



Bill Fraher, CPA

CAPE COD MUNICIPAL HEALTH GROUP
FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS
WITH REQUIRED SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2019 and 2020
WITH INDEPENDENT AUDITOR'S REPORTS

CAPE COD MUNICIPAL HEALTH GROUP
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WITH REQUIRED SUPPLEMENTARY INFORMATION
Years Ended June 30, 2019 and 2020

Table of Contents

Independent Auditor's Report on:

Financial statements	i
Internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	iii

Management's Discussion and Analysis	v
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Financial Statements:

Statement of net position	1
Statement of revenues, expenses, and changes in net position	2
Statement of cash flows	3
Notes to financial statements	4

Required Supplementary Information:

Ten Year Claims Development Information	11
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Cape Cod Municipal Health Group

Report on the Financial Statements

I have audited the accompanying financial statements and the related notes of the Cape Cod Municipal Health Group (the Group), Barnstable, Massachusetts as of and for the years ended June 30, 2019 and 2020.

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, 2019 and 2020, 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.

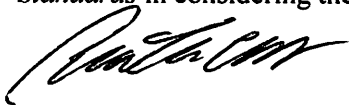
Other Matters

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 January 13, 2021 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
January 13, 2021



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
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 and related notes of the Cape Cod Municipal Health Group (the Group), Barnstable, Massachusetts as of and for the years ended June 30, 2019 and 2020 and have issued my report thereon dated January 13, 2021.

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 charged 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.

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.

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

A handwritten signature in black ink, appearing to read 'Bill Fraher', is positioned above the printed name.

Bill Fraher, CPA
January 13, 2021

CAPE COD MUNICIPAL HEALTH GROUP

Management's Discussion & Analysis

June 30, 2020

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, 2020. 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 \$56,683,808 (net position) at the close of the fiscal year. This is up 38.81% from the prior year. Net position at June 30, 2020 represents 44.78% of fiscal year 2020 claims expense. At June 30, 2019 net position represented 28.74% of fiscal year 2019 claims expense.
- For the year ended June 30, 2020, net position increased by \$15,849,551 or 38.81% compared to a \$8,952,847 or a 28% increase for fiscal year 2019.
- The statement of cash flows identifies the sources and uses of cash activity for the fiscal year and displays a net increase in cash of \$922,216 for fiscal year 2020 compared to a \$10,384,393 increase in cash for fiscal year 2019.
- The increase in cash and net position for 2020 is a result of the timing of receiving member payments and paying claims liabilities and better than expected claims experience. The increase in cash for 2019 is a result of a combination of similar factors as in 2020.

CAPE COD MUNICIPAL HEALTH GROUP

Management's Discussion & Analysis

June 30, 2020

For fiscal year 2020, the Group's operation resulted in an approximately \$15.8 million increase in net position. This result was better than anticipated as the Group utilized a portion of its fund balance to minimize increases in the FY 2020 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.

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.

Fiscal Year 2020 represents the first year in which the group had a withdrawing participant. The Town of Sandwich (approximate participation of 8.6% of the group) withdrew from the group effective 6/30/2019, resulting in lower collected member premiums, but also lower claims expenses for fiscal year 2020.

Condensed Financial Information

A comparative summary of financial information is presented below:

