



**BILL FRAHER, C.P.A.**

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**CAPE COD MUNICIPAL HEALTH GROUP  
FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS  
WITH REQUIRED SUPPLEMENTARY INFORMATION  
YEARS ENDED JUNE 30, 2005 and 2004  
WITH INDEPENDENT AUDITOR'S REPORTS**

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**CAPE COD MUNICIPAL HEALTH GROUP**  
**FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**WITH REQUIRED SUPPLEMENTARY INFORMATION**  
Years Ended June 30, 2005 and 2004

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**INDEPENDENT AUDITOR'S REPORT**

To the Steering Committee  
Cape Cod Municipal Health Group

I have audited the accompanying statements of Cape Cod Municipal Health Group (the Group), as of and for the years ended June 30, 2005 and 2004, as listed in the table of contents. These financial statements are the responsibility of the Group's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that I plan and perform my audits 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. I believe that my audits provide a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cape Cod Municipal Health Group as of June 30, 2005 and 2004, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued a report dated January 16, 2006 on my consideration of the Cape Cod Municipal Health Group's internal control over financial reporting and on my 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* and should be read in conjunction with this report in considering the results of my audits.

The Management's Discussion and Analysis on pages iii through v is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

The nine-year claims development information on page 10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information, and I express no opinion on it.

Boston, Massachusetts  
January 16, 2006

## CAPE COD MUNICIPAL HEALTH GROUP

### Management's Discussion & Analysis

June 30, 2005

The management of Cape Cod 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, 2005. 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 \$14,852,903 (net assets) at the close of the fiscal year. This is up 30.1% from the prior year. Net assets at June 30, 2005 represent 18.5% of fiscal 2005 claims expense. At June 30, 2004 net assets represented 15.6% of fiscal year 2004 claims expense.
- For the year ended June 30, 2005, net assets increased by \$3,438,338 or 30.1% compared to a \$2,975,752 or 35.3% increase for fiscal year 2004.
- The statement of cash flows identifies the sources and uses of cash activity for the fiscal year and displays a net decrease in cash of \$5,252,867 for fiscal year 2005 compared to a \$6,383,143 increase in cash for fiscal year 2004.
- The decrease in cash is primarily a result of transferring nearly \$7,000,000 to longer term investments. The Steering Committee authorized the Treasurer to invest surplus cash into an investment portfolio consistent with the Group's investment policy. These investments coupled with the rising interest rate environment and increasing cash and investments balances resulted in a much improved investment return compared to the prior year.

## CAPE COD MUNICIPAL HEALTH GROUP

### Management's Discussion & Analysis

June 30, 2005

The increase in net assets is primarily a result of member premiums exceeding the projected cost of claims and other Group costs during the fiscal year. Actuarial assumptions are used in projecting annual claims costs for each health plan on a per member/per month basis and a rate, on a plan by plan basis, is set to fund the aggregate of the total projected claims and other Group costs. For the fiscal year 2005 premium calculation, \$1,300,000 of the Group's unrestricted net assets were used to subsidize the premiums charged.

### Condensed Financial Information

A comparative summary of financial information is presented below:

	2005	2004	Amount of Change	% Change
Cash	\$ 18,447,259	\$ 23,700,126	\$ (5,252,867)	(22.16)
Investments	7,314,630	-	7,314,630	100.00
Other current assets	<u>605,494</u>	<u>1,035,799</u>	<u>(430,303)</u>	(41.54)
Total assets	26,367,383	24,735,925	1,631,458	6.60
Claims liabilities	11,133,280	12,628,780	(1,495,500)	(11.84)
Other current liabilities	<u>381,200</u>	<u>692,580</u>	<u>(311,380)</u>	(44.96)
Total liabilities	11,514,480	13,321,360	(1,806,880)	(15.69)
Unrestricted net assets	<u>\$ 14,852,903</u>	<u>\$ 11,414,565</u>	<u>\$ 3,438,338</u>	30.12
Member assessments	\$ 89,681,095	\$ 82,627,945	\$ 7,053,150	8.54
Claims expense	(79,528,577)	(73,079,330)	6,449,247	8.82
Claims administration expenses	(5,106,272)	(4,791,245)	315,027	6.58
Other group expenses	<u>(2,327,542)</u>	<u>(1,972,475)</u>	<u>355,067</u>	18.00
Operating income	2,718,704	2,784,895	(66,191)	(2.38)
Investment income	<u>719,634</u>	<u>190,857</u>	<u>528,777</u>	277.05
Change in net assets	<u>\$ 3,438,338</u>	<u>\$ 2,975,752</u>	<u>\$ 462,585</u>	15.55

