

**GREATER TOMPKINS COUNTY MUNICIPAL
HEALTH INSURANCE CONSORTIUM**

Ithaca, New York

FINANCIAL REPORT

**For the Years Ended
December 31, 2017 and 2016**



**GREATER TOMPKINS COUNTY MUNICIPAL
HEALTH INSURANCE CONSORTIUM**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Greater Tompkins County Municipal Health Insurance Consortium
Ithaca, New York

Report on the Financial Statements

We have audited the accompanying financial statements of the Greater Tompkins County Municipal Health Insurance Consortium (the Plan) as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Plan'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.

Auditor's Responsibility

Our responsibility is to express opinions 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 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 entity'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 entity'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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Greater Tompkins County Municipal Health Insurance Consortium as of December 31, 2017 and 2016, and the respective changes in financial position and cash flows thereof for the years then ended in accordance 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 4-4j 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 opinions on the financial statements that collectively comprise the Plan's basic financial statements. The Schedules of Changes in Net Position and Claim Development Information on pages 13 and 14 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedules of Changes in Net Position and Claim Development Information are the responsibility of management and were derived from and relate 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 Schedules of Changes in Net Position and Claim Development Information are fairly stated in all material respects in relation to the 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 April 24, 2018 on our consideration of the Greater Tompkins County Municipal Health Insurance Consortium'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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plan's internal control over financial reporting and compliance.

Respectfully Submitted,

A handwritten signature in black ink that reads "Insero & Co. CPAs, LLP". The signature is written in a cursive, slightly slanted style.

Insero & Co. CPAs, LLP
Certified Public Accountants

Ithaca, New York
April 24, 2018

GREATER TOMPKINS COUNTY MUNICIPAL HEALTH INSURANCE CONSORTIUM

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

The following Management's Discussion and Analysis (MD&A) provides a comprehensive overview of the financial position of the Greater Tompkins County Municipal Health Insurance Consortium (the Plan) as of December 31, 2017 and 2016, and its results of operations for the years then ended. Because the MD&A is designed to focus on current operations, it should be read in conjunction with the audited financial statements and related footnotes.

Financial Highlights

For the year ending December 31, 2017, the Plan's net position increased by \$2,322,672. For the year ending December 31, 2016, the Plan's net position increased by \$1,173,320. For the year ending December 31, 2015, the Plan's net position increased by \$6,927,266. Increases in net position are mainly attributable to an excess of revenues received over claims and administrative expenses.

The Plan's net position consists of the following:

	2017	2016	2015
Restricted for contingency reserve	\$ 2,038,725	\$ 1,925,998	\$ 1,879,368
Catastrophic claims reserve	1,350,000	1,050,000	1,050,000
Rate stabilization reserve	1,868,819	1,758,496	1,513,287
Unrestricted net position	<u>16,066,413</u>	<u>14,266,791</u>	<u>13,385,310</u>
Total Net Position	<u>\$ 21,323,957</u>	<u>\$ 19,001,285</u>	<u>\$ 17,827,965</u>

A summary of operating and nonoperating revenues and expenses follows:

	2017	2016	2015
Premiums	\$ 40,774,492	\$ 38,519,955	\$ 37,587,353
Aggregate write-ins for other revenues	145,643	131,974	128,523
Nonoperating revenues - interest	17,702	16,533	13,526
Total Revenues	<u>40,937,837</u>	<u>38,668,462</u>	<u>37,729,402</u>
Operating expenses	38,243,980	37,262,114	30,941,281
Other expenses	153,421	134,014	129,696
Total Expenses	<u>38,397,401</u>	<u>37,396,128</u>	<u>31,070,977</u>
Adjustment for incurred but not reported claims	<u>(217,764)</u>	<u>(99,014)</u>	<u>268,841</u>
Increase in Net Position	<u>\$ 2,322,672</u>	<u>\$ 1,173,320</u>	<u>\$ 6,927,266</u>

GREATER TOMPKINS COUNTY MUNICIPAL HEALTH INSURANCE CONSORTIUM

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

Financial Statement Overview

The financial statements of the Greater Tompkins County Municipal Health Insurance Consortium have been prepared in accordance with accounting principles generally accepted in the United States of America, and related standards prescribed by the Governmental Accounting Standards Board (GASB).

The financial statements presented include Statements of Net Position, Statements of Revenues, Expenses, and Changes in Net Position, and Statements of Cash Flows. These statements provide information about the Plan's financial position, its results of operations and cash flows for the periods presented.

The Statements of Net Position are similar to a balance sheet, in that they include the Plan's assets and liabilities. Unlike a balance sheet, liabilities are subtracted from total assets to present what is referred to as "net position."

The Statements of Net Position classify all assets and liabilities as either current or noncurrent. Current assets are assets that will be recognized within the following twelve months. Similarly, current liabilities are those obligations that will be liquidated within the following twelve months. Over time, changes in net position may indicate strength or deterioration in the Plan's financial position.

The Statements of Revenues, Expenses, and Changes in Net Position reflect all operating and nonoperating revenues and expenses for the periods presented, the change in net position based on those revenues and expenses, any adjustments to net position, and beginning and ending net position. Revenue is reported in this statement when it is earned, and expenses are recorded when the obligation has been incurred.

The Statements of Cash Flows provide information on major sources and uses of cash during the year. The cash flow statement portrays net cash provided or used in operations, investing, capital, and noncapital financing activities.

Statements of Net Position

The Statements of Net Position represent the financial position of the Greater Tompkins County Municipal Health Insurance Consortium at December 31, 2017, 2016, and 2015. The following table reflects, in summary, the financial position of the Plan at December 31:

GREATER TOMPKINS COUNTY MUNICIPAL HEALTH INSURANCE CONSORTIUM

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016	2015
Current assets	\$ 19,784,675	\$ 17,546,359	\$ 15,413,416
Noncurrent assets	6,746,447	6,744,537	6,740,506
Total Assets	<u>26,531,122</u>	<u>24,290,896</u>	<u>22,153,922</u>
Current liabilities	5,207,165	5,289,611	4,325,957
Total Liabilities	<u>5,207,165</u>	<u>5,289,611</u>	<u>4,325,957</u>
Net Position	\$ <u>21,323,957</u>	\$ <u>19,001,285</u>	\$ <u>17,827,965</u>

The increases in current assets are mainly due to an excess of revenues over expenses in addition to an increase in a prescription drug rebate related to 2017. The increases in noncurrent assets are primarily a result of increases in restricted cash. The 2017 and 2015 decreases in current liabilities are mainly due to reduction of Section 4706(a)(5) requirements and decreased unearned premiums. The 2016 increase in current liabilities is primarily due to additional Section 4706(a)(5) requirements and increased unearned premiums.

