

SCANTIC VALLEY REGIONAL HEALTH TRUST
Report on the Examination of Basic Financial Statements
For the Years Ended June 30, 2013 and 2012

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Independent Auditor's Report

Board of Trustees and Members
Scantic Valley Regional Health Trust
Longmeadow, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of Scantic Valley Regional Health Trust (the Group), which comprise the Statements of Net Position as of June 30, 2013 and 2012, and the related Statements of Revenues, Expenses and Changes in Net Position and Cash Flows for the years then ended, and the related Notes to the Financial Statements.

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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental 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 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 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 financial position of Scantic Valley Regional Health Trust as of June 30, 2013 and 2012, and the changes in its financial position and its cash flows for the years 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* appearing on pages 6 through 8, as well as the Seven-Year Claims Development Information on pages 20 and 21, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our reported dated December 26, 2013 on our consideration of the 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 the Group's internal control over financial reporting and compliance.



Scanlon & Associates, LLC
South Deerfield, Massachusetts

December 26, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

SCANTIC VALLEY REGIONAL HEALTH TRUST

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2013 and 2012

This discussion and analysis for the Scantic Valley Regional Health Trust's (the Group) financial performance provides a narrative overview of the Group's financial activities and condition for Fiscal Years 2013 and 2012. This narrative is best viewed in conjunction with the audit report by the auditing firm of Scanlon & Associates, LLC.

BASIC FINANCIAL STATEMENTS

The Scantic Valley Regional Health Trust is a public entity risk pool as defined in *Governmental Accounting Standards Board (GASB) Statement No. 10* and, as such, our basic financial statements are prepared using Proprietary Fund (Enterprise Fund) accounting that uses the same basis of accounting as private-sector business enterprises.

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, and a Statement of Cash Flows. These are followed by Notes to the Financial Statements.

The Statement of Net Position presents information on the Group's assets and liabilities, with the difference between the two reported as Net Position. Over time, increases or decreases in Net Position may serve as a useful indicator of whether the financial position of the Group is improving or deteriorating.

The Statement of Revenue, Expenses and Changes in Net Position reports the operating revenues and expenses and non-operating revenues and expenses of the Group for the fiscal year with the difference determining the net change in position for the fiscal year. That change combined with the Net Position at the end of the previous year total to the Net Position at the end of the current fiscal year.

The Statement of Cash Flows reports cash and cash equivalent activities for the fiscal year resulting from operating activities and investing activities. The net result of these activities added to the beginning of the year cash balance total to the cash and cash equivalent balance at the end of the current fiscal 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.

CONDENSED FINANCIAL INFORMATION

Condensed financial information from the Statement of Net Position as of June 30, 2013 and 2012 and Statements of Revenues, Expenses and Changes in Net Position for the years ended June 30, 2013 and 2012 are as follows:

STATEMENT OF NET POSITION AS OF JUNE 30

	<u>2013</u>	<u>2012</u>	<u>Increase (Decrease)</u>
ASSETS			
Cash and cash equivalents	\$ 2,147,365	\$ 2,167,607	\$ (20,242)
Investments	4,983,875	5,422,762	(438,887)
Other current assets	<u>232,860</u>	<u>225,642</u>	<u>7,218</u>
Total Current Assets	<u>7,364,100</u>	<u>7,816,011</u>	<u>(451,911)</u>
LIABILITIES			
Accounts payable and accrued expenses	61,963	75,388	(13,425)
Claims liabilities	<u>1,042,649</u>	<u>2,313,314</u>	<u>(1,270,665)</u>
Total Current Liabilities	<u>1,104,612</u>	<u>2,388,702</u>	<u>(1,284,090)</u>
NET POSITION			
Unrestricted	<u>\$ 6,259,488</u>	<u>\$ 5,427,309</u>	<u>\$ 832,179</u>