### Economic Factors Affecting the Subsequent Year

The Group is operating in an environment of escalating health care costs. Given this environment the Group is actively participating in ongoing wellness programs to promote healthier lifestyles and ultimately to reduce health claim costs. In addition, the Group has begun to evaluate its prescription drug benefit and has provided a discretionary opportunity to its members to purchase certain prescription drugs from pre-approved, foreign suppliers. The foreign purchasing option results in a net savings to the Group in reduced claims costs and to the individual member in the form of reduced co-pays.

Prior to June 30, 2005, the Group's Board of Directors set the rate structure for fiscal year 2006 plan participation. The rate structure resulted in a composite rate increase of 9.9% (across all plans) and utilized approximately \$3,200,000 in unrestricted net assets applied on a pro-rata basis to each plan.

**CAPE COD MUNICIPAL HEALTH GROUP**  
Management's Discussion & Analysis  
June 30, 2005

**Request for information**

This financial report is intended to provide an overview of the finances of the Group. Any questions concerning this report, or for additional information, please contact the Group's benefit administrator, Group Benefits Strategies at 800-229-8008.

**CAPE COD MUNICIPAL HEALTH GROUP**

## Statement of Net Assets

June 30, 2005 and 2004

(Notes 1 and 2)

	<b><u>2005</u></b>	<b><u>2004</u></b>
	<b><u>Total</u></b>	<b><u>Total</u></b>
<b><u>ASSETS</u></b>		
Current Assets:		
Cash and cash equivalents (Note 3)	\$ 18,447,259	\$ 23,700,126
Investments (Note 3)	7,314,630	-
Receivables:		
Member accounts	123,984	503,498
Reinsurance claims	89,010	-
Rebates from insurance carriers	-	155,801
Reserve for uncollectible accounts	<u>(10,000)</u>	<u>(10,000)</u>
Total receivables	202,994	649,299
Deposits with insurance carriers	<u>402,500</u>	<u>386,500</u>
Total assets	<b><u>\$ 26,367,383</u></b>	<b><u>\$ 24,735,925</u></b>
<b><u>LIABILITIES</u></b>		
Current Liabilities:		
Accounts payable	-	15,523
Claims liabilities (Note 5)	11,133,280	12,628,780
Participants' advance contributions	<u>381,200</u>	<u>677,057</u>
Total liabilities	11,514,480	13,321,360
<b><u>NET ASSETS</u></b>		
Unrestricted:		
Medical program	14,334,929	11,032,730
Dental program	<u>517,974</u>	<u>381,835</u>
Total unrestricted/net assets	<u>14,852,903</u>	<u>11,414,565</u>
Total liabilities and net assets	<b><u>\$ 26,367,383</u></b>	<b><u>\$ 24,735,925</u></b>

See the accompanying notes to the financial statements.

**CAPE COD MUNICIPAL HEALTH GROUP**  
Statement of Revenues, Expenses, and Changes in Net Assets  
Years Ended June 30, 2005 and 2004  
(Notes 1 and 2)

	<b>2005</b>	<b>2004</b>
	<b><u>Total</u></b>	<b><u>Total</u></b>
<b>Operating revenues:</b>		
Participants' contributions	\$ 89,681,095	\$ 82,627,945
Total operating revenues	89,681,095	82,627,945
<b>Operating expenses:</b>		
Health claims incurred	79,528,577	73,079,330
Claims administration charges	5,106,272	4,791,245
Fixed premiums	912,047	643,648
Stop loss insurance premiums	830,695	894,282
Consulting services	427,198	330,910
Other administrative services	58,386	44,703
Wellness program	99,216	58,932
Total operating expenses	86,962,391	79,843,050
Operating income	2,718,704	2,784,895
<b>Nonoperating revenues:</b>		
Investment income	719,634	190,857
Changes in net assets	3,438,338	2,975,752
Net assets, beginning of year	11,414,565	8,438,813
Net assets, end of year	\$ 14,852,903	\$ 11,414,565

See the accompanying notes to the financial statements.



