BF

Bill Fraher, CPA

CAPE COD MUNICIPAL HEALTH GROUP
FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS
WITH REQUIRED SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2014 and 2013
WITH INDEPENDENT AUDITOR'S REPORTS

CAPE COD MUNICIPAL HEALTH GROUP
FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS
WITH REQUIRED SUPPLEMENTARY INFORMATION
Years Ended June 30, 2014 and 2013

Table of Contents

Bill Fraher, CPA
1313 Washington Street
Unit 225
Boston, MA 02118
Tel: 617-699-2877
Fax: 617-830-9393
bfraher2877@aol.com

INDEPENDENT AUDITOR'S REPORT

To the Steering Committee
Cape Cod Municipal Health Group

Report on the Financial Statements

I have audited the accompanying financial statements of the Cape Cod Municipal Health Group (the Group), Barnstable, Massachusetts as of and for the years ended June 30, 2014 and 2013.

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 misstatements, whether due to fraud or error.

Auditor's Responsibility

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 the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of a 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 Group'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 Group's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Cape Cod Municipal Health Group as of June 30, 2014 and 2013, 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.

Other Matters

Prior Year Reclassifications

As discussed in Note 2, the Group changed the classification of certain expenses to better reflect current operations. These reclassifications did not change expenses in total, only reclassified expenses between categories. Prior year amounts were reclassified for a comparable presentation to the current year classifications.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages v through vii and the ten-year claims development information on page 10 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Government Auditing Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. I 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 regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements and other knowledge obtained during the audit of the financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards* I have also issued my report dated December 17, 2014 on my consideration of the Group's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Group's internal control over financial reporting and compliance.

Bill Fraher, CPA
December 17, 2014

Bill Fraher, CPA
1313 Washington Street
Unit 225
Boston, MA 02118
Tel: 617-699-2877
Fax: 617-830-9393
bfraher2877@aol.com

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 Steering Committee
Cape Cod Municipal Health Group

I 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, the financial statements of the Cape Cod Municipal Health Group (the Group), Barnstable, Massachusetts as of and for the years ended June 30, 2014 and 2013 and have issued my report thereon dated December 17, 2014.

Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I 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 my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. Accordingly, I 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Group's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charges with governance.

My 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified. I consider the deficiency described in the following paragraph to be a significant deficiency in internal control over financial reporting.

The Group's Treasurer performs or supervises all functions and controls that initiate, record and process all of the Group's transactions and financial reporting. This lack of segregation of duties is a combination of control deficiencies that I consider to be a significant deficiency.

The Group's Response to the Finding

The Group's Board intends to take this under advisement and to continue to monitor and evaluate financial reporting and internal controls on an ongoing basis and take corrective actions as necessary.

The Group's response to the finding identified during my audit is described above. The Group's response was not subjected to auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

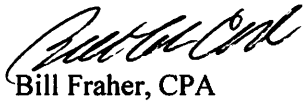
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Group's financial statements are free of material misstatement, I performed tests of the Group's 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 my audit and, accordingly, I do not express such opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported herein under Government Auditing Standards.

I noted certain matters related to internal control over financial reporting and compliance and other matters that I reported to the Group in a separate letter dated December 17, 2014.

Purpose of this Report

This 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 Group'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 Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose



Bill Fraher, CPA
Boston, Massachusetts
December 17, 2014

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, 2014. Please read this discussion and analysis in conjunction with the Group's basic financial statements on the accompanying pages.

Basic Financial Statements

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

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

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

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

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

Financial Highlights

- Assets exceeded liabilities by $25,748,591 (net position) at the close of the fiscal year. This is up 5.82% from the prior year. Net position at June 30, 2014 represents 20.00% of fiscal year 2014 claims expense. At June 30, 2013 net position represented 20.28% of fiscal year 2013 claims expense.

- For the year ended June 30, 2014, net position increased by $1,416,335 or 5.82% compared to $3,486,981 or a 16.73% increase for fiscal year 2013.

- 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 $894,039 for fiscal year 2014 compared to a $2,154,413 decrease in cash for fiscal year 2013.

- The decrease in cash for 2014 is a result of a combination of better than expected claims experience, despite the utilization of a portion of Group fund balance to minimize increases in the FY 2014 plan rates, and the return of nearly $1.4 million of Retiree Drug Subsidy payments collected in prior years. The decrease in cash for 2013 is a result of a combination of better than expected claims experience; utilization of fund balance to minimize rate increases; return of nearly $1.4 million of Retiree Drug Subsidy payments collected in prior years to members; and timing of member payments at year-end.

