**MINUTEMAN-NASHOBA HEALTH GROUP**
BASIC FINANCIAL STATEMENTS AND
MANAGEMENT'S DISCUSSION AND ANALYSIS
WITH REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED MAY 31, 2011 AND MAY 31, 2010
WITH INDEPENDENT AUDITOR'S REPORTS

**MINUTEMAN-NASHOBA HEALTH GROUP**
BASIC FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS
WITH REQUIRED SUPPLEMENTARY INFORMATION
Years Ended May 31, 2011 and May 31, 2010

## INDEX

MLB **Malloy, Lynch, Bienvenue, LLP**
*Certified Public Accountants & Advisors*

99 Longwater Circle, Suite 200, Norwell, MA 02061
Telephone (781) 871-5850 Fax (781) 871-5840

9 Baystate Court, Brewster, MA 02631
Telephone (508) 255-2240 Fax (508) 255-2351
Internet: www.mlbcpa.net

## INDEPENDENT AUDITOR'S REPORT

To the Board of Representatives
Minuteman-Nashoba Health Group

We have audited the accompanying statement of net assets of Minuteman-Nashoba Health Group (Group) as of May 31, 2011 and May 31, 2010, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of Minuteman-Nashoba Health Group as of May 31, 2011 and May 31, 2010, and changes in its financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2011, on our consideration of the Group's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Management's Discussion and Analysis (MD&A) and the ten-year claims development information on the accompanying pages are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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 we express no opinion on it.

Malloy, Lynch, Bienvenue, LLP

November 30, 2011

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Internet: www.mlbcpa.net

## 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*

To the Board of Representatives
Minuteman-Nashoba Health Group

We have audited the financial statements of Minuteman-Nashoba Health Group as of and for the years ended May 31, 2011 and 2010, and have issued our report thereon dated November 30, 2011. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Group is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audits, we considered the Group's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Group's internal control over financial reporting.

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 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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the next paragraph that we consider to be significant deficiencies in internal control over financial reporting. 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 in governance.

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

*Views of Responsible Officials*: The Board intends to take this under advisement and to continue to monitor and evaluate financial reporting and internal controls on an ongoing basis.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Group's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Minuteman-Nashoba Health Group in a separate letter dated November 30, 2011.

This report is intended solely for the information and use of management, and other appropriate government agencies and is not intended to be and should not be used by anyone other than these specified parties.

Malloy, Lynch, Blanchette, LLP

November 30, 2011

# MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of Minuteman-Nashoba Health Group (the Group) offers readers of our financial statements the following narrative overview and analysis of our financial activities for the year ended May 31, 2011. Please read this discussion and analysis in conjunction with the Group's basic financial statements on the accompanying pages.

***Basic Financial Statements***

The basic financial statements are prepared using the accrual basis of accounting. Revenue is recorded when earned, and expenses are recorded when incurred. The basic financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets; a statement of cash flows and notes to the financial statements.

The statement of net assets presents information on the assets and liabilities of the Group, with the difference being reported as net assets.

The statement of revenues, expenses, and changes in net assets reports the operating and non-operating revenues and expenses of the Group for the fiscal year. The net result of these activities combined with the beginning of the year net assets reconciles to the net assets at the end of the current fiscal year.

The statement of cash flows reports the changes in cash for the year resulting from operating and investing activities. The net result of the changes in cash for the year, when added to the balance of cash at the beginning of the year, equals cash at the end of the year.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements follow the basic financial statements described above.

***Financial Highlights***

- Assets exceeded liabilities by $93,185 (net assets) at the close of the fiscal year.
- For the year ended May 31, 2011, net assets decreased by $594,686.
- Total net assets of $93,185 falls under The Board of Representatives target fund balance.
- The statement of cash flows identifies the sources and uses of cash activity for the fiscal year and displays a net decrease in cash of $378,300 for the year.

