

**MINUTEMAN-NASHOBA HEALTH GROUP
BASIC FINANCIAL STATEMENTS AND
MANAGEMENT'S DISCUSSION AND ANALYSIS
WITH REQUIRED SUPPLEMENTARY INFORMATION
YEARS ENDED MAY 31, 2014 AND MAY 31, 2013
WITH INDEPENDENT AUDITORS' REPORTS**

MINUTEMAN-NASHOBA HEALTH GROUP
BASIC FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS
WITH REQUIRED SUPPLEMENTARY INFORMATION
Years Ended May 31, 2014 and May 31, 2013

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Lynch, Malloy, Marini, LLP

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INDEPENDENT AUDITORS' REPORT

To the Steering Committee
Minuteman-Nashoba Health Group

Report on the Financial Statements

We have audited the accompanying financial statements of the Minuteman-Nashoba Health Group (Group) as of and for the years ended May 31, 2014 and 2013 and the related notes to the financial statements, which collectively comprise the Group's basic financial statements as listed in the table of contents.

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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 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 auditors' 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 the Minuteman-Nashoba Health Group, as of May 31, 2014 and 2013, and the respective changes in financial position and cash flows thereof 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 (MD&A) and the claims development information on the accompanying pages be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2015, on our consideration of Minuteman-Nashoba Health 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 Minuteman-Nashoba Health Group's internal control over financial reporting and compliance.

Lynch, Malloy, Marini, LLP

Natick, Massachusetts

February 11, 2015



Lynch, Malloy, Marini, LLP

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**INDEPENDENT AUDITORS' 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 Steering Committee
Minuteman-Nashoba Health Group

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 of the United States, the financial statements of Minuteman-Nashoba Health Group (Group), as of and for the years ended May 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Group's basic financial statements, and have issued our report thereon dated February 11, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Group'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 Group's internal control. Accordingly, we do not express an opinion on the effectiveness of the Group'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 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Group's financial statements are free from 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*.

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.

Lynch, Malloy, Marini, LLP

Natick, Massachusetts
February 11, 2015



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MANAGEMENT'S DISCUSSION AND ANALYSIS

MINUTEMAN-NASHOBA HEALTH GROUP

Management's Discussion & Analysis

May 31, 2014 and 2013

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 years ended May 31, 2014 and 2013. 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 position, 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 position presents information on the assets and liabilities of the Group, with the difference being reported as net position.

The statement of revenues, expenses, and changes in net position 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 position reconciles to the net position 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 (net position) in 2014 and 2013 by \$10,692,368 and \$9,019,810 respectively, at the close of the fiscal year.
- For the years ended May 31, 2014 and 2013, net position increased by \$1,672,558 and \$2,363,210, respectively.
- Total net position of \$10,692,368 is \$5,927,049 over the Board of Representative's target fund balance of \$4,765,319 for 2014, and the net position of \$9,019,810 is \$4,321,726 over the Board of Representative's target fund balance of \$4,698,084 for 2013. The Board's target fund balance is calculated as 150% of the prior twelve month average of self-funded costs.
- The statement of cash flows identifies the sources and uses of cash activity for the fiscal year and displays a net increase in cash of \$1,313,235 for 2014 and \$3,351,341 for 2013.

Of the total claims liability \$470,332 and \$232,526 represents claims payable and \$3,177,795 and \$3,108,695 represents an estimate for claims incurred but not reported as of May 31, 2014 and 2013, respectively. The increase in net position and cash is a result of member premiums exceeding claims and other Group expenses 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.

See Independent Auditors' Report

MINUTEMAN-NASHOBA HEALTH GROUP**Management's Discussion & Analysis****May 31, 2014 and 2013****Condensed Financial Information**

A comparative summary of financial information is presented below:

	<u>2014</u>	<u>2013</u>	<u>Percent Change</u>
Cash and cash equivalents	\$ 15,571,359	\$ 14,258,124	9.21%
Other assets	<u>352,155</u>	<u>309,990</u>	13.60%
Total assets	15,923,514	14,568,114	9.30%
Claims liabilities	3,648,127	3,341,221	9.19%
Other liabilities	<u>1,583,019</u>	<u>2,207,083</u>	(28.28%)
Total liabilities	<u>5,231,146</u>	<u>5,548,304</u>	(5.72%)
Unrestricted net position	<u>\$ 10,692,368</u>	<u>\$ 9,019,810</u>	18.54%
Revenues, Expenses and Change in Net Position:			
Total operating revenues	\$ 43,466,481	\$ 44,079,380	(1.39%)
<i>less</i>			
Claims expense	33,338,060	34,046,530	(2.08%)
Claims administration expenses	2,603,517	2,691,069	(3.25%)
Other group expenses	<u>5,878,086</u>	<u>5,002,980</u>	17.49%
Total operating expense	41,819,663	41,740,579	0.19%
<i>plus</i>			
Investment income	<u>25,740</u>	<u>24,409</u>	5.45%
Change in net position	<u>\$ 1,672,558</u>	<u>\$ 2,363,210</u>	(29.23%)

Note, the "Other group expenses" above increased due to a shift in senior plan enrollments from the least expensive plan to the most expensive and mid-priced plans. This was the result of the Fallon Senior Plan's loss of its contract with Reliant Medical Group. There was also an increase in subscribers during the year.

Economic Factors Affecting the Subsequent Year

Prior to May 31, 2014, the Group's Board of Representatives set the rate structure for fiscal year 2015 plan participation with no further changes in plan design, including the application of \$2.5 million of excess fund balance to reduce rates. The rate structure resulted in an aggregate weighted rate decrease of 5.9%.

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, P.O. Box 535, Concord, MA 01742.

See Independent Auditors' Report

BASIC FINANCIAL STATEMENTS

MINUTEMAN-NASHOBA HEALTH GROUP**Statement of Net Position
May 31, 2014 and May 31, 2013**

	<u>2014</u>	<u>2013</u>
ASSETS		
Cash and cash equivalents	\$ 15,571,359	\$ 14,258,124
Receivables:		
Reinsurance claims	147,114	-
Due from Members	349	-
Rebates from insurance carriers	70,570	185,345
Due from Providers	43,152	-
Total receivables	<u>261,185</u>	<u>185,345</u>
Deposits with insurance carriers	<u>90,970</u>	<u>124,645</u>
Total assets	<u>\$ 15,923,514</u>	<u>\$ 14,568,114</u>
 LIABILITIES AND NET POSITION		
Liabilities:		
Claims liabilities	\$ 3,648,127	\$ 3,341,221
Accounts payable	15,890	-
Amounts due to prescription benefit provider	-	8,288
Participants' advance contributions	1,567,129	2,198,795
Total liabilities	<u>5,231,146</u>	<u>5,548,304</u>
Unrestricted/total net position	<u>10,692,368</u>	<u>9,019,810</u>
Total liabilities and net position	<u>\$ 15,923,514</u>	<u>\$ 14,568,114</u>

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

MINUTEMAN-NASHOBA HEALTH GROUP
Statement of Revenues, Expenses and Changes in Net Position
Years Ended May 31, 2014 and May 31, 2013

	<u>2014</u>	<u>2013</u>
Operating revenues:		
Participants' contributions	\$ 43,393,915	\$ 43,941,955
COBRA contributions	65,462	80,546
Medicare Part D subsidy	7,104	52,083
Other income	<u>4,796</u>	<u>4,796</u>
Total operating revenues	43,466,481	44,079,380
Operating expenses:		
Health claims expense	33,338,060	34,046,530
Claims administration fees	2,603,517	2,691,069
Fixed premiums	4,931,754	4,135,964
Stop loss insurance premiums	549,603	494,643
Consulting and group administration services	340,333	322,017
Other administrative services	<u>56,396</u>	<u>50,356</u>
Total operating expenses	<u>41,819,663</u>	<u>41,740,579</u>
Operating income	1,646,818	2,338,801
Nonoperating revenues:		
Interest income	<u>25,740</u>	<u>24,409</u>
Change in net position	1,672,558	2,363,210
Net position, beginning of year	<u>9,019,810</u>	<u>6,656,600</u>
Net position, end of year	<u><u>\$ 10,692,368</u></u>	<u><u>\$ 9,019,810</u></u>

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

MINUTEMAN-NASHOBA HEALTH GROUP**Statement of Cash Flows****Years Ended May 31, 2014 and May 31, 2013**