CHANGES IN NET POSITION FOR FISCAL YEAR ENDED JUNE 30

	<u>2013</u>	<u>2012</u>	<u>Increase (Decrease)</u>
OPERATING REVENUES			
Members' contributions	\$ 21,847,971	\$ 23,213,247	\$(1,365,276)
Medicare Part D subsidy	239,706	297,598	(57,892)
Early retiree reinsurance program	—	5,000	(5,000)
Wellness program revenue	<u>2,107</u>	<u>2,637</u>	<u>(530)</u>
Total Operating Revenues	<u>22,089,784</u>	<u>23,518,482</u>	<u>(1,428,698)</u>
OPERATING EXPENSES			
Health claims expense	19,116,335	21,442,661	(2,326,326)
Claims administrative fees	1,276,225	1,296,005	(19,780)
Fixed premiums	233,722	247,640	(13,918)
Stop loss insurance premiums	424,145	415,859	8,286
Consulting and group administration services	210,560	204,513	6,047
Other administrative expenses	20,924	33,313	(12,389)
Wellness program expenses	<u>46,135</u>	<u>48,514</u>	<u>(2,379)</u>
Total Operating Expenses	<u>21,328,046</u>	<u>23,688,505</u>	<u>(2,360,459)</u>
OPERATING INCOME (LOSS)	761,738	(170,023)	931,761
NON-OPERATING REVENUE			
Investment income	<u>70,441</u>	<u>85,602</u>	<u>(15,161)</u>
CHANGE IN NET POSITION	<u>\$ 832,179</u>	<u>\$ (84,421)</u>	<u>\$ 916,600</u>

The Group's Net Position consists primarily of cash and investments. There are no capital assets owned by the Group.

FINANCIAL HIGHLIGHTS

The Group ended the year June 30, 2013 with a cash balance of \$2,147,365 compared with the balance of \$2,167,607 at June 30, 2012. The balance of investments decreased by \$438,887 to \$4,983,875 at June 30, 2013.

The Group ended the year June 30, 2013 with an unrestricted net position of \$6,259,488. This amount was \$832,179 higher than the net position balance at the beginning of the year, and represents 32.74 percent of claims expense. At June 30, 2012, the unrestricted net position balance represented 25.31 percent of claims expense.

The Group had operating income of \$761,738 for the year ended June 30, 2013. The operating income was primarily the result of plan design changes which became effective July 1, 2012. Health Claims expenditures decreased by \$2,326,326 or 10.85 percent from the Fiscal Year 2012 total. Member contributions decreased by \$1,365,276 which in part reflects the 6.2 percent rate reduction voted in January 2012. The Group continues to manage costs effectively and is able to maintain modest rate increases for the various health plans.

The Statement of Cash Flows identifies sources and uses of cash activity for the fiscal year. For Fiscal 2013, cash and equivalents decreased by \$20,242, primarily due to operating activities and the maturity of term bank deposits not yet reinvested.

ECONOMIC FACTORS AFFECTING THE SUBSEQUENT YEAR

The Group is operating in an environment of increased health care costs. Given this environment, the Group is actively participating in ongoing wellness programs to promote healthier lifestyles to further assist in reducing health claim costs. The budget for the wellness program is largely funded by the Group's available surplus balance. The Group won the Blue Cross Blue Shield Municipal Innovations Award for promoting good health among the employees of the Group's participating governmental units.

In March 2013, the Group's Board set the rate structure for Fiscal Year 2014 plan participation. The Group approved supplementing the rates with \$400,000 of existing financial resources to offer a 6 percent composite increase in rates with no increase to the retiree plans.

The Group has and will continue to be influenced by new legislation, such as the Adult Child Eligibility Rule of the Patient Protection and Affordable Care Act and the Municipal Health Care Reform Bill. The Group continues to be pro-active in mitigating rising health care costs. The Group has completed a dependent eligibility audit, reviewed and enacted various underlying plan design changes, and continues to promote healthy initiatives through the wellness program.