Of the total claims liability $326,404 represents claims payable and $4,379,246 represents an estimate for claims incurred but not reported as of May 31, 2011. The decrease in net assets and cash is a result of claims and other Group expenses exceeding member premiums during the fiscal year. Actuarial assumptions are used in projecting annual claims costs for each health plan on a per member/per month basis and a rate, on a plan by plan basis, is set to fund the aggregate of the total projected claims and other Group costs.

## ***Condensed Financial Information***

A comparative summary of financial information is presented below:

| | 2011 | 2010 | Amount of Change |
|---|---|---|---|
| Cash and investments | $ 5,841,282 | $ 6,219,582 | $ (378,300) |
| Other current assets | 1,197,866 | 377,763 | 820,103 |
| Total assets | 7,039,148 | 6,597,345 | 441,803 |
| Claims liabilities | 4,705,650 | 4,666,247 | 39,403 |
| Other current liabilities | 2,240,313 | 1,243,227 | 997,086 |
| Total liabilities | 6,945,963 | 5,909,474 | 261,288 |
| Unrestricted net assets | $ 93,185 | $ 687,871 | $ (594,686) |
| **Revenues, Expenses and Change in Net Assets:** | | | |
| Contributions and other | $ 48,727,749 | $ 46,037,218 | $ 2,690,531 |
| ***less*** | | | |
| Claims expense | 42,675,174 | 41,898,808 | 776,366 |
| Claims administration expenses | 2,846,160 | 2,709,573 | 136,588 |
| Other group expenses | 3,814,364 | 3,535,531 | 278,833 |
| Total operating expense | 49,335,698 | 48,143,912 | 1,191,788 |
| ***plus*** | | | |
| Investment income | 13,263 | 32,217 | (18,954) |
| Change in net assets | $ (594,686) | $ (2,074,477) | $ 1,479,790 |

The Group's claims experience and increase in administrative contracts account for the increase in claims and group expenses.

## ***Economic Factors Affecting the Subsequent Year***

Prior to May 31, 2011, the Group's Board of Representatives set the rate structure for fiscal year 2012 plan participation including the application of excess net assets to reduce rates. The rate structure resulted in aggregate rate increases of 14.6%.

## ***Request for information***

This financial report is intended to provide an overview of the finances of the Group. Questions about this report or requests for additional information may be directed to the Group's Treasurer at the Town of Concord, MA, Finance Department, PO Box 535, Concord, MA 01742.

# BASIC FINANCIAL STATEMENTS

**MINUTEMAN-NASHOBA HEALTH GROUP**

Statement of Net Assets

May 31, 2011 and May 31, 2010

| | 2011 Total | 2010 Total |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents (Note 3) | $ 5,841,282 | $ 6,219,582 |
| Receivables: | | |
| Medicare Part D subsidy | 83,112 | 88,966 |
| Reinsurance claims | 978 | 18,756 |
| ERRP Receivable | 350,000 | |
| Rebates from insurance carriers | 90,000 | 187,006 |
| Due from Providers | 528,794 | |
| Total receivables | 524,090 | 294,728 |
| Deposits with insurance carriers | 144,982 | 83,035 |
| Total assets | $ 7,039,148 | $ 6,597,345 |
| **LIABILITIES AND FUND BALANCES** | | |
| Current liabilities: | | |
| Claims liabilities (Note 5) | $ 4,705,650 | $ 4,666,247 |
| Amounts due to prescription benefit provider | 15,939 | 13,055 |
| Participants' advance contributions | 2,224,374 | 1,230,172 |
| Total liabilities | 6,945,963 | 5,909,474 |
| Unrestricted/total net assets | 93,185 | 687,871 |
| Total liabilities and net assets | $ 7,039,148 | $ 6,597,345 |

The accompanying notes are an integral part of these financial statements.

