



Bill Fraher, CPA

BERKSHIRE HEALTH GROUP
FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS
WITH REQUIRED SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2019 and 2020
WITH INDEPENDENT AUDITOR'S REPORTS

BERKSHIRE HEALTH GROUP
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WITH REQUIRED SUPPLEMENTARY INFORMATION
Years Ended June 30, 2019 and 2020

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Bill Fraher, CPA
2A Brown Street
Provincetown, MA 02657
Tel: 617-699-2877
Fax: 617-830-9393
bfraher2877@aol.com

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Berkshire Health Group

Report on the Financial Statements

I have audited the accompanying financial statements of the Berkshire Health Group (the Group) as of and for the years ended June 30, 2019 and 2020.

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 misstatements, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 auditor's judgment, including the assessment of the risks of a 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 Group'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 Group's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Berkshire Health Group as of June 30, 2019 and 2020, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

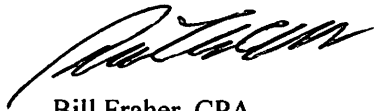
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 7 and the ten-year claims development information on page 17 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Government Auditing Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. I 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 regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements and other knowledge obtained during the audit of the financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards* I have also issued my report dated January 25, 2020 on my consideration of the Group's internal control over financial reporting and on my 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 of 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* in considering the Group's internal control over financial reporting and compliance.



Bill Fraher, CPA
January 25, 2020



Bill Fraher, CPA
2A Brown Street
Provincetown, MA 02657
Tel: 617-699-2877
Fax: 617-830-9393
bfraher2877@aol.com

**INDEPENDENT AUDITOR'S 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**

Board of Directors
Berkshire Health Group

I have audited, 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, the financial statements of the Berkshire Health Group (the Group) as of and for the years ended June 30, 2019 and 2020 and have issued my report thereon dated January 25, 2020.

Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I 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 my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. Accordingly, I 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Group's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or 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.

My 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified. I consider the deficiency described in the following paragraph to be a significant deficiency in internal control over financial reporting.

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

The Group's Response to the Finding

The Group's Board intends to take this under advisement and to continue to monitor and evaluate financial reporting and internal controls on an ongoing basis and take corrective actions as necessary.

The Group's response to the finding identified during my audit is described above. The Group's response was not subjected to auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Group's financial statements are free of material misstatement, I performed tests of the Group's 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 my audit and, accordingly, I do not express such opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported herein under Government Auditing Standards.

I noted certain matters related to internal control over financial reporting and compliance and other matters that I reported to the Group in a separate letter dated January 25, 2020.

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 Group'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 Group's internal control and compliance. Accordingly, this communication is not suitable for any other purpose



Bill Fraher, CPA
January 25, 2020

Berkshire Health Group
Management's Discussion & Analysis
June 30, 2019 and 2020

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, 2019 and 2020. 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, 2019 and 2020 by \$17,929,999 and \$21,431,192 respectively. Net position at June 30, 2019 and 2020 represents 62% and 78% 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 projected claims expense based on the most recent 12 months of paid claims.
- Net position increased \$2,392,769 and increased \$3,501,193 for the years ended June 30, 2019 and 2020, respectively. The higher increase in 2020 is likely due to the impact of COVID-19 which has slowed access to medical services.

- 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 \$736,595 and \$801,371 for the years ended June 30, 2019 and 2020, respectively.

The increase in net position for the year ended June 30, 2019 and June 30, 2020 was primarily a result of operating revenues exceeding operating expenses.

