



**MIDDLESEX COUNTY  
JOINT HEALTH INSURANCE FUND**

**FINANCIAL REPORT**

**YEAR ENDED DECEMBER 31, 2019**

**MIDDLESEX COUNTY JOINT HEALTH INSURANCE FUND**

**TABLE OF CONTENTS**

	<b>PAGE</b>
Independent Auditors' Report	1
Report on 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>	4
Required Supplementary Information - Management's Discussion and Analysis	6

**EXHIBITS**

Basic Financial Statements:

Statement of Net Position	1	12
Statement of Revenues, Expenses and Changes in Net Position	2	13
Statement of Cash Flows	3	14

Notes to the Basic Financial Statements:

Note 1: Summary of Significant Accounting Policies	15
Note 2: Cash and Equivalents and Investments	18
Note 3: Governmental Unit Deposit Protection Act (GUDPA)	19
Note 4: Claims Liabilities - IBNR Reserves	21
Note 5: Reinsurance	22
Note 6: Other Postemployment Benefits	22
Note 7: Contingent Liabilities	22
Note 8: Additional Assessment	23
Note 9: Closed Fund Years, Dividends and Contingency Reserve	23
Note 10: Claims Audits	23

(continued)

**MIDDLESEX COUNTY JOINT HEALTH INSURANCE FUND**

**TABLE OF CONTENTS (continued)**

	<b>SCHEDULES</b>	<b>PAGE</b>
<b>Supplementary Information</b>		
Statement of Net Position – Fund Year 2019	1	24
Statement of Net Position – Fund Year 2018	2	25
Statement of Revenues, Expenses and Changes in Net Position Fund Year 2019	3	26
Statement of Revenues, Expenses and Changes in Net Position Fund Year 2018	4	27
Statement of Revenues, Expenses and Changes in Net Position Fund Year 2017	5	28
Statement of Cash Flows – Fund Year 2019	6	29
Statement of Cash Flows – Fund Year 2018	7	30
Statement of Cash Flows – Fund Year 2017	8	31
Number of Covered Individuals by Member	9	32
Number of Services Claimed by Line of Coverage Paid by Fund Claims Administrator	10	32
Claims Development Information	11	33
		(concluded)



## INDEPENDENT AUDITORS' REPORT

The Chairman and Members of the  
Middlesex County Joint Health Insurance Fund  
County of Middlesex  
New Brunswick, New Jersey

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Middlesex County Joint Health Insurance Fund, County of Middlesex, State of New Jersey (the "Fund"), as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, as listed in the table of contents.

### ***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 misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; audit requirements as prescribed by the Department of Banking and Insurance, State of New Jersey; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards and requirements require that we plan and perform the audit 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 auditors' judgment, including the assessment of the risks of 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 Fund'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 Fund's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of December 31, 2019, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Report on Summarized Comparative Information***

We have previously audited the Fund's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 3, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis as listed in the attached table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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.

### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the 2019 financial statements that collectively comprise the Middlesex County Joint Health Insurance Fund's basic financial statements. The accompanying supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information listed in the table of contents as schedules 1 through 11 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information identified above is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2020, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely 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 effectiveness of the Fund's 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 Fund's internal control over financial reporting and compliance.

*Wiss & Company*

WISS & COMPANY, LLP

Florham Park, New Jersey  
May 8, 2020



**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***

**INDEPENDENT AUDITORS' REPORT**

The Chairman and Members of the  
Middlesex County Joint Health Insurance Fund  
County of Middlesex  
New Brunswick, New Jersey

We have audited, in accordance with auditing standards generally accepted in the United States of America; audit requirements as prescribed by the Department of Banking and Insurance, State of New Jersey; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the basic financial statements of the Middlesex County Joint Health Insurance Fund, County of Middlesex, State of New Jersey (the "Fund"), as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated May 8, 2020.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Fund's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we 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 Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters, 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 our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and audit requirements as prescribed by the Department of Banking and Insurance, State of New Jersey.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund'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 Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Wiss & Company*  
WISS & COMPANY, LLP

Florham Park, New Jersey  
May 8, 2020

# MIDDLESEX COUNTY JOINT HEALTH INSURANCE FUND

## Required Supplementary Information Management's Discussion and Analysis

Year ended December 31, 2019

### Introduction

As Executive Director for the Middlesex County Joint Health Insurance Fund (the "Fund"), we offer this narrative overview and analysis of the Fund's financial activities as of and for the year ended December 31, 2019, with presentation of certain comparative information for the year ended December 31, 2018. The intent of this discussion and analysis is to look at the Fund's financial performance as a whole; readers should also review the basic financial statements, notes and additional information presented to enhance their understanding of the Fund's financial performance.

Management's Discussion and Analysis (MD&A) is an element of Required Supplementary Information as required by the Governmental Accounting Standards Board. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

### Mission

In order to provide cost effective health, prescription and/or dental benefits to all eligible participants of the "Local Units" of Government in Middlesex County, the Fund was created in 1995. The Fund's purpose is to provide health, prescription, and/or dental benefits to all eligible participants for medically necessary services covered. The Fund consists of seven county agencies within Middlesex County and provides health, prescription and/or dental benefits for 4,531 (Schedule 9) active, retired, and COBRA members as of December 31, 2019.

The objective of the Fund is to assist its member agencies in containing health, prescription and/or dental costs through:

- A. Implementation of an aggressive cost-containment management system.
- B. Volume purchase of specific aggregate reinsurance, as well as other administrative services.
- C. Negotiated hospital and provider discounts.
- D. Flexible benefit plan allowing member officials to negotiate changes with their employee bargaining units.
- E. Risk Management Information Systems to provide member officials with the data they need to make effective long range decisions.
- F. Independent experience rating based on exposure and claims.

### Overview of the Financial Statements

The Fund is a self-administered group of Middlesex County agencies established for the purpose of providing self-funded employee health, prescription and/or dental benefits for the member agencies and follows business-type activities and fund reporting as an enterprise fund. The Fund's financial statements are presented using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and in accordance with standards prescribed by the Governmental Accounting Standards Board. The enterprise fund statements reflect short-term and long-term financial information related to the activities and operations of the Fund and are presented in a manner similar to a private business. See the notes to the basic financial statements for a summary of the Fund's significant accounting policies.

## **Health, Prescription and Dental Insurance Plans**

The Fund offered six health plans to members in both 2019 and 2018; a Traditional Indemnity Plan, a Point of Service Plan, Horizon Omnia new in 2017, two HMO plans, and a PPO plan. The Traditional and Point of Service Plans are self-insured with Horizon Blue Cross Blue Shield of New Jersey as claim payer and network provider. The HMO plans are self-insured through CIGNA and Aetna. The Oxford PPO plan is fully insured. As of January 1, 2019 the Fund provided prescription service for all entities through CVS. The Fund also provides dental coverage to the County Administration and Social Services through Delta Dental. The HMO component of the dental program was transitioned to CIGNA Dental effective August 1, 2018.

## **Rates and Assessments**

The Fund rates for self-insured plans are developed on a prospective basis with assistance from outside actuaries and intended to cover expected claims and expenses incurred during a Fund Year. Rates for the fully insured HMO's are developed by the carrier. The Fund rate increases or (decreases) over the past three years were as follows:

<u>Plan</u>	<u>2019</u> <u>(Decrease)/Increase</u>	<u>2018</u> <u>(Decrease)/Increase</u>	<u>2017</u> <u>Increase/(Decrease)</u>
Traditional Indemnity	0.00%	(7.70%)	7.85%
Point of Service (POS)	0.00%	(7.70%)	7.85%
CIGNA-HMO	0.00%	(12.23%)	5.96%
Aetna-HMO	0.00%	5.99%	(2.89%)
Oxford-PPO	1.00%	(1.20%)	3.14%
CVS (ESI Rx)	0.45%	8.98%	4.46%
Delta Dental	n/a	n/a	n/a

The decreases as shown for the Traditional and POS plans are weighted averages for the two Horizon plans.