  For fiscal year 2014, the Group's operation resulted in an approximately $1.4 million increase in fund balance. This result was better than anticipated as the Group utilized a portion of its fund balance to minimize increases in the FY 2014 plan rates. 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.

  The Group has adopted a fund balance policy which provides for a target range of unrestricted net position of between 8 – 12% of claims for the Group to maintain for operating purposes.

  Additionally, during FY 2014 and 2013 the Group authorized the return of approximately $1.4 and $1.4 million, respectively of previously collected federal Medicare Part D employer subsidy to its employer members. Investment income on the Group's investment portfolio of $1,377,789, when applied to the operating income (loss) and less the return of Medicare Part D subsidies, results in a net increase of the Group's net position of approximately $1.4 million.

Condensed Financial Information

A comparative summary of financial information is presented below:

	2014	2013	Increase/ (Decrease)	% Change
Cash	$ 23,394,360	$ 23,288,399	$ 105,961	.46
Investments	13,638,939	12,351,794	1,287,145	10.42
Other current assets	2,308,167	2,233,233	74,934	3.36
Total assets	38,341,466	37,873,426	468,040	1.24
Claims liabilities	12,142,593	11,911,427	231,166	1.94
Other current liabilities	450,282	1,629,743	(1,179,461)	(72.37)
Total liabilities	12,592,875	13,541,170	(948,295)	(7.00)
Unrestricted net position	$ 25,748,591	$ 24,332,256	$ 1,416,335	5.82
Member assessments	$ 138,493,015	$ 132,368,674	$ 6,124,341	4.63
Medicare part D & COBRA subsidy	1,415,794	1,476,004	(60,210)	(4.08)
Claims expense	(128,699,843)	(120,438,328)	8,261,515	6.86
Claims administration expenses	(6,919,100)	(6,555,744)	363,356	5.54
Other group expenses	(2,876,643)	(2,900,499)	(23,856)	(.82)
Operating income (loss)	1,413,223	3,950,107	(2,536,884)	(64.22)
Distribution of Med. Pt. D to employers	(1,381,313)	(1,372,463)	8,850	.65
Investment income (loss) & other	1,384,425	909,337	475,088	52.25
Change in net position	$ 1,416,335	$ 3,486,981	(2,070,646)	(59.38)

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 been evaluating its prescription drug benefit on an ongoing basis 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.

The Massachusetts Municipal Health Care Reform Law was enacted on July 1, 2011. The law provides municipal employers with an expedited collective bargaining process to negotiate plan design changes provided the plan design changes do not go beyond the plan design of the Group Insurance Commission's (GIC) most popular plan. The law also gives joint purchase groups the authority to approve such plan design changes and then requires each participating employer to follow the expedited bargaining process or other approved bargaining process. The CCMHG approved plan design changes for FY15 are similar to the plan design of the GIC benchmark plan.

The Group has taken action to comply with the requirements for Non-Grandfathered plans under the Affordable Care Act. All of the Group's benefits plans conform to the benefits and eligibility requirements of the ACA to date. An additional plan design change will be made for July 1, 2015 as required. The Group has obtained a Health Plan ID Number (HPID), a requirement that was recently withdrawn indefinitely. The Group filed for the Patient Centered Outcomes Research Institute (PCORI) fees of $20,891 for the July 1, 2012 – June 13, 2013 plan year and paid this fee in July 2014. The fees of $42,004 for the July 1, 2013 – June 30, 2014 year were paid in November 2014. The Group filed an application and set up online payment arrangements for the Transitional Reinsurance Program fees for 2014. The amount of this fee is $852,516 which will be drawn in January 2015.

Prior to June 30, 2014, the Group's Board of Directors set the rate structure for fiscal year 2015 plan participation. The rate structure resulted in a blended premium rate increase of approximately 2%. The rates were set to fund the estimated cost of claims, plus other group expenses and the Group anticipated using approximately $10 million of the Groups unreserved fund balance to maintain compliance with its fund balance policy.

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, or Treasurer, Richard D. Bienvenue, CPA.

