

DRAFT



Bill Fraher, CPA

**MINUTEMAN-NASHOBA HEALTH GROUP
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 and 2018
WITH INDEPENDENT AUDITOR'S REPORT**

**MINUTEMAN-NASHOBA HEALTH GROUP
FINANCIAL STATEMENTS
Years Ended May 31, 2019 and 2018**

Table of Contents

Independent Auditor's Report on:

Financial statements	1
Compliance and on Internal Control Over Financial Reporting	3

Management's Discussion and Analysis (required supplementary information)	5
---	---

Financial Statements:

Statement of net position	8
Statement of revenues, expenses, and changes in net position	9
Statement of cash flows	10
Notes to financial statements	11

Required Supplementary Information:

Ten Years Claims Development Information	16
--	----



DRAFT CPA
1313 Washington Street
Unit 225
Boston, MA 02118
Tel: 617-699-2877
Fax: 617-830-9393
bfraher2877@aol.com

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Minuteman-Nashoba Health Group

Report on the Financial Statements

I have audited the accompanying financial statements of the Minuteman-Nashoba Health Group (the Group) as of and for the years ended May 31, 2019.

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 misstatements, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of a 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 Group'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 Group's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my 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, 2019 and the changes in financial position and cash flows for the year then ended in conformity 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 on pages 5 through 7 and the nine-year claims development information on page 16 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Government Auditing Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. I 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 regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements and other knowledge obtained during the audit of the financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards* I have also issued my report dated February xx, 2020 on my consideration of the Group's internal control over financial reporting and on my 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 of 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* in considering the Group's internal control over financial reporting and compliance.

Bill Fraher, CPA
February xx, 2020



Bill Fraher, CPA
1313 West Street
Unit 225
Boston, MA 02118
Tel: 617-699-2877
Fax: 617-830-9393
bfraher2877@aol.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**

Board of Directors
Minuteman-Nashoba Health Group

I have audited, 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, the financial statements of the Minuteman-Nashoba Health Group (the Group) as of and for the years ended May 31, 2019 and have issued my report thereon dated February xx, 2020. The financial statements of the prior period were audited by a predecessor auditor, whose opinion dated February 9, 2019 was unmodified.

Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I 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 my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. Accordingly, I 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Group's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charges with governance.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified. I consider the deficiency described in the following paragraph to be a significant deficiency in internal control over financial reporting.

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

The Group's Response to the Finding

DRAFT

The Group's Board intends to take this under advisement and to continue to monitor and evaluate financial reporting and internal controls on an ongoing basis and take corrective actions as necessary.

The Group's response to the finding identified during my audit is described above. The Group's response was not subjected to auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Group's financial statements are free of material misstatement, I performed tests of the Group's 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 my audit and, accordingly, I do not express such opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported herein under Government Auditing Standards.

I noted certain matters related to internal control over financial reporting and compliance and other matters that I reported to the Group in a separate letter dated February xx, 2020.

Purpose of this Report

This 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 Group'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 Group's internal control and compliance. Accordingly, this communication is not suitable for any other purpose

Bill Fraher, CPA
February xx, 2020

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, 2019. 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 position; 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 financial statements. The notes to the financial statements follow the basic financial statements described above.

Financial Highlights

- Assets exceeded liabilities by \$4,245,674 (net position) at the close of the fiscal year. This is an increase of \$961,182 or 29% from the prior year. Net position at May 31, 2019 represents 8.1% of fiscal year 2019 claims, claims administration and fixed premium expenses (6.6% at May 31, 2018 for 2018 expenses).
- For the year ended May 31, 2019, net position increased by \$961,182 (29%) compared to an increase of \$613,921 (23%) for fiscal year 2018.
- 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 \$1,946,466 for fiscal year 2019 compared to a \$1,103,826 decrease in cash for fiscal year 2018.
- The increase in net position for 2019 is a result of an increase in member rates and better than expected claims experience.

