

**MAYFLOWER MUNICIPAL HEALTH GROUP  
FINANCIAL STATEMENTS  
AND REQUIRED SUPPLEMENTARY INFORMATION  
YEARS ENDED JUNE 30, 2012 and 2011  
WITH INDEPENDENT AUDITOR'S REPORTS**

**MAYFLOWER MUNICIPAL HEALTH GROUP**  
**FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**TOGETHER WITH REQUIRED SUPPLEMENTARY INFORMATION**  
**YEARS ENDED JUNE 30, 2012 AND 2011**

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**MLBCPA, LLP**

*Certified Public Accountants & Advisors*

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## INDEPENDENT AUDITOR'S REPORT

To the Steering Committee  
Mayflower Municipal Health Group

We have audited the accompanying statement of net assets of the Mayflower Municipal Health Group (Group) as of and for the years ended June 30, 2012 and 2011 and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended, which collectively comprise the Group's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Group's management. Our responsibility is to express opinions on these financial statements based on our audits.

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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Mayflower Municipal Health Group, as of June 30, 2012 and 2011, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2013, on our consideration of the Group's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

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.

*MLBCPA, LLP*  
March 20, 2013



**MLBCPA, LLP**

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**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  
Mayflower Municipal Health Group

We have audited the financial statements of Mayflower Municipal Health Group (Group) as of and for the years ended June 30, 2012 and 2011, which collectively comprise the Group's basic financial statements and have issued our report thereon dated March 20, 2013. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

**Compliance and Other Matters**

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

We noted certain matters that we reported to management of the Mayflower Municipal Health Group in a separate letter dated March 20, 2013.

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

MLBCPA, LLP

March 20, 2013



## MAYFLOWER MUNICIPAL HEALTH GROUP

### Management's Discussion & Analysis

June 30, 2012 and 2011

The management of Mayflower Municipal Health Group (the Group) offers readers of our financial statements the following narrative overview and analysis of our financial activities for the year ended June 30, 2012 and 2011. Please read this discussion and analysis in conjunction with the Group's basic financial statements on the accompanying pages.

#### **Basic Financial Statements**

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

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

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

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

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

#### **Financial Highlights**

- Assets exceeded liabilities by \$25,230,100 (net assets) at the close of the fiscal year.
- For the year ended June 30, 2012, net assets increased by \$8,103,187.

In fiscal year 2012, the group experienced an increase in contributions and only a small increase in claims, which resulted in an overall increase to net assets for the year.

The increase in cash is primarily a result the Group's increase in net income. The Group's investments for the current fiscal year generated \$590,993 of investment income and \$173,769 of unrealized losses.

The majority of the working deposits were refunded/credited to the Group during the previous year (2010). Working deposits are no longer required since the Group has switched to a level monthly plan with Blue Cross/Blue Shield and switched to a fully insured plan with Delta Dental. The remaining \$50,000 balance with Delta Dental was refunded to the Group during fiscal year 2011.

Accounts receivable from member units at year end have increased significantly from the prior year as a result of the timing of payments from various communities. All member unit receivables were collected subsequent to year end.

The accounts payable balance has decreased from the prior year, as the Group's payments have exceeded their level monthly deposits, resulting in an amount due to the Group rather than an amount payable. The amount due to the group is recorded as a receivable due from insurance companies.

## MAYFLOWER MUNICIPAL HEALTH GROUP

### Management's Discussion & Analysis

June 30, 2012 and 2011

#### Condensed Financial Information

A summary of financial information is presented below:

	<u>2012</u>	<u>2011</u>	<u>Percent Change</u>
Cash and investments	\$ 30,753,632	\$ 23,504,974	30.84%
Other current assets	<u>2,059,615</u>	<u>2,963,282</u>	-30.50%
Total assets	32,813,247	26,468,256	23.97%
Claims liabilities	6,900,000	7,700,000	-10.39%
Accounts payable	<u>683,147</u>	<u>1,641,343</u>	-58.38%
Total liabilities	<u>7,583,147</u>	<u>9,341,343</u>	-18.82%
Unrestricted net assets	<u>\$ 25,230,100</u>	<u>\$ 17,126,913</u>	47.31%
<b>Revenues, Expenses and Change in Net Assets:</b>			
Contributions and other	\$ 121,250,550	\$ 113,216,019	7.10%
<i>less</i>			
Claims and premium expense	105,893,953	98,582,313	7.42%
Claims administration expenses	5,535,814	5,508,458	0.50%
Other group expenses	<u>2,065,205</u>	<u>1,519,552</u>	35.91%
Total operating expense	113,494,972	105,610,323	7.47%
<i>plus</i>			
Net investment income	341,208	1,235,614	-72.39%
Subscriber contributions	<u>6,401</u>	<u>811,630</u>	-99.21%
Change in net assets	<u>\$ 8,103,187</u>	<u>\$ 9,652,940</u>	-16.05%

#### Economic Factors Affecting the Subsequent Year

The Group's Board set the rate structure for fiscal 2013 and 2012 plan participation. The rate structure resulted in rate increases of 0.0% and 7.0% in fiscal years 2013 and 2012, respectively.

#### 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 P.O. Box 3390, Plymouth, MA 02361.

# MAYFLOWER MUNICIPAL HEALTH GROUP

## Statement of Net Assets

June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
	<u><b>ASSETS</b></u>	
Current Assets:		
Cash and cash equivalents (Note 2)	\$ 18,172,403	\$ 11,756,756
Investments (Note 2)	12,581,229	11,748,218
Receivables:		
Due from insurance companies	457,793	1,709,847
Due from member units	1,141,697	7,079
Due from other governmental units	453,724	411,231
Nonoperating receivables	<u>6,401</u>	<u>          </u>
Total receivables	2,059,615	2,128,157
Prepaid expenses	<u>          </u>	<u>835,125</u>
Total assets	<u>\$ 32,813,247</u>	<u>\$ 26,468,256</u>
	<u><b>LIABILITIES AND NET ASSETS</b></u>	
Current Liabilities:		
Accounts payable	\$ 683,147	\$ 1,641,344
Claims liabilities (Note 4)	<u>6,900,000</u>	<u>7,700,000</u>
Total liabilities	7,583,147	9,341,344
Unrestricted/total net assets	<u>25,230,100</u>	<u>17,126,912</u>
Total liabilities and net assets	<u>\$ 32,813,247</u>	<u>\$ 26,468,256</u>

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



**MAYFLOWER MUNICIPAL HEALTH GROUP**  
Statement of Revenues, Expenses, and Changes in Net Assets  
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>Operating revenues:</b>		
Participants' contributions:		
Medical contributions	\$117,249,589	\$ 108,315,569
Dental contributions	<u>1,983,990</u>	<u>1,678,193</u>
Total contributions	119,233,579	109,993,762
Other income	<u>2,016,971</u>	<u>3,222,257</u>
Total operating revenues	121,250,550	113,216,019
<b>Operating expenses:</b>		
Claims and premium expense		
Medical claims	103,909,174	96,902,364
Dental premiums (Note 7)	<u>1,984,779</u>	<u>1,679,949</u>
Total claims and premium expense	105,893,953	98,582,313
Medical claims administration fees	5,535,814	5,508,458
Stop loss insurance premiums	1,516,469	967,242
Professional fees and other administrative services	<u>548,736</u>	<u>552,310</u>
Total operating expenses	<u>113,494,972</u>	<u>105,610,323</u>
Operating income (loss)	7,755,578	7,605,696
<b>Nonoperating revenues:</b>		
Investment income (Note 2)	590,993	404,437
Investment expense	(76,016)	(79,378)
Unrealized (loss)/gain on investments	(173,769)	910,555
Subscriber contributions	<u>6,401</u>	<u>811,630</u>
Nonoperating income	<u>347,609</u>	<u>2,047,244</u>
Change in net assets	8,103,187	9,652,940
Net assets, beginning of year	<u>17,126,913</u>	<u>7,473,973</u>
Net assets, end of year	<u>\$ 25,230,100</u>	<u>\$ 17,126,913</u>