	<u>2020</u>	<u>2019</u>	<u>Increase/ (Decrease)</u>	<u>% Change</u>
Cash	\$ 37,309,918	\$ 36,387,702	922,216	2.53%
Investments	16,982,700	16,174,796	807,904	4.99%
Other current assets	<u>13,541,927</u>	<u>4,837,491</u>	<u>8,704,436</u>	179.94%
Total assets	67,834,545	57,399,989	10,434,556	18.18%
Claims liabilities	9,766,578	13,956,161	4,189,583	30.02%
Other current liabilities	<u>1,384,159</u>	<u>2,609,571</u>	<u>1,225,412</u>	46.96%
Total liabilities	<u>11,150,737</u>	<u>16,565,732</u>	<u>5,414,995</u>	32.69%
Unrestricted net position	<u>\$ 56,683,808</u>	<u>\$40,834,257</u>	<u>15,849,551</u>	38.81%
Member assessments	164,053,068	\$ 180,364,002	(16,310,934)	9.04%
Medicare part D & Other		-		
Claims expense	(126,568,617)	(142,065,548)	15,496,931	10.91%
Claims administration expenses	(6,549,327)	(7,120,199)	570,872	8.02%
Other group expenses	<u>(15,909,695)</u>	<u>(15,804,915)</u>	<u>(104,780)</u>	.66%
Operating income (loss)	15,025,429	15,373,340	(347,911)	2.26%
Investment income (loss) & other	824,122	1,236,980	(412,858)	33.38%
Medicare Part D member distribution		(6,803,280)	6,803,280	100.00%
Member Termination Payment	-	<u>(854,193)</u>	<u>854,193</u>	100.00%
Change in net position	<u>\$ 15,849,551</u>	<u>\$ 8,952,847</u>	<u>6,896,704</u>	77.03%

CAPE COD MUNICIPAL HEALTH GROUP

Management's Discussion & Analysis

June 30, 2020

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 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 Group undertook plan design changes in FY 18, to more closely mirror the GIC benchmark plan with an estimated claims savings of 2%. There were no plan design changes for FY 21.

Prior to June 30, 2020, the Group's Board of Directors set the rate structure for fiscal year 2021 plan participation. The rate structure resulted in no change in 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, 2019 and 2020

(Notes 1 and 2)

	<u>2019</u> <u>Total</u>	<u>2020</u> <u>Total</u>
<u>ASSETS</u>		
Current Assets:		
Cash and cash equivalents (Note 3)	\$ 36,387,702	\$ 37,309,918
Investments (Note 3)	16,174,796	16,982,700
Receivables:		
Member accounts	181,099	45,375
Reinsurance claims	2,219,194	2,703,156
Rebates from insurers	354,455	691,965
Reserve for uncollectible accounts	<u>(10,000)</u>	<u>(10,000)</u>
Total receivables	2,744,748	3,430,496
Prepaid expenses	205,810	7,654,778
Deposits with insurance carriers	481,640	583,703
Deposits with reinsurance pool	<u>1,405,293</u>	<u>1,872,950</u>
Total assets	<u>\$ 57,399,989</u>	<u>\$ 67,834,545</u>
<u>LIABILITIES</u>		
Current Liabilities:		
Accounts payable	\$ 129,161	\$ 80,706
Due to members	854,193	-
Claims liabilities (Note 5)	13,956,161	9,766,578
Participants' advance contributions	<u>1,626,217</u>	<u>1,303,453</u>
Total liabilities	16,565,732	11,150,737
<u>Net Position</u>		
Unrestricted:		
Medical and dental programs	<u>40,834,257</u>	<u>56,683,808</u>
Total unrestricted/net position	<u>40,834,257</u>	<u>56,683,808</u>
Total liabilities and net position	<u>\$ 57,399,989</u>	<u>\$ 67,834,545</u>

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, 2019 and 2020
(Notes 1 and 2)

	<u>2019</u> <u>Total</u>	<u>2020</u> <u>Total</u>
Operating revenues:		
Participants' contributions	\$ 180,364,002	\$ 164,053,068
Other	<u>-</u>	<u>-</u>
Total operating revenues	<u>180,364,002</u>	<u>164,053,068</u>
Operating expenses:		
Health claims incurred	142,065,548	126,568,617
Claims administration charges	7,120,199	6,549,327
Fixed premiums	10,698,876	10,432,090
Government claims fees	82,845	40,114
Stop loss insurance premiums	3,946,978	4,470,296
Consulting services	606,615	652,553
Wellness program	306,108	202,911
Other administrative services	<u>163,493</u>	<u>111,731</u>
Total operating expenses	<u>164,990,662</u>	<u>149,027,639</u>
Operating income	15,373,340	15,025,429
Nonoperating revenues (expenses):		
Investment income	1,236,980	824,122
Distributions to members	(6,803,280)	-
Member termination payment	<u>(854,193)</u>	<u>-</u>
Total nonoperating revenues (expenses):	<u>(6,420,493)</u>	<u>824,122</u>
Changes in Net position	8,952,847	15,849,551
Net position, beginning of year	<u>31,881,410</u>	<u>40,834,257</u>
Net position, end of year	<u><u>\$ 40,834,257</u></u>	<u><u>\$ 56,683,808</u></u>

See the accompanying notes to the financial statements.