CAPE COD MUNICIPAL HEALTH GROUP
Statement of Net Position
June 30, 2014 and 2013
(Notes 1 and 2)

	2014 Total	2013 Total
ASSETS		
Current Assets:		
Cash and cash equivalents (Note 3)	$ 22,394,360	$ 23,288,399
Investments (Note 3)	13,638,939	12,351,794
Receivables:		
Member accounts	949,829	96,845
Reinsurance claims	-	1,005,268
Medicare part D receivable	500,000	541,238
Reserve for uncollectible accounts	(10,000)	(10,000)
Total receivables	1,439,829	1,633,351
Prepaid expenses	426,878	158,422
Deposits with insurance carriers	441,460	441,460
Total assets	$ 38,341,466	$ 37,873,426
LIABILITIES		
Current Liabilities:		
Accounts payable	$ 40,137	$ 5,400
RDS due members	287,007	1,372,463
Claims liabilities (Note 5)	12,142,593	11,911,427
Participants' advance contributions	123,138	251,880
Total liabilities	12,592,875	13,541,170
Net Position		
Unrestricted:		
Medical and dental programs	25,748,591	24,332,256
Total unrestricted/net position	25,748,591	24,332,256
Total liabilities and net position	$ 38,341,466	$ 37,873,426

See the accompanying notes to the financial statements.

CAPE COD MUNICIPAL HEALTH GROUP
Statement of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2014 and 2013
(Notes 1 and 2)

	2014 Total	2013 Total
Operating revenues:		
Participants' contributions	$ 138,493,015	$ 132,368,674
Medicare part D refund	1,415,794	1,476,004
ARRA COBRA subsidy	-	-
Total operating revenues	139,908,809	133,844,678
Operating expenses:		
Health claims incurred	128,699,843	120,438,328
Claims administration charges	6,919,100	6,986,155
Fixed premiums	683,590	456,641
Government claims fees	20,891	-
Stop loss insurance premiums	1,398,444	1,223,703
Consulting services	521,666	508,683
Wellness program	170,495	110,412
Other administrative services	81,557	170,649
Total operating expenses	138,495,586	129,894,571
Operating income	1,413,223	3,950,107
Nonoperating revenues (expenses):		
Investment income	1,377,789	909,337
Distributions to members	(1,381,313)	(1,372,463)
Other income (expense)	6,636	-
Total nonoperating revenues (expenses):	3,112	(463,126)
Changes in Net position	1,416,335	3,486,981
Net position, beginning of year	24,332,256	20,845,275
Net position, end of year	$ 25,748,591	$ 24,332,256

See the accompanying notes to the financial statements.

CAPE COD MUNICIPAL HEALTH GROUP
Statement of Cash Flows
Years Ended June 30, 2014 and 2013
(Notes 1 and 2)

	2014	2013
Cash flows from operating activities:		
Cash received from participants	$ 137,511,289	$ 132,396,804
Other operating cash receipts - Medicare Part D & ARRA	1,457,032	1,562,373
Cash paid to insurance providers and other vendors	(137,492,871)	(136,252,684)
RDS amounts paid to members and other	(2,466,769)	-
Net cash provided (used) by operating activities	(991,319)	(2,293,507)
Cash flows from investing activities:		
Purchases and sales of investments (net)	(1,280,509)	(770,243)
Interest income on deposits	1,377,789	909,337
Net cash (used) by investing activities	97,280	139,094
Net (decrease) in cash	(894,039)	(2,154,413)
Cash, beginning of year	23,288,399	25,442,812
Cash, end of year	$ 22,394,360	$ 23,288,399
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	$ 1,413,223	$ 3,950,107
RDS amounts paid to members and other	(1,381,313)	(1,372,463)
Changes in operating assets and liabilities:		
Receivables	193,522	(614,189)
Prepaids	(268,456)	(143,023)
Deposits	-	(24,760)
Accounts payable	34,737	(57,684)
RDS due members	(1,085,456)	1,372,463
Claims liabilities	231,166	(5,456,279)
Other liabilities	(128,742)	52,321
Net cash provided by operating activities	$ (991,319)	$ (2,293,507)

See the accompanying notes to the financial statements.

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-three 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, 2010, participants are the towns of Barnstable, Brewster, Chatham, Dennis, Eastham, Falmouth, Harwich, 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, Monomoy 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 in the self-funded medical plans was approximately 10,000 at June 30, 2014 and 2013.

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

Note 1. Description of Group (continued)

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.

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 plans for active employees and non-Medicare eligible retirees consist of a traditional medical indemnity plan, two Preferred Provider Organization (PPO) plans and two Exclusive Provider Organization (EPO) plans. All active employees are self funded with Blue Cross and Blue Shield of Massachusetts (BCBSMA) and Harvard Pilgrim Health Care (HPHC) as third party administrators. The Group offers six health plans for Medicare eligible retirees, which include two self-funded Medicare Supplement plans, one of which is administered by BCBSMA and one by HPHC, one fully insured Medicare Supplement with a Medicare Prescription Drug (PDP) plan provided by Tufts Health Plan, one HMO Medicare wrap plan fully insured by BCBSMA, and two fully insured Medicare Advantage HMO plans, one of which is from BCBSMA and one from Tufts Health Plan.

