

MAYFLOWER MUNICIPAL HEALTH GROUP
BASIC FINANCIAL STATEMENTS
AND REQUIRED SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2016 and 2015
WITH INDEPENDENT AUDITORS' REPORTS

MAYFLOWER MUNICIPAL HEALTH GROUP
BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2016 AND 2015

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BASIC FINANCIAL STATEMENTS

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Lynch, Malloy, Marini, LLP

Certified Public Accountants & Advisors

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INDEPENDENT AUDITORS' REPORT

To the Steering Committee
Mayflower Municipal Health Group

Report on the Financial Statements

We have audited the accompanying financial statements of Mayflower Municipal Health Group (the Group) as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Group's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Mayflower Municipal Health Group, as of June 30, 2016 and 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (MD&A) on pages v-vi and the claims development information on page 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2017, on our consideration of the Mayflower Municipal 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 the Mayflower Municipal Health Group's internal control over financial reporting and compliance.



Natick, Massachusetts
February 15, 2017





Lynch, Malloy, Marini, LLP

Certified Public Accountants & Advisors

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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
Mayflower Municipal 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 General of the United States, the financial statements of Mayflower Municipal Health Group (the Group), as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Group's basic financial statements, and have issued our report thereon dated February 15, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Group's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. Accordingly, we do not express an opinion on the effectiveness of the Group's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lynch, Malloy, Marini, LLP

Natick, Massachusetts

February 15, 2017

MAYFLOWER MUNICIPAL HEALTH GROUP

Management's Discussion & Analysis

June 30, 2016 and 2015

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, 2016 and 2015. Please read this discussion and analysis in conjunction with the Group's basic financial statements on the accompanying pages.

Basic Financial Statements

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

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

The statements 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 statements 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 (net position) as of June 30, 2016 and 2015 by \$13,506,811 and \$27,500,136, respectively.
- For the years ended June 30, 2016 and 2015, net position decreased by \$13,993,325 and \$8,594,733, respectively.
- For the years ended June 30, 2016 and 2015, the Group authorized the use of up to \$13,500,000 and \$6,400,000, respectively, of net position to maintain rates.

During the year ended June 30, 2016, the decrease in net position of \$13,993,325 was due to increased claims that exceeding member contributions. The Group had a net operating loss of \$14,443,355 during the year ended June 30, 2016. During the year ended June 30, 2016, the Group had investment income of \$560,816 and an unrealized loss of \$41,562. During the year ended June 30, 2015, the Group had investment income of \$916,464 with an unrealized loss of \$783,644.

Account receivables from member units as of June 30, 2016 were \$18,563 as a result of the timing of payments from various members. As of June 30, 2015 account receivables from member units were \$304,285.

Reinsurance receivables were \$768,933 and \$321,149 at the years ending June 30, 2016 and 2015, respectively. The increase during the year ended June 30, 2016 was due to an increase of large claims that exceeded the reinsurance limits.

MAYFLOWER MUNICIPAL HEALTH GROUP

Management's Discussion & Analysis

June 30, 2016 and 2015

Condensed Financial Information

A summary of financial information is presented below:

| | <u>2016</u> | <u>2015</u> |
|---|------------------------|-----------------------|
| Cash and investments | \$ 23,154,909 | \$ 40,435,595 |
| Other current assets | <u>1,713,209</u> | <u>1,117,571</u> |
| Total assets | 24,868,118 | 41,553,166 |
| Claims liabilities | 1,148,455 | 4,930,625 |
| Claims incurred but not reported | 8,300,000 | 7,900,000 |
| Accounts payable | <u>1,912,852</u> | <u>1,222,405</u> |
| Total liabilities | <u>11,361,307</u> | <u>14,053,030</u> |
| Unrestricted net position | <u>\$ 13,506,811</u> | <u>\$ 27,500,136</u> |
| Revenues, Expenses and Change in Net Position: | | |
| Contributions and other income | \$ 127,250,441 | \$ 123,653,217 |
| <i>less</i> | | |
| Claims and premium expense | 133,324,031 | 123,848,375 |
| Claims administration expenses | 6,031,066 | 5,935,307 |
| Other group expenses | <u>2,338,699</u> | <u>2,512,841</u> |
| Total operating expense | 141,693,796 | 132,296,523 |
| <i>plus</i> | | |
| Net investment income | <u>450,030</u> | <u>48,573</u> |
| Decrease in net position | <u>\$ (13,993,325)</u> | <u>\$ (8,594,733)</u> |

