



REPORT ON AUDIT OF FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED

JUNE 30, 2018 AND 2017

SCHOOLS HEALTH INSURANCE FUND

TABLE OF CONTENTS

Page No.

Independent Auditor's 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 Government Auditing Standards - Independent Auditor's Report	4
Management's Discussion and Analysis	6

Financial Statements

Exhibit A-1	Comparative Statements of Net Position	9
Exhibit A-2	Comparative Statements of Revenues, Expenses and Changes in Net Position	10
Exhibit A-3	Comparative Statements of Cash Flows	11
	Notes to Financial Statements	12

Required Supplementary Information

Schedule 1	Reconciliation of Health Claims Liabilities by Fund	25
Schedule 2	Three-Year Claims Development Information	26

Supplementary Information

Schedule A	Statement of Net Position – Statutory Basis	28
Schedule B	Statement of Revenue, Expenses and Changes in Net Position – Statutory Basis	29
Schedule C	Statement of Cash Flows – Statutory Basis	30
	Notes to Supplementary and Combining Information – Statutory Basis	31
Schedule D	Statement of Fund Year Account Operating Results Analysis – Statutory Basis	32
Schedule E	Statement of Fund Year Expense Analysis – Statutory Basis	34
Schedule F	Schedule of Cash, Cash Equivalents and Investments – Statutory Basis	36

Schedule of Findings and Recommendations

Schedule of Findings and Recommendations	38
Schedule of Financial Statement Findings	38
Summary Schedule of Prior Year Findings as Prepared by Management Appreciation	38

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Schools Health Insurance Fund
9 Campus Drive
Suite 216
Parsippany, NJ 07054

Report on the Financial Statements

We have audited the accompanying financial statements of the Schools Health Insurance Fund (the "Fund") as of and for the fiscal years ended June 30, 2018 and 2017, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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 and in compliance with audit requirements as prescribed by the Department of Banking and Insurance and the Division of Local Government Services, Department of Community Affairs, State of New Jersey. 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Fund as of June 30, 2018 and 2017 and the changes in its financial position and its cash flows for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary information listed in the 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.

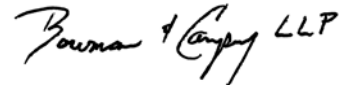
Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Fund's basic financial statements. The accompanying supplementary schedules as listed in the table of contents are not a required part of the basic financial statements and are presented for purposes of additional analysis. The accompanying supplementary schedules listed in the table of contents 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 accompanying supplementary information 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 December 13, 2018 on our consideration of the Fund's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Fund's internal control over financial reporting and compliance.

Respectfully Submitted,

A handwritten signature in black ink that reads "Bowman & Company LLP". The signature is written in a cursive, flowing style.

Bowman & Company LLP
Certified Public Accountants
& Consultants

Voorhees, New Jersey
December 13, 2018

**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 AUDITOR'S REPORT

Board of Trustees
Schools Health Insurance Fund
9 Campus Drive
Suite 216
Parsippany, NJ 07054

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, and in compliance with audit requirements as prescribed by the Department of Banking and Insurance and the Division of Local Government Services, Department of Community Affairs, State of New Jersey, the financial statements of the Schools Health Insurance Fund (the "Fund"), as of June 30, 2018 and for the fiscal year then ended, and the related notes to the financial statements, which collective comprise the Fund's basic financial statements, and have issued our report thereon dated December 13, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit, 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 over financial reporting 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 significant deficiencies or material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider 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 of 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, and audit requirements as prescribed by the Department of Banking and Insurance and the Division of Local Government Services, Department of Community Affairs, 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 entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards and the audit requirements as prescribed by the Department of Banking and Insurance and the Division of Local Government Services, Department of Community Affairs, State of New Jersey in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully Submitted,



Bowman & Company LLP
Certified Public Accountants
& Consultants

Voorhees, New Jersey
December 13, 2018

SCHOOLS HEALTH INSURANCE FUND

Management's Discussion and Analysis - Unaudited

This section of the annual financial report of the Schools Health Insurance Fund (the "Fund") presents a discussion and analysis of the financial performance of the Fund for the fiscal years ended June 30, 2018, 2017 and 2016. Please read it in conjunction with the basic financial statements that follow this section.

Overview of Basic Financial Statements

The Fund's basic financial statements are prepared on the basis of accounting principles generally accepted in the United States of America for governmental entities and insurance enterprises where applicable. The primary purpose of the Fund is to provide health coverage for school districts that are members of the Fund. The Fund maintains separate enterprise funds by incurred years and line of coverage. The basic financial statements are presented on an accrual basis of accounting. The three basic financial statements presented are as follows:

Comparative Statements of Net Position – This statement presents information reflecting the Fund's assets, liabilities and reserves, and net position. Net position represents the amount of total assets less total liabilities and reserves.

Comparative Statements of Revenues, Expenses, and Changes in Net Position – This statement reflects the Fund's operating revenues and expenses, as well as non-operating items during the reporting period. The change in net position for an enterprise fund is similar to net profit or loss for any other insurance company.

Comparative Statements of Cash Flows – The comparative statements of cash flows is presented on the direct method of reporting, which reflects cash flows from operating, investing and noncapital financing activities. Cash collections and payments are reflected in this statement to arrive at the net increase or decrease in cash for the fiscal year.

Financial Highlights

The following tables summarize the net position and results of operations for the Fund as of and for the fiscal years ended June 30, 2018, 2017 and 2016.

Summary Statement of Net Position	<u>6/30/2018</u>	<u>6/30/2017</u>	Restated <u>6/30/2016</u>	<u>2018 to 2017 Change</u>	
				<u>Change \$</u>	<u>Change %</u>
Assets:					
Cash And Cash Equivalents	\$ 44,228,355	\$ 47,906,593	\$ 33,893,194	\$ (3,678,238)	-7.7%
Investments	26,906,170	-	-	26,906,170	100.0%
Contributions Receivable	9,052,714	5,006,133	1,544,642	4,046,581	80.8%
Southern New Jersey Employee Health Insurance Fund Receivable	-	7,639,737	-	(7,639,737)	-100.0%
Accrued Dividend Receivable	1,501,524	413,305	-	1,088,219	263.3%
Accrued Interest Receivable	39,735	-	3,275	39,735	100.0%
Interfund Receivable	2,155,203	1,730,871	19,429	424,332	24.5%
Other Assets	-	317,037	-	(317,037)	-100.0%
Investment In Joint Venture	42,859	46,513	-	(3,654)	-7.9%
	3,236,760	3,431,784	2,761,740	(195,024)	-5.7%
Total Assets	<u>87,163,320</u>	<u>66,491,973</u>	<u>38,222,280</u>	<u>20,671,347</u>	<u>31.1%</u>

Financial Highlights Continued

Summary Statement of Net Position (Continued)			Restated	<u>2018 to 2017 Change</u>	
	<u>6/30/2018</u>	<u>6/30/2017</u>	<u>6/30/2016</u>	<u>Change \$</u>	<u>Change %</u>
Liabilities, Reserves & Net Position					
Liabilities:					
Accrued Insurance Premiums	\$ 591,444	\$ -	\$ -	\$ 591,444	100.0%
Accrued Expenses	383,252	107,625	356,832	275,627	256.1%
Advance Contributions	-	19,303	19,303	(19,303)	-100.0%
Surplus Return Reserve	2,832,073	-	-	2,832,073	100.0%
Due To The Southern New Jersey Employee Health Insurance Fund	-	818,180	2,688,353	(818,180)	-100.0%
Loss Reserves	14,304,000	15,413,000	8,900,000	(1,109,000)	-7.2%
Total Liabilities & Reserves	<u>18,110,769</u>	<u>16,358,108</u>	<u>11,964,488</u>	<u>1,752,661</u>	<u>10.7%</u>
Net Position - Unrestricted	<u>\$ 69,052,551</u>	<u>\$ 50,133,865</u>	<u>\$ 26,257,792</u>	<u>\$ 18,918,686</u>	<u>37.7%</u>