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Cash received from participants	\$ 42,827,711	\$ 44,750,892
Cash received for Medicare Part D subsidy	7,104	64,089
Miscellaneous receipts	-	4,796
Cash paid to insurance providers and other vendors	<u>(41,547,320)</u>	<u>(41,492,845)</u>
Net cash provided by operating activities	1,287,495	3,326,932
Cash flows from investing activities:		
Interest on deposits	<u>25,740</u>	<u>24,409</u>
Net cash provided by investing activities	<u>25,740</u>	<u>24,409</u>
Net increase in cash	1,313,235	3,351,341
Cash and cash equivalents, beginning of year	<u>14,258,124</u>	<u>10,906,783</u>
Cash and cash equivalents, end of year	<u>\$ 15,571,359</u>	<u>\$ 14,258,124</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 1,646,818	\$ 2,338,801
Changes in operating assets and liabilities:		
Accounts receivable	(32,688)	1,840
Deposits with insurance carriers	33,675	27,789
Due from providers	(43,152)	249,372
Participant advance contributions	(631,666)	728,391
Amounts due prescription providers	(8,288)	(5,186)
Accounts payable	15,890	-
Claims liabilities	<u>306,906</u>	<u>(14,075)</u>
Net cash provided by operating activities	<u>\$ 1,287,495</u>	<u>\$ 3,326,932</u>

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

MINUTEMAN-NASHOBA HEALTH GROUP

Notes to Financial Statements
May 31, 2014 and May 31, 2013

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, 2014 and 2013, participants are the towns of Ayer, Bolton, Boxborough, Carlisle, Clinton, Concord, Groton, Harvard, Lancaster, Pepperell, Phillipston, Stow, and Tyngsboro; the CASE Collaborative; the Concord-Carlisle Regional School District, the Lincoln-Sudbury Regional School District, Narragansett Regional School District, and North Middlesex Regional School District. The Town of Phillipston participates in the Group through its joint purchase agreement with Narragansett 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.

MINUTEMAN-NASHOBA HEALTH GROUP

Notes to Financial Statements
May 31, 2014 and May 31, 2013

The Group's plans include a self-funded Point of Service (POS) plan with claims administered by Tufts Health Plan ("Tufts"); three self-funded Exclusive Provider Organization (EPO) plans (HMO-type plans) administered respectively by Tufts, Harvard Pilgrim Health Care ("HPHC") and Fallon Health and Life Assurance Company ("Fallon"). The Group also has provided a self-funded Preferred Provider Organization (PPO) plan administered by HPHC with the HPHC provider network and the United Health Care Options nationwide provider network. For retirees with Medicare Part A and Part B, the Group provides a Medicare Supplement Plan with a Medicare Part D prescription drug plan which is fully insured by Tufts; and two fully insured Medicare Advantage HMO plans by Tufts and Fallon respectively.

Payments to the claims administrators on self-funded plans, i.e. Tufts 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, 2014, 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 October 30, 2016, 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 position of the Group at May 31, 2014 and May 31, 2013, and the changes in net position 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.

Member contributions include the monthly premiums charged to each participating governmental units and include costs for administrative services as well as insurance charges. Contributions are recorded as revenue during the period in which the Group is obligated to provide services to its members. The unearned portion of contributions for a coverage period is reported as advanced contributions and are recorded as liabilities until earned.

MINUTEMAN-NASHOBA HEALTH GROUP

Notes to Financial Statements
May 31, 2014 and May 31, 2013

Under Governmental Accounting Standards Boards (GASB) Statement No. 20, *Accounting and Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, the Group has elected to apply accounting standards applicable to the private sector issued on or before November 30, 1989, unless those standards conflict with or contradict pronouncements of the Governmental Accounting Standards Board. Operating revenues and expenses result from providing health insurance to its member governments. All other revenues and expenses are reported as non-operating.

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

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.

Claims Liabilities

The Group's obligations include estimated health claims incurred but not reported at May 31, 2014 and May 31, 2013. 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 \$275,000 per individual for May 31, 2014 and 2013 to an annual maximum per claimant of \$2,000,000 for active employees, self-insured plans. Additionally, each policy has an Aggregating Specific Deductible premium of \$450,000. The Aggregating Specific Deductible is the amount of excess claims the Group must pay before the policy begins to pay.

The policy period for these plans covers claims incurred, on a calendar basis, within 12 months and paid within 24 months.

MINUTEMAN-NASHOBA HEALTH GROUP

Notes to Financial Statements May 31, 2014 and May 31, 2013

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.

