

**NEW HAMPSHIRE SCHOOL HEALTH
CARE COALITION**

**FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION

JUNE 30, 2018 AND 2017

TABLE OF CONTENTS

	<u>Page(s)</u>
Independent Auditor's Report	1 - 2
Management's Discussion and Analysis	3 - 10
Financial Statements:	
Statements of Net Position.....	11
Statements of Revenues, Expenses and Changes in Net Position.....	12
Statements of Cash Flows	13
Notes to the Financial Statements.....	14 - 27
Required Supplementary Information:	
Schedule 1 - Reconciliation of Claims Liabilities by Type of Contract	28
Schedule 2 - Comparative Schedule of Claim Development, Earned Assessments and Unallocated Expenses	29 - 30

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
New Hampshire School Health Care Coalition

Report on the Financial Statements

We have audited the accompanying financial statements of the New Hampshire School Health Care Coalition (the Coalition), which comprise the statements of net position as of June 30, 2018 and 2017, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

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 audits 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 Coalition'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 Coalition's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the New Hampshire School Health Care Coalition as of June 30, 2018 and 2017 and the changes in its net position and its cash flows for the 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 the accompanying financial information in schedules 1 and 2 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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.

Reporting on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2018 on our consideration of the Coalition's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering New Hampshire School Health Care Coalition internal control over financial reporting and compliance.



Crowe LLP

Simsbury, Connecticut
October 17, 2018

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

The New Hampshire School Health Care Coalition (the Coalition), a public entity risk pool, presents the following overview and analysis of its financial operations for the fiscal year ended June 30, 2018, to be reviewed and considered in conjunction with the more detailed statements, schedules, and notes in this report.

Financial Highlights:

- Assets exceeded liabilities and deferred inflows of resources by \$26,361,303 at June 30, 2018; this net position consisted of the Coalition's investment in property and equipment of \$446,303 and the unrestricted amounts for the medical contingent reserve of \$25,177,000 and the dental contingent reserve of \$738,000. The Coalition did not retain any unrestricted or undesignated surplus.
- The Coalition has reported a liability at June 30, 2018 of \$16,826,495 described as a premium holiday payable in accordance with guidance from the New Hampshire Secretary of State, Bureau of Securities Regulation (BSR). Premium holiday credits totaling \$6,128,691 were paid to former Members in June 2018 or applied to Member contribution invoices as of July 1, 2018. The remaining premium holiday payable of \$11,081,914 is the surplus at June 30, 2018 to be applied to Member contribution invoices as of July 1, 2019. If a group terminates before July 2019, their premium holiday is paid out via check. Of the \$11,081,914, \$11,056,020 represents a medical premium holiday and \$25,894 represents a dental premium holiday. FY 2018 is the first year for a dental premium holiday.
- The Coalition has adopted additional reporting guidance of the Governmental Accounting Standards Board (GASB), including this management discussion and analysis; expanded note disclosure for investments; and separate sections on the Statement of Net Position for any deferred outflows or deferred inflows of resources.

Overview of the Financial Statements:

The Coalition's fiscal year is July 1 through June 30.

The annual financial report consists of three parts:

- Management's Discussion and Analysis
- Financial Statements and Note Disclosures
- Required Supplementary Information

Management's discussion and analysis provides a narrative overview of the statements and comments on significant developments during the reporting period. The intention is to present a financial summary of operations for the past fiscal year and discuss the outlook for the ensuing year.

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

The Statements of Net Position contain information regarding the assets and liabilities of the Coalition. The Coalition reports in accordance with GASB Statement No. 65 which requires deferred outflows of resources and deferred inflows of resources to be reported in separate sections of the Statement of Net Position. The Coalition has not reported any deferred outflows, but does report deferred revenue as a deferred inflow.

The Statements of Revenues, Expenses and Changes in Net Position show the operating activities for the year, revenues and expenses. As required by the GASB, investment income is considered non-operating revenue. The net result of operations for the fiscal year is the change in net position from year to year.

The Statements of Cash Flows report the cash flow resulting from operating, investing and financing activities of the Coalition showing how the financial resources were used during the course of the year.

Notes to the Financial Statements provide explanations of the accounting principles followed and of key items in the financial statements. They include tables with more detailed analysis of certain accounts.

The Required Supplementary Information includes the ten-year schedule of claims development and a three-year comparative reconciliation of claims liabilities.

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

Analysis of Financial Information Presented in the Statements:

Statements of Net Position:

The following table summarizes the Statements of Net Position:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	Percentage Change	<u>June 30, 2016</u>	Percentage Change
Cash and cash equivalents	\$ 21,292,806	\$ 14,433,584	48%	\$ 15,544,773	-7%
Investments	36,426,720	31,917,489	14%	26,674,135	20%
Other assets	<u>2,986,637</u>	<u>3,136,488</u>	-5%	<u>3,754,411</u>	-16%
 Total assets	 <u>60,706,163</u>	 <u>49,487,560</u>	 23%	 <u>45,973,319</u>	 8%
Claims payable	2,933,422	1,687,065	74%	2,662,441	-37%
Claims reserves	12,167,934	11,854,357	3%	11,935,008	-1%
Premium holiday payable	16,826,495	10,402,210	62%	5,845,197	78%
Other liabilities	<u>1,300,795</u>	<u>1,272,284</u>	2%	<u>1,500,953</u>	-15%
 Total liabilities	 <u>33,228,645</u>	 <u>25,215,917</u>	 32%	 <u>21,943,599</u>	 15%
 Deferred inflows of resources	 <u>1,116,215</u>	 <u>756,089</u>	 48%	 <u>551,555</u>	 37%
 Net position:					
Invested in capital assets	446,303	480,554	-7%	516,165	-7%
Unrestricted	<u>25,915,000</u>	<u>23,035,000</u>	13%	<u>22,962,000</u>	0%
 Total net position	 <u><u>\$ 26,361,303</u></u>	 <u><u>\$ 23,515,554</u></u>	 12%	 <u><u>\$ 23,478,165</u></u>	 0%

Total assets for FY2018, FY2017, and FY2016 are \$60,706,163, \$49,487,560, and \$45,973,319, respectively. The increase in assets from FY2017 to FY2018 is largely due to an increase in cash and cash equivalents as well as investment balances due to increased Member contributions and lower than expected claims experience. The increase in assets from FY2016 to FY2017 is largely due to an increased investments balance.

Total liabilities for FY2018, FY2017, and FY2016 are \$33,228,645, \$25,215,917, and \$21,943,599, respectively. The increase in liabilities from FY2016 to FY2017 and FY2017 to FY2018 is due to increased member contributions and lower than expected claims experience resulting in a return of surplus which is recorded as Premium Holiday payable.

Unrestricted net position increased over the prior year by \$2,784,000 in the medical contingent reserve and \$96,000 in the dental contingent reserve. The increase in medical contingent reserve was calculated using a 7.5% trend for projected 2018-19 claims. The increase in dental contingent reserve was calculated by considering increased Membership as well as an estimated two months of projected 2018-19 claims.

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

Statements of Revenues, Expenses and Changes in Net Position:

The following table summarizes the Statements of Revenues, Expenses and Changes in Net Position:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	Percentage Change	<u>June 30, 2016</u>	Percentage Change
Operating revenues:					
Member contributions	\$ 182,330,644	\$ 172,729,353	6%	\$ 172,891,675	0%
Premium holiday credits	(11,081,914)	(6,128,691)	81%	(4,636,390)	32%
Other	<u>3,807,505</u>	<u>4,040,146</u>	-6%	<u>3,200,398</u>	26%
Total operating revenues	<u>175,056,235</u>	<u>170,640,808</u>	3%	<u>171,455,683</u>	0%
Operating expenses:					
Claims expense	147,114,883	146,698,282	0%	149,188,684	-2%
Insurance	15,394,792	14,035,572	10%	12,740,985	10%
Claims administration	4,410,416	4,168,734	6%	5,026,781	-17%
Health and wellness benefits	3,530,431	3,646,993	-3%	3,295,351	11%
Administration	2,395,848	2,403,748	0%	2,328,616	3%
Other	<u>37,196</u>	<u>176,567</u>	-79%	<u>751,296</u>	-76%
Total operating expenses	<u>172,883,566</u>	<u>171,129,896</u>	1%	<u>173,331,712</u>	-1%
Operating gain (loss)	2,172,669	(489,088)	-544%	(1,876,029)	-74%
Nonoperating revenues:					
Earnings on investments	<u>673,080</u>	<u>526,477</u>	28%	<u>982,527</u>	-46%
Change in net position	2,845,749	37,388	7511%	(893,503)	-104%
Beginning net position, July 1	<u>23,515,554</u>	<u>23,478,165</u>	0%	<u>24,371,668</u>	-4%
Ending net position, June 30	<u>\$ 26,361,303</u>	<u>\$ 23,515,554</u>	12%	<u>\$ 23,478,165</u>	0%

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

Revenues - Total operating revenues of FY2018, FY2017, and FY2016 were \$175,056,235, \$170,640,807, and \$171,455,683, respectively. The increase in Member contributions from FY2017 to FY2018 was due to a medical premium increase of approximately 7% as of 7/1/17 and a dental premium increase of 1.1%. The increase can also be attributed to a 7% growth in dental enrollment. The decrease in other revenues is due to lower Cigna pharmacy rebates as a result of utilization year over year.

Expenses - Total operating expenses for FY2018, FY2017, and FY2016 were \$172,883,566, \$171,129,895, and \$173,331,712, respectively. Although total operating expenses are flat for FY 2017 to FY 2018, there were some fluctuations in insurance, claims administration and other expenses. The increase in insurance expenses is primarily due to increased participation in the SchoolCare 65+ fully insured Medicare supplement plans. The increase in claims administration is attributable to a shift in enrollment to Consumer Driven Health Plans with higher Cigna administrative fees than the Traditional Plans. Other expenses decreased by 79% due to sunseting of PPACA Transitional Reinsurance Fees.

Other matters:

Investment Portfolio

The Coalition engages Strategic Asset Alliance (SAA) as an investment consultant and advisor to the Board and organization. Asset Allocation and Management Company (AAM) provides investment management and accounting services. US Bank acts as the custodian of Coalition funds.

The Coalition's investment portfolio on June 30, 2018 was valued at \$36,426,720. The June 30, 2017 value of the investment portfolio was \$31,917,489. The June 30, 2016 value of the investment portfolio was \$26,674,135. The Coalition's Risk Pool Practices Agreement with the NH Secretary of State expired as of April 25, 2017. Although the agreement is no longer in effect, operations and policies adopted as a result of its execution remain in place. The Coalition's investments are compliant with the requirements imposed upon municipalities pursuant to NH RSA 35:9, with the exception of an aggregate amount of 1.6% which is compliant with RSA 402:28. This aggregate amount includes the Coalition's cash, cash equivalents, and other non-REIT investments. The Coalition held securities that were non-complaint with NH RSA 35:9 in the amount of \$922,483 at June 30, 2018, \$1,051,705 at June 30, 2017, and \$2,340,310 at June 30, 2016.

In August 2017, one (1) additional Real Estate Investment Trust (REIT) was sold, leaving one (1) remaining REIT in the Coalition's portfolio as of June 2018. The REIT balances were \$63,034 at June 30, 2018, \$523,481 at June 30, 2017, and \$1,582,493 at June 30, 2016. The Coalition temporarily retains the non-compliant investment and intends to liquidate as soon as practicable to do so without incurring penalties or breakage fees.

Capital Assets and Debt

The Coalition's property and equipment at June 30, 2018 was valued at \$446,303 compared to \$480,554 on June 30, 2017 and \$516,165 on June 30, 2016. The changes at June 30, 2018 are due to a depreciation amount of \$34,251. The Coalition has no long-term debt.

Outlook / Economic Factors:

The Coalition and its Board of Directors remain focused on the organization's mission statement to provide education and training for employees and employers to become informed health consumers with healthier life styles, and enable the purchase of quality health care in a cost-effective manner.

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

The SchoolCare medical and dental plans provide comprehensive benefits to support this endeavor. Health care continues to evolve rapidly due to a shift in offerings from traditional copay plans to consumer driven plans as a result of the Patient Protection and Affordable Care Act (PPACA) and a generational shift in the work force. In January 2018, the PPACA Excise Tax on high cost plans was delayed from 2020 to 2022. This additional delay continues to allow more time for Member groups to consider and transition to products with deductibles and coinsurance that encourage greater consumer accountability in care as well as promotion of cost sharing between employers and employees. To assist in these efforts, the Coalition continues to develop next generation products that offer a variety of options through cost sharing and various tax-advantaged financial accounts. These include health reimbursement accounts, health savings accounts and flexible spending accounts. The Coalition will further develop these plans and educate Membership in order to assist with mitigating or eliminating Excise Tax on Traditional medical plans. Coalition Staff has also closely monitored proposed legislative changes throughout 2018. The future of health care is an important discussion item and will remain at the forefront of the organization's focus.

In conjunction with next generation plans, the Coalition believes that wellness plays an integral role in one's health. As such, Staff has continued to update and develop the Coalition's comprehensive ***Good For You!*** wellness programs to promote consumer awareness and accountability of one's own health. These programs echo the Coalition's mission of promoting healthier lifestyles while making wellness fun. The Coalition began a partnership with a wellness vendor, SimplyWell (formerly Viverae) in 2015 to utilize their wellness portal for challenges, educations and device integration. Development of ***Good For You!*** wellness programs will continue as the Coalition integrates both Membership feedback as well as best practices in health and wellness. In 2018, 43.3% of eligible individuals participated in the wellness program compared to 45.9% in 2017. Staff believes the decrease in participation may be attributable to difficulty navigating the SimplyWell wellness portal.

In addition to this, the Coalition's Board of Directors, Staff and Key Stakeholders are continuing to execute on a Strategic Objective Plan for 2016 - 2020. This plan encompasses the education of Members while developing products and technology that further meets their needs and objectives. Coalition Staff and leadership make progress on this plan each quarter. Most recently, a survey was sent to all SchoolCare participants to reaffirm that Staff and Board were heading in a strategic direction supported by all Members and participants.

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

Membership

The exceptional service to our existing Membership is a cornerstone of the Coalition's mission. In more recent years, the Coalition's Membership in medical plans has remained relatively flat with most changes in enrollment occurring as a result of its population retiring. The Coalition's dental plans continue to grow with approximately 54% of subscribers participating currently. The slower period of medical growth is mostly attributable to PPACA changes and collective bargaining agreements holding until the effect of the Excise Tax is known. As part of the Strategic Plan for 2016 - 2020, the Coalition's Board of Directors has indicated a desire for growth in the program of approximately 20% from 2016 to 2020. This will be endeavored by servicing current Members to the highest standard possible while marketing to prospective clients through educational opportunities and events.

Patient Protection and Affordable Care Act (PPACA)

The Patient Protection and Affordable Care Act also referred to as health care reform continues to affect both the Coalition's operations and its Membership. Staff regularly monitors, educates and assists Members with the implementation of changes required by PPACA. All SchoolCare medical plans are in compliance with health care reform provisions.

In addition to this, SchoolCare staff continues to assist Members with various reporting requirements under PPACA including 6055 and 6056 reporting. Staff has also continued to educate Members on potential Excise Tax implications. As such, the Coalition has developed various spreadsheets to estimate how much each Member would pay in Excise Tax by plan option. Staff will also continue to develop next generation, lower cost, products to assist in Excise Tax avoidance for the year 2022 and beyond.

From an administrative perspective, SchoolCare paid the Comparative Effectiveness Research PPACA fee on its Members behalf during the fiscal year. The Comparative Effectiveness Research fee will continue through June 30, 2019 for SchoolCare with a final payment date of July 31, 2020.

Medical Costs

Medical cost trends have stabilized in recent years mostly due to a large Membership move to Consumer Driven Plan products. As a result of many conversations at the local level, consumer driven plan design enrollment has climbed from 41% in 2016 and 65% in 2017 to 68% in 2018. As the Coalition looks to 2019, it is anticipated that employers and employees alike will continue considering alternative plan designs to reduce health care rates. The Coalition strives to support such joint management/labor initiatives through existing SchoolCare plans with higher copays/cost sharing and lower cost plans with deductibles/coinsurance. Staff has proactively reached out to many of its Member groups to continue these discussions when appropriate.

In addition to outreach, Staff has been working to develop materials and content to assist in education of Membership. As part of the Coalition's mission statement, the organization believes that education of its Member groups is of the utmost importance in order to train and inform Members of cost saving alternatives and options. With the large shift to Consumer Driven Plans over the years, the Coalition believes that education must continue each year in order to empower each participant to be their own health advocate. As such, Staff continues to deliver quality materials via webinars and podcasts while supporting cost containment measures at the local level whenever possible. Staff has also compiled detailed claim reports in conjunction with Cigna to be sure Members understand the primary drivers behind medical costs.

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

Regulatory environment

The Coalition is a pooled risk management program under RSA 5-B and as such is regulated by the New Hampshire Secretary of State, Bureau of Securities (BSR). The Coalition staff provides periodic updates to the BSR on Coalition operations as they become available.

Requests for Information:

For additional information, please contact the New Hampshire School Health Care Coalition, 370 Harvey Road, Manchester, NH 03103; telephone 603-836-5031 or 800-562-5254.

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION
STATEMENTS OF NET POSITION
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
ASSETS:		
Cash and cash equivalents	\$ 21,292,806	\$ 14,433,584
Investments	36,426,720	31,917,489
Member receivables	1,025,253	1,381,191
Accounts receivable	1,317,520	1,114,596
Accrued interest receivable	161,614	123,324
Prepaid expenses	35,946	36,823
Total current assets	<u>60,259,860</u>	<u>49,007,006</u>
 Property and equipment, net	 <u>446,303</u>	 <u>480,554</u>
 Total assets	 <u><u>\$ 60,706,163</u></u>	 <u><u>\$ 49,487,560</u></u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
LIABILITIES:		
Accounts payable	\$ 1,214,050	\$ 1,055,497
Accrued expenses	86,745	216,787
Claims payable	2,933,422	1,687,065
Claims reserves	12,167,934	11,854,357
Premium holiday payable	16,826,495	10,402,210
Total current liabilities	<u>33,228,645</u>	<u>25,215,917</u>
 DEFERRED INFLOWS OF RESOURCES:		
Deferred revenue	<u>1,116,215</u>	<u>756,089</u>
 NET POSITION:		
Invested in capital assets	446,303	480,554
Unrestricted	25,915,000	23,035,000
Total net position	<u>26,361,303</u>	<u>23,515,554</u>
 Total liabilities, deferred inflows of resources and net position	 <u><u>\$ 60,706,163</u></u>	 <u><u>\$ 49,487,560</u></u>

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION
STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Operating revenues:		
Member contributions	\$ 182,330,644	\$ 172,729,353
Premium holiday credits	(11,081,914)	(6,128,691)
Other income	3,807,505	4,040,146
Total operating revenues	<u>175,056,235</u>	<u>170,640,808</u>
Operating expenses:		
Claims expense	147,114,883	146,698,282
Insurance stop-loss	1,631,253	1,608,270
Insurance premiums	13,763,540	12,427,301
Claims administration	4,410,416	4,168,734
Contractual services	668,670	627,821
Affordable Care Act fees	37,196	176,567
Administration	1,710,707	1,760,645
Health and wellness benefits	3,530,431	3,646,993
Conference expenses	16,470	15,283
Total operating expenses	<u>172,883,566</u>	<u>171,129,896</u>
Operating (loss) gain	2,172,669	(489,088)
Nonoperating revenues:		
Earnings on investments	<u>673,080</u>	<u>526,477</u>
Change in net position	2,845,749	37,388
Beginning net position, July 1	<u>23,515,554</u>	<u>23,478,165</u>
Ending net position, June 30	<u>\$ 26,361,303</u>	<u>\$ 23,515,554</u>

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	June 30, 2018	June 30, 2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from members	\$ 178,389,078	\$ 172,102,413
Subsidies and refund received	3,604,581	3,833,973
Payments to suppliers	(24,727,149)	(23,689,673)
Payments of claims	(145,554,949)	(147,754,309)
Payments to employees	(977,896)	(934,997)
Net cash and cash equivalents provided by operating activities	10,733,665	3,557,407
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities and sales, net of purchases	(4,835,419)	(5,288,426)
Interest and dividend income	960,976	619,830
Net cash and cash equivalents used in investing activities	(3,874,443)	(4,668,596)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6,859,222	(1,111,189)
CASH AND CASH EQUIVALENTS, beginning of year	14,433,584	15,544,773
CASH AND CASH EQUIVALENTS, end of year	\$ 21,292,806	\$ 14,433,584
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ 2,172,669	\$ (489,088)
Adjustments to reconcile operating income (loss) to net cash and cash equivalents provided by operating activities -		
Depreciation expense	34,251	35,611
(Increase) decrease in assets:		
Member receivables	355,938	740,206
Accounts receivable	(202,924)	(237,362)
Prepaid expenses	877	31,188
Increase (decrease) in liabilities:		
Accounts payable	158,552	43,755
Claims payable	1,246,357	(975,376)
Accrued expenses	(130,042)	(272,424)
Claims reserves	313,577	(80,651)
Premium holiday payable	6,424,285	4,557,013
Increase in deferred revenue:	360,125	204,534
Total adjustments	8,560,996	4,046,495
Net cash and cash equivalents provided by operating activities	\$ 10,733,665	\$ 3,557,407
SUPPLEMENTAL NON-CASH DISCLOSURE		
Change in unrealized loss on investments	\$ (58,438)	\$ (129,946)

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

1. Organization and significant accounting policies:

- A. Organization and reporting entity - The New Hampshire School Health Care Coalition (the Coalition), was created in 1995 as a non-profit, tax-exempt corporation. The Coalition is a cooperative service organization of political subdivisions authorized by the New Hampshire General Court to establish and operate one or more pooled risk management programs under the requirements of New Hampshire RSA Chapter 5-B for the benefit of political subdivisions of the State of New Hampshire. Its mission is to provide education and training for public employees and employers to become informed health consumers with healthier life styles, and enable the purchase of quality health care in a cost effective manner. The Coalition was founded by the New Hampshire School Boards Association, the New Hampshire Association of School Business Officials, the New Hampshire School Administrators Association, the New Hampshire School Boards Insurance Trust, and the National Education Association-New Hampshire.

Prior to July 1, 2003, the Coalition entered into agreements with insurers to fully insure HMO, POS, indemnity, and Medicare supplement health benefit options, collectively known as the SchoolCare Plan (SchoolCare), and accordingly, the insurance risks were not retained by the Coalition under these plans. The Coalition provided prescription drug coverage to retired Members on Medicare under a self-funded arrangement beginning on July 1, 2002.

Beginning July 1, 2003, the Coalition entered into a self-insured arrangement with Connecticut General Life for the HMO and POS health benefit options. Connecticut General provides complete claims administration services and management reports.

Beginning July 1, 2010, the Coalition entered into a fully-insured arrangement with Connecticut General Life for DPO (dental provider organization) dental benefit options. The dental program transitioned to a self-insured arrangement on July 1, 2013.

Beginning July 1, 2011, the Coalition entered into an updated self-funded arrangement with Cigna Health and Life Insurance Company (formally Connecticut General Life) for both health benefit and dental benefit options.

Beginning January 1, 2014, the Coalition transitioned its existing SchoolCare 65+ prescription plan from self-funded to a fully-insured Medicare Part D Employer Group Waiver Program (EGWP) with Express Scripts.

- B. Membership - Membership is limited to political subdivisions of the State of New Hampshire. Membership was 90 at June 30, 2018 and 2017.
- C. Basis of accounting - The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) as applied to proprietary funds of governmental units. The Coalition meets the requirements as a public entity risk pool under Governmental Accounting Standards Board (GASB) statements, and accounts for its activities in accordance with the applicable statements.
- D. Cash and cash equivalents - The Coalition considers all deposit accounts with banks and money market accounts held by the Coalition's investment advisor in the Coalition's name to be cash and cash equivalents. The Coalition's accounts are insured or collateralized at June 30, 2018 and June 30, 2017.

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

1. Organization and significant accounting policies (continued):

- E. Investments - The Coalition accounts for its investments in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools (Statement No. 31). Statement No. 31 establishes fair value standards on accounting for all investments held by governmental external investment pools and governmental entities. All investment income, including changes in the fair value of investments, is recognized in the statements of revenues, expenses, and changes in net position. Realized gains and losses on the sale of investments are recognized on the specific identification basis to determine the costs of the investments sold. Realized gains and losses on investments that had been held for more than one year and sold in the current year were included as a change in the fair value of investments reported in the prior years and the current year. Investment purchases are recognized on the trade date. Investments are stated at fair value based on quoted market prices or through a recognized pricing service.

In accordance with GASB Statement No. 40, Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3, certain disclosures regarding deposit and investment risks have been provided in Note 2, Investments.

The Coalition measures its investments in accordance with GASB Statement No. 72, Fair Value Measurements and Application (Statement No. 72), which defines fair value, provides a framework for measuring fair value and requires certain disclosures about fair value measurements. The definition of fair value under Statement No. 72 focuses on the price that would be received to sell the asset, which is referred to as the exit price. Statement No. 72 provides guidance on how to measure fair value, when required, under existing accounting standards. Statement No. 72 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into broad levels as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Inputs - other than quoted prices - included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include:

- Quoted prices for similar assets or liabilities in active markets
- Quoted prices for identical or similar assets or liabilities in markets that are not active
- Inputs other than quoted prices that are observable for the asset or liability, such as:
 - (1) Interest rates and yield curves observable at commonly quoted intervals
 - (2) Implied volatilities
 - (3) Credit spreads
- Market-corroborated inputs.

Level 3 - Inputs are unobservable inputs, such as management's assumption of the default rate among underlying mortgages of a mortgage-backed security.

The Coalition has recorded its investments at fair value, as more fully described in Note 2.

The fair values of investments are measured using quoted market prices or dealer quotations, when available. When quoted market prices are not available, fair value is measured using quoted market prices for similar securities.

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

1. Organization and significant accounting policies (continued):

F. Property and equipment - Property and equipment are stated at cost and depreciated using the straight-line method over their estimated useful lives. On January 14, 2012 the Board adopted a formal policy, Capitalization for the Acquisition, Management and Disposition of Fixed Assets. The following is the guideline on how each type of fixed asset should be depreciated:

	<u>Minimum Capitalized Cost</u>	<u>Estimated Useful Life</u>
Office furniture and equipment	\$ 3,000	7 years
Computer equipment	\$ 3,000	5 years
Computer software	\$ 5,000	10 years
computer - other equipment	\$ 3,000	5 years
Buildings and improvements	All purchase costs	30 years
Building equipment	All purchase costs	20 years
Vehicles	All purchase costs	5 years

G. Member contributions - Member contributions are based on the program experience and trends as determined by qualified actuaries and are set by the Board annually. The contributions cover all expenses of the Coalition including claims payments and administration, reserves, stop-loss insurance, health and wellness programs, and the Coalition's administration. The rates are effective through June 30, 2018.

H. Net position - The Coalition reports two classifications of net position, invested in capital assets and unrestricted. Unrestricted net position is defined as that portion of net position that is intended to be used by the Coalition for specific purposes as authorized by the Board of Directors. Undesignated net position would be the residual classification of net position and would include all amounts not otherwise restricted or designated. The Coalition does not report an undesignated net position. Residual amounts are reported as premium holiday payable as the Coalition is required to return any undesignated amount to Members. Upon dissolution of the organization, the net position is to be distributed to Members.

The following table represents the components of the net position:

	<u>2018</u>	<u>2017</u>
Invested in capital assets	\$ 446,303	\$ 480,554
Unrestricted - medical contingent reserve	25,177,000	22,393,000
Unrestricted - dental contingent reserve	738,000	642,000
Unrestricted net position	<u>25,915,000</u>	<u>23,035,000</u>
Total net position	<u>\$ 26,361,303</u>	<u>\$ 23,515,554</u>

I. Income taxes - The Coalition has been recognized as having tax exempt status under Code Section 115 by the Internal Revenue Service.

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

1. Organization and significant accounting policies (continued):

- J. Marketing - The Coalition expenses marketing and advertising costs when incurred.
- K. Estimates - The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and deferred outflows/inflows of resources as well as disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
- L. Unpaid claims liabilities - The Coalition establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of excess insurance recoverable on unpaid claims are deducted from the liability for unpaid claims. The process used in computing claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using the development actuarial method which assumes that past patterns of lag between the date a service is received and the date the claim is paid for the service will continue in the future and other economic factors. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.
- M. Excess insurance - The Coalition purchases an individual insurance policy in excess of predetermined levels of retained losses or self-insurance. The excess insurance program may change each coverage year to accommodate increased Membership and changing insurance market conditions. Excess insurance permits recovery of a portion of losses from excess insurers, although it does not discharge the primary liability of the Coalition as direct insurer of the risks. The Coalition does not report risks covered by excess insurance as liabilities unless it is probable that those risks will not be covered by the excess insurers and is refunded by excess insurers. Premiums paid to excess insurers for the years ended June 30, 2018 and 2017, were \$1,631,254 and \$1,608,270, respectively. There was \$1,808,003 and \$623,032 recovered from excess insurers and deducted from claims paid for fiscal years ended June 30, 2018 and 2017, respectively.

Third party health coverage was purchased from Optum for the 2018 and 2017 program years subject to individual losses in excess of \$500,000 per covered enrollee for loss years 2018 and 2017 with a deductible of \$125,000. The Coalition does not currently purchase aggregate excess insurance. The Medigap portion of the Coalition