Capitation expenses are included in the overall percentage increases or decreases.

The Rx percentage increase is based on total projected claims minus projected rebates.

In 2019, the responsibility for administering all College and Mosquito Commission Rx claims was transferred to CVS from Cigna/Horizon.

This transfer reduced the overall Cigna/Horizon budget amount and increased the CVS budget for Rx.

Entities are assessed on a monthly basis based on the plans their employees select at each year's open enrollment and the rates established for each plan at the beginning of the calendar year. In the event rates for the self-insured plan are insufficient to cover actual incurred costs during a Fund Year, entities can be assessed additional supplemental charges to cover the shortfall.

## **Financial Highlights**

- The Fund at December 31, 2019 had a surplus (unrestricted net position) of \$12,517,750 for the 2019 Year and a surplus of \$17,589,540 for the 2018 Year.
- The Fund at December 31, 2018 had a surplus (unrestricted net position) of \$16,959,195 for the 2018 Year and a surplus of \$3,750,701 for the 2017 Year.
- Fund operating revenues during the 2019 fiscal year were \$120,279,592 versus \$123,346,756 for the 2018 fiscal year. This decrease was mainly due to a decrease in insurance recoveries.
- Operating expenses incurred during 2019 net of rebates and adjustments were \$107,419,222 versus \$104,952,780 in 2018. This increase was attributable mainly to an approximate \$1,980,000 increase in prescription cost offset by minor reductions in dental and administrative costs.

## **Net Position**

The following schedule presents a summary of the Fund's assets, liabilities and net position at December 31, 2019, 2018 and 2017 and the increases and (decreases) in relation to 2018.

	2019	2018	2017	Increase/ (Decrease) from 2018	Percent Change from 2018
<b>Assets</b>					
Cash and equivalents	\$ 29,748,328	\$ 24,007,015	\$ 13,928,147	\$ 5,741,313	23.92%
Assessments receivable	6,090,973	2,092,517	55,680	3,998,456	191.08%
Prescription rebates receivable	5,492,229	4,608,302	2,899,678	883,927	19.18%
Advance payments	1,431,855	1,637,010	1,515,937	(205,155)	-12.53%
Miscellaneous receivables	226,098	348,338	172,338	(122,240)	-35.09%
Prepaid expenses	20,461	19,436	18,411	1,025	5.27%
Total current assets	<u>43,009,944</u>	<u>32,712,618</u>	<u>18,590,191</u>	<u>10,297,326</u>	31.48%
<b>Liabilities</b>					
IBNR and claim reserves	7,947,439	6,552,205	6,261,370	1,395,234	21.29%
Accounts payable	4,734,502	5,339,798	4,300,831	(605,296)	-11.34%
Accrued expenses	220,713	110,719	71,453	109,994	99.35%
Total current liabilities	<u>12,902,654</u>	<u>12,002,722</u>	<u>10,633,654</u>	<u>899,932</u>	7.50%
Net Position/(Deficit)	<u>\$ 30,107,290</u>	<u>\$ 20,709,896</u>	<u>\$ 7,956,537</u>	<u>\$ 9,397,394</u>	45.38%
Change in net position	<u>\$ 9,397,394</u>	<u>\$ 12,753,359</u>	<u>\$ (1,440,857)</u>		

The increase in cash and equivalents is mainly the result of the results of operations in 2019 versus 2018. The increase in assessments receivable is due to the timing of when the participating entities paid the assessments. In 2019, one participating entity did not make its required payments by December 31, 2019 related to several months during 2019 as dividends were declared to offset the receivable in January 2020, while in 2018, four entities did not make their required payments by December 31, 2018. The increase in prescription rebates receivable is mainly due to the increase in the Fund prescription plan usage as compared to 2018. The decrease in miscellaneous receivables is mainly the result of a decrease in reinsurance recoveries receivable in 2019 as compared to 2018. The IBNR and claim reserves increased from the prior year due mainly to an actuary's estimate, the impact of the COVID 19 virus on claims and timing of claims filed. The decrease in accounts payable is the result of the timing of receipt of vendor invoices and health claims and related payments.

The Fund maintained a stop loss limit of \$550,000 for 2019. This is an increase in the limit of \$50,000 from the 2018 limit of \$500,000. Claims incurred with Aetna, CIGNA, CVS and Highmark (Traditional, PPO, POS, OMNIA) accumulate to the \$550,000 maximum. For the 2019 plan year, three claims from Horizon and one from CIGNA have exceeded the \$550,000 maximum. Total projected reimbursement including actual amount paid plus the receivable is \$465,000. For the 2018 plan year, two claims (two with Aetna) exceeded the \$500,000 stop loss limit with reimbursements totaling \$1,350,991.

## **Revenues, Expenses and Changes in Net Position**

The following schedule presents a summary of the Fund's revenues, expenses and changes in net position for the years ended December 31, 2019, 2018 and 2017 and the increases and decreases in relation to 2018.

	2019	2018	2017	Increase/ (Decrease) from 2018	Percent Change from 2018
<b>Operating revenues:</b>					
Group health assessments	\$ 81,663,849	\$ 82,886,467	\$ 81,377,368	\$ (1,222,618)	-1.48%
Group prescription assessments	37,196,177	36,751,931	31,749,736	444,246	1.21%
Group dental assessments	1,050,000	978,002	941,952	71,998	7.36%
Insurance recoveries	311,276	2,675,396	624,288	(2,364,120)	-88.37%
Miscellaneous revenues	58,290	54,960	54,960	3,330	6.06%
Total operating revenues	<u>120,279,592</u>	<u>123,346,756</u>	<u>114,748,304</u>	<u>(3,067,164)</u>	-2.49%
<b>Operating expenses:</b>					
Health claims, net of adjustments	66,098,131	65,482,446	70,217,795	615,685	0.94%
Prescription claims, net of rebates	35,824,708	33,852,383	29,307,225	1,972,325	5.83%
Dental claims	919,837	950,464	821,718	(30,627)	-3.22%
Administrative	4,576,546	4,667,487	4,221,871	(90,941)	-1.95%
Total operating expenses	<u>107,419,222</u>	<u>104,952,780</u>	<u>104,568,609</u>	<u>2,466,442</u>	2.35%
Operating income	<u>12,860,370</u>	<u>18,393,976</u>	<u>10,179,695</u>	<u>(5,533,606)</u>	30.08%
<b>Non-operating revenues/(expenses):</b>					
Interest income	470,068	294,130	130,779	175,938	59.82%
Dividends paid	(3,933,044)	(5,934,747)	-	2,001,703	-33.73%
Total non-operating revenues/(expenses)	<u>(3,462,976)</u>	<u>(5,640,617)</u>	<u>130,779</u>	<u>2,177,641</u>	-38.61%
Change in net position	<u>\$ 9,397,394</u>	<u>\$ 12,753,359</u>	<u>\$ 10,310,474</u>	<u>\$ (3,355,965)</u>	

Group health and prescription assessments decreased primarily to a reduction in total covered employees at MCIA and overall favorable claim experience claim totals relative to budget. Insurance recoveries revenue varies from year to year and has decreased from the prior year due to very few high claimants in 2019 as compared to two high claimants that had significant amounts that exceeded the \$500,000 stop loss in 2018.

