

**MINUTEMAN-NASHOBA HEALTH GROUP**  
BASIC FINANCIAL STATEMENTS AND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
WITH REQUIRED SUPPLEMENTARY INFORMATION  
YEARS ENDED MAY 31, 2015 AND MAY 31, 2014  
WITH INDEPENDENT AUDITORS' REPORTS

**MINUTEMAN-NASHOBA HEALTH GROUP**  
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**WITH REQUIRED SUPPLEMENTARY INFORMATION**  
Years Ended May 31, 2015 and May 31, 2014

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**Lynch, Malloy, Marini, LLP**

*Certified Public Accountants & Advisors*

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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, 2015 and 2014 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, 2015 and 2014, 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 January 12, 2016, 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  
January 12, 2016







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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, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Group's basic financial statements, and have issued our report thereon dated January 12, 2016.

**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  
January 12, 2016

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## MINUTEMAN-NASHOBA HEALTH GROUP

### Management's Discussion & Analysis

May 31, 2015 and 2014

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, 2015 and 2014. 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 \$9,150,849 and \$10,692,368 at the years ending May 31, 2015 and May 31, 2014, respectively.
- For the years ended May 31, 2015 and 2014, net position decreased by \$1,541,519 and increased by \$1,672,558, respectively.
- Total net position of \$9,150,849 is \$4,379,933 over the Board of Representatives' target fund balance of \$4,770,916 for the year ending May 31, 2015, and the net position of \$10,692,368 is \$5,927,049 over the Board of Representative's target fund balance of \$4,765,319 for the year ending May 31, 2014. 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 \$3,552,593 for the year ending May 31, 2015 and a net increase in cash of \$1,313,235 for the year ending May 31, 2014.

Of the total claims liability \$170,233 and \$470,332 represents claims payable and \$2,784,076 and \$3,177,795 represents an estimate for claims incurred but not reported as of May 31, 2015 and 2014, respectively. The decrease in net position and cash is a result of claims and other Group expenses exceeding member premiums during the fiscal year.

See Independent Auditors' Report



## MINUTEMAN-NASHOBA HEALTH GROUP

### Management's Discussion & Analysis

May 31, 2015 and 2014

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 ending May 31, 2015, \$879,642 of the decrease in cash position was due to a reduction in participants' advance contributions. The estimated used of the fund balance when the June 1, 2014 premium rates were established was approximately \$2,540,000.

### Condensed Financial Information

A comparative summary of financial information is presented below:

	<u>2015</u>	<u>2014</u>	<u>Percent Change</u>
Cash and cash equivalents	\$ 12,018,766	\$ 15,571,359	(22.81%)
Other assets	<u>781,716</u>	<u>352,155</u>	121.98%
Total assets	12,800,482	15,923,514	(19.61%)
Claims liabilities	170,233	470,332	(63.81%)
Claims incurred but not reported	2,784,076	3,177,795	(12.39%)
Other liabilities	<u>695,324</u>	<u>1,583,019</u>	(56.08%)
Total liabilities	<u>3,649,633</u>	<u>5,231,146</u>	(30.23%)
Unrestricted net position	<u>\$ 9,150,849</u>	<u>\$ 10,692,368</u>	(14.42%)
<b>Revenues, Expenses and Change in Net Position:</b>			
Total operating revenues	\$ 40,794,262	\$ 43,466,481	(6.15%)
<i>less</i>			
Claims expense	32,833,528	33,338,060	(1.51%)
Claims administration expenses	2,576,939	2,603,517	(1.02%)
Other group expenses	<u>6,950,192</u>	<u>5,878,086</u>	18.24%
Total operating expense	42,360,659	41,819,663	1.29%
<i>plus</i>			
Investment income	<u>24,878</u>	<u>25,740</u>	(3.35%)
Change in net position	<u>(\$ 1,541,519)</u>	<u>\$ 1,672,558</u>	(192.17%)

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

### Economic Factors Affecting the Subsequent Year

Prior to May 31, 2015, the Group's Board of Representatives set the funding rates for its self-funded plans for fiscal year 2016 plans participation with no changes in plan design, and including the application of \$2.16 million of excess fund balance to reduce rates. The Group assigned a 2% increase to Fallon rates and a 9.7% increase to the Tufts and HPHC plan rates.

See Independent Auditors' Report

**MINUTEMAN-NASHOBA HEALTH GROUP**

Management's Discussion & Analysis

May 31, 2015 and 2014

**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, 2015 and May 31, 2014

	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 12,018,766	\$ 15,571,359
Receivables:		
Reinsurance claims	-	147,114
Due from Members	-	349
Rebates from insurance carriers	114,938	70,570
Regulatory Receivable	305,659	-
Due from Providers	-	43,152
Total receivables	<u>420,597</u>	<u>261,185</u>
Deposits with insurance carriers	<u>361,119</u>	<u>90,970</u>
Total assets	<u>\$ 12,800,482</u>	<u>\$ 15,923,514</u>
<b>LIABILITIES AND NET POSITION</b>		
Liabilities:		
Claims liabilities	170,233	470,332
Claims incurred but not reported	2,784,076	3,177,795
Accounts payable	7,837	15,890
Participants' advance contributions	<u>687,487</u>	<u>1,567,129</u>
Total liabilities	<u>3,649,633</u>	<u>5,231,146</u>
Unrestricted/total net position	<u>9,150,849</u>	<u>10,692,368</u>
Total liabilities and net position	<u>12,800,482</u>	<u>15,923,514</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, 2015 and May 31, 2014

