

SCANTIC VALLEY REGIONAL HEALTH TRUST

**Financial Statements and Management's Discussion and Analysis
with Required Supplemental Information**

Years Ended June 30, 2017 and 2016

With Independent Auditor's Reports

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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, 2017 and 2016, 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 respective financial position of Scantic Valley Regional Health Trust as of June 30, 2017 and 2016, and

the changes in financial position and 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, and the Claims Development Information on pages 23 and 24, 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 January 4, 2018 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

January 4, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

SCANTIC VALLEY REGIONAL HEALTH TRUST

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2017 and 2016

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 2017 and 2016. 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, 2017 and 2016 and Statements of Revenues, Expenses and Changes in Net Position for the years ended June 30, 2017 and 2016 are as follows:

STATEMENT OF NET POSITION AS OF JUNE 30

	<u>2017</u>	<u>2016</u>	<u>Increase (Decrease)</u>
ASSETS			
Cash and cash equivalents	\$ 477,515	\$ 1,077,065	\$ (599,550)
Investments	6,821,458	6,558,372	263,086
Other current assets	<u>1,029,785</u>	<u>967,709</u>	<u>62,076</u>
Total Current Assets	<u>8,328,758</u>	<u>8,603,146</u>	<u>(274,388)</u>
LIABILITIES			
Claims liabilities	2,062,633	2,333,567	(270,934)
Other liabilities	<u>283,234</u>	<u>223,565</u>	<u>59,669</u>
Total Current Liabilities	<u>2,345,867</u>	<u>2,557,132</u>	<u>(211,265)</u>
NET POSITION			
Unrestricted	<u>\$ 5,982,891</u>	<u>\$ 6,046,014</u>	<u>\$ (63,123)</u>

CHANGES IN NET POSITION FOR FISCAL YEAR ENDED JUNE 30

	<u>2017</u>	<u>2016</u>	<u>Increase (Decrease)</u>
OPERATING REVENUES			
Members' contributions	\$ 26,242,014	\$ 22,713,783	\$ 3,528,231
Medicare Part D subsidy	90,898	60,821	30,077
Wellness program fees	<u>4,974</u>	<u>3,950</u>	<u>1,024</u>
Total Operating Revenues	<u>26,337,886</u>	<u>22,778,554</u>	<u>3,559,332</u>
OPERATING EXPENSES			
Health claims expense	22,975,302	21,042,933	1,932,369
Claims administration fees	1,338,487	1,269,051	69,436
Fixed premiums	1,180,551	841,361	339,190
Stop loss insurance premiums	587,129	506,857	80,272
Consulting and group administration services	251,871	225,749	26,122
Other administrative expenses	16,248	17,946	(1,698)
Government fees	51,950	114,616	(62,666)
Wellness program expenses	<u>98,955</u>	<u>71,103</u>	<u>27,852</u>
Total Operating Expenses	<u>26,500,493</u>	<u>24,089,616</u>	<u>2,410,877</u>
OPERATING INCOME (LOSS)	(162,607)	(1,311,062)	1,148,455
NON-OPERATING REVENUE			
Investment income	<u>99,484</u>	<u>98,336</u>	<u>1,148</u>
CHANGE IN NET POSITION	<u>\$ (63,123)</u>	<u>\$ (1,212,726)</u>	<u>\$ 1,149,603</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, 2017 with a cash balance of \$477,515 compared with the balance of \$1,077,065 at June 30, 2016. The balance of investments increased by \$263,086 to \$6,821,458 at June 30, 2017.

The Group ended the year June 30, 2017 with an unrestricted net position of \$5,982,891. This amount was \$63,123 lower than the net position balance at the beginning of the year, and represents 26.04 percent of claims expense. At June 30, 2016 the unrestricted net position balance represented 28.73 percent of claims expense.