Statements of Revenues, Expenses, and Changes in Net Position

The Statements of Revenues, Expenses, and Changes in Net Position present the results of operations of the Plan for the years ending December 31:

Revenue Overview

	2017	2016	2015
Premiums	\$ 40,774,492	\$ 38,519,955	\$ 37,587,353
Aggregate write-ins for other revenues	145,643	131,974	128,523
Interest earnings	17,702	16,533	13,526
Total Revenues	\$ <u>40,937,837</u>	\$ <u>38,668,462</u>	\$ <u>37,729,402</u>

The increases in premium revenues are primarily the result of the addition of new participating municipalities into the Plan along with premium increases necessitated by the rising cost of health insurance. The changes in other revenues is the result of changes in ancillary benefit premiums received each year. The increase in interest is the result of maintaining additional cash balances in interest earning bank accounts each year.

GREATER TOMPKINS COUNTY MUNICIPAL HEALTH INSURANCE CONSORTIUM

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

Expense Overview

The following table summarizes expenses by function for the years ending December 31:

	2017	2016	2015
Claims expense	\$ 35,828,612	\$ 34,999,888	\$ 28,750,405
Reinsurance expenses, net of recoveries	771,527	692,329	706,517
Administrative fees	1,105,738	1,046,447	1,003,466
Aggregate write-ins for other expenses	538,103	523,450	480,893
Other expenses	153,421	134,014	129,696
Total Expenses	\$ <u>38,397,401</u>	\$ <u>37,396,128</u>	\$ <u>31,070,977</u>

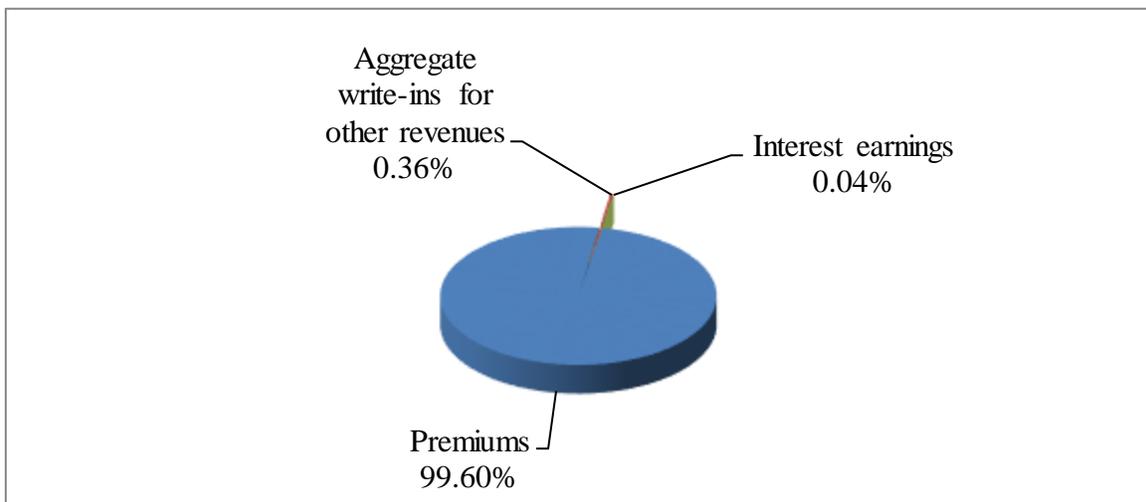
The increases in claims expense are primarily a result of increased insurance claims paid for participating municipality employees and the addition of new participating municipalities into the Plan. The increase in administrative and other expenses is primarily due to increased cost associated with adding new municipalities into the Plan. The changes in reinsurance are primarily due to timing of reimbursement pay outs and the cost of reinsurance. Other expenses consist mainly of insured ancillary benefits expense.

Schedules of Changes in Net Position

The Schedules of Changes in Net Position represent the changes in Plan reserves, incurred claims and unrestricted net position for the years ended December 31, 2017 and 2016.

The following are graphic illustrations of revenues by source:

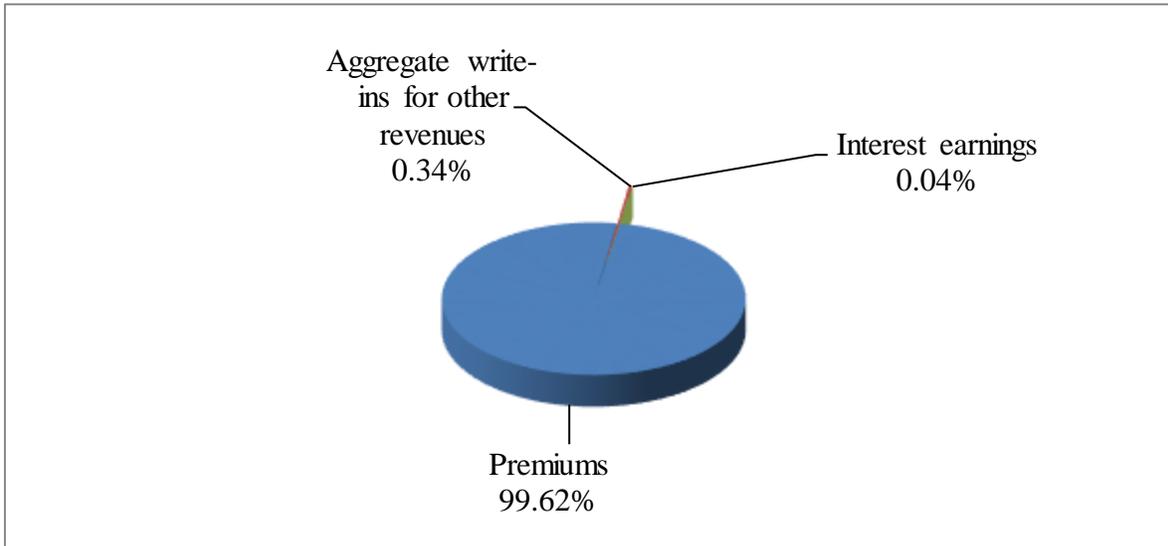
Sources of Revenue for 2017



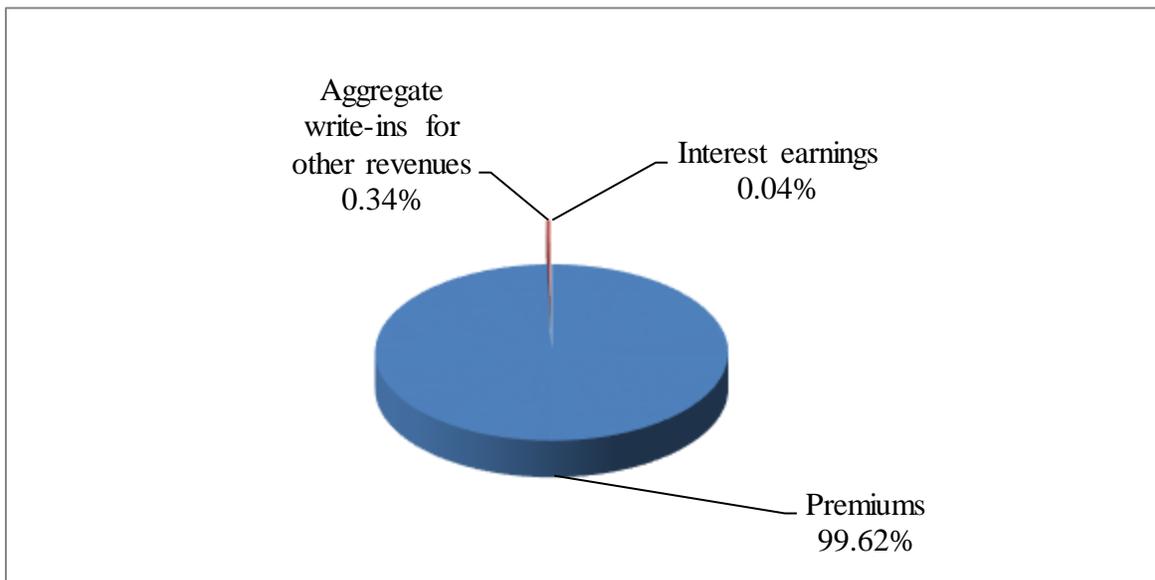
GREATER TOMPKINS COUNTY MUNICIPAL HEALTH INSURANCE CONSORTIUM

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

Sources of Revenue for 2016



Sources of Revenue for 2015

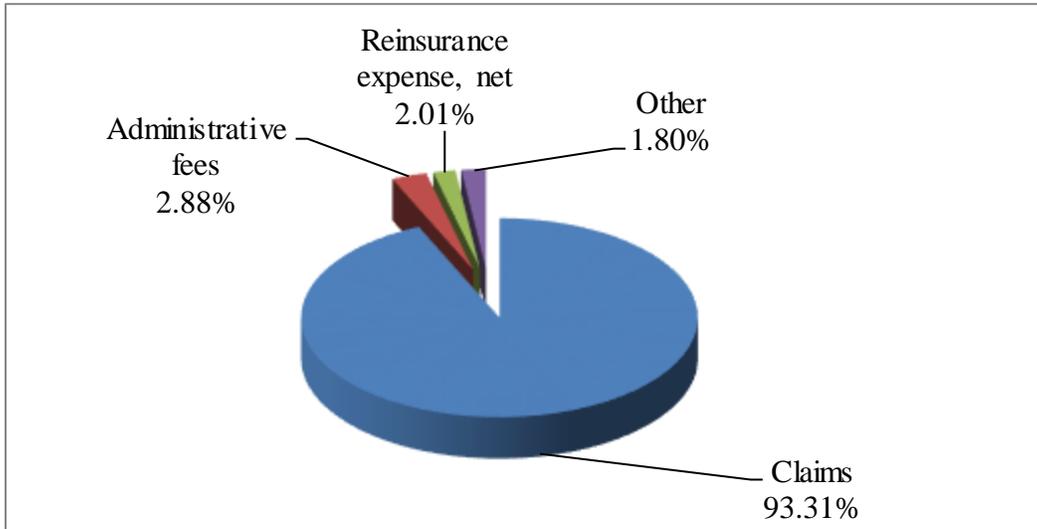


GREATER TOMPKINS COUNTY MUNICIPAL HEALTH INSURANCE CONSORTIUM

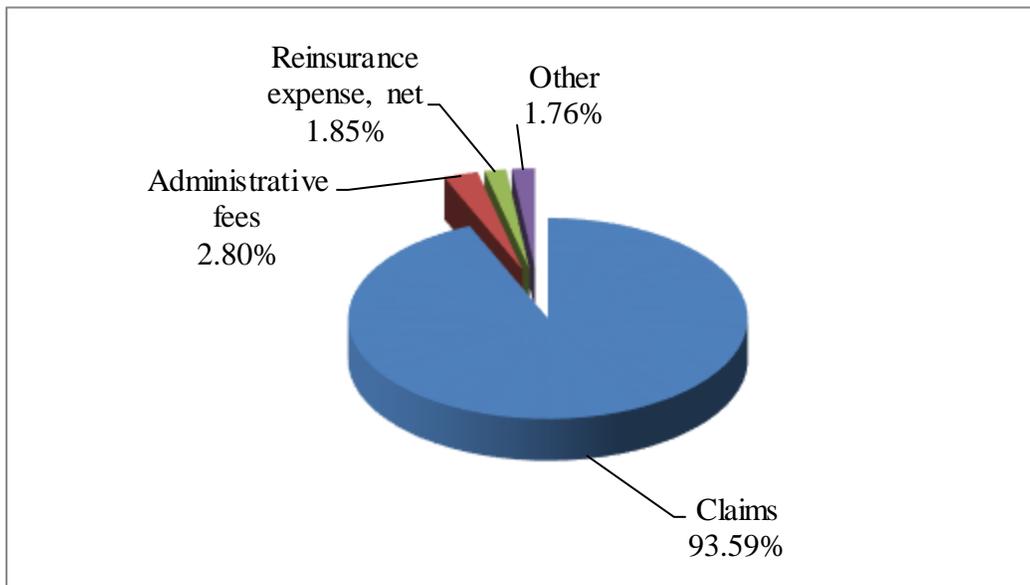
MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