CAPE COD MUNICIPAL HEALTH GROUP

Statement of Cash Flows

Years Ended June 30, 2019 and 2020

(Notes 1 and 2)

	<u>2019</u>	<u>2020</u>
Cash flows from operating activities:		
Cash received from participants	\$ 181,085,701	\$ 163,866,028
Cash paid to insurance providers and other vendors	(163,893,947)	(162,105,837)
RDS and termination amounts paid to members	<u>(6,803,280)</u>	<u>(854,193)</u>
Net cash provided (used) by operating activities	10,388,474	905,998
Cash flows from investing activities:		
Purchases and sales of investments (net)	(1,241,061)	(807,904)
Investment income and interest income on deposits	<u>1,236,980</u>	<u>824,122</u>
Net cash (used) by investing activities	<u>(4,081)</u>	<u>16,218</u>
Net (decrease) in cash	10,384,393	922,216
Cash, beginning of year	<u>26,003,309</u>	<u>36,387,702</u>
Cash, end of year	<u>\$ 36,387,702</u>	<u>\$ 37,309,918</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	\$ 15,373,340	\$ 15,025,429
Changes in operating assets and liabilities:		
RDS distribuion and termination payments	(7,639,821)	-
Member receivable	(67,645)	135,724
Reinsurance receivable	73,789	(483,962)
Rebates receivable	(354,455)	(337,510)
Prepays	(205,810)	(7,448,968)
Deposits	(1,297,092)	(569,720)
Accounts payable	57,576	(48,455)
Due to members	836,541	(854,193)
Claims liabilities	2,822,707	(4,189,583)
Other liabilities	<u>789,344</u>	<u>(322,764)</u>
Net cash provided by operating activities	<u>\$ 10,388,474</u>	<u>\$ 905,998</u>

See the accompanying notes to the financial statements.

CAPE COD MUNICIPAL HEALTH GROUP

Notes to Financial Statements

June 30, 2019 and 2020

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, 2020 participants are the towns of Barnstable, Brewster, Chatham, Dennis, Eastham, Falmouth, Harwich, Mashpee, Orleans, Provincetown, 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; 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; Barnstable County Retirement Association; Cape Light Compact; and Cape Cod Regional Transit Authority. In addition, in 1992, 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 11,792 at June 30, 2019 and 10,973 at 2020.

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 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

CAPE COD MUNICIPAL HEALTH GROUP

Notes to Financial Statements

June 30, 2019 and 2020

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 employee plans 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 medical plans with fully insured Medicare Prescription Drug Plans (PDPs), one of which is administered by BCBSMA and one by HPHC; one fully insured Medicare Supplement plan with a PDP 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.

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. Dental plans are optional for employers.

Effective July 1, 2009, the Group adopted a voluntary fully insured vision plan from EyeMed Vision Care. The vision plan is optional for employers, but employers may not offer both contributory and voluntary plans.

Master Health Plus, Blue Care Elect Preferred PPO plan, Network Blue EPO plan, and Medex 2 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. Medex 2 is combined with a fully insured Medicare PDP provided by Blue Cross Blue Shield and called Blue Medicare RX.

The Harvard Pilgrim EPO plan, Harvard Pilgrim PPO plan, and Harvard Pilgrim Health Care Medicare Enhance plan (medical portion) are on a claims-paid basis and are administered by Harvard

CAPE COD MUNICIPAL HEALTH GROUP

Notes to Financial Statements

June 30, 2019 and 2020

Note 1. Description of Group (continued)

Pilgrim Health Care for a monthly administration fee based on the number of individual and family plan subscribers for that particular month. Medicare Enhance is combined with a fully insured PDP from Aetna Medicare RX Plan.