	<u>2015</u>	<u>2014</u>
<b>Operating revenues:</b>		
Participants' contributions	\$ 40,686,325	\$ 43,393,915
COBRA contributions	107,937	65,462
Medicare Part D subsidy	<u>-</u>	<u>7,104</u>
Total operating revenues	40,794,262	43,466,481
<b>Operating expenses:</b>		
Health claims expense	32,833,528	33,338,060
Claims administration fees	2,576,939	2,603,517
Fixed premiums	5,463,417	4,931,754
Stop loss insurance premiums	727,243	549,603
Regulatory fees	312,048	
Consulting and group administration services	377,986	340,333
Other administrative services	<u>69,498</u>	<u>56,396</u>
Total operating expenses	<u>42,360,659</u>	<u>41,819,663</u>
Operating income (loss)	(1,566,397)	1,646,818
<b>Nonoperating revenues:</b>		
Interest income	<u>24,878</u>	<u>25,740</u>
Change in net position	(1,541,519)	1,672,558
Net position, beginning of year	<u>10,692,368</u>	<u>9,019,810</u>
Net position, end of year	<u><u>\$ 9,150,849</u></u>	<u><u>\$ 10,692,368</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, 2015 and May 31, 2014

	<u>2015</u>	<u>2014</u>
<b>Cash flows from operating activities:</b>		
Cash received from participants	\$ 39,914,620	\$ 42,827,711
Cash received for Medicare Part D subsidy	-	7,104
Cash paid to insurance providers and other vendors	(43,492,091)	(41,547,320)
	<u>(3,577,471)</u>	<u>1,287,495</u>
Net cash provided (used) by operating activities	(3,577,471)	1,287,495
<b>Cash flows from investing activities:</b>		
Interest on deposits	24,878	25,740
	<u>24,878</u>	<u>25,740</u>
Net cash provided by investing activities	24,878	25,740
Net increase (decrease) in cash	(3,552,593)	1,313,235
Cash and cash equivalents, beginning of year	15,571,359	14,258,124
Cash and cash equivalents, end of year	<u>\$ 12,018,766</u>	<u>\$ 15,571,359</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ (1,566,397)	\$ 1,646,818
Changes in operating assets and liabilities:		
Accounts receivable	103,093	(32,688)
Deposits with insurance carriers	(270,148)	33,675
Due from providers	(262,506)	(43,152)
Participant advance contributions	(879,642)	(631,666)
Amounts due prescription providers	-	(8,288)
Accounts payable	(8,053)	15,890
Claims liabilities	(693,818)	306,906
	<u>(3,577,471)</u>	<u>1,287,495</u>
Net cash provided (used) by operating activities	<u>\$ (3,577,471)</u>	<u>\$ 1,287,495</u>

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

## MINUTEMAN-NASHOBA HEALTH GROUP

Notes to Financial Statements  
May 31, 2015 and May 31, 2014

### **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, 2015 and 2014, 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 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, 2015 and May 31, 2014

### **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, 2015 and May 31, 2014, 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.

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

## MINUTEMAN-NASHOBA HEALTH GROUP

Notes to Financial Statements  
May 31, 2015 and May 31, 2014

### **Note 2. Summary of Significant Accounting Policies (continued)**

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, 2015 and May 31, 2014. 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, 2015, the Group paid a deposit of \$269,241 and paid \$727,243 for premiums, operating expenses and reserves. For the year ending May 31, 2014, prior to the MMRA, the Group paid \$0 of MMRA deposits and had a specific excess medical and prescription drug claims

## MINUTEMAN-NASHOBA HEALTH GROUP

Notes to Financial Statements  
May 31, 2015 and May 31, 2014

### **Note 2. Summary of Significant Accounting Policies (continued)**

reinsurance contract with an insurance carrier covering claims paid in excess of \$275,000 per individual to an annual maximum per claimant of \$2,000,000 for active employees, self-insured plans. Additionally, each policy had an Aggregate Specific Deductible premium of \$450,000. The Aggregate 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. 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, 2015 and May 31, 2014 the Group was required to pay \$312,048 and \$0, 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.

### **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, 2015 and May 31, 2014, deposits totaled \$52,439 and \$60,895 respectively. The carrying amounts of these deposits at May 31, 2015 and May 31, 2014, were \$52,439 and \$60,895, 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 \$11,966,327 at May 31, 2015, and \$15,510,464 at May 31, 2014, which are included as cash equivalents in the accompanying statement of net position.



