

MINUTEMAN-NASHOBA HEALTH GROUP
BASIC FINANCIAL STATEMENTS AND
MANAGEMENT'S DISCUSSION AND ANALYSIS
WITH REQUIRED SUPPLEMENTARY INFORMATION
YEARS ENDED MAY 31, 2016 AND MAY 31, 2015
WITH INDEPENDENT AUDITOR'S REPORTS

MINUTEMAN-NASHOBA HEALTH GROUP
BASIC FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS
WITH REQUIRED SUPPLEMENTARY INFORMATION
For the Years Ended May 31, 2016 and May 31, 2015

INDEX

INDEPENDENT AUDITOR'S REPORTS ON:

Basic financial statements	i
Internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	iii

MANAGEMENTS DISCUSSION AND ANALYSIS	v
--	---

BASIC FINANCIAL STATEMENTS:

Statements of Net Position	1
Statements of Revenues, Expenses, and Changes in Net Position	2
Statements of Cash Flows	3
Notes to Financial Statements	4

REQUIRED SUPPLEMENTARY INFORMATION	11
---	----



Lynch, Malloy, Marini, LLP

Certified Public Accountants & Advisors

www.lmmcpas.com

INDEPENDENT AUDITOR'S REPORT

To the Steering Committee
Minuteman-Nashoba Health Group
Concord, Massachusetts

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, 2016 and May 31, 2015 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.

Auditor's Responsibility

Our responsibility is to express opinions 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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, 2016 and May 31, 2015, and the respective changes in financial position, and cash flows thereof for the year 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 and the claims development information on pages v-vii and 11-12, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 10, 2017, on our consideration of the Group's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Group's internal control over financial reporting and compliance.



Natick, Massachusetts
July 10, 2017



Lynch, Malloy, Marini, LLP

Certified Public Accountants & Advisors

www.lmmepas.com

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS***

To the Steering Committee
Minuteman-Nashoba Health Group
Concord, Massachusetts

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller of the United States, the financial statements of Minuteman-Nashoba Health Group (Group), as of and for the years ended May 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Group's basic financial statements, and have issued our report thereon dated July 10, 2017.

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

July 10, 2017



MANAGEMENT'S DISCUSSION AND ANALYSIS

MINUTEMAN-NASHOBA HEALTH GROUP

Management's Discussion & Analysis

May 31, 2016 and May 31, 2015

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, 2016 and 2015. 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) by \$6,860,794 and \$9,150,849 at the years ending May 31, 2016 and May 31, 2015, respectively.
- For the years ended May 31, 2016 and May 31, 2015, net position decreased by \$2,290,055 and \$1,541,519, respectively.
- Total net position of \$6,860,794 is \$1,765,898 over the Board of Representatives' target fund balance of \$5,094,896 for the year ended May 31, 2016, and the net position of \$9,150,849 is \$4,379,933 over the Board of Representative's target fund balance of \$4,770,916 for the year ended May 31, 2015. 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 decrease in cash of \$818,796 and 3,552,593 for the years ending May 31, 2016 and May 31, 2015, respectively.

Of the total claims liability \$412,254 and \$170,233 represents claims payable and \$3,648,781 and \$2,784,076 represents an estimate for claims incurred but not reported as of May 31, 2016 and May 31, 2015, respectively. The decrease in net position and cash is a result of claims and other Group expenses exceeding member premiums during the fiscal years.

MINUTEMAN-NASHOBA HEALTH GROUP

Management's Discussion & Analysis

May 31, 2016 and May 31, 2015

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.

For the year ended May 31, 2016, advanced contributions and claims liabilities increased by \$806,752 and \$1,106,726, respectively, which contributed to the reduction of the amount of cash used. The estimated use of the fund balance when the June 1, 2015 premium rates were established was approximately \$2,160,000.

Condensed Financial Information

A comparative summary of financial information is presented below:

	2016	2015
Cash and investments	\$11,199,970	\$12,018,766
Other current assets	<u>1,221,137</u>	<u>781,716</u>
Total assets	12,421,107	12,800,482
Claims liabilities	412,255	170,233
Claims incurred but not reported	3,648,781	2,784,076
Other current liabilities	<u>1,499,277</u>	<u>695,324</u>
Total liabilities	<u>5,560,313</u>	<u>3,649,633</u>
Unrestricted net assets	<u>\$ 6,860,794</u>	<u>\$ 9,150,849</u>
Revenues, Expenses and Change in Net Assets:		
Contributions and other	\$ 43,864,208	\$ 40,794,262
<i>less</i>		
Claims expense	36,060,968	32,833,528
Claims administration expenses	2,562,762	2,576,939
Other group expenses	<u>7,571,569</u>	<u>6,950,192</u>
Total operating expense	46,195,299	42,360,659
<i>plus</i>		
Investment income	<u>41,036</u>	<u>24,878</u>
Change in net assets	<u>\$ (2,290,055)</u>	<u>\$ (1,541,519)</u>

Note, the "Other group expenses" above increased due to an increase in subscribers for the Fallon Senior Plan's, increased fixed premiums, and stop loss premiums. The Affordable Care Act's Transitional Reinsurance Program (TRP) fees also are included in this grouping.