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

**MAYFLOWER MUNICIPAL HEALTH GROUP**

## Statement of Cash Flows

Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>Cash flows from operating activities:</b>		
Cash received from participants	\$ 119,921,882	\$ 111,437,326
Cash received for Medicare Part D subsidy & ERRP	1,974,478	3,306,261
Cash received from return of working deposit		50,000
Cash paid to insurance providers and other vendors	<u>(114,988,909)</u>	<u>(105,121,570)</u>
Net cash provided (used) by operating activities	6,907,451	9,672,017
<b>Cash flows from nonoperating activities:</b>		
Interest on deposits	16,516	13,189
Transfer of subscriber contributions to investment account	(508,320)	
Subscriber contributions	<u>                    </u>	<u>508,320</u>
Net cash provided by investing activities	<u>(491,804)</u>	<u>521,509</u>
Net Increase (Decrease) in cash	6,415,647	10,193,526
Cash, beginning of year	<u>11,756,756</u>	<u>1,563,230</u>
Cash, end of year	<u>\$ 18,172,403</u>	<u>\$ 11,756,756</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income (loss)	\$ 7,755,578	\$ 7,605,696
Changes in operating assets and liabilities:		
Accounts receivable and prepaid expense	910,068	(522,652)
Deposits		50,000
Claims liabilities/amount due to providers	(800,000)	900,000
Accounts payable and other	<u>(958,195)</u>	<u>1,638,973</u>
Net cash provided (used) by operating activities	<u>\$ 6,907,451</u>	<u>\$ 9,672,017</u>

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

**MAYFLOWER MUNICIPAL HEALTH GROUP**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

**Note 1. Summary of Significant Accounting Policies**

**A. Reporting Entity**

Mayflower Municipal Health Group (the Group), formerly operating as the Plymouth County Health Group, is a Massachusetts Municipal Health Insurance joint purchase group formed pursuant to Massachusetts General Laws, Chapter 32B, under a certain joint purchase agreement which became effective July 1, 2008. The Group became operational July 1, 2008. 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 an agreement for Joint Negotiation and Purchase of Medical, Health, Dental and Life Coverage governmental agreement. At June 30, 2012 and 2011, participants were the towns Abington, Bridgewater, Carver/Marion/Wareham RRDD, Halifax, Hanover, Hanson, Hingham, Hull, Kingston, Marshfield, Norwell, Pembroke, Plympton, Rochester, Rockland, Scituate, West Bridgewater, and Whitman; the Brockton Area Transit, North River Collaborative School, Onset Fire District, Plymouth County Retirement Association, Silver Lake Regional School District, South Shore Vocational School District, South Shore Education Collaborative, South Shore Tri-Town Development Corporation, Wareham Fire District, Whitman-Hanson Regional School District, and the counties of Plymouth, Bristol, and Norfolk. Southeastern Regional Transit Authority and South Shore Regional Emergency Communication Center joined as of February 1, 2012.

Governmental units may apply for membership and be added to the Group, commencing on a date mutually agreed upon, provided that a Board meeting is held with at least two-thirds of members units in attendance and two-thirds of the units in attendance vote in favor to accept such additional participants.

Upon entering the Group, new members are required to make subscriber contributions. Subscriber contributions are equal to the prior quarter's net assets divided by the number of members to get a per member amount. The per member amount is then multiplied by the number of joining members to calculate the subscriber contribution to be made. Subscriber contributions totaled \$6,401 in fiscal year 2012.

Any participating governmental unit may withdraw participation at its discretion, but a withdrawal may only be effective on June 30<sup>th</sup> of any Plan Year (July 1 to June 30). Any election by a governmental unit to terminate participation under this agreement requires written notification to the Board of such decision to withdraw no later than the December 31 that precedes the June 30, upon which the withdrawal would be effective. Any participating governmental unit which is 60 days in arrears for payments may be terminated at the Board's discretion. Such termination shall not limit the Board from obtaining payment of all monies in arrears.