MINUTEMAN-NASHOBA HEALTH GROUP
Management's Discussion & Analysis
May 31, 2019

DRAFT

Condensed Financial Information

A comparative summary of financial information is presented below:

	<u>2018</u>	<u>2019</u>	<u>\$ Change</u>	<u>% Change</u>
Cash	\$5,415,247	\$7,361,713	\$1,946,466	35.94%
Other current assets	<u>\$1,089,595</u>	<u>\$1,133,078</u>	<u>\$43,483</u>	<u>3.99%</u>
Total assets	<u>\$6,504,842</u>	<u>\$8,494,791</u>	<u>\$1,989,949</u>	<u>30.59%</u>
Claims liabilities	\$3,000,000	\$3,219,661	\$219,661	7.32%
Other liabilities	<u>\$220,350</u>	<u>\$1,029,456</u>	<u>\$809,106</u>	<u>367.19%</u>
Total liabilities	<u>\$3,220,350</u>	<u>\$4,249,117</u>	<u>\$1,028,767</u>	<u>31.95%</u>
Unrestricted net position	<u>\$3,284,492</u>	<u>\$4,245,674</u>	<u>\$961,182</u>	<u>29.26%</u>
Member assessments	\$51,451,458	\$54,996,799	\$3,545,341	6.89%
Other operating revenues	\$80,440	\$87,989	\$7,549	9.38%
Claims expense	(\$39,861,279)	(\$41,376,871)	(\$1,515,592)	3.80%
Claims administration expenses	(\$2,795,946)	(\$2,855,452)	(\$59,506)	2.13%
Fixed premium expenses	(\$6,767,823)	(\$7,929,406)	(\$1,161,583)	17.16%
Other group expenses	<u>(\$1,579,619)</u>	<u>(\$2,099,034)</u>	<u>(\$519,415)</u>	<u>32.88%</u>
Operating income (loss)	\$527,231	\$824,025	\$296,794	56.29%
Investment income (loss) & other	<u>\$86,690</u>	<u>\$137,157</u>	<u>\$50,467</u>	<u>58.22%</u>
Change in net position	<u>\$613,921</u>	<u>\$961,182</u>	<u>\$347,261</u>	<u>56.56%</u>

For fiscal year 2019, the Group's operation resulted in a \$961,182 increase in net position. This result was anticipated as the Group increased FY 2019 plan rates significantly. 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.

The Group has adopted a fund balance policy which provides for a target for unrestricted net position of 150% of the most recent twelve months average self-funded costs. At June 30, 2019, the Group is at approximately 91% of these costs. Citing the Groups continued fund balance target deficit, the board voted on February 13, 2019, to increase FY20 health insurance rates by \$438,007 above FY20 actuarial assumptions.

Economic Factors Affecting the Subsequent Year

The Group is operating in an environment of escalating health care costs. Given this environment the Group is actively participating in ongoing wellness programs to promote healthier lifestyles and ultimately to reduce health claim costs.

MINUTEMAN-NASHOBA HEALTH GROUP

DRAFT

Management's Discussion & Analysis

May 31, 2019

The Massachusetts Municipal Health Care Reform Law provides municipal employers with an expedited collective bargaining process to negotiate plan design changes provided the plan design changes do not go beyond the plan design of the Group Insurance Commission's (GIC) most popular plan. The law also gives joint purchase groups the authority to approve such plan design changes and then requires each participating employer to follow the expedited bargaining process or other approved bargaining process.

Prior to May 31, 2019, the Group's Board of Directors set the rate structure for fiscal year 2019 plan participation. The rate structure resulted in premium rate increases of 5.5% to 9.5%. The rates were set to fund the estimated cost of claims, plus other group expenses and to maintain compliance with its fund balance policy.

Request for information

This financial report is intended to provide an overview of the finances of the Group. Any questions concerning this report, or for additional information, please contact the Group's benefit administrator, Gallagher Insurance at 800-229-8008, or Treasurer, Ian Rhames, Assistant Business Manager, Concord Public Schools 978-202-1125.

MINUTEMAN-NASHOBA HEALTH GROUP

Statement of Net Position

May 31, 2019 and 2018

(Notes 1 and 2)

DRAFT

	<u>2019</u>	<u>2018</u>
	<u>Total</u>	<u>Total</u>
<u>ASSETS</u>		
Current Assets:		
Cash and cash equivalents (Note 3)	\$ 7,361,713	\$ 5,415,247
Receivables:		
Member accounts	10,167	-
Reinsurance claims	320,215	258,091
Rebates from insurers	<u>281,305</u>	<u>224,107</u>
Total receivables	611,687	482,198
Prepaid expenses	-	398,273
Deposits for COBRA	-	17,625
Deposits with reinsurance pool	<u>521,391</u>	<u>191,499</u>
Total assets	<u>\$ 8,494,791</u>	<u>\$ 6,504,842</u>
<u>LIABILITIES</u>		
Current Liabilities:		
Accounts payable	\$ 25,877	\$ 18,047
Claims liabilities (Note 5)	3,219,661	3,000,000
Participants' advance contributions	<u>1,003,579</u>	<u>202,303</u>
Total liabilities	4,249,117	3,220,350
<u>Net Position</u>		
Unrestricted:		
Medical programs	<u>4,245,674</u>	<u>3,284,492</u>
Total unrestricted/net position	<u>4,245,674</u>	<u>3,284,492</u>
Total liabilities and net position	<u>\$ 8,494,791</u>	<u>\$ 6,504,842</u>

See the accompanying notes to the financial statements.