The Group had an operating loss of \$(162,607) for the year ended June 30, 2017. The operating loss was primarily the result of claims administration and net reinsurance expenses exceeding funding from rate revenue. Health Claims expenditures increased by \$1,932,369 or 9.18 percent from the Fiscal Year 2016 total. Member contributions decreased by \$3,528,231, or 15.53 percent from the Fiscal Year 2016 total. The Group continues to manage costs effectively and has been able to maintain modest rate increases for the various health plans for Plan Years 2016 and 2017.

The Statement of Cash Flows identifies sources and uses of cash activity for the fiscal year. For Fiscal 2017 cash and equivalents decreased by \$599,550, primarily due to the planned use of financial reserves to subsidize plan rate increases, and purchase of additional certificates of deposit totaling \$263,086.

ECONOMIC FACTORS AFFECTING THE SUBSEQUENT YEAR

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

The Group's Board set the rate structure for Fiscal Year 2018 plan participation. The Group approved supplementing substantial rate increases by using existing financial resources. For active employee plans, the composite rate increase is 6.0%, and for retiree plans, the composite rate increase is 4.0%.

The Group has and will continue to be influenced by new legislation, changes in the political landscape and increasing prescription drug cost trends. 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. The Group, with the assistance of Group Benefit Strategies, will continue to navigate the ever-changing health care industry and provide health plan alternatives to the Group in a cost-effective and member-centered manner.

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 Paul Pasterczyk, Treasurer, 735 Longmeadow Street, Suite 101, Longmeadow, MA 01106.

BASIC FINANCIAL STATEMENTS

SCANTIC VALLEY REGIONAL HEALTH TRUST

Statement of Net Position

June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 477,515	\$ 1,077,065
Investments	6,821,458	6,558,372
Receivables:		
Medicare Part D subsidy	39,261	27,404
Reinsurance claims	957,912	894,288
Plan deposits with insurance carriers	<u>32,612</u>	<u>46,017</u>
Total Assets	<u>8,328,758</u>	<u>8,603,146</u>
 LIABILITIES		
Current Liabilities		
Accounts payable and accrued expenses	253,005	223,565
Claims liabilities	2,062,633	2,333,567
Members' advance contributions	<u>30,229</u>	<u>-</u>
Total Liabilities	<u>2,345,867</u>	<u>2,557,132</u>
 NET POSITION		
Unrestricted	<u>\$ 5,982,891</u>	<u>\$ 6,046,014</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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
OPERATING REVENUE		
Members' contributions	\$ 26,242,014	\$ 22,713,783
Medicare Part D subsidy	90,898	60,821
Wellness program fees	<u>4,974</u>	<u>3,950</u>
Total Operating Revenues	<u>26,337,886</u>	<u>22,778,554</u>
 OPERATING EXPENSES		
Health claims expense	22,975,302	21,042,933
Claims administration fees	1,338,487	1,269,051
Fixed premiums	1,180,551	841,361
Stop loss insurance premiums	587,129	506,857
Consulting and group administrative services	251,871	225,749
Other administrative expenses	16,248	17,946
Government regulatory fees	51,950	114,616
Wellness program expenses	<u>98,955</u>	<u>71,103</u>
Total Operating Expenses	<u>26,500,493</u>	<u>24,089,616</u>
 OPERATING (LOSS)	 (162,607)	 (1,311,062)
 NON-OPERATING REVENUE		
Investment income	<u>99,484</u>	<u>98,336</u>
 CHANGE IN NET POSITION	 (63,123)	 (1,212,726)
 Net Position, Beginning of Year	 <u>6,046,014</u>	 <u>7,258,740</u>
 NET POSITION, END OF YEAR	 <u>\$ 5,982,891</u>	 <u>\$ 6,046,014</u>

See accompanying notes to basic financial statements.