**CAPE COD MUNICIPAL HEALTH GROUP**Statement of Cash Flows  
Years Ended June 30, 2005 and 2004  
(Notes 1 and 2)

	<u>2005</u>	<u>2004</u>
<b>Cash flows from operating activities:</b>		
Cash received from participants	\$ 89,764,752	\$82,733,646
Cash paid to insurance providers and other vendors	<u>(88,422,623)</u>	<u>(76,541,360)</u>
Net cash provided by operating activities	1,342,129	6,192,286
<b>Cash flows from investing activities:</b>		
Purchases and sales of investments (net)	(6,984,989)	-
Interest on deposits	<u>389,993</u>	<u>190,857</u>
Net cash provided by investing activities	<u>(6,594,996)</u>	<u>190,857</u>
Net increase in cash	(5,252,867)	6,383,143
Cash, beginning of year	<u>23,700,126</u>	<u>17,316,983</u>
Cash, end of year	<u>\$18,447,259</u>	<u>\$23,700,126</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$2,718,704	\$2,784,895
Changes in operating assets and liabilities:		
Accounts receivable	446,305	514,438
Deposits	(16,000)	(33,100)
Accounts payable	(15,523)	15,523
Claims liabilities	(1,495,500)	3,113,447
Other liabilities	<u>(295,857)</u>	<u>(202,917)</u>
Net cash provided by operating activities	<u>\$1,342,129</u>	<u>\$6,192,286</u>

See the accompanying notes to the financial statements.

## CAPE COD MUNICIPAL HEALTH GROUP

Notes to Financial Statements

June 30, 2005 and 2004

### Note 1. Description of Group

Cape Cod Municipal Health Group (the Group), Barnstable, Massachusetts, is a Massachusetts Municipal Joint Health Insurance Purchase Group formed pursuant to Massachusetts General Laws, Chapter 32B, Section 12 under a certain joint purchase agreement which became effective in July 1987. The Group became operational in November 1987. As a governmental 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.

The Group offers health benefits to all eligible employees and retirees of its fifty-one participating governmental units.

Participating governmental units consist of those municipal groups that have signed a Joint Negotiation and Purchase of Health Coverage governmental agreement. At June 30, 2004, participants are the towns of Barnstable, Brewster, Chatham, Dennis, Eastham, Falmouth, Mashpee, Orleans, Provincetown, Sandwich, Truro, Wellfleet, and Yarmouth; Bourne Recreation Authority; Barnstable Fire District, Centerville-Osterville-Marstons Mills Fire District, Cotuit Fire District, Hyannis Fire District, and West Barnstable Fire District; Bourne Water District, Buzzards Bay Water District, Dennis Water District, Mashpee Water District, North Sagamore Water District, and Sandwich Water District; Orleans/Brewster/Eastham Groundwater Protection District; Cape Cod Collaborative; Cape Cod Regional Technical High School, Dennis-Yarmouth Regional School District, The Lighthouse Charter School, Nauset Regional School District, and Upper Cape Cod Vocational Technical High School; Veterans Services of Cape Cod; Barnstable County; and Cape Cod Regional Transit Authority. In addition, the Group entered into a Joint Negotiation Purchase of Health Coverage with the Dukes County Municipal Health Group which now consists of Dukes County Commissioners; the towns of Chilmark, Edgartown, Gosnold, Oak Bluffs, Tisbury, West Tisbury, and Aquinnah; Martha's Vineyard Refuse Disposal and Resource Recovery District; Martha's Vineyard Commission; Martha's Vineyard Land Bank Commission; Oak Bluffs Water District; Martha's Vineyard Regional School District; Up-Island Regional School District; Martha's Vineyard Charter School; and Martha's Vineyard Transit Authority. The number of subscribers was approximately 9,673 and 9,592 at June 30, 2005 and 2004, respectively, in the self-funded medical plans.