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

	<u>2019</u>	<u>2020</u>
Cash and cash equivalents	\$ 9,986,353	\$10,787,724
Investments	10,612,619	12,409,367
Other assets	<u>356,986</u>	<u>1,249,088</u>
Total assets	<u>\$ 20,955,958</u>	<u>\$ 24,446,179</u>
Incurred but not reported	\$ 2,000,000	\$ 2,100,000
Other current liabilities	<u>1,025,959</u>	<u>914,987</u>
Total liabilities	<u>3,025,959</u>	<u>3,014,987</u>
Unrestricted net position	<u>\$ 17,929,999</u>	<u>\$ 21,431,192</u>
Operating revenues	\$ 36,274,572	\$ 36,460,882
Less:		
Claims expenses	28,739,512	27,618,733
Claims administration expenses	1,766,659	1,781,309
Other operating expenses	<u>4,127,075</u>	<u>4,412,613</u>
Total operating expenses	34,633,246	33,812,655
Plus:		
Net non-operating revenues/ (expenses)	<u>751,443</u>	<u>852,966</u>
Increase/(decrease) in net position	<u>\$ 2,393,769</u>	<u>\$ 3,501,193</u>

The major changes in the Group's balance sheet from 2019 to 2020 were: 1) an increase in cash/investments and an increase in net position due to current year net income and 2) an increase in prepaid expenses due to the final quarterly settlement with the Group's insurer being favorable due to COVID-19 decreasing demand for medical services.

Revenues increased less than 1% from the prior year due mostly to there being not premium rate increases in 2020 on active plans. Rates on senior plans were increased approximately 5%. Claims expenses declined, likely due to the impact of the COVID-19 shutdown.

Additional Economic Factors of Note

The Town of Chester left the Group effective 7/1/19 and the Town of Blandford left effective 07/01/20. Both were of immaterial enrollment in the plans offered. In addition, please refer to Note # 6 of the financial statements regarding the impact of COVID-19 on the financial reports presented.

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 Sharon Harrison, Board Chair, 50 Main St, P.O. 617, Stockbridge, MA 01262.

BERKSHIRE HEALTH GROUP

Statement of Net Position

June 30, 2019 and 2020

(Notes 1 and 2)

	<u>2019</u> <u>Total</u>	<u>2020</u> <u>Total</u>
<u>ASSETS</u>		
Current Assets:		
Cash and cash equivalents	\$ 9,986,353	\$ 10,787,724
Investments	10,612,619	12,409,367
Receivables:		
Member accounts	-	-
Reinsurance claims	24,314	308,850
Other	-	-
Total receivables	<u>24,314</u>	<u>308,850</u>
Deposits	-	-
Prepaid expenses	301,722	897,707
Accrued interest	30,486	41,312
Capital assets, net of depreciation	<u>464</u>	<u>1,219</u>
Total assets	<u>\$ 20,955,958</u>	<u>\$ 24,446,179</u>
<u>LIABILITIES</u>		
Current Liabilities:		
Accounts payable	\$ 44,523	\$ 42,504
Claims liabilities	2,510,569	2,640,864
Participants' advance contributions	<u>470,867</u>	<u>331,619</u>
Total liabilities	<u>3,025,959</u>	<u>3,014,987</u>
<u>Net Position</u>		
Unrestricted:		
Unrestricted	<u>17,929,999</u>	<u>21,431,192</u>
Total unrestricted net position	<u>17,929,999</u>	<u>21,431,192</u>
Total liabilities and net position	<u>\$ 20,955,958</u>	<u>\$ 24,446,179</u>

See the accompanying notes to the financial statements.

BERKSHIRE HEALTH GROUP
Statement of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2019 and 2020
(Notes 1 and 2)

	<u>2019</u> <u>Total</u>	<u>2020</u> <u>Total</u>
Operating revenues:		
Member contributions	\$ 36,274,572	\$ 36,460,882
Medicare Part D subsidy	<u>-</u>	<u>-</u>
Total operating revenues	<u>36,274,572</u>	<u>36,460,882</u>
Operating expenses:		
Health claims incurred	28,739,512	27,618,733
Claims administration charges	1,766,659	1,781,309
Fixed premiums	2,956,539	3,157,672
Stop loss insurance premiums	645,253	751,474
Consulting services	283,210	292,054
Wellness program	150,463	150,740
Other administrative services	<u>91,610</u>	<u>60,673</u>
Total operating expenses	<u>34,633,246</u>	<u>33,812,655</u>
Operating income	<u>1,641,326</u>	<u>2,648,227</u>
Nonoperating revenues (expenses):		
Investment income	779,753	888,088
Investment management fees	<u>(28,310)</u>	<u>(35,122)</u>
Total nonoperating revenues (expenses):	<u>751,443</u>	<u>852,966</u>
Changes in net position	2,392,769	3,501,193
Net position, beginning of year	<u>15,537,230</u>	<u>17,929,999</u>
Net position, end of year	<u>\$ 17,929,999</u>	<u>\$ 21,431,192</u>

See the accompanying notes to the financial statements.