Summary Statement of Revenues, Expenses, and Changes in Net Position					
	<u>6/30/2018</u>	<u>6/30/2017</u>	Restated <u>6/30/2016</u>	<u>2018 to 2017 Change</u>	
Operating Revenue:					
Regular and Employee Contributions	<u>\$188,339,986</u>	<u>\$155,862,408</u>	<u>\$ 59,334,368</u>	<u>\$ 32,477,578</u>	<u>20.8%</u>
Operating Expenses:					
Provision for Claims and Claims Expense	144,678,789	123,644,897	47,176,886	21,033,892	17.0%
Insurance Premiums	10,148,846	8,299,228	3,335,172	1,849,618	22.3%
Administrative and Operating	<u>11,801,794</u>	<u>10,318,053</u>	<u>4,271,447</u>	<u>1,483,741</u>	<u>14.4%</u>
Total Operating Expenses	<u>166,629,429</u>	<u>142,262,178</u>	<u>54,783,505</u>	<u>24,367,251</u>	<u>17.1%</u>
Operating Income	21,710,557	13,600,230	4,550,863	8,110,327	59.6%
Non-Operating Revenues:					
Investment Income	836,040	307,843	95,337	528,197	171.6%
Dividend Income	1,501,524	730,342	-	771,182	105.6%
Change In Joint Venture	<u>(195,024)</u>	<u>670,044</u>	<u>19,633</u>	<u>(865,068)</u>	<u>-129.1%</u>
Excess of Revenues	23,853,097	15,308,459	4,665,833	8,544,638	55.8%
Distributions From The Southern NJ					
Reg EE Benefits Fund Restated	-	9,229,194	21,591,959	(9,229,194)	-100.0%
Return of Surplus	<u>(4,934,411)</u>	<u>(661,580)</u>	<u>-</u>	<u>5,595,991</u>	<u>845.9%</u>
Change In Net Position	<u>\$ 18,918,686</u>	<u>\$ 23,876,073</u>	<u>\$ 26,257,792</u>	<u>\$ (4,957,387)</u>	<u>-20.8%</u>

Financial Highlights Continued

On January 1, 2016, certain school district members of the fund transferred their equity interest in the Southern New Jersey Regional Employee Benefits Fund to form the Schools Health Insurance Fund. The Fund was formed in accordance with P.L. 1983, C.372, entitled "An Act Concerning Board of Education Insurance ", and supplementing Chapter 18B of Title 18A of the New Jersey Statutes, which authorizes a governing body of any local unit to establish an independent health insurance joint insurance fund for the purposes provided by law. The Fund is operated in accordance with regulations of the Department of Banking and Insurance and the Division of Local Government Services, Department of Community Affairs, State of New Jersey. The Fund was established for the purpose of containing medical costs.

The Fund's total assets as of June 30, 2018 were \$87,163,320 and total liabilities were \$18,110,769 resulting in a surplus in unrestricted net position of \$69,052,551.

The Fund's operating revenues were \$188,339,986 during the year. Claims expenses represented \$144,678,789 in health benefit costs. Reinsurance premiums were composed of \$6,595,804 being incurred by the Municipal Reinsurance Health Insurance Fund and \$3,553,042 being incurred by State Health Benefits Program Surcharge Premiums. During the reporting period, professional and administrative operating costs were \$11,750,655 and Affordable Care Act taxes of \$51,139.

The value of the Fund's share of the Municipal Reinsurance Health Insurance Fund (MRHIF) was \$3,236,760.

Investment income was \$836,040 due to fund's active pursuit of higher interest rates from area financial institutions.

Economic Conditions

The Fund continues to be affected by inflation of health benefit costs. Fund's strategy is to continue to attempt to moderate such increases by leveraging purchasing power with other Funds, using one of the largest and most effective medical networks in the nation, and assisting members with plan design and labor negotiation efforts.

Contacting the Fund's Management

This financial report is designed to provide the Schools Health Insurance Fund members and the Department of Banking and Insurance and the Division of Local Government Services, Department of Community Affairs, State of New Jersey with a general overview of the Fund's finances and to demonstrate the Fund's accountability for the public funds it receives. If you have any questions about this report or need additional financial information, contact the Executive Director of the Schools Health Insurance Fund's office located at 9 Campus Drive, Suite 216, Parsippany, New Jersey 07054 or by phone at (201) 881-7632.

SCHOOLS HEALTH INSURANCE FUND
COMPARATIVE STATEMENTS OF NET POSITION
AS OF JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<u>ASSETS</u>		
Cash And Cash Equivalents	\$ 44,228,355	\$ 47,906,593
Investments	26,906,170	-
Contributions Receivable	9,052,714	5,006,133
Distribution Receivable from Southern New Jersey Employee Benefits Fund	-	7,639,737
Accrued Dividend Receivable	1,501,524	730,342
Accrued Interest Receivable	39,735	-
Excess Insurance Receivable	2,155,203	1,730,871
Other Assets	42,859	46,513
Investment In Joint Venture	3,236,760	3,431,784
	<u>87,163,320</u>	<u>66,491,973</u>
<u>LIABILITIES AND RESERVES</u>		
Liabilities:		
Accrued Insurance Premiums	591,444	-
Accrued Expenses	332,113	60,515
Accrued Affordable Care Act Expenses	51,139	47,110
Surplus Return Reserve	2,832,073	-
Advance Contributions	-	19,303
Due To The Southern New Jersey Regional Employee Health Insurance Fund	-	818,180
	<u>3,806,769</u>	<u>945,108</u>
Reserves:		
Actuarial Liability	<u>14,304,000</u>	<u>15,413,000</u>
	<u>18,110,769</u>	<u>16,358,108</u>
<u>NET POSITION</u>		
Unrestricted	<u>\$ 69,052,551</u>	<u>\$ 50,133,865</u>

The Accompanying Notes To Financial Statements Are An Integral Part Of This Statement.

SCHOOLS HEALTH INSURANCE FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Operating Revenues:		
Regular Contributions	\$ 187,731,361	\$ 155,284,619
Employee Contribution	608,625	577,789
	<hr/>	<hr/>
Total Operating Revenues	188,339,986	155,862,408
	<hr/>	<hr/>
Operating Expenses:		
Provision For Claims And Claims Adjustment Expenses	144,678,789	123,644,897
Reinsurance	6,595,804	5,911,864
State Health Benefits Program Surcharge Premiums	3,553,042	2,387,364
Affordable Care Act Taxes	51,139	365,193
Administration	11,750,655	9,952,860
	<hr/>	<hr/>
Total Operating Expenses	166,629,429	142,262,178
	<hr/>	<hr/>
Operating Income	21,710,557	13,600,230
Non-Operating Revenue:		
Investment Income	836,040	307,843
Dividend Income	1,501,524	730,342
Change In Investment In Joint Venture	(195,024)	670,044
	<hr/>	<hr/>
Change In Net Position Before Distributions and Return of Surplus	23,853,097	15,308,459
Distributions From The Southern New Jersey Regional Employee Benefits Fund	-	9,229,194
Return of Surplus	<hr/> (4,934,411) <hr/>	<hr/> (661,580) <hr/>
Change In Net Position	<hr/> 18,918,686 <hr/>	<hr/> 23,876,073 <hr/>
Net Position, Beginning as Previously Stated	50,133,865	23,515,685
Prior Period Adjustment	<hr/> - <hr/>	<hr/> 2,742,107 <hr/>
Net Position, Beginning Restated	<hr/> 50,133,865 <hr/>	<hr/> 26,257,792 <hr/>
Net Position, Ending	<hr/> <u>\$ 69,052,551</u> <hr/>	<hr/> <u>\$ 50,133,865</u> <hr/>

The Accompanying Notes To Financial Statements Are An Integral Part Of This Statement.