The ACA's regulatory fees include the Transitional Reinsurance Program (TRP) fees, \$514,180 in the year ended June 30, 2016 and \$682,380 in the year ended June 30, 2015, and Patient-Centered Outcomes Research Institution (PCORI) fees, \$29,482 in the year ended June 30, 2016 and \$18,122 in the year ended June 30, 2015.

Economic Factors Affecting the Subsequent Year

The Group's Board set the rate structure for plan participation. For fiscal year 2017, the Group's Board approved a 15% increase to all health insurance rates. With this increase to health insurance rates, the Group has authorized the use of up to \$8,500,000 of its unrestricted/total net position to maintain rates.

Request for Information

This financial report is intended to provide an overview of the finances of the Group. Questions about this report or requests for additional information may be directed to the Group's Treasurer at P.O. Box 3390, Plymouth, MA 02361.

MAYFLOWER MUNICIPAL HEALTH GROUP

Statements of Net Position

June 30, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|--|----------------------|----------------------|
| <u>ASSETS</u> | | |
| Assets: | | |
| Cash and cash equivalents | \$ 6,396,855 | \$ 24,098,852 |
| Investments | 16,758,054 | 16,336,743 |
| Prepaid Expenses | 5,664 | 5,109 |
| Receivables: | | |
| Reinsurance claims | 768,933 | 321,149 |
| Due from member units | 18,563 | 304,285 |
| Medicare Part D subsidy due | 920,049 | 487,028 |
| Total receivables | <u>1,707,545</u> | <u>1,112,462</u> |
| Total assets | <u>\$ 24,868,118</u> | <u>\$ 41,553,166</u> |
| <u>LIABILITIES AND NET POSITION</u> | | |
| Liabilities: | | |
| Accounts payable | \$ 1,912,852 | \$ 1,222,405 |
| Claims payable | 1,148,455 | 4,930,625 |
| Claims incurred but not reported | 8,300,000 | 7,900,000 |
| Total liabilities | <u>11,361,307</u> | <u>14,053,030</u> |
| Unrestricted/total net position | <u>13,506,811</u> | <u>27,500,136</u> |
| Total liabilities and net position | <u>\$ 24,868,118</u> | <u>\$ 41,553,166</u> |

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

MAYFLOWER MUNICIPAL HEALTH GROUP
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|---|-----------------------------|-----------------------------|
| Operating revenues: | | |
| Participants' contributions: | | |
| Medical contributions | \$ 121,310,257 | \$ 118,158,711 |
| Dental contributions | 1,999,878 | 2,006,174 |
| Total contributions | <u>123,310,135</u> | <u>120,164,885</u> |
| Other income | <u>3,940,306</u> | <u>3,488,332</u> |
| Total operating revenues | 127,250,441 | 123,653,217 |
| Operating expenses: | | |
| Claims and premium expense | | |
| Medical claims and premiums | 131,323,792 | 121,842,195 |
| Dental premiums | 2,000,239 | 2,006,180 |
| Total claims and premium expense | <u>133,324,031</u> | <u>123,848,375</u> |
| Medical claims administration fees | 6,031,066 | 5,935,307 |
| Stop loss insurance premiums | 1,079,366 | 1,101,683 |
| Regulatory fees | 543,662 | 700,502 |
| Professional fees and other administrative services | <u>715,671</u> | <u>710,656</u> |
| Total operating expenses | <u>141,693,796</u> | <u>132,296,523</u> |
| Operating loss | (14,443,355) | (8,643,306) |
| Nonoperating revenues: | | |
| Investment income | 560,816 | 916,464 |
| Investment expense | (69,224) | (84,247) |
| Unrealized loss on investments | <u>(41,562)</u> | <u>(783,644)</u> |
| Nonoperating income | <u>450,030</u> | <u>48,573</u> |
| Decrease in net position | (13,993,325) | (8,594,733) |
| Net position, beginning of year | 27,500,136 | 36,094,869 |
| Net position, end of year | <u><u>\$ 13,506,811</u></u> | <u><u>\$ 27,500,136</u></u> |