BERKSHIRE HEALTH GROUP
Statement of Cash Flows
Years Ended June 30, 2019 and 2020
(Notes 1 and 2)

	<u>2019</u>	<u>2020</u>
Cash flows from operating activities:		
Cash received from participants	\$ 36,511,668	\$ 36,321,634
Cash paid to insurance providers and other vendors	<u>(33,788,360)</u>	<u>(34,565,655)</u>
Net cash provided (used) by operating activities	2,723,308	1,755,979
Cash flows from investing activities:		
Purchases and sales of investments (net)	(2,730,446)	(1,796,748)
Investment income and interest income on deposits, net of fees	<u>743,733</u>	<u>842,140</u>
Net cash (used) by investing activities	<u>(1,986,713)</u>	<u>(954,608)</u>
Net (decrease) in cash	736,595	801,371
Cash, beginning of year	<u>9,249,758</u>	<u>9,986,353</u>
Cash, end of year	<u>\$ 9,986,353</u>	<u>\$ 10,787,724</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	\$ 1,641,326	\$ 2,648,227
RDS amounts paid to members and other	-	-
Changes in operating assets and liabilities:		
Receivables	313,105	(284,536)
Prepays	255,431	(595,985)
Deposits and other	14,392	(755)
Accounts payable	8,551	(2,019)
Claims liabilities	257,650	130,295
Other liabilities	<u>232,853</u>	<u>(139,248)</u>
Net cash provided by operating activities	<u>\$ 2,723,308</u>	<u>\$ 1,755,979</u>

See the accompanying notes to the financial statements.

BERKSHIRE HEALTH GROUP

Notes to Financial Statements

June 30, 2019 and 2020

Note 1. Description of Group

Berkshire Health Group (the Group) is a Massachusetts Municipal Joint Health Insurance Purchase Group formed pursuant to Massachusetts General Laws, Chapter 32B, Section 12. The Group was organized on May 10, 1990 and became operational on July 1, 1991. The Group is governed by a Board of Directors (the Board) which is comprised of one representative from each unit. A Treasurer was appointed by the Board to receive member assessments, issue checks, make fund transfers and maintain bank accounts. As a governmental entity, the Group is not subject to the provisions of the Employee Retirement Income Security Act of 1974 nor is it subject to federal and state income taxes.

The Group offers health benefits to all eligible employees and retirees of its participating governmental units. Participating governmental units consist of those municipal entities that have signed an agreement of Joint Negotiation and Purchase of Health and Life Coverage. At June 30, 2019 and 2020, participants are the Towns of Adams, Great Barrington, Lanesborough, Lenox and Williamstown; the Hoosac Valley Regional School District (RSD), Berkshire Hills RSD, Central Berkshire RSD, Mount Greylock RSD, North Berkshire Vocational School and Southern Berkshire RSD. The Berkshire County Insurance Group (BCIG) which was a participating governmental unit of the Group, and which was comprised of about 18 small Towns and Districts, dissolved effective June 30, 2018. The units that received their benefits through the BCIG continue to participate in the Group through affiliation agreements with the remaining Group participating governmental units.

The Group operates under a joint purchase agreement that was amended on October 3, 2016. Governmental units may apply for membership and be added to the Group, commencing on a date mutually agreed upon, provided that no less than two-thirds of the Board members representing the participating governmental units vote to accept such additional participants. The Board may, at its discretion, assess a one-time entrance fee on a new Participating Unit to cover installation and other costs.