There is no liability for premium expense following the effective date of withdrawal or 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 Mayflower Municipal Health Group Trust from participating governmental units are on a monthly basis. Contributions are set by the Board; the rates are set at amounts which, in aggregate, will fully satisfy the funding requirements of the claims trust fund (including, but not limited to, anticipated incurred claims, retention, risk, and trust administration expenses) as established through underwriting and/or actuarial estimates.

**MAYFLOWER MUNICIPAL HEALTH GROUP**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

**Note 1. Summary of Significant Accounting Policies (continued)**

**A. Reporting Entity (continued)**

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 for a period of one year prior to when 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 for a period of one year prior to when the deficit was incurred.

The Group offers the following health insurance options:

Active members

- Blue Cross/Blue Shield - Network Blue (HMO)
- Blue Cross/Blue Shield - Network Blue Rate Saver Plan
- Blue Cross/Blue Shield - Blue Care Elect PPO
- Harvard/Pilgrim Health (HMO)
- Harvard/Pilgrim Health Rate Saver Plan

Pensioners

- Blue Cross/Blue Shield - Medex and Carve Out A
- Harvard/Pilgrim Health - Medicare Enhance

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 June 30, 2015, 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.

**B. Basis of Accounting**

The accompanying financial statements present the net assets of the Group at June 30, 2012 and 2011 and the changes in net assets and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America, which recognize revenues from contributions and earnings when earned, and expenditures when liabilities are incurred.

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

**C. 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.

**MAYFLOWER MUNICIPAL HEALTH GROUP**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

**Note 1. Summary of Significant Accounting Policies (continued)**

**D. Cash and Cash Equivalents and Investments**

Cash and cash equivalents consist of cash on hand; cash in checking, savings or money market accounts; repurchase agreements; other short-term investments with original maturities of three months or less.

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

**E. Claims Liabilities**

The Group's obligations include estimated health claims incurred but not reported at June 30 2012 and 2011. 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. Actual claims reported differ from claims estimated, but the size of the Group and stop-loss coverage minimizes 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.

**F. Reinsurance**

The Group has purchased stop loss insurance (reinsurance) to limit loss exposures. The Group has a specific excess medical and prescription drug claims reinsurance contract with an insurance carrier covering claims paid in excess of \$250,000, specific deductible per individual to a lifetime maximum amount payable of \$2,000,000 for 2011 and 2012. Fiscal year 2011 had an aggregate policy deductible of \$500,000 before specific deductibles were collectible, fiscal year 2012 did not have an aggregate.

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

**G. Participant Contributions**

Participant contributions represent the monthly premiums, as determined by the Steering Committee, charged to each member unit and include costs for administrative services and insurance charges. Premiums are recorded as revenue during the period in which the Group is obligated to provide services to its members.

**H. Medicare Part D Prescription Drug Benefit Program**

The Group applied for, as Plan Sponsor and receives subsidy payments from the Federal Government, pursuant to the Retiree Drug Subsidy Provisions for Medicare Part D. These amounts have been recorded as Other Income (\$2,016,971). Any amounts receivable from the Federal Government for the drug benefit program are classified as a receivable from a governmental unit.

**I. Early Retiree Reinsurance Program**

On August 31, 2010, the Group was approved by the U.S. Department of Health and Services to participate in the Early Retiree Reinsurance Program with both Blue Cross/Blue Shield and Harvard Pilgrim. The Early Retiree Reinsurance Program, part of the Patient Protection Affordable Care Act of 2010, provides reimbursements to participating employment-based plans for a portion of the cost of health benefits for early retirees and their spouses, surviving spouses and dependents. This is a temporary program that began June 1, 2010 and is available until January 1, 2014, or until the \$5 billion set aside for the program is exhausted. The Group received \$1,417,279 (other income) in fiscal year 2011, no money was received from the program in fiscal year 2012, and it is expected that no money will be received in future years.