The following are graphic illustrations of operating expenses by source:

Operating Expenses 2017



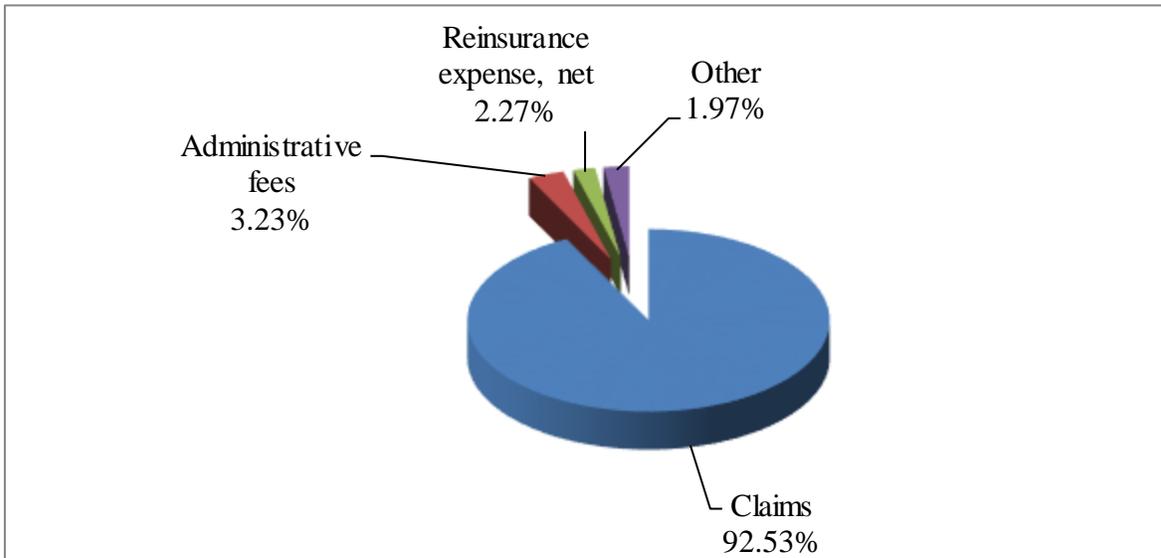
Operating Expenses 2016



GREATER TOMPKINS COUNTY MUNICIPAL HEALTH INSURANCE CONSORTIUM

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

Operating Expenses 2015



Economic Factors Affecting the Future

Specific Stop-Loss Insurance

Prior to the start of the 2017 Fiscal Year, the Consortium renewed its specific stop-loss insurance; increasing the deductible level to \$450,000. This increase in the deductible level was agreed to in an effort to keep the premium increase at a reasonable level. The increased deductible, along with a separate deductible of \$1,000,000 on one claimant who presented a substantially higher risk due to their medical claims history, led to the decision to increase the Catastrophic Claims Reserve to \$1,350,000 during the 2017 Fiscal Year.

The Catastrophic Claims Reserve was initially established during the 2014 Fiscal Year at approximately \$600,000 to create financial resources when the stop-loss risk retention (deductible) was increased from \$250,000 to \$300,000. During the 2015 budget development process, the Board agreed to increase the specific stop-loss insurance deductible to \$400,000. This resulted in an additional increase in exposure and lower premium expense. To help protect the Consortium's financial position, the Board of Directors voted to increase the Catastrophic Claims Reserve to \$1,050,000 for the 2015 Fiscal Year. For the 2017 Fiscal Year, the Board of Directors approved an increase in Stop-Loss deductible to \$450,000 and subsequently increased the Catastrophic Claims Reserve by \$300,000 to \$1,350,000.

GREATER TOMPKINS COUNTY MUNICIPAL HEALTH INSURANCE CONSORTIUM

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

During deliberations of the Audit and Finance Committee regarding the stop-loss insurance deductible amount for 2018, the Committee reviewed the complete past history of large loss claims (over \$100,000) and determined increasing the deductible to \$600,000 was an acceptable risk. This will result in lower premium expense for 2018 than was budgeted. The Audit and Finance Committee further determined the Catastrophic Claims Reserve of \$2,000,000 was adequate for the 2018 Fiscal Year.

This is an area which will be reviewed by the Board of Directors on an annual basis to ensure a tolerable balance is achieved between risk and the cost of stop-loss insurance.

Aggregate Stop-Loss Insurance

We are very pleased to report that the New York State Department of Financial Services has granted a waiver to the Consortium relative to the requirement to purchase this insurance as found in §4707 of the New York State Insurance Law for 2018 and going forward. This waiver does not create a substantive risk to the Consortium or its members, as the Consortium maintains reserves and fund balance which protect the financial integrity of the Consortium; and the New York State Department of Financial Services agreed. This action reduced the Consortium's expense by approximately \$70,000 per annum.

Rate Stabilization Reserve

With better than expected paid claims and expense results in the initial years of operation of the Consortium, the Board of Directors made the decision, during the 2015 Fiscal Year, to establish a Claims/Rate Stabilization Reserve to further protect the Consortium's cash flow and provide additional financial stability. The level of this reserve was set at 5% of the expected/paid claims expense for the year. These funds are available to mitigate premium rate increases at budget time. The Consortium's goal is to maintain reasonable, prudent, and modest premium increases for the foreseeable future. This reserve grows each year as the level of claims increases and is estimated to be slightly more than \$2,000,000 at the close of the 2018 Fiscal Year.