Health, prescription and dental claims expenses vary from year to year and increased slightly in 2019 attributable to changes in the medical plans offset by increased participation in the prescription plan.

Dividends paid represent amounts returned to the participants after a Fund year is closed out based upon results of operations for the related fund year.

## **Budget**

The Fund's budget and rates are prepared by the Fund's Professionals in advance of the Fund Year. It is presented to the Commissioners at the November Commissioners' meeting, and approved at the December meeting after considering public comments. Following is a ten year summary of the Fund's revenue and total costs.

<u>Fund Year</u>	<u>Revenue *</u>	(Surplus) <u>Deficit</u>	<u>Total Cost</u>	Increase/ (Decrease) <u>Over</u> <u>Prior Year</u>	<u>Percent</u> <u>Change</u>
2011	\$ 55,642,767	\$ (4,859,720)	\$ 50,783,047	\$ (1,419,926)	-2.72%
2012	80,079,459	(1,765,647)	78,313,812	27,530,765	54.21%
2013	86,267,017	(5,467,563)	80,799,454	2,485,642	3.17%
2014	90,964,198	51,464	91,015,662	10,216,208	12.64%
2015	95,028,635	(3,672,113)	91,356,522	340,860	0.37%
2016	102,624,659	2,353,937	104,978,596	13,622,074	14.91%
2017	114,748,304	(7,956,537)	106,791,767	1,813,171	1.73%
2018	123,346,756	(20,709,896)	102,636,860	(4,154,907)	-3.89%
2019	120,279,592	(30,107,290) **	90,172,302	(12,464,558)	-12.14%
2020	120,077,060 ***	-	120,077,060	29,904,758	33.16%

\* This is Actual Revenue (excluding un-budgeted revenue).

\*\* Estimated at December 31, 2019.

\*\*\* Budgeted revenue.

## **Items Affecting the Future**

Annually, the Fund Commissioners approve a budget, which includes the annual assessments to be billed to each of the participating entities. In December of 2019, the Commissioners approved the 2020 budget with an average increase across all entities and types of coverage of 0.01%.

### **COVID 19 Virus**

The financial impact of COVID 19 is not known as of the date of this report. Based on the number of members covered under the Fund, the expectation is that some covered employees or retirees and their dependents have or will receive medical treatment as a result of the COVID 19 virus. Data is not yet available regarding the number of members impacted, whether or not exposure to the virus was work related and the projected cost to the Fund.

The Fund Manager remains in contact with our insurance carrier partners regarding the scope and timing of COVID 19 reporting.

The Fund, as directed by Federal Guidelines has waived all copays and cost sharing for COVID 19 testing and treatment. Following the recommendation of CVS Caremark (Pharmacy Benefit Manager), dispensing limitations and Pre-Authorization requirements have been eased to ensure the membership continues to receive all medications without unnecessary travel and potential exposure.

While the financial impact of COVID 19 is not known, the Fund maintains a current combined surplus for the 2019 and 2018 plan years of approximately \$30,000,000. This surplus will be available to cover any deficits generated in the 2020 plan year due to COVID 19 claims.

### Remedy Analytics

Remedy assisted the Fund in preparing and evaluating the prescription plan RFP. Ultimately, CVS Caremark was retained as the exclusive fund Pharmacy Benefit Manager (PBM) with a new three-year agreement beginning January 1, 2019. Further, Remedy assisted the Fund in a review of all terms, provisions, and definitions outlined in the agreement between the Middlesex County Joint Health Insurance Fund and CVS Caremark. The expectation is ongoing cost controls will have a positive impact on claims experience. The primary ongoing responsibilities of Remedy include the following:

- Using a proprietary auditing program, Remedy will audit every script filled in 2019 to ensure compliance with contractual terms and definitions as negotiated in the PBM contract in effect beginning January 1, 2019.
- Remedy will continue to advise the Fund on trends in the pharmaceutical industry and make recommendations for plan design changes, limitations and exclusions.

### **Requests for Information**

This financial report is designed to provide a general overview of the Fund's finances for all those with an interest in the Fund's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Fund Administrator, North American Insurance Management Corporation, 6 Dickinson Drive, Building 300, Suite 302, Chadds Ford, PA 19317.

## MIDDLESEX COUNTY JOINT HEALTH INSURANCE FUND

**STATEMENT OF NET POSITION**  
**DECEMBER 31, 2019**  
(With comparative totals as of December 31, 2018)

	As of		Totals	
	2019	2018	2019	2018
<b>ASSETS</b>				
<b>CURRENT ASSETS:</b>				
Cash and equivalents	\$ 11,984,788	\$ 17,763,540	\$ 29,748,328	\$ 24,007,015
Assessments receivable	6,090,973		6,090,973	2,092,517
Prescription rebates receivable	5,492,229		5,492,229	4,608,302
Advance payments	1,431,855		1,431,855	1,637,010
Miscellaneous receivables	226,098		226,098	348,338
Prepaid expenses	20,461	-	20,461	19,436
Total Current Assets	<u>25,246,404</u>	<u>17,763,540</u>	<u>43,009,944</u>	<u>32,712,618</u>
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES:</b>				
IBNR and claim reserves	7,773,439	174,000	7,947,439	6,552,205
Accounts payable	4,734,502		4,734,502	5,319,251
Accrued expenses	220,713	-	220,713	131,266
Total Current Liabilities	<u>12,728,654</u>	<u>174,000</u>	<u>12,902,654</u>	<u>12,002,722</u>
<b>NET POSITION</b>				
<b>NET POSITION:</b>				
Unrestricted	<u>12,517,750</u>	<u>17,589,540</u>	<u>30,107,290</u>	<u>20,709,896</u>
Total Net Position	<u>\$ 12,517,750</u>	<u>\$ 17,589,540</u>	<u>\$ 30,107,290</u>	<u>\$ 20,709,896</u>

*See accompanying notes to the basic financial statements.*

## MIDDLESEX COUNTY JOINT HEALTH INSURANCE FUND

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
YEAR ENDED DECEMBER 31, 2019

(With comparative totals for the year ended December 31, 2018)

	Fund Years Ended December 31,			Totals	
	2019	2018	2017	2019	2018
Operating revenues:					
Employer group health assessments	\$ 81,067,246		\$ (1,648)	\$ 81,065,598	\$ 82,206,037
Employer group prescription assessments	37,196,177			37,196,177	36,751,931
Employee group health assessments - retirees and COBRA	587,694		10,557	598,251	680,430
Employer group dental assessments	1,050,000			1,050,000	978,002
Insurance recoveries	111,836	\$ 199,440		311,276	2,675,396
Miscellaneous revenues	58,290	-	-	58,290	54,960
Total operating revenues	<u>120,071,243</u>	<u>199,440</u>	<u>8,909</u>	<u>120,279,592</u>	<u>123,346,756</u>
Operating expenses/(income):					
Claims:					
Health claims - net of adjustments	58,354,414	(1,317,899)	53,618	57,090,133	56,744,612
Prescription claims - net of adjustments and rebates	36,700,773	(876,065)		35,824,708	33,852,383
Dental claims	919,837			919,837	950,464
Self insured capitation	915,730	80,360		996,090	863,539
Insured program premiums	6,432,058	148,121		6,580,179	6,523,304
Reinsurance	1,431,729	-	-	1,431,729	1,350,991
Total claims expenses/(income)	<u>104,754,541</u>	<u>(1,965,483)</u>	<u>53,618</u>	<u>102,842,676</u>	<u>100,285,293</u>
Administrative expenses:					
Compensation and other fees	1,497,082			1,497,082	1,461,288
Managed care expenses	3,056,124	23,340	-	3,079,464	3,206,199
Total administrative expenses	<u>4,553,206</u>	<u>23,340</u>	<u>-</u>	<u>4,576,546</u>	<u>4,667,487</u>
Total operating expenses/(income)	<u>109,307,747</u>	<u>(1,942,143)</u>	<u>53,618</u>	<u>107,419,222</u>	<u>104,952,780</u>
Operating income (loss)	<u>10,763,496</u>	<u>2,141,583</u>	<u>(44,709)</u>	<u>12,860,370</u>	<u>18,393,976</u>
Nonoperating revenues/(expenses):					
Interest income	470,068	-	-	470,068	294,130
Dividends paid	(5,043)	(222,009)	(3,705,992)	(3,933,044)	(5,934,747)
Total nonoperating revenues/(expenses)	<u>465,025</u>	<u>(222,009)</u>	<u>(3,705,992)</u>	<u>(3,462,976)</u>	<u>(5,640,617)</u>
Change in net position before transfers	11,228,521	1,919,574	(3,750,701)	9,397,394	12,753,359
Transfers	<u>1,289,229</u>	<u>(1,289,229)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net position	12,517,750	630,345	(3,750,701)	9,397,394	12,753,359
Total net position - beginning of year	<u>-</u>	<u>16,959,195</u>	<u>3,750,701</u>	<u>20,709,896</u>	<u>7,956,537</u>
Total net position - end of year	<u>\$ 12,517,750</u>	<u>\$ 17,589,540</u>	<u>\$ -</u>	<u>\$ 30,107,290</u>	<u>\$ 20,709,896</u>