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

MAYFLOWER MUNICIPAL HEALTH GROUP

Statements of Cash Flows

Years Ended June 30, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|---|-------------------------------|------------------------------|
| Cash flows from operating activities: | | |
| Cash received from participants | \$ 123,162,281 | \$ 119,522,435 |
| Cash received for Medicare Part D subsidy and enrollment fees | 3,940,306 | 3,488,332 |
| Cash paid to insurance providers and other vendors | <u>(144,833,303)</u> | <u>(127,777,323)</u> |
| Net cash provided (used) by operating activities | (17,730,716) | (4,766,556) |
| Cash flows from nonoperating activities: | | |
| Cash provided by interest on deposits | 450,030 | 48,573 |
| (Increase)/decrease in investments | <u>(421,311)</u> | <u>(1,013,556)</u> |
| Net cash, provided (used) by investing activities | <u>28,719</u> | <u>(964,983)</u> |
| Net Increase (decrease) in cash | (17,701,997) | (5,731,539) |
| Cash, beginning of year | <u>24,098,852</u> | <u>29,830,391</u> |
| Cash, end of year | <u><u>\$ 6,396,855</u></u> | <u><u>\$ 24,098,852</u></u> |
| Reconciliation of operating income to net cash provided by operating activities: | | |
| Operating income (loss) | \$ (14,443,355) | \$ (8,643,306) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable and prepaid expense | (147,854) | (642,450) |
| Reinsurance receivable | (447,784) | 1,329,155 |
| Claims payable to providers | (3,782,170) | 1,664,200 |
| Claims incurred but not reported | 400,000 | 1,000,000 |
| Accounts payable and other | <u>690,447</u> | <u>525,845</u> |
| Net cash provided (used) by operating activities | <u><u>\$ (17,730,716)</u></u> | <u><u>\$ (4,766,556)</u></u> |

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

MAYFLOWER MUNICIPAL HEALTH GROUP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

Mayflower Municipal Health Group (the Group), formerly operating as the Plymouth County Health Claims Trust Fund, 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, 2016 and 2015 participants were the towns of Abington, Bridgewater, Carver/Marion/Wareham RRDD, Halifax, Hanover, Hanson, Hingham, Hull, Kingston, Marshfield, Norwell, Pembroke, Plympton, Rochester, Rockland, Scituate, Wareham, West Bridgewater, and Whitman; Brockton Area Transit, Dartmouth Fire District No. 3, Greater New Bedford Regional Refuse Management District, 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 Regional Emergency Communication Center, South Shore Tri-Town Development Corporation, Southeastern Regional Transit Authority, Wareham Fire District, Whitman-Hanson Regional School District and the counties of Plymouth, Bristol, Norfolk. During the year ended June 30, 2016, there were no additional member units joined the Group. During the year ended June 30, 2015, the Town of Wareham, Dartmouth Fire District No. 3, and Greater New Bedford Regional Refuse Management District joined the Group.

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. While this is the standard calculation, the Group has the ability to arrange different methods of payment to reach the same total, as approved by the Steering Committee. There were no new subscribers during fiscal year 2016. During fiscal year 2015, subscriber contributions were \$492,660. The subscriber contributions, if any, are included in other income.

Any participating governmental unit may withdraw participation at its discretion, but a withdrawal may only be effective on June 30th 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.

MAYFLOWER MUNICIPAL HEALTH GROUP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

Note 1. Summary of Significant Accounting Policies (continued)

Contributions to Mayflower Municipal Health Group 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.