Until November 1, 2018, the Group employed the services of John R. Sharpy, Inc, dba 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, 2020 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. Effective October 31, 2018, Group Benefits Strategies merged with Arthur J. Gallagher Co., Gallagher Benefits Services (also GBS). The terms of the agreement are being honored through June 30, 2020.

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. Actual claims reported differ from claims estimated, but the size of the Group and stop-loss coverage minimizes the risk of a significant difference. Claims' liabilities are reviewed periodically using claims data adjusted for the Group's current experience. Adjustments to claims' liabilities are charged or credited to expense in the periods in which they are made.

CAPE COD MUNICIPAL HEALTH GROUP

Notes to Financial Statements

June 30, 2019 and 2020

Note 2. Summary of Significant Accounting Policies (continued)

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 \$300,000 up to \$800,000. 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, 2020, the Group paid \$3,702,955 for coverage and made net non-premium funding to MMRA of \$1,234,998.

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, 2019 and 2020 deposits totaled \$35,800,251 and \$37,101,007, respectively and had a carrying amount of \$36,090,932 and \$37,093,353, respectively. The difference between deposit amounts and carrying amounts generally represents outstanding checks and deposits in transit. In addition to these bank deposit amounts at June 30, 2019 and 2020, \$296,770 and \$216,565, respectively, which represent money market funds in the Group's investment accounts and MMDT deposits, are included in 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 chooses a narrative format for the fair value disclosures. 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 use 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. At June 30, 2019 and 2020, mutual funds, US government and agency securities and equities are categorized as Level 1 and other fixed income securities are categorized as Level 2.

CAPE COD MUNICIPAL HEALTH GROUP

Notes to Financial Statements

June 30, 2019 and 2020

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

The Group maintains accounts for investments which hold the following at June 30, 2019 and 2020:

<u>Type</u>	<u>Fair Market Value</u>		<u>Fair Market Value</u>	
	<u>June 30, 2019</u>	<u>% of Total</u>	<u>June 30, 2020</u>	<u>% of Total</u>
US Government & agencies	\$3,863,041	40%	\$2,869,938	17%
Equity securities	4,623,712	15%	5,405,044	32%
Equity mutual funds	3,717,572	16%	1,680,483	10%
Corporate bonds	2,382,144	14%	2,472,002	14%
Diversified mutual funds	0	0%	2,688,764	16%
Fixed income mutual funds	<u>1,588,327</u>	15%	<u>1,866,469</u>	11%
	<u>\$16,174,796</u>		<u>\$16,982,700</u>	

Custodial credit risk for investments is the risk that, in the event of the failure of the counter party to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Group has an investment subcommittee that monitors this risk however the Group does not have a specific investment policy covering custodial credit risk. Investments in open-end mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. The investment account is insured by Securities Investor Protection Corporation (SIPC) up to \$500,000 and is otherwise uninsured and uncollateralized.

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, 2019:

<u>Investment Type</u>	<u>Fair Market Value</u>	<u>Maturity (In Years)</u>			
		<u>One or Less</u>	<u>One to Two</u>	<u>Three to Five</u>	<u>Thereafter</u>
US Govt. and agency securities	\$3,863,041	\$ 174,853	\$ 425,263	\$2,161,871	\$1,101,054
Corporate Bonds	2,382,144	351,389	568,982	1,355,449	106,324
Fixed income mutual funds:	<u>1,588,327</u>	<u>1,588,327</u>	-	-	-
Total	<u>\$7,833,512</u>	<u>\$ 2,114,569</u>	<u>\$ 994,245</u>	<u>\$3,517,320</u>	<u>\$1,207,378</u>

The approximate maturities of the Group's debt investments are disclosed in the following table as of June 30, 2020:

<u>Investment Type</u>	<u>Fair Market Value</u>	<u>Maturity (In Years)</u>			
		<u>One or Less</u>	<u>One to Two</u>	<u>Three to Five</u>	<u>Thereafter</u>
US Govt. and agency securities	\$2,869,938	\$ 201,800	\$ 670,063	\$980,334	\$1,017,741
Corporate Bonds	2,472,002	696,506	105,711	1,505,417	164,368
Fixed income mutual funds:	<u>1,866,469</u>	<u>1,866,469</u>	-	-	-
Total	<u>\$7,208,409</u>	<u>\$ 2,764,775</u>	<u>\$ 775,774</u>	<u>\$2,485,751</u>	<u>\$1,182,109</u>

CAPE COD MUNICIPAL HEALTH GROUP

Notes to Financial Statements

June 30, 2019 and 2020

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

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. Credit risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. Obligations of the U.S. Government and certain of its agencies are not considered to have credit risk and therefore no rating is disclosed 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, 2020:

Investment Type	Fair Market Value	S&P Rating as of Year End			
		AAA to AA+	A to AA	BAA to B	Not Rated
US Govt. and agency securities	\$3,863,041	\$ 3,863,041	\$ -	\$ -	\$ -
Corporate Bonds	2,382,144	-	1,097,786	1,284,358	-
Fixed income mutual funds	<u>1,588,327</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,588,327</u>
Total	<u>\$7,833,512</u>	<u>\$ 3,863,041</u>	<u>\$ 1,097,786</u>	<u>\$1,284,358</u>	<u>\$1,588,327</u>

The following table discloses the approximate amount of debt investments in each rating classification using Standard & Poor's rating classifications as of June 30, 2020:

Investment Type	Fair Market Value	S&P Rating as of Year End			
		AAA to AA+	A to AA	BAA to B	Not Rated
US Govt. and agency securities	\$2,869,938	\$ 2,869,938	\$ -	\$ -	\$ -
Corporate Bonds	2,472,002	292,414	2,179,588	-	-
Fixed income mutual funds	<u>1,866,469</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,866,469</u>
Total	<u>\$7,208,409</u>	<u>\$ 3,162,352</u>	<u>\$2,179,588</u>	<u>\$-</u>	<u>\$1,866,469</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 US Government securities) from making up more than 5% of the portfolio. As of June 30, 2020, there are no securities exceeding this threshold.

Note 4. Reinsurance Receivable, Prepaid Expenses and Deposits

Based on current year experience with larger claims, the Group may have an amount due from its reinsurance carrier at year end. At June 30, 2019 there was a balance receivable of \$2,219,194 while at June 30, 2020 the balance was \$2,703,156.

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 amount for the final quarterly settlement of the fiscal year. This amount was \$205,810 at June 30, 2019 and \$7,654,778 at June 30, 2020.

In addition, the Group has established a deposit with its dental insurance carrier so that weekly claims can be paid on a timely basis. The balance of this deposit at June 30, 2019 was \$481,640 and at June 30, 2020 was \$583,703. The Group also has a rebate due from its insurers of \$354,455 at June 30, 2019 and \$691,965 at June 30, 2020.

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. At June 30, 2019 there was a balance remaining (not reserved for claims) of \$1,405,293 while at June 30, 2020 the balance was \$1,872,950.

CAPE COD MUNICIPAL HEALTH GROUP

Notes to Financial Statements

June 30, 2019 and 2020

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 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 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, 2019 and 2020:

	<u>2019</u>	<u>2020</u>
Unpaid claims and claims adjustment expenses—beginning of year	\$11,133,454	\$13,956,161
Incurred claims and claims adjustment expenses:		
Provision for insured events of the current fiscal year	142,131,009	126,890,489
Increase (decrease) in provision for insured events of prior fiscal years	<u>(65,461)</u>	<u>(321,872)</u>
	142,065,548	126,568,617
Payments:		
Claims and expenses, net, attributable to insured events – current year	(132,882,740)	(121,831,803)
Claims and expenses, net, attributable to insured events – prior years	<u>(6,360,101)</u>	<u>(8,926,397)</u>
	<u>(139,242,841)</u>	<u>(130,758,200)</u>
Total unpaid claims and claim adjustment expenses—end of year	<u>\$ 13,956,161</u>	<u>\$ 9,766,578</u>

