

WELLNESS INSURANCE NETWORK

ANNUAL FINANCIAL REPORT

For the Year Ended  
June 30, 2011



Certified Public Accountants & Advisors

WELLNESS INSURANCE NETWORK  
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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Directors  
Wellness Insurance Network

We have audited the basic financial statements of the Wellness Insurance Network (WIN), as of and for the year ended June 30, 2011, as listed in the accompanying table of contents. These financial statements are the responsibility of WIN's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Wellness Insurance Network, as of June 30, 2011, and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the other required supplementary information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Aurora, Illinois  
October 11, 2011

A handwritten signature in cursive script that reads 'Sikich LLP'.

GENERAL PURPOSE EXTERNAL FINANCIAL STATEMENTS

Management's Discussion and Analysis  
For the Year Ended June 30, 2011

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Management of the Wellness Insurance Network (WIN) offers this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with WIN financial statements and notes to the financial statements to enhance their understanding of WIN's financial performance.

### **Wellness Insurance Network – Overview**

The WIN is a public entity risk pool established by certain units of local government in Illinois to administer some of the personnel benefit programs offered by the participating members to their employees and retirees. These benefit programs include, but are not limited to, medical expense claim payments, dental, life, long term disability and short term disability insurance.

The cooperative acts as a public entity risk pool is to receive, process and pay such claims as may come within the benefit programs of each participating unit. All units participating in the cooperative pool their risks and funds and share in the cost of losses or surpluses.

WIN is governed by a Board of Directors which consists of seven elected officials who participate in the pool as defined in the by-laws. Each Director has an equal vote. The officers of WIN are elected by the Board of Directors from among their membership. The Board of Directors determines the general policies of the WIN; sets all rates; approves contracts and renewal terms; adopts by-laws, rules and regulations; and exercises such powers and performs such duties as may be prescribed in the WIN by-laws.

During this fiscal year there were 24 members participating in WIN. During the year, Aledo Mercer Carnegie Library, Morton Grove Public Library, River East Public Library & Wysox Public Library were added as members.

The separate accounts of the cooperative are as follows:

- Group Insurance Trust Account – This account is used to control and fund all expenses of the cooperative.
- Medical Claims Account – This account is used to fund all the costs associated with the medical and dental claims of the program.
- Flexible Spending Account – This account is used to fund all the costs associated with the flexible spending program under the Section 125 Plan.

### **Financial Position**

Total assets decreased \$929,222 from \$2,060,748 in 2010 to \$1,131,526 in 2011. Cash and cash equivalents decreased from \$1,901,052 in 2010 to \$815,741 in 2011. Net assets decreased from \$1,633,711 in 2010 to \$841,266 in 2011.

Management's Discussion and Analysis  
For the Year Ended June 30, 2011

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**Table 1**  
**Balance Sheets**

	<b>2011</b>	<b>2010</b>
<b>Total Assets</b>	\$1,131,526	\$2,060,748
<b>Total Liabilities</b>	290,260	427,037
<b>Net Assets</b>	\$841,266	\$1,633,711

### **Results of Operations**

Operating revenues, consisting of member contributions and reinsurance reimbursements, increased 11.8% from \$4,411,509 in 2010 to \$4,928,627 in 2011. Total operating expenses increased from \$4,931,424 to \$5,728,045. Net claims expense was 98% of total operating expenses or \$5,619,848 and increased 15.5% from 2010.

Total operating expenses exceeded operating revenues by \$799,418 and net assets decreased by \$792,445 to \$841,266 in 2011 from \$1,633,711 in 2010.