All refunds, surplus, and deficits are dealt with on a proportional and collective basis. In the case of a certified surplus, the Board determines the investment and application of the excess funds. 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 - Network Blue Benchmark Plan
- Blue Cross/Blue Shield - Blue Care Elect PPO
- Blue Cross/Blue Shield - Blue Care Elect PPO Rate Saver Plan
- Blue Cross/Blue Shield - Blue Care Elect PPO Benchmark Plan
- Harvard/Pilgrim Health (HMO)
- Harvard/Pilgrim Health Rate Saver Plan
- Harvard Pilgrim Health Benchmark Plan

Pensioners

- Blue Cross/Blue Shield - Medex
- 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 one-year extension ending June 30, 2017, 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 position of the Group at June 30, 2016 and 2015 and the changes in net position and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America, which recognize revenues from contributions and earnings when earned, and expenditures when liabilities are incurred.

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

MAYFLOWER MUNICIPAL HEALTH GROUP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

Note 1. Summary of Significant Accounting Policies (continued)

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.

D. Fair Value Measurement

The Group measures assets and liabilities at fair value according to the hierarchy established by generally accepted accounting principles. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The hierarchy is based upon valuation inputs, which are assumptions that market participants would use when pricing an asset or liability, including assumption of risk. The following are levels considered.

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 inputs are directly observable for an asset or a liability (including quoted prices for similar assets or liabilities), as well as inputs that are indirectly observable for the asset or liability.
- Level 3 inputs are unobservable for the asset or liability.

E. Cash and Cash Equivalents and Investments

Cash and cash equivalents consist of cash on hand, cash in checking, and savings accounts.

Investments are defined as securities or other assets that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or be sold to generate cash. Generally, investments are reported according to the fair value hierarchy established by generally accepted accounting principles. Certain investments, such as money market investments and 2a7-like external investment pools, are reported at amortized cost. 2a7-like pools are external investment pools that operate in conformity with the Securities and Exchange Commission's (SEC) Rule 2a7 as promulgated under the Investment Company Act of 1940, as amended and should be measured at the net asset value per share provided by the pool.

F. Claims Payable to Providers

Claims payable to providers represents the amounts payable at June 30, 2016 and 2015, to providers based on actual claims being higher than the agreed upon monthly payments.

G. Claims Incurred but Not Reported

The Group's obligations include estimated health claims incurred but not reported at June 30, 2016 and 2015. 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.

MAYFLOWER MUNICIPAL HEALTH GROUP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

H. 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 \$300,000, specific deductible per individual, and a \$500,000 aggregating deductible, with no lifetime maximum amount per participant for the year ended June 30, 2016. For the year ended June 30, 2015, the Group had a specific deductible per individual of \$300,000, and a \$500,000 aggregating deductible, to a lifetime maximum amount payable of \$2,000,000.

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.

I. 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.

J. Medicare Part D Prescription Drug Benefit Program and Affordable Care Act Fees

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. The Retiree Drug Subsidy Provisions for Medicare Part D have been recorded as part of Other Income. Any amounts receivable from the Federal Government for the drug benefit program are classified as a receivable from a governmental unit.

The Group was required to pay \$543,662 and \$700,502 in the years ending June 30, 2016 and 2015 for the Affordable Care Act's (ACA) fees. The ACA regulatory fees include the Transitional Reinsurance Program (TRP) fees, \$514,180 in the year ended June 30, 2016 and \$682,380 in the year ended June 30, 2015, and the Patient-Centered Outcomes Research Institute (PCORI) fees, \$29,482 in the year ended June 30, 2016 and \$18,122 in the year ended June 30, 2015.

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, 2016 and 2015 deposits totaled \$6,397,541 and \$22,246,405, respectively. The carrying amount of these deposits at June 30, 2016 and 2015 were \$6,396,855 and \$24,098,852, respectively. Of the deposit amounts, \$6,147,541 and \$23,848,852 were exposed to custodial credit risk at June 30, 2016 and 2015, respectively. The difference between deposit amounts and carrying amounts generally represents outstanding checks and deposits in transit.