MINUTEMAN-NASHOBA HEALTH GROUP

Management's Discussion & Analysis

May 31, 2016 and May 31, 2015

Economic Factors Affecting the Subsequent Year

Prior to May 31, 2016, the Group's Board of Representatives set the funding rates for its self-funded plans for fiscal year 2017 plans participation with no changes in plan design, and including the application of \$1.5 million of excess fund balance to reduce rates. The Group assigned a 0% increase to Fallon rates and a 8.3% increase to the Tufts and HPHC plan rates.

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.

BASIC FINANCIAL STATEMENTS

MINUTEMAN-NASHOBA HEALTH GROUPStatements of Net Position
As of May 31, 2016 and May 31, 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 11,199,970	\$ 12,018,766
Receivables:		
Reinsurance claims	479,288	-
Rebates from insurance carriers	155,850	114,938
Regulatory Receivable	-	305,659
Total receivables	<u>635,138</u>	<u>420,597</u>
Deposits with insurance carriers	<u>585,999</u>	<u>361,119</u>
Total assets	<u>\$ 12,421,107</u>	<u>\$ 12,800,482</u>
 LIABILITIES AND NET POSITION		
Liabilities:		
Claims liabilities	\$ 412,255	\$ 170,233
Claims incurred but not reported	3,648,781	2,784,076
Accounts payable	5,038	7,837
Participants' advance contributions	1,494,239	687,487
Total liabilities	<u>5,560,313</u>	<u>3,649,633</u>
Unrestricted/total net position	<u>6,860,794</u>	<u>9,150,849</u>
Total liabilities and net position	<u>\$ 12,421,107</u>	<u>\$ 12,800,482</u>

The accompanying notes are an integral part of these financial statements

MINUTEMAN-NASHOBA HEALTH GROUP
 Statements of Revenues, Expenses and Changes in Net Position
 For the Years Ended May 31, 2016 and May 31, 2015

	2016	2015
Operating revenues:		
Participants' contributions	\$ 43,760,044	\$ 40,686,325
COBRA contributions	104,164	107,937
	43,864,208	40,794,262
Operating expenses:		
Health claims expense	36,060,968	32,833,528
Claims administration fees	2,562,762	2,576,939
Fixed premiums	6,011,347	5,463,417
Stop loss insurance premiums	900,176	727,243
Regulatory fees	219,484	312,048
Consulting and group administration service	386,522	377,986
Other administrative services	54,040	69,498
	46,195,299	42,360,659
Operating income (loss)	(2,331,091)	(1,566,397)
Nonoperating revenues		
Interest income	41,036	24,878
Change in net position	(2,290,055)	(1,541,519)
Net position, beginning of year	9,150,849	10,692,368
Net position, end of year	\$ 6,860,794	\$ 9,150,849

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

MINUTEMAN-NASHOBA HEALTH GROUP
 Statements of Cash Flows
 For the Years Ended May 31, 2016 and May 31, 2015

	2016	2015
Cash flows from operating activities:		
Cash received from participants	\$ 46,083,345	\$ 39,914,620
Cash paid to insurance providers and other vendors	(46,943,177)	(43,492,091)
Net cash provided (used) by operating activities	(859,832)	(3,577,471)
Cash flows from investing activities:		
Interest on deposits	41,036	24,878
Net cash provided by investing activities	41,036	24,878
Net increase (decrease) in cash	(818,796)	(3,552,593)
Cash and cash equivalents, beginning of year	12,018,766	15,571,359
Cash and cash equivalents, end of year	\$ 11,199,970	\$ 12,018,766
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ (2,331,092)	\$ (1,566,397)
Changes in operating assets and liabilities:		
Accounts receivable	(520,200)	103,093
Deposits with insurance carriers	(224,880)	(270,148)
Due from providers	305,659	(262,506)
Participant advance contributions	806,753	(879,642)
Accounts payable	(2,799)	(8,053)
Claims liabilities	1,106,727	(693,818)
Net cash provided (used) by operating activities	\$ (859,832)	\$ (3,577,471)