**Table 2**  
**Statement of Revenues, Expenses and Changes in Net Assets**

	<b>2011</b>	<b>2010</b>
<b>Operating Revenues</b>	\$4,928,627	\$4,411,509
<b>Operating Expenses</b>	5,728,045	4,931,424
<b>Operating Income</b>	-799,418	-519,915
<b>Nonoperating Revenue</b>	6,973	3,734
<b>Change in Net Assets</b>	-792,445	-516,181
<b>Net Assets – Beginning</b>	1,633,711	2,149,892
<b>Net Assets – Ending</b>	841,266	1,633,711

### **Request for Information**

This financial report is designed to provide a general overview of WIN's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the WIN Board President P.O.Box 1204 Barrington, IL 60010

WELLNESS INSURANCE NETWORK

STATEMENT OF NET ASSETS

June 30, 2011

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ASSETS	
Cash and cash equivalents	\$ 815,741
Accounts receivable	<u>315,785</u>
Total assets	<u>1,131,526</u>
LIABILITIES	
Claims payable	<u>290,260</u>
Total liabilities	<u>290,260</u>
NET ASSETS	
Restricted for insurance	<u>841,266</u>
TOTAL NET ASSETS	<u><u>\$ 841,266</u></u>

See accompanying notes to financial statements.

WELLNESS INSURANCE NETWORK

STATEMENT OF REVENUES, EXPENSES,  
AND CHANGES IN NET ASSETS

For the Year Ended June 30, 2011

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OPERATING REVENUES	
Charges for services	\$ 3,888,604
Reinsurance reimbursements	<u>1,040,023</u>
Total operating revenues	<u>4,928,627</u>
OPERATING EXPENSES	
Medical and dental claims	4,107,934
Life insurance	72,791
Section 125 payments	145,475
Prescriptions	598,577
Liability insurance	2,602
Professional services	640,878
Management fee	97,201
Wellness program	54,193
Supplies and postage	326
Other expenses	<u>8,068</u>
Total operating expenses	<u>5,728,045</u>
OPERATING INCOME (LOSS)	(799,418)
NONOPERATING REVENUES	
Investment income	<u>6,973</u>
CHANGES IN NET ASSETS	(792,445)
NET ASSETS, JULY 1	<u>1,633,711</u>
NET ASSETS, JUNE 30	<u>\$ 841,266</u>

See accompanying notes to financial statements.

WELLNESS INSURANCE NETWORK

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2011

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CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from members and users	\$ 4,635,761
Payments to suppliers	(1,839,853)
Claims paid	<u>(3,888,192)</u>
Net cash from operating activities	<u>(1,092,284)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
None	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
None	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment income	<u>6,973</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,085,311)
CASH AND CASH EQUIVALENTS, JULY 1	<u>1,901,052</u>
CASH AND CASH EQUIVALENTS, JUNE 30	<u><u>\$ 815,741</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES	
Operating income (loss)	\$ (799,418)
Adjustments to reconcile operating income (loss) to net cash from operating activities	
Changes in assets and liabilities	
Accounts receivable	(156,088)
Accounts payable	(181,016)
Claims payable	<u>44,238</u>
NET CASH FROM OPERATING ACTIVITIES	<u><u>\$ (1,092,284)</u></u>

See accompanying notes to financial statements.

WELLNESS INSURANCE NETWORK  
NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Wellness Insurance Network (WIN) have been prepared in conformity with accounting principles generally accepted in the United States of America, as applied to government units (hereinafter referred to as generally accepted accounting principles (GAAP)). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of WIN's accounting policies are described below.

a. Reporting Entity

As defined by generally accepted accounting principles established by the Governmental Accounting Standards Board, the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations to which the elected officials of the primary government are financially accountable. Management has determined that, WIN is not a component unit of any of its members and none of its members are a component unit of WIN.

b. Fund Accounting

WIN uses a fund to report on its financial position and the changes in its financial position and cash flows. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts.

Proprietary funds are used to account for activities similar to those found in the private sector where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities can be provided either to outside parties (enterprise funds) or to other departments or agencies primarily within the government (internal service funds).

c. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of revenues, expenses and changes in net assets) report information on all of the activities of WIN.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

d. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred. Operating revenues/expenses include all revenues/expenses directly related to providing enterprise fund services. Incidental revenues/expenses are reported as nonoperating.

e. Cash and Investments

Cash and Cash Equivalents

For purposes of the statement of cash flows, WIN's proprietary funds consider all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Investments

Investments are stated at fair value.

f. Net Assets

On the statement of net assets, restricted net assets are legally restricted by outside parties for a specific purpose. None of the restricted net assets resulted from enabling legislation adopted by the WIN Board.

g. GASB Pronouncements

WIN has elected, under the provisions of GASB Statement No. 20, titled *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements and all FASB Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements.

