

**REPORT ON AUDIT OF FINANCIAL STATEMENTS
FOR THE PERIOD JANUARY, 2016 (DATE OF INCEPTION)
TO JUNE 30, 2016**

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

Required Supplementary Information

Schedule 1	Reconciliation of Health Claims Liabilities by Fund	24
Schedule 2	One-Year Claims Development Information	25

Supplementary Information

Schedule A	Statement of Net Position – Statutory Basis	27
Schedule B	Statement of Revenue, Expenses and Changes in Net Position – Statutory Basis	28
Schedule C	Statement of Cash Flows – Statutory Basis	29
	Notes to Supplementary and Combining Information – Statutory Basis	30
Schedule D	Statement of Fund Year Account Operating Results Analysis – Statutory Basis	31
Schedule E	Statement of Fund Year Expense Analysis – Statutory Basis	32
Schedule F	Schedule of Cash and Cash Equivalents – Statutory Basis	33

Schedule of Findings and Recommendations

Schedule of Findings and Recommendations	35
Schedule of Financial Statement Findings	35
Summary Schedule of Prior Year Findings as Prepared by Management	35
Appreciation	35

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 June 30, 2016 and for the period January 1, 2016 (Date of Inception) to June 30, 2016, 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, 2016 and the changes in its financial position and its cash flows for the period January 1, 2016 (Date of Inception) to June 30, 2016, 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.

Board of Trustees
Schools Health Insurance Fund

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 25, 2017 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,



Bowman & Company LLP
Certified Public Accountants
& Consultants

Woodbury, New Jersey
January 25, 2017

**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, 2016 and for the period January 1, 2016 (Date of Inception) to June 30, 2016, and the related notes to the financial statements, which collective comprise the Fund's basic financial statements, and have issued our report thereon dated January 25, 2017.

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.

Board of Trustees
Schools Health Insurance Fund

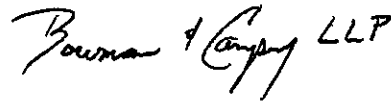
Compliance and Other Matters

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

Woodbury, New Jersey
January 25, 2017

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 period January 1, 2016 (Date of Inception) to June 30, 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:

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

Statement 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.

Statement of Cash Flows – The statement 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 reporting period.

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, 2016 were \$35,480,173 and total liabilities were \$11,964,488 resulting in a surplus in unrestricted net position of \$23,515,685.

The Fund's operating revenues were \$59,334,368 during the year. Claims expenses represented \$47,176,886 in health benefit costs. Reinsurance premiums were composed of \$2,233,650 being incurred by the Municipal Reinsurance Health Insurance Fund and \$1,101,522 being incurred by State Health Benefits Program Surcharge Premiums. During the reporting period, professional and administrative operating costs were \$4,025,446 and Affordable Care Act taxes of \$246,001.

The value of the Fund's share of the Municipal Reinsurance Health Insurance Fund (MRHIF) was \$19,633.

Investment income was \$95,337 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
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE PERIOD JANUARY 1, 2016 (DATE OF INCEPTION) TO JUNE 30, 2016

Operating Revenues:		
Regular Contributions	\$	59,171,290
Employee Contribution		<u>163,078</u>
Total Operating Revenues		<u>59,334,368</u>
Operating Expenses:		
Provision For Claims And Claims Adjustment Expenses		47,176,886
Reinsurance		2,233,650
State Health Benefits Program Surcharge Premiums		1,101,522
Affordable Care Act Taxes		246,001
Administration		<u>4,025,446</u>
Total Operating Expenses		<u>54,783,505</u>
Operating Income		4,550,863
Non-Operating Revenue:		
Investment Income		95,337
Change In Investment In Joint Venture		<u>19,633</u>
Change In Net Position		4,665,833
Net Position, Beginning		-
Transfer From The Southern New Jersey Regional Employee Benefits Fund		<u>18,849,852</u>
Net Position, Ending	\$	<u><u>23,515,685</u></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 2016, the following boards of education and school districts were members of the Fund:

Alexandria Township BOE	Frankford Township BOE	Mt. Holly Township BOE
Bellmawr Public School District	Gateway Regional BOE	Mt. Laurel Township Schools
Berlin Borough BOE	Hardyston Township BOE	Rancocas Valley Regional BOE
Black Horse Pike Regional BOE	Harrison Township BOE	Riverside Township BOE
Burlington City BOE	Leap Academy University Charter School	South Harrison Township BOE
Burlington Township BOE	Lebanon Township BOE	Southampton Township BOE
Byram Township BOE	Logan Township BOE	Swedesboro-Woolwich BOE
Cinnaminson Township BOE	Lower Alloways Creek BOE	Tabernacle BOE
Collingswood BOE	Mantua Township BOE	Upper Pittsgrove BOE
Delsea Regional BOE	Medford BOE	West Deptford BOE
Educational Information & Resource	Medford Lakes BOE	Woodbury Heights BOE
Ewing Township BOE	Moorestown Township Public Schools	Woodstown-Pilesgrove BOE
Florence BOE		

SCHOOLS HEALTH INSURANCE FUND
NOTES TO FINANCIAL STATEMENTS

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

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.
3. The Fund's reinsurance agreement for the fiscal year 2016 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, 2016 to December 31, 2016.
4. Open enrollment for participating employees is offered during the months of May and November.
5. Medical coverage consists of each participating municipality'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*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*. 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.

SCHOOLS HEALTH INSURANCE FUND
NOTES TO FINANCIAL STATEMENTS

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

Cash, Cash Equivalents and Investments (Cont'd)

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.

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 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.

SCHOOLS HEALTH INSURANCE FUND
NOTES TO FINANCIAL STATEMENTS

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

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.

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 on investments in debt securities 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.

SCHOOLS HEALTH INSURANCE FUND
NOTES TO FINANCIAL STATEMENTS

Note 5: 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. As of June 30, 2016, the Fund recorded insurance expense of \$1,101,522 for State Health Benefits Program premium surcharges.

Note 6: 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 7: MUNICIPAL REINSURANCE HEALTH INSURANCE FUND

Effective January 1, 2016, the Fund became a member of the Municipal Reinsurance Health Insurance Fund. 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.

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, 2016, the Fund's share of net position in the Municipal Reinsurance Health Insurance Fund was \$19,633.

SCHOOLS HEALTH INSURANCE FUND
NOTES TO FINANCIAL STATEMENTS

Note 9: REORGANIZATION

As stated in Note 1, certain members of the Southern New Jersey Regional Employee Benefits Fund transferred their equity interest in the Southern New Jersey Regional Employee Benefits Fund to form the Schools Health Insurance Fund on January 1, 2016.

The Southern New Jersey Regional Employee Benefits Fund transferred the following assets, liabilities and net position to form the Schools Health Insurance Fund:

	<u>Total</u>	<u>2016</u>	<u>Closed</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 19,900,417	\$ 1,170,997	\$ 18,729,420
Receivables	7,343		7,343
	<hr/>		
Total Assets	19,907,760	1,170,997	18,736,763
	<hr/>		
<u>LIABILITIES</u>			
Accrued Expenses	1,057,908	1,038,605	19,303
	<hr/>		
<u>NET POSITION</u>			
Unrestricted	\$ 18,849,852	\$ 132,392	\$ 18,717,460
	<hr/> <hr/>		

REQUIRED SUPPLEMENTARY INFORMATION

SCHOOLS HEALTH INSURANCE FUND
 RECONCILIATION OF HEALTH CLAIMS LIABILITIES BY FUND
 FOR THE PERIOD JANUARY 1, 2016 (DATE OF INCEPTION) TO JUNE 30, 2016

	<u>Medical</u>	<u>Prescription</u>	<u>Dental</u>	<u>Total</u>
Total unpaid claims and claim adjustment expenses - Beginning of Year	\$ -	\$ -	\$ -	\$ -
Incurred claims and claims adjustment expenses: Provision for insured events of current fund year Changes in provision for insured events of prior fund years	42,474,104	3,682,490	1,020,292	47,176,886
Total incurred claims and claims adjustment expenses all Fund years	42,474,104	3,682,490	1,020,292	47,176,886
Payments: Claims and claims adjustment expenses (Net of Recoveries): Attributable to insured events of current fund year Attributable to insured events of prior fund years	34,218,622	3,133,975	924,289	38,276,886
Total payments all Fund years	34,218,622	3,133,975	924,289	38,276,886
Total unpaid claims and claim adjustment expenses - End of Year	\$ 8,255,482	\$ 548,515	\$ 96,003	\$ 8,900,000