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

MINUTEMAN-NASHOBA HEALTH GROUP

Notes to Financial Statements
May 31, 2016 and May 31, 2015

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, Section 12 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, 2016 and 2015, participants are the towns of Ayer, Bolton, Boxborough, Carlisle, Clinton, Concord, Groton, Harvard, Lancaster, Pepperell, Phillipston, Stow, and Tyngsborough; the CASE Collaborative; the Concord-Carlisle Regional School District, the Lincoln-Sudbury Regional School District, the Narragansett Regional School District, and the North Middlesex Regional School District; and West Groton Water. 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 Group's 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, 2016 and May 31, 2015

Note 1. Description of Group (continued)

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 ("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 for self-funded plans, i.e. Tufts Health Plan, Harvard Pilgrim Health Care, and Fallon Health 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, 2017, 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, 2016 and May 31, 2015, 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 funding rates charged to each participating governmental unit 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, 2016 and May 31, 2015

Note 2. Summary of Significant Accounting Policies (continued)

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.

Investments

Investments are reported according to the fair value hierarchy established by generally accepted accounting principles. Investments are defined as securities or other assets that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or be sold to generate cash. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The hierarchy is based upon valuation inputs, which are assumptions that market participants would use when pricing an asset or a liability, including assumptions about risk.

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 inputs are directly observable for an asset or a liability (including quoted prices for similar assets or liabilities), as well as inputs that are indirectly observable for the asset or liability.
- Level 3 inputs are unobservable for the asset or liability. Certain investments, such as money market investments and 2a7-like external investment pools, are reported at amortized cost. 2a7-like pools are external investment pools that operate in conformity with the Securities and Exchange Commission's (SEC) Rule 2a7 as promulgated under the Investment Company Act of 1940, as amended and should be measured at the net asset value per share provided by the pool.

For the years ended June 30, 2016 and June 30, 2015, the Group did not have any investments.

MINUTEMAN-NASHOBA HEALTH GROUP

Notes to Financial Statements
May 31, 2016 and May 31, 2015

Note 2. Summary of Significant Accounting Policies (continued)

Claims Liabilities

The Group's obligations include estimated health claims incurred but not reported at May 31, 2016 and May 31, 2015. 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

On July 1, 2014 the Group joined a new stop-loss reinsurance agreement with the Massachusetts Municipal Reinsurance Arrangement Series of Sentinel Indemnity, LLC. The pooling arrangement is made up of the Group along with two other Massachusetts municipal joint purchase groups. This is 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.

During the year ending May 31, 2016, the Group made a deposit of \$298,878 and paid \$1,097,308 for premiums, operating expenses and reserves. For the year ending May 31, 2015, the Group made a deposit of \$269,241, paid premiums of \$727,243, and had a specific excess medical and prescription drug claims reinsurance contract with an insurance carrier covering claims paid in excess of \$300,000 per individual with no maximum annual reimbursement. Of the deposit made in the year ending May 31, 2015, \$72,109 was used to cover excess allocated losses that exceeded the Loss Fund leaving \$197,132 that is included in the MMRA deposits as of May 31, 2016.

The policy period for these plans covers claims incurred, on a calendar basis, within 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 Retiree Drug Subsidy (RDS) Program

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

In the year ending May 31, 2016 and May 31, 2015 the Group was required to pay \$219,484 and \$312,048, respectively, for the Transitional Reinsurance Program (TRP) fees. The TRP fees are associated with the Affordable Care Act and are classified as regulatory fees within the financial statements.

MINUTEMAN-NASHOBA HEALTH GROUP

Notes to Financial Statements
May 31, 2016 and May 31, 2015

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, 2016 and May 31, 2015, deposits totaled \$48,517 and \$52,439 respectively. The carrying amounts of these deposits at May 31, 2016 and May 31, 2015, were \$48,517 and \$52,439, respectively. Differences between deposit amounts and carrying amounts generally represents outstanding checks and deposits in transit.

