SCANTIC VALLEY REGIONAL HEALTH TRUST

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

Years Ended June 30, 2019 and 2018

With Independent Auditor's Reports

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Scanlon & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

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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, 2019 and 2018, 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, 2019 and 2018, 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 22 and 23, 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 inquires, 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 February 15, 2020 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

Scanlon & Associates, LLC
South Deerfield, Massachusetts

February 15, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

SCANTIC VALLEY REGIONAL HEALTH TRUST

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2019 and 2018

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 2019 and 2018. 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, 2019 and 2018 and Statements of Revenues, Expenses and Changes in Net Position for the years ended June 30, 2019 and 2018 are as follows:

STATEMENT OF NET POSITION AS OF JUNE 30

	2019	2018	Increase (Decrease)
ASSETS			
Cash and cash equivalents	$ 478,858	$ 433,264	$ 45,594
Investments	5,588,919	6,194,698	(605,779)
Other current assets	498,035	451,737	46,298
Total Current Assets	6,565,812	7,079,699	(513,887)
LIABILITIES			
Claims liabilities	1,893,113	1,568,615	324,498
Other liabilities	321,864	334,961	(13,097)
Total Current Liabilities	2,214,977	1,903,576	311,401
NET POSITION			
Unrestricted	$ 4,350,835	$ 5,176,123	$ (825,288)

CHANGES IN NET POSITION FOR FISCAL YEAR ENDED JUNE 30

	2019	2018	Increase (Decrease)
OPERATING REVENUES			
Members' contributions	$ 29,106,826	$ 27,728,291	$ 1,378,535
Medicare Part D subsidy	106,404	47,681	58,723
Wellness program fees	4,033	2,269	1,764
Total Operating Revenues	29,217,263	27,778,241	1,439,022
OPERATING EXPENSES			
Health claims expense	26,297,298	24,935,588	1,361,710
Claims administration fees	1,363,663	1,316,460	47,203
Fixed premiums	1,429,427	1,302,146	127,281
Stop loss insurance premiums	689,360	757,743	(68,383)
Consulting and group administration services	294,809	256,981	37,828
Other administrative expenses	15,441	24,535	(9,094)
Government fees	9,347	8,982	365
Wellness program expenses	89,389	95,392	(6,003)
Total Operating Expenses	30,188,734	28,697,827	1,490,907
OPERATING INCOME (LOSS)	(971,471)	(919,586)	(51,885)
NON-OPERATING REVENUE			
Investment income	146,183	112,818	33,365
CHANGE IN NET POSITION	$ (825,288)	$ (806,768)	$ (18,520)

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, 2019 with a cash balance of $478,858 compared with the balance of $433,264 at June 30, 2018. The balance of investments decreased by $605,779 to $5,588,919 at June 30, 2019.

The Group ended the year June 30, 2019 with an unrestricted net position of $4,350,835. This amount was $825,288 lower than the net position balance at the beginning of the year, and represents 16.54 percent of claims expense. At June 30, 2018, the unrestricted net position balance represented 20.76 percent of claims expense. The Group continues to manage costs effectively and, with the judicious use of reserves, has been able to maintain modest rate increases for the various health plans for Plan Years 2018 and 2019. The Group continues to maintain a net position in excess of the target set forth by the Board.

The Group had an operating loss of $(971,471) for the year ended June 30, 2019. The operating loss was primarily the result of claims administration and net reinsurance expenses exceeding funding from rate revenue. Health Claims expenditures increased by $1,361,710 or 5.46 percent from the Fiscal Year 2018 total. Member contributions increased by $1,378,535, or 4.97 percent from the Fiscal Year 2018 total.

The Statement of Cash Flows identifies sources and uses of cash activity for the fiscal year. For Fiscal 2018 cash and investments decreased by $605,779, primarily due to the planned use of financial reserves to subsidize plan rate increases.