**MAYFLOWER MUNICIPAL HEALTH GROUP**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

**Note 2. Cash, Cash Equivalents and Investments**

The Group maintains deposits in authorized financial institutions. In the case of deposits, custodial credit risk is the risk that in the event of a bank failure, the Group's deposits may not be returned. The Group does not have a formal deposit policy for custodial credit risk. At June 30, 2012 and 2011 deposits totaled \$18,172,945 and \$10,866,496, respectively. The carrying amount of these deposits at June 30, 2012 and 2011 were \$18,172,403 and \$11,756,756, respectively. Of the deposit amounts, \$17,922,945 and \$10,616,496 were exposed to custodial credit risk at June 30, 2012 and 2011, respectively. The difference between deposit amounts and carrying amounts generally represents outstanding checks and deposits in transit.

Investment income reported in the financial statements is made up of the following:

	<u>2012</u>	<u>2011</u>
Interest and Dividend Income	\$386,647	\$239,559
Realized Gain on Investments	<u>204,346</u>	<u>164,878</u>
Total Investment Income	<u>\$590,993</u>	<u>\$404,437</u>

The Group's investments are as follows as of June 30, 2012 and 2011:

	<u>2012</u>		<u>2011</u>	
<u>Investment Type</u>	<u>Fair Market Value</u>	<u>% of Total</u>	<u>Fair Market Value</u>	<u>% of Total</u>
U.S. Government & Agencies	\$ 5,497,248	44%	\$ 5,669,162	48%
Fixed Income Mutual Funds - Domestic	1,493,845	12%	1,393,966	12%
Fixed Income Mutual Funds - International	742,578	6%	717,864	6%
Equity Mutual Funds - Domestic	1,029,157	8%	939,108	8%
Equity Mutual Funds - International	1,026,092	8%	900,156	8%
Equities	1,832,443	15%	1,652,083	14%
Money Market Securities	186,254	1%	315,748	3%
Corporate Bonds	<u>773,612</u>	6%	<u>160,131</u>	1%
	<u>\$ 12,581,229</u>		<u>\$ 11,748,218</u>	

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

*Interest rate risk* is the risk that changes in market interest rates that will adversely affect the fair market value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair market value to changes in market interest rates. The Group's investment policy limits the weighted average maturity of the investments to 3 years. The approximate maturities of the Group's debt investments are disclosed in the following table.

**MAYFLOWER MUNICIPAL HEALTH GROUP**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

**Note 2. Cash, Cash Equivalents and Investments (continued)**

2012	Fair				
	Market	Less than 1	1 to 3	3 to 5	5 to 10
<u>Investment Type</u>	<u>Value</u>	<u>Year</u>	<u>Years</u>	<u>Years</u>	<u>Years</u>
U.S. Government & Agencies	\$ 5,497,248	1,115,241	1,731,809	1,791,644	858,554
Fixed Income Mutual Funds - Domestic	1,493,845			372,658	1,121,187
Fixed Income Mutual Funds - International	742,578				742,578
Money Market Securities	186,254	186,254			
Corporate Bonds	<u>773,612</u>	<u>-</u>	<u>-</u>	<u>365,563</u>	<u>408,049</u>
	<u>\$ 8,693,537</u>	<u>\$ 1,301,495</u>	<u>\$ 1,731,809</u>	<u>\$2,529,865</u>	<u>\$ 3,130,368</u>
2011	Fair				
	Market	Less than 1	1 to 3	3 to 5	5 to 10
<u>Investment Type</u>	<u>Value</u>	<u>Year</u>	<u>Years</u>	<u>Years</u>	<u>Years</u>
U.S. Government & Agencies	\$ 5,669,162	919,422	2,466,329	1,088,657	1,194,754
Fixed Income Mutual Funds - Domestic	1,393,966			347,865	1,046,101
Fixed Income Mutual Funds - International	717,864				717,864
Money Market Securities	315,748	315,748			
Corporate Bonds	<u>160,131</u>	<u>50,759</u>	<u>-</u>	<u>-</u>	<u>109,372</u>
	<u>\$ 8,256,871</u>	<u>\$ 1,285,929</u>	<u>\$ 2,466,329</u>	<u>\$1,436,522</u>	<u>\$ 3,068,091</u>