Governmental units may apply for membership and be added to the Group, commencing on a date mutually agreed upon, provided that no less than two-thirds of the Board representatives present at a duly called meeting of the Board vote to accept such additional participants.

Any participating governmental unit may withdraw participation at its discretion. A governmental unit that elects to terminate participation in the Group must notify the Cape Cod Municipal Health Group Board (the Board) of such intent to withdraw 90 days prior to the stated anniversary date of the basic health contracts and shall take effect on such anniversary date.

There is no liability for premium or administrative expense following the effective date of termination of a participating governmental unit's coverage under a contract purchased through the Group except for the governmental unit's proportionate share of any deficit in the Cape Cod Municipal Health Group Trust (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. In the case of a certified surplus (uncommitted fund balance), a unit that withdraws from the Group on anniversary is entitled to receive a proportionate share of any increase in the uncommitted fund balance that occurred during the governmental unit's last year of participation in the Group. If the uncommitted fund balance did not increase during the unit's last year of participation the unit is not entitled to any share of the uncommitted fund balance.

## CAPE COD MUNICIPAL HEALTH GROUP

Notes to Financial Statements

June 30, 2005 and 2004

### Note 1. Description of Group (continued)

Contributions to the Group's trust fund from participating governmental units are on a monthly basis. The payment is calculated by the Board and is determined to be 100% of the cost of coverage of the Group as a whole (including, but not limited to, anticipated incurred claims, retention, risk, and group administration expenses) as established through underwriting and/or actuarial estimates.

The Group's Board may deal with certified surpluses and deficits through the rate setting process and this is the preferred method. Alternatively, the Group may deal with certified surpluses and deficits by making direct distributions to members in the case of a certified surplus or may require direct payments from members in the case of a certified deficit.

Health benefits consist of a traditional medical indemnity program and a Medex program with Blue Cross and Blue Shield of Massachusetts. The traditional medical indemnity program consists of Master Health Plus and Master Health/Master Medical, and Master Medical Medicare Carveout plans. In addition, the Group adopted an Exclusive Provider Organization plan with Harvard Pilgrim Health Care and a self-funded medi-wrap plan, Pilgrim Preferred 65, effective July 1, 1992. All of these plans are self-funded. The Group adopted two Medicare+Choice plans: Blue Care 65 and Tufts Secure Horizons (fully insured). Beginning July 1, 1996, the Group adopted Blue Cross/Blue Shield (BC/BS) Network Blue, a self-funded, Exclusive Provider Organization (EPO) plan. Also, beginning July 1, 1996, the Group adopted a contributory dental insurance plan (self-funded) and a voluntary (employee-pay-all/fully insured premium) dental plan. Effective July 1, 2001, the Group adopted two Preferred Provider Organization (PPO) plans. Blue Care Elect Preferred PPO is administered by BCBS, and Harvard Pilgrim PPO is administered by HPHC. Both PPO plans are self-funded.

The traditional medical indemnity plans, Blue Care Elect Preferred PPO plan, Network Blue EPO plan, and Medex plan are on a claims-paid basis and are administered by Blue Cross and Blue Shield of Massachusetts for a monthly administration fee based on the number of individual, single parent/single child, and family plan subscribers for that particular month.

The Harvard Pilgrim EPO plan, Harvard Pilgrim PPO plan, and Pilgrim Preferred 65 plan are on a claims-paid basis and are administered by Harvard Pilgrim Health Care for a monthly administration fee based on the number of individual and family plan subscribers for that particular month.

The contributory dental plan is on a claims-paid basis for subscribers whose employers pay a portion (50% or more) of the monthly cost. The voluntary dental plan is on a fixed premium basis for all other subscribers (an employee pay-all plan). The contributory dental plan is administered by Delta Dental Plan of Massachusetts for a monthly administration fee based on the number of subscribers. The voluntary dental plan is fully insured by Delta Dental Plan of Massachusetts.