**MINUTEMAN-NASHOBA HEALTH GROUP**

Statement of Revenues, Expenses and Changes in Net Assets

Years Ended May 31, 2011 and May 31, 2010

| | 2011 Total | 2010 Total |
|---|---|---|
| **Operating revenues:** | | |
| Participants' contributions | $ 47,845,647 | $ 45,186,195 |
| COBRA contributions | 253,026 | 187,707 |
| Medicare Part D subsidy | 246,426 | 648,864 |
| ERRP | 521,239 | |
| Other income | 211,411 | 14,452 |
| Total operating revenues | 49,077,749 | 46,037,218 |
| **Operating expenses:** | | |
| Health claims expense | 43,025,174 | 41,898,808 |
| Claims administration fees | 2,846,160 | 2,709,571 |
| Fixed premiums | 2,595,797 | 2,252,799 |
| Stop loss insurance premiums | 767,615 | 862,996 |
| Consulting and group administration services | 416,794 | 396,991 |
| Other administrative services | 34,158 | 22,745 |
| Total operating expenses | 49,685,698 | 48,143,910 |
| Operating income (loss) | (607,949) | (2,106,692) |
| **Nonoperating revenues:** | | |
| Investment income | 13,263 | 32,217 |
| Change in net assets | (594,686) | (2,074,475) |
| Net assets, beginning of year | 687,871 | 2,762,346 |
| Net assets, end of year | $ 93,185 | $ 687,871 |

The accompanying notes are an integral part of these financial statements.

**MINUTEMAN-NASHOBA HEALTH GROUP**

Statement of Cash Flows

Years Ended May 31, 2011 and May 31, 2010

| | 2011 | 2010 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Cash received from participants | $ 49,092,875 | $ 45,161,509 |
| Cash received for Medicare Part D subsidy | 252,280 | 755,398 |
| Miscellaneous receipts | 732,650 | 14,452 |
| Cash paid to insurance providers and other vendors | (50,469,370) | (47,647,382) |
| Net cash provided (used) by operating activities | (391,565) | (1,716,023) |
| **Cash flows from investing activities:** | | |
| Interest on deposits | 13,265 | 32,217 |
| Net cash provided by investing activities | 13,265 | 32,217 |
| Net increase (decrease) in cash | (378,300) | (1,683,806) |
| Cash, beginning of year | 6,219,582 | 7,903,388 |
| Cash, end of year | $ 5,841,282 | $ 6,219,582 |
| **Reconciliation of operating income to net cash provided by operating activities:** | | |
| Operating income (loss) | $ (607,949) | $ (2,106,693) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (758,156) | 97,985 |
| Deposits with insurance carriers | (61,947) | 31,398 |
| Participant advance contributions | 994,202 | (212,393) |
| Amounts due prescription providers | 2,882 | 2,503 |
| Claims liabilities | 39,403 | 471,177 |
| Net cash provided (used) by operating activities | $ (391,565) | $ (1,716,023) |

The accompanying notes are an integral part of these financial statements.

## Note 1. Description of Group

Minuteman-Nashoba Health Group (the Group), Concord, Massachusetts, is a Massachusetts Municipal Health Insurance joint purchase group formed pursuant to Massachusetts General Laws, Chapter 32B, under a certain joint purchase agreement which became effective in January 1990. The Group became operational in December 1990. As a municipal entity, the Group is not subject to the provisions of the Employee Retirement Income Security Act of 1974, nor is it subject to federal and state income taxes.

Participating governmental units consist of those municipal groups that have signed a Joint Negotiation and Purchase of Health Coverage governmental agreement. At May 31, 2011, participants are the towns of Ayer, Bolton, Boxborough, Carlisle, Clinton, Concord, Groton, Harvard, Lancaster, Pepperell, Phillipston, Tyngsboro, and Stow; the CASE Collaborative; the Concord-Carlisle Regional School District, the Lincoln-Sudbury Regional School District, Narragansett Regional School District and the North Middlesex Regional School District.

Governmental units may apply for membership and be added to the Group, commencing on a date mutually agreed upon, provided that no less than two-thirds of the participating governmental units vote to accept such additional participants.