REQUESTS FOR INFORMATION

This financial report is intended to provide an overview of the finances of the Group for those with an interest in this organization. Questions concerning any information within this report may be directed to Ms. Carol Cormier, Group Benefit Strategies, 15 Midstate Drive, Suite 110, Auburn, MA 01501, telephone 800-229-8008.

BASIC FINANCIAL STATEMENTS

SCANTIC VALLEY REGIONAL HEALTH TRUST

Statement of Net Position

June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 2,147,365	\$ 2,167,607
Investments	4,983,875	5,422,762
Receivables:		
Coordination of benefits recovery	7,700	—
Medicare Part D subsidy	72,724	100,817
Reinsurance claims	47,838	53,507
Prepaid expenses	6,000	6,200
Plan deposits	<u>98,598</u>	<u>65,118</u>
Total Assets	<u>7,364,100</u>	<u>7,816,011</u>
 LIABILITIES		
Current Liabilities		
Accounts payable and accrued expenses	61,963	75,388
Claims liabilities	<u>1,042,649</u>	<u>2,313,314</u>
Total Liabilities	<u>1,104,612</u>	<u>2,388,702</u>
 NET POSITION		
Unrestricted	<u>\$ 6,259,488</u>	<u>\$ 5,427,309</u>

See accompanying notes to basic financial statements.

SCANTIC VALLEY REGIONAL HEALTH TRUST

Statement of Revenues, Expenses and Changes in Net Position

Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
OPERATING REVENUE		
Members' contributions	\$ 21,847,971	\$ 23,213,247
Medicare Part D subsidy	239,706	297,598
Early retiree reinsurance program	—	5,000
Wellness program revenue	<u>2,107</u>	<u>2,637</u>
Total Operating Revenues	<u>22,089,784</u>	<u>23,518,482</u>
OPERATING EXPENSES		
Health claims expense	19,116,335	21,442,661
Claims administration fees	1,276,225	1,296,005
Fixed premiums	233,722	247,640
Stop loss insurance premiums	424,145	415,859
Consulting and group administrative services	210,560	204,513
Other administrative expenses	20,924	33,313
Wellness program expenses	<u>46,135</u>	<u>48,514</u>
Total Operating Expenses	<u>21,328,046</u>	<u>23,688,505</u>
OPERATING INCOME (LOSS)	761,738	(170,023)
NON-OPERATING REVENUE		
Investment income	<u>70,441</u>	<u>85,602</u>
CHANGE IN NET POSITION	832,179	(84,421)
Net Position, Beginning of Year	<u>5,427,309</u>	<u>5,511,730</u>
NET POSITION, END OF YEAR	<u>\$ 6,259,488</u>	<u>\$ 5,427,309</u>

See accompanying notes to basic financial statements.

SCANTIC VALLEY REGIONAL HEALTH TRUST

Statement of Cash Flows

Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from members	\$ 21,847,971	\$ 23,214,283
Cash received from governmental programs	267,799	229,213
Cash received from customers	2,107	2,637
Cash paid to insurance providers, net of reinsurance reimbursements	(22,360,733)	(22,573,752)
Cash paid to other vendors	<u>(286,714)</u>	<u>(287,360)</u>
Net Cash Provided (Used) by Operating Activities	<u>(529,570)</u>	<u>585,021</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on deposits	70,441	85,602
Investments matured	<u>438,887</u>	<u>(888,630)</u>
Net Cash Provided (Used) by Investing Activities	<u>509,328</u>	<u>(803,028)</u>
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(20,242)	(218,007)
Cash and Cash Equivalents, Beginning of Year	<u>2,167,607</u>	<u>2,385,614</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,147,365</u>	<u>\$ 2,167,607</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 761,738	\$ (170,023)
Adjustments to Reconcile Increase in Net Position to Cash Provided by Operating Activities:		
Decrease (increase) in receivables	26,062	(86,074)
Decrease (increase) in prepaid expenses	200	(6,200)
Decrease (increase) in plan deposits	(33,480)	(39,836)
Increase (decrease) in accounts payable	(13,425)	(22,562)
Increase (decrease) in claims liabilities	<u>(1,270,665)</u>	<u>909,716</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (529,570)</u>	<u>\$ 585,021</u>

See accompanying notes to basic financial statements.