The Group has a specific excess medical and prescription drug claims reinsurance contract with an insurance carrier covering claims paid in excess of \$150,000, and \$150,000 per individual, to a lifetime maximum amount payable of \$2,000,000, and \$2,000,000 at June 30, 2005 and 2004, respectively, for the traditional medical indemnity, preferred provider organization (PPO), and exclusive provider organization (EPO) plan contracts. The Group reinsures its Carveout A plan with a policy with a \$50,000 specific deductible. The Group does not reinsure its Medex, Carveout A and B, and Pilgrim Preferred 65 plans. The policy period covers claims incurred within 12 months and paid within 24 months.

## CAPE COD MUNICIPAL HEALTH GROUP

Notes to Financial Statements

June 30, 2005 and 2004

### Note 1. Description of Group (continued)

The Group employs the services of John R. Sharry, Incorporated, d/b/a Group Benefits Strategies (GBS), to provide certain management, consulting, and technical functions and to audit medical claims paid. The current agreement with GBS is for a three-year term ending January 31, 2008, and provides for an annual fee based on the number of subscribers. The agreement may be terminated by either party at any time with sixty (60) days prior, written notice.

### Note 2. Summary of Significant Accounting Policies

Financial statements present net assets at June 30, revenues, expenses, and changes in net assets and cash flows for the year 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.

Surplus and deficits are accounted for separately for the medical programs and the dental program. Accordingly, these funds are presented separately in the accompanying financial statements.

Contributions to the plans from participating governmental units are determined annually for the next fiscal year based on current operating results and estimated program costs for that year. Participants are billed monthly. Participant advance contributions are recorded as liabilities until earned.

#### Cash and Cash Equivalents

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

Cash and cash equivalents consist of cash on hand; cash in checking, savings or money market accounts; repurchase agreements; other short-term investments with original maturities of three months or less; and the Commonwealth of Massachusetts Municipal Depository Trust (MMDT) which has legislative approval for municipal use.

#### Claims' Liabilities

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

# CAPE COD MUNICIPAL HEALTH GROUP

Notes to Financial Statements

June 30, 2005 and 2004

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

### Reinsurance

The Group does not include reinsured risks as liabilities unless it is probable that those risks will not be covered by the reinsurer. Amounts recoverable through reinsurers on paid claims are classified as receivable and as a reduction of claims expense.

### Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results will differ from estimates.

## Note 3. Cash, cash equivalents and investments

The Group maintains deposits in several authorized financial institutions. 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, 2005 and 2004 deposits totaled \$18,453,477 and \$23,705,791, respectively and had a carrying amount of \$18,447,259 and \$23,700,126, respectively. Of the deposit amounts at June 30, 2005 and 2004, \$10,670,852 and \$18,450,780, respectively, which includes \$4,609,170 and \$9,922,979, respectively on deposit with MMDT, was exposed to custodial credit risk at June 30, 2005 because it was uninsured and uncollateralized. The difference between deposit amounts and carrying amounts generally represents outstanding checks and deposits in transit.

The Group maintains one account for investment which holds the following investments:

<u>Type</u>	<u>Fair Market Value</u>	<u>% of Total</u>
Debt securities:		
US Government & agencies	\$3,438,462	48%
Corporate bonds	<u>397,318</u>	5%
Total debt securities	3,835,780	53%
Equity securities	968,345	13%
Equity mutual funds	1,206,795	16%
Fixed income mutual funds	1,067,565	15%
Money market mutual funds	<u>236,145</u>	3%
	<u>\$7,314,630</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 has an investment subcommittee that monitors this risk however the Group does not have a specific investment policy covering custodial credit risk. Investments in open-end mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. The investment account is insured by Securities Investor Protection Corporation (SIPC) up to \$500,000 and is otherwise uninsured and uncollateralized.