Any participating governmental unit may withdraw participation at its discretion. A governmental unit that elects to terminate participation in the Group must notify Minuteman-Nashoba Health Group Board of such intent to withdraw 60 days prior to the end of the fiscal year to be effective at the end of the fiscal year. Any participating governmental unit which is 60 days in arrears for payments may be terminated at the discretion of the Board of Representatives (the Board). In lieu of termination, the Board may take other appropriate action.

There is no liability for premium expense following the effective date of termination of a participating governmental unit's coverage under a contract purchased through the Group, except for the governmental unit's proportional share of any deficit in the trust as of its termination date, or of any premium expense, or any subsequent expense for its covered individuals continued on the plan after termination. The Group's Joint Purchase Agreement provides that a withdrawing or terminated participating governmental unit is not entitled to any surplus in the trust fund.

Contributions to Minuteman-Nashoba Health Group Trust from participating governmental units are on a monthly basis. Contributions are calculated by the Board and are determined to be 100% of the cost of coverage of the Group as a whole (including, but not limited to, anticipated incurred claims, retention, risk, and trust administration expenses) as established through underwriting and/or actuarial estimates.

All refunds, surplus, and deficits are dealt with on a proportional and collective basis. In the case of a certified surplus, the Board determines whether the excess funds will remain in the Board's trust fund for the purpose of reducing the participants' future premium cost or be distributed to the participating governmental units in proportion to the number of participating governmental unit's employees and retirees covered under the contract purchased at the time the surplus was incurred. In the case of a certified deficit, additional revenue will be raised and paid by the participating governmental units in proportion to the number of participating governmental unit's employees and retirees covered under the contract purchased at the time the deficit was incurred.

The Group's plans include a Point of Service (POS) plan with claims administered by Tufts Total Health Plan ("Tufts"); three Exclusive Provider Organization (EPO) plans (HMO-type plans) administered respectively by Tufts, Harvard Pilgrim Health Care ("HPHC") and Fallon Health and Life Assurance Company. The Group also has provided for a Preferred Provider Organization (PPO) plan administered by HPHC with the HPHC provider network and the Private Healthcare Systems nationwide provider network. For retirees with Medicare Part A and Part B, the Group provides a Medicare Complement Plan with claims administered by Tufts; a fully insured medi-wrap plan, Tufts Medicare Complement (TMC) plan provided by Tufts; and three fully insured Medicare Advantage plans: Fallon Senior Plan, and Tufts Medicare Preferred HMO. Payments to all plans, except Tufts Medicare Complement plan, and the Medicaid Advantage plans are on a claims paid basis.

Payments to the claims administrators on self-funded plans, i.e. Tufts Total Health Plan, Harvard Pilgrim Health Care, and Fallon Health and Life Assurance Company are administrative fees based on the number of subscribers under administration each month.

The Group employs the services of John R. Sharry Incorporated, d/b/a Group Benefits Strategies, to provide certain management, consulting, and technical functions and to audit medical claims paid. The current agreement with Group Benefits Strategies is for a three-year term ending December 31, 2013, and provides for a monthly fee based on the number of subscribers for each month.

The Group employs the services of Prescription Benefits Services, Inc. (PBS), which until July 1, 2008 was a related party to Group Benefits Strategies. PBS performs certain contracting and administrative functions for the Group's alternative prescription drug program. The agreement with PBS is for a three-year term ending May 31, 2013, and provides for a monthly fee based upon the number of subscribers and an agreed-upon fee paid by the Group in monthly installments to be used for employee incentives. The agreement may be terminated by the Group, at any time after the initial term of the agreement with 90 days prior written notice.

The Group appoints a Treasurer who collects payment from member units, pays claims and vendor expenses, maintains the financial records of the Group, and oversees investments.