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 the self-funded Fiscal Year 2019 plan participation. The Group approved offsetting substantial rate increases by using existing financial resources. For self-funded plans the percentage rate increases approved for 2019 are as follows:

Active Plans:		Retiree Plans:	
NetworkBlue rates	5.0%	Medex 2	1.6%
Health New England rates	10.0%	Health New England MedWrap	17.1%
Tufts rates	3.0%		

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 reviewed and enacted various underlying plan design changes, and continues to promote healthy initiatives through the wellness program. The Good Health Gateway Diabetes Program, offered to members at no cost, is designed to educate those with diabetes, and encourage screening and exams to manage their diabetes. Diabetes education will help a variety of positive outcomes, including lower overall health costs. The Group, with the assistance of Gallagher Benefit Services, 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, 2019 and 2018

	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents	$ 478,858	$ 433,264
Investments	5,588,919	6,194,698
Receivables:		
Medicare Part D subsidy	63,915	27,439
Reinsurance claims	422,658	403,125
Plan deposits with insurance carriers	11,462	21,173
Total Assets	6,565,812	7,079,699
LIABILITIES		
Current Liabilities		
Accounts payable and accrued expenses	321,864	303,044
Claims liabilities	1,893,113	1,568,615
Members' advance contributions	–	31,917
Total Liabilities	2,214,977	1,903,576
NET POSITION		
Unrestricted	$ 4,350,835	$ 5,176,123

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, 2019 and 2018

	2019	2018
OPERATING REVENUE		
Members' contributions	$ 29,106,826	$ 27,728,291
Medicare Part D subsidy	106,404	47,681
Wellness program fees	4,033	2,269
Total Operating Revenues	29,217,263	27,778,241
OPERATING EXPENSES		
Health claims expense	26,297,298	24,935,588
Claims administration fees	1,363,663	1,316,460
Fixed premiums	1,429,427	1,302,146
Stop loss insurance premiums	689,360	757,743
Consulting and group administrative services	294,809	256,981
Other administrative expenses	15,441	24,535
Government regulatory fees	9,347	8,982
Wellness program expenses	89,389	95,392
Total Operating Expenses	30,188,734	28,697,827
OPERATING (LOSS)	(971,471)	(919,586)
NON-OPERATING REVENUE		
Investment income	146,183	112,818
CHANGE IN NET POSITION	(825,288)	(806,768)
Net Position, Beginning of Year	5,176,123	5,982,891
NET POSITION, END OF YEAR	$ 4,350,835	$ 5,176,123

See accompanying notes to basic financial statements.

SCANTIC VALLEY REGIONAL HEALTH TRUST

Statement of Cash Flows

Years Ended June 30, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from members	$ 29,074,909	$ 27,729,980
Cash received from governmental programs	69,928	59,502
Cash received from customers	4,033	2,269
Cash paid to insurance providers, net of reinsurance reimbursements	(29,448,523)	(28,189,840)
Cash paid to other vendors	(406,716)	(385,740)
Net Cash Provided (Used) by Operating Activities	(706,369)	(783,829)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on deposits	146,183	112,818
Investments (purchased) matured	605,780	626,760
Net Cash Provided (Used) by Investing Activities	751,963	739,578
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	45,594	(44,251)
Cash and Cash Equivalents, Beginning of Year	433,264	477,515
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 478,858	$ 433,264
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	$ (971,471)	$ (919,586)
Adjustments to Reconcile Increase in Net Position to Cash Provided by Operating Activities:		
Decrease (increase) in receivables	(56,010)	566,609
Decrease (increase) in plan deposits	9,711	11,439
Increase (decrease) in accounts payable	18,820	50,039
Increase (decrease) in claims liabilities	324,498	(494,018)
Increase (decrease) in member advance contributions	(31,917)	1,688
Net Cash Provided (Used) by Operating Activities	$ (706,369)	$ (783,829)

See accompanying notes to basic financial statements.

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, 2019, 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.

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).

All of the active employee plans are self-funded. They include:

> BlueCare Elect (PPO), BlueCare Elect Deductible (PPO), BCBS Network Blue (HMO), BCBS Network Blue Deductible (HMO), HNE HMO, HNE Deductible HMO, Tufts HMO, and Tufts Deductible HMO. (Note that each government unit my offer only one version of each plan; for example, a unit may offer Network Blue HMO or Network Blue Deductible HMO, but may not offer both.)