**CAPE COD MUNICIPAL HEALTH GROUP**

Notes to Financial Statements

June 30, 2005 and 2004

**Note 3. Cash, cash equivalents and investments**

*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 has an investment policy which limits the overall portfolio allocation of fixed income securities to 85% of the total portfolio, but does not otherwise limit the maturities of fixed income securities or further address interest rate risk. The approximate maturities of the Group's debt investments are disclosed in the following table:

<u>Investment Type</u>	<u>Fair Market Value</u>	<u>Maturity (In Years)</u>			
		<u>One or Less</u>	<u>One to Five</u>	<u>Six to Ten</u>	<u>Thereafter</u>
US Govt. and agency securities	\$ 3,438,462	\$ 199,416	\$ 2,561,996	\$ 677,050	\$ -
Corporate bonds	397,318	397,318			
Fixed income mutual funds:					
Evergreen Intl. Bond Fund	62,782		62,782		
MFS High Yield Fund	49,540			49,540	
Money market mutual fund	<u>236,145</u>	<u>236,145</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total</b>	<b><u>\$ 4,184,247</u></b>	<b><u>\$ 832,879</u></b>	<b><u>\$ 2,624,778</u></b>	<b><u>\$ 726,590</u></b>	<b><u>\$ -</u></b>

*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 in following table. Equity securities and equity mutual funds are not rated as to credit risk. The Group has an investment policy which limits the overall portfolio allocation but is not specific as to limit investment choices to certain ratings. The following table discloses the approximate amount of debt investments in each rating classification using Standard & Poor's rating classifications:

<u>Investment Type</u>	<u>Fair Market Value</u>	<u>Exempt from Disclosure</u>	<u>S&amp;P Rating as of Year End</u>		
			<u>A</u>	<u>BB to B</u>	<u>Not Rated</u>
US Govt. and agency securities	\$ 3,438,462	\$ 3,438,462	\$ -	\$ -	\$ -
Corporate bonds	397,318		397,318		
Fixed income mutual funds:					
Evergreen Intl. Bond Fund	62,782			62,782	
MFS High Yield Fund	49,540			49,540	
Money market mutual fund	<u>236,145</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>236,145</u>
<b>Total</b>	<b><u>\$ 4,184,247</u></b>	<b><u>\$ 3,438,462</u></b>	<b><u>\$ 397,318</u></b>	<b><u>\$ 112,322</u></b>	<b><u>\$ 236,145</u></b>

*Concentration of credit risk* is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Group has an investment policy which prohibits any one issue (excluding US Government securities) from making up more than 5% of the portfolio. As of June 30, 2005, there are no securities exceeding this threshold.

# CAPE COD MUNICIPAL HEALTH GROUP

## Notes to Financial Statements

June 30, 2005 and 2004

### Note 4. Plan Deposits and Payment Arrangements

The Group pays Blue Cross & Blue Shield (BC/BS) and Harvard Pilgrim Health Care (HPHC) a level, monthly payment each month to cover the expected cost of claims for that month. The amount has been mutually agreed upon to represent approximately one month of projected claims for BC/BS and HPHC plans. There is a quarterly reconciliation and settle-up against actual claims payments made by BC/BS and HPHC on behalf of the Group. Quarterly settle-up payments/credits are generally made for the 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup>, and 4<sup>th</sup> fiscal year quarters in December, March, June, and September respectively.

The Group pays BC/BS, HPHC monthly, and Delta Dental in the case of the contributory plan administrative fees for self-funded health plans based on the number of individual and family subscribers covered under each health plan for the month.

### Note 5. Unpaid Claims

The Group establishes a liability for both reported and unreported incurred events which includes estimates of both future payments of losses and related adjustment expenses, if any. The following represents changes in claims liabilities during the years ended June 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Unpaid claims and claims adjustment expenses—beginning of year	\$ 12,628,780	\$ 9,515,333
Incurred claims and claims adjustment expenses:		
Provision for insured events of the current fiscal year	82,615,950	73,588,400
Increase (decrease) in provision for insured events of prior fiscal years	<u>(3,087,373)</u>	<u>(509,070)</u>
	79,528,577	73,079,330
Payments:		
Claims and expenses attributable to insured events – current year	(75,571,919)	(64,462,173)
Claims and expenses attributable to insured events – prior years	<u>(5,529,793)</u>	<u>(5,429,959)</u>
	(81,101,702)	(69,892,132)
Other reconciling items:		
Change in reinsurance receivable included as a reduction of claims expense	89,011	(204,144)
Reinsurance refunds included as reduction of claims expense	<u>(11,386)</u>	<u>130,393</u>
	<u>77,625</u>	<u>(73,751)</u>
Total unpaid claims and claim adjustment expenses—end of year	<u>\$ 11,133,280</u>	<u>\$ 12,628,780</u>