SCANTIC VALLEY REGIONAL HEALTH TRUST

Statement of Cash Flows

Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from members	\$ 26,272,243	\$ 22,195,284
Cash received from governmental programs	79,042	63,562
Cash received from customers	4,974	3,950
Cash paid to insurance providers, net of reinsurance reimbursements	(26,334,594)	(23,924,572)
Cash paid to other vendors	<u>(457,613)</u>	<u>(448,210)</u>
Net Cash Provided (Used) by Operating Activities	<u>(435,948)</u>	<u>(2,109,986)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on deposits	99,484	98,336
Investments (purchased) matured	<u>(263,086)</u>	<u>166,746</u>
Net Cash Provided (Used) by Investing Activities	<u>(163,602)</u>	<u>265,082</u>
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(599,550)	(1,844,904)
Cash and Cash Equivalents, Beginning of Year	<u>1,077,065</u>	<u>2,921,969</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 477,515</u>	<u>\$ 1,077,065</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ (162,607)	\$ (1,311,062)
Adjustments to Reconcile Increase in Net Position to Cash Provided by Operating Activities:		
Decrease (increase) in receivables	(75,481)	(660,521)
Decrease (increase) in plan deposits	13,405	(34,023)
Increase (decrease) in accounts payable	29,440	(5,936)
Increase (decrease) in claims liabilities	(270,934)	420,055
Increase (decrease) in member advance contributions	<u>30,229</u>	<u>(518,499)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (435,948)</u>	<u>\$ (2,109,986)</u>

See accompanying notes to basic financial statements.

SCANTIC VALLEY REGIONAL HEALTH TRUST

Notes to Basic Financial Statements

Years Ended June 30, 2017 and 2016

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, 2017, 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, 2017 and 2016

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, Network Blue Deductible and Network Blue SVRHT/LPVEC, HMO-type plans; Blue Care Elect Preferred PPO and Blue Care Elect Preferred Deductible PPO, and Medex 2;

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

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 2, a self-funded medical plan.

From HNE -- HNE MedPlus, an HMO Medicare wrap plan;

The Group also offers the following fully-insured senior plans:

From BCBSMA – Blue Medicare Rx, a Medicare Part D prescription drug plan which is offered along with Medex 2;

From HNE -- HNE Medicare Secure Freedom, a Medicare Advantage POS plan;

From Tufts -- Tufts Medicare Preferred HMO, a Medicare Advantage HMO plan; and Tufts Medicare Preferred PDP Plus, a Medicare supplement plan with a Medicare PDP plan and additional covered medications.

The Group employs the services of John R. Sharry, 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, 2018, 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, 2017 and 2016

NOTE 1 – DESCRIPTION OF THE GROUP (Continued)

The Group employed 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. These services were discontinued as of January 1, 2018.

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

The Scantic Valley Regional Health Trust considers all highly liquid investments including amounts on deposit with the Massachusetts Municipal Depository Trust and Certificates of Deposit with a maturity of ninety (90) days or less to be cash equivalents.

E. Fair Value Measurement

The Group maintains investments according to Massachusetts General Laws and adopted policies. The District measures assets and liabilities at fair value according to the hierarchy established by generally accepted accounting policies.

SCANTIC VALLEY REGIONAL HEALTH TRUST

Notes to Basic Financial Statements

Years Ended June 30, 2017 and 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

E. Fair Value Measurement (Continued)

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 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.

F. 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.

G. 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.

H. 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.

SCANTIC VALLEY REGIONAL HEALTH TRUST

Notes to Basic Financial Statements

Years Ended June 30, 2017 and 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Member Contributions (Continued)

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.

I. 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. The HNE MedWrap plan is the only plan offered by the Group that is eligible for the Retiree Drug Subsidy.

J. Government Regulatory Fees

The Group was required to pay \$51,950 in 2017 and \$114,616 in 2016 for Affordable Care Act (ACA) fees. The amounts of \$43,133 in 2017 and \$107,175 in 2016 represent Transitional Reinsurance Annual Enrollment Contributions. The Patient-Centered Outcomes Research Institute (PCORI) fees totaled \$8,817 in 2017 and \$7,441 in 2016.

