

ROSELLI, CLARK & ASSOCIATES
Certified Public Accountants

CAPE COD MUNICIPAL HEALTH GROUP

**REPORT ON EXAMINATION OF
FINANCIAL STATEMENTS**

**AND
OTHER ADDITIONAL INFORMATION**

YEARS ENDED JUNE 30, 2022 and 2021



CAPE COD MUNICIPAL HEALTH GROUP

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INDEPENDENT AUDITORS' REPORT

The Honorable Members of the Board of Representatives
Cape Cod Municipal Health Group

Opinion

We have audited the accompanying financial statements of the Cape Cod Municipal Health Group, (the "Group") as of and for the years ended June 30, 2022 and 2021, and related notes to the financial statements, which collectively comprise the Group's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Group as of June 30, 2022 and 2021, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United State of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Financial Statements section of our report. We are required to be independent of the Group and to meet our other ethical responsibilities, in accordance with relevant ethical requirements related to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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 the Group's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements taken as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. 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 generally accepted 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 generally accepted 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 the Group'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 the Group'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 audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis section in the accompanying table of contents and the ten-year claims development information be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Roselli Clark & Associates

Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
January 8, 2023

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 years ended June 30, 2022 and 2021. 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 each of the fiscal years. 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 respective fiscal years.

The statements of cash flows report the changes in cash for each year resulting from operating and investing activities. The net result of the changes in cash for each 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 \$50,342,438 (net position) at the close of the fiscal year compared to \$66,779,126 at the end of fiscal year 2021. Net position at June 30, 2022, represents 34.3% of fiscal year 2022 claims expense down from the prior year ratio of 50.5% for fiscal year 2021.
- For the year ended June 30, 2022, net position decreased by \$16,436,688 (24.6%) compared to an increase of \$10,095,318 (17.8%) for fiscal year 2021.
- 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 \$20,553,055 for fiscal year 2022, compared to an increase in cash of \$12,546,535 for fiscal year 2021.
- A decrease of \$22,113,636 in cash and investment balances was reflected for fiscal year 2022. There are multiple factors which yielded this result, with the operating loss of \$14,870,258 being the most predominate; however, other notable items had significant impacts such as:
 - A delay in cash receipts from members for billed assessments, resulting in over \$1.7 million in higher receivables at the end of fiscal year 2022 versus 2021.
 - Prepaid expenses in the form of cash payments made in advance of claims being fully processed were approximately \$1.75 million higher at the end of fiscal year 2022.

- Cash deposits held within the reinsurance pool that the Group participates in, were over \$1.76 million at the end of fiscal year 2022.
- Investment results for fiscal year 2022 reflects a net loss in of nearly \$1.6 million, which was comprised of nearly \$1.0 million of net realized investment income offset by an unrealized market value loss of investments of over \$2.5 million.

As disclosed in the notes to the financial statements, the Group participates in a pooled reinsurance arrangement in lieu of purchasing traditional stop-loss insurance policies directly. Financial performance of this pool, Massachusetts Municipal Reinsurance Arrangement (MMRA), affects the financial results of the Group and is reflected in the financial statements as “Deposit with Reinsurance Pool”.

Investment income on the Group’s investment portfolio, when applied to the operating income (loss) and less the return of Medicare Part D subsidies, results in the net increase or decrease of the Group’s net position. Increases or decreases in net position also reflect any provisions for Member Termination Payments for withdrawing members.

Condensed Financial Information

A comparative summary of financial information is presented below:

	June 30,		Increase/ Decrease
	2022	2021	
Cash	\$ 29,303,398	\$ 49,856,453	\$ (20,553,055)
Investments	25,340,152	26,900,733	(1,560,581)
Other current assets	9,369,565	3,804,619	5,564,946
Total assets	64,013,115	80,561,805	(16,548,690)
Claims incurred but not reported	10,138,927	10,045,947	92,980
Other current liabilities	3,531,750	3,736,732	(204,982)
Total liabilities	13,670,677	13,782,679	(112,002)
Unrestricted net position	<u>\$ 50,342,438</u>	<u>\$ 66,779,126</u>	<u>\$ (16,436,688)</u>
Member assessment	155,594,306	163,528,524	(7,934,218)
Claims expense	(146,854,436)	(132,244,140)	(14,610,296)
Claims administration expenses	(6,796,709)	(6,647,223)	(149,486)
Other group expenses	(16,813,419)	(18,064,178)	1,250,759
Operating income (loss)	(14,870,258)	6,572,983	(21,443,241)
Investment income (loss) & other	(1,566,430)	3,522,335	(5,088,765)
Change in net position	<u>\$ (16,436,688)</u>	<u>\$ 10,095,318</u>	<u>\$ (26,532,006)</u>