Self-funded plans Senior Plans for Medicare eligible include:

> Medex 2 (medical only; it is combined with a fully insured Medicare PDP called BlueMedicare Rx). HNE MedPlus is a self-funded plan for Medicare eligible and both medical and Rx are self-funded.

Fully insured plans Senior Plans for Medicare eligible include:

> Medicare HMO Blue, Managed Blue for Seniors, HNE Medicare Secure Freedom POS, Tufts Medicare Supplement with PDP Plus and Tufts Medicare Preferred HMO.

Members have access directly from CanaRx to certain brand name medications at no cost to the member. SVRHTCanaRx is a voluntary international prescription drug program that is available to eligible employees, Non-Medicare eligible retirees, and their dependents enrolled in the HMO or PPO plans with the Scantic Valley Regional Health Trust. The HNE MedWrap plan is also eligible for this program.

The Scantic Valley Regional Health Trust sets the rates for the self-funded plans, but for the insured plans, it is the health plan organizations that set the rates and the SVRHT votes to accept them.

The Group employs the services of Gallagher Benefit Services, 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, 2022, and provides for a monthly fee based upon the number of subscribers.

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.

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Fair Value Measurement (Continued)

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. 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 paid $0 in 2019 and $8,982 in 2018 for Affordable Care Act (ACA) fees. The Patient-Centered Outcomes Research Institute (PCORI) fees totaled $9,347 in 2019 and $8,982 in 2018.

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.

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.

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

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 that actually mature in three (3) years or longer and 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, 2019, amounts on deposit totaled $481,269 and had a carrying value of $478,858. 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, 2019, none of the cash was exposed to custodial credit risk, as all cash was covered by depository insurance or other instruments. At June 30, 2019, the Group maintained $46,232 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 $46,232. 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.

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

The following table compares investment maturities for fiscal years 2019 and 2018:

	Investment Maturities – 2019			
Investment Type	Fair Value	1 to 2 Years	3 to 4 Years	5 Years
Certificates of Deposit	$ 5,588,919	$ 3,257,069	$ 1,379,930	$ 951,920

	Investment Maturities – 2018			
Investment Type	Fair Value	1 to 2 Years	3 to 4 Years	5 Years
Certificates of Deposit	$ 6,194,698	$ 2,714,584	$ 2,005,405	$ 1,474,649

At June 30, 2019, $27,392 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:

	2019	2018
Berkshire Bank – Certificates of Deposit	$ 277,392	$ 810,982
Century Bank – Certificates of Deposit	971,112	1,035,022
Monson Savings Bank – Certificates of Deposit	556,217	503,149
People's United Bank – Certificates of Deposit	3,275,129	3,345,473
Westfield Bank – Certificates of Deposit	509,069	500,072
Total	$ 5,588,919	$ 6,194,698

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 the following stop loss coverage:

Specific Deductible Amount	$ 250,000
Specific Lifetime Maximum	None
Aggregate Deductible Amount	150,000

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, 2019 and 2018 were $689,360 and $757,743, respectively.

At June 30, 2019 and 2018, total estimated reinsurance recoveries expected are $422,658 and $403,125 respectively. In accordance with GASB 10, reimbursements that are for paid claims at June 30, 2019 and 2018 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 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, 2019 and 2018 are as follows:

Administrator	2019	2018
Abacus Diabetes Program	$ (1,504)	$ 8,245
Prescription Benefit Services	–	–
Tufts	12,966	12,928
Total Deposits	$ 11,462	$ 21,173

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:

	2019	2018
Unpaid claims and claims' adjustment expenses, beginning of year	$ 1,568,615	$ 2,062,633
Insured claims and claims' adjustment expenses:		
Provision for insured events of the current fiscal year	26,467,387	25,204,997
Increase (decrease) in provision for insured events of prior fiscal years	(170,089)	(269,409)
	26,297,298	24,935,588
Payments:		
Claims and claims' adjustment expenses attributable to insured events of the current fiscal year	(24,569,319)	(24,021,251)
Claims and claims' adjustment expenses attributable to insured events of prior fiscal years	(1,403,481)	(1,408,355)
	(25,972,800)	(25,429,606)
Total unpaid claims and claims' adjustment expenses, end of year	$ 1,893,113	$ 1,568,615

NOTE 7 – SUBSEQUENT EVENTS

The Group has evaluated subsequent events through February 15, 2020, which is the date the financial statements were issued.