MINUTEMAN-NASHOBA HEALTH GROUP
Statement of Revenues, Expenses, and Changes in Net Position
Years Ended May 31, 2019 and 2018
(Notes 1 and 2)

DRAFT

	<u>2019</u>	<u>2018</u>
	<u>Total</u>	<u>Total</u>
Operating revenues:		
Participants' contributions	\$ 54,996,799	\$ 51,451,458
Other	<u>87,989</u>	<u>80,440</u>
Total operating revenues	<u>55,084,788</u>	<u>51,531,898</u>
Operating expenses:		
Health claims incurred	41,376,871	39,861,279
Claims administration charges	2,855,452	2,795,946
Fixed premiums	7,929,406	6,767,823
Stop loss insurance premiums	1,604,642	1,081,924
Consulting services	468,543	475,204
Other administrative services	<u>25,849</u>	<u>22,491</u>
Total operating expenses	<u>54,260,763</u>	<u>51,004,667</u>
Operating income	824,025	527,231
Nonoperating revenues (expenses):		
Investment income	135,338	86,690
Other income (expense)	<u>1,819</u>	<u>-</u>
Total nonoperating revenues (expenses):	<u>137,157</u>	<u>86,690</u>
Changes in Net position	961,182	613,921
Net position, beginning of year	<u>3,284,492</u>	<u>2,670,571</u>
Net position, end of year	<u>\$ 4,245,674</u>	<u>\$ 3,284,492</u>

See the accompanying notes to the financial statements.

MINUTEMAN-NASHOBA HEALTH GROUP**DRAFT**Statement of Cash Flows
Years Ended May 31, 2019 and 2018
(Notes 1 and 2)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Cash received from participants	\$ 55,893,522	\$ 51,106,821
Cash paid to insurance providers and other vendors	<u>(54,084,213)</u>	<u>(52,297,337)</u>
Net cash provided (used) by operating activities	1,809,309	(1,190,516)
Cash flows from investing activities:		
Investment income and interest income on deposits and other	<u>137,157</u>	<u>86,690</u>
Net cash (used) by investing activities	<u>137,157</u>	<u>86,690</u>
Net (decrease) in cash	1,946,466	(1,103,826)
Cash, beginning of year	<u>5,415,247</u>	<u>6,519,073</u>
Cash, end of year	<u>\$ 7,361,713</u>	<u>\$ 5,415,247</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	\$ 824,025	\$ 527,231
Changes in operating assets and liabilities:		
Receivables	(129,489)	49,280
Prepays	398,273	(398,273)
Deposits	(312,267)	126,868
Accounts payable	7,830	(15,839)
Claims liabilities	219,661	(1,072,331)
Advanced contributions	<u>801,276</u>	<u>(407,452)</u>
Net cash provided by operating activities	<u>\$ 1,809,309</u>	<u>\$ (1,190,516)</u>

See the accompanying notes to the financial statements.

MINUTEMAN-NASHOBA HEALTH GROUP

Notes to Financial Statements

May 31, 2019 and 2018

DRAFT

Note 1. Description of Group

Minuteman-Nashoba Health Group (the Group) 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, 2019 and 2018, participants are the Towns of Ayer, Bolton, Boxborough, Carlisle, Clinton, Concord, Groton, Harvard, Lancaster, Pepperell, 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. West Groton Water is not a member but participates in the Group through the Town of Groton. 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 by December 1st 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 were no member units that requested to withdraw from the Group in either the years ending June 30, 2019 or June 30, 2018.

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 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.

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 Gallagher Benefits Services (GBS), to provide certain management, consulting, and technical functions and to audit medical claims paid. The current agreement with GBS is for a three-year term ending December 31, 2020 and provides for a monthly fee based on the number of subscribers for each month.

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

Financial statements present net position at May 31, revenues, expenses, and changes in net position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America (GAAP), using the economic measurement focus and the accrual basis of accounting. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements.

Contributions to the plans from participating governmental units are determined annually for the next fiscal year based on current operating results and estimated program costs for that year. Participants are billed monthly, and revenues are recognized in the period the Group is obligated to provide member services. Participant advance contributions are recorded as liabilities until earned.

