



**REPORT ON AUDIT OF FINANCIAL STATEMENTS**

**FOR THE FISCAL YEARS ENDED**

**JUNE 30, 2020 AND 2019**

SCHOOLS HEALTH INSURANCE FUND

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## **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, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **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, 2020 and 2019 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.

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 December 2, 2020 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

Voorhees, New Jersey  
December 2, 2020

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

**INDEPENDENT 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, 2020 and for the fiscal year then ended, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated December 2, 2020.

**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 2, 2020

# 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, 2020, 2019 and 2018. 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, 2020, 2019 and 2018.

Summary Statement of Net Position	<u>6/30/2020</u>	<u>6/30/2019</u>	<u>6/30/2018</u>	<u>2019 to 2020 Change</u>	
				<u>Change \$</u>	<u>Change %</u>
<b>Assets:</b>					
Cash And Cash Equivalents	\$120,231,134	\$ 71,774,240	\$ 44,228,355	\$48,456,894	67.5%
Investments	11,000,000	25,496,240	26,906,170	(14,496,240)	-56.9%
Contributions Receivable	8,683,803	9,604,299	9,052,714	(920,496)	-9.6%
Accrued Dividend Receivable	1,935,535	1,387,918	1,501,524	547,617	39.5%
Accrued Interest Receivable	-	5,668	39,735.00	(5,668)	-100.0%
Excess Insurance Receivable	2,452,875	2,539,158	2,155,203	(86,283)	-3.4%
Other Assets	53,877	51,387	42,859	2,490	4.8%
Investment In Joint Venture	5,499,308	6,303,025	3,236,760	(803,717)	-12.8%
<b>Total Assets</b>	<u>149,856,532</u>	<u>117,161,935</u>	<u>87,163,320</u>	<u>32,694,597</u>	<u>27.9%</u>

## Financial Highlights Continued

Summary Statement of Net Position (Continued)				2019 to 2020 Change	
	<u>6/30/2020</u>	<u>6/30/2019</u>	<u>6/30/2018</u>	<u>Change \$</u>	<u>Change %</u>
Liabilities, Reserves & Net Position					
Liabilities:					
Accrued Insurance Premiums	\$ -	\$ -	\$ 591,444	\$ -	0.0%
Accrued Expenses	2,527,215	2,548,006	383,252	(20,791)	-0.8%
Surplus Return Reserve	18,359,817	6,440,979	2,832,073.00	11,918,838	185.0%
Loss Reserves	17,568,000	19,735,035	14,304,000	(2,167,035)	-11.0%
Total Liabilities & Reserves	<u>38,455,032</u>	<u>28,724,020</u>	<u>18,110,769</u>	<u>9,731,012</u>	<u>33.9%</u>
Net Position - Unrestricted	<u>\$111,401,500</u>	<u>\$ 88,437,915</u>	<u>\$ 69,052,551</u>	<u>\$ 22,963,585</u>	<u>26.0%</u>

Summary Statement of Revenues, Expenses, and Changes in Net Position				2019 to 2020 Change	
	<u>6/30/2020</u>	<u>6/30/2019</u>	<u>6/30/2018</u>	<u>Change \$</u>	<u>Change %</u>
Operating Revenue:					
Regular and Employee Contributions	<u>\$279,438,729</u>	<u>\$237,048,340</u>	<u>\$188,339,986</u>	<u>\$ 42,390,389</u>	<u>17.9%</u>
Operating Expenses:					
Provision for Claims and Claims Expense	215,385,566	192,923,711	144,678,789	22,461,855	11.6%
Insurance Premiums	11,072,641	11,305,479	10,148,846	(232,838)	-2.1%
Administrative and Operating	<u>16,061,908</u>	<u>13,663,438</u>	<u>11,801,794</u>	<u>2,398,470</u>	<u>17.6%</u>
Total Operating Expenses	<u>242,520,115</u>	<u>217,892,628</u>	<u>166,629,429</u>	<u>24,627,487</u>	<u>11.3%</u>
Operating Income	36,918,614	19,155,712	21,710,557	17,762,902	92.7%
Non-Operating Revenues (Expenses):					
Investment Income	2,110,032	1,998,313	836,040	111,719	5.6%
Dividend Income	1,935,535	1,387,918	1,501,524	547,617	39.5%
Change In Joint Venture	<u>(803,717)</u>	<u>3,066,265</u>	<u>(195,024)</u>	<u>(3,869,982)</u>	<u>-126.2%</u>
Change in Net Position Before Return of Surplus	40,160,464	25,608,208	23,853,097	14,552,256	56.8%
Return of Surplus	<u>(17,196,879)</u>	<u>(6,222,844)</u>	<u>(4,934,411)</u>	<u>10,974,035</u>	<u>176.4%</u>
Change In Net Position	<u>\$ 22,963,585</u>	<u>\$ 19,385,364</u>	<u>\$ 18,918,686</u>	<u>3,578,221</u>	<u>18.5%</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, 2020 were \$149,856,532 and total liabilities and reserves were \$38,455,032 resulting in a surplus in unrestricted net position of \$111,401,500.