REQUIRED 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.

	6/30/19	6/30/18	6/30/17	6/30/16	6/30/15	6/30/14	6/30/13	6/30/12	6/30/11	6/30/10
1) Earned member assessments, other, and investment revenues	$29,363,446	$27,891,059	$26,437,370	$22,876,890	$23,008,064	$23,205,202	$22,160,225	$23,604,084	$22,002,450	$20,284,169
1a) Net assets provided (used) by current year operations	(825,288)	(806,768)	(63,123)	(1,212,726)	(24,999)	1,024,251	832,179	(84,421)	310,937	(656,869)
2) HMO fixed premiums paid and other operating expenses	3,891,436	3,762,239	3,525,191	3,046,683	2,958,773	2,445,918	2,211,711	2,245,844	2,215,817	2,116,163
3) Estimated incurred, self-insured claims and expense, end of year	26,467,387	25,204,997	23,651,483	21,085,767	19,842,029	19,294,262	19,099,660	21,502,560	19,476,895	18,876,414
4) Paid (cumulative) as of										
End of fiscal year	24,569,319	24,021,251	21,577,653	18,778,494	18,162,917	18,384,131	18,060,192	19,157,502	18,035,569	17,076,106
One year later		25,059,850	23,404,234	20,429,590	19,772,170	19,287,477	19,162,878	21,514,835	19,420,726	18,897,291
Two years later			23,367,283	20,424,839	19,796,790	19,295,449	19,157,036	21,502,857	19,397,215	18,900,906
Three years later				20,424,391	19,797,562	19,295,730	19,157,412	21,506,358	19,396,023	18,893,828
Four years later					19,797,562	19,295,730	19,149,437	21,503,680	19,396,596	18,886,554
Five years later						19,295,673	19,149,441	21,504,312	19,396,596	18,893,828
Six years later							19,149,441	21,504,312	19,396,596	18,893,828
Seven years later								21,504,312	19,396,596	18,893,828
Eight years later									19,396,596	18,893,828
Nine years later										18,893,828
5) Re-estimated incurred, self-insured, claims and expenses:										
End of fiscal year	26 467,387	25,204,997	23,651,483	21,085,767	19,842,029	19,294,262	19,099,660	21,502,560	19,476,895	18,876,414
One year later		25,056,988	23,389,149	20,429,590	19,772,170	19,287,477	19,162,878	21,514,835	19,420,726	18,897,291
Two years later			23,365,254	20,422,492	19,796,790	19,295,449	19,157,036	21,502,857	19,397,215	18,900,906
Three years later				20,424,334	19,796,795	19,295,730	19,157,412	21,506,358	19,396,023	18,893,828
Four years later					19,797,562	19,295,673	19,149,437	21,503,680	19,396,596	18,886,554
Five years later						19,295,647	19,149,441	21,504,241	19,396,596	18,893,828
Six years later							19,149,441	21,504,312	19,396,596	18,893,828
Seven years later								21,504,312	19,396,596	18,893,828
Eight years later									19,396,596	18,893,828
Nine years later										18,893,828
6) Increase (decrease) in estimated, incurred, self-insured claims and expense from the end of, the original policy year	–	148,009	286,229	661,433	44,467	(1,385)	(49,781)	(1,752)	80,299	(17,414)

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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, 2019 and 2018, 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 February 15, 2020.

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. 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.

2019-1 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 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 February 15, 2020.

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

February 15, 2020

SCANTIC VALLEY REGIONAL HEALTH TRUST

Schedule of Financial Statement Findings and Responses

For the Year Ended June 30, 2019

SECTION I – FINANCIAL STATEMENT FINDINGS AND RESPONSES

Finding 2019-1

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 individual. 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:

Managernent 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.

Monthly bank statements and reconciliations are forwarded to a board member for review.