The amended joint purchase agreement requires any participating unit to provide written notification of withdrawal from 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 effective for any payment due to the Group. The Town of Chester left the Group at June 30, 2019 and the Town of Blandford left the Group at June 30, 2020. No units have joined the Group since the start of the fiscal year 2019.

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

All surpluses or deficits of the Group are shared on a proportional 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 units through rate reduction or premium holiday. In the case of a deficit, additional revenue may be raised from each participating unit.

BERKSHIRE HEALTH GROUP

Notes to Financial Statements

June 30, 2019 and 2020

Note 1. Description of Group (continued)

The Group offers the following self-insured plan types from Blue Cross and Blue Shield of MA (BCBSMA): 1) Network Blue New England \$250 Deductible (FY2019 and 2020); 2) Blue Care Elect \$250 Deductible (FY2019 and 2020); 3) Blue Choice New England Plan 2 (FY2019 and 2020); 4) Access Blue New England Saver (FY2019 and 2020); 5) Blue Care Elect Saver \$2000 (FY2019 and 2020); 6) Medex II with Blue Medicare RX PDP (FY2019 and 2020); 7) Dental Blue (FY2019 and 2020).

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

The Group employs the services of Gallagher Benefits Services (GBS), to provide certain management, consulting, and technical functions and to audit medical claims paid. The current agreement with GBS is for a three-year term ending June 30, 2021 and provides for an annual fee based on the number of subscribers. The agreement may be terminated by either party at any time with sixty (60) days prior, written notice.

Note 2. Summary of Significant Accounting Policies

Financial statements present net position at June 30, revenues, expenses, and changes in net position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America (GAAP), using the economic measurement focus and the accrual basis of accounting. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements.

Contributions to the plans from participating governmental units are determined annually for the next fiscal year based on current operating results and estimated program costs for that year. Participants are billed monthly, and revenues are recognized in the period the Group is obligated to provide member services. Participant advance contributions are recorded as liabilities until earned.

Cash and Cash Equivalents

Generally, the Group is authorized to invest in the following investments: term deposits or certificates of deposit, trust companies, national banks, savings banks or banking companies, or obligations issued or unconditionally guaranteed by the United States Government or an agency thereof and having a maturity from date of purchase of one year or less with certain other limitations, or such securities as are legal for the investment of funds of savings banks under the bank's laws of the Commonwealth of Massachusetts based on a legal opinion received by the Group.

Cash and cash equivalents consist of cash on hand; cash in checking, savings or money market accounts and other short-term investments with original maturities of three months or less. Investments are stated at fair value. Where applicable, fair values are based on quotations from national security exchanges.

BERKSHIRE HEALTH GROUP

Notes to Financial Statements

June 30, 2019 and 2020

Note 2. Summary of Significant Accounting Policies (continued)

Claims Liabilities

The Group's obligations include estimated health claims incurred but not reported at year end. The Group uses the latest reported claims to record the Group's payable of reported claims and to estimate health claims incurred but not reported as of that date. The Group pays BCBS a level monthly payment to cover the cost of claims for that month. The amount is mutually agreed upon to represent approximately one month of projected claims. There is a quarterly reconciliation and settle-up against actual claims paid on behalf of the Group. Actual claims reported differ from claims estimated, but the Group's size and stop-loss coverage minimize the risk of a significant difference. Claims liabilities are reviewed periodically using claims data adjusted for the Group's current experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

Reinsurance

The Trust has a specific excess medical reinsurance contract with an insurance carrier covering claims paid in excess of \$225,000, with an aggregate specific deductible of \$100,000. The policy covers claims incurred, on a yearly basis, within twelve months and paid within twenty-four months. Amounts recoverable through reinsurance are recorded as a receivable and a reduction of claims expense.

Accounting Estimates

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

Capital Assets

Capital assets are recorded at cost and consist of computer equipment and software and total \$15,172 at June 30, 2019 and \$16,223 at June 30, 2020. Depreciation is computed on the straight-line method over the estimated useful life of the asset and totals \$14,708 at June 30, 2019 and \$15,004 at June 30, 2020.