*Credit risk* is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. Credit risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. Obligations of the U.S. Government and certain of its agencies are not considered to have credit risk and therefore no rating is disclosed. Equity securities and equity mutual funds are not rated as to credit risk. The Group's investment policy limits its investment choices to those with no less than AA rated quality. Credit risk of the Group's investments are summarized below.

2012	Fair		S&P Ratings as of Year End		
	Market	Exempt from			Not
<u>Investment Type</u>	<u>Value</u>	<u>Disclosure</u>	<u>AA to AAA</u>	<u>A to B</u>	<u>Rated</u>
U.S. Government & Agencies	\$ 5,497,248	\$ 5,497,248	\$ -	\$ -	\$ -
Fixed Income Mutual Funds - Domestic	1,493,845	-	368,752	1,125,093	-
Fixed Income Mutual Funds - International	742,578	-	-	742,578	-
Money Market Securities	186,254	-	186,254	-	-
Corporate Bonds	<u>773,612</u>	<u>-</u>	<u>-</u>	<u>773,612</u>	<u>-</u>
	<u>\$ 8,693,537</u>	<u>\$ 5,497,248</u>	<u>\$555,006</u>	<u>\$ 2,641,283</u>	<u>\$ -</u>

**MAYFLOWER MUNICIPAL HEALTH GROUP**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**

**Note 2. Cash, Cash Equivalents and Investments (continued)**

2011	Fair Market	Exempt from	<u>S&amp;P Ratings as of Year End</u>		
<u>Investment Type</u>	<u>Value</u>	<u>Disclosure</u>	<u>AA to AAA</u>	<u>A to B</u>	<u>Not Rated</u>
U.S. Government & Agencies	\$ 5,669,162	\$ 5,669,162	\$ -	\$ -	\$ -
Fixed Income Mutual Funds - Domestic	1,393,966	-	350,557	1,043,409	-
Fixed Income Mutual Funds - International	717,864	-	-	717,864	-
Money Market Securities	315,748	-	315,748	-	-
Corporate Bonds	160,131	-	109,372	50,759	-
	<u>\$ 8,256,871</u>	<u>\$ 5,669,162</u>	<u>\$ 775,677</u>	<u>\$ 1,812,032</u>	<u>\$ -</u>

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

*Foreign credit risk* is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. Of the Group’s \$2,055,249 invested in equity mutual funds, \$1,026,092 is in international funds. The Group also invests \$2,236,423 in fixed income mutual funds, \$742,578 of which is invested in international funds. The Group’s investment policy does not address foreign credit risk.

**Note 3. 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. Changes in the claim liability amount in fiscal 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
Unpaid claims and claims' adjustment expenses—beginning of year	\$ 7,700,000	\$ 6,800,000
Incurred claims and claims' adjustment expenses:		
Provision for insured events of the current fiscal year	104,180,804	97,229,423
Increase/(Decrease) in provision for insured events of prior fiscal years	<u>(271,630)</u>	<u>(327,059)</u>
	103,909,174	96,902,364
Payments:		
Claims and claims' adjustment expenses attributable to insured events of the current fiscal year	(97,280,804)	(89,529,423)
Claims and claims' adjustment expenses attributable to insured events of prior fiscal years	<u>(7,428,370)</u>	<u>(6,472,941)</u>
	<u>(104,709,174)</u>	<u>(96,002,364)</u>
Total unpaid claims and claims' adjustment expenses—end of year	<u>\$ 6,900,000</u>	<u>\$ 7,700,000</u>



**MAYFLOWER MUNICIPAL HEALTH GROUP**  
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**Note 4. Dependent Audit**

During fiscal year 2010 the Group retained the services of John R. Sharry Inc., d/b/a Group Benefits Strategies, to conduct a full dependent eligibility audit. The audit resulted in the identification of 422 ineligible dependents. Based on historical claims, average annual costs of a dependent to the Group is \$4,350; therefore the total annual claim cost reductions are estimated at \$1,835,700 as a result of the ineligible dependents identified and removed from the plan. During fiscal year 2011, the age for dependent eligibility was raised and most dependents removed due to the audit were reinstated.