SCHOOLS HEALTH INSURANCE FUND
COMPARATIVE STATEMENTS OF CASH FLOWS
AS OF JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Cash Flows From Operating Activities:		
Receipts From Regular Contributions	\$ 184,274,102	\$ 152,400,917
Payments For Health Benefits Claims	(147,026,647)	(120,760,025)
Payments For Insurance Premiums	(9,557,402)	(8,359,406)
Payments To Professionals And Administrative Expenses	(11,526,167)	(10,507,082)
	<u>16,163,886</u>	<u>12,774,404</u>
Net Cash Flows Provided By Operating Activities		
Cash Flows From Investing Activities:		
Purchase of Investments	(26,882,695)	-
Investment Income	1,503,172	311,118
	<u>(25,379,523)</u>	<u>311,118</u>
Net Cash Provided By (Used In) Investing Activities		
Cash Flows From Noncapital Financing Activities:		
Distributions from Southern New Jersey Regional Employee Health Insurance Fund	7,639,737	1,589,457
Return of Surplus Payable	(2,102,338)	(661,580)
	<u>5,537,399</u>	<u>927,877</u>
Net Cash Flows Provided By Noncapital Activities		
Net Increase (Decrease) In Cash And Cash Equivalents	(3,678,238)	14,013,399
Cash And Cash Equivalents, Beginning Of Year	<u>47,906,593</u>	<u>33,893,194</u>
Cash And Cash Equivalents, End Of Year	<u>\$ 44,228,355</u>	<u>\$ 47,906,593</u>
Reconciliation Of Operating Income To Cash Flows From Operating Activities:		
Operating Income	\$ 21,710,557	\$ 13,600,230
Adjustments To Reconcile Operating Income to Net Cash Provided By Operating Activities:		
Changes In Assets And Liabilities:		
Decrease (Increase) In Assets:		
Contributions Receivable	(4,046,581)	(3,461,491)
Excess Insurance Receivable	(420,678)	(1,757,955)
Increase (Decrease) In Liabilities:		
Claims Payable To The Southern New Jersey Regional Employee Health Insurance Fund	(818,180)	(1,870,173)
Accrued Administrative Expenses	275,627	(189,029)
Accrued Excess Insurance Premium	591,444	(60,178)
Actuarial Liability	(1,109,000)	6,513,000
Advanced Contributions	(19,303)	
Total Adjustments	<u>(5,546,671)</u>	<u>(825,826)</u>
Net Cash Provided By Operating Activities	<u>\$ 16,163,886</u>	<u>\$ 12,774,404</u>
Supplemental Disclosure - Noncash Activity:		
Change In Unrealized Gains On Investments Included In Investment Income	<u>\$ 23,475</u>	<u>\$ -</u>
Change In Investment In Joint Venture	<u>\$ (195,024)</u>	<u>\$ 670,044</u>

The Accompanying Notes To Financial Statements Are An Integral Part Of This Statement.

SCHOOLS HEALTH INSURANCE FUND
NOTES TO FINANCIAL STATEMENTS

Note 1: ORGANIZATION AND DESCRIPTION OF THE FUND

On January 1, 2016, the Schools Health Insurance Fund (the "Fund") was formed in accordance with P.L. 1983, C.372, entitled "An Act Concerning Board of Education Insurance", and supplementing Chapter 18B of Title 18A of the New Jersey Statutes. The Fund is operated in accordance with regulations of the Department of Banking and Insurance and the Division of Local Government Services, Department of Community Affairs, State of New Jersey for the purpose of containing medical costs.

During the Fund's initial period, any local school board in southern New Jersey that was a member of the Southern New Jersey Regional Employee Benefits Fund could become a part of the Fund's initial application. Thereafter, the Trustees/Executive Committee of the Fund may approve subsequent membership by a two-thirds vote of the full-authorized membership or may terminate any member by a two-thirds vote, after proper notice has been given.

All member's assessments, including a reserve for contingencies, are based on annual actuarial assumptions determined by the Fund's Actuary and on monthly and quarterly adjustments determined by the Fund's Actuary and Program Manager based on actual loss experience. The Commissioner of Insurance may order additional assessments to supplement the Fund's claim, loss retention or administrative accounts to assure the payment of the Fund's obligations.

The Fund offers the following coverages to its members:

Medical
Dental
Prescription
Vision

The Fund provides coverage on a self-insured basis and secures reinsurance in a form and an amount from an insurance company acceptable to the Commissioner of Insurance.

During fiscal year 2018, the following boards of education and school districts were members of the Fund:

Alexandria Twp Boe	Logan Twp Boe	Woodbury Hts Boe
Bellmawr Public School District	Lower Alloways Creek Boe	Woodstown-Pilesgrove Boe
Berlin Borough Boe	Mantua Twp Boe	Lebanon Township Boe
Black Horse Pike Regional Boe	Medford Boe	Ewing Township Boe
Burlington Twp. Boe	Medford Lakes Boe	Harrison Township Boe
Byram Twp Boe	Moorestown Township	Kingsway Regional School
Cinnaminson Twp Boe	Public Schools	District
City Of Burlington Boe	Mt. Holly Twp. Boe	Fredon Township Boe
Collingswood Board Of Ed.	Mt. Laurel Township Schools	East Greenwich Boe
Delsea Regional Bd Of Ed	Rancocas Valley Regional Boe	Ogdensburg Borough
Educational Information	Riverside Township Boe	School Dstrc.
& Resource	South Harrison Twp Boe	Delran Twmsp Public Schools
Florence Boe	Southampton Twp Boe	Deptford Township Boe
Frankford Twp Boe	Swedesboro-Woolwich Boe	Mendham Borough School District
Gateway Regional Bd Of Ed	Tabernacle Boe	Lenape Valley Regional Boe
Hardyston Twp Boe	Upper Pittsgrove Boe	Frelinghuysen Township Boe

SCHOOLS HEALTH INSURANCE FUND
NOTES TO FINANCIAL STATEMENTS

Note 1: ORGANIZATION AND DESCRIPTION OF THE FUND (CONT'D)

During fiscal year 2018, the following boards of education and school districts were members of the Fund (Cont'd):

Leap Academy University	West Deptford Boe	Franklin Township School District
Charter School	Pohatcong Township Boe	Stillwater Township Boe
Blairstown Boe	Jamesburg Boe	Voorhees Township Boe
Springfield Township Boe	Evesham Township Boe	Washington Borough Boe
School District Of The Chathams	Eatontown Boe	Watching Hills Regional High School
Califon Boe		

The limits of liability under the various coverages during fiscal year 2018 were as follows:

HEALTH INSURANCE COVERAGE

Medical and Prescription:

<u>Limits</u>	<u>Description</u>
I. <u>Fund's Self-Insured Retained Limit of Liability (S.I.R.)</u>	
A. \$325,000	Specific limit - applies per enrolled participant per reinsurance policy year.
B. \$188,346,195	Aggregate limit of liability (Attachment is based on the aggregate factors multiplied by the Participant Census)
II. <u>Excess Insurers' Limit of Liability</u>	
A. Unlimited	Reimbursement in excess of the Fund's specific S.I.R.
B. \$10,000,000	Reimbursement in excess of the Fund's aggregate S.I.R.

Dental Aggregate Retention: None – Self-insured with risk retained by the Fund.

Vision Aggregate Retention: None – Self-insured with risk retained by the Fund.

Medical, Prescription, and Prescription coverage without Medical coverage retentions will vary with census and can also vary depending upon the allocation of claims.

Health Insurance Coverage Notes:

1. "Health Insurance" means health insurance as defined pursuant to N.J.S.A. 17B:17-4 or service benefits as provided by health service corporations, hospital service corporations or medical service corporations authorized to do business in the state.
2. "Incurred Claims" means claims, which occur during a Fund year, including claims paid during a later period. The exact definition of "Incurred Claims" or any similar term is the definition used in the excess insurance policy purchased by the Fund.