MAYFLOWER MUNICIPAL HEALTH GROUP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

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

The Group's investments are as follows as of June 30, 2016 and 2015:

| <u>Investment Type</u> | <u>Fair Value Measurement</u> | <u>June 30, 2016</u> | | <u>June 30, 2015</u> | |
|---|-------------------------------|----------------------|-------------------|----------------------|-------------------|
| | | <u>Value</u> | <u>% of Total</u> | <u>Value</u> | <u>% of Total</u> |
| U.S. Government & Agencies | Level 1 | \$ 6,068,295 | 36% | \$ 5,894,074 | 36% |
| Fixed Income Mutual Funds - Domestic | Level 1 | 3,153,028 | 19% | 3,110,078 | 19% |
| Fixed Income Mutual Funds - International | Level 1 | 863,219 | 5% | 793,260 | 5% |
| Equity Mutual Funds - Domestic | Level 1 | 2,060,860 | 12% | 2,060,860 | 13% |
| Equity Mutual Funds - International | Level 1 | 926,178 | 6% | 661,122 | 4% |
| Equities | Level 1 | 2,265,650 | 14% | 2,081,936 | 13% |
| Money Markets | Level 1 | 215,360 | 1% | 520,053 | 3% |
| Corporate Bonds | Level 1 | <u>1,205,464</u> | 7% | <u>1,215,360</u> | 7% |
| | | <u>\$ 16,758,054</u> | | <u>\$ 16,336,743</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:

June 30, 2016

| <u>Investment Type</u> | <u>Value</u> | <u>Less than 1</u> | <u>1 to 3</u> | <u>3 to 5</u> | <u>5 to 10</u> |
|---|----------------------|---------------------|---------------------|---------------------|---------------------|
| | | <u>Year</u> | <u>Years</u> | <u>Years</u> | <u>Years</u> |
| U.S. Government & Agencies | \$ 6,068,295 | \$ 1,766,180 | \$ 1,367,398 | \$ 1,478,753 | \$ 1,455,964 |
| Fixed Income Mutual Funds - Domestic | 3,153,028 | - | - | 1,012,475 | 2,140,553 |
| Fixed Income Mutual Funds - International | 863,219 | - | - | - | 863,219 |
| Money Markets | 215,360 | 215,360 | - | - | - |
| Corporate Bonds | <u>1,205,464</u> | <u>-</u> | <u>253,586</u> | <u>951,878</u> | <u>-</u> |
| | <u>\$ 11,505,366</u> | <u>\$ 1,981,540</u> | <u>\$ 1,620,984</u> | <u>\$ 3,443,106</u> | <u>\$ 4,459,736</u> |

June 30, 2015

| <u>Investment Type</u> | <u>Value</u> | <u>Less than 1</u> | <u>1 to 3</u> | <u>3 to 5</u> | <u>5 to 10</u> |
|---|------------------|--------------------|----------------|----------------|----------------|
| | | <u>Year</u> | <u>Years</u> | <u>Years</u> | <u>Years</u> |
| U.S. Government & Agencies | \$ 5,894,074 | \$ 980,543 | \$ 2,519,000 | \$ 1,427,873 | \$ 966,658 |
| Fixed Income Mutual Funds - Domestic | 3,110,078 | - | - | - | 3,110,078 |
| Fixed Income Mutual Funds - International | 793,260 | - | - | - | 793,260 |
| Money Market Securities | 520,053 | 520,053 | - | - | - |
| Corporate Bonds | <u>1,215,360</u> | <u>307,336</u> | <u>653,754</u> | <u>254,270</u> | <u>-</u> |

MAYFLOWER MUNICIPAL HEALTH GROUP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

\$ 11,532,825 \$ 1,807,932 \$ 3,172,754 \$ 1,682,143 \$ 4,869,996

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

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 investments in short-term commercial paper at no less than AA rated quality. Credit risk of the Group's investments are summarized below.