Prior to July 1, 2012, the Group offered two benefit options for each EPO and PPO plan: the Legacy option and the Rate Saver option. On July 1, 2012, the Group changed its plan designs following applicable law to do so. The plan design changes resulted in a single option for each EPO and each PPO. These options are similar in plan design to the Group Insurance Commission's "benchmark plan" and include additional member cost-sharing features.

The Group has adopted a contributory dental insurance plan (self-funded) and a voluntary dental plan, which was premium based through June 30, 2007 and changed to a self-funded basis effective July 1, 2007. These plans are administered by Delta Dental Plan of Massachusetts for a monthly administration fee, based on the number of subscribers.

Effective July 1, 2009, the Group adopted a voluntary fully funded vision plan from EyeMed Vision Care. The vision plan is optional for employers

Master Health Plus, 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 Harvard Pilgrim Health Care Enhance Medicare 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.

Note 1. Description of Group (continued)

The Group has a specific excess medical and prescription drug claims reinsurance contract with an insurance carrier covering claims paid in excess of $500,000 and $300,000 per individual, to a lifetime maximum amount payable of $2,000,000, at June 30, 2014 and 2013, respectively. The Group does not reinsure its Medex and HPHC Medicare Enhance plans. The policy period covers claims incurred within 12 months and paid within 24 months.

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 June 30, 2014, 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 position at June 30, revenues, expenses, and changes in net position 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.

Note 2. Summary of Significant Accounting Policies (continued)

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.

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.

Expense Category Reclassifications

Certain expense accounts were reclassified between categories in 2014 to better reflect the Group's operations. For comparative purposes, expenses for 2013 were reclassified and are presented in these new categories. Expenses in 2013 did not change in total, but amounts in certain categories increased or decreased based on these revised classifications.

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, 2014 and 2013 deposits totaled $22,791,701 and $23,298,076, respectively and had a carrying amount of $22,394,360 and $23,288,399, respectively. Of the deposit amounts at June 30, 2014 and 2013, $2,962,806 and $1,467,298, respectively, which includes $10,556 and $10,539, respectively on deposit with MMDT, was exposed to custodial credit risk at June 30, 2014 and 2013 because it was uninsured and uncollateralized. The difference between deposit amounts and carrying amounts generally represents outstanding checks and deposits in transit.

Note 3. Cash, cash equivalents and investments (continued)

The Group maintains two accounts for investments which hold the following at June 30, 2014 and 2013:

Type	Fair Market Value June 30, 2014	% of Total	Fair Market Value June 30, 2013	% of Total
Debt securities:				
US Government & agencies	$4,493,070	33%	$4,214.383	34%
Equity securities	3,051,550	22%	2,667,796	21%
Equity mutual funds	2,823,129	21%	2,453,277	20%
Corporate bonds	1,066,763	8%	1,064,639	9%
Fixed income mutual funds	2,204,427	16%	1,951,699	16%
	$13,638,939		$12,351,794	

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.

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 as of June 30, 2014:

		Maturity (In Years)			
Investment Type	Fair Market Value	One or Less	One to Two	Three to Five	Thereafter
US Govt. and agency securities	$ 4,493,070	$ 253,007	$ 573,507	$ 3,211,707	$ 454,849
Corporate Bonds	1,066,763	152,904	208,286	535,976	169,597
Fixed income mutual funds:					
Principal Pref Security Fund	360,745	360,745	-	-	-
Wells Fargo Int'l Bond	736,347	736,347	-	-	-
MFS High Yield Fund	348,522	348,522	-	-	-
Ridgeworth Seix High Inc.	347,288	347,288	-	-	-
TIAA-CREF Inst. Bond	411,525	411,525	-	-	-
Total	$ 7,760,260	$ 2,610,338	$ 781,793	$3,747,683	$624,446

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 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 as of June 30, 2014:

Note 3. Cash, cash equivalents and investments (continued)

Investment Type	Fair Market Value	S&P Rating as of Year End: AAA to AA+	A to AA	BB to B	Not Rated
US Govt. and agency securities	$ 4,493,070	$ 4,493,070	$ -	$ -	$ -
Corporate Bonds	1,066,763	-	1,066,763	-	-
Fixed income mutual funds:					
Principal Pref Security Fund	360,745	-	-	-	360,745
Wells Fargo Int'l Bond	736,347	-	-	-	736,347
MFS High Yield Fund	348,522	-	-	-	348,522
Ridgeworth Seix High Inc.	347,288	-	-	-	347,288
TIAA-CREF Inst. Bond	411,525	-	-	-	411,525
Total	$ 7,760,260	$ 4,493,070	$1,066,763	$ -	$2,204,427

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, 2014, there are no securities exceeding this threshold.