SUPPLEMENTARY INFORMATION

SCHOOLS HEALTH INSURANCE FUND
STATEMENT OF NET POSITION - STATUTORY BASIS
AS OF JUNE 30, 2016

	<u>Total</u>	<u>2016</u>	<u>Closed Years</u>
<u>ASSETS</u>			
Cash And Cash Equivalents	\$ 33,893,194	\$ 15,097,165	\$ 18,796,029
Contributions Receivable	1,544,642	1,544,642	
Accrued Interest Receivable	3,275		3,275
Excess Insurance Receivable	19,429	15,361	4,068
	<hr/>		
Total Assets	\$ 35,460,540	\$ 16,657,168	\$ 18,803,372
	<hr/>		
<u>LIABILITIES AND RESERVES</u>			
Liabilities:			
Accrued Insurance Premiums	\$ 60,178	\$ 60,178	
Accrued Administrative Expenses	50,653	50,653	
Accrued Affordable Care Act Expenses	246,001	246,001	
Advance Contributions	19,303		\$ 19,303
Due To The Southern New Jersey Regional Employee Health Insurance Fund	2,688,353	2,688,353	
	<hr/>		
Total Liabilities	3,064,488	3,045,185	19,303
	<hr/>		
Reserves:			
Actuarial Liability	8,900,000	8,900,000	
	<hr/>		
Total Liabilities And Reserves	11,964,488	11,945,185	19,303
	<hr/>		
<u>NET POSITION</u>			
Unrestricted	\$ 23,496,052	\$ 4,711,983	\$ 18,784,069
	<hr/>		

SCHOOLS HEALTH INSURANCE FUND
 SUPPLEMENTARY INFORMATION
 STATEMENT OF FUND YEAR 2016 ACCOUNT OPERATING RESULTS ANALYSIS - STATUTORY BASIS
 FOR THE PERIOD JANUARY 1, 2016 (DATE OF INCEPTION) TO JUNE 30, 2016

	Medical*	Prescription	Dental	Reinsurance	Contingency	Administrative	Total
Income:							
Regular Contributions	\$ 43,898,351	\$ 6,535,450	\$ 1,035,073	\$ 2,190,180		\$ 5,512,236	\$ 59,171,290
Employee Contribution	163,078						163,078
Investment Income	20,350	4,828	204	14	471	2,861	28,728
Total Income	44,081,779	6,540,278	1,035,277	2,190,194	471	5,515,097	59,363,096
Incurred Liabilities:							
Claims Paid (Net Of Refunds)	34,233,983	3,133,975	924,289				38,292,247
Excess Insurance Recoveries	(15,361)						(15,361)
Actuarial Liability (Net Of Recoverables)	8,255,482	548,515	96,003				8,900,000
Insurance Premiums	1,101,522		31,606	2,202,044			3,335,172
Affordable Care Act Taxes						246,001	246,001
Administrative Expenses						4,025,446	4,025,446
Total Liabilities	43,575,626	3,682,490	1,051,898	2,202,044	-	4,271,447	54,783,505
Net Position (Deficit)	\$ 506,153	\$ 2,857,788	\$ (16,621)	\$ (11,850)	\$ 471	\$ 1,243,650	\$ 4,579,591

*Includes Retirees And COBRA

SCHOOLS HEALTH INSURANCE FUND
SUPPLEMENTARY INFORMATION
SCHEDULE OF CASH AND CASH EQUIVALENTS - STATUTORY BASIS
AS OF JUNE 30, 2016

<u>Description</u>	<u>Amount</u>
Cash Accounts	
Parke Bank	
Investment Account	\$ 4,005,587
Republic Bank	
Administrative Account	1,376
General Account	3,839,164
Investment Account	<u>26,047,067</u>
Total Cash And Cash Equivalents Per Schedule A Combining Statement of Net Position - Statutory Basis	<u>\$ 33,893,194</u>
 Total Cash And Cash Equivalents By Fund Year:	
2016	\$ 15,097,165
Closed Years	<u>18,796,029</u>
	<u>\$ 33,893,194</u>

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD JANUARY 1, 2016 (DATE OF INCEPTION)
TO JUNE 30, 2016