Cash and Cash Equivalents

Generally, the Group is authorized to invest in the following investments: term deposits or certificates of deposit, trust companies, national banks, savings banks or banking companies, or obligations issued or unconditionally guaranteed by the United States Government or an agency thereof and having a maturity from date of purchase of one year or less with certain other limitations, or such securities as are legal for the investment of funds of savings banks under the bank's laws of the Commonwealth of Massachusetts based on a legal opinion received by the Group.

Cash and cash equivalents consist of cash on hand; cash in checking, savings or money market accounts and other short-term investments with original maturities of three months or less. Investments are stated at fair value. Where applicable, fair values are based on quotations from national security exchanges.

MINUTEMAN-NASHOBA HEALTH GROUP

Notes to Financial Statements

May 31, 2019 and 2018

DRAFT

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, 2019 and May 31, 2018. 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

In 2014, the Group, along with two other Massachusetts Municipal Joint Purchase Groups, entered into a reinsurance pooling arrangement, the Massachusetts Reinsurance Arrangement Series of Sentinel Indemnity, LLC (MMRA), the first such reinsurance pooling arrangement established in Massachusetts. The policy year is June 1st through May 31th. All participants share the same rates for coverage of claims exceeding \$300,000 up to \$800,000. 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 ended May 31, 2019, the Group paid \$1,466,643 for coverage and made non-premium funding to MMRA of \$484,735.

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 estimates.

Note 3. Cash, cash equivalents and investments

The Group maintains deposits in several authorized financial institutions and the Massachusetts Municipal Depository Trust (MMDT). 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, 2019 and 2018 deposits totaled \$7,361,713 and \$5,634,213, respectively and had a carrying amount of \$7,361,713 and \$5,415,247, respectively. Of the carrying amounts, at May 31, 2019 and 2018, MMDT deposits totaled \$7,243,208 and \$6,296,266, respectively. Of the deposit amounts at May 31, 2019 and 2018, \$90 and \$334,527, respectively, was exposed to custodial credit risk because it was uninsured and uncollateralized. The difference between deposit amounts and carrying amounts generally represents outstanding checks and deposits in transit

The Group holds investments that are measured at fair value on a recurring basis. Because investing is not a core part of the Group's mission, the Group determines that disclosures related to these investments

Note 3. Cash, cash equivalents and investments (continued)

only need to be disaggregated by major type. The Group chooses a narrative format for the fair value disclosures.

The Group categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs use to measure the fair value of an asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. At May 31, 2019, and 2018 asset backed securities, certificates of deposit, government securities and money market mutual funds are categorized as Level 1 and corporate bonds are categorized as Level 2. MMDT cash portfolio investments are valued at amortized cost. Under this method, an investment is initially valued at its cost and adjusted for the amount if income accrued each day over the investment term to account for the difference between the initial cost and the amount payable at maturity. If amortized cost is determined not to approximate fair value, the value will be established under procedures established by the investment advisor.

(MMDT), an external investment pool for political subdivisions of the Commonwealth of Massachusetts designed as a legal means to invest temporarily available cash. For the purposes of financial reporting, the Group considers amounts on deposit to be cash equivalents. 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, 2019 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.

Note 4. Prepaid Expenses, Settlement Liabilities and Deposits

At year end, if monthly estimated payments made by the Group to Harvard Pilgrim Health Care exceed or are less than actual claims paid, the Group will have a prepaid or payable amount for the final quarterly settlement of the fiscal year. The amount payable at May 31, 2019 was \$169,661 and the amount prepaid at May 31, 2018 was \$398,273.

Finally, based on current year experience with larger claims, the Group may have a balance in its reinsurance pool (Massachusetts Reinsurance Arrangement Series – MMRA) at year end. At May 31, 2019 the balance was \$521,391 while at May 31, 2018 the balance was \$191,499.