SCANTIC VALLEY REGIONAL HEALTH TRUST

Notes to Basic Financial Statements

Years Ended June 30, 2013 and 2012

NOTE 1 – DESCRIPTION OF THE GROUP

The Scantic Valley Regional Health Trust (the Group) was organized as a Massachusetts Municipal Joint Purchase Health Insurance Group 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 coverage for its participating governmental units. The Group became operational on March 1, 1992. 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 Scantic Valley Regional Health Trust Agreement for Joint Negotiation and Purchase of Health Coverage. As of June 30, 2012, participants included the Towns of East Longmeadow, Hampden, Longmeadow, Wilbraham, the Hampden-Wilbraham Regional School District and the Lower Pioneer Valley Educational Collaborative. Governmental units applying for membership in the Group may be granted membership on approval of a two-thirds vote of the Group's Board. Any participating governmental unit may withdraw from the Group on its anniversary at its discretion upon written notification to the Board at least 120 days prior to the anniversary date of health care coverage contracts purchased by the Group. The Board may terminate a participating governmental unit by a two-thirds vote of all Board members if it is in arrears for any payment due to the Group.

A Participating Governmental Unit shall have no liability for contributions and assessments for any period following the effective date of termination of its participation under the trust agreement, except for (1) the governmental unit's proportionate share of any trust fund deficit as certified by the audited financial statements in the trust fund as of the effective date of the governmental unit's termination, (2) unpaid contributions or assessments attributable to periods prior to the effective date of the governmental unit's termination, and/or (3) subsequent expense for its covered members still on the plan after termination (where required by law).

Any payment owed by the terminated governmental unit to the Group for its proportionate share of a trust fund deficit as certified by the audited financial statements shall be paid within sixty (60) days following the Board's acceptance of the annual audited financial statements unless another date is mutually agreed upon by the Group and the terminating governmental unit.

A Participating Governmental Unit whose membership in the Group is terminated by the Board shall not be entitled to a distribution of any surplus in the certified uncommitted trust fund balance.

A Participating Governmental Unit that voluntarily withdraws from the Group *on anniversary*, i.e. an effective date of withdrawal of midnight June 30 in any year unless otherwise determined by the Board, and which has participated in the Group for five or more years shall be entitled to a distribution of its proportionate share of the certified uncommitted fund balance that exceeds the targeted fund balance as established by the Board in its Fund Balance Policy. The targeted fund balance is calculated by using 12 percent of the claims incurred during the preceding 12 months. The certified fund balance shall be the audited fund balance as of the last day of the fiscal year in which the withdrawing unit participates, and the distribution of funds shall be made within sixty (60) days of the acceptance by the Board of the independent financial auditor's report.

Contributions to the Group from participating governmental units are on a monthly basis, based upon plan specific funding rates for coverage provided on individual and family enrollments for self-insured plans.

SCANTIC VALLEY REGIONAL HEALTH TRUST

Notes to Basic Financial Statements

Years Ended June 30, 2013 and 2012

NOTE 1 – DESCRIPTION OF THE GROUP (Continued)

The rates are calculated by the Board and determined to be 100 percent 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-like estimates.

All surpluses or deficits of the Group are shared on a proportional and collective basis. 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 reductions or direct distribution. In the case of a deficit, additional revenue may be raised from each participating governmental unit. In addition, surplus is taken into consideration in the determination of future funding rates.

The Group provides health benefits under self-funded medical plans for active employees and non-Medicare eligible retirees. The Group offers plans administered by Blue Cross Blue Shield of Massachusetts (BCBSMA), Health New England (HNE) and Tufts Health Plan (Tufts). The Group pays each of the health plan organizations monthly administrative fees based on the number of subscribers (contracts).