The Group's bank deposits exclude the amounts held in the Massachusetts Depository Trust (MMDT). The Group invests some of its funds in MMDT, an external investment pool for political subdivisions of the Commonwealth of Massachusetts designed as a legal means to invest temporarily available cash. The state treasurer serves as trustee of MMDT and has sole authority pertaining to rules, regulations, and operations of the Trust. Investment options offered by MMDT are (1) a cash portfolio, which offers participation in a diversified portfolio of high-quality money market instruments that seek the highest possible level of current income consistent with preservation of capital and liquidity and (2) a short-term bond portfolio, which offers participation in a diversified portfolio of investment-grade, short-term, fixed-income securities that seeks to generate performance exceeding the Barclays 1-5 Year Government/Credit Bond Index, presenting a fixed-income alternative with a longer time horizon than the cash portfolio. A participant's holdings in the Trust are not subject to creditors of the Commonwealth, nor will the Trust itself be affected by the financial difficulties of any participant. Amounts held at MMDT are uninsured and uncollateralized.

The Group's investment balance at MMDT as of May 31, 2016 was solely in the cash portfolio and has been reported as a cash equivalent for financial reporting purposes. The cash portfolio is not registered with the Securities and Exchange Commission (SEC) as an investment company, but maintains a policy to operate in a manner as a qualifying external investment pool as defined by the Governmental Accounting Standards Board. Additionally, the cash portfolio adheres to GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, which amended Statement No. 31 and established accounting and financial reporting statements for state and local governments that participate in a qualifying external investment pool that measures all of its investments for financial reporting purposes at amortized cost. A copy of MMDT's financial statements can be obtained by contacting the Office of the Treasurer and Receiver General of Massachusetts directly at One Ashburton Place #1207, Boston, Massachusetts 02108.

The following summarizes the cash and cash equivalents of the Collaborative as of May 31, 2016:

Cash – carrying value	\$ 48,517
MMDT cash portfolio	11,151,453
Total cash & cash equivalents	<u>\$ 11,199,970</u>

The following summarizes the cash and cash equivalents of the Collaborative as of May 31, 2015:

Cash – carrying value	\$ 52,439
MMDT cash portfolio	11,966,327
Total cash & cash equivalents	<u>\$ 12,018,766</u>

MINUTEMAN-NASHOBA HEALTH GROUP

Notes to Financial Statements
May 31, 2016 and May 31, 2015

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, 2016 and May 31, 2015:

	<u>2016</u>	<u>2015</u>
Claims liabilities—beginning of year	\$ 2,784,076	\$ 3,648,127
Incurred claims and claims' adjustment expenses:		
Provision for insured events of the current fiscal year	36,555,443	33,777,723
Increase (decrease) in provision for insured events of prior fiscal years	<u>(385,309)</u>	<u>(944,195)</u>
	36,170,134	32,833,528
Payments:		
Claims and claims' adjustment expenses attributable to insured events of the current fiscal year	(32,906,662)	(30,993,647)
Claims and claims' adjustment expenses attributable to insured events of prior fiscal years	<u>(2,398,767)</u>	<u>(2,703,932)</u>
	<u>(35,305,429)</u>	<u>(33,697,579)</u>
Claims incurred but not reported—end of year	<u>\$ 3,648,781</u>	<u>\$ 2,784,076</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 \$9,989 as of May 31, 2016 and \$11,878 as of May 31, 2015. The Group also paid a deposit in the amount of \$298,878 in the year ending May 31, 2016 and \$269,241 in the year ending May 31, 2015 for the MMRA pooling arrangement; of which \$197,132 has not been used to cover excess allocated losses over the loss fund.

Note 6. Subsequent Events

The Group has evaluated subsequent events through July 10, 2017, 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 are to be considered in the Town's financial statements.

Current pronouncements

The GASB issued Statement #72, Fair Value Measurement and Application, which is required to be implemented in fiscal year 2016. The pronouncement addresses accounting and financial reporting issues related to fair value measurements. The Group implemented the pronouncement as applicable.

The GASB issued Statement #76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which was required to be implemented in fiscal year 2016. The pronouncement replaces previously issued guidance and improves financial reporting by redefining the hierarchy of generally accepted accounting principles (GAAP). The Group implemented the pronouncement as applicable.

MINUTEMAN-NASHOBA HEALTH GROUP

Notes to Financial Statements
May 31, 2016 and May 31, 2015

Note 7. GASB Pronouncements (continued)

The GASB issued Statement #79, *Certain External Investment Pools and Pool Participants*, which was required to be implemented in fiscal year 2016. The pronouncement issued accounting and financial reporting guidance regarding qualifying external investment pools and state and local governments that participate in such external investment pools. The Group implemented the pronouncement as applicable.

Future pronouncements

There are no future pronouncements that the Group believes will be applicable.