Incurred But Not Reported (IBNR) Claims Liability Reserve

The Consortium continues to see a decrease in the IBNR estimate as determined by the Consortium's Actuaries, Armory Associates, LLC. At the close of the 2011 Fiscal Year, the Consortium's calculated IBNR was 10.15% of paid claims. The IBNR calculation for 2017 was 7.69%. While this does not directly impact the mandated 12% of actual paid claims reserve required by the NYS Department of Financial Services, it does provide creditable data demonstrating the IBNR Reserve at 12% is very conservative and amply protects the Consortium for its claims liability.

GREATER TOMPKINS COUNTY MUNICIPAL HEALTH INSURANCE CONSORTIUM

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

Patient Protection and Affordable Care Act

The Affordable Care Act's (ACA's) ongoing implementation since its inception in 2010 has resulted in increased costs to the Consortium, including the Patient Centered Outcomes Research Institute (PCORI) Fee which is expected to be in place through the 2019 Fiscal Year. A history of this fee is provided below:

Policy End Date	Applicable Fiscal Year	Filing Deadline	Payment Fiscal Year	PCORI Rate (Per Life)	Annual Fee
12/31/2013	2013	7/31/2014	2014	\$1.00	\$4,448.00
12/31/2014	2014	7/31/2015	2015	\$2.00	\$10,252.46
12/31/2015	2015	7/31/2016	2016	\$2.08	\$10,431.20
12/31/2016	2016	7/31/2017	2017	\$2.17	\$10,902.08
12/31/2017	2017	7/31/2018	2018	\$2.26	\$11,702.28
12/31/2018	2018	7/31/2019	2019	\$2.39	\$12,375.42
12/31/2019	2019	7/31/2020	2020	TBD	

In addition to the ACA PCORI Fee, the Consortium was subject to the ACA Transitional Reinsurance Program Fee which required the Consortium to pay \$316,764 during the 2014 Fiscal Year, \$221,320 during the 2015 Fiscal Year, and \$136,512 during the 2016 Fiscal Year.

This particular fee has now sunset and will not impact the Consortium's financial performance going forward. However, it did cost the Consortium a total of \$674,596 in premium dollars.

The Board of Directors is keeping a close eye on the effects of the potential dismantling of some or all of the Patient Protection and Affordable Care Act. The fees and taxes paid in the 2014 to 2016 Fiscal Years equaled 0.63% of the more than \$112 million in premium that was collected by the Consortium. Although these fees have declined substantially with the sunset of the Transitional Reinsurance Program, the Board wants to be sure to be in an excellent position to deal with any changes that could negatively impact the finances of the Consortium.

Escalating Cost of Prescription Medications

Another area which has drawn the attention of the Consortium's Board of Directors is the significant increase in the cost of prescription medications on a per fill basis. The cost per fill for 2016 was 17% greater than 2015. These increases are being seen across all tiers of medications with significant growth in specialty pharmaceuticals purchased by covered members. The cost per fill of specialty medications increased 29% between 2015 and 2016. The Board was informed much of this increase was claims for hepatitis medicines which can only be given once and will not be recurring. However, the paid claims trend associated with the pharmaceutical benefits paid by the Plan continue to experience "hyper-inflation."

GREATER TOMPKINS COUNTY MUNICIPAL HEALTH INSURANCE CONSORTIUM

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

The Board of Directors did approve, in 2017, CanaRx as a pharmacy for our members to use for maintenance medications on the CanaRx formulary which is managed in conjunction with ProAct. Subscribers contract directly with CanaRx for their prescriptions which are made and shipped from Canada, the United Kingdom, New Zealand, and Australia. These pharmaceuticals have \$-0- copay for the subscriber and in aggregate save the Consortium 35% on US made drugs. The Board will continue to work with ProAct, Inc. and its other advisors to mitigate the rate of growth in this area as best as possible.

Continued Growth

In 2010, the Greater Tomkins County Municipal Health Insurance Consortium became the first municipal cooperative health benefits plan organized pursuant to Article 47 of the New York State Insurance Law to be made up of local municipalities which was started from “the ground up” since the law’s effective date in the early 1990’s. The Consortium has seen its list of municipal partners grow from its original thirteen (13) members to its total today of thirty-one (31) municipal partners. The growth started with the addition of the City of Cortland and the Town of Lansing in 2013, making the Consortium fifteen (15) municipalities strong. This was followed with the Village of Homer and the Town of Willet joining the Consortium’s ranks in 2015, bringing the total to seventeen (17). In 2016, the Town of Marathon, the Town of Virgil, and the Town of Truxton joined the Plan. This past year there was substantial growth with eight (8) new municipal partners joining, including the Town of Aurelius, Town of Cincinnatus, Town of Montezuma, Town of Moravia, Town of Preble, Town of Scipio, Town of Springport, and Village of Union Springs.

Three (3) additional municipalities joined the Consortium in 2018 when the Town of Newfield, the Town of Homer, and the Town of Owasco all joined the Consortium. As additional municipalities show interest in joining the Consortium, the Board of Directors is taking the steps necessary to ensure future growth is controlled and premium rates are fair for all municipal partners.

Monitoring Claims Adjudication

The Board annually contracts with a third party to audit the hospital, medical, and surgical claims adjudication practices of Excellus one year and the pharmaceutical claims practices of ProAct the next to ensure all claims are being adjudicated according to our plan documents and with proper medical and clinical oversight.

Communication and Informing

The Consortium quarterly publishes a newsletter that is distributed to employees and retirees with latest information about Consortium activities and milestones as well as helpful hints on proactively accessing the health care system.

Newsletters can be found on the Consortium’s website: www.healthconsortium.net.

GREATER TOMPKINS COUNTY MUNICIPAL HEALTH INSURANCE CONSORTIUM

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

The Board also holds an annual education retreat each May to become more informed of the business we are managing. One can also find videos of the previous four retreats on our website.

Finally, a subcommittee of the Board has been working on redesigning the website to make it user and mobile friendly.