For fiscal year 2022, the Group’s operations resulted in an approximately \$16.4 million decrease in net position. This result was partially planned as the Group utilized a portion of its net position in the form of a one-month health insurance holiday. For one month, no assessments or withholdings were collected, to minimize increases in the fiscal year 2022 plan rates and was effectively attributable to reducing member appropriations and employee withholdings for health care costs by approximately \$7.9 million. 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 prediction of anticipated claim expenses continues to be challenging, even as things begin to return to normal, after the pandemic level, worldwide impact of COVID-19. Many healthcare services were not readily available or utilized during the pandemic and resulted in delayed treatments which are now being completed along with an anticipated normal amount of annual, newly identified health issues resulting in a significantly higher level of claims within the industry during fiscal year 2022. As a result of higher claim costs, for fiscal year 2022, the Group reflected increased expenses of \$14,610,296 (11.0%) over the fiscal year 2021 expense.

The Group has adopted a net position 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, as well as for additional amounts to provide rate stabilization as determined by the Board. For both fiscal year 2022 and 2021, the Group's net position reflected a significantly higher ratio versus claims expenses due to the uncertainties in the current industry climate.

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.

The Massachusetts Municipal Health Care Reform 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 Board is evaluating options for future years to provide an "affordable" plan and increase the dental maximum benefit from \$1,000 to \$1,500 annually.

Through its participation in the MMRA reinsurance pool, stop-loss deductible and covered range of loss increased from \$400,000 up to \$1,000,000 in fiscal year 2022, and remains the same for fiscal year 2023.

Prior to June 30, 2022, the Group's Board of Directors set the rate structure for fiscal year 2023 plan participation. The rate structure resulted in minimal change to plans premium rates. The rates were set to fund the estimated cost of claims, plus other group expenses and 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, Gallagher Benefit Services at 800-229-8008, or Treasurer, Richard D. Bienvenue, CPA.

CAPE COD MUNICIPAL HEALTH GROUP

STATEMENT OF NET POSITION

JUNE 30, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
<u>Assets</u>		
Current Assets:		
Cash and cash equivalents	\$ 29,303,398	\$ 49,856,453
Investments	25,340,152	26,900,733
Receivables:		
Member accounts	1,864,846	153,516
Reinsurance claims	2,561,887	2,242,970
Reserve for uncollectible accounts	(10,000)	(10,000)
Total receivables	<u>4,416,733</u>	<u>2,386,486</u>
Prepaid expenses	1,850,460	98,118
Deposits with insurance carriers	461,010	441,206
Deposits with reinsurance pool	<u>2,641,362</u>	<u>878,809</u>
Total assets	<u><u>\$ 64,013,115</u></u>	<u><u>\$ 80,561,805</u></u>
<u>Liabilities</u>		
Current Liabilities:		
Accounts payable	\$ 407,796	\$ 410,476
Accrued claims obligated	1,432,543	1,384,823
Due to members	-	157,790
Claims incurred but not reported	10,138,927	10,045,947
Participants' advance contributions	1,604,789	1,739,560
Other liabilities	<u>86,622</u>	<u>44,083</u>
Total liabilities	<u>13,670,677</u>	<u>13,782,679</u>
<u>Net Position</u>		
Unrestricted:		
Medical and dental programs	<u>50,342,438</u>	<u>66,779,126</u>
Total unrestricted/net position	<u>50,342,438</u>	<u>66,779,126</u>
Total liabilities and net position	<u><u>\$ 64,013,115</u></u>	<u><u>\$ 80,561,805</u></u>

See accompanying notes to financial statements.