**MINUTEMAN-NASHOBA HEALTH GROUP**

Notes to Financial Statements  
May 31, 2015 and May 31, 2014

**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, 2015 and May 31, 2014:

	<u>2015</u>	<u>2014</u>
Claims liabilities—beginning of year	\$ 3,648,127	\$ 3,341,221
Incurred claims and claims' adjustment expenses:		
Provision for insured events of the current fiscal year	33,777,723	34,051,800
Increase (decrease) in provision for insured events of prior fiscal years	<u>(944,195)</u>	<u>(713,740)</u>
	32,833,528	33,338,060
Payments:		
Claims and claims' adjustment expenses attributable to insured events of the current fiscal year	(30,993,647)	(30,403,673)
Claims and claims' adjustment expenses attributable to insured events of prior fiscal years	<u>(2,703,932)</u>	<u>(2,627,481)</u>
	<u>(33,697,579)</u>	<u>(33,031,154)</u>
Claims incurred but not reported—end of year	<u>\$ 2,784,076</u>	<u>\$ 3,648,127</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 \$11,878 as of May 31, 2015 and \$10,670 as of May 31, 2014. The Group also paid a new deposit, MMRA, in the amount of \$269,241 in the year ending May 31, 2015 for the MMRA pooling arrangement.

**Note 6. Subsequent Events**

The Group has evaluated subsequent events through January 12, 2016, 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 2015. 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 2015. The pronouncement addresses

**MINUTEMAN-NASHOBA HEALTH GROUP**

Notes to Financial Statements  
May 31, 2015 and May 31, 2014

**Note 7. GASB Pronouncements (continued)**

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.

The GASB issued Statement #70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which as required to be implemented in fiscal year 2015. 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 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 Auditors' Report

	<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>	<u>5/31/2006</u>	<u>5/31/2005</u>
1. Earned member assessments, other and investment revenues	\$ 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	\$ 31,854,647	\$ 24,029,488
2. HMO fixed premiums paid and other operating expenses	\$ 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	\$ 4,400,076	\$ 3,368,658
3. Estimated incurred, self-insured claims and expense, end of fiscal year	\$ 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	\$ 31,034,003	\$ 21,173,503
4. Paid (cumulative) as of:											
End of fiscal year	\$ 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	\$ 27,793,682	\$ 17,945,099
One year later	\$	\$ 33,139,040	\$ 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		\$	\$ 33,314,240	\$	\$ 40,893,389	\$ 41,832,376	\$ 40,324,751	\$ 35,643,484	\$ 30,723,506	\$ 30,529,593	\$ 19,788,334
Three years later				\$ 38,108,244	\$ 40,891,310	\$ 41,834,752	\$ 40,330,067	\$ 35,647,701	\$ 30,723,885	\$ 30,546,998	\$ 19,788,334
Four years later				\$	\$ 40,893,831	\$ 41,833,944	\$ 40,330,615	\$ 35,646,517	\$ 30,723,094	\$ 30,547,294	\$ 19,786,230
Five years later						\$ 41,833,944	\$ 40,330,615	\$ 35,646,005	\$ 30,723,094	\$ 30,547,476	\$ 19,786,152
Six years later							\$ 40,330,615	\$ 35,646,005	\$ 30,723,094	\$ 30,546,703	\$ 19,786,152
Seven years later								\$ 35,646,005	\$ 30,723,094	\$ 30,546,703	\$ 19,786,152
Eight years later								\$	\$ 30,723,094	\$ 30,546,703	\$ 19,786,152
Nine years later									\$	\$ 30,546,703	\$ 19,786,152
Ten years later										\$ 30,546,703	\$ 19,786,152
5. Re-estimated incurred, self-insured claims and expense:											
End of fiscal year	\$ 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	\$ 31,034,003	\$ 21,173,503
One year later	\$	\$ 33,139,040	\$ 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		\$	\$ 33,314,240	\$ 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				\$ 38,108,244	\$ 40,891,310	\$ 41,834,752	\$ 40,330,067	\$ 35,647,701	\$ 30,723,885	\$ 30,546,998	\$ 19,788,334
Four years later				\$	\$ 40,893,831	\$ 41,833,944	\$ 40,330,615	\$ 35,646,005	\$ 30,723,094	\$ 30,547,294	\$ 19,786,230
Five years later						\$ 41,833,944	\$ 40,330,615	\$ 35,646,005	\$ 30,723,094	\$ 30,547,476	\$ 19,786,152
Six years later							\$ 40,330,615	\$ 35,646,005	\$ 30,723,094	\$ 30,546,703	\$ 19,786,152
Seven years later								\$ 35,646,005	\$ 30,723,094	\$ 30,546,703	\$ 19,786,152
Eight years later								\$	\$ 30,723,094	\$ 30,546,703	\$ 19,786,152
Nine years later									\$	\$ 30,546,703	\$ 19,786,152
Ten years later										\$ 30,546,703	\$ 19,786,152
6. (Increase) decrease in estimated, incurred, self-insured claims and expense from the end of the original policy year.	\$ -	\$ 912,760	\$ 766,796	\$ 11,758	\$ 1,509,533	\$ (516,119)	\$ (673,684)	\$ 236,188	\$ 1,220,717	\$ 487,300	\$ 1,387,351