See accompanying notes to the basic financial statements.

## MIDDLESEX COUNTY JOINT HEALTH INSURANCE FUND

**STATEMENT OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2019**  
(With comparative totals for the year ended December 31, 2018)

	Fund Years Ended December 31,			Totals	
	2019	2018	2017	2019	2018
Cash flows from operating activities:					
Cash received from members	\$ 108,091,817	\$ 7,025,463	\$ (1,648)	\$ 115,115,632	\$ 116,404,877
Cash received from insurance recoveries	111,836	199,440		311,276	2,675,396
Cash received from miscellaneous sources	58,290			58,290	54,960
Cash (paid)/received for claims, premiums and services	<u>(98,031,409)</u>	<u>(7,939,586)</u>	<u>(309,914)</u>	<u>(106,280,909)</u>	<u>(103,415,748)</u>
Net cash provided by (used in) operating activities	<u>10,230,534</u>	<u>(714,683)</u>	<u>(311,562)</u>	<u>9,204,289</u>	<u>15,719,485</u>
Cash flows from noncapital financing activity -					
Transfers	<u>1,289,229</u>	<u>(1,289,229)</u>	-	-	-
Net cash provided by (used in) noncapital financing activity	<u>1,289,229</u>	<u>(1,289,229)</u>	-	-	-
Cash flows from investing activities:					
Interest on cash and equivalents	470,068			470,068	294,130
Cash paid for dividends	<u>(5,043)</u>	<u>(222,009)</u>	<u>(3,705,992)</u>	<u>(3,933,044)</u>	<u>(5,934,747)</u>
Net cash provided by (used in) investing activities	<u>465,025</u>	<u>(222,009)</u>	<u>(3,705,992)</u>	<u>(3,462,976)</u>	<u>(5,640,617)</u>
Net increase/(decrease) in cash and equivalents	11,984,788	(2,225,921)	(4,017,554)	5,741,313	10,078,868
Cash and equivalents, beginning of year	<u>-</u>	<u>19,989,461</u>	<u>4,017,554</u>	<u>24,007,015</u>	<u>13,928,147</u>
Cash and equivalents, end of year	<u>\$ 11,984,788</u>	<u>\$ 17,763,540</u>	<u>\$ -</u>	<u>\$ 29,748,328</u>	<u>\$ 24,007,015</u>

**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN)**  
**OPERATING ACTIVITIES**

<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</b>					
Operating income (loss)	\$ 10,763,496	\$ 2,141,583	\$ (44,709)	\$ 12,860,370	\$ 18,393,976
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:					
Changes in assets and liabilities:					
Assessments receivable	(6,090,973)	2,068,823		(4,022,150)	(2,036,837)
Prescription rebates receivable	(5,492,229)	4,608,302		(883,927)	(1,998,686)
Advance payments	(1,431,855)	1,637,010		205,155	(121,073)
Miscellaneous receivables	(226,098)	348,338	23,694	145,934	114,062
Prepaid expenses	(20,461)	19,436		(1,025)	(1,025)
IBNR and claim reserves	7,773,439	(6,178,205)	(200,000)	1,395,234	290,835
Accounts payable	4,734,502	(5,319,251)	(20,547)	(605,296)	1,038,967
Accrued expenses	<u>220,713</u>	<u>(40,719)</u>	<u>(70,000)</u>	<u>109,994</u>	<u>39,266</u>
Net cash provided by (used in) operating activities	<u>\$ 10,230,534</u>	<u>\$ (714,683)</u>	<u>\$ (311,562)</u>	<u>\$ 9,204,289</u>	<u>\$ 15,719,485</u>

*See accompanying notes to the basic financial statements.*

# MIDDLESEX COUNTY JOINT HEALTH INSURANCE FUND

## NOTES TO THE BASIC FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2019

### Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Middlesex County Joint Health Insurance Fund (the "Fund") conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governmental enterprise units. The following summary of the more significant accounting policies is presented to assist the reader in interpreting the financial statements and other data in this report. These policies should be viewed as an integral part of the accompanying basic financial statements. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

**Reporting Entity** - The Fund was created in May of 1995 in accordance with P.L. 1983, C. 372 entitled "An act concerning certain joint insurance funds for local units of governments, and supplementing Chapter 10 of Title 40A of the New Jersey Statutes." The Fund is a self-administered group of Middlesex County agencies established for the purpose of providing self-funded employee health, prescription, and/or dental benefits for the member agencies.

A participating agency may be terminated by a two-thirds vote of the Fund Commissioners for nonpayment of assessments or continued noncompliance after written notice to comply with the bylaws or noncompliance with risk management or underwriting standards or for other reasons subject to the prior approval of the Commissioners. Termination may occur only after proper notice has been given, in accordance with the Fund's bylaws. A participating member may withdraw before the end of its membership by giving proper notices and following required procedures at least (90) days before the date of withdrawal.

The Administrator is responsible for the overall administration of the Fund.

In evaluating how to define the entity for financial reporting purposes, management considered whether the Fund is a component unit of another primary government and all potential component units of the Fund. The Fund's basic financial statements include the statement of net position, statement of revenues, expenses and changes in net position and statement of cash flows of the Fund. A review of other units of local government, using the criteria set forth in GAAP, indicates there are no additional entities or funds for which the Fund has reporting responsibilities. Management has determined the Fund should not be considered a part of any unit of local government for reporting purposes for the following reasons:

- 1) The Fund has separate legal standing from all other units of government.
- 2) No primary government appoints the voting majority of the Fund's commissioners. The Fund consists of seven county agencies within Middlesex County with a total of 4,531 employees and retirees participating as of December 31, 2019. Each county unit assigns a commissioner and an alternate to the Fund. The Commissioners elect the officers; a chairperson and a secretary for 1-year terms. The seven county entities include the following:
  - Middlesex County
  - Middlesex County Board of Social Services
  - Roosevelt Care Center
  - Middlesex County College
  - Middlesex County Utilities Authority
  - Middlesex County Improvement Authority
  - Middlesex County Mosquito Commission
- 3) The Fund is fiscally independent of all other units of local government. The Fund's Commissioners have the sole authority to determine financial programs and assess fees.