CAPE COD MUNICIPAL HEALTH GROUP

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
Operating revenues:		
Participants' contributions	\$ 155,594,306	\$ 163,523,088
Other	-	5,436
Total operating revenue	<u>155,594,306</u>	<u>163,528,524</u>
Operating expenses:		
Health claims incurred	146,854,436	132,244,140
Claims administration charges	6,796,709	6,647,223
Fixed premiums	11,406,307	10,939,859
Stop loss insurance premiums	4,277,172	6,115,157
Consulting services	695,686	669,427
Wellness program	279,237	227,065
Other administrative services	<u>155,017</u>	<u>112,670</u>
Total operating expenses	<u>170,464,564</u>	<u>156,955,541</u>
Operating income (loss)	(14,870,258)	6,572,983
Nonoperating revenues (expenses):		
Investment income (loss)	950,064	547,845
Investment change in market value	<u>(2,516,494)</u>	<u>2,974,490</u>
Total nonoperating revenues (expenses)	<u>(1,566,430)</u>	<u>3,522,335</u>
Changes in net position	(16,436,688)	10,095,318
Net position, beginning of year	<u>66,779,126</u>	<u>56,683,808</u>
Net position, end of year	<u><u>\$ 50,342,438</u></u>	<u><u>\$ 66,779,126</u></u>

See accompanying notes to financial statements.

CAPE COD MUNICIPAL HEALTH GROUP

**STATEMENTS OF CASH FLOWS
YEAR ENDED JUNE 30, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Cash received from participants	\$ 153,748,205	\$ 163,414,947
Cash paid to insurance providers and other vendors	(174,295,411)	(144,478,150)
Other	<u>-</u>	<u>5,436</u>
Net cash provided (used) by operating activities	(20,547,206)	18,942,233
Cash flows from investing activities:		
Purchases and sales of investments (net)	(23,380)	(6,450,990)
Investment income and deposits interest income	<u>17,531</u>	<u>55,292</u>
Net cash provided (used) by investing activities	<u>(5,849)</u>	<u>(6,395,698)</u>
Net increase (decrease) in cash	(20,553,055)	12,546,535
Cash, beginning of year	<u>49,856,453</u>	<u>37,309,918</u>
Cash, end of year	<u><u>\$ 29,303,398</u></u>	<u><u>\$ 49,856,453</u></u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	\$ (14,870,258)	\$ 6,572,983
Changes in operating assets and liabilities:		
Member receivable	(1,711,330)	(108,141)
Reinsurance receivable	(318,917)	460,186
Rebates receivable	-	691,965
Prepays	(1,752,342)	7,556,660
Deposits	(1,782,357)	1,136,638
Accounts payable	(2,680)	123,788
Accrued expenses	47,720	43,082
Due to members	(157,790)	157,790
Claims liabilities	92,980	1,856,703
Participants' advance contributions	(134,771)	440,584
Other liabilities	<u>42,539</u>	<u>9,995</u>
Net cash provided (used) by operating activities	<u><u>\$ (20,547,206)</u></u>	<u><u>\$ 18,942,233</u></u>

See accompanying notes to financial statements.

CAPE COD MUNICIPAL HEALTH GROUP

NOTES TO BASIC FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2022 and 2021

Note 1 - Description of Group

Cape Cod Municipal Health Group (the Group), located in 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.

Participating governmental units consist of those municipal groups that have signed a Joint Negotiation and Purchase of Health Coverage governmental agreement. In addition, in 1992, the Group entered into a Joint Negotiation Purchase of Health Coverage with the Dukes County Municipal Health Group; those entities are designed with an “*”. On June 30, 2022, the fifty-three participating governmental units are:

<u>Towns</u>	<u>Municipal Services Districts</u>
Town of Aquinnah *	Barnstable Fire District
Town of Barnstable	Centerville-Osterville-Marstons Mills Fire District
Town of Brewster	Cotuit Fire District
Town of Chatham	Hyannis Fire District
Town of Chilmark *	West Barnstable Fire District
Town of Dennis	Bourne Water District
Town of Eastham	Buzzards Bay Water District
Town of Edgartown *	Dennis Water District
Town of Falmouth	Mashpee Water District
Town of Gosnold *	North Sagamore Water District
Town of Harwich	Oak Bluffs Water District *
Town of Mashpee	Sandwich Water District
Town of Oak Bluffs *	
Town of Orleans	
Town of Provincetown	
Town of Tisbury *	
Town of Truro	
Town of Wellfleet	
Town of West Tisbury *	
Town of Yarmouth	
<u>Educational Entities</u>	<u>Other Municipal Entities</u>
Cape Cod Collaborative	Barnstable County
Cape Cod Regional Technical High School	Barnstable County Retirement Association
Dennis-Yarmouth Regional School District	Bourne Recreation Authority
The Lighthouse Charter School	Cape Light Compact
Nauset Regional School District	Cape Cod Regional Transit Authority
Martha's Vineyard Charter School *	Dukes County Commissioners *
Martha's Vineyard Regional School District *	Martha's Vineyard Commission *
Monomoy Regional School District	Martha's Vineyard Land Bank Commission *
Up Island Regional School District *	Martha's Vineyard Transit Authority *
Upper Cape Cod Vocation Technical High School	Martha's Vineyard Refuse Disposal & Resource Recovery District *
	Veterans Services of Cape Cod

The number of subscribers in the self-funded medical plans was 11,302 for fiscal 2022 and 11,024 for fiscal 2021.

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 from this agreement at its discretion but may do so only as of the anniversary date of the health plan contracts purchased through this agreement, i.e., midnight of June 30th of any year, and upon written notification of such intent to withdraw by December 1st of the year preceding the intended withdrawal.

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 (the Group) 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.

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.

The Group offers the following plan types:

Plan Name	Medical Claims		Pharmacy Claims	
	Self Insured	Fully Insured	Self Insured	Fully Insured
Blue Cross and Blue Shield of Massachusetts Master Health Plus	X		X	
Blue Cross and Blue Shield of Massachusetts Blue Care Elect Preferred PPO	X		X	
Blue Cross and Blue Shield of Massachusetts Network Blue NE HMO	X		X	
Blue Cross and Blue Shield of Massachusetts Blue Care Elect Preferred HSA PPO	X		X	
Blue Cross and Blue Shield of Massachusetts Network Blue NE HSA HMO	X		X	
Harvard Pilgrim Health Care PPO	X		X	
Harvard Pilgrim Health Care HMO	X		X	
Harvard Pilgrim Health Care HSA PPO	X		X	
Harvard Pilgrim Health Care HSA HMO	X		X	
Blue Cross and Blue Shield of Massachusetts Medex	X			X
Harvard Pilgrim Health Care Medicare Enhance	X			X
Blue Cross and Blue Shield of Massachusetts Medicare HMO Blue		X		X
Blue Cross and Blue Shield of Massachusetts Managed Blue for Seniors		X		X
Tufts Medicare Supplement with PDP Plus		X		X
Tufts Medicare Preferred HMO		X		X
Delta Dental PPO Plus Premier - Contributory	X			
Delta Dental PPO Plus Premier - Voluntary	X			
EyeMed Vision Care - Voluntary		X		

The Group employs the services of Gallagher Benefits Services, Inc. (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, 2023 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.

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. The Group pays self-funded claims weekly to HPHC for actual claims to be paid. The Group pays BCBS a level monthly payment to cover the cost of claims for that month. The amount is mutually agreed upon to represent approximately one month of projected claims. There is a quarterly reconciliation and settle-up against actual claims paid on behalf of the Group. 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

In 2014, the Group, along with two other Massachusetts Municipal Joint Purchase Groups, entered into a reinsurance pooling arrangement, the Massachusetts Municipal Reinsurance Arrangement Series of Sentinel Indemnity, LLC (MMRA), the first such reinsurance pooling arrangement established in Massachusetts. The policy year is July 1st through June 30th. All participants share the same rates for coverage of claims exceeding \$400,000 up to \$1,000,000. There is no aggregating specific deductible. In addition, there is a maximum stop-loss limit on the pool which limits the pool's total losses to \$7,776,928. Losses in excess of this amount, if any, are covered through a separate reinsurance policy. If claims experience is below projections, participants are dividend eligible on a collective and proportional basis. Participating governmental entities have agreed to participate for a minimum of three years. During the year ended June 30, 2022, the Group paid \$5,274,291 for coverage and made net non-premium funding to MMRA of \$1,797,521.

