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In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Better Health Collective's ability to continue as a going concern for twelve months after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Better Health Collective's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Better Health Collective's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audits.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedule of contribution and claims development information be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Note 1 - Nature of Business and Significant Accounting Policies

Reporting Entity

Better Health Collective Employee Health Benefits Pool (Pool) provides health and other health related coverages for member organizations and was created under Minnesota Statute, § 471 effective July 1, 2022. There were 33 and 32 participating members of the Pool as of June 30, 2024 and 2023, respectively, all of which were the sponsoring association, statutory or home rule charter cities, counties, school districts, or instrumentalities of the State of Minnesota. The objective of the Pool is to provide and implement group health coverage and health maintenance cost containment programs and procedures to employees of Minnesota public agencies. The Pool is supervised by a Board of Trustees consisting of up to seven members.

The Pool assumed certain liabilities in conjunction with accepting the initial contribution from certain participating members. The Pool is exposed to various risks of loss related to torts and errors and omissions. The Pool has purchased commercial insurance to mitigate its risks.

The Pool's bylaws contain a provision stating that if a series of claims exhaust the Pool's net position, then the payment of those claims will be the obligation of the members. Members agree to continue membership in the Pool for a period of not less than twelve months from a renewal date of January 1 or July 1, and may withdraw from the Pool by giving written notice to the Pool no later than five months before the end of the Participating Member's Policy Year. Claims incurred prior to the effective date of withdrawal shall be paid by the Pool provided such claims are presented to the Pool, or its designee, within 180 days after the effective date of withdrawal. Any claims incurred after the effective date of withdrawal and any claims submitted after 180 days after the effective date of withdrawal shall be the responsibility of the withdrawing member.

The Board of Trustees shall review each Participating Member's status and experience, no less than annually, to determine whether they meet any criteria for expulsion. Criteria for expulsion include:

- Failure to remit a premium, assessment, or penalty in the amount required by the date due;
- Failure to comply with the membership agreement and bylaws, a delegation of authority from the Board, Board policies and procedures, or applicable laws and rules;
- Failure to perform other assigned obligations with respect to the Pool or any Plan;
- Failure to satisfy the standards of financial integrity adopted by the Board; or
- Other action or failure to act which the Board of Trustees determines to be detrimental to the interests of the Pool or any Plan.

A member that withdraws or is expelled from the Pool has no right to a share of the Pool's surplus.

Receivables

Receivables are recorded based on amounts due from members and other third-party payers, and amounts estimated to be received or recovered from reinsurers and other third-party payers. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. An allowance for doubtful accounts was not considered necessary by the Pool's management as of June 30, 2024 and 2023.

Investments

Investment securities are accounted for under the provisions of GASB 72 *Fair Value Measurement and Application*. Accordingly, the Pool is required to report investments at fair value in the statement of net position with changes in the fair value of investments reported as investment income. Certificates of deposit that are negotiable are also carried at fair market value. Nonparticipating certificates of deposits are stated at cost.

Dividend and interest income are recognized when earned. Investment expenses are netted against investment income.

The calculation of realized gains and losses is independent of the calculation of the net increase (decrease) in the fair value of investments. Realized gains and losses on investments that had been held for more than one year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year.

The Pool's Board of Trustees has authorized investments in certificates of deposit, United States Treasury and government agency issues, mortgage-backed securities, corporate and municipal bonds and mutual funds, among other investments.

There were no investments or related investment income as of and for the year ended June 30, 2023.

Funds Held by Others

As of June 30, 2023, all funds were held by the sponsoring organization for the benefit of the Pool, and income is earned based on the balance of the funds held. Losses on these funds were (\$47,254) for the year ended June 30, 2023.

Funds were transferred to and fully owned by the Pool as of June 30, 2024.

Member Contributions and Unearned Income

Members are billed monthly in advance for a deposit contribution. Income from such contributions is recorded as earned during the coverage period. Contributions received in advance for coverage in the following policy year are recorded as advance member contributions. Member contributions are reduced by reinsurance premiums ceded to the reinsurance companies.

Reinsurance

In the normal course of business, the Pool seeks to reduce the loss that may arise from events that cause unfavorable underwriting results, by reinsuring certain levels of risk in various areas of exposure with other insurance enterprises or reinsurers.

Amounts recoverable from reinsurers under excess loss coverages are estimated in a manner consistent with the development of the estimated liability for losses and loss adjustment expense reserves. Amounts recoverable from reinsurers that relate to paid claim losses and loss adjustment expenses are classified as assets, net of allowance for any estimated uncollectible amounts, and as a reduction to claims expenses incurred.

As adjustments to this estimated liability become necessary, such adjustments are reflected in current operations. Management of the Pool believes the estimated liability for losses and loss adjustment expense reserves is sufficient to cover the ultimate net cost of incurred claims, but such reserves are necessarily based on estimates and the ultimate liability may be greater or less than the amounts estimated.