# MIDDLESEX COUNTY JOINT HEALTH INSURANCE FUND

## NOTES TO THE BASIC FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2019

### Note 1 - Summary of Significant Accounting Policies (continued)

- 4) The financial statements of other units of local government would not be misleading or incomplete without the inclusion of the Fund's financial statements.

**Basis of Presentation and Accounting and Revenue Recognition** - The Fund is a single-enterprise proprietary fund and uses the economic resources measurement focus and the accrual basis of accounting. Proprietary funds are used to account for operations that are financed in a manner similar to private business enterprise and that a periodic determination of revenues earned, expenses incurred and/or change in net position is appropriate for capital maintenance, public policy, management control, accountability or other purposes. Under this method, revenues are recorded when earned, and expenses are recognized as soon as they result in liabilities for the benefits provided.

The financial statements are prepared in accordance with GASB Statement No. 34, *Basic Financial Statements, Management Discussion and Analysis for State and Local Governments* and related standards. In addition, the Fund follows GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement established standards for reporting deferred outflows of resources, deferred inflows of resources and net position. The adoption of this statement resulted in a change in the presentation of the statement of net assets to what is now referred to as the statement of net position and the term "net assets" was changed to "net position" throughout the financial statements.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principle ongoing operations. The principle operating revenues of the Fund are assessments to the participating members. The assessments are determined and certified by the Fund's actuary and approved by a majority vote of the Fund Commissioners on an annual basis.

**Net Position** - Net position represents the difference between assets and liabilities in the financial statements. Net position is reported as restricted in the financial statements when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

**Management Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Comparative Information** - The Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position and Statement of Cash Flows include certain prior year summarized comparative information that has been derived from the Fund's 2018 financial statements. Such information should be read in conjunction with the Fund's financial statements as of and for the year ended December 31, 2019.

**Cash and Equivalent** - Cash and equivalents include all cash balances and highly liquid investments with a maturity of three months or less from the date of purchase. The Fund places its temporary cash investments with high credit quality financial institutions. At times, such investments may be in excess of the Federal Depository Insurance Corporation insurance limits.

# MIDDLESEX COUNTY JOINT HEALTH INSURANCE FUND

## NOTES TO THE BASIC FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2019

### Note 1 - Summary of Significant Accounting Policies (continued)

**Receivables and Payables** - Receivables consist mainly of assessments to participating agencies, prescription rebates and excess insurance recoveries. Generally, the Fund does not require collateral to support its receivables. The Fund establishes prescription rebate receivables based on estimates of prior year rebates and minimum guarantee requirements using actuarial and statistical techniques. The Fund uses reinsurance agreements to reduce its exposure to large losses on certain types of insured events. Reinsurance policies permit the recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Fund as direct insurer of the risks reinsured. Payables consist of mainly accounts payable to the participant insurance carriers for claims and administrative fees.

**Advance Payments** - Advance payments consist mainly of amounts paid to insurance carriers in advance, which represent approximately seven to ten days of claims liabilities.

**IBNR Reserve/Unpaid Claims Liabilities** - The Fund establishes claim liabilities based on estimates of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency and other factors. These liabilities are subject to variability between estimated ultimate losses determined as described and the actual experience as it emerges, including the impact of future changes in claim severity and frequency and other factors. Adjustments to claims liabilities are charged or credited to operations in the periods in which they are made.

**Pensions** - The Middlesex County Joint Health Insurance Fund contributes to a cost-sharing multiple-employer defined benefit pension plan, the Public Employees' Retirement System (P.E.R.S.), administered by the State of New Jersey, Division of Pensions and Benefits. It provides retirement, disability, medical and death benefits to plan members and beneficiaries. The State of New Jersey P.E.R.S. program was established as of January 1, 1955. The programs were established under the provisions of N.J.S.A. 43:15A, which assigns authority to establish and amend benefit provisions to the plan's board of trustees. At December 31, 2019 and 2018, there were no active employees' of the Fund enrolled in the pension plan and therefore GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-An Amendment of GASB Statement No. 27* is not applicable to the Fund.

**Subsequent Events** - Management has reviewed and evaluated all events and transactions from December 31, 2019 through May 8, 2020, the date that the financial statements were available to be issued, for possible disclosure and recognition in the financial statements. The effects of those events and transactions that provide additional pertinent information about conditions that existed at the statement of net position date have been recognized in the accompanying financial statements.

Subsequent to December 31, 2019, the COVID-19 (coronavirus) pandemic has resulted in substantial economic volatility on a global scale. The financial impact of COVID 19 is not known as of the date of this report. Based on the number of members covered under the Fund, the expectation is that some covered employees or retirees and their dependents have or will receive medical treatment as a result of the COVID 19 virus. Data is not yet available regarding the number of members impacted, whether or not exposure to the virus was work related and the projected cost to the Fund.

The Fund, as directed by Federal Guidelines has waived all copays and cost sharing for COVID 19 testing and treatment. Following the recommendation of CVS Caremark (Pharmacy Benefit Manager), dispensing limitations and Pre-Authorization requirements have been eased to ensure the membership continues to

**MIDDLESEX COUNTY JOINT HEALTH INSURANCE FUND**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2019**

**Note 1 - Summary of Significant Accounting Policies (continued)**

receive all medications without unnecessary travel and potential exposure. While the financial impact of COVID 19 is not known, the Fund maintains a current combined surplus for the 2019 and 2018 plan years of approximately \$30,000,000. This surplus will be available to cover any deficits generated in the 2020 plan year due to COVID 19 claims.

**Note 2 - Cash and Equivalents and Investments**

The Fund is governed by the deposit and investment limitations of New Jersey state law (statutes). The deposits and cash and equivalents held at December 31, 2019 and 2018, are reported as follows:

	2019	2018
Deposits:		
Demand deposits and money markets	\$ 29,748,328	\$ 24,007,015
	<u>\$ 29,748,328</u>	<u>\$ 24,007,015</u>
Reconciliation of Statement of Net Position		
Fund Year:		
2019	\$ 11,984,788	
2018	17,763,540	\$ 19,989,461
2017	-	4,017,554
Total Reconciliation of Statement of Net Position	<u>\$ 29,748,328</u>	<u>\$ 24,007,015</u>

***Deposits***

Deposits in financial institutions, reported as components of cash and equivalents had a book balance of \$29,748,328 and bank balance of \$29,782,441 at December 31, 2019. Of the bank balance, \$500,000 was fully insured by the Federal Depository Insurance Corporation (FDIC) and \$29,532,441 was secured by a collateral pool held by the bank, but not in the Fund’s name, as required by New Jersey’s Governmental Unit Deposit Protection Act (GUDPA). The Governmental Unit Deposit Protection Act is more fully described in Note 3 of these financial statements.

Deposits in financial institutions, reported as components of cash and equivalents had a book balance of \$24,007,015 and bank balance of \$24,010,525 at December 31, 2018. Of the bank balance, \$250,000 was fully insured by the FDIC and \$23,760,525 was secured by a collateral pool held by the bank, but not in the Fund’s name, as required by New Jersey’s Governmental Unit Deposit Protection Act (GUDPA).

Pursuant to GASB Statement No. 40, *Deposit and Investment Risk Disclosures* (“GASB 40”), the Fund’s operating cash accounts are profiled in order to determine exposure, if any, to Custodial Credit Risk (risk that in the event of failure of the counterparty the Fund would not be able to recover the value of its deposits and investments). Deposits are considered to be exposed to Custodial Credit Risk if they are: uncollateralized (securities not pledged to the depositor), collateralized with securities held by the pledging financial institution, or collateralized with securities held by the financial institution’s trust department or agent but not in the government’s name.