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 represents 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 settlements are generally made for the 1st, 2nd, 3rd, and 4th fiscal year quarters in December, March, June, and September respectively. The Group pays BC/BS, HPHC monthly, and Delta Dental 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, 2014 and 2013:

	2014	2013
Unpaid claims and claims adjustment expenses–beginning of year	$11,911,427	$ 17,367,706
Incurred claims and claims adjustment expenses:		
Provision for insured events of the current fiscal year	125,654,675	127,253,895
Increase (decrease) in provision for insured events of prior fiscal years	3,045,168	(6,815,567)
	128,699,843	120,438,328
Payments:		
Claims and expenses, net, attributable to insured events – current year	(119,600,702)	(115,340,752)
Claims and expenses, net, attributable to insured events – prior years	(8,867,975)	(10,553,855)
	(128,468,677)	(125,894,607)
Total unpaid claims and claim adjustment expenses–end of year	$ 12,142,593	$ 11,911,427

CAPE COD MUNICIPAL HEALTH GROUP
Required Supplementary Information
Ten-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 ten years. The rows in the table are defined as follows: (1) This line shows the total of each fiscal year's earned contribution revenues and investment revenues. (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:

		6/30/2014	6/30/2013	6/30/2012	6/30/2011	6/30/2010	6/30/2009	6/30/2008	6/30/2007	6/30/2006	6/30/2005
1	Earned member assessments, refunds										
	and investment revenues	141,286,598	134,754,015	150,080,913	141,270,154	137,921,701	134,055,363	110,975,423	109,321,764	100,387,750	90,400,730
1a	Net assets provided (used)										
	by current year operations	1,416,335	3,486,981	(1,897,662)	(498,285)	5,014,000	2,720,689	(4,400,607)	1,046,834	3,623,385	3,438,337
2	Administrative and operating expenses	9,795,743	9,910,621	9,222,526	9,069,287	9,546,016	9,344,537	8,468,641	8,026,446	7,735,384	7,433,816
3	Estimated incurred claims and expense,										
	end of fiscal year	128,699,843	127,253,895	145,412,749	133,471,826	125,912,820	124,753,283	109,634,965	102,551,402	89,936,391	82,615,950
4	Paid (cumulative) as of:										
	End of fiscal year	119,600,702	115,340,752	128,043,326	119,481,350	115,687,707	111,260,461	98,844,030	90,653,296	80,880,494	75,571,919
	One year later		124,245,819	138,622,170	129,161,518	124,322,771	122,682,458	106,891,163	100,040,770	87,640,181	81,944,902
	Two years later			138,603,422	129,153,965	124,120,003	122,539,022	106,835,605	100,043,922	87,453,852	81,959,510
	Three years later				129,143,128	124,128,330	122,748,908	106,795,002	100,017,640	87,442,275	81,996,340
	Four years later					124,121,083	122,743,569	106,789,020	99,988,470	87,431,270	81,987,305
	Five years later						122,743,309	106,768,518	99,992,393	87,393,769	81,985,421
	Six years later							106,768,518	99,992,472	87,395,281	81,985,507
	Seven years later								99,992,472	87,395,281	81,985,507
	Eight years later									87,395,281	81,985,507
	Nine years later										81,985,507
5	Reestimated incurred claims and expense										
	End of fiscal year	128,699,843	127,253,895	145,412,749	133,471,826	125,912,820	124,753,283	109,634,965	102,551,402	89,936,391	79,528,577
	One year later		124,245,819	138,622,170	129,161,518	124,322,771	122,682,458	106,891,163	100,040,770	87,640,181	81,944,902
	Two years later			138,603,422	129,153,965	124,120,003	122,539,022	106,835,605	100,043,922	87,453,852	81,959,510
	Three years later				129,143,128	124,128,330	122,748,908	106,795,002	100,017,640	87,442,275	81,996,340
	Four years later					124,121,083	122,743,569	106,789,020	99,988,470	87,431,270	81,987,305
	Five years later						122,743,309	106,768,518	99,992,393	87,393,769	81,985,421
	Six years later							106,768,518	99,992,472	87,395,281	81,985,507
	Seven years later								99,992,472	87,395,281	81,985,507
	Eight years later									87,395,281	81,985,507
	Nine years later										81,985,507
6	(Increase) decrease in estimated incurred										
	claims and expense from the end of the										
	original policy year		3,008,076	6,809,327	4,328,698	1,791,737	2,009,974	2,866,447	2,558,930	2,541,110	630,443