In addition, the Group has a specific excess medical and prescription drug claims reinsurance contract with an insurance carrier covering claims paid in excess of \$800,000 per individual. The policy period covers claims incurred within 12 months and paid within 24 months. The Group does not reinsure Medex and Medicare Enhance medical plans.

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, 2022 and 2021 deposits totaled \$28,839,500 and \$49,856,453, respectively and had a carrying amount of \$28,902,717 and \$49,845,081, respectively. In addition to these bank deposit amounts at June 30, 2022 and 2021, \$400,682 and \$167,264, respectively, which represent money market funds in the Group's investment accounts and MMDT deposits, are included as cash equivalents.

The Group holds investments that are measured at fair value on a recurring basis. Because investing is not a core part of the Group's mission, the Group determines that disclosures related to these investments only need to be disaggregated by major type.

The Group 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 an 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 following table identifies the Groups investments by Level at:

	Totals at June 30, 2022	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
<u>Investments by fair value level</u>				
Debt securities:				
U.S. Government obligations	\$ 4,847,303	\$ 3,340,691	\$ 1,506,612	\$ -
Corporate bonds	3,071,374	-	3,071,374	-
Fixed income mutual funds	2,849,784	-	2,849,784	-
Total debt securities	10,768,461	3,340,691	7,427,770	-
Equity securities:				
Common stock	7,724,824	7,724,824	-	-
Equity mutual funds	6,846,867	-	6,846,867	-
Total equity securities	14,571,691	7,724,824	6,846,867	-
Total investments by fair value level	25,340,152	\$ 11,065,515	\$ 14,274,637	\$ -
<u>Investments measured at amortized cost</u>				
State investment pool (MMDT)	11,409			
Money market mutual funds	389,274			
Total investments at fair value	<u>\$ 25,740,835</u>			

	Totals at June 30, 2021	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
<u>Investments by fair value level</u>				
Debt securities:				
U.S. Government obligations	\$ 4,793,527	\$ 3,139,481	\$ 1,654,046	\$ -
Corporate bonds	3,298,187	-	3,298,187	-
Fixed income mutual funds	3,812,991	-	3,812,991	-
Total debt securities	11,904,705	3,139,481	8,765,224	-
Equity securities:				
Common stock	10,708,221	10,708,221	-	-
Equity mutual funds	4,287,805	-	4,287,805	-
Total equity securities	14,996,026	10,708,221	4,287,805	-
Total investments by fair value level	26,900,731	\$ 13,847,702	\$ 13,053,029	\$ -
<u>Investments measured at amortized cost</u>				
State investment pool (MMDT)	11,372			
Total investments at fair value	<u>\$ 26,912,103</u>			

The Group maintains accounts for investments which held the following at June 30, 2022 and 2021:

Description	Investment Groupings			
	June 30, 2022		June 30, 2021	
	Fair Market	% of Total	Fair Market	% of Total
U.S. government obligations	\$ 4,847,303	19.1%	\$ 4,793,528	17.8%
Corporate fixed income bonds	3,071,374	12.1%	3,298,187	12.3%
Fixed income mutual funds	2,849,784	11.2%	3,812,991	14.2%
Common stock equities	7,724,824	30.5%	10,708,221	39.8%
Equity mutual funds	6,846,867	27.0%	4,287,805	15.9%
Total Investments	<u>\$ 25,340,152</u>		<u>\$ 26,900,732</u>	

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 U.S. Government securities) from making up more than 5% of the portfolio. As of June 30, 2022 or 2021, there are no securities exceeding this threshold.