K. Income Taxes

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

NOTE 3 – CASH AND CASH EQUIVALENTS AND INVESTMENTS

Massachusetts General Laws, Chapter 44, Sections 54 and 55, place certain limitations on cash deposits and investments available to the Group. Authorized deposits include demand deposits, term deposits, and certificates of deposit in trust companies, national banks, savings banks, and certain other financial institutions. The Group may also invest in securities issued by or unconditionally guaranteed by the U.S. Government or an agency thereof, and having a maturity from date of purchase of one year or less. The Group may also invest in repurchase agreements guaranteed by such government securities with maturity dates of not more than ninety (90) days from date of purchase. The Group may invest in units of the Massachusetts Municipal Depository Trust (MMDT), a 2a7-like external investment pool managed by the Treasurer of the commonwealth of Massachusetts.

The following are risks associated with the Group's deposits:

Custodial credit risk for cash and investments is the risk that, in the event of the failure of the counterparty 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.

SCANTIC VALLEY REGIONAL HEALTH TRUST

Notes to Basic Financial Statements

Years Ended June 30, 2017 and 2016

NOTE 3 – CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

Deposited amounts are to be secured by depository insurance, collateralization agreement, irrevocable letters of credit, deposits with the MMDT and investment instruments fully backed by the U.S. Government.

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's investment policy limits all investments to under five (5) years. Further, the total of all investments with maturities greater than three (3) years will not exceed 25% of the total non-liquid investments.

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. Equity securities, money market funds, repurchase agreements and equity mutual funds are not rated as to credit risk. The Group's investment policy requires a perfected interest in all investments.

Concentration of credit risk. The Group limits the investment in one bank or financial institution to 60% of the total of all cash and investments.

Cash:

At June 30, 2017, amounts on deposit totaled \$479,988 and had a carrying value of \$477,515. The difference between deposit amounts and carrying amounts represents outstanding checks and other reconciling items. For financial reporting purposes, the Group has classified amounts on deposit with the Massachusetts Municipal Depository Trust (MMDT) as cash equivalents. At June 30, 2017, \$1,839 was exposed to custodial credit risk because it was not covered by depository insurance or other instruments. At June 30, 2017, the Group maintained \$44,401 in the MMDT.

The MMDT is an investment pool created by the Commonwealth of Massachusetts under the supervision of the State Treasurer's office. According to the State Treasurer, the Group's investment policy is designed to maintain an average weighted maturity of 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. The MMDT is an external investment pool that meets the criteria established under GASB Statement No. 79 to report its investments at amortized cost. As such, the Group reports its investments in MMDT in the amount of \$44,401. MMDT's fair value is measured at amortized cost.

Investments:

The Group has certificates of deposit with local banking institutions. These investments are recorded at cost. Investments carried at cost are not required to be classified in one of the levels prescribed by the fair value hierarchy.

SCANTIC VALLEY REGIONAL HEALTH TRUST
Notes to Basic Financial Statements
Years Ended June 30, 2017 and 2016

NOTE 3 – CASH AND CASH EQUIVALENTS AND INVESTMENTS (Continued)

The following table compares investment maturities for fiscal years 2017 and 2016:

<u>Investment Type</u>	<u>Investment Maturities – 2017</u>			
	<u>Fair Value</u>	<u>1 to 2 Years</u>	<u>3 to 4 Years</u>	<u>5 Years</u>
Certificates of Deposit	<u>\$ 6,821,458</u>	<u>\$ 2,962,879</u>	<u>\$ 2,656,242</u>	<u>\$ 1,202,336</u>

<u>Investment Type</u>	<u>Investment Maturities – 2016</u>			
	<u>Fair Value</u>	<u>1 to 2 Years</u>	<u>3 to 4 Years</u>	<u>5 Years</u>
Certificates of Deposit	<u>\$ 6,558,372</u>	<u>\$ 2,186,192</u>	<u>\$ 3,590,033</u>	<u>\$ 782,147</u>

At June 30, 2017, \$1,341,043 of Certificates of Deposit were exposed to custodial credit risk because they were not covered by depository insurance or other instruments.