Note 7. COVID 19 Pandemic

On March 11, 2020 the World Health Organization declared a world-wide pandemic related to a coronavirus (COVID-19). In Massachusetts, a lockdown period was declared during which time only those performing essential services were to leave home. Group insured subscribers and medical providers delayed non-life-threatening medical care, and overall utilization of medical services declined substantially. This likely has created a backlog in demand for medical services. At the current time and given the uncertainty surrounding this pandemic, we are unable to quantify the financial impact of this situation on current or future financial statements.

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:

		6/30/2020	6/30/2019	6/30/2018	6/30/2017	6/30/2016	6/30/2015	6/30/2014	6/30/2013	6/30/2012	6/30/2011
1	Earned member assessments, refunds and investment revenues	164,877,190	181,600,982	173,454,596	\$160,498,337	148,292,751	139,525,852	141,286,598	134,754,015	150,080,913	141,270,154
1a	Net assets provided (used) by current year operations	15,849,551	16,610,320	15,538,412	(264,533)	(3,542,258)	(5,598,802)	1,416,335	3,486,981	(1,897,662)	(498,285)
2	Administrative and operating expenses	22,459,022	22,925,114	21,047,575	19,910,759	18,709,839	13,513,485	9,795,743	9,910,621	9,222,526	9,069,287
3	Estimated incurred claims and expense, end of fiscal year	132,074,304	142,131,009	137,200,960	142,297,997	133,125,920	131,629,925	128,699,843	127,253,895	145,412,749	133,471,826
4	Paid (cumulative) as of :										
	End of fiscal year	127,015,618	132,882,740	130,775,398	132,741,224	121,056,723	121,615,182	119,600,702	115,340,752	128,043,326	119,481,350
	One year later		136,763,554	137,139,130	142,021,632	131,600,311	130,225,677	128,557,344	124,245,819	138,622,170	129,161,518
	Two years later			137,009,634	142,118,949	131,528,633	130,295,713	128,578,195	124,174,505	138,603,422	129,153,965
	Three years later				142,118,852	131,495,181	130,329,071	128,589,628	124,213,955	138,563,312	129,143,128
	Four years later					131,493,293	130,302,300	128,575,112	124,215,134	138,506,406	129,133,464
	Five years later						130,296,751	128,553,303	124,211,984	138,503,481	129,133,464
	Six years later							128,552,101	124,193,068	138,503,481	129,133,464
	Seven years later								124,193,068	138,503,481	129,133,464
	Eight years later									138,503,481	129,133,464
	Nine years later										129,133,464
5	Reestimated incurred claims and expense, end of fiscal year	132,074,304	142,131,009	137,200,960	142,297,997	133,125,920	131,629,925	128,699,843	127,253,895	145,412,749	133,471,826
	One year later		136,763,554	137,139,130	142,021,632	131,600,311	130,225,677	128,557,344	124,245,819	138,622,170	129,161,518
	Two years later			137,009,634	142,118,949	131,528,633	130,295,713	128,578,195	124,174,505	138,603,422	129,153,965
	Three years later				142,118,852	131,495,181	130,329,071	128,589,628	124,213,955	138,563,312	129,143,128
	Four years later					131,493,293	130,302,300	128,575,112	124,215,134	138,506,406	129,133,464
	Five years later						130,296,751	128,553,303	124,211,984	138,503,481	129,133,464
	Six years later							128,552,101	124,193,068	138,503,481	129,133,464
	Seven years later								124,193,068	138,503,481	129,133,464
	Eight years later									138,503,481	129,133,464
	Nine years later										129,133,464
6	(Increase) decrease in estimated incurred claims and expense from the end of the original policy year		5,367,455	61,830	179,145	1,632,627	1,333,174	147,742	3,060,827	6,909,268	4,338,362