Note 3. Cash, cash equivalents and investments

The Group maintains deposits in several authorized financial institutions. In the case of deposits, custodial credit risk is the risk that in the event of a bank failure, the Group's deposits may not be returned. The Group does not have a formal deposit policy for custodial credit risk. At June 30, 2019 and 2020 deposits totaled \$1,521,605 and \$2,610,965, respectively and had a carrying amount of \$1,521,183 and \$2,712,033, respectively. The difference between deposit amounts and carrying amounts generally represents outstanding checks and deposits in transit. Of the deposit amounts at June 30, 2019 and 2020, no amount was exposed to custodial credit risk because it was uninsured and uncollateralized. The Group maintains an irrevocable standby letter of credit, undersigned by the Federal Home Loan Bank of Boston, in the amounts of \$5,000,000 and \$2,500,000 for the years ended June 30, 2019 and 2020, covering balances in excess of those insured by the Federal Deposit Insurance Corporation.

The Group holds investments that are measured at fair value on a recurring basis. Because investing is not a core part of the Group's mission, the Group determines that disclosures related to these investments

BERKSHIRE HEALTH GROUP

Notes to Financial Statements

June 30, 2019 and 2020

Note 3. Cash, cash equivalents and investments (continued)

only need to be disaggregated by major type. The Group chooses a narrative format for the fair value disclosures.

The Group categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs use to measure the fair value of an asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. At June 30, 2019, and 2018 asset backed securities, certificates of deposit, government securities and money market mutual funds are categorized as Level 1 and corporate bonds are categorized as Level 2. MMDT cash portfolio investments are valued at amortized cost. Under this method, an investment is initially valued at its cost and adjusted for the amount if income accrued each day over the investment term to account for the difference between the initial cost and the amount payable at maturity. If amortized cost is determined not to approximate fair value, the value will be established under procedures established by the investment advisor.

The Group maintains accounts for investments which hold the following at June 30, 2019 and 2020:

<u>Type</u>	<u>Fair Value</u> <u>June 30, 2019</u>	<u>Fair Value</u> <u>June 30, 2020</u>
US Treasuries and agencies	\$5,133,507	\$2,665,199
Corporate bonds	1,927,442	3,836,752
Municipal bonds	153,258	101,126
Equities	2,847,151	5,543,191
Equity funds	551,261	263,099
Money market funds (cash equivalents)	75,787	40,804
MMDT (cash equivalents)	<u>8,389,383</u>	<u>8,034,887</u>
	<u>\$19,077,789</u>	<u>\$20,485,058</u>

Custodial credit risk for investments is the risk that, in the event of the failure of the counter party to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Group does not have a specific 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 that the average length of maturity of fixed income investments be left to the Investment Manager's discretion, but a ladder average maturity is to be maintained for liquidity purposes. Securities issued by the US Government or its agencies shall not be subject to this limitation.

The approximate maturities of the Group's investments are disclosed in the following table as of June 30, 2019:

BERKSHIRE HEALTH GROUP

Notes to Financial Statements

June 30, 2019 and 2020

Note 3. Cash, cash equivalents and investments (continued)

Investment Type	Fair Market Value	Maturity (In Years)			
		One or Less	One to Two	Three to Five	Thereafter
US treasuries and agencies	\$5,133,507	\$4,513,855	\$ 619,652	\$ -	\$ -
Corporate bonds	1,927,442	199,896	1,069,562	657,984	-
Municipal bonds	153,258	50,495	102,763	-	-
Domestic Equities	2,847,151	2,847,151	-	-	-
Equity funds	<u>551,261</u>	<u>551,261</u>	-	-	-
Total	<u>\$10,612,619</u>	<u>\$8,162,658</u>	<u>\$ 1,791,977</u>	<u>\$657,984</u>	<u>\$ -</u>

The approximate maturities of the Group's investments as of June 30, 2020:

Investment Type	Fair Market Value	Maturity (In Years)			
		One or Less	One to Two	Three to Five	Thereafter
US treasuries and agencies	\$2,665,199	\$1,133,316	\$ -	\$ 976,531	\$ 555,352
Corporate bonds	3,836,752	860,318	306,444	1,460,865	1,209,125
Municipal bonds	101,126	101,126	-	-	-
Domestic Equities	5,543,191	5,543,191	-	-	-
Equity funds	<u>263,099</u>	<u>263,099</u>	-	-	-
Total	<u>\$12,409,367</u>	<u>\$7,901,050</u>	<u>\$ 306,444</u>	<u>\$2,437,396</u>	<u>\$ 1,764,477</u>

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. Credit risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. Money market funds, government securities, asset backed securities, certificates of deposit are not rated as to credit risk. The Group has an investment policy which limits the overall portfolio allocation and limits bonds to A or better rating. If a bond subsequently has a split rating or the rating drops to below an A, the board will vote as to whether to retain the investment. The following tables discloses the approximate amount of debt investments in each rating classification using Standard & Poor's rating classifications as of June 30, 2019 and June 30, 2020:

Moody's/S&P Rating as of Year End 6/30/19					
Investment Type	Fair Market Value	AAA to AA+	A to AA	BAA to B	Not Rated
US treasuries and agencies	\$5,133,507	\$5,133,507	\$ -	\$ -	\$ -
Corporate bonds	1,927,442	150,345	1,673,866	103,231	-
Municipal bonds	153,258	153,258	-	-	-
Domestic Equities	2,847,151	-	-	-	2,847,151
Equity mutual funds	<u>551,261</u>	-	-	-	<u>551,261</u>
Total	<u>\$10,612,619</u>	<u>\$5,437,110</u>	<u>\$1,673,866</u>	<u>\$103,231</u>	<u>\$3,398,412</u>

Moody's/S&P Rating as of Year End 6/30/20					
Investment Type	Fair Market Value	AAA to AA+	A to AA	BAA to B	Not Rated
US treasuries and agencies	\$2,665,199	\$2,665,199	\$ -	\$ -	\$ -
Corporate bonds	3,836,752	110,495	3,625,928	100,329	-
Municipal bonds	101,126	101,126	-	-	-
Domestic Equities	5,543,191	-	-	-	5,543,191
Equity mutual funds	<u>263,099</u>	-	-	-	<u>263,099</u>
Total	<u>\$12,409,367</u>	<u>\$2,876,820</u>	<u>\$3,625,928</u>	<u>\$100,329</u>	<u>\$5,806,290</u>

BERKSHIRE HEALTH GROUP

Notes to Financial Statements

June 30, 2019 and 2020

Note 3. Cash, cash equivalents and investments (continued)

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Group's investment policy for concentration of credit risk is that debt securities in any one issuer shall not exceed 5% of fund assets or 20% in any single industry. Excluding federal agency securities and external investment pools, there are no securities or issuers that represent more than 5% of the total investments held by the Group.

Note 4. Prepaid Expenses, Settlement Liabilities and Deposits

At year end, if monthly estimated payments made by the Group to Blue Cross Blue Shield exceed or are less than actual claims paid, the Group will have a prepaid or liability amount for the final quarterly settlement of the fiscal year. For both 2019 and 2020, there were prepaid amounts at year end (no liabilities). These prepaid amounts are \$301,722 at June 30, 2019 and \$897,707 at June 30, 2020.

Note 5. Unpaid Claims

The Group establishes a liability for both reported and unreported incurred events which includes estimates of both future payments of losses and related adjustment expenses, if any. The following represents changes in total claims liabilities during the years ended June 30, 2019 and 2020:

	<u>2019</u>	<u>2020</u>
Unpaid claims and claims adjustment expenses – beginning of year	\$2,252,919	\$2,510,569
Incurred claims and claims adjustment expenses:		
Provision for insured events of the current fiscal year	28,743,776	27,682,897
Increase (decrease) in provision for insured events of prior fiscal years	<u>(4,264)</u>	<u>(64,164)</u>
	<u>28,739,512</u>	<u>27,618,733</u>
Payments:		
Claims and expenses, net, attributable to insured events – current year	(26,233,206)	(25,042,033)
Claims and expenses, net, attributable to insured events – prior years	<u>(2,248,656)</u>	<u>(2,446,405)</u>
	<u>(28,481,862)</u>	<u>(27,488,438)</u>
Total unpaid claims and claim adjustment expenses – end of year	<u>\$ 2,510,569</u>	<u>\$ 2,640,864</u>

[Note: 2019 numbers were adjusted to include accrued invoices - formerly this footnote only included the impact of claims incurred but not reported (IBNR).]