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:

Investments	Totals at June 30, 2022	Time Until Maturity (Years)		
		<1	1 - 5	6 - 10 Years
U.S. Government obligations	\$ 4,847,303	\$ 424,043	\$ 2,192,981	\$ 2,230,279
Corporate fixed income bonds	3,071,374	728,175	1,966,034	377,165
Fixed income mutual funds	2,849,784	-	1,975,005	874,779
State investment pool	11,409	11,409	-	-
Total Investments with Maturities	<u>\$ 10,779,870</u>	<u>\$ 1,163,627</u>	<u>\$ 6,134,020</u>	<u>\$ 3,482,223</u>

Investments	Totals at June 30, 2021	Time Until Maturity (Years)		
		<1	1 - 5	6 - 10 Years
U.S. Government obligations	\$ 4,793,527	\$ 1,011,955	\$ 2,617,159	\$ 1,164,413
Corporate fixed income bonds	3,298,187	102,903	2,287,709	907,575
Fixed income mutual funds	3,812,991	3,812,991	-	-
State investment pool	11,372	11,372	-	-
Total Investments with Maturities	<u>\$ 11,916,077</u>	<u>\$ 4,939,221</u>	<u>\$ 4,904,868</u>	<u>\$ 2,071,988</u>

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. Credit risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. Obligations of the U.S. Government and certain of its agencies are not considered to have credit risk and therefore no rating is disclosed 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.

Moody's Ratings	Investment Ratings Classifications							
	June 30, 2022				June 30, 2021			
	U.S. Government Obligations	Corporate Fixed Income	Fixed Income Mutual Funds	State Investment Pool	U.S. Government Obligations	Corporate Fixed Income	Fixed Income Mutual Funds	State Investment Pool
Aaa	\$ 4,847,303	\$ 271,753	\$ -	\$ -	\$ 4,793,527	\$ 53,317	\$ -	\$ -
Aa1	-	-	-	-	-	233,433	-	-
Aa2	-	249,238	-	-	-	418,569	-	-
Aa3	-	490,275	-	-	-	544,006	-	-
A1	-	686,237	-	-	-	723,936	-	-
A2	-	973,395	-	-	-	900,229	-	-
A3	-	300,767	-	-	-	318,463	-	-
Baa1	-	-	-	-	-	106,234	-	-
Baa2	-	99,709	-	-	-	-	-	-
Not rated	-	-	2,849,784	11,409	-	-	3,812,991	11,372
Totals	<u>\$ 4,847,303</u>	<u>\$ 3,071,374</u>	<u>\$ 2,849,784</u>	<u>\$ 11,409</u>	<u>\$ 4,793,527</u>	<u>\$ 3,298,187</u>	<u>\$ 3,812,991</u>	<u>\$ 11,372</u>

Note 4 - Receivables, Prepaid Expenses and Deposits

Group members are assessed monthly for their calculated portion of contributions towards the insurance pool for payment of claims and premiums. At June 30, 2022, there was a receivable balance from members of \$1,864,846, while at June 30, 2021, the balance was \$153,516.

Based on current year experience with larger claims, the Group may have an amount due from its reinsurance carrier for claims at year end. At June 30, 2022, there was a balance receivable of \$2,561,887, while at June 30, 2021, the balance was \$2,242,970.

At year end, if monthly estimated payments made by the Group to Blue Cross Blue Shield and Harvard Pilgrim Health Care exceed actual claims paid, the Group will have a prepaid expense amount for the final quarterly settlement of the fiscal year. This amount was \$1,850,460 at June 30, 2022, and was not significant at June 30, 2021.

In addition, the Group has established deposits with insurance carriers, which includes its dental insurance carrier so that weekly claims can be paid on a timely basis. The balance of this deposit at June 30, 2022 and June 30, 2021 was \$430,140. The Group also maintained a working deposit with a diabetes incentive program at both June 30, 2022 and 2021, which was not material either year.

Finally, based on current year experience with larger claims, the Group may have a balance in its reinsurance pool (Massachusetts Municipal Reinsurance Arrangement Series) at year end which is reflected within these financial statements as a deposits with reinsurance pool. At June 30, 2022 there was a balance remaining (not reserved for claims) of \$2,641,362, while at June 30, 2021 the balance was \$878,809.