**CAPE COD MUNICIPAL HEALTH GROUP**  
 Required Supplementary Information  
 Nine-Year Claims Development Information

The table below illustrates how the Group's earned revenues and investment income compare to related costs of loss and other expenses assumed by the Group as of the end of each of the last nine years. The rows in the table are defined as follows: (1) This line shows the total of each fiscal year's earned contribution revenues and investment revenues. (1-a) This line shows the amount of existing net assets used to fund each fiscal year's operations, in addition to earned revenues displayed in line 1, above. (2) This line shows each fiscal year's other operating costs of the Group including overhead and claims expense not allocated to individual claims. (3) This line shows the Group's incurred claims and allocated claims adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event triggered coverage under the contract occurred (called policy year). (4) This section of rows shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. (6) This line compares the latest re-estimated incurred claims amount to the originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years:

	<u>6/30/2005</u>	<u>6/30/2004</u>	<u>6/30/2003</u>	<u>6/30/2002</u>	<u>6/30/2001</u>	<u>6/30/2000</u>	<u>6/30/1999</u>	<u>6/30/1998</u>	<u>6/30/1997</u>
1 Earned member assessments and investment revenues	90,400,730	82,818,727	73,728,501	66,460,414	55,526,869	46,604,700	40,339,902	36,141,823	26,896,377
1a Net assets provided (used) by current year operations	3,438,337	2,975,754	5,454,285	6,621,278	1,447,287	(4,783,279)	(2,248,811)	(2,668,187)	(2,668,187)
2 Administrative and operating expenses	7,433,816	6,763,642	6,260,985	5,703,322	5,037,780	4,256,602	3,451,340	3,377,808	2,595,845
3 Estimated incurred claims and expense, end of fiscal year	79,528,577	73,079,330	62,013,231	54,135,814	50,676,419	47,079,917	40,481,816	35,252,784	26,093,308
4 Paid (cumulative) as of:									
End of fiscal year	75,571,919	64,462,173	56,074,202	46,349,094	40,247,552	34,225,430	29,863,260	22,714,779	17,888,623
One year later		70,036,510	61,567,856	53,937,688	50,643,517	46,423,310	40,540,436	33,878,654	26,298,399
Two years later			61,559,752	53,901,179	50,662,287	46,471,352	40,505,292	34,239,319	26,333,333
Three years later				53,905,354	50,657,554	46,475,283	40,505,243	34,195,453	26,314,229
Four years later					50,616,930	46,459,809	40,510,665	34,192,361	26,304,743
Five years later						46,459,809	40,503,856	34,190,145	26,304,743
Six years later							40,503,856	34,189,975	26,304,743
Seven years later								34,189,975	26,304,743
Eight years later									26,304,743
5 Reestimated incurred claims and expense									
End of fiscal year	79,528,577	73,079,330	62,013,231	54,135,814	50,676,419	47,079,917	40,481,816	35,252,784	26,093,308
One year later		70,036,510	61,567,856	53,937,688	50,643,517	45,533,796	40,540,436	33,878,654	26,298,399
Two years later			61,559,752	53,901,179	50,662,287	45,581,838	40,505,292	34,239,319	26,333,333
Three years later				53,905,354	50,657,554	46,475,283	40,505,243	34,195,453	26,314,229
Four years later					50,616,930	46,459,809	40,510,665	34,192,361	26,304,743
Five years later						46,459,809	40,503,856	34,190,145	26,304,743
Six years later							40,503,856	34,189,975	26,304,743
Seven years later								34,189,975	26,304,743
Eight years later									26,304,743
6 (Increase) decrease in estimated incurred claims and expense from the end of the original policy year		3,042,820	453,479	230,460	59,489	620,108	(22,040)	1,060,593	(211,435)