SCHOOLS HEALTH INSURANCE FUND
NOTES TO FINANCIAL STATEMENTS

Note 1: ORGANIZATION AND DESCRIPTION OF THE FUND (CONT'D)

Health Insurance Coverage Notes:

3. The Fund's reinsurance agreement for the fiscal year 2018 was with the Municipal Reinsurance Health Insurance Fund ("MRHIF"). The agreement is on a 12/24 month exposure period covering claims incurred during the twelve-month policy period January 1, 2018 to December 31, 2018.
4. Open enrollment for participating employees is offered during the months of May and November.
5. Medical coverage consists of each participating boards of education and school district's individual medical benefits plan, the HMO option on a group basis or the PPO option in accordance with a plan on file with the Department of Insurance.
6. Medicare provides secondary coverage for eligible active employees and primary coverage for eligible Medicare participants.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the more significant policies followed by the Schools Health Insurance Fund:

Component Unit

In evaluating how to define the Fund for financial reporting purposes, management has considered all potential component units. The decision to include any potential component units in the financial reporting entity was made by applying the criteria set forth in GASB Statements No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34* and GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*. Blended component units, although legally separate entities, are in-substance part of the primary entity's operations. Each discretely presented component unit would be or is reported in a separate column in the financial statements to emphasize that it is legally separate from the primary entity.

The basic-but not the only-criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the primary entity. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the primary entity is able to exercise oversight responsibilities. Finally, the nature and significance of a potential component unit to the primary entity could warrant its inclusion within the reporting entity.

Based upon the application of these criteria, the Fund has no component units and is not includable in any other reporting entity.

SCHOOLS HEALTH INSURANCE FUND
NOTES TO FINANCIAL STATEMENTS

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Basis of Presentation, Fund Accounting

The financial statements of the Fund have been prepared in accordance with accounting principles generally accepted in the United States of America applicable to enterprise funds of State and Local Governments on a going concern basis. The focus of enterprise funds is the measurement of economic resources, that is, the determination of operating income, changes in net position (or cost recovery), financial position and cash flows. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Enterprise funds are accounted for using the accrual basis of accounting.

Revenues - Exchange and Non-Exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value is recorded on the accrual basis when the exchange takes place. Member Assessments are recognized as revenue at the time of assessment.

Expenses - On the accrual basis of accounting, expenses are recognized at the time they are incurred.

Cash, Cash Equivalents and Investments

Cash and cash equivalents include petty cash, change funds and cash in banks and all highly liquid investments with a maturity of three months or less at the time of purchase and are stated at cost plus accrued interest. Such is the definition of cash and cash equivalents used in the statement of cash flows. U.S. treasury and agency obligations and certificates of deposit with maturities of one year or less when purchased are stated at cost. All other investments are stated at fair value.

New Jersey governmental units are required by N.J.S.A. 40A:5-14 to deposit public funds in a bank or trust company having its place of business in the State of New Jersey and organized under the laws of the United States or of the State of New Jersey or in the New Jersey Cash Management Fund. N.J.S.A. 40A:5-15.1 provides a list of investments, which may be purchased by New Jersey municipal units. In addition, other State statutes permit investments in obligations issued by local authorities and other state agencies.

N.J.S.A. 17:9-41 et seq. establishes the requirements for the security of deposits of governmental units. The statute requires that no governmental unit shall deposit public funds in a public depository unless such funds are secured in accordance with the Governmental Unit Deposit Protection Act ("GUDPA"), a multiple financial institutional collateral pool, which was enacted in 1970 to protect governmental units from a loss of funds on deposit with a failed banking institution in New Jersey. Public depositories include State or federally chartered banks, savings banks or associations located in or having a branch office in the State of New Jersey, the deposits of which are federally insured. All public depositories must pledge collateral, having a market value at least equal to five percent of the average daily balance of collected public funds, to secure the deposits of governmental units. If a public depository fails, the collateral it has pledged, plus the collateral of all other public depositories, is available to pay the amount of their deposits to the governmental units.

Additionally, the Fund has adopted a cash management plan that requires it to deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act. In lieu of designating a depository, the cash management plan may provide that the local unit make deposits with the State of New Jersey Cash Management Fund.

SCHOOLS HEALTH INSURANCE FUND
NOTES TO FINANCIAL STATEMENTS

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Valuation of Investments

Among the Fund's investment objectives are preservation of principal, diversification, and maximization of interest yield. The Fund invests in government securities with the intent of holding them until maturity. Investments are reported at fair value based on quoted market prices. Realized and unrealized gains and losses on investments are recognized as a component of investment income.

Revenue Recognition

Members were assessed monthly contributions based on a pro rata amount of the current estimates of projected losses, administrative expenses, the cost of reinsurance, and contingency fund needs for the year. Pass-through costs regarding HMO premiums were billed directly to the members who incurred the charges.

Interest Income Allocation

Interest income was allocated based on the ratio of monthly average invested cash balances by line of coverage to the total amount invested applied to interest income credited for the month.

Additional Assessments and Dividend Credits (Refunds)

Members are subject to additional assessments if the regular contributions (premiums) collected in a fiscal year are not sufficient to cover all claims and expenses. Should premiums collected exceed claims and expenses, members may accrue a dividend credit subject to the discretion of the Executive Committee of the Fund and approval by the Department of Banking and Insurance. Dividends approved by the Executive Committee are shown in the financial statements as reserved Net Position pending State approval. Each member shares in these charges and credits based upon its participation in the various coverages provided. Refunds shall be declared not later than 180 days after the end of a fiscal year unless otherwise extended by the Commissioner of the Department of Banking and Insurance.

Payment of refunds shall be made as follows:

At least 50% - not later than 210 days after the fiscal year end or 30 days after the extension period granted above, whichever is later.

Remainder - not later than 270 days after the fiscal year end or 90 days after the extension period granted above, whichever is later.

Claims Funding

The Fund is on a claim payment reimbursement basis with AETNA, Amerihealth, Express Scripts, Inc. and Delta Dental (the third party administrators). During the course of each month, the third party administrators pay respective plan benefit obligations, including medical services and capitation and incentives, prescription and dental. Upon payment of plan benefit obligations, requests for funding are transmitted to the fund Treasurer who then wire transfers an amount equal to the paid obligations to the respective third party administrator.

SCHOOLS HEALTH INSURANCE FUND
NOTES TO FINANCIAL STATEMENTS

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Actuarial Liability

In order to recognize unpaid losses, a reserve is calculated by the Fund's actuary.

Liabilities for unpaid losses represent the estimated liability on claims reported to the Fund plus reserves for claims incurred but not yet reported. The liabilities for claims are evaluated using Fund and industry data, case basis evaluations and other statistical analyses, and represent estimates of the ultimate net cost of all losses incurred through June 30, 2018.

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, frequency, and other factors. Management believes that the liabilities for unpaid claims are adequate. The estimates are continually reviewed and as adjustments to these liabilities become necessary, such adjustments are reflected in current operations.

Reinsurance

The Fund seeks to limit its exposure to loss on any single insured and to recover a portion of benefits paid by ceding reinsurance to the Municipal Reinsurance Health Insurance Fund under excess coverage insurance contracts. Although the MRHIF is liable to the Fund for the amounts reinsured, the Fund remains liable to its insureds for the full amount of the policies written whether or not the MRHIF meets its obligations to the Fund. Failure of the MRHIF to honor its obligations could result in losses to the Fund.

Losses ceded to reinsurers during 2018 and 2017 amounted to \$513,212 and \$2,792,504, respectively.

Administrative Expenses

Administrative expenses are comprised mainly of compensation for services rendered by servicing organizations and appointed officials pursuant to written fee guidelines submitted and approved by a majority of the Trustees/Executive Committee. In instances where invoices have not been submitted for specific periods, the maximum allowable contract amount has been accrued.