## Note 2. Summary of Significant Accounting Policies

*Basis of Accounting*

The accompanying financial statements present the net assets of the Group at May 31, 2011 and May 31, 2010, and the changes in net assets and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America, which recognize revenues from contributions and earnings when earned, and expenditures when liabilities are incurred.

Participants are billed in the form of monthly premiums. Participants' advance contributions are recorded as liabilities until earned.

*Accounting Estimates*

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

*Cash and Cash Equivalents and Investments*

Cash and cash equivalents consist of cash on hand; cash in checking, savings or money market accounts; repurchase agreements; other short-term investments with original maturities of three months or less; and the Commonwealth of Massachusetts Municipal Depository Trust (MMDT) which has legislative approval for municipal use.

Investments are stated at fair value. Where applicable, fair values are based on quotations from national securities exchanges.

*Claims Liabilities*

The Group's obligations include estimated health claims incurred but not reported at May 31, 2011 and May 31, 2010. The Group uses the latest reported claims to record the Group's payable of reported claims and to estimate health claims incurred but not reported as of that date. The Group pays self-funded claims weekly for Tufts Total Health Plan and for Fallon Health and Life Assurance Company for actual claims to be paid and the central benefits administrator, Group Benefits Strategies, is sent supporting detail for the funding request. The Group pays Harvard Pilgrim Health Care (HPHC) a level, monthly payment each month to cover the expected cost of claims for that month. The amount has been mutually agreed upon to represent approximately one month of projected claims for the HPHC plans. There is a quarterly reconciliation and settle-up against actual claims payments made by HPHC on behalf of the Group. Actual claims reported differ from claims estimated, but the Group's size and stop-loss coverage minimize the risk of a significant difference. Claims liabilities are reviewed periodically using claims data adjusted for the Group's current experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

*Reinsurance*

The Group has a specific excess medical and prescription drug claims reinsurance contract with an insurance carrier covering claims paid in excess of $225,000 and $225,000 for calendar years 2011 and 2010, respectively, per individual to a lifetime maximum amount payable of $2,000,000 for active employee, self-insured plans. The policy period for these plans covers claims incurred, on a calendar basis, within 12 months and paid within 18 months.

For the self-insured Medicare complement plan the Group's deductible is $225,000, and the policy period covers claims incurred, on a calendar basis, with 12 months and paid within 24 months.

The Group does not include reinsured risks as liabilities unless it is probable that those risks will not be covered by the re-insurer. Amounts recoverable through re-insurers on paid claims are classified as receivable and as a reduction of claims expense.

*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 (subpart R).

## Note 3. Cash, Cash Equivalents and Investments

The Group maintains deposits in authorized financial institutions. In the case of deposits, custodial credit risk is the risk that in the event of a bank failure, the Group's deposits may not be returned. The Group does not have a formal deposit policy for custodial credit risk. At May 31, 2011 and May 31, 2010, deposits totaled $191,417 and $179,832 respectively. The carrying amounts of these deposits at May 31, 2011 and May 31, 2010, were $111,417 and $99,832, respectively. The difference between deposit amounts and carrying amounts generally represents outstanding checks and deposits in transit.

The Group does not have a formal investment policy; however, the Group's only investments include units of the Massachusetts Municipal Depository Trust (MMDT), a pooled investment account restricted by state law for use by Massachusetts state and local government entities, which qualifies as an external investment pool. The MMDT is managed on behalf of the Treasurer of the Commonwealth of Massachusetts, who is the sole trustee.

Financial reports of the MMDT are publicly available and may be obtained by contacting the MMDT directly. This account is valued at cost, which is also its fair value. The balance of this account is $5,729,864 at May 31, 2011, and $6,119,750 at May 31, 2010, which are included as cash equivalents in the accompanying statement of net assets.

*Custodial credit risk* for investments is the risk that, in the event of the failure of the counter party to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Group does not have an investment policy covering custodial credit risk.