Preventive Health Care

The Consortium's vision is to create a culture of preventative health care. To that end, the Board annually conducts on-site flu clinics and has established a biometric screening wellness program with our "metal" plans. According to Excellus, the percentage of Consortium subscribers that receive flu vaccines far exceeds other groups in our area. Also, over 80% of our subscribers have a Primary Care Physician which is critical for one to proactively manage one's health. Healthy subscribers have lower claims cost. This has been borne out in five of our seven years of operations with claims expense less than the national trend.

Contacting the Plan's Financial Management

This financial report is designed to provide the Plan's member municipalities, Plan participants, and other stakeholders with a general overview of the Plan's finances and to demonstrate the Plan's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Greater Tompkins County Municipal Health Insurance Consortium, at 125 East Court Street, Ithaca, New York, 14850.

GREATER TOMPKINS COUNTY MUNICIPAL HEALTH INSURANCE CONSORTIUM

STATEMENTS OF NET POSITION DECEMBER 31,

	<u>2017</u>	<u>2016</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 18,905,139	\$ 17,270,389
Accounts receivable - Stop loss and drug rebates	406,929	166,253
Premiums receivable	472,607	45,226
Prepaid expenses	-	64,491
Total Current Assets	<u>19,784,675</u>	<u>17,546,359</u>
OTHER ASSETS		
Noncurrent Assets		
Premium claims deposit	526,300	527,500
Restricted cash and cash equivalents	6,220,147	6,217,037
Total Noncurrent Assets	<u>6,746,447</u>	<u>6,744,537</u>
Total Assets	<u>26,531,122</u>	<u>24,290,896</u>
LIABILITIES		
Current Liabilities		
Incurred claims liability	4,540,654	4,430,732
Accounts payable	494,991	497,510
Unearned revenues	8,603	9,863
Unearned premiums	162,917	351,506
Total Current Liabilities	<u>5,207,165</u>	<u>5,289,611</u>
Total Liabilities	<u>5,207,165</u>	<u>5,289,611</u>
NET POSITION		
Restricted		
Restricted for contingency reserve - Section 4706(a)(5)	2,038,725	1,925,998
Subtotal	<u>2,038,725</u>	<u>1,925,998</u>
Board Designated		
Catastrophic claims reserve	1,350,000	1,050,000
Rate stabilization reserve	1,868,819	1,758,496
Subtotal	<u>3,218,819</u>	<u>2,808,496</u>
Unrestricted	<u>16,066,413</u>	<u>14,266,791</u>
Total Net Position	<u>\$ 21,323,957</u>	<u>\$ 19,001,285</u>

See Independent Auditor's Report and Notes to Financial Statements

**GREATER TOMPKINS COUNTY MUNICIPAL
HEALTH INSURANCE CONSORTIUM**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31,**

	<u>2017</u>	<u>2016</u>
Operating Revenues		
Premiums	\$ 40,774,492	\$ 38,519,955
Aggregate write-ins for other revenues	<u>145,643</u>	<u>131,974</u>
Total Operating Revenues	<u>40,920,135</u>	<u>38,651,929</u>
Operating Expenses		
Claims expense	35,828,612	34,999,888
Reinsurance expenses, net	771,527	692,329
Administrative fees	1,105,738	1,046,447
Aggregate write-ins for other expenses	<u>538,103</u>	<u>523,450</u>
Total Operating Expenses	<u>38,243,980</u>	<u>37,262,114</u>
Excess of Operating Revenues Before Nonoperating Revenue (Expense)	2,676,155	1,389,815
Nonoperating Revenue (Expense)		
Interest earnings	17,702	16,533
Other (expenses) revenues	<u>(153,421)</u>	<u>(134,014)</u>
Total Nonoperating Revenue	<u>(135,719)</u>	<u>(117,481)</u>
Change in Net Position	2,540,436	1,272,334
Net Position, January 1,	<u>19,001,285</u>	<u>17,827,965</u>
Adjustment for incurred but not reported claims	<u>(217,764)</u>	<u>(99,014)</u>
Net Position, December 31,	<u>\$ 21,323,957</u>	<u>\$ 19,001,285</u>

See Independent Auditor's Report and Notes to Financial Statements

GREATER TOMPKINS COUNTY MUNICIPAL HEALTH INSURANCE CONSORTIUM

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31,

	2017	2016
Cash Flows from Operating Activities		
Premiums collected from municipal corporations	\$ 40,157,262	\$ 38,630,087
Rebates and reimbursements	1,533,404	930,763
Premium claims deposit	1,200	-
Claims paid	(35,936,454)	(34,300,059)
Operating expenses paid	(3,981,833)	(3,222,406)
Net Cash Provided by Operating Activities	1,773,579	2,038,385
Cash Flows from Noncapital Financing Activities		
Other (expenses) revenues	(153,421)	(134,014)
Net Cash (Used) by Noncapital Financing Activities	(153,421)	(134,014)
Cash Flows from Capital and Related Financing Activities		
Restricted cash and cash equivalents (increase)	(3,110)	(4,031)
Net Cash (Used) by Capital and Related Financing Activities	(3,110)	(4,031)
Cash Flows from Investing Activities		
Interest earnings	17,702	16,533
Net Cash Provided by Investing Activities	17,702	16,533
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,634,750	1,916,873
Cash and Cash Equivalents, January 1,	17,270,389	15,353,516
Cash and Cash Equivalents, December 31,	\$ 18,905,139	\$ 17,270,389
Reconciliation of excess operating revenues over operating (expenses) to net cash provided by operating activities		
Excess operating revenues over operating (expenses)	\$ 2,676,155	\$ 1,389,815
(Increase) in accounts receivable	(240,676)	(153,219)
Decrease (increase) in prepaid expenses	64,491	(64,491)
(Increase) decrease in premiums receivable	(427,381)	1,640
Decrease in premium claims deposit	1,200	-
(Decrease) increase in accounts payable	(2,519)	56,319
(Decrease) increase in unearned revenue	(188,589)	109,372
(Decrease) in unearned revenue	(1,260)	(880)
Increase in incurred claims liability	109,922	798,843
Adjustment for incurred but not reported claims	(217,764)	(99,014)
Net Cash Provided by Operating Activities	\$ 1,773,579	\$ 2,038,385