On July 1, 2014 the Group joined with two other Massachusetts municipal joint purchase groups to create the first Massachusetts municipal reinsurance pooling arrangement. The policy year is July 1st through June 30th. All participants share the same rates for coverage of claims exceeding \$300,000. There is no Aggregating Specific Deductible. If claims experience is below projections, participants are dividend eligible on a collective and proportional basis. Participating governmental entities have agreed to participate for a minimum of three years.

Medicare Part D Retiree Drug Subsidy (RDS) 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). As of January 1, 2012 all Medicare plans offered by the Group incorporate Medicare Part D thus making the Group ineligible for the RDS.

Note 3. Cash and Cash Equivalents

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, 2014 and May 31, 2013, deposits totaled \$60,895 and \$60,452 respectively. The carrying amounts of these deposits at May 31, 2014 and May 31, 2013, were \$60,895 and \$60,452, respectively. Differences 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 \$15,510,464 at May 31, 2014, and \$14,197,672 at May 31, 2013, which are included as cash equivalents in the accompanying statement of net position.

Note 4. Health Claims Incurred but not Reported

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, 2014 and May 31, 2013:

MINUTEMAN-NASHOBA HEALTH GROUP
Notes to Financial Statements
May 31, 2014 and May 31, 2013

	<u>2014</u>	<u>2013</u>
Claims liabilities—beginning of year	\$ 3,341,221	\$ 3,355,296
Incurring claims and claims' adjustment expenses:		
Provision for insured events of the current fiscal year	34,051,800	34,081,036
Increase (decrease) in provision for insured events of prior fiscal years	<u>(713,740)</u>	<u>(34,506)</u>
	33,338,060	34,046,530
Payments:		
Claims and claims' adjustment expenses attributable to insured events of the current fiscal year	(30,403,673)	(30,931,389)
Claims and claims' adjustment expenses attributable to insured events of prior fiscal years	<u>(2,627,481)</u>	<u>(3,129,216)</u>
	<u>(33,031,154)</u>	<u>(34,060,605)</u>
Claims liabilities—end of year	<u>\$ 3,648,127</u>	<u>\$ 3,341,221</u>

Note 5. Plan Deposits

The Group is required by Tufts 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 prescription drug deposits totaled \$10,970 as of May 31, 2014 and \$44,645 as of May 31, 2013, respectively.

Note 6. Subsequent Events

The Group has evaluated subsequent events through February 11, 2015, which is the date the financial statements were issued.

Note 7. GASB Pronouncements

The following are pronouncements issued by the Governmental Accounting Standards Board (GASB), which may be applicable to the Group's financial statements:

Current pronouncements

The GASB issued Statement #66, *Technical Corrections - 2012, an amendment of GASB Statements No. 10 and No. 62*, which was required to be implemented in fiscal year 2014. The pronouncement resolves conflicting guidance from issued pronouncement No. 54, regarding fund based reporting of risk financing activities. Also, it amends No. 62 by modifying the specific guidance on accounting for (1) operating lease payments, (2) purchase of a loan or a group of loans, and (3) service fees. This pronouncement had no effect on the Group in the current year.

The GASB issued Statement #69, *Government Combinations and Disposals of Government Operations*, which was required to be implemented in fiscal year 2014. The pronouncement addresses accounting and financial reporting issues associated with a variety of transactions, such as mergers, acquisitions, disposals and transfer of governmental operations. This pronouncement had no effect on the Group in the current year.

MINUTEMAN-NASHOBA HEALTH GROUP

**Notes to Financial Statements
May 31, 2014 and May 31, 2013**

The GASB issued Statement #70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which as required to be implemented in fiscal year 2014. The pronouncement addresses accounting and financial reporting for financial guarantees extended by a government for the obligations of another government, not-for-profit, or private entity without directly receiving equal or approximately equal value in exchange for the guarantee. This pronouncement had no effect on the Group in the current year.

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.