*Interest rate risk* is the risk that changes in market interest rates that will adversely affect the fair market value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair market value to changes in market interest rates. The Group does not have an investment policy regarding interest rate risk. The approximate maturities of the Group's debt investments are disclosed in the following table:

| | at May 31, 2011 | | at May 31, 2010 | |
|---|---|---|---|---|
| **Investment Type** | **Fair Market Value** | **12 months or less** | **Fair Market Value** | **12 months or less** |
| MMDT | $5,729,864 | $ 5,729,864 | $ 6,119,750 | $ 6,119,750 |

*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 and equity mutual funds are not rated as to credit risk. The Group does not have an investment policy which would limit its investment choices.

*Concentration of credit risk* – The Group does not have an investment policy which limits the amount that can be invested in any one issuer or security. Excluding U.S. federal agency securities, and external investment pools, there are no securities or issuers which represent more than 5% of the total investments of the governmental activities.

## Note 4. Plan Deposits

The Group is required by Tufts Total Health Plan to maintain a deposit of $80,000. Interest on the account accrues to the Group. In addition, the group pays a monthly deposit to a third-party administrator for a prescription drug purchasing program. The difference between actual claims and deposits paid amounts to $61,947 as of May 31, 2011 and $3,035 as of May 31, 2010, respectively.

## Note 5. 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 May 31, 2011 and May 31, 2010:

| | 2011 | 2010 |
|---|---|---|
| Unpaid claims and claims' adjustment expenses—beginning of year | $ 4,666,247 | $ 4,195,069 |
| Incurred claims and claims' adjustment expenses: | | |
| Provision for insured events of the current fiscal year | 42,403,364 | 41,317,825 |
| Increase (decrease) in provision for insured events of prior fiscal years | 621,810 | 580,983 |
| | 43,025,174 | 41,898,808 |
| Payments: | | |
| Claims and claims' adjustment expenses attributable to insured events of the current fiscal year | (37,889,287) | (36,843,149) |
| Claims and claims' adjustment expenses attributable to insured events of prior fiscal years | (5,096,484) | (4,584,481) |
| | (42,985,771) | (41,427,630) |
| Total unpaid claims and claims' adjustment expenses—end of year | $ 4,705,650 | $ 4,666,247 |

## Note 6. Subsequent events

The Municipal Health Care Reform Bill was passed on July 12, 2011 . This bill may significantly alter the plans offered by the Group and the service delivery options of its members but the effect of the bill on the operation of the Group at this time is unknown.

**MINUTEMAN-NASHOBA HEALTH GROUP**
REQUIRED SUPPLEMENTARY INFORMATION
TEN-YEAR CLAIMS' DEVELOPMENT INFORMATION

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

**MINUTEMAN-NASHOBA HEALTH GROUP**
REQUIRED SUPPLEMENTARY INFORMATION
Ten-Year Claims' Development Information
(Unaudited)