| June 30, 2016 | Investment Type | Value | Exempt from Disclosure | S&P Ratings as of Year End | | |
|----------------------|---|----------------------|-------------------------------|---------------------------------------|---------------------|-------------------|
| | | | | AAA to AA | A to B | Not Rated |
| | U.S. Government & Agencies | \$ 6,068,295 | \$ 6,068,295 | \$ - | \$ - | \$ - |
| | Fixed Income Mutual Funds - Domestic | 3,153,028 | - | 1,441,765 | 1,711,263 | - |
| | Fixed Income Mutual Funds - International | 863,219 | - | - | 863,219 | - |
| | Money Markets | 215,360 | - | - | - | 215,360 |
| | Corporate Bonds | 1,205,464 | - | 367,427 | 838,037 | - |
| | | <u>\$ 11,505,366</u> | <u>\$ 6,068,295</u> | <u>\$ 1,809,192</u> | <u>\$ 3,412,519</u> | <u>\$ 215,360</u> |

| June 30, 2015 | Investment Type | Value | Exempt from Disclosure | S&P Ratings as of Year End | | |
|----------------------|---|----------------------|-------------------------------|---------------------------------------|---------------------|-------------------|
| | | | | AAA to AA | A to B | Not Rated |
| | U.S. Government & Agencies | \$ 5,894,074 | \$ 5,894,074 | \$ - | \$ - | \$ - |
| | Fixed Income Mutual Funds - Domestic | 3,110,078 | - | 814,499 | 2,295,579 | - |
| | Fixed Income Mutual Funds - International | 793,260 | - | - | 793,260 | - |
| | Money Markets | 520,053 | - | - | - | 520,053 |
| | Corporate Bonds | 1,215,360 | - | 111,620 | 1,103,740 | - |
| | | <u>\$ 11,532,825</u> | <u>\$ 5,894,074</u> | <u>\$ 926,119</u> | <u>\$ 4,192,579</u> | <u>\$ 520,053</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.

Foreign credit risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. As of June 30, 2016, the Group invested \$2,987,038 in equity mutual funds, \$926,178 of which is in international funds. The Group also invests \$4,016,247 in fixed income mutual funds, \$863,219 of which is invested in international funds. As of June 30, 2015, the Group invested \$2,721,982 in equity mutual funds, \$661,122 of which is in international funds. The Group also invests \$3,903,338 in fixed income mutual funds, \$793,260 of which is invested in international funds. The Group's investment policy does not address foreign credit risk.

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

| | 2015 | 2015 |
|------------------------------|------------------|------------------|
| Interest and Dividend Income | \$368,795 | \$429,657 |
| Realized Gain on Investments | <u>192,021</u> | <u>486,807</u> |
| Total Investment Income | <u>\$560,816</u> | <u>\$916,464</u> |

MAYFLOWER MUNICIPAL HEALTH GROUP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

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 2016 and 2015 were as follows:

| | <u>2016</u> | <u>2015</u> |
|--|----------------------|----------------------|
| Unpaid claims and claims' adjustment expenses—beginning of year | \$ 7,900,000 | \$ 6,900,000 |
| Incurred claims and claims' adjustment expenses: | | |
| Provision for insured events of the current fiscal year | 130,453,610 | 121,398,538 |
| Increase/(Decrease) in provision for insured events of prior fiscal years | <u>870,182</u> | <u>443,657</u> |
| | 131,323,792 | 121,842,195 |
| Payments: | | |
| Claims and claims' adjustment expenses attributable to insured events of the current fiscal year | (122,153,610) | (113,498,538) |
| Claims and claims' adjustment expenses attributable to insured events of prior fiscal years | <u>(8,770,182)</u> | <u>(7,343,657)</u> |
| | <u>(130,923,792)</u> | <u>(120,842,195)</u> |
| Total unpaid claims and claims' adjustment expenses—end of year | <u>\$ 8,300,000</u> | <u>\$ 7,900,000</u> |

Note 4. Subsequent Events

The Group has evaluated subsequent events through February 15, 2017, which is the date the financial statements were issued.

Note 5. 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 #72, Fair Value Measurement and Application, which is required to be implemented in fiscal year 2016. The pronouncement addresses accounting and financial reporting issues related to fair value measurements. The Group implemented the pronouncement as applicable.