# MIDDLESEX COUNTY JOINT HEALTH INSURANCE FUND

## NOTES TO THE BASIC FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2019

### Note 2 - Cash and Equivalents and Investments (continued)

The Fund does not have a policy for the management of custodial credit risk, other than depositing all of its funds in banks covered by GUDPA. At least five percent of the Fund's deposits were fully collateralized by funds held by the financial institution, but not in the name of the Fund. Due to the nature of GUDPA, further information is not available regarding the full amount that is collateralized.

#### *Investments*

At December 31, 2019 and 2018, the Fund did not hold any investments.

**Custodial Credit Risk** - The Fund does not have a policy for custodial credit risk. However, the Fund did not have any investments during the 2019 or 2018 fiscal years.

**Investment Interest Rate Risk** - The Fund has no formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Concentration of Investment Credit Risk** - The Fund places no limit on the amount it may invest in any one issuer.

**Investment Credit Risk** - The Fund does not have an investment policy regarding the management of credit risk. GASB 40 requires that disclosure be made as to the credit rating of all debt security investments except for obligations of the U.S. government or investments guaranteed by the U.S. government. The Fund has no investment policy that limits its investment choices other than the limitation of state law as follows:

- Bonds or other obligations of the United States of America or obligations guaranteed by the United States of America;
- Government money market mutual funds;
- Any obligations that a federal agency or federal instrumentality has issued in accordance with an act of Congress, which security has a maturity date not greater than 397 days from the date of purchase, provided that such obligations bear a fixed rate of interest not dependent on any index or other external factor;
- Bonds or other obligations of the Fund or bonds or other obligations of the local unit or units within which the Fund is located;
- Bonds or other obligations, having a maturity date of not more than 397 days from the date of purchase, approved by the Division of Investment in the Department of Treasury for investment by the Fund;
- Local Governments investment pools;
- Deposits with the State of New Jersey Cash Management Fund established pursuant to section 1 of P.L. 1977, c281; or
- Agreements for the repurchase of fully collateralized securities with certain limitations.

### Note 3 - Governmental Unit Deposit Protection Act (GUDPA)

The Fund has deposited cash in 2019 with approved public fund depositories qualified under the provisions of the Government Unit Deposit Protection Act. In addition to savings and checking accounts, the Fund may invest monies in certificates of deposits.

# MIDDLESEX COUNTY JOINT HEALTH INSURANCE FUND

## NOTES TO THE BASIC FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2019

### Note 3 - Governmental Unit Deposit Protection Act (GUDPA) (continued)

The Governmental Unit Deposit Protection Act P.L. 1970, Chapter 236, was passed to afford protection against bankruptcy or default by a depository. In 2009, Chapter 326 of the Laws of P.L. 2009 was signed into law to amend the previous act and became effective July 1, 2010. C.17:9-42 provides that no governmental unit shall deposit funds in a public depository unless such funds are secured in accordance with this act. C.17:9-42 provides that every public depository having public funds on deposit shall, as security for such deposits, maintain eligible collateral having a market value at least equal to either (1) 5% of the average daily balance of collected public funds on deposit during the 6 month period ending on the next preceding valuation date (June 30 or December 31) or (2) at the election of the depository, at least equal to 5% of the average balance of collected public funds on deposit on the first, eighth, fifteenth, and twenty-second days of each month in the 6 month period ending on the next preceding valuation date (June 30 or December 31). No public depository shall be required to maintain any eligible collateral pursuant to this act as security for any deposit or deposits of any governmental unit to the extent such deposits are insured by F.D.I.C. or any other U.S. agency which insures public depository funds.

No public depository shall at any time receive and hold on deposit for any period in excess of 15 days public funds of a governmental unit(s) which, in the aggregate, exceed 50% of the capital funds of the depository, unless such depository shall, in addition to the security required to be maintained under the paragraph above, secure such excess by eligible collateral with a market value at least equal to 100% of such excess.

In the event of a default, the Commissioner of Banking within 20 days after the default occurrence shall ascertain the amount of public funds on deposit in the defaulting depository and the amounts covered by federal deposit insurance and certify the amounts to each affected governmental unit. Within 10 days after receipt of this certification, each unit shall furnish to the Commissioner verified statements of its public deposits. The Commissioner shall ascertain the amount derived or to be derived from the liquidation of the collateral maintained by the defaulting depository and shall distribute such proceeds pro rata among the governmental units to satisfy the net deposit liabilities to such units.

If the proceeds of the sale of the collateral are insufficient to pay in full the liability to all affected governmental units, the Commissioner shall assess the deficiency against all other public depositories having public funds on deposit determined by a formula determined by law. All sums collected by the Commissioner shall be paid to the governmental units having deposits in the defaulting depository in the proportion that the net deposit liability to each such governmental unit bears to the aggregate the net deposit liabilities to all such governmental units.

All public depositories are required to furnish information and reports dealing with public funds on deposit every six months, June 30<sup>th</sup> and December 31<sup>st</sup>, with the Commissioner of Banking. Any public depository which refuses or neglects to give any information so requested may be excluded by the Commissioner from the right to receive public funds for deposit until such time as the Commissioner shall acknowledge that such depository has furnished the information requested.

Upon review and approval of the Certification Statement that the public depository complies with statutory requirements, the Commissioner issues forms approving the bank as a municipal depository. The Fund should request copies of these approval forms semiannually to assure that all depositories are complying with requirements.

**MIDDLESEX COUNTY JOINT HEALTH INSURANCE FUND**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2019**

**Note 4 - Claims Liabilities - IBNR Reserves**

In order to recognize unpaid losses, as discussed in the Summary of Significant Accounting Policies, a reserve is calculated by Fund management and certified by the Fund’s actuary, Samuel M. Kikla, FSA, MAAA, EA. The actuary utilizes the “Development Method” in certifying the Claims liabilities/IBNR reserves. The underlying principle of this method is that all contingencies affecting the future development of a claim are inherently and properly dealt with through the assumed run out pattern.

The following represents the changes in the undiscounted IBNR liabilities for all open years, net of any excess insurance recoveries, for the years ended December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Total incurred by not reported - beginning of year	\$ 6,552,205	\$ 6,261,370
Incurred claims for current year	<u>92,166,511</u>	<u>89,032,408</u>
Total incurred claims	<u>98,718,716</u>	<u>95,293,778</u>
Payments (Net of Adjustments/Rebates):		
Claims attributable to prior periods	4,079,374	4,251,599
Claims attributable to the current period	<u>84,393,072</u>	<u>82,680,203</u>
Total payments	<u>88,472,446</u>	<u>86,931,802</u>
Changes in provision for insured events of prior years	<u>(2,298,831)</u>	<u>(1,809,771)</u>
Total incurred but not reported - end of the year	<u>\$ 7,947,439</u>	<u>\$ 6,552,205</u>
Incurred but not reported related to 2018 Fund Year	\$ 174,000	\$ 200,000
Incurred but not reported related to 2019 Fund Year	<u>7,773,439</u>	<u>6,352,205</u>
Total incurred but not reported - end of year	<u>\$ 7,947,439</u>	<u>\$ 6,552,205</u>

# MIDDLESEX COUNTY JOINT HEALTH INSURANCE FUND

## NOTES TO THE BASIC FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2019

### **Note 5 - Reinsurance**

The Fund maintains contracts for excess insurance, covering losses in excess of an amount established between the Fund and the insurers up to the limits of coverage set forth in the contracts on a specific occurrence, per accident or annual aggregate basis. The stop loss limit maintained by the Fund is \$500,000 per claim for the Horizon Traditional and Point of Service, CIGNA and Aetna plans. There were \$169,961 and \$283,553 of reinsurance receivables for the Fund's Years ended December 31, 2019 and 2018, respectively.