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 years 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 Auditor's Report

MINUTEMAN-NASHOBA HEALTH GROUP
REQUIRED SUPPLEMENTARY INFORMATION
Claims Development Information

	<u>5/31/2016</u>	<u>5/31/2015</u>	<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>
1. Earned member assessments, other and investment revenues	\$ 43,905,245	\$ 40,819,140	\$ 43,492,221	\$ 44,103,789	\$ 50,355,302	\$ 48,741,012	\$ 46,069,435	\$ 44,249,212	\$ 42,400,027	\$ 37,370,086
2. HMO fixed premiums paid and other operating expenses	\$ 10,134,331	\$ 9,527,131	\$ 8,481,603	\$ 7,694,049	\$ 6,826,368	\$ 6,660,524	\$ 6,245,103	\$ 5,815,652	\$ 5,274,412	\$ 4,743,657
3. Estimated incurred, self-insured claims and expense, end of fiscal year	\$ 36,555,443	\$ 33,777,723	\$ 34,051,800	\$ 34,081,036	\$ 38,120,002	\$ 42,403,364	\$ 41,317,825	\$ 39,656,931	\$ 35,882,193	\$ 31,943,811
4. Paid (cumulative) as of:										
End of fiscal year	\$ 32,906,662	\$ 30,993,647	\$ 30,403,673	\$ 30,931,389	\$ 34,956,279	\$ 37,889,287	\$ 36,843,149	\$ 35,653,435	\$ 32,143,951	\$ 28,131,192
One year later		\$ 33,341,136	\$ 33,139,040	\$ 33,347,126	\$ 38,086,257	\$ 40,896,563	\$ 41,833,417	\$ 40,222,143	\$ 35,628,218	\$ 30,726,337
Two years later			\$ 33,187,512	\$ 33,314,240	\$ 38,109,314	\$ 40,893,389	\$ 41,832,376	\$ 40,324,751	\$ 35,643,484	\$ 30,723,506
Three years later				\$ 33,314,220	\$ 38,108,244	\$ 40,891,310	\$ 41,834,752	\$ 40,330,067	\$ 35,647,701	\$ 30,723,885
Four years later					\$ 38,110,513	\$ 40,893,831	\$ 41,833,944	\$ 40,330,615	\$ 35,646,517	\$ 30,723,094
Five years later						\$ 40,894,524	\$ 41,833,944	\$ 40,330,615	\$ 35,646,005	\$ 30,723,094
Six years later							\$ 41,833,844	\$ 40,330,615	\$ 35,646,005	\$ 30,723,094
Seven years later								\$ 40,330,580	\$ 35,646,005	\$ 30,723,094
Eight years later									\$ 35,646,005	\$ 30,723,094
Nine years later										\$ 30,723,094
Ten years later										\$ 30,723,094
5. Re-estimated incurred, self-insured claims and expense:										
End of fiscal year	\$ 36,555,443	\$ 33,777,723	\$ 34,051,800	\$ 34,081,036	\$ 38,120,002	\$ 42,403,364	\$ 41,317,825	\$ 39,656,931	\$ 35,882,193	\$ 31,943,811
One year later		\$ 33,341,136	\$ 33,139,040	\$ 33,347,126	\$ 38,086,257	\$ 40,896,563	\$ 41,833,417	\$ 40,222,143	\$ 35,628,218	\$ 30,726,337
Two years later			\$ 33,187,512	\$ 33,314,240	\$ 38,109,314	\$ 40,893,389	\$ 41,832,376	\$ 40,324,751	\$ 35,643,484	\$ 30,723,506
Three years later				\$ 33,314,220	\$ 38,108,244	\$ 40,891,310	\$ 41,834,752	\$ 40,330,067	\$ 35,647,701	\$ 30,723,885
Four years later					\$ 38,110,513	\$ 40,893,831	\$ 41,833,944	\$ 40,330,615	\$ 35,646,517	\$ 30,723,094
Five years later						\$ 40,894,524	\$ 41,833,944	\$ 40,330,615	\$ 35,646,005	\$ 30,723,094
Six years later							\$ 41,833,844	\$ 40,330,615	\$ 35,646,005	\$ 30,723,094
Seven years later								\$ 40,330,580	\$ 35,646,005	\$ 30,723,094
Eight years later									\$ 35,646,005	\$ 30,723,094
Nine years later										\$ 30,723,094
Ten years later										\$ 30,723,094
6. (Increase) decrease in estimated, incurred, self-insured claims and expense from the end of the original policy year.	\$ -	\$ 436,587	\$ 864,288	\$ 766,816	\$ 9,489	\$ 1,508,840	\$ (516,019)	\$ (673,649)	\$ 236,188	\$ 1,220,717

See Independent Auditor's Report