From BCBSMA – Network Blue and Network Blue Deductible HMO-type plans. Blue Care Elect Preferred PPO and Blue Care Elect Preferred Deductible PPO, and Medex 3;

From HNE – HNE EPO plan and HNE Deductible EPO plan, both HMO-type plans; and

From Tufts – Tufts EPO plan and Tufts EPO Deductible plan, both HMO-type plans.

The Group offers the following self-insured plans for Medicare-eligible retirees and their Medicare-eligible spouses:

From BCBSMA – Medex 3 with OBRA90 benefits, and

From HNE – HNE MedPlus, an HMO Medicare wrap plan.

In addition, the Group offers the following health plans on a fully insured basis: Managed Blue for Seniors, Tufts Medicare Preferred HMO, and Tufts Medicare Preferred Prime Supplement with PDP Plus plan.

The Group employs the services of John R. Sharpy, Incorporated, d/b/a Groups Benefits Strategies (GBS), as a central benefit administrator to provide certain management, consulting, enrollment, and technical functions and to audit medical claims paid. The current agreement is for a three-year term ending June 30, 2015, and provides for a monthly fee based upon the number of subscribers.

The Group employs the services of Prescription Benefit Services, Inc. (PBS), as benefit administrator to provide certain management, consulting, and technical functions for the Group's alternative prescription drug program. The current agreement is for a one-year term and provides for a monthly fee based upon the number of subscribers.

SCANTIC VALLEY REGIONAL HEALTH TRUST
Notes to Basic Financial Statements
Years Ended June 30, 2013 and 2012

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting and Presentation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units, specifically standards applicable to public entity risk pools. The Governmental Accounting Standards Board's (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

B. Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Such estimates and assumptions affect the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, the entity evaluates their estimates and assumptions based upon historical experience and various other factors and circumstances. Management of the entity believes that its estimates and assumptions are reasonable in the circumstances; however, actual results may differ from these estimates under different future conditions.

C. Fund Accounting

The Group reports in a manner consistent with a special purpose entity for their ongoing operations and activities, which are similar to those often found in the private sector as a proprietary fund. Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

D. Cash and Cash Equivalents and Investments

Generally, the Treasurer may invest available funds in term deposits and certificates of deposit of banks and trust companies, in obligations issued or unconditionally guaranteed by the federal government or an agency thereof with a maturity of not more than one year, in repurchase agreements with a maturity of not more than 90 days secured by federal or federal agency securities, or in participation units in the Massachusetts Municipal Depository Trust (MMDT) or in shares of beneficial interest by money market funds registered with the Securities and Exchange Commission that have the highest possible rating from at least one nationally recognized statistical rating organization. According to the State Treasurer, the MMDT's investment policy is designed to maintain an average weighted maturity of ninety (90) days or less and is limited to high-quality, readily marketable fixed income instruments, including U.S. Government obligations and highly-rated corporate securities with maturities of one year or less. MMDT is an investment pool created by the Commonwealth under the supervision of the State Treasurer's office.

The Scantic Valley Regional Health Trust considers all highly liquid investments including Certificates of Deposit with a maturity of ninety (90) days or less to be cash equivalents.

SCANTIC VALLEY REGIONAL HEALTH TRUST

Notes to Basic Financial Statements

Years Ended June 30, 2013 and 2012

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Reinsurance

The Group uses reinsurance agreements to reduce its exposure to large losses on covered events. Reinsurance provides for the recovery of a portion of losses from the reinsurer, although it does not discharge the primary liability of the Group as direct insurer of the risks reinsured. The Group does not report reinsured risks as liabilities unless it is probable those risks will not be covered by the reinsurer.

Amounts recoverable from the reinsurer relating to paid claims are classified as accounts receivable, with a related allowance for estimated uncollectible amounts, and as reductions to claims expense. Estimated amounts recoverable from the reinsurer relating to the liabilities for unpaid claims are deducted from claims liabilities and reductions to claims expense.

