End					
		Exempt from Disclosure	AAA	AA to A	BBB	BB to B	Not Rated
As of June 30, 2016:							
Money market funds	\$ 111,304	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 111,304
MMDT – cash portfolio	49,982	-	-	-	-	-	49,982
Certificates of deposit	200,817	-	-	-	-	-	200,817
Domestic equities	2,608,658	-	-	-	-	-	2,608,658
Municipal notes	373,300	-	165,082	101,348	-	-	106,870
Corporate notes	2,898,006	-	-	2,455,650	442,356	-	-
	<u>\$ 6,242,067</u>	<u>\$ -</u>	<u>\$ 165,082</u>	<u>\$ 2,556,998</u>	<u>\$ 442,356</u>	<u>\$ -</u>	<u>\$ 3,077,631</u>
As of June 30, 2015:							
Money market funds	\$ 112,634	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 112,634
MMDT – cash portfolio	49,772	-	-	-	-	-	49,772
Certificates of deposit	204,234	-	-	-	-	-	204,234
Domestic equities	2,695,684	-	-	-	-	-	2,695,684
Municipal notes	424,372	-	161,528	154,098	-	-	108,746
Corporate notes	2,711,936	-	-	2,472,264	239,672	-	-
	<u>\$ 6,198,632</u>	<u>\$ -</u>	<u>\$ 161,528</u>	<u>\$ 2,626,362</u>	<u>\$ 239,672</u>	<u>\$ -</u>	<u>\$ 3,171,070</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 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 Group's activities.

Note 4. Capital Assets

Changes in capital assets during fiscal year 2016 are as follows:

	<u>Balance</u> <u>6/30/2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>6/30/2016</u>
Furniture and equipment	\$ 13,960	\$ 1,212	\$ -	\$ 15,172
Total capital assets	13,960	1,212	-	15,172
Less accumulated depreciation:				
Furniture and equipment	13,840	141	-	13,981
Total accumulated depreciation	13,840	141	-	13,981
Capital assets, net	<u>\$ 120</u>	<u>\$ 1,071</u>	<u>\$ -</u>	<u>\$ 1,191</u>

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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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Unpaid claims and claims' adjustment expenses—beginning of year	\$ 3,400,000	\$ 3,385,521
Incurring claims and claims' adjustment expenses:		
Provision for insured events of the current fiscal year	40,759,981	37,783,227
Increase/(Decrease) in provision for insured events of prior fiscal years	<u>(1,152,490)</u>	<u>47,618</u>
	39,607,491	37,830,845
Payments:		
Claims and claims' adjustment expenses attributable to insured events of the current fiscal year	(36,918,975)	(34,383,227)
Claims and claims' adjustment expenses attributable to insured events of prior fiscal years	<u>(2,247,510)</u>	<u>(3,433,139)</u>
	<u>(39,166,485)</u>	<u>(37,816,366)</u>
Total unpaid claims and claims' adjustment expenses—end of year	<u>\$ 3,841,006</u>	<u>\$ 3,400,000</u>

Note 6. Subsequent Events

The Group has evaluated subsequent events through March 2, 2017, which is the date the financial statements were available to be issued. The self-funded Medex 3 plan was changed to an Employer Group Waiver Plan (EGWP) effective July 1, 2016. Medical claims continue to be provided on a self-funded financial basis on a Medex 2 plan. Prescription drugs are provided under the fully insured government approved Medicare Part D Plan (PDP) offered by Blue Cross Blue Shield and is called Blue Medicare Rx.

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 #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 implemented 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 2016. The pronouncement replaces previously issued guidance and improves financial reporting by redefining the hierarchy of generally accepted accounting principles (GAAP). The Group implemented the pronouncement as applicable.

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The GASB issued Statement #79, *Certain External Investment Pools and Pool Participants*, which was required to be implemented in fiscal year 2016. The pronouncement issued accounting and financial reporting guidance regarding qualifying external investment pools and state and local governments that participate in such external investment pools. The Group implemented the pronouncement as applicable.

Future pronouncements

There are no additional GASB issued pronouncements as of the date of these financial statements which the Group believes will be applicable to its financial statements.

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)

	6/30/2016	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
1. Member assessments, other and investment revenues										
Earned	42,806,572	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
Ceded	<u>885,785</u>	<u>861,039</u>	<u>473,845</u>	<u>558,761</u>	<u>535,651</u>	<u>504,871</u>	<u>441,258</u>	<u>498,686</u>	<u>448,556</u>	<u>406,113</u>
Net earned	41,920,787	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
2. Unallocated expenses	2,453,633	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
3. Estimated claims and expense, end of fiscal year										
Incurred	41,656,343	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
Ceded	<u>896,362</u>	<u>1,009,556</u>	<u>462,340</u>	<u>708,587</u>	<u>273,941</u>	<u>500,437</u>	<u>1,465,716</u>	<u>475,129</u>	<u>138,723</u>	<u>230,613</u>
Net incurred	40,759,981	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
4. Net paid (cumulative) as of:										
End of fiscal year	36,918,975	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
One year later		36,620,686	37,508,779	34,491,141	33,818,879	32,398,912	31,141,651	30,040,275	26,180,615	25,144,861
Two years later			37,514,354	34,497,057	33,806,991	32,341,249	31,126,035	30,023,342	26,173,716	25,130,728
Three years later				34,502,485	33,815,472	32,332,471	31,125,596	30,024,903	26,166,568	25,131,346
Four years later					33,814,605	32,332,991	31,125,272	30,024,673	26,160,611	25,131,062
Five years later						32,333,151	31,125,490	30,024,444	26,160,686	25,133,281
Six years later							31,125,490	30,024,462	26,161,624	25,133,222
Seven years later								30,024,219	26,161,624	25,133,222
Eight years later									26,161,624	25,133,222
Nine years later										25,133,222
5. Reestimated ceded claims and expenses	896,362	1,009,556	462,340	708,587	273,941	500,437	1,465,716	475,129	214,655	260,625
6. Re-estimated incurred, self-insured claims and expense:										
End of fiscal year	40,759,981	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
One year later		36,620,686	37,508,779	34,491,141	33,818,879	32,398,912	31,141,651	30,040,275	26,180,615	25,144,861
Two years later			37,514,354	34,497,057	33,806,991	32,341,249	31,126,035	30,023,342	26,173,716	25,130,728
Three years later				34,502,485	33,815,472	32,332,471	31,125,596	30,024,903	26,166,568	25,131,346
Four years later					33,814,605	32,332,991	31,125,272	30,024,673	26,160,611	25,131,062
Five years later						32,333,151	31,125,490	30,024,444	26,160,686	25,133,281
Six years later							31,125,490	30,024,462	26,161,624	25,133,222
Seven years later								30,024,219	26,161,624	25,133,222
Eight years later									26,161,624	25,133,222
Nine years later										25,133,222
7. (Increase) decrease in estimated net incurred claims and expense from the end of the original policy year.		1,162,541	(38,040)	1,437,110	1,262,587	1,131,407	426,218	541,313	441,161	377,797

See Independent Auditors' Report