**Note 5. Name Change**

The Group was previously named the Plymouth County Health Group. At the March 23, 2010 meeting the members voted to rename the Group to the Mayflower Municipal Health Group.

**Note 6. GASB Pronouncements Recently Issued**

The following are pronouncements issued by the Governmental Accounting Standards Board (GASB), which the Group believes are applicable to its financial statements.

**Current pronouncements**

The GASB issued Statement #64, Derivative Instruments: Application of Hedge Accounting Termination Provisions – an Amendment of GASB Statement No.53., which is required to be implemented in fiscal year 2012. This pronouncement addresses financial reporting issues involving hedge accounting surrounding derivative instruments. The standards in this statement currently do not apply to the Group and therefore did not impact the Group's financial statements.

**Future pronouncements**

The GASB issued Statement #61, The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34, which is required to be implemented in fiscal year 2013. This pronouncement modifies requirements for the inclusion of component units in the financial reporting entity. The Group doesn't believe this pronouncement will impact the Group's financial statements.

The GASB issued Statement #62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which is required to be implemented in fiscal year 2013. This pronouncement will continue the codification of all generally accepted accounting principles for state and local governments into a single source.

The GASB issued Statement #65, Items Previously Reported as Assets and Liabilities, which is required to be implemented in fiscal year 2013. This pronouncement will clarify the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The Group doesn't believe this pronouncement will impact the Group's financial statements.

The GASB issued Statement #66, Technical Corrections - 2012, which is required to be implemented in fiscal year 2013. This pronouncement will resolve conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhance the usefulness of the financial reports. The Group expects this pronouncement will require additional disclosure and impact the Group's financial statements.

**MAYFLOWER MUNICIPAL HEALTH GROUP**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
 Claims' Development Information

The table on this 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 the last fiscal year. 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 administrative and other operating costs of the Fund 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 rows shows the cumulative amounts paid as of the end of successive years for each policy year. (5) 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.

	<u>6/30/2012</u>	<u>6/30/2011</u>	<u>6/30/2010</u>	<u>6/30/2009</u>
1. Earned participant contributions investment and other revenues	\$ 119,748,556 \$	111,942,263 \$	101,779,383 \$	101,001,989 \$
2. Administrative other operating expenses	\$ 7,601,019 \$	7,028,011 \$	7,453,876 \$	6,946,096 \$
3. Estimated incurred, self-insured claims and expense, end of fiscal year	\$ 104,180,804 \$	97,229,423 \$	96,143,767 \$	98,302,296 \$
4. Paid (cumulative) as of:				
End of fiscal year	\$ 97,280,804 \$	89,529,423 \$	89,343,767 \$	90,752,296 \$
One year later	\$	97,009,100 \$	95,906,250 \$	98,182,786 \$
Two years later			95,877,944 \$	98,093,244 \$
Three years later				98,070,243 \$
Four years later				
Five years later				
5. Re-estimated incurred, self-insured claims and expense:				
End of fiscal year	\$ 104,180,804 \$	97,229,423 \$	96,143,767 \$	98,302,296 \$
One year later	\$	97,009,100 \$	95,906,250 \$	98,182,786 \$
Two years later			95,877,944 \$	98,093,244 \$
Three years later				98,070,243 \$
Four years later				
Five years later				
6. (Increase) decrease in estimated, incurred, self-insured claims and expense from the end of the original policy year.	\$	220,323 \$	265,823 \$	232,053 \$