F. Claims Liabilities

The Group establishes claims liabilities based upon estimates of the ultimate cost of claims (including future claim adjustment expenses, if any) that have been reported but not settled, and of claims that have been incurred but not reported. Estimated reinsurance recoverable on unpaid claims is deducted from the liability for unpaid claims.

Actual claims reported will differ from claims estimated, but the Group's size and stop-loss coverage minimize the risk of a significant difference. Claims liabilities are recomputed periodically using historical 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.

G. Member Contributions

Member contributions are billed to each participating governmental unit in the form of monthly premiums. Contributions are recorded and recognized as revenue during the period in which the assessment is earned.

The Group generates its revenue from premium billings to its participating governmental units (as defined in Note A above) and provides health insurance benefits to its employees and retirees. Although the Group is dependent on the economic environment of the member Towns, District and Collaborative, Massachusetts General Laws mandates funding by the Group to meet its obligations under insurance contracts by requiring the member entities to include the amount of the obligation in determining their future tax rates.

H. 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 (Sub-Part R). An estimate of this reimbursement and subsidy is recorded as revenue when the related prescription benefits on which the reimbursement is based, are paid.

I. Income Taxes

As a joint purchase group consisting entirely of governmental entities, the Group is exempt from both federal and state income taxes.

SCANTIC VALLEY REGIONAL HEALTH TRUST

Notes to Basic Financial Statements

Years Ended June 30, 2013 and 2012

NOTE 3 – DEPOSITS

The carrying amount of the Group's deposits is separately displayed on the balance sheet as *Cash and Cash Equivalents*. The carrying amount represents reconciled book balances. The classification of balances by category of risk at June 30, 2013 and 2012 is as follows:

	<u>2013</u>		<u>2012</u>	
	<u>Carrying Amount</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC/DIF)	\$ 1,050,937	\$ 1,050,937	\$ 976,426	\$ 978,707
State Investment Pool (MMDT)	43,644	43,644	43,549	43,549
Uninsured:				
Collateralized	<u>1,052,784</u>	<u>1,052,784</u>	<u>1,147,632</u>	<u>1,147,632</u>
Total Cash and Cash Equivalents	<u>\$ 2,147,365</u>	<u>\$ 2,147,365</u>	<u>\$ 2,167,607</u>	<u>\$ 2,169,888</u>

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Group's deposits might not be recovered. The Group does not have a deposit policy for custodial credit risk. As of June 30, 2013 and 2012, none of the Group's bank balances were exposed to custodial credit risk.

NOTE 4 – INVESTMENTS

Investments are stated at fair value.

		<u>Investment Maturities</u>	
		<u>2013</u>	
<u>Investment Type</u>	<u>Credit Risk</u>	<u>Fair Value</u>	<u>1 to 2 Years</u>
Certificates of Deposit	FDIC/DIF Insured	<u>\$ 4,983,875</u>	<u>\$ 4,983,875</u>
		<u>2012</u>	
<u>Investment Type</u>	<u>Credit Risk</u>	<u>Fair Value</u>	<u>1 to 2 Years</u>
Certificates of Deposit	FDIC/DIF Insured	<u>\$ 5,422,762</u>	<u>\$ 5,422,762</u>

Custodial Credit Risk – Investments

The Custodial Credit Risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) 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 policies for Custodial Credit Risk. The Group has no Custodial Credit Risk exposure because the investments are insured.