Net Position

In accordance with the provisions of the Governmental Accounting Standards Board Statement 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments", the Fund has classified its net position as unrestricted. This component of net position consists of net positions that do not meet the definition of "restricted" or "net investment in capital assets" and includes net position that may be allocated for specific purposes by the Trustees.

Income Taxes

The Fund is exempt from income taxes under Section 115 of the Internal Revenue Code.

SCHOOLS HEALTH INSURANCE FUND
NOTES TO FINANCIAL STATEMENTS

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Operating and Non-Operating Revenues and Expenses

Operating revenues include all revenues derived from member contributions. Non-operating revenues principally consist of interest income earned on various interest-bearing accounts and positive changes in the Fund's investment in joint ventures.

Operating expenses include expenses associated with the fund operations, including claims expense, insurance and administrative expenses. Non-operating expenses include negative changes in the Fund's investment in joint ventures.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note 3: CASH AND CASH EQUIVALENTS

Custodial Credit Risk Related to Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Fund's deposits might not be recovered. Although the Fund does not have a formal policy regarding custodial credit risk, N.J.S.A. 17:9-41 et seq. requires that governmental units shall deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act (GUDPA). Under the Act, the first \$250,000 of governmental deposits in each insured depository is protected by the Federal Deposit Insurance Corporation (FDIC). Public funds owned by the Fund in excess of FDIC insured amounts are protected by GUDPA.

However, GUDPA does not protect intermingled trust funds such as salary withholdings or funds that may pass to the Fund relative to the happening of a future condition. If the Fund had any such funds, they would be shown as Uninsured and Uncollateralized.

Of the Fund's bank balance of \$23,979,577 as of June 30, 2018, \$859,270 was insured while \$23,120,307 was collateralized under GUDPA.

Of the Fund's bank balance of \$48,870,134 as of June 30, 2018, \$750,000 was insured while \$48,120,134 was collateralized under GUDPA.

New Jersey Cash Management Fund

During the year, the Fund participated in the New Jersey Cash Management Fund. The Cash Management Fund is governed by regulations of the State Investment Council, who prescribe standards designed to insure the quality of investments in order to minimize risk to the Funds participants. Deposits with the New Jersey Cash Management Fund are not subject to custodial credit risk as defined above. At June 30, 2018 the Fund's deposits with the New Jersey Cash Management Fund was \$22,049,621.

SCHOOLS HEALTH INSURANCE FUND
NOTES TO FINANCIAL STATEMENTS

Note 4: STATE HEALTH BENEFITS PLAN SURCHARGE

Chapter 8, Public Law 1993, provides for insurers of school districts that do not participate in the State Health Benefits Plan (SHBP) to pay an annual surcharge to the program. The surcharge is determined by the State Treasurer and is based on a percentage of the total claims paid for the coverage of employees of the nonparticipating school districts. The surcharge is to compensate the SHBP for the excess cost of the health coverage of the school district's eligible retirees (25 or more years of credited service in a State-administered pension fund, or retired on disability with fewer years of service), who are covered in the SHBP.

Every November 1, a survey is sent to each nonparticipating school district requesting the name and address of their health benefits insurance carrier. A response is required by the end of November. The SHBP sends a surcharge payment request form on December 1 to the insurance carrier. The insurance carrier will complete the surcharge form and forward the form and payment to the SHBP by December 31. The surcharge form includes information such as adjustments from prior year payment, total claims paid, the surcharge rate and the amount to be remitted. For the fiscal years ended June 30, 2018 and 2017, the Fund recorded insurance expense of \$3,553,042 and \$2,387,364 for State Health Benefits Program premium surcharges.

Note 5: INVESTMENTS

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Fund will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Fund, and are held by either the counterparty or the counterparty's trust department or agent but not in the Fund's name. All of the Fund's investments in Certificates of Deposits and US Treasury/Agency Securities of \$26,906,170 as of June 30, 2018 were held by either the counterparty or counterparty's trust department or agent, but not in the Fund's name.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. To limit risk, the Fund's investment policy provides that no investment or deposit shall have a maturity longer than five (5) years from date of purchase.

Credit Risk

Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. N.J.S.A. 40A:5-15.1 limits the investments that the Fund may purchase such as Treasury securities in order to limit the exposure of governmental units to credit risk. The Fund has no investment policy that would further limit its investment choices.

Concentration of Credit Risk

The Fund does not place a limit on the amount that may be invested in any one issuer. All of the Fund's investments are in Certificates of Deposits and US Treasury/Agency Securities.

SCHOOLS HEALTH INSURANCE FUND
NOTES TO FINANCIAL STATEMENTS

Note 5: INVESTMENTS (CONT'D)

As of June 30, 2018, the Fund had the following investments and maturities:

<u>Investment</u>	<u>Interest</u> <u>Rate</u>	<u>Maturity</u>	<u>Credit</u> <u>Rating</u>	<u>Market Value</u>
<u>US Treasury/Agency Securities</u>				
United States Treasury Notes	1.960%	10/15/18	AAA	\$ 2,491,950
United States Treasury Notes	2.060%	01/31/19	AAA	3,977,960
United States Treasury Notes	2.000%	02/15/19	AAA	2,972,820
United States Treasury Notes	2.070%	08/15/19	AAA	<u>1,963,440</u>
Total US Treasury/Agency Securities				<u>11,406,170</u>
<u>Certificates of Deposit</u>				
Ocean First Bank	1.500%	03/29/19	N/A	3,000,000
Ocean First Bank	1.600%	05/03/19	N/A	5,000,000
Republic Bank	1.600%	05/02/19	N/A	2,500,000
Republic Bank	1.600%	09/29/19	N/A	3,000,000
Republic Bank	1.600%	09/29/19	N/A	<u>2,000,000</u>
Total Certificates of Deposit				<u>15,500,000</u>
Total Investments				<u>\$ 26,906,170</u>

Fair Value Measurements of Investments

The Fund categorizes its fair value disclosures within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted process in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Fund has the following recurring fair value measurements as of June 30, 2018:

Certificates of Deposit and US Treasury/Agency Securities of \$26,906,170 are valued using quoted market prices for identical assets (Level 1 inputs).

SCHOOLS HEALTH INSURANCE FUND
NOTES TO FINANCIAL STATEMENTS

Note 6: CHANGES IN UNPAID CLAIMS LIABILITIES

As discussed in Note 2, the Fund establishes a liability for both reported and unreported insured events, which includes estimates of future payments of losses and related allocated claim adjustment expenses.

The following represents changes in those aggregate undiscounted reported and unreported liabilities for the Fund during 2018 and 2017 for all open fund years net of excess insurance recoveries:

	<u>2018</u>	<u>2017</u>
Total unpaid claims and claim adjustment expenses		
all fund years - beginning of year	<u>\$ 15,413,000</u>	<u>\$ 8,900,000</u>
Incurred claims and claim adjustment expenses:		
Provision for insured events of current fund year	144,993,678	124,172,054
Changes in provision for insured insured events of		
prior fund years	<u>(314,889)</u>	<u>(527,157)</u>
Total incurred claims and claim adjustment		
expenses all fund years	<u>144,678,789</u>	<u>123,644,897</u>
Payments:		
Claims and claim adjustment expenses:		
Attributable to insured events of current fund year	130,689,678	108,784,054
Attributable to insured events of prior fund years	<u>15,098,111</u>	<u>8,347,843</u>
Total payments all fund periods	<u>145,787,789</u>	<u>117,131,897</u>
Total unpaid claims and claim adjustment		
expenses all fund years - end of year	<u>\$ 14,304,000</u>	<u>\$ 15,413,000</u>

Note 7: LOSS FUND CONTINGENCY ACCOUNT

Upon recommendation of the Fund's Administrator, the Fund Trustees agreed to establish a loss fund contingency account. This fund account provides additional assurance that any variances from the expected losses promulgated by the Actuary will be covered without seeking additional assessments. Annual assessments or transfers into this account cannot exceed 2.5% of the Fund's current fiscal year earned income with an aggregate cap of 10% unless approved by the Commissioner of the Department of Insurance.