The Fund's operating revenues were \$279,438,729 during the fiscal year. Claims expenses represented \$215,385,566 in health benefit costs. Reinsurance premiums were composed of \$7,248,000 being incurred by the Municipal Reinsurance Health Insurance Fund and \$3,747,240 being incurred by State Health Benefits Program Surcharge Premiums. During the reporting period, administrative and operating costs were composed of \$15,979,314 in professional and administrative expenses and \$82,594 in Affordable Care Act taxes.

The value of the Fund's share of the Municipal Reinsurance Health Insurance Fund (MRHIF) was \$5,499,308.

Investment income was \$2,110,032 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. The 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, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<u>ASSETS</u>		
Cash And Cash Equivalents	\$ 120,231,134	\$ 71,774,240
Investments	11,000,000	25,496,240
Contributions Receivable	8,683,803	9,604,299
Accrued Dividend Receivable	1,935,535	1,387,918
Accrued Interest Receivable	-	5,668
Excess Insurance Receivable	2,452,875	2,539,158
Other Assets	53,877	51,387
Investment In Joint Venture	5,499,308	6,303,025
	<hr/>	<hr/>
Total Assets	149,856,532	117,161,935
<u>LIABILITIES AND RESERVES</u>		
Liabilities:		
Accrued Insurance Premiums	1,712,884	2,054,849
Accrued Administrative Expenses	731,737	423,859
Accrued Affordable Care Act Expenses	82,594	69,298
Surplus Return Reserve	18,359,817	6,440,979
	<hr/>	<hr/>
Total Liabilities	20,887,032	8,988,985
Reserves:		
Actuarial Liability	17,568,000	19,735,035
	<hr/>	<hr/>
Total Liabilities And Reserves	38,455,032	28,724,020
<u>NET POSITION</u>		
Unrestricted	\$ 111,401,500	\$ 88,437,915
	<hr/> <hr/>	<hr/> <hr/>

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, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Operating Revenues:		
Regular Contributions	\$ 278,634,985	\$ 236,396,976
Employee Contribution	803,744	651,364
	<hr/>	<hr/>
Total Operating Revenues	279,438,729	237,048,340
	<hr/>	<hr/>
Operating Expenses:		
Provision For Claims And Claims Adjustment Expenses	215,385,566	192,923,712
Reinsurance	7,325,401	7,095,697
State Health Benefits Program Surcharge Premiums	3,747,240	4,209,782
Affordable Care Act Taxes	82,594	69,298
Administration	15,979,314	13,594,139
	<hr/>	<hr/>
Total Operating Expenses	242,520,115	217,892,628
	<hr/>	<hr/>
Operating Income	36,918,614	19,155,712
Non-Operating Revenues (Expense):		
Investment Income	2,110,032	1,998,313
Dividend Income	1,935,535	1,387,918
Change In Investment In Joint Venture	(803,717)	3,066,265
	<hr/>	<hr/>
Change In Net Position Before Return of Surplus	40,160,464	25,608,208
Return of Surplus	(17,196,879)	(6,222,844)
	<hr/>	<hr/>
Change In Net Position	22,963,585	19,385,364
Net Position, Beginning	88,437,915	69,052,551
	<hr/>	<hr/>
Net Position, Ending	\$ 111,401,500	\$ 88,437,915
	<hr/>	<hr/>

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

SCHOOLS HEALTH INSURANCE FUND  
COMPARATIVE STATEMENTS OF CASH FLOWS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Cash Flows From Operating Activities:		
Receipts From Regular Contributions	\$ 280,359,225	\$ 236,496,755
Payments For Health Benefits Claims	(217,468,808)	(187,885,160)
Payments For Insurance Premiums	(11,414,606)	(9,842,074)
Payments To Professionals And Administrative Expenses	<u>(15,740,734)</u>	<u>(13,553,532)</u>
Net Cash Flows Provided By Operating Activities	<u>35,735,077</u>	<u>25,215,989</u>
Cash Flows From Investing Activities:		
Purchase of Investments	(11,000,000)	(18,500,000)
Redemption of Investments	25,500,000	20,000,000
Investment Income	<u>3,499,858</u>	<u>3,443,834</u>
Net Cash Provided By Investing Activities	<u>17,999,858</u>	<u>4,943,834</u>
Cash Flows From Noncapital Financing Activities:		
Return of Surplus Payable	<u>(5,278,041)</u>	<u>(2,613,938)</u>
Net Cash Flows Used In Noncapital Activities	<u>(5,278,041)</u>	<u>(2,613,938)</u>
Net Increase In Cash And Cash Equivalents	48,456,894	27,545,885
Cash And Cash Equivalents, Beginning Of Year	<u>71,774,240</u>	<u>44,228,355</u>
Cash And Cash Equivalents, End Of Year	<u>\$ 120,231,134</u>	<u>\$ 71,774,240</u>
Reconciliation Of Operating Income To		
Cash Flows From Operating Activities:		
Operating Income	\$ 36,918,614	\$ 19,155,712
Adjustments To Reconcile Operating Income to Net		
Cash Provided By Operating Activities:		
Changes In Assets And Liabilities:		
Decrease (Increase) In Assets:		
Contributions Receivable	920,496	(551,585)
Excess Insurance Receivable	83,793	(392,483)
Increase (Decrease) In Liabilities:		
Claims Payable To The Southern New Jersey		
Regional Employee Health Insurance Fund	-	-
Accrued Administrative Expenses	321,174	109,905
Accrued Excess Insurance Premium	(341,965)	1,463,405
Actuarial Liability	<u>(2,167,035)</u>	<u>5,431,035</u>
Total Adjustments	<u>(1,183,537)</u>	<u>6,060,277</u>
Net Cash Provided By Operating Activities	<u>\$ 35,735,077</u>	<u>\$ 25,215,989</u>
Supplemental Disclosure - Noncash Activity:		
Change In Unrealized Gains On Investments Included In		
Investment Income	<u>\$ 3,760</u>	<u>\$ 90,070</u>
Change In Investment In Joint Venture	<u>\$ (803,717)</u>	<u>\$ 3,066,265</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 2020, the following boards of education (BOE), school districts and charter schools were members of the Fund:

Alexandria Twp. BOE	Deptford Twp. BOE	Hope Twp. BOE
Bass River Township BOE	East Greenwich BOE	Jamesburg BOE
Bellmawr Public School District	Eatontown BOE	Kingsway Regional School District
Berlin Borough BOE	Evesham Twp. BOE	Leap Academy University Charter School
Bethlehem Twp. BOE	Ewing Twp. BOE	Lebanon Twp. BOE
Black Horse Pike Regional BOE	Florence BOE	Lenape Valley Regional BOE
Blairstown BOE	Frankford Twp. BOE	Logan Twp. BOE
Burlington Twp. BOE	Franklin Twp. Public Schools	Lower Alloways Creek BOE
Byram Twp. BOE	Franklin Twp. School District	Lumberton Township BOE
Califon BOE	Fredon Twp. BOE	Mansfield Township BOE
Chatham School District	Frelinghuysen Twp. BOE	Mantua Twp. BOE
Cinnaminson Twp. BOE	Gateway Regional BOE	Medford BOE
City Of Burlington BOE	Glassboro BOE	Medford Lakes BOE
Chesterfield BOE	Glen Ridge Public Schools	Mendham Borough School District
Clayton BOE	Greenwich Twp. BOE	
Collingswood BOE	Hardyston Twp. BOE	
Delran Twp. Public Schools	Harrison Twp. BOE	
Delsea Regional BOE	High Point BOE	

**SCHOOLS HEALTH INSURANCE FUND**  
**NOTES TO FINANCIAL STATEMENTS**

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

During fiscal year 2020, the following boards of education (BOE), school districts and charter schools were members of the Fund (Cont'd):

Moorestown Twp. Public Schools	Rancocas Valley Regional BOE Riverside Twp. BOE	Upper Pittsgrove BOE Voorhees Twp. BOE
Mt. Holly Twp. BOE	Sandyston-Walpack Consolidated School District	Washington Borough BOE Watching Hills Regional High School
Mt. Laurel Twp. Schools	South Harrison Twp. BOE	West Deptford BOE
Northern Burlington County Regional School District	Southampton Twp. BOE	White Twp. BOE
Ogdensburg Borough School District	Sparta BOE	Woodbury City BOE
Paulsboro Public Schools	Springfield Twp. BOE	Woodbury Hts BOE
Pinelands Twp. BOE	Stillwater Twp. BOE	Woodland Twp. BOE
Pohatcong Twp. BOE	Swedesboro-Woolwich BOE	Woodstown-Pilesgrove BOE
Rahway BOE	Tabernacle BOE	

The limits of liability under the various coverages during fiscal year 2020 were as follows:

**HEALTH INSURANCE COVERAGE**

**Medical and Prescription:**

<u>Limits</u>	<u>Description</u>
<b><u>I. Fund's Self-Insured Retained Limit of Liability (S.I.R.)</u></b>	
A. \$425,000	Specific limit - applies per enrolled participant per reinsurance policy year.
B. \$281,363,938	Aggregate limit of liability (Attachment is based on the aggregate factors multiplied by the Participant Census)
<b><u>II. Excess Insurers' Limit of Liability</u></b>	
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.

**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 2020 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 July 1, 2019 to June 30, 2020.
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

**SCHOOLS HEALTH INSURANCE FUND**  
**NOTES TO FINANCIAL STATEMENTS**

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

**Component Unit (Cont'd)**

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.

**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 governments 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. These permissible investments generally include bonds or other obligations of the United States of America or obligations guaranteed by the United States of America, government money market mutual funds, any obligation that a federal agency or a federal instrumentality has issued in accordance with an act of Congress, bonds or other obligations of the local unit or bonds or other obligations of school district of which the local unit is a part or within which the school district is located, bonds or other obligations approved by the Division of Local Government Services in the

**SCHOOLS HEALTH INSURANCE FUND**  
**NOTES TO FINANCIAL STATEMENTS**

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

**Cash, Cash Equivalents and Investments (Cont'd)**

Department of Community Affairs for investment by local units, local government investment pools, deposits with the State of New Jersey Cash Management Fund, and agreements for the purchase of fully collateralized securities with certain provisions. 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.

**Investments**

The Fund generally records investments at fair value and records the unrealized gains and losses as part of investment income. Fair value is the price that would be received to sell an investment in an orderly transaction between market participants at the measurement date. The Fund categorizes its fair value measurement 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 prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

**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.

**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.

**SCHOOLS HEALTH INSURANCE FUND**  
**NOTES TO FINANCIAL STATEMENTS**

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

**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.

**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.

**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, 2020.

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 2020 and 2019 amounted to \$520,528 and \$0, respectively.

**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 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 3: CASH AND CASH EQUIVALENTS (CONT'D)**

**Custodial Credit Risk Related to Deposits (cont'd)**

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 \$125,612,380 as of June 30, 2020, \$1,000,895 was insured while \$124,523,063 was collateralized under GUDPA.

Of the Fund's bank balance of \$66,575,070 as of June 30, 2019, \$769,042 was insured while \$65,806,028 was collateralized under GUDPA.

**New Jersey Cash Management Fund**

During the fiscal 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, 2020 and 2019, the Fund's deposits with the New Jersey Cash Management Fund was \$88,422 and \$7,286,134, respectively.

**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 March 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, 2020 and 2019, the Fund recorded insurance expense of \$3,747,240 and \$4,209,782 for State Health Benefits Program premium surcharges.

**SCHOOLS HEALTH INSURANCE FUND**  
**NOTES TO FINANCIAL STATEMENTS**

**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 \$11,000,000 and \$25,496,240 as of June 30, 2020 and 2019 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)**

**Concentration of Credit Risk (Cont'd)**

As of June 30, 2020 and 2019, the Fund had the following investments and maturities:

<u>Investment</u>	<u>Interest</u>		<u>Credit</u> <u>Rating</u>	<u>Market Value</u>	
	<u>Rate</u>	<u>Maturity</u>		<u>2020</u>	<u>2019</u>
<u>US Treasury/Agency Securities</u>					
United States Treasury Notes	2.070%	08/15/19	AAA	\$ -	\$ 1,996,240
Total US Treasury/Agency Securities				-	1,996,240
<u>Certificates of Deposit</u>					
Republic Bank	1.600%	09/29/19	N/A		3,000,000
Republic Bank	1.600%	09/29/19	N/A		2,000,000
Republic Bank	3.000%	04/08/20	N/A		5,000,000
Republic Bank	3.000%	04/08/20	N/A		5,000,000
Republic Bank	3.000%	04/08/20	N/A		2,500,000
William Penn Bank	3.000%	06/25/20	N/A		1,000,000
Parke Bank	2.500%	03/13/20	N/A		5,000,000
Republic Bank	3.000%	07/09/20	N/A	1,000,000	
Republic Bank	2.500%	10/04/20	N/A	3,000,000	
Republic Bank	2.500%	10/04/20	N/A	2,000,000	
Parke Bank	1.980%	03/13/21	N/A	5,000,000	
Total Certificates of Deposit				11,000,000	23,500,000
Total Investments				\$ 11,000,000	\$ 25,496,240

**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, 2020 and 2019:

Certificates of Deposit and US Treasury/Agency Securities of \$11,000,000 and \$25,496,240 are valued using quoted market prices for identical assets (Level 1 inputs).

**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.

**SCHOOLS HEALTH INSURANCE FUND**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 6: CHANGES IN UNPAID CLAIMS LIABILITIES (CONT'D)**

The following represents changes in those aggregate undiscounted reported and unreported liabilities for the Fund during 2020 and 2019 for all open fund years net of excess insurance recoveries:

	<u>2020</u>	<u>2019</u>
Total unpaid claims and claim adjustment expenses all fund years - beginning of year	<u>\$ 19,735,035</u>	<u>\$ 14,304,000</u>
Incurred claims and claim adjustment expenses:		
Provision for insured events of current fund year	220,824,604	192,559,780
Changes in provision for insured insured events of prior fund years	<u>(5,439,038)</u>	<u>363,931</u>
Total incurred claims and claim adjustment expenses all fund years	<u>215,385,566</u>	<u>192,923,711</u>
Payments:		
Claims and claim adjustment expenses:		
Attributable to insured events of current fund year	203,256,604	156,937,234
Attributable to insured events of prior fund years	<u>14,295,997</u>	<u>30,555,442</u>
Total payments all fund periods	<u>217,552,601</u>	<u>187,492,676</u>
Total unpaid claims and claim adjustment expenses all fund years - end of year	<u><u>\$ 17,568,000</u></u>	<u><u>\$ 19,735,035</u></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. 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.

**SCHOOLS HEALTH INSURANCE FUND**  
**NOTES TO FINANCIAL STATEMENTS**

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

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, 2020 and 2019, the Fund's share of net position in the Municipal Reinsurance Health Insurance Fund was \$5,499,308 and \$6,303,025, respectively.

**Selected Financial Information**

Selected summarized financial information for the Municipal Reinsurance Health Insurance Fund as of December 31, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Total Assets	<u>\$ 22,643,991</u>	<u>\$ 23,292,034</u>
Total Liabilities	<u>\$ 7,539,237</u>	<u>\$ 7,081,829</u>
Net Position	<u>\$ 15,104,754</u>	<u>\$ 16,210,205</u>
Total Revenues	<u>\$ 15,992,371</u>	<u>\$ 15,410,936</u>
Total Expenses	<u>\$ 12,412,732</u>	<u>\$ 7,677,855</u>
Change in Net Position	<u>\$ (1,105,451)</u>	<u>\$ 3,492,345</u>
Return of Surplus	<u>\$ 4,685,090</u>	<u>\$ 4,240,736</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

**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, 2020 and 2019 were \$7,248,600 and \$6,999,320, respectively.

**SCHOOLS HEALTH INSURANCE FUND**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 10: TRANSFER OF 2018 FUND PERIOD SURPLUS**

The Executive Committee approved the closing of the 2018 Fund year and the transfer of the 2018 Fund year balances as of September 30, 2019 resulting in a transfer of surplus in the amount of \$20,425,820 to the closed years account.

**Note 11: RETURN OF SURPLUS**

The Executive Committee approved a surplus distribution in the amount of \$17,196,879 and \$6,222,844 for the fiscal years ended June 30, 2020 and 2019, respectively. The surplus distributions were payable from the Closed Fund Years Account.

**Retained Dividends**

Beginning in 2019 fiscal year, as permitted by the Fund's By-Laws, Fund members have the option to take their portion of the surplus distribution as a deposit in the Fund's reserve account. The Fund members earn monthly interest on a rate based on the percentage of the total reserve account balance to the average cash and investments balance. As of June 30, 2020 and 2019, \$9,749,733 and \$4,699,006 of dividends including interest were retained by Fund.

**Note 12: SUBSEQUENT EVENTS**

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

- Colts Neck BOE (Effective 1/1/2021)
- Hunterdon Central BOE (Effective 1/1/2021)
- Mendham (Effective 1/1/2021)
- Newton BOE (Effective 1/1/2021)
- Robbinsville BOE (Effective 1/1/2021)
- West Morris BOE (Effective 1/1/2021)

**REQUIRED SUPPLEMENTARY INFORMATION**

DRAFT 12-2-2020

SCHOOLS HEALTH INSURANCE FUND  
RECONCILIATION OF HEALTH CLAIMS LIABILITIES BY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	<u>Medical</u>	<u>Prescription</u>	<u>Dental</u>	<u>Total</u>
Total unpaid claims and claim adjustment expenses - Beginning of Year	\$ 16,975,287	\$ 2,357,200	\$ 402,548	\$ 19,735,035
Incurred claims and claims adjustment expenses:				
Provision for insured events of current fund year	190,246,824	27,850,916	2,726,864	220,824,604
Changes in provision for insured events of prior fund years	(2,295,444)	(3,121,021)	(22,573)	(5,439,038)
Total incurred claims and claims adjustment expenses all Fund years	187,951,380	24,729,895	2,704,291	215,385,566
Payments:				
Claims and claims adjustment expenses (Net of Recoveries):				
Attributable to insured events of current fund year	173,972,824	26,693,916	2,589,864	203,256,604
Attributable to insured events of prior fund years	16,089,953	(1,963,463)	169,507	14,295,997
Total payments all Fund years	190,062,777	24,730,453	2,759,371	217,552,601
Total unpaid claims and claim adjustment expenses - End of Year	\$ 14,863,890	\$ 2,356,642	\$ 347,468	\$ 17,568,000

**SCHOOLS HEALTH INSURANCE FUND**  
**FIVE-YEAR CLAIMS DEVELOPMENT INFORMATION**  
**AS OF JUNE 30, 2020**

	FUND YEAR ENDED JUNE 30				
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Net Earned Required Contribution and Investment Revenue:					
Earned	\$ 59,363,096	\$ 157,369,884	\$ 189,055,385	\$ 238,045,502	\$ 279,795,418
Ceded	3,335,172	8,416,052	10,492,189	10,818,053	11,216,724
	<u>56,027,924</u>	<u>148,953,832</u>	<u>178,563,196</u>	<u>227,227,449</u>	<u>268,578,694</u>
Unallocated Expenses	<u>4,271,447</u>	<u>10,357,976</u>	<u>11,766,800</u>	<u>13,590,347</u>	<u>16,423,405</u>
Estimated Claims and Expenses, End of Policy Year:					
Incurred	47,176,886	126,312,476	147,966,213	196,196,836	224,520,092
Ceded		2,140,422	2,972,535	3,637,056	3,695,488
Net Incurred	<u>47,176,886</u>	<u>124,172,054</u>	<u>144,993,678</u>	<u>192,559,780</u>	<u>220,824,604</u>
Paid (Cumulative) as of:					
End of Policy Year	38,276,886	108,784,054	130,689,678	172,824,745	203,256,604
One Year Later	46,624,729	123,719,885	146,370,575	186,843,291	
Two Years Later (A)	46,624,729	123,719,885	146,370,575		
Three Years Later	46,624,729	123,719,885			
Four Years Later	46,624,729				
Reestimated Incurred Claims and Expenses:					
End of Policy Year	47,176,886	124,172,054	144,993,678	192,559,780	220,824,604
One Year Later	46,649,729	123,719,885	146,370,575	186,843,291	
Two Years Later (A)	46,649,729	123,719,885	146,370,575		
Three Years Later	46,649,729	123,719,885			
Four Years Later	46,649,729				
Change in Estimated Incurred Claims and Expenses from End of Policy Year	<u>\$ (527,157)</u>	<u>\$ (452,169)</u>	<u>\$ 1,376,897</u>	<u>\$ (5,716,489)</u>	<u>\$ -</u>

**SUPPLEMENTARY INFORMATION**

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SCHOOLS HEALTH INSURANCE FUND  
STATEMENT OF NET POSITION - STATUTORY BASIS  
AS OF JUNE 30, 2020

	Fund Years			
	<u>Total</u>	<u>2020</u>	<u>2019</u>	<u>Closed Years</u>
<u>ASSETS</u>				
Cash And Cash Equivalents	\$ 120,231,134	\$ 41,300,539	\$ 25,944,217	\$ 52,986,378
Investments	11,000,000			11,000,000
Contributions Receivable	8,683,803	8,344,794	339,009	
Accrued Dividend Receivable	1,935,535			1,935,535
Accrued Interest Receivable	-	48	(37)	(11)
Excess Insurance Receivable	2,452,875	1,726,642	510,622	215,611
Other Assets	53,877	53,877		
	<hr/>			
Total Assets	\$ 144,357,224	\$ 51,425,900	\$ 26,793,811	\$ 66,137,513
<hr/>				
<u>LIABILITIES AND RESERVES</u>				
Liabilities:				
Accrued Insurance Premiums	\$ 1,712,884	\$ 1,712,884		
Accrued Administrative Expenses	731,737	731,737		
Accrued Affordable Care Act Expenses	82,594	82,594		
Surplus Return Reserve	18,359,817			\$ 18,359,817
	<hr/>			
Total Liabilities	20,887,032	2,527,215	-	18,359,817
<hr/>				
Reserves:				
Actuarial Liability	17,568,000	17,568,000		
	<hr/>			
Total Liabilities And Reserves	38,455,032	20,095,215	-	18,359,817
<hr/>				
<u>NET POSITION</u>				
Unrestricted	\$ 105,902,192	\$ 31,330,685	\$ 26,793,811	\$ 47,777,696
	<hr/>			

SCHOOLS HEALTH INSURANCE FUND  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - STATUTORY BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	<u>Total</u>	<u>Fund Years</u>		
		<u>2020</u>	<u>2019</u>	<u>Closed Years</u>
Operating Revenues:				
Regular Contributions	\$ 278,634,985	\$ 278,634,985		
Employee Contribution	803,744	803,744		
Total Operating Revenues	<u>279,438,729</u>	<u>279,438,729</u>	-	-
Operating Expenses:				
Provision For Claims And				
Claims Adjustment Expenses (Recoveries)	215,385,566	220,824,604	\$ (5,716,488)	\$ 277,450
Reinsurance	7,325,401	7,325,401		
State Health Benefits				
Program Surcharge Premiums	3,747,240	3,891,323	(144,083)	
Affordable Care Act Taxes	82,594	82,594		
Administration	15,979,314	16,340,811	(68,771)	(292,726)
Total Operating Expenses (Recoveries)	<u>242,520,115</u>	<u>248,464,733</u>	<u>(5,929,342)</u>	<u>(15,276)</u>
Operating Income	36,918,614	30,973,996	5,929,342	15,276
Non-Operating Revenue:				
Investment Income	2,110,032	356,689	501,255	1,252,088
Dividend Income - MRHIF	1,935,535			1,935,535
Change In Net Position				
Before Return of Surplus	40,964,181	31,330,685	6,430,597	3,202,899
Return of Surplus	(17,196,879)			(17,196,879)
	23,767,302	31,330,685	6,430,597	(13,993,980)
Net Position, Beginning	82,134,890		20,363,214	61,771,676
Net Position, Ending	<u>\$ 105,902,192</u>	<u>\$ 31,330,685</u>	<u>\$ 26,793,811</u>	<u>\$ 47,777,696</u>

SCHOOLS HEALTH INSURANCE FUND  
STATEMENT OF CASH FLOWS - STATUTORY BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	Fund Years			
	<u>Total</u>	<u>2020</u>	<u>2019</u>	<u>Closed Years</u>
Cash Flows From Operating Activities:				
Receipts From Regular Contributions	\$ 280,359,225	\$ 271,093,935	\$ 8,870,771	\$ 394,519
Payments For Health Benefits Claims	(217,468,808)	(205,037,123)	(12,421,212)	(10,473)
Payments For Insurance Premiums	(11,414,606)	(9,503,840)	(1,910,766)	
Payments To Professionals And Supplies	(15,740,734)	(15,609,074)	(131,659)	(1)
Net Cash Flows Provided By (Used In) Operating Activities	<u>35,735,077</u>	<u>40,943,898</u>	<u>(5,592,866)</u>	<u>384,045</u>
Cash Flows From Investing Activities:				
Purchase of Investments	(11,000,000)			(11,000,000)
Redemption of Investments	25,500,000			25,500,000
Investment Income	3,499,858	356,641	503,099	2,640,118
Net Cash Provided By Investing Activities	<u>17,999,858</u>	<u>356,641</u>	<u>503,099</u>	<u>17,140,118</u>
Cash Flows From Noncapital Financing Activities:				
Return of Surplus Payable	(5,278,041)			(5,278,041)
Net Cash Flows Used In Noncapital Activities	<u>(5,278,041)</u>	<u>-</u>	<u>-</u>	<u>(5,278,041)</u>
Net Increase (Decrease) In Cash And Cash Equivalents	48,456,894	41,300,539	(5,089,767)	12,246,122
Cash And Cash Equivalents, Beginning Of Year	71,774,240	-	31,033,984	40,740,256
Cash And Cash Equivalents, End Of Year	<u>\$ 120,231,134</u>	<u>\$ 41,300,539</u>	<u>\$ 25,944,217</u>	<u>\$ 52,986,378</u>
Reconciliation Of Operating Income To				
Cash Flows From Operating Activities:				
Operating Income	\$ 36,918,614	\$ 30,973,996	\$ 5,929,342	\$ 15,276
Adjustments To Reconcile Operating Income 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				
Contributions Receivable	920,496	(8,344,794)	8,870,771	394,519
Excess Insurance Receivable	83,793	(1,780,519)	1,597,335	266,977
Increase (Decrease) In Liabilities:				
Accrued Administrative Expenses	321,174	814,331	(200,430)	(292,727)
Accrued Excess Insurance Premium	(341,965)	1,712,884	(2,054,849)	
Actuarial Liability	(2,167,035)	17,568,000	(19,735,035)	
Total Adjustments	<u>(1,183,537)</u>	<u>9,969,902</u>	<u>(11,522,208)</u>	<u>368,769</u>
Net Cash Provided By (Used In) Operating Activities	<u>\$ 35,735,077</u>	<u>\$ 40,943,898</u>	<u>\$ (5,592,866)</u>	<u>\$ 384,045</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>2020</u>	<u>2019</u>
Total Assets – Statement of Net Position	\$ 149,856,532	\$ 117,161,935
Less Investment in Joint Venture	<u>5,499,308</u>	<u>6,303,025</u>
Total Assets – Statutory Basis	<u>\$ 144,357,224</u>	<u>\$ 110,858,910</u>
Net Position – Statement of Net Position	\$ 111,401,500	\$ 88,437,915
Less Investment in Joint Venture	<u>5,499,308</u>	<u>6,303,025</u>
Net Position – Statutory Basis	<u>\$ 105,902,192</u>	<u>\$ 82,134,890</u>
Change in Net Position - Statement of Revenues, Expenses and Changes in Net Position	\$ 22,963,585	\$ 19,385,364
Less Change in Investment in Joint Venture	<u>(803,717)</u>	<u>3,066,265</u>
Change in Net Position – Statutory Basis	<u>\$ 23,767,302</u>	<u>\$ 16,319,099</u>

SCHOOLS HEALTH INSURANCE FUND  
SUPPLEMENTARY INFORMATION  
STATEMENT OF FUND YEAR 2020 ACCOUNT OPERATING RESULTS ANALYSIS - STATUTORY BASIS  
FOR THE PERIOD JULY 1, 2019 TO JUNE 30, 2020

	<u>Medical*</u>	<u>Prescription</u>	<u>Dental</u>	<u>Reinsurance</u>	<u>Contingency</u>	<u>Administrative</u>	<u>Total</u>
Income:							
Regular Contributions	\$ 216,765,713	\$ 29,251,241	\$ 3,697,621	\$ 7,344,943	\$ 896,655	\$ 20,678,812	\$ 278,634,985
Employee Contribution	803,744						803,744
Investment Income	294,045	14,033	4,847	10,696	6,747	26,321	356,689
<b>Total Income</b>	<b>217,863,502</b>	<b>29,265,274</b>	<b>3,702,468</b>	<b>7,355,639</b>	<b>903,402</b>	<b>20,705,133</b>	<b>279,795,418</b>
Incurred Liabilities:							
Claims Paid (Net Of Refunds)	175,699,466	28,662,762	2,589,864				206,952,092
Excess Insurance Recoveries	(1,726,642)	(1,968,846)					(3,695,488)
Actuarial Liability (Net of Recoverable)	16,274,000	1,157,000	137,000				17,568,000
Insurance Premiums	3,891,323		76,801	7,248,600			11,216,724
Affordable Care Act Taxes						82,594	82,594
Administrative Expenses						16,340,811	16,340,811
<b>Total Liabilities</b>	<b>194,138,147</b>	<b>27,850,916</b>	<b>2,803,665</b>	<b>7,248,600</b>	<b>-</b>	<b>16,423,405</b>	<b>248,464,733</b>
<b>Net Position</b>	<b>\$ 23,725,355</b>	<b>\$ 1,414,358</b>	<b>\$ 898,803</b>	<b>\$ 107,039</b>	<b>\$ 903,402</b>	<b>\$ 4,281,728</b>	<b>\$ 31,330,685</b>

\*Includes Retirees And COBRA

SCHOOLS HEALTH INSURANCE FUND  
SUPPLEMENTARY INFORMATION  
STATEMENT OF FUND YEAR 2019 ACCOUNT OPERATING RESULTS ANALYSIS - STATUTORY BASIS  
FOR THE PERIOD JULY 1, 2018 TO JUNE 30, 2020

	<u>Medical*</u>	<u>Prescription</u>	<u>Dental</u>	<u>Reinsurance</u>	<u>Contingency</u>	<u>Administrative</u>	<u>Total</u>
Income:							
Regular Contributions	\$ 179,848,078	\$ 28,094,211	\$ 3,236,801	\$ 6,902,578	\$ 500,000	\$ 17,815,308	\$ 236,396,976
Employee Contribution	651,364						651,364
Investment Income	641,667	224,984	9,633		14,795	106,083	997,162
<b>Total Income</b>	<b>181,141,109</b>	<b>28,319,195</b>	<b>3,246,434</b>	<b>6,902,578</b>	<b>514,795</b>	<b>17,921,391</b>	<b>238,045,502</b>
Incurred Liabilities:							
Claims Paid (Net Of Refunds)	168,975,398	22,474,569	2,809,053				194,259,020
Excess Insurance Recoveries	(3,132,831)	(4,282,898)					(7,415,729)
Actuarial Liability (Net of Recoverable)	(1,410,110)	1,199,642	210,468				
Insurance Premiums	3,722,356		96,377	6,999,320			10,818,053
Affordable Care Act Taxes						69,298	69,298
Administrative Expenses						13,521,049	13,521,049
<b>Total Liabilities</b>	<b>168,154,813</b>	<b>19,391,313</b>	<b>3,115,898</b>	<b>6,999,320</b>	<b>-</b>	<b>13,590,347</b>	<b>211,251,691</b>
<b>Net Position</b>	<b>\$ 12,986,296</b>	<b>\$ 8,927,882</b>	<b>\$ 130,536</b>	<b>\$ (96,742)</b>	<b>\$ 514,795</b>	<b>\$ 4,331,044</b>	<b>\$ 26,793,811</b>

\*Includes Retirees And COBRA

SCHOOLS HEALTH INSURANCE FUND  
SUPPLEMENTARY INFORMATION  
STATEMENT OF FUND YEAR 2020 EXPENSE ANALYSIS - STATUTORY BASIS  
FOR THE PERIOD JULY 1, 2019 TO JUNE 30, 2020

	<u>Paid</u>	<u>Accrued Expenses</u>	<u>Total</u>
Administrative Expenses:			
Executive Director	\$ 1,300,662		\$ 1,300,662
Program Manager	7,415,456	\$ 28,859	7,444,315
Third Party Administrators:			
Medical	5,807,396	525,355	6,332,751
Dental	152,072		152,072
Actuary	28,275		28,275
Attorney	36,524		36,524
Auditor		19,400	19,400
Data Analysis		65,003	65,003
Enrollment Audits		15,000	15,000
Guardian Nurses	625,335		625,335
Treasurer	19,547		19,547
Postage	296		296
Plan Documents	49,269		49,269
Meeting Expense	3,936		3,936
Miscellaneous Expense	9,275	6,195	15,470
Wellness Program	161,031	71,925	232,956
	<hr/>		<hr/>
Total Administrative Expenses	\$ 15,609,074	\$ 731,737	\$ 16,340,811
	<hr/>		<hr/>

SCHOOLS HEALTH INSURANCE FUND  
SUPPLEMENTARY INFORMATION  
STATEMENT OF FUND YEAR 2019 EXPENSE ANALYSIS - STATUTORY BASIS  
FOR THE PERIOD JULY 1, 2018 TO JUNE 30, 2020

	<u>Paid</u>	<u>Accrued Expenses</u>	<u>Total</u>
Administrative Expenses:			
Executive Director	\$ 1,096,761		\$ 1,096,761
Program Manager	6,021,279		6,021,279
Third Party Administrators:			
Medical	5,577,878		5,577,878
Dental	134,047		134,047
Actuary	27,000		27,000
Attorney	35,440		35,440
Auditor	19,000		19,000
Guardian Nurses	200,000		200,000
Treasurer	19,122		19,122
Postage	1,536		1,536
Plan Documents	29,318		29,318
Meeting Expense	4,295		4,295
Miscellaneous Expense	22,874		22,874
Wellness Program	332,499		332,499
	<hr/>		<hr/>
Total Administrative Expenses	\$ 13,521,049	\$ -	\$ 13,521,049
	<hr/> <hr/>		<hr/> <hr/>

SCHOOLS HEALTH INSURANCE FUND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF CASH, CASH EQUIVALENTS AND INVESTMENTS - STATUTORY BASIS  
AS OF JUNE 30, 2020

<u>Description</u>	<u>Amount</u>
<u>Cash Accounts</u>	
New Jersey Cash Management Fund	
Investment Account	\$ 88,422
Ocean First Bank	
Business Money Market	1,085,119
Parke Bank	
Investment Account	6,569,340
Investment Account	5,330,042
Republic Bank	
Administrative Account	93,883
General Account	4,764,071
Investment Account	81,213,552
William Penn Bank	
Money Market Account	5,059,562
Money Market Account	16,026,248
Wilmington Trust Company	
Money Market Account	895
	<hr/>
Total Cash and Cash Equivalents	120,231,134
	<hr/>
<u>Investments</u>	
Parke Bank Certificate of Deposit	5,000,000
Republic Bank Certificate of Deposit	6,000,000
	<hr/>
Total Investments	11,000,000
	<hr/>
Total Cash, Cash Equivalents And Investments Per Schedule A Combining Statement of Net Position - Statutory Basis	\$ 131,231,134
	<hr/> <hr/>
 Total Cash, Cash Equivalents And Investments By Fund Year:	
2020	\$ 41,300,539
2019	25,944,217
Closed Years	63,986,378
	<hr/>
	\$ 131,231,134
	<hr/> <hr/>

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

DRAFT 12-2-2020

**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.