| | 5/31/2011 | 5/31/2010 | 5/31/2009 | 5/31/2008 | 5/31/2007 | 5/31/2006 | 5/31/2005 | 5/31/2004 | 5/31/2003 | 5/31/2002 |
|---|---|---|---|---|---|---|---|---|---|---|
| 1. Earned member assessments, other and investment revenues | $ 48,741,012 | $ 46,069,435 | $ 44,249,212 | $ 42,400,027 | $ 37,370,086 | $ 31,854,647 | $ 24,029,488 | $ 19,367,388 | $ 16,798,697 | $14,203,221 |
| 2. HMO fixed premiums paid and other operating expenses | $ 6,660,524 | $ 6,245,103 | $ 5,815,652 | $ 5,274,412 | $ 4,743,657 | $ 4,400,076 | $ 3,368,658 | $ 3,833,952 | $ 3,493,878 | $ 2,998,786 |
| 3. Estimated incurred, self-insured claims and expense, end of fiscal year | $ 42,403,364 | $ 41,317,825 | $ 39,656,931 | $ 35,882,193 | $ 31,943,811 | $ 31,034,003 | $ 21,173,503 | $ 14,998,608 | $ 13,200,795 | $11,228,454 |
| 4. Paid (cumulative) as of: | | | | | | | | | | |
| End of fiscal year | $ 37,889,287 | $ 36,843,149 | $ 35,653,435 | $ 32,143,951 | $ 28,131,192 | $ 27,793,682 | $ 17,945,099 | $ 13,318,346 | $ 11,071,655 | $ 9,427,704 |
| One year later | | 41,833,417 | $ 40,222,143 | $ 35,628,218 | $ 30,726,337 | $ 30,565,689 | $ 19,784,491 | $ 14,635,116 | $ 12,373,109 | $10,890,808 |
| Two years later | | | $ 40,324,751 | $ 35,643,484 | $ 30,723,506 | $ 30,529,593 | $ 19,788,334 | $ 14,654,250 | $ 12,390,043 | $10,894,029 |
| Three years later | | | | $ 35,647,701 | $ 30,723,885 | $ 30,546,998 | $ 19,788,334 | $ 14,654,250 | $ 12,403,072 | $10,898,717 |
| Four years later | | | | | $ 30,723,094 | $ 30,547,294 | $ 19,786,230 | $ 14,654,250 | $ 12,403,072 | $10,897,815 |
| Five years later | | | | | | $ 30,547,476 | $ 19,786,152 | $ 14,654,250 | $ 12,403,072 | $10,897,815 |
| Six years later | | | | | | | $ 19,786,152 | $ 14,654,158 | $ 12,403,072 | $10,897,815 |
| Seven years later | | | | | | | | $ 14,654,158 | $ 12,403,072 | $10,897,815 |
| Eight years later | | | | | | | | | $ 12,403,072 | $10,897,815 |
| Nine years later | | | | | | | | | | $10,897,815 |
| Ten years later | | | | | | | | | | |
| 5. Re-estimated incurred, self-insured claims and expense: | | | | | | | | | | |
| End of fiscal year | $ 42,403,364 | $ 41,317,825 | $ 39,656,931 | $ 35,882,193 | $ 31,943,811 | $ 31,034,003 | $ 21,173,503 | $ 14,998,608 | $ 13,200,795 | $11,228,454 |
| One year later | | 41,833,417 | $ 40,222,143 | $ 35,628,218 | $ 30,726,337 | $ 30,565,689 | $ 19,784,491 | $ 14,635,116 | $ 12,373,109 | $10,890,808 |
| Two years later | | | $ 40,324,751 | $ 35,643,484 | $ 30,723,506 | $ 30,529,593 | $ 19,788,334 | $ 14,654,250 | $ 12,390,043 | $10,894,029 |
| Three years later | | | | $ 35,647,701 | $ 30,723,885 | $ 30,546,998 | $ 19,788,334 | $ 14,654,250 | $ 12,403,072 | $10,898,717 |
| Four years later | | | | | $ 30,723,094 | $ 30,547,294 | $ 19,786,230 | $ 14,654,250 | $ 12,403,072 | $10,897,815 |
| Five years later | | | | | | $ 30,547,476 | $ 19,786,152 | $ 14,654,250 | $ 12,403,072 | $10,897,815 |
| Six years later | | | | | | | $ 19,786,152 | $ 14,654,158 | $ 12,403,072 | $10,897,815 |
| Seven years later | | | | | | | | $ 14,654,158 | $ 12,403,072 | $10,897,815 |
| Eight years later | | | | | | | | | $ 12,403,072 | $10,897,815 |
| Nine years later | | | | | | | | | | $10,897,815 |
| Ten years later | | | | | | | | | | |
| 6. (Increase) decrease in estimated, incurred, self-insured claims and expense from the end of the original policy year. | | $ (515,592) | $ (667,820) | $ 234,492 | $ 717 | $ 486,527 | $ 351 | $ 344,358 | $ 797,723 | $ 330,639 |