Concentration of Credit Risk:

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>2017</u>	<u>2016</u>
Berkshire Bank – Certificates of Deposit	\$ 1,058,283	\$ 3,549,266
Century Bank – Certificates of Deposit	1,187,312	–
People's Bank – Certificates of Deposit	3,581,545	1,746,505
United Bank – Certificates of Deposit	263,854	259,958
Westfield Bank – Certificates of Deposit	730,464	1,002,643
Total	<u>\$ 6,821,458</u>	<u>\$ 6,558,372</u>

NOTE 4 – 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 unlimited individual member to a lifetime maximum.

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, 2017 and 2016 were \$587,129 and \$506,857, respectively.

At June 30, 2017 and 2016, total estimated reinsurance recoveries expected are \$957,912 and \$894,288 respectively. In accordance with GASB 10, reimbursements that are for paid claims at June 30, 2017 and 2016 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.

SCANTIC VALLEY REGIONAL HEALTH TRUST

Notes to Basic Financial Statements

Years Ended June 30, 2017 and 2016

NOTE 5 – PLAN DEPOSITS

The Group has established deposits with certain health plan and program administrators which draw upon these accounts to pay claims. These deposits and other claim advance amounts at June 30, 2017 and 2016 are as follows:

<u>Administrator</u>	<u>2017</u>	<u>2016</u>
Abacus Diabetes Program	\$ 7,374	\$ 20,090
Prescription Benefit Services	12,329	13,038
Tufts	12,909	12,889
Total Deposits	<u>\$ 32,612</u>	<u>\$ 46,017</u>

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>2017</u>	<u>2016</u>
Unpaid claims and claims' adjustment expenses, beginning of year	\$ 2,333,567	\$ 1,913,512
Insured claims and claims' adjustment expenses:		
Provision for insured events of the current fiscal year	23,651,483	21,085,767
Increase (decrease) in provision for insured events of prior fiscal years	<u>(672,181)</u>	<u>(42,834)</u>
	<u>22,979,302</u>	<u>21,042,933</u>
Payments:		
Claims and claims' adjustment expenses attributable to insured events of the current fiscal year	(21,577,653)	(19,865,290)
Claims and claims' adjustment expenses attributable to insured events of prior fiscal years	<u>(1,672,583)</u>	<u>(757,588)</u>
	<u>(23,250,236)</u>	<u>(20,622,878)</u>
Total unpaid claims and claims' adjustment expenses, end of year	<u>\$ 2,062,633</u>	<u>\$ 2,333,567</u>

NOTE 7 – SUBSEQUENT EVENTS

The Group has evaluated subsequent events through January 4, 2018, which is the date the financial statements were issued.

SCANTIC VALLEY REGIONAL HEALTH TRUST
Notes to Basic Financial Statements
Years Ended June 30, 2017 and 2016

NOTE 8 – GASB PRONOUNCEMENTS RECENTLY ISSUED

The following GASB pronouncements will be implemented in the future:

The GASB issued Statement #75, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions*, which is required to be implemented in fiscal year 2018. The pronouncement replaces previously issued guidance and establishes new accounting and financial reporting requirements for governments whose employees are provided other post-employment benefits.

The GASB issued Statement #83, *Certain Asset Retirement Obligations*, which is required to be implemented in fiscal year 2019. The pronouncement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations.

The GASB issued Statement No. 84, *Fiduciary Activities*, which is required to be implemented in fiscal year 2020. The pronouncement establishes criteria for identifying fiduciary activities and its objective is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

The GASB issued Statement No. 85, *Omnibus 2017*, which is required to be implemented in fiscal year 2018. This pronouncement addresses practice issues that have been identified during implementation and application of certain GASB Statements.

The GASB issued Statement No. 86, *Certain Debt Extinguishing Issues*, which is required to be implemented in fiscal year 2018. This pronouncement improves the consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transaction in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt.

The GASB issued Statement No. 87, *Leases*, which is required to be implemented in fiscal year 2021. This pronouncement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract.