See Independent Auditors' Report

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

		<u>5/31/2014</u>	<u>5/31/2013</u>	<u>5/31/2012</u>	<u>5/31/2011</u>	<u>5/31/2010</u>	<u>5/31/2009</u>	<u>5/31/2008</u>	<u>5/31/2007</u>	<u>5/31/2006</u>	<u>5/31/2005</u>
1. Earned member assessments, other and investment revenues	\$	43,492,221	\$ 44,103,789	\$ 50,355,302	\$ 48,741,012	\$ 46,069,435	\$ 44,249,212	\$ 42,400,027	\$ 37,370,086	\$ 31,854,647	\$ 24,029,488
2. HMO fixed premiums paid and other operating expenses	\$	8,481,603	\$ 7,694,049	\$ 6,826,368	\$ 6,660,524	\$ 6,245,103	\$ 5,815,652	\$ 5,274,412	\$ 4,743,657	\$ 4,400,076	\$ 3,368,658
3. Estimated incurred, self-insured claims and expense, end of fiscal year	\$	34,051,800	\$ 34,081,036	\$ 38,120,002	\$ 42,403,364	\$ 41,317,825	\$ 39,656,931	\$ 35,882,193	\$ 31,943,811	\$ 31,034,003	\$ 21,173,503
4. Paid (cumulative) as of:											
End of fiscal year	\$	30,403,673	\$ 30,931,389	\$ 34,956,279	\$ 37,889,287	\$ 36,843,149	\$ 35,653,435	\$ 32,143,951	\$ 28,131,192	\$ 27,793,682	\$ 17,945,099
One year later			\$ 33,347,126	\$ 38,086,257	\$ 40,896,563	41,833,417	\$ 40,222,143	\$ 35,628,218	\$ 30,726,337	\$ 30,565,689	\$ 19,784,491
Two years later				\$ 38,109,314	\$ 40,893,389	41,832,376	\$ 40,324,751	\$ 35,643,484	\$ 30,723,506	\$ 30,529,593	\$ 19,788,334
Three years later					\$ 40,891,310	41,834,752	\$ 40,330,067	\$ 35,647,701	\$ 30,723,885	\$ 30,546,998	\$ 19,788,334
Four years later						41,833,944	\$ 40,330,615	\$ 35,646,517	\$ 30,723,094	\$ 30,547,294	\$ 19,786,230
Five years later							\$ 40,330,615	\$ 35,646,005	\$ 30,723,094	\$ 30,547,476	\$ 19,786,152
Six years later								\$ 35,646,005	\$ 30,723,094	\$ 30,546,703	\$ 19,786,152
Seven years later									\$ 30,723,094	\$ 30,546,703	\$ 19,786,152
Eight years later										\$ 30,546,703	\$ 19,786,152
Nine years later											\$ 19,786,152
Ten years later											
5. Re-estimated incurred, self-insured claims and expense:											
End of fiscal year	\$	34,051,800	\$ 34,081,036	\$ 38,120,002	\$ 42,403,364	\$ 41,317,825	\$ 39,656,931	\$ 35,882,193	\$ 31,943,811	\$ 31,034,003	\$ 21,173,503
One year later			\$ 33,347,126	\$ 38,086,257	\$ 40,896,563	\$ 41,833,417	\$ 40,222,143	\$ 35,628,218	\$ 30,726,337	\$ 30,565,689	\$ 19,784,491
Two years later				\$ 38,109,314	\$ 40,893,389	\$ 41,832,376	\$ 40,324,751	\$ 35,643,484	\$ 30,723,506	\$ 30,529,593	\$ 19,788,334
Three years later					\$ 40,891,310	\$ 41,834,752	\$ 40,330,067	\$ 35,647,701	\$ 30,723,885	\$ 30,546,998	\$ 19,788,334
Four years later						\$ 41,833,944	\$ 40,330,615	\$ 35,646,517	\$ 30,723,094	\$ 30,547,294	\$ 19,786,230
Five years later							\$ 40,330,615	\$ 35,646,005	\$ 30,723,094	\$ 30,547,476	\$ 19,786,152
Six years later								\$ 35,646,005	\$ 30,723,094	\$ 30,546,703	\$ 19,786,152
Seven years later									\$ 30,723,094	\$ 30,546,703	\$ 19,786,152
Eight years later										\$ 30,546,703	\$ 19,786,152
Nine years later											\$ 19,786,152
Ten years later											
6. (Increase) decrease in estimated, incurred, self-insured claims and expense from the end of the original policy year.	\$	-	\$ 733,910	\$ 10,688	\$ 1,512,054	\$ (516,119)	\$ (673,684)	\$ 236,188	\$ 1,220,717	\$ 487,300	\$ 1,387,351

See Independent Auditors' Report