2. DEPOSITS AND INVESTMENTS

Permitted Deposits and Investments - Statutes and WIN's investment policy authorize WIN to make deposits/invest in insured commercial banks, or any other financial institution whose funds are federally insured, and Illinois Funds.

WELLNESS INSURANCE NETWORK  
 NOTES TO FINANCIAL STATEMENTS (Continued)

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2. DEPOSITS AND INVESTMENTS (Continued)

Illinois Funds is an investment pool managed by the State of Illinois, Office of the Treasurer, which allows governments within the State to pool their funds for investment purposes. Illinois Funds is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in Illinois Funds are valued at Illinois Fund's share price, which is the price for which the investment could be sold.

a. Deposits

To guard against credit risk for deposits with financial institutions, WIN's investment policy requires that deposits with financial institutions in excess of FDIC be collateralized.

b. Investments

WIN's investment policy requires all funds not needed for current operating expenses to be invested in liquid short-term investments.

WIN limits its exposure to credit risk, the risk that the issuer of a debt security will not pay its par value upon maturity, by only allowing investments in insured commercial banks, or any other financial institution whose funds are federally insured, and Illinois Funds.

3. RISK MANAGEMENT

WIN provides health insurance benefits to member participants. Membership is voluntary and rates for participation are established on an annual basis for membership based on the number of employees, types of coverage and expected claims.

Claims are administered and paid by a third party administrator acting on behalf of WIN. The administrative contract between WIN and the third party administrator is renewable annually. WIN has purchased individual risk and excess risk stop-loss insurance to limit its exposure to claims in excess of specified amounts; however, WIN does retain some risk of loss. The liability and obligation of WIN to pay benefits and make other required payments under the Plan shall be expressly limited to those assets held in WIN.

	2011	2010
CLAIMS PAYABLE - BEGINNING OF YEAR	\$ 246,021	\$ 172,185
Claims incurred	4,111,996	3,415,351
Claims paid	(4,067,757)	(3,341,515)
CLAIMS PAYABLE - END OF YEAR	\$ 290,260	\$ 246,021

REQUIRED SUPPLEMENTARY INFORMATION

WELLNESS INSURANCE NETWORK  
 REQUIRED SUPPLEMENTARY INFORMATION  
 CLAIMS DEVELOPMENT INFORMATION

Last Ten Fiscal Years

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Revenues	\$ 4,928,627	\$ 4,411,509	\$ 5,200,268	\$ 5,057,716	\$ 4,609,900	\$ -	\$ -	\$ -	\$ -	\$ -
Unallocated expenses	-	-	-	-	-	-	-	-	-	-
Net incurred expenses	5,728,045	4,931,424	4,020,870	5,130,818	4,682,758	-	-	-	-	-
Paid claims										
End of policy year	290,260	246,021	172,185	183,879	149,572	-	-	-	-	-
One year later	-	-	-	-	-	-	-	-	-	-
Two years later	-	-	-	-	-	-	-	-	-	-
Three years later	-	-	-	-	-	-	-	-	-	-
Four years later	-	-	-	-	-	-	-	-	-	-
Five years later	-	-	-	-	-	-	-	-	-	-
Six years later	-	-	-	-	-	-	-	-	-	-
Seven years later	-	-	-	-	-	-	-	-	-	-
Eight years later	-	-	-	-	-	-	-	-	-	-
Nine years later	-	-	-	-	-	-	-	-	-	-
Reestimated incurred claims and expense										
End of policy year	-	-	-	-	-	-	-	-	-	-
One year later	-	-	-	-	-	-	-	-	-	-
Two years later	-	-	-	-	-	-	-	-	-	-
Three years later	-	-	-	-	-	-	-	-	-	-
Four years later	-	-	-	-	-	-	-	-	-	-
Five years later	-	-	-	-	-	-	-	-	-	-
Six years later	-	-	-	-	-	-	-	-	-	-
Seven years later	-	-	-	-	-	-	-	-	-	-
Eight years later	-	-	-	-	-	-	-	-	-	-
Nine years later	-	-	-	-	-	-	-	-	-	-

(See independent auditor's report.)