Note 8: MUNICIPAL REINSURANCE HEALTH INSURANCE FUND

Effective January 1, 2016, the Fund became a member of the Municipal Reinsurance Health Insurance Fund (MRHIF). The MRHIF is a risk-sharing public entity risk pool that is a self-administered group of joint insurance funds established for the purpose of providing excess health insurance coverage to participating members. Each member appoints an official to represent their respective joint insurance fund for the purpose of creating a governing body from which officers for the MRHIF are elected.

SCHOOLS HEALTH INSURANCE FUND
NOTES TO FINANCIAL STATEMENTS

Note 8: MUNICIPAL REINSURANCE HEALTH INSURANCE FUND (CONT'D)

As a member of the MRHIF, the Fund could be subject to supplemental assessments in the event of deficiencies. If the assets of the MRHIF were to be exhausted, members would become jointly and severely liable for the MRHIF's liabilities.

The MRHIF can declare and distribute dividends to members upon approval of the State of New Jersey Department of Banking and Insurance. These distributions are divided among the members in the same ratio as their individual assessment relates to the total assessment of the membership for that fund year.

Equity Interest

As of June 30, 2018 and 2017, the Fund's share of net position in the Municipal Reinsurance Health Insurance Fund was \$3,236,760 and \$3,431,784, respectively.

Selected Financial Information

Selected summarized financial information for the Municipal Reinsurance Health Insurance Fund as of December 31, 2017 were as follows:

Total Assets	<u>\$ 20,481,693</u>
Total Liabilities	<u>\$ 7,763,833</u>
Net Position	<u>\$ 12,717,860</u>
Total Revenues	<u>\$ 13,697,416</u>
Total Expenses	<u>\$ 9,512,768</u>
Change in Net Position	<u>\$ 497,230</u>
Return of Surplus	<u>\$ 3,687,418</u>

Financial statements for the Municipal Reinsurance Health Insurance Fund are available at the office of the Fund's Executive Director:

PERMA
9 Campus Drive, Suite 216
Parsippany, NJ 07054
201-881-7632

SCHOOLS HEALTH INSURANCE FUND
NOTES TO FINANCIAL STATEMENTS

Note 9: RELATED PARTY TRANSACTIONS

As disclosed in Note 8, the Fund is a member of the Municipal Reinsurance Health Insurance Fund and accordingly has an ownership interest in MRHIF. Excess insurance premiums paid to MRHIF as of June 30, 2018 and 2017 were \$6,595,804 and \$5,911,864, respectively.

Note 10: PRIOR PERIOD ADJUSTMENT

As stated in Note 1, certain members of the Southern New Jersey Regional Employee Benefits Fund transferred their equity interest in that Fund to form the Schools Health Insurance Fund on January 1, 2016. At inception, the Fund recorded assets of \$19,907,760 and liabilities of \$1,057,908 resulting in net position of \$18,849,852 being transferred from the Southern New Jersey Regional Employee Benefits Fund to form the Schools Health Insurance Fund.

Subsequent to the Fund issuing its financial statements for the six-month period ended June 30, 2016, it was determined that the assets recorded at inception, January 1, 2016 did not include the Fund's proportionate interest in the Municipal Reinsurance Health Insurance Fund described in note 8.

Accordingly, the Fund has restated its net position at the beginning of the six-month period. The effect of the restatement is to increase net position by \$2,742,107 at July 1, 2016.

Note 11: SUBSEQUENT EVENTS

Subsequent to year-end, the following entities have joined the Fund:

- Clayton BOE (Effective 7/1/18)
- Bethlehem Township BOE (Effective 7/1/18)
- Greenwich Township BOE (Effective 7/1/18)
- White Township BOE (Effective 7/1/18)
- High Point BOE (Effective 7/1/18)
- Pinelands Township BOE (Effective 10/1/18)
- Franklin Township BOE (Effective 11/1/18)
- Hope Township BOE (Effective 1/1/19)

REQUIRED SUPPLEMENTARY INFORMATION

SCHOOLS HEALTH INSURANCE FUND
 RECONCILIATION OF HEALTH CLAIMS LIABILITIES BY FUND
 FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	<u>Medical</u>	<u>Prescription</u>	<u>Dental</u>	<u>Total</u>
Total unpaid claims and claim adjustment expenses - Beginning of Year	\$ 15,100,236	\$ 231,120	\$ 81,644	\$ 15,413,000
Incurred claims and claims adjustment expenses:				
Provision for insured events of current fund year	124,966,458	17,215,738	2,811,482	144,993,678
Changes in provision for insured events of prior fund years	(399,553)	(36,781)	121,445	(314,889)
Total incurred claims and claims adjustment expenses all Fund years	124,566,905	17,178,957	2,932,927	144,678,789
Payments:				
Claims and claims adjustment expenses (Net of Recoveries):				
Attributable to insured events of current fund year	112,012,096	16,058,180	2,619,402	130,689,678
Attributable to insured events of prior fund years	15,013,447	(36,781)	121,445	15,098,111
Total payments all Fund years	127,025,543	16,021,399	2,740,847	145,787,789
Total unpaid claims and claim adjustment expenses - End of Year	\$ 12,641,598	\$ 1,388,678	\$ 273,724	\$ 14,304,000

SCHOOLS HEALTH INSURANCE FUND
THREE-YEAR CLAIMS DEVELOPMENT INFORMATION
AS OF JUNE 30, 2018

	FUND YEAR ENDED JUNE 30		
	<u>2016</u>	<u>2017</u>	<u>2018</u>
Net Earned Required Contribution and Investment Revenue:			
Earned	\$ 59,363,096	\$ 157,369,884	\$ 188,576,257
Ceded	3,335,172	8,416,052	10,148,846
	<u>56,027,924</u>	<u>148,953,832</u>	<u>178,427,411</u>
Unallocated Expenses	<u>4,271,447</u>	<u>10,357,976</u>	<u>11,762,481</u>
Estimated Claims and Expenses, End of Policy Year:			
Incurred	47,176,886	126,312,476	147,966,213
Ceded		2,140,422	2,972,535
Net Incurred	<u>47,176,886</u>	<u>124,172,054</u>	<u>144,993,678</u>
Paid (Cumulative) as of:			
End of Policy Year	38,276,886	108,784,054	130,689,678
One Year Later	46,624,729	123,719,885	
Two Years Later (A)	<u>46,624,729</u>		
Reestimated Incurred Claims and Expenses:			
End of Policy Year	47,176,886	124,172,054	144,993,678
One Year Later	46,649,729	123,719,885	
Two Years Later (A)	<u>46,649,729</u>		
Decrease in Estimated Incurred Claims and Expenses from End of Policy Year	<u>\$ (527,157)</u>	<u>\$ (452,169)</u>	<u>\$ -</u>