Interest Rate Risk

The Group does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

SCANTIC VALLEY REGIONAL HEALTH TRUST

Notes to Basic Financial Statements

Years Ended June 30, 2013 and 2012

NOTE 4 – INVESTMENTS (Continued)

Concentration of Credit Risk:

The Group places no limit on the amount the Group may invest in any one issuer. Investments in any one issuer (other than U.S. Treasury securities and mutual funds) that represent 5 percent or more of total investments are as follows:

	<u>2013</u>	<u>2012</u>
Hampden Bank – Certificates of Deposit	<u>\$ 4,983,875</u>	<u>\$ 5,422,762</u>

NOTE 5 – ACCOUNTS RECEIVABLE – REINSURANCE

The Group has entered into a specific excess medical and prescription drug claims reinsurance agreement with an insurance carrier whereby the Company will reimburse the Group for payment of claims on its medical plans exceeding \$175,000 for an individual member to a lifetime maximum amount payable of \$2,000,000.

The policy period covers claims incurred within twelve (12) months and paid within twenty-four (24) months. Total premiums for the fiscal years ended June 30, 2013 and 2012 were \$424,145 and \$415,859, respectively.

At June 30, 2013 and 2012, total estimated reinsurance recoveries expected are \$47,838 and \$53,507 respectively. In accordance with GASB 10, reimbursements that are for paid claims at June 30, 2013 and 2012 have been recorded by the Group as accounts receivable. Reimbursements for unpaid claims have been recorded as an offset to the related liabilities for unpaid claims. The total estimated reinsurance recoveries have been recorded as a reduction of claims expense on the statement of revenues and expenses.

NOTE 6 – UNPAID CLAIMS

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

	<u>2013</u>	<u>2012</u>
Unpaid claims and claims' adjustment expenses, beginning of year	\$ 2,313,314	\$ 1,403,598
Insured claims and claims' adjustment expenses:		
Provision for insured events of the current fiscal year	19,099,660	21,488,835
Increase (decrease) in provision for insured events of prior fiscal years	<u>16,717</u>	<u>(46,174)</u>
	<u>19,116,377</u>	<u>21,442,661</u>
Payments:		
Claims and claims' adjustment expenses attributable to insured events of the current fiscal year	(18,060,192)	(19,143,777)
Claims and claims' adjustment expenses attributable to insured events of prior fiscal years	<u>(2,326,850)</u>	<u>(1,389,168)</u>
	<u>(20,387,042)</u>	<u>(20,532,945)</u>
Total unpaid claims and claims' adjustment expenses, end of year	<u>\$ 1,042,649</u>	<u>\$ 2,313,314</u>

SUPPLEMENTARY INFORMATION

SCANTIC VALLEY REGIONAL HEALTH TRUST

Required Supplementary Information

Seven-Year Claims' Development Information (Unaudited)

The table shown 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 seven (7) years. The rows in the table are defined as follows

- 1) This line shows the total of each fiscal year's earned contribution revenues and investment revenues.
- 2) This line shows each fiscal year's HMO fixed premiums paid and other operating costs of the Group including overhead and claims' expense not allocated to individual claims.
- 3) This line shows the Group's incurred self-insured claims and allocated claims' adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event triggered coverage under the contract occurred (called *policy year*).
- 4) This section of rows shows the cumulative amounts paid as of the end of successive years for each policy year.
- 5) This section of rows shows how each policy year's incurred claims increased or decreased as of the end of successive years. These annual re-estimation results from new information received on known claims, re-evaluation 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.

SCANTIC VALLEY REGIONAL HEALTH TRUST
Required Supplementary Information
Seven-Year Claims' Development Information (Unaudited)

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 tables show data for successive policy years.

	<u>6/30/13</u>	<u>6/30/12</u>	<u>6/30/11</u>	<u>6/30/10</u>	<u>6/30/09</u>	<u>6/30/08</u>	<u>6/30/07</u>
1) Earned member assessments, other, and investment revenues	\$ 22,160,225	\$ 23,604,084	\$ 22,002,450	\$ 20,284,169	\$ 19,810,913	\$ 16,697,830	\$ 18,432,522
2) Fixed premiums paid and other operating expenses	2,211,711	2,245,844	2,215,817	2,116,163	1,988,058	1,953,323	1,974,776
3) Estimated incurred, self-insured claims and expense, end of year	19,099,660	21,502,560	19,476,895	18,876,414	17,682,078	16,566,698	14,229,348
4) Paid (cumulative) as of							
End of fiscal year	18,060,192	19,157,502	18,035,569	17,076,106	16,217,569	14,964,081	13,203,914
One year later		21,514,835	19,420,726	18,897,291	17,664,440	16,416,384	14,291,672
Two years later			19,397,215	18,900,906	17,690,193	16,410,699	14,293,996
Three years later				18,893,828	17,690,635	16,401,428	14,294,013
Four years later					17,691,281	16,401,452	14,294,013
Five years later						16,401,074	14,293,942
Six years later							14,293,780
5) Re-estimated incurred, self-insured claims and expenses:							
End of fiscal year	19,099,660	21,502,560	19,476,895	18,876,414	17,682,078	16,566,698	14,229,348
One year later		21,518,336	19,423,840	18,895,072	17,703,489	16,421,384	14,291,672
Two years later			19,396,895	18,899,416	17,688,833	16,404,255	14,293,996
Three years later				18,893,828	17,691,585	16,401,452	14,294,013
Four years later					17,691,281	16,401,452	14,294,013
Five years later						16,401,074	14,293,798
Six years later							14,293,780
6) Increase (decrease) in estimated, incurred, self-insured claims and expense from the end of the original policy year	\$ -	\$ (15,776)	\$ 80,000	\$ (17,414)	\$ (9,203)	\$ 165,624	(64,432)

**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 Trustees and Members
Scantic Valley Regional Health Trust
Longmeadow, Massachusetts

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 General of the United States, the financial statements of Scantic Valley Regional Health Trust, which comprise the Statements of Net Position as of June 30, 2013 and 2012, and the related Statements of Revenues, Expenses and Changes in Net position, and Cash Flows for the years then ended and the related Notes to the Financial Statements, and have issued our report thereon dated December 26, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Scantic Valley Regional Health Trust'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 Scantic Valley Regional Health Trust's internal control. Accordingly, we do not express an opinion on the effectiveness of the Scantic Valley Regional Health Trust'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 control 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Responses that we consider to be a significant deficiency.

2013-1 Segregation of Duties

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Scantic Valley Regional Health Trust's financial statements are free of material misstatement, we performed tests of its compliance with certain

provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Scantic Valley Regional Health Trust's Response to Findings

The Scantic Valley Regional Health Trust's response to the findings identified in our audit is described in the accompanying Schedule of Financial Statement Findings. The Scantic Valley Regional Health Trust's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

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.


Scanlon & Associates, LLC
South Deerfield, Massachusetts

December 26, 2013

SCANTIC VALLEY REGIONAL HEALTH TRUST
Schedule of Financial Statement Findings and Responses
For the Year Ended June 30, 2013

SECTION I – FINANCIAL STATEMENT FINDINGS

Finding 2013-1

Significant Deficiency in Internal Control over Financial Reporting

Segregation of Duties

Adequate and effective internal control would require the segregation of duties between posting receipt and disbursement transactions and reconciling bank statements.

Condition:

Many critical duties of the Group are combined and assigned to one employee. Currently, the Treasurer is responsible for maintaining the general ledger and reconciling bank statements.

Cause:

This condition is due to the limited number of administrative personnel working for the Group.

Effect:

This condition results in a lack of segregation of duties and increases the risk of errors or irregularities occurring and not being detected.

Recommendation:

We recommend that the Group consider segregating the record keeping function from the reconciliation function.

Management's Response:

Management is aware of the risks implicit in the assignment of duties within the Treasurer's position. Management has considered the costs and benefits of hiring additional personnel to achieve greater segregation of duties. Management will continue to monitor the Treasurer's position and the relevant internal controls over financial reporting.

Beginning in 2013, monthly bank statements and reconciliations are forwarded to a board member for review.