See Independent Auditor's Report and Notes to Financial Statements

GREATER TOMPKINS COUNTY MUNICIPAL HEALTH INSURANCE CONSORTIUM

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

***Note 1* Summary of Significant Accounting Policies**

The financial statements of the Greater Tompkins County Municipal Health Insurance Consortium (the Plan) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units engaged only in Business-type Activities. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

Description of the Plan

The Greater Tompkins County Municipal Health Insurance Consortium was organized in 2010 as an Article 5-G General Municipal Law (GML) municipal corporation to provide health insurance benefits for its member municipalities. The term "Municipal Corporation," as defined by 119-N of the GML, includes a county, city, town, or village. The Plan's general objectives are to formulate, develop, and administer, on behalf of the member participants, an adequate program of insurance in a cost effective manner. Municipalities joining the Plan must remain members for a minimum of three years; a participant may withdraw with written notice prior to October 3rd of each Plan year. Municipalities applying for membership in the Plan may do so with two-thirds approval of the Board. Plan underwriting and rate setting policies have been established after consultation with third party administration. Plan members are subject to supplemental assessment in the event of deficiencies. Premium assessments are determined annually, and should assets of the Plan be exhausted, members would be responsible for the Plan's liabilities. The Consortium added eight new participating municipalities; the Town of Cincinnatus, the Town of Springport, the Village of Union Springs, the Town of Preble, the Town of Scipio, the Town of Moravia, the Town of Montezuma, and the Town of Aurelius in 2017. The new members added 60 contracts to the pool and provide a cushion in maintaining the required 2,000 covered lives threshold under Article 47 of NYS Insurance Law. Plan membership currently include 28 municipalities.

Basis of Accounting/Measurement Focus

Basis of accounting refers to when revenues and expenses and the related assets and liabilities are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus. Measurement focus is the determination of what is measured, i.e. expenditures or expenses.

- **Accrual Basis:** Activities of the Plan are accounted for on the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recorded when incurred.

GREATER TOMPKINS COUNTY MUNICIPAL HEALTH INSURANCE CONSORTIUM

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

***Note 1* Summary of Significant Accounting Policies - Continued**

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Unpaid Claims Liabilities

The Plan establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. Because actual claim costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount. Claims liabilities are periodically recomputed to produce current estimates that reflect recent settlements and other factors, and are adjusted annually to approximate 12% of claim expenditures. Adjustments to claims liabilities are adjustments to net position and charged or credited to expense in the periods in which they are made.

Reinsurance

The Plan uses reinsurance agreements to reduce its exposure to large losses on insured events. Reinsurance permits recovery of a portion of losses from the reinsurer, although it does not discharge the primary liability of the Plan as direct insurer of the risks reinsured. The Plan does not report reinsured risks as liabilities unless it is probable those risks will not be covered by the reinsurer.

Net Position - Restricted

- Restricted for Contingency Reserve: A contingency reserve of 5% of current year premiums was established in accordance with New York State Insurance Law, Section 4706 (a)(5).
- Restricted for Incurred But Not Reported Claims: A reserve required by Section 4706(a)(1) of the New York State Insurance Law. The New York State Department of Financial Services has allowed the Plan to utilize a factor of 12% of expected incurred claims as the estimate of this liability (see Unpaid Claims Liabilities note above). The estimate of expected incurred claims is actuarially determined.

Net Position - Board Designated

- Rate Stabilization Reserve: A reserve equal to approximately 5% of the expected incurred/paid claims for the fiscal year.

GREATER TOMPKINS COUNTY MUNICIPAL HEALTH INSURANCE CONSORTIUM

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

***Note 1* Summary of Significant Accounting Policies - Continued**

Net Position - Board Designated - Continued

- Catastrophic Claims Reserve: A reserve equal to approximately 2% of expected paid claims for the fiscal year.

Net Position - Unrestricted

If a surplus of assessments exists after the close of the Plan year, after provision for payment of all known unsettled claims, and after receipt of an annual independent financial audit, the Board may retain from such surplus an amount sufficient to establish and maintain a claim contingency fund. Surplus funds in excess of the amount transferred to, or included in, such contingency fund shall be applied in reduction of the next annual assessment or to the billing of Plan participants. Unrestricted net position represents an appropriation of this excess for this purpose. Any deficit net position balance will need to be recovered from future premium adjustments.

Related Parties

The Plan is currently made up of 28 participating municipal corporations, with eight new participating municipalities joining the Plan in 2017. Representatives of each participating municipal corporation serve on the Board and premiums are collected from the municipal corporations. Three new municipalities are scheduled to join the Plan during 2018.

Concentration of Credit Risk

The Plan maintains its cash balances at two financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2017 and 2016, all accounts were fully collateralized.

Concentration of Operating Revenues

The Plan received approximately 99.6% and 99.6% of its operating revenues from premiums collected for the years ended December 31, 2017 and 2016, respectively.

Cash Equivalents

For financial statement purposes, the Plan considers all highly liquid investments of three months or less as cash equivalents.

Reclassification

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

GREATER TOMPKINS COUNTY MUNICIPAL HEALTH INSURANCE CONSORTIUM

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

Note 2 Cash and Investments

The Plan's investment policies are governed by State statutes. Plan monies must be deposited in FDIC-insured commercial banks or trust companies located within the State. The Chief Fiscal Officer is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury and U.S. Agencies, obligations of New York State or its localities, and repurchase agreements.

Collateral is required for demand and time deposits and certificates of deposit not covered by Federal Deposit Insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities, school districts, and BOCES.

Deposits are valued at cost. Total financial institution (bank) balances at December 31, 2017 and 2016, were \$25,140,600 and \$23,563,970, respectively. Carrying values at December 31, 2017 and 2016 were \$25,125,286 and \$23,489,426, respectively. These deposits were fully insured and/or collateralized at December 31, 2017 and 2016.

Restricted cash balances of \$6,220,147 and \$6,217,037 at December 31, 2017 and 2016, respectively, represent funds set aside to fully fund the restricted contingency reserve, the catastrophic claims and rate stabilization board designated reserves, and a significant portion of the incurred but not reported claims liability.