SUPPLEMENTARY INFORMATION

SCHOOLS HEALTH INSURANCE FUND
STATEMENT OF NET POSITION - STATUTORY BASIS
AS OF JUNE 30, 2018

	<u>Total</u>	<u>2018</u>	<u>2017</u>	<u>Closed Years</u>
<u>ASSETS</u>				
Cash And Cash Equivalents	\$ 44,228,355	\$26,812,485	\$12,820,270	\$ 4,595,600
Investments	26,906,170			26,906,170
Contributions Receivable	9,052,714	8,849,111	203,603	
Accrued Dividend Receivable	1,501,524		919,071	582,453
Accrued Interest Receivable	39,735	17,119	6,197	16,419
Excess Insurance Receivable	2,155,203	1,228,374	926,829	
Other Assets	42,859	42,859		
	<hr/>			
Total Assets	\$ 83,926,560	\$ 36,949,948	\$14,875,970	\$ 32,100,642
<hr/>				
<u>LIABILITIES AND RESERVES</u>				
Liabilities:				
Accrued Insurance Premiums	\$ 591,444	\$ 591,444		
Accrued Administrative Expenses	332,113	332,113		
Accrued Affordable Care Act Expenses	51,139	51,139		
Surplus Return Reserve	2,832,073			\$ 2,832,073
	<hr/>			
Total Liabilities	3,806,769	974,696	-	2,832,073
<hr/>				
Reserves:				
Actuarial Liability	14,304,000	14,304,000		
	<hr/>			
Total Liabilities And Reserves	18,110,769	15,278,696	-	2,832,073
<hr/>				
<u>NET POSITION</u>				
Unrestricted	\$ 65,815,791	\$ 21,671,252	\$14,875,970	\$ 29,268,569
	<hr/>			

SCHOOLS HEALTH INSURANCE FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - STATUTORY BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	<u>Total</u>	<u>2018</u>	<u>2017</u>	<u>Closed Years</u>
Operating Revenues:				
Regular Contributions	\$ 187,731,361	\$ 187,731,361		
Employee Contribution	608,625	608,625		
Total Operating Revenues	<u>188,339,986</u>	<u>188,339,986</u>	-	-
Operating Expenses:				
Provision For Claims And				
Claims Adjustment Expenses (Recoveries)	144,678,789	144,993,678	\$ (452,169)	\$ 137,280
Reinsurance	6,595,804	6,595,804		
State Health Benefits				
Program Surcharge Premiums (Recoveries)	3,553,042	3,553,042		
Affordable Care Act Taxes	51,139	51,139		
Administration	11,750,655	11,711,342	41,096	(1,783)
Total Operating Expenses	<u>166,629,429</u>	<u>166,905,005</u>	<u>(411,073)</u>	<u>135,497</u>
Operating Income	21,710,557	21,434,981	411,073	(135,497)
Non-Operating Revenue:				
Investment Income	836,040	236,271	130,968	468,801
Dividend Income - MRHIF	1,501,524		919,071	582,453
Change In Net Position				
Before Return of Surplus	24,048,121	21,671,252	1,461,112	915,757
Return of Surplus	<u>(4,934,411)</u>			<u>(4,934,411)</u>
	19,113,710	21,671,252	1,461,112	(4,018,654)
Net Position, Beginning	<u>46,702,081</u>		<u>13,414,858</u>	<u>33,287,223</u>
Net Position, Ending	<u>\$ 65,815,791</u>	<u>\$ 21,671,252</u>	<u>\$ 14,875,970</u>	<u>\$ 29,268,569</u>

SCHOOLS HEALTH INSURANCE FUND
STATEMENT OF CASH FLOWS - STATUTORY BASIS
AS OF JUNE 30, 2018

	<u>Total</u>	<u>2018</u>	<u>2017</u>	<u>Closed Years</u>
Cash Flows From Operating Activities:				
Receipts From Regular Contributions	\$ 184,274,102	\$ 179,490,875	\$ 4,802,530	\$ (19,303)
Payments For Health Benefits Claims	(147,026,647)	(131,960,911)	(14,753,642)	(312,094)
Payments For Insurance Premiums	(9,557,402)	(9,557,402)		
Payments To Professionals And Supplies	(11,526,167)	(11,379,229)	(146,937)	(1)
Net Cash Flows Provided By (Used In) Operating Activities	<u>16,163,886</u>	<u>26,593,333</u>	<u>(10,098,049)</u>	<u>(331,398)</u>
Cash Flows From Investing Activities:				
Purchase of Investments	(26,882,695)			(26,882,695)
Investment Income	1,503,172	219,152	538,076	745,944
Net Cash Provided By (Used In) Investing Activities	<u>(25,379,523)</u>	<u>219,152</u>	<u>538,076</u>	<u>(26,136,751)</u>
Cash Flows From Noncapital Financing Activities:				
Distributions From Southern New Jersey Regional Employee Health Insurance Fund	7,639,737			7,639,737
Return of Surplus Payable	(2,102,338)			(2,102,338)
Net Cash Flows Provided By Noncapital Activities	<u>5,537,399</u>	<u>-</u>	<u>-</u>	<u>5,537,399</u>
Net Increase (Decrease) In Cash And Cash Equivalents	(3,678,238)	26,812,485	(9,559,973)	(20,930,750)
Cash And Cash Equivalents, Beginning Of Year	<u>47,906,593</u>	<u>-</u>	<u>22,380,243</u>	<u>25,526,350</u>
Cash And Cash Equivalents, End Of Year	<u>\$ 44,228,355</u>	<u>\$ 26,812,485</u>	<u>\$ 12,820,270</u>	<u>\$ 4,595,600</u>
Reconciliation Of Operating Income To				
Cash Flows From Operating Activities:				
Operating Income (Loss)	\$ 21,710,557	\$ 21,434,981	\$ 411,073	\$ (135,497)
Adjustments To Reconcile Operating Income (Loss) To Net				
Cash Provided By (Used In) Operating Activities:				
Changes In Assets And Liabilities:				
Decrease (Increase) In Assets:				
Claims Payable To The Southern New Jersey Regional Employee Health Insurance Fund	(818,180)		(409,090)	(409,090)
Contributions Receivable	(4,046,581)	(8,849,111)	4,802,530	
Excess Insurance Receivable	(420,678)	(1,271,233)	591,279	259,276
Increase (Decrease) In Liabilities:				
Accrued Administrative Expenses	275,627	383,252	(105,841)	(1,784)
Accrued Excess Insurance Premium	591,444	591,444		
Actuarial Liability	(1,109,000)	14,304,000	(15,388,000)	(25,000)
Advanced Contributions	(19,303)			(19,303)
Total Adjustments	<u>(5,546,671)</u>	<u>5,158,352</u>	<u>(10,509,122)</u>	<u>(195,901)</u>
Net Cash Provided By (Used In) Operating Activities	<u>\$ 16,163,886</u>	<u>\$ 26,593,333</u>	<u>\$ (10,098,049)</u>	<u>\$ (331,398)</u>

SCHOOLS HEALTH INSURANCE FUND
NOTES TO SUPPLEMENTARY INFORMATION – STATUTORY BASIS

Note 1: **RELATIONSHIP WITH BASIC FINANCIAL STATEMENTS**

The information in the Schools Health Insurance Fund (the “Fund”)’s basic financial statements, Exhibits A-1 through A-3, differ from the accompanying supplementary schedules required by the Division of Banking and Insurance. The supplementary schedules do not reflect the Fund's Investment in Joint Venture as follows:

	<u>2018</u>	<u>2017</u>
Total Assets – Statement of Net Position	\$ 87,163,320	\$ 66,491,973
Less Investment in Joint Venture	<u>3,236,760</u>	<u>3,431,784</u>
Total Assets – Statutory Basis	<u>\$ 83,926,560</u>	<u>\$ 63,060,189</u>
Net Position – Statement of Net Position	\$ 69,052,551	\$ 50,133,865
Less Investment in Joint Venture	<u>3,236,760</u>	<u>3,431,784</u>
Net Position – Statutory Basis	<u>\$ 65,815,791</u>	<u>\$ 46,702,081</u>
Change in Net Position - Statement of Revenues, Expenses and Changes in Net Position	\$ 18,918,686	\$ 23,876,073
Less Change in Investment in Joint Venture	<u>(195,024)</u>	<u>670,044</u>
Change in Net Position – Statutory Basis	<u>\$ 19,113,710</u>	<u>\$ 23,206,029</u>