Management is currently assessing the impact the implementation of these pronouncements will have on the basic financial statements.

SUPPLEMENTARY INFORMATION

SCANTIC VALLEY REGIONAL HEALTH TRUST

Required Supplementary Information

Ten-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 ten (10) 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

Ten-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>6/30/17</u>	<u>6/30/16</u>	<u>6/30/15</u>	<u>6/30/14</u>	<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>
1) Earned member assessments, other, and investment revenues	\$26,437,370	\$22,876,890	\$23,008,064	\$23,205,202	\$22,160,225	\$23,604,084	\$22,002,450	\$20,284,169	\$19,810,913	\$19,697,830
2) HMO fixed premiums paid and Other operating expenses	3,525,191	3,046,683	2,958,773	2,445,918	2,211,711	2,245,844	2,215,817	2,116,163	1,988,058	1,953,323
3) Estimated incurred, self-insured claims and expense, end of year	23,651,483	21,085,767	19,842,029	19,294,262	19,099,660	21,502,560	19,476,895	18,876,414	17,682,078	16,566,698
4) Paid (cumulative) as of										
End of fiscal year	21,577,653	18,778,494	18,162,917	18,384,131	18,060,192	19,157,502	18,035,569	17,076,106	16,217,569	14,964,081
One year later		20,429,590	19,772,170	19,287,477	19,162,878	21,514,835	19,420,726	18,897,291	17,664,440	16,416,384
Two years later			19,796,790	19,295,449	19,157,036	21,502,857	19,397,215	18,900,906	17,690,193	16,410,699
Three years later				19,295,730	19,157,412	21,506,358	19,396,023	18,893,828	17,690,635	16,401,428
Four years later					19,149,437	21,503,680	19,396,596	18,886,554	17,691,281	16,401,452
Five years later						21,504,241	19,396,596	18,893,828	17,690,245	16,401,074
Six years later							19,396,596	18,893,828	17,690,245	16,401,074
Seven years later								18,893,828	17,690,245	16,401,074
Eight years later									17,690,245	16,401,074
Nine years later										16,401,074
5) Re-estimated incurred, self-insured, claims and expenses:										
End of fiscal year	23,651,483	21,085,767	19,842,029	19,294,262	19,099,660	21,502,560	19,476,895	18,876,414	17,682,078	16,566,698
One year later		20,429,590	19,772,170	19,287,477	19,162,878	21,514,835	19,420,726	18,897,291	17,664,440	16,416,384
Two years later			19,796,790	19,295,449	19,157,036	21,502,857	19,397,215	18,900,906	17,690,193	16,410,699
Three years later				19,295,730	19,157,412	21,505,358	19,396,023	18,893,828	17,690,635	16,401,428
Four years later					19,149,437	21,503,680	19,396,596	18,886,554	17,691,281	16,401,452
Five years later						21,504,241	19,396,596	18,893,828	17,690,245	16,401,074
Six years later							19,396,596	18,893,828	17,690,245	16,401,074
Seven years later								18,893,828	17,690,245	16,401,074
Eight years later									17,690,245	16,401,074
Nine years later										16,401,074
6) Increase (decrease) in estimated, incurred, self-insured claims and expense from the end of the original policy year	\$ -	\$ 656,177	\$ 69,859	\$ (1,187)	\$ (57,752)	\$ (1,120)	\$ 80,299	\$ (17,414)	\$ (8,167)	\$ (165,624)

**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, 2017 and 2016, 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 January 4, 2018.

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.

2017-1 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

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 opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards*.

We noted certain matters related to internal control over financial reporting and compliance and other matters that we reported to the Group in a separate letter dated January 4, 2018.

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 and Responses. 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

January 4, 2018

SCANTIC VALLEY REGIONAL HEALTH TRUST
Schedule of Financial Statement Findings and Responses
For the Year Ended June 30, 2017

SECTION I – FINANCIAL STATEMENT FINDINGS

Finding 2017-1

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.