MINUTEMAN NASHOBA HEALTH GROUP

Notes to Financial Statements

May 31, 2019 and 2018

DRAFT**Note 5. Unpaid Claims**

The Group establishes a liability for both reported and unreported incurred events which includes estimates of both future payments of losses and related adjustment expenses, if any. The following represents changes in claims liabilities during the years ended May 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Unpaid claims and claims adjustment expenses— beginning of year	\$3,000,000	\$4,072,331
Incurred claims and claims adjustment expenses:		
Provision for insured events of the current fiscal year	41,332,087	40,147,135
Increase (decrease) in provision for insured events of prior fiscal years	<u>44,784</u>	<u>(285,856)</u>
	41,376,871	39,861,279
Payments:		
Claims and expenses, net, attributable to insured events – current year	(38,112,426)	(37,147,135)
Claims and expenses, net, attributable to insured events – prior years	<u>(3,044,784)</u>	<u>(3,786,475)</u>
	<u>(41,157,210)</u>	<u>(40,933,610)</u>
Total unpaid claims and claim adjustment expenses— end of year	<u>\$ 3,219,661</u>	<u>\$ 3,000,000</u>

Note 6. Subsequent Event

Two Group Members, the Towns of Tyngsborough and Lancaster, have given notice that they will withdraw from the Group effective May 31, 2020. These members make up approximately 12.5% of total Group revenues. The Group does not believe this event will have any significant impact on the Group's net position.

MINUTEMAN NASHOBA HEALTH GROUP
Required Supplementary Information
Ten-Year Claims Development Information

The table below illustrates how the Group's earned revenues and investment income compare to related costs of loss and other expenses assumed by the Group as of the end of each of the last ten 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 other operating costs of the Group including overhead and claims expense not allocated to individual claims. (3) This line shows the Group's incurred claims and allocated claims adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event triggered coverage under the contract occurred (called policy year). (4) This section of rows shows 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:

	5/31/2019	5/31/2018	5/31/2017	5/31/2016	5/31/2015	5/31/2014	5/31/2013	5/31/2012	5/31/2011	5/31/2010	
1	Earned member assessments, refunds and investment revenues										
	55,221,945	51,618,588	46,239,566	43,905,244	40,819,140	43,492,221	44,103,789	50,355,302	48,741,012	46,069,435	
2	Fixed premiums paid and Administrative/operating expenses										
	12,883,892	11,143,388	10,921,192	10,134,331	9,527,131	8,481,603	7,694,049	6,826,368	6,660,524	6,245,103	
3	Estimated incurred claims and expense, end of fiscal year										
	41,376,871	39,861,279	39,508,599	36,446,277	33,777,723	34,051,800	34,081,036	38,120,002	42,403,364	41,317,825	
4	Paid (cumulative) as of:										
	End of fiscal year										
	38,112,426	37,147,135	36,171,706	32,797,496	30,993,647	30,403,673	30,931,389	34,956,279	37,889,287	38,843,149	
	One year later										
		40,191,387	39,683,101	35,980,054	33,341,136	33,139,040	33,347,126	38,086,257	40,896,563	41,833,417	
	Two years later										
			39,682,995	35,998,436	33,424,580	33,187,512	33,314,240	38,109,314	40,893,389	41,832,376	
	Three years later										
				35,999,425	33,427,033	33,187,512	33,314,220	38,108,244	40,891,310	41,834,752	
	Four years later										
					33,426,682	33,156,028	33,314,220	38,110,513	40,893,831	41,833,944	
	Five years later										
						33,156,028	33,313,808	38,110,513	40,894,524	41,833,944	
	Six years later										
							33,313,808	38,110,513	40,891,524	41,833,844	
	Seven years later										
								38,110,512	40,891,524	41,833,844	
	Eight years later										
									40,891,524	41,833,844	
	Nine years later										
										41,833,844	
5	Re-estimated incurred claims and expense										
	End of fiscal year										
	41,376,871	39,861,279	39,508,599	36,446,277	33,777,723	34,051,800	34,081,036	38,120,002	42,403,364	41,314,825	
	One year later										
		40,191,387	39,683,101	35,980,054	33,341,136	33,139,040	33,347,126	38,086,257	40,896,563	41,833,417	
	Two years later										
			39,682,995	35,980,054	33,424,580	33,187,512	33,314,240	38,109,314	40,893,389	41,832,376	
	Three years later										
				35,999,425	33,427,033	33,187,512	33,314,220	38,108,244	40,891,310	41,834,752	
	Four years later										
					33,426,682	33,156,028	33,314,220	38,110,513	40,893,831	41,833,944	
	Five years later										
						33,156,028	33,313,808	38,110,513	40,894,524	41,833,944	
	Six years later										
							33,313,808	38,110,513	40,894,524	41,833,844	
	Seven years later										
								38,110,513	40,891,524	41,833,844	
	Eight years later										
									40,891,524	41,833,844	
	Nine years later										
										41,833,844	
6	(Increase) decrease in estimated, incurred claims and expense from the end of the original policy year										
		(330,108)	(174,502)	466,223	353,143	864,288	766,816	9,489	1,580,840	(516,019)	

See independent auditor's report