Note 5 - 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, and Delta Dental monthly 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 6 - 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,	
	2022	2021
Unpaid claims and claims adjustment expenses - beginning of year	\$ 10,045,947	\$ 8,189,244
Incurred claims and claims adjustment expenses:		
Provision for insured events of the current fiscal year	146,854,436	135,488,779
Increase (decrease) in provision for insured events of prior fiscal years	(732,857)	(3,244,639)
	<u>146,121,579</u>	<u>132,244,140</u>
Payments		
Claims and expenses, net, attributable to insured events - current year	(136,865,153)	(123,389,555)
Claims and expenses, net, attributable to insured events - prior year	(9,163,446)	(6,997,882)
	<u>(146,028,599)</u>	<u>(130,387,437)</u>
Total unpaid claims and claim adjustment expenses - end of year	<u>\$ 10,138,927</u>	<u>\$ 10,045,947</u>

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 fiscal 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 from the new information received on known claims, re-evaluations 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 amount (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.

		June 30,									
		2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
1	Earned member assessment, refunds and investment revenues	154,027,876	167,050,859	164,877,190	181,600,982	173,454,896	160,498,337	148,292,751	139,525,852	141,286,598	134,754,015
1a	Net assets provided (used) by current year operations	(16,436,688)	10,095,318	15,849,551	16,610,320	15,538,412	(264,533)	(3,542,258)	(5,598,802)	1,416,335	3,486,981
2	Administrative and operating expenses	23,610,128	24,711,401	22,459,022	22,925,114	21,047,575	19,910,759	18,709,839	13,513,485	9,795,743	9,910,621
3	Estimated incurred claims and expenses, end of fiscal year	146,854,436	132,244,140	132,074,304	142,131,009	137,200,960	142,297,997	133,125,920	131,629,925	128,699,843	127,253,895
4	Paid (cumulative) as of:										
	End of fiscal year	136,865,153	123,389,555	121,831,803	132,882,740	130,775,398	132,741,224	121,056,723	121,615,182	119,600,702	115,340,752
	One year later	-	132,857,403	128,967,685	141,947,369	137,139,130	142,021,632	131,600,311	130,225,677	128,557,344	124,245,819
	Two years later	-	-	128,747,310	141,824,848	137,009,634	142,118,949	131,528,633	130,295,713	128,578,195	124,174,505
	Three years later	-	-	-	141,780,199	137,023,403	142,118,852	131,495,181	130,329,071	128,589,628	124,213,955
	Four years later	-	-	-	-	136,988,362	142,113,874	131,493,293	130,302,300	128,575,112	124,215,134
	Five years later	-	-	-	-	-	142,109,897	131,476,724	130,296,751	128,553,303	124,193,068
	Six years later	-	-	-	-	-	-	131,476,363	130,289,030	128,552,101	124,193,068
	Seven years later	-	-	-	-	-	-	-	130,289,030	128,552,101	124,193,068
	Eight years later	-	-	-	-	-	-	-	-	128,552,101	124,193,068
	Nine years later	-	-	-	-	-	-	-	-	-	124,193,068
5	Reestimated incurred claims and expense										
	End of fiscal year	146,854,436	132,244,140	132,074,304	142,131,009	137,200,960	142,297,997	133,125,920	131,629,925	128,699,843	127,253,895
	One year later	-	132,857,403	128,967,685	141,947,369	137,139,130	142,021,632	131,600,311	130,225,677	128,557,344	124,245,819
	Two years later	-	-	128,747,310	141,824,848	137,009,634	142,118,949	131,528,633	130,295,713	128,578,195	124,174,505
	Three years later	-	-	-	141,780,199	137,023,403	142,118,852	131,495,181	130,329,071	128,589,628	124,213,955
	Four years later	-	-	-	-	136,988,362	142,113,874	131,493,293	130,302,300	128,575,112	124,215,134
	Five years later	-	-	-	-	-	142,109,897	131,476,724	130,296,751	128,553,303	124,193,068
	Six years later	-	-	-	-	-	-	131,476,363	130,289,030	128,552,101	124,193,068
	Seven years later	-	-	-	-	-	-	-	130,289,030	128,552,101	124,193,068
	Eight years later	-	-	-	-	-	-	-	-	128,552,101	124,193,068
	Nine years later	-	-	-	-	-	-	-	-	-	124,193,068
6	(Increase) decrease in estimated incurred claims and expense from the end of the original policy year	\$ -	\$ (613,263)	\$ 3,326,994	\$ 350,810	\$ 212,598	\$ 188,100	\$ 1,649,557	\$ 1,340,895	\$ 147,742	\$ 3,060,827

See independent auditors' report.