Note 3 Rebates and Reimbursements

Reinsurance expense is shown net of reimbursements and rebates. Gross amounts and rebates are as follows at December 31,:

	<u>2017</u>	<u>2016</u>
Reinsurance expense	\$ 771,958	\$ 934,903
Reimbursements and rebates	<u>(431)</u>	<u>(242,574)</u>
Reinsurance Expense, Net	<u>\$ 771,527</u>	<u>\$ 692,329</u>

Note 4 Restricted for Contingency Reserve

A contingency reserve of 5% of current year premiums was established in accordance with New York State Insurance Law, Section 4706 (a)(5). The reserve is established as follows:

	<u>2017</u>	<u>2016</u>
Contingency Reserve	\$ 2,038,725	\$ 1,925,998

GREATER TOMPKINS COUNTY MUNICIPAL HEALTH INSURANCE CONSORTIUM

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016

Note 5 Contingencies

Claims Liability

The BlueCross/BlueShield premiums include claims paid for the years ended December 31, 2017 and 2016, and an adjustment to account for the BlueCross/BlueShield financing arrangement of billing actual claims paid one week in arrears. This one week delay requires the Greater Tompkins County Municipal Health Insurance Consortium to fund approximated costs, as actual claim payments are charged one week later. No significant differences have been experienced or are expected between monthly adjusted premium billings and actual monthly settlements in succeeding billings.

The Consortium also maintains specific stop-loss insurance coverage. This provides a maximum of \$1,000,000 of coverage inclusive of deductibles for individual claims and specific stop-loss insurance coverage at December 31, 2017 and 2016.

Note 6 Liabilities - Unpaid Claims

As discussed in Note 1, the Plan establishes a liability for both reported and unreported insured events which includes estimates of both future payments of losses and related claim adjustment expenses.

The following represents changes in those aggregate liabilities:

	2017	2016
Liability for Unpaid Claims - Beginning of Year	\$ 4,430,732	\$ 3,631,889
Incurred claims and claim adjustment:		
Claims expense	35,828,612	34,999,888
Claims paid	(35,936,454)	(34,300,059)
Adjustment for incurred but not reported claims	217,764	99,014
Liability for Unpaid Claims - End of Year	\$ 4,540,654	\$ 4,430,732

Note 7 Subsequent Events

The Board of the Plan approved the applications of the Town of Newfield, the Town of Homer and the Town of Owasco. These municipalities will become plan participants effective January 1, 2018, adding additional contracts to the pool and providing a cushion for maintaining the required 2,000 covered lives threshold under Article 47 of NYS Insurance Law.

**GREATER TOMPKINS COUNTY MUNICIPAL
HEALTH INSURANCE CONSORTIUM**

**SCHEDULES OF CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31,**

	2017				
	<u>Restricted</u>	<u>Board Designated</u>		<u>Unrestricted</u>	<u>Total</u>
	<u>Contingency Reserve</u>	<u>Catastrophic</u>		<u>Rate Stabilization Reserve</u>	
		<u>Claims</u>	<u>Reserve</u>		
<u>Reserve</u>					
Balances at January 1, 2017	\$ 1,925,998	\$ 1,050,000	\$ 1,758,496	\$ 14,266,791	\$ 19,001,285
Change in Net Position				2,540,436	2,540,436
Reclassifications	112,727	300,000	110,323	(523,050)	-
Incurred Claims Adjustment				(217,764)	(217,764)
Balances at December 31, 2017	<u>\$ 2,038,725</u>	<u>\$ 1,350,000</u>	<u>\$ 1,868,819</u>	<u>\$ 16,066,413</u>	<u>\$ 21,323,957</u>
	2016				
	<u>Restricted</u>	<u>Board Designated</u>		<u>Unrestricted</u>	<u>Total</u>
	<u>Contingency Reserve</u>	<u>Catastrophic</u>		<u>Rate Stabilization Reserve</u>	
		<u>Claims</u>	<u>Reserve</u>		
		<u>Reserve</u>			
Balances at January 1, 2016	\$ 1,879,368	\$ 1,050,000	\$ 1,513,287	\$ 13,385,310	\$ 17,827,965
Change in Net Position				1,272,334	1,272,334
Reclassifications	46,630		245,209	(291,839)	-
Incurred Claims Adjustment				(99,014)	(99,014)
Balances at December 31, 2016	<u>\$ 1,925,998</u>	<u>\$ 1,050,000</u>	<u>\$ 1,758,496</u>	<u>\$ 14,266,791</u>	<u>\$ 19,001,285</u>

See Independent Auditor's Report

**GREATER TOMPKINS COUNTY MUNICIPAL
HEALTH INSURANCE CONSORTIUM**

**CLAIM DEVELOPMENT INFORMATION
DECEMBER 31,**

	2017	2016	2015	2014
1. Net earned required contribution revenues	\$ 40,774,492	\$ 38,519,955	\$ 37,587,353	\$ 36,063,291
2. Unallocated expenses - N/A	-	-		-
3. Estimated incurred claims and expense: End of year	35,828,612	34,999,888	28,750,405	29,755,490
4. Paid (cumulative) as of: End of policy year	(35,936,454)	(34,300,059)	(28,650,014)	(30,568,724)
5. Reestimated incurred claims and expense: End of policy year	35,828,612	34,999,888	28,750,405	29,755,490

See Independent Auditor's Report

**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***

Board of Directors
Greater Tompkins County Municipal Health Insurance Consortium
Ithaca, New York

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Greater Tompkins County Municipal Health Insurance Consortium (the Plan), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements, and have issued our report thereon dated April 24, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Plan'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we do not express an opinion on the effectiveness of Plan'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 entity'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 Plan's financial statements are free from material misstatement, we performed tests of its 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 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*.

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

Respectfully Submitted,

A handwritten signature in black ink that reads "Insero & Co. CPAs, LLP". The signature is written in a cursive, slightly slanted style.

Insero & Co. CPAs, LLP
Certified Public Accountants

Ithaca, New York
April 24, 2018