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

Note 5. GASB Pronouncements Recently Issued (continued)

Future pronouncements

There are no additional GASB issued pronouncements as of the date of these financial statements which the Group believes will be applicable to its 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. It is defined as follows: (1) This line shows the total of each fiscal year's earned contribution revenues and investment revenues pulled from TB. (2) This line shows each fiscal year's administrative and other 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) 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. (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 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 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 re-estimated. The columns of the table show data for successive policy years.

| | <u>6/30/2016</u> | <u>6/30/2015</u> | <u>6/30/2014</u> | <u>6/30/2013</u> | <u>6/30/2012</u> | <u>6/30/2011</u> | <u>6/30/2010</u> |
|--|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| 1. Earned participant contributions investment and other revenues | \$ 123,801,727 | \$ 120,997,102 | \$ 113,777,961 | \$ 115,158,122 | \$ 119,748,556 | \$ 111,942,263 | \$ 101,779,383 |
| 2. Administrative other operating expenses | \$ 8,369,765 | \$ 8,448,148 | \$ 7,203,304 | \$ 7,339,901 | \$ 7,601,019 | \$ 7,028,011 | \$ 7,453,876 |
| 3. Estimated incurred, self-insured claims and expense, end of fiscal year | \$ 130,453,610 | \$ 121,398,538 | \$ 104,107,551 | \$ 99,858,198 | \$ 104,180,804 | \$ 97,229,423 | \$ 96,143,767 |
| 4. Paid (cumulative) as of: | | | | | | | |
| End of fiscal year | \$ 122,153,610 | \$ 113,498,538 | \$ 97,207,551 | \$ 92,958,198 | \$ 97,280,804 | \$ 89,529,423 | \$ 89,343,767 |
| One year later | \$ | \$ 121,640,804 | \$ 104,551,208 | \$ 99,617,510 | \$ 103,851,997 | \$ 97,009,100 | \$ 95,906,250 |
| Two years later | | | \$ 105,212,419 | \$ 99,617,510 | \$ 103,851,997 | \$ 97,009,100 | \$ 95,877,944 |
| Three years later | | | | \$ 99,584,215 | \$ 103,851,997 | \$ 97,009,100 | \$ 95,877,944 |
| Four years later | | | | | \$ 103,851,997 | \$ 97,009,100 | \$ 95,877,944 |
| Five years later | | | | | | \$ 97,009,100 | \$ 95,877,944 |
| Six years later | | | | | | | \$ 95,877,944 |
| Seven years later | | | | | | | \$ 95,877,944 |
| 5. Re-estimated incurred, self-insured claims and expense: | | | | | | | |
| End of fiscal year | \$ 130,453,610 | \$ 121,398,538 | \$ 104,107,551 | \$ 99,858,198 | \$ 104,180,804 | \$ 97,229,423 | \$ 96,143,767 |
| One year later | \$ | \$ 121,640,804 | \$ 104,551,208 | \$ 99,617,510 | \$ 103,851,997 | \$ 97,009,100 | \$ 95,906,250 |
| Two years later | | | \$ 105,212,419 | \$ 99,617,510 | \$ 103,851,997 | \$ 97,009,100 | \$ 95,877,944 |
| Three years later | | | | \$ 99,584,215 | \$ 103,851,997 | \$ 97,009,100 | \$ 95,877,944 |
| Four years later | | | | | \$ 103,851,997 | \$ 97,009,100 | \$ 95,877,944 |
| Five years later | | | | | | \$ 97,009,100 | \$ 95,877,944 |
| Six years later | | | | | | | \$ 95,877,944 |
| Seven years later | | | | | | | \$ 95,877,944 |
| 6. (Increase) decrease in estimated, incurred, self-insured claims and expense from the end of the original policy year. | \$ | \$ (242,266) | \$ (1,104,868) | \$ 273,983 | \$ 328,807 | \$ 220,323 | \$ 265,823 |

See Independent Auditors' Report