Subrogation and Coordination of Benefits Recoverable

The Pool bylaws prohibit performing subrogation activities. The Pool does coordinate benefits to the extent available. The Pool evaluates the value of potential recoverable in determining the reserve for unpaid loss and loss adjustment expenses. The nature of the recoverable is such that the length of collections, coverage of the member, and other parties with a bona fide claim vary greatly from case to case. For this reason, the Pool feels that although collections are probable, they are not reasonably estimated and therefore are not accrued within the financial statements.

Income Taxes

The Pool's management believes that its income is excludable from income tax under section 115 of the Internal Revenue Code. A private letter ruling on the Pool's tax-exempt status has not been requested. Management believes that the Pool continues to operate in a manner whereby it continues to be tax exempt.

Contribution Deficiency

A contribution deficiency exists when the sum of expected claims costs (including an estimated liability for unreported claims) and all expected claims adjustment expenses, expected dividends, and policy acquisition costs exceed related unearned contribution. The Pool anticipates investment income in determining if a contribution deficiency exists. The Pool did not recognize a contribution deficiency as of June 30, 2024 or 2023.

Note 2 - Deposits and Investments

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the Pool's deposits may not be returned to it. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (i.e. broker-dealer) to a transaction, the Pool will not be able to recover the value of its investments that are in the possession of another party. As of June 30, 2024 the Pool's money markets and investments were collateralized by a \$7,500,000 letter of credit in the event of the default of the Pool's investment custodian. The Pool did not have any deposit account balances in excess of the FDIC limit as of June 30, 2024 and 2023.

Concentration of Credit Risk

The Pool's investment policy provides that no more than 50 percent of the US agency securities shall be from one issuer, and no more than 5 percent of municipal securities shall be from one issuer. Savings and demand deposits, certificates of deposit, and mortgage-backed securities shall not comprise more than 25 percent, 75 percent, and 10 percent, respectively, of the total portfolio.

As of June 30, 2024, the Pool had the following cash and investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Not Applicable	< 1	1 - 5	> 5
Cash and Cash Equivalents					
Deposits	\$ 95,317	\$ 95,317	\$ -	\$ -	\$ -
Money Market	5,067,917	5,067,917	-	-	-
Investments					
U.S. Government Securities	4,399,094	-	895,581	2,372,882	1,130,361
Municipal Bonds	837,323	-	126,368	560,874	150,081
	<u>\$ 10,399,651</u>	<u>\$ 5,163,234</u>	<u>\$ 1,021,949</u>	<u>\$ 2,933,756</u>	<u>\$ 1,280,442</u>

The fair value of investments increased by \$6,022 for the year ended June 30, 2024. The amount takes into account all changes in fair value (included purchases and sales) that occurred during the year. Gross realized investment gain was \$0 and loss was \$0 for the year ended June 30, 2024.

The Pool categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Pool has the following recurring fair value measurements as of June 30, 2024:

- U.S. government securities of \$4,399,094 are valued using quoted market prices (Level 1 inputs)
- Municipal bonds of \$837,323 are valued using quoted market prices (Level 1 inputs)

Note 3 - Liability for Losses and Loss Adjustment Expense Reserves

The Pool establishes liabilities for both reported and unreported covered events, which includes estimates of both future payments of claims and related claims adjustment expenses. The Pool agreed to assume liabilities for claims incurred but unpaid prior to July 1, 2022, for certain participating members. The following is a summary of the changes in those aggregate liabilities for the years ended June 30, 2024 and 2023:

	2024	2023
Net Unpaid Losses and Loss Adjustment Expense Reserves, beginning of year, assumed and incurred	\$ 3,857,825	\$ 2,935,165
Net Incurred Losses and Loss Adjustment Expenses		
Current year provision	41,531,137	40,424,979
Increase in prior years' provisions assumed and incurred	561,528	1,243,592
Net provision	42,092,665	41,668,571
Net Losses and Loss Adjustment Expense Payments Attributable to		
Current year	38,763,542	37,246,989
Prior years	3,283,306	3,498,922
Net payments	42,046,848	40,745,911
Unpaid Losses and Loss Adjustment Expense Reserves, End of Year	\$ 3,903,642	\$ 3,857,825

As a result of changes in estimates of insured events incurred in prior years and assumed on July 1, 2022, the provision for losses and loss adjustment expense reserves assumed on July 1, 2022, and incurred since inception, had unfavorable development of \$561,528 and \$1,243,592 during the years ended June 30, 2024 and 2023, respectively. The change in incurred losses was primarily attributable to new information regarding claim development that became known during subsequent periods.

Note 4 - Reinsurance

The Pool and its members utilize reinsurance agreements to limit maximum loss and minimize exposures on larger risks. Under the reinsurance agreements in effect during the periods ending June 30, 2024 and 2023, the Pool was reimbursed under an individual stop loss policy and an aggregate stop loss policy.

Under the individual stop loss policy, a covered person is subject to a \$250,000 deductible for the periods ended June 30, 2024 and 2023. The policy covers claims incurred on or after the effective date of the agreement while the policy is in force and paid either during the policy year or within the following 6 months.