SCHOOLS HEALTH INSURANCE FUND
 SUPPLEMENTARY INFORMATION
 STATEMENT OF FUND YEAR 2018 ACCOUNT OPERATING RESULTS ANALYSIS - STATUTORY BASIS
 FOR THE PERIOD JULY 1, 2017 TO JUNE 30, 2018

	<u>Medical*</u>	<u>Prescription</u>	<u>Dental</u>	<u>Reinsurance</u>	<u>Contingency</u>	<u>Administrative</u>	<u>Total</u>
Income:							
Regular Contributions	\$ 137,922,520	\$ 24,042,655	\$ 3,031,907	\$ 6,465,853	\$ 500,000	\$ 15,768,426	\$ 187,731,361
Employee Contribution	608,625						608,625
Investment Income	164,277	42,813	1,453	313	3,056	24,359	236,271
Dividend Income							-
Total Income	138,695,422	24,085,468	3,033,360	6,466,166	503,056	15,792,785	188,576,257
Incurring Liabilities:							
Claims Paid (Net Of Refunds)	113,240,470	17,802,341	2,619,402				133,662,213
Excess Insurance Recoveries	(1,228,374)	(1,744,161)					(2,972,535)
Actuarial Liability (Net of Recoverable)	12,954,362	1,157,558	192,080				14,304,000
Insurance Premiums	3,553,042		90,079	6,505,725		51,139	10,148,846
Affordable Care Act Taxes						11,711,342	11,711,342
Administrative Expenses							
Total Liabilities	128,519,500	17,215,738	2,901,561	6,505,725	-	11,762,481	166,905,005
Net Position (Deficit)	\$ 10,175,922	\$ 6,869,730	\$ 131,799	\$ (39,559)	\$ 503,056	\$ 4,030,304	\$ 21,671,252

*Includes Retirees And COBRA

SCHOOLS HEALTH INSURANCE FUND
SUPPLEMENTARY INFORMATION
STATEMENT OF FUND YEAR 2017 ACCOUNT OPERATING RESULTS ANALYSIS - STATUTORY BASIS
FOR THE PERIOD JULY 1, 2016 TO JUNE 30, 2018

	<u>Medical*</u>	<u>Prescription</u>	<u>Dental</u>	<u>Reinsurance</u>	<u>Contingency</u>	<u>Administrative</u>	<u>Total</u>
Income:							
Regular Contributions	\$ 114,372,567	\$ 18,282,096	\$ 2,835,444	\$ 5,777,211	\$ 431,682	\$ 13,585,619	\$ 155,284,619
Employee Contribution	540,994						540,994
Investment Income	38,051	127,640	214		6,114	39,876	211,895
Dividend Income	1,332,376						1,332,376
Total Income	116,283,988	18,409,736	2,835,658	5,777,211	437,796	13,625,495	157,369,884
Incurring Liabilities:							
Claims Paid (Net Of Refunds)	114,749,467	9,549,244	2,649,700				126,948,411
Excess Insurance Recoveries	(2,135,459)	(1,093,067)					(3,228,526)
Actuarial Liability (Net of Recoverable)	(312,764)	231,120	81,644				
Insurance Premiums	2,504,188		79,093	5,832,771			8,416,052
Affordable Care Act Taxes						365,193	365,193
Administrative Expenses						9,992,783	9,992,783
Total Liabilities	114,805,432	8,687,297	2,810,437	5,832,771	-	10,357,976	142,493,913
Net Position (Deficit)	\$ 1,478,556	\$ 9,722,439	\$ 25,221	\$ (55,560)	\$ 437,796	\$ 3,267,519	\$ 14,875,971

*Includes Retirees And COBRA

SCHOOLS HEALTH INSURANCE FUND
SUPPLEMENTARY INFORMATION
STATEMENT OF FUND YEAR 2018 EXPENSE ANALYSIS - STATUTORY BASIS
FOR THE PERIOD JULY 1, 2017 TO JUNE 30, 2018

	<u>Paid</u>	<u>Accrued Expenses</u>	<u>Total</u>
Administrative Expenses:			
Executive Director	\$ 905,757		\$ 905,757
Program Manager	5,016,698		5,016,698
Third Party Administrators:			
Medical	5,107,736		5,107,736
Dental	133,502		133,502
Actuary	25,500		25,500
Attorney	34,738		34,738
Auditor		\$ 14,256	14,256
Treasurer	18,695		18,695
Postage	1,463		1,463
Plan Documents	12,015		12,015
Meeting Expense	2,713		2,713
Miscellaneous Expense	37,390	879	38,269
Wellness Program	83,022	316,978	400,000
	<hr/>		
Total Administrative Expenses	\$ 11,379,229	\$ 332,113	\$ 11,711,342
	<hr/> <hr/>		

SCHOOLS HEALTH INSURANCE FUND
SUPPLEMENTARY INFORMATION
STATEMENT OF FUND YEAR 2017 EXPENSE ANALYSIS - STATUTORY BASIS
FOR THE PERIOD JULY 1, 2016 TO JUNE 30, 2018

	<u>Paid</u>	<u>Accrued Expenses</u>	<u>Total</u>
Administrative Expenses:			
Executive Director	\$ 760,202		\$ 760,202
Program Manager	4,233,308		4,233,308
Third Party Administrators:			
Medical	4,346,334		4,346,334
Dental	125,715		125,715
Actuary	25,376		25,376
Attorney	34,416		34,416
Auditor	14,124		14,124
Treasurer	18,328		18,328
Postage	2,809		2,809
Plan Documents	15,142		15,142
Meeting Expense	2,066		2,066
Data Analysis	7,965		7,965
Miscellaneous Expense	37,467		37,467
Wellness Program	369,531		369,531
	<hr/>		
Total Administrative Expenses	<u>\$ 9,992,783</u>	-	<u>\$ 9,992,783</u>

SCHOOLS HEALTH INSURANCE FUND
SUPPLEMENTARY INFORMATION
SCHEDULE OF CASH, CASH EQUIVALENTS AND INVESTMENTS - STATUTORY BASIS
AS OF JUNE 30, 2018

<u>Description</u>	<u>Amount</u>
Cash Accounts	
New Jersey Cash Management Fund	
Investment Account	\$ 22,049,621
Ocean First Bank	
Business Money Market	5,293,365
Parke Bank	
Investment Account	11,160,281
Republic Bank	
Administrative Account	26,414
General Account	816,193
Investment Account	4,773,211
Wilmington Trust Company	
Money Market Account	<u>109,270</u>
Total Cash and Cash Equivalents	<u>44,228,355</u>
 <u>Investments</u>	
Ocean First Bank Certificate of Deposit	8,000,000
Republic Bank Certificate of Deposit	7,500,000
Wilmington Trust Company	
Investment Account	<u>11,406,170</u>
Total Investments	<u>26,906,170</u>
Total Cash, Cash Equivalents And Investments Per Schedule A Combining Statement of Net Position - Statutory Basis	<u>\$ 71,134,525</u>
 Total Cash, Cash Equivalents And Investments By Fund Year:	
2018	\$ 26,812,485
2017	12,820,270
Closed Years	<u>31,501,770</u>
	<u>\$ 71,134,525</u>

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with Government Auditing Standards and with audit requirements as prescribed by the Department of Banking and Insurance and the Division of Local Government Services, Department of Community Affairs, State of New Jersey.

SCHEDULE OF FINANCIAL STATEMENT FINDINGS

None

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AS PREPARED BY MANAGEMENT

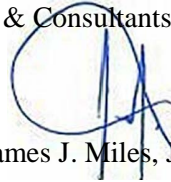
This section identifies the status of prior year audit findings related to the financial statements that are required to be reported in accordance with Government Auditing Standards.

There were no findings in the prior year

APPRECIATION

We express our appreciation for the assistance provided to us during our audit.

Respectfully submitted,
BOWMAN & COMPANY LLP
Certified Public Accountants
& Consultants



James J. Miles, Jr.