Note 6. COVID 19 Pandemic

On March 11, 2020 the World Health Organization declared a world-wide pandemic related to a coronavirus (COVID 19). In Massachusetts, a lockdown period was declared during which only those performing essential services were to leave home. Group insured subscribers and medical providers delayed non-life-threatening medical care, and overall utilization of medical services declined substantially. This likely has created a backlog in demand for medical services. At the current time and given the uncertainty surrounding this pandemic, we are unable to quantify the financial impact of this situation on current or future financial statements.

BERKSHIRE HEALTH GROUP
Required Supplementary Information
Ten-Year Claims Development Information

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

		6/30/2020	6/30/2019	6/30/2018	6/30/2017	6/30/2016	6/30/2015	6/30/2014	6/30/2013	6/30/2012	6/30/2011
1	Earned member assessments, refunds and investment revenues	37,348,970	37,054,325	39,593,129	40,128,267	42,730,504	39,012,146	37,244,751	36,542,967	35,994,814	31,828,352
2	Fixed premiums paid and administrative/operating expenses	6,229,044	5,922,044	5,589,836	5,033,845	3,263,350	3,242,038	2,891,201	2,985,206	2,874,010	2,702,232
3	Estimated incurred claims and expense, end of fiscal year	27,682,897	28,743,776	28,269,340	32,373,787	39,607,491	37,830,845	36,007,577	34,622,966	33,992,974	33,027,386
4	Paid (cumulative) as of:										
	End of fiscal year	25,042,033	26,233,606	26,494,340	29,623,787	36,918,975	34,383,227	34,090,793	32,286,747	34,542,687	29,883,399
	One year later		28,679,611	28,244,732	31,537,801	39,838,855	36,620,686	37,508,779	34,491,141	33,818,879	32,398,912
	Two years later			28,223,012	31,559,134	39,813,473	36,627,225	37,514,354	34,497,057	33,806,991	32,341,248
	Three years later				31,559,496	39,812,472	36,622,570	37,513,180	34,502,485	33,815,472	32,332,471
	Four years later					39,815,005	36,622,547	37,511,368	34,502,517	33,814,605	32,332,991
	Five years later						36,622,526	37,511,354	34,500,806	33,814,573	32,333,151
	Six years later							37,511,354	34,500,803	33,814,552	32,333,580
	Seven years later								34,500,803	33,814,552	32,333,580
	Eight years later									33,814,552	32,333,580
	Nine years later										32,333,580
5	Re-estimated incurred claims and expense										
	End of fiscal year		28,743,776	28,269,340	32,373,787	40,759,981	37,783,227	37,476,314	35,939,595	35,077,192	33,464,558
	One year later		28,679,611	28,244,732	31,537,801	39,838,855	36,620,686	37,508,779	34,491,141	33,818,879	32,398,912
	Two years later			28,223,012	31,559,134	39,813,473	36,627,225	37,514,354	34,497,057	33,806,991	32,341,249
	Three years later					39,812,472	36,622,570	37,513,180	34,502,485	33,815,472	32,321,471
	Four years later						36,622,547	37,511,368	34,502,517	33,814,605	32,332,991
	Five years later							37,511,354	34,500,806	33,814,573	32,333,151
	Six years later								34,500,806	33,814,552	32,333,580
	Seven years later									33,814,552	32,333,580
	Eight years later										32,333,580
	Nine years later										
6	(Increase) decrease in estimated, incurred claims and expense from the end of the original policy year	-	64,165	46,328	814,655	947,509	1,160,680	(35,054)	1,438,789	1,262,640	1,130,978

See independent auditor's report