Note 7 - Related Party Transactions

Sourcewell is the sponsoring association and a member of the Pool. The Pool incurred compensation fees related to Sourcewell of \$823,535 and \$823,535 for the years ended June 30, 2024 and 2023, respectively. No amounts were due to or from Sourcewell, related to administrative fees, as of June 30, 2024.

Cash of \$1,030,159 was received during the year ended June 30, 2024 based on the settlement of funds withheld; \$743,521 was recorded as contributions and \$286,638 was recorded as other income. There were no contributions other than the initial contribution of \$8,878,419 during the year ended June 30, 2023.

Note 8 - Major Members

The Pool had one major member for the periods ending June 30, 2024 and 2023. A major member is one which provides 10 percent or more of an entity's revenue in any year. Net member contributions earned from the major member were approximately \$5,418,000 and \$4,494,000 for the years ended June 30, 2024 and 2023, respectively.

Note 9 - Contingencies

The Pool is a party to various legal actions and is subject to various claims arising in the ordinary course of business. Management believes that the disposition of these matters will not have a material adverse effect on the Pool's financial position or results of operations.

Better Health Collective
Schedule of Contribution and Claim Development Information (Unaudited)
For the Year Ended June 30, 2024

	2023	2024
Net Earned Member Contributions and Investment loss	\$ (47,254)	\$ 206,418
Earned	40,223,041	44,319,103
Ceded	(2,697,476)	(3,515,228)
Reinsurance collected from members	2,697,476	3,515,228
Net earned	40,175,787	44,525,521
Unallocated Expenses	1,502,787	1,325,568
Estimated Claims and Expenses, End of Policy Year		
Incurred	44,499,232	44,509,262
Ceded	(3,103,432)	(2,416,597)
Net incurred	41,395,800	42,092,665
Net Paid (Cumulative) as of:		
End of policy year	36,974,218	38,763,542
One year later	40,257,524	-
Two years later	-	-
Three years later	-	-
Four years later	-	-
Five years later	-	-
Six years later	-	-
Seven years later	-	-
Eight years later	-	-
Nine years later	-	-
Net Paid on Assumed and Incurred Liabilities *	3,498,922	3,283,306
Estimated Ceded Claims and Expenses	(3,103,432)	(2,416,597)
Estimated Net Incurred Claims and Expenses		
End of policy year	40,152,208	41,531,137
One year later	40,713,736	-
Two years later	-	-
Three years later	-	-
Four years later	-	-
Five years later	-	-
Six years later	-	-
Seven years later	-	-
Eight years later	-	-
Nine years later	-	-
Increase (Decrease) in Estimated Net Incurred Claims and Expenses from End of Policy Year	\$ 561,528	\$ -

Increase (Decrease) in Assumed Liabilities on claims incurred prior to January 1, 2023* \$ 1,243,592

* See Note 3 for discussion of assumed liabilities

Better Health Collective
Schedule of Differences between UFARS and GAAP
For the Year Ended June 30, 2024

The Minnesota Department of Education has requested that the full amount of the transaction between Better Health Collective and Sourcewell be classified as a transfer for UFARS reporting to have consistent data among reporting entities for UFARS.

The following tables illustrate the differences between the audited financial statements (GAAP) and UFARS.

Audit (GAAP) Revenue	\$ 44,836,092
Reconciling Items	
Other income earned on settlement of funds withheld*	286,638
Rounding difference	4
	<u>4</u>
UFARS Revenue	<u>\$ 44,549,450</u>
Audit (GAAP) Expenses	\$ 43,418,233
Reconciling Items	
Rounding difference	1
	<u>1</u>
UFARS Expenses	<u>\$ 43,418,232</u>
Audit (GAAP) Net Position	\$ 8,340,134
Reconciling Items	
Rounding difference	1
	<u>1</u>
UFARS Net Position	<u>\$ 8,340,133</u>

*The Minnesota Department of Education has requested that Sourcewell's contribution of \$1,030,159 to Better Health Collective be recorded as a transfer for UFARS reporting purposes. This amount is included in the Statement of Revenues, Expenses, and Changes in Net Position as follows:

Miscellaneous Income	\$ 286,638
Contributions	743,521
	<u>743,521</u>
	<u>\$ 1,030,159</u>

See Note 7 to the Financial Statements for further discussion.



Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Trustees
Better Health Collective
Staples, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of Better Health Collective, as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise Better Health Collective's basic financial statements and have issued our report thereon dated November 25, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Better Health Collective's internal control over financial reporting (internal control) as the basis for designing 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 Better Health Collective's internal control. Accordingly, we do not express an opinion on the effectiveness of Better Health Collective'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 Better Health Collective'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 and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Better Health Collective'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 financial statements. 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 Better Health Collective's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Better Health Collective's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Eide Sully LLP".

Fargo, North Dakota
November 25, 2024