A contingent liability exists with respect to reinsurance, which would become an actual liability in the event the reinsuring company might be unable to meet their obligations to the Fund under existing reinsurance agreements.

### **Note 6 - Other Postemployment Benefits**

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* ("GASB 75"). This Statement replaced the requirements of Statement 45 and requires governments to report a liability on the face of the financial statements for the OPEB that they provide. GASB 75 requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about their OPEB liabilities. The Fund adopted GASB 75 during the year ended December 31, 2018, which did not have a significant impact on the Fund financial statements, but will have an impact of each of the entities that participate in the Fund. The individual participating entities will be required to record their applicable revenues and expenses, additional and more extensive note disclosures and required supplementary information in their financial statements. These disclosures are not included in the financial statements of the Fund.

Each applicable participating county entity/employer provides post-employment health benefits for its employees, which is annually assessed by the Fund to pay for the costs of those benefits. GASB 75 provided guidelines for reporting the OPEB liability and related revenues and expenses within each employer's financial statements, which were actuarially calculated based on each entities plan benefits (other than pensions).

Each participating employer is required to disclose additional information with regard to funding policy, the employer's annual OPEB liability, contributions made, the funded status and the actuarial methods and assumptions used.

### **Note 7 - Contingent Liabilities**

The Fund is at times involved in claims and lawsuits incidental to its operations. In the opinion of the administration and legal counsel, the ultimate resolution of these matters will not have a material adverse effect on the financial position of the Fund.

# MIDDLESEX COUNTY JOINT HEALTH INSURANCE FUND

## NOTES TO THE BASIC FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2019

### **Note 8 - Additional Assessment**

The Commissioners of the Middlesex County Joint Health Insurance Fund have the authority by majority vote to levy on the participating local units an additional assessment to assure the payment of the Fund's obligations. No additional assessments were necessary during the 2019 fiscal year related to the 2019, 2018 and 2017 Fund Years.

### **Note 9 - Closed Fund Years, Dividends and Contingency Reserve**

In 2019, the Commissioners of the Fund approved closing the financial statements of the 2017 Fund Year during the 2019 fiscal year. The excess funds from the 2017 Fund Year in the amount of \$3,705,992 and \$222,009 from the 2018 Fund Year were distributed to all entities other than the County of Middlesex.

In 2018, the Commissioners of the Fund approved closing the financial statements of the 2016 Fund Year during the 2018 fiscal year. The excess funds from the 2016 Fund Year in the amount of \$925,375 and \$5,009,372 from the 2017 Fund Year were distributed to the County of Middlesex and the remaining excess from the 2017 Fund Year was distributed to all other entities in the 2019 fiscal year.

### **Note 10 - Claims Audits**

Remedy Analytics is in the process of auditing CVS Caremark (Rx Pharmacy Benefit Manager) on behalf of the Fund. The audit is specific to prescription claims incurred in the 2019 plan year. Due to the complexity and detail of this audit, the audit process did not begin until all scripts incurred in 2019 were paid. The audit will be completed during the second quarter of 2020 and the results presented to the Fund Commissioners in June or July 2020.

## SUPPLEMENTARY INFORMATION

STATEMENT OF NET POSITION  
DECEMBER 31, 2019  
FUND YEAR 2019

## ASSETS

## CURRENT ASSETS:

Cash and equivalents	\$ 11,984,788
Assessments receivable	6,090,973
Prescription rebates receivable	5,492,229
Advance payments	1,431,855
Miscellaneous receivables	226,098
Prepaid expenses	<u>20,461</u>
Total Current Assets	<u>25,246,404</u>

## LIABILITIES

## CURRENT LIABILITIES:

IBNR and claim reserves	7,773,439
Accounts payable	4,734,502
Accrued expenses	<u>220,713</u>
Total Current Liabilities	<u>12,728,654</u>

## NET POSITION

## NET POSITION:

Unrestricted	<u>\$ 12,517,750</u>
Total Net Position	<u>\$ 12,517,750</u>

## SUPPLEMENTARY INFORMATION

STATEMENT OF NET POSITION  
DECEMBER 31, 2019  
FUND YEAR 2018

## ASSETS

## CURRENT ASSETS:

Cash and equivalents	\$ <u>17,763,540</u>
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Total Current Assets	<u>17,763,540</u>
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## LIABILITIES

## CURRENT LIABILITIES:

IBNR and claim reserves	<u>174,000</u>
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Total Current Liabilities	<u>174,000</u>
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## NET POSITION

## NET POSITION:

Unrestricted	<u>17,589,540</u>
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Total Net Position	<u>\$ 17,589,540</u>
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## SUPPLEMENTARY INFORMATION

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**YEAR ENDED DECEMBER 31, 2019**  
**FUND YEAR 2019**

Operating revenues:	
Employer group health assessments	\$ 81,067,246
Employer group prescription assessments	37,196,177
Employee group health assessments - retirees and COBRA	587,694
Employer group dental assessments	1,050,000
Insurance recoveries	111,836
Miscellaneous revenues	58,290
Total operating revenues	<u>120,071,243</u>
Operating expenses:	
Claims:	
Health claims - net of adjustments	58,354,414
Prescription claims - net of adjustments and rebates	36,700,773
Dental claims	919,837
Self insured capitation	915,730
Insured program premiums	6,432,058
Reinsurance	1,431,729
Total claims expenses	<u>104,754,541</u>
Administrative expenses:	
Compensation and other fees	1,497,082
Managed care expenses	3,056,124
Total administrative expenses	<u>4,553,206</u>
Total operating expenses	<u>109,307,747</u>
Operating income	<u>10,763,496</u>
Nonoperating revenues (expenses):	
Interest income	470,068
Dividends (paid)	(5,043)
Total nonoperating revenues (expenses)	<u>465,025</u>
Change in net position before transfers	11,228,521
Transfers	<u>1,289,229</u>
Change in net position	12,517,750
Net position - beginning of year	<u>-</u>
Net position - end of year	<u>\$ 12,517,750</u>

## SUPPLEMENTARY INFORMATION

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
YEAR ENDED DECEMBER 31, 2019  
FUND YEAR 2018

Operating revenues:	
Insurance recoveries	\$ 199,440
Total operating revenues	<u>199,440</u>
Operating expenses (income):	
Claims:	
Health claims - net of adjustments	(1,317,899)
Prescription claims - net of adjustments and rebates	(876,065)
Insured program premiums	148,121
Self Insured Capitation	<u>80,360</u>
Total claims expenses/(income)	<u>(1,965,483)</u>
Administrative expenses:	
Managed care expenses	<u>23,340</u>
Total administrative expenses	<u>23,340</u>
Total operating expenses (income)	<u>(1,942,143)</u>
Operating income	2,141,583
Nonoperating expenses:	
Dividends (paid)	<u>(222,009)</u>
Total nonoperating expenses	<u>(222,009)</u>
Change in net position before transfers	1,919,574
Transfers	<u>(1,289,229)</u>
Change in net position	630,345
Net position - beginning of year	<u>16,959,195</u>
Net position - end of year	<u>\$ 17,589,540</u>

## SUPPLEMENTARY INFORMATION

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
 YEAR ENDED DECEMBER 31, 2019  
 FUND YEAR 2017

Operating revenues:	
Employer group health assessments	\$ (1,648)
Employee group health assessments - retirees and COBRA	<u>10,557</u>
Total operating revenues/(expenses)	<u>8,909</u>
Operating expenses:	
Claims:	
Health claims - net of adjustments	<u>53,618</u>
Total operating expenses	<u>53,618</u>
Total operating (loss)	<u>(44,709)</u>
Nonoperating (expenses):	
Dividends (paid)	<u>(3,705,992)</u>
Total nonoperating (expenses)	<u>(3,705,992)</u>
Change in net position	(3,750,701)
Net position - beginning of year	<u>3,750,701</u>
Net position - end of year	<u>\$ -</u>

## MIDDLESEX COUNTY JOINT HEALTH INSURANCE FUND

## SUPPLEMENTARY INFORMATION

STATEMENT OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 2019  
FUND YEAR 2019

Cash flows from operating activities:	
Cash received from members	\$ 108,091,817
Cash received from insurance recoveries	111,836
Cash received from miscellaneous sources	58,290
Cash paid for claims, premiums and services	<u>(98,031,409)</u>
Net cash provided by operating activities	<u>10,230,534</u>
Cash flows from noncapital financing activity:	
Transfers in	<u>1,289,229</u>
Net cash provided by noncapital financing activity	<u>1,289,229</u>
Cash flows from investing activities:	
Interest on cash and equivalents	470,068
Cash paid for dividends	<u>(5,043)</u>
Net cash provided by investing activities	<u>465,025</u>
Net increase in cash and equivalents	11,984,788
Cash and equivalents, beginning of year	<u>-</u>
Cash and equivalents, end of year	<u>\$ 11,984,788</u>

RECONCILIATION OF OPERATING INCOME TO NET CASH  
PROVIDED BY OPERATING ACTIVITIES

Operating income	\$ 10,763,496
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in assets and liabilities:	
Assessments receivable	(6,090,973)
Prescription rebates receivable	(5,492,229)
Advance payments	(1,431,855)
Miscellaneous receivables	(226,098)
Prepaid expenses	(20,461)
IBNR and claim reserves	7,773,439
Accounts payable	4,734,502
Accrued expenses	<u>220,713</u>
Net cash provided by operating activities	<u>\$ 10,230,534</u>

## MIDDLESEX COUNTY JOINT HEALTH INSURANCE FUND

## SUPPLEMENTARY INFORMATION

STATEMENT OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 2019  
FUND YEAR 2018

Cash flows from operating activities:	
Cash received from members	\$ 7,025,463
Cash received from insurance recoveries	199,440
Cash paid for claims, premiums and services	<u>(7,939,586)</u>
Net cash used in operating activities	<u>(714,683)</u>
Cash flows from noncapital financing activity:	
Transfers	<u>(1,289,229)</u>
Net cash used in noncapital financing activity	<u>(1,289,229)</u>
Cash flows from investing activity:	
Cash paid for dividends	<u>(222,009)</u>
Net cash used in investing activity	<u>(222,009)</u>
Net decrease in cash and equivalents	(2,225,921)
Cash and equivalents, beginning of year	<u>19,989,461</u>
Cash and equivalents, end of year	<u>\$ 17,763,540</u>

RECONCILIATION OF OPERATING INCOME TO NET CASH  
(USED IN) OPERATING ACTIVITIES

Operating income	\$ 2,141,583
Adjustments to reconcile operating income to net cash used in operating activities:	
Changes in assets and liabilities:	
Assessments receivable	2,068,823
Prescription rebates receivable	4,608,302
Advance payments	1,637,010
Miscellaneous receivables	348,338
Prepaid expenses	19,436
IBNR and claim reserves	(6,178,205)
Accounts payable	(5,319,251)
Accrued expenses	<u>(40,719)</u>
Net cash (used in) operating activities	<u>\$ (714,683)</u>

## MIDDLESEX COUNTY JOINT HEALTH INSURANCE FUND

## SUPPLEMENTARY INFORMATION

STATEMENT OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 2019  
FUND YEAR 2017

Cash flows from operating activities:	
Cash received from members	\$ (1,648)
Cash paid for claims, premiums and services	<u>(309,914)</u>
Net cash used in operating activities	<u>(311,562)</u>
 Cash flows from investing activity:	
Cash paid for dividends	<u>(3,705,992)</u>
Net cash used in investing activity	<u>(3,705,992)</u>
 Net decrease in cash and equivalents	(4,017,554)
 Cash and equivalents, beginning of year	<u>4,017,554</u>
 Cash and equivalents, end of year	<u>\$ -</u>

RECONCILIATION OF OPERATING LOSS TO NET CASH  
USED IN OPERATING ACTIVITIES

Operating loss	\$ (44,709)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Changes in assets and liabilities:	
Miscellaneous receivables	23,694
IBNR and claim reserves	(200,000)
Accounts payable	(20,547)
Accrued expenses	<u>(70,000)</u>
 Net cash used in operating activities	<u>\$ (311,562)</u>

Schedule 9

**MIDDLESEX COUNTY JOINT HEALTH INSURANCE FUND  
SUPPLEMENTARY INFORMATION  
NUMBER OF COVERED INDIVIDUALS BY MEMBER  
YEAR ENDED DECEMBER 31, 2019**

<u>MEMBER</u>	<u>HEALTH INSURANCE FUND YEARS ENDED</u>		
	<u>DEC. 31, 2019</u>	<u>DEC. 31, 2018</u>	<u>DEC. 31, 2017</u>
Middlesex County Board of Social Services	653	640	646
Middlesex County College	420	409	449
Middlesex County	2,663	2,677	2,677
Middlesex County Improvement Authority	35	41	43
Middlesex County Mosquito Commission	26	28	28
Middlesex County Utilities Authority	281	265	262
Roosevelt Care Center	<u>453</u>	<u>457</u>	<u>494</u>
Total Participants	<u>4,531</u>	<u>4,517</u>	<u>4,599</u>

Schedule 10

**MIDDLESEX COUNTY JOINT HEALTH INSURANCE FUND  
SUPPLEMENTARY INFORMATION  
NUMBER OF SERVICES CLAIMED BY LINE OF COVERAGE  
PAID BY FUND CLAIMS ADMINISTRATOR  
YEAR ENDED DECEMBER 31, 2019**

<u>LINE OF COVERAGE</u>	<u>FUND YEARS ENDED</u>	
	<u>DEC. 31, 2019</u>	<u>DEC. 31, 2018</u>
Health Insurance	* <u>239,239</u>	<u>249,459</u>

\* Healthcare Choice (POS) & Traditional Plans Only

**MIDDLESEX COUNTY JOINT HEALTH INSURANCE FUND  
SUPPLEMENTARY INFORMATION  
CLAIMS DEVELOPMENT INFORMATION  
YEAR ENDED DECEMBER 31, 2019**

	FUND YEARS ENDED		
	<u>DEC. 31, 2019</u>	<u>DEC. 31, 2018</u>	<u>DEC. 31, 2017</u>
Net Earned Required Contribution & Investment Revenue/(Cumulative)	\$ 120,429,475	\$ 120,965,490	\$ 112,397,116
Unallocated Administrative Expenses/(Cumulative)	\$ 4,553,206	\$ 4,579,498	\$ 4,221,107
Estimated Incurred Claims & Expense, (Net of Reinsurance) End of Policy Period	\$ 104,642,705	\$ 100,937,668	\$ 100,633,929
Paid/(Cumulative) as of December 31	96,869,266	94,585,463	94,572,559
Re-estimated Incurred Claims & Expenses (Cumulative)/(Net of Reinsurance)	104,642,705	100,937,668	100,633,929
Increase/(Decrease) in Estimated Incurred Claims From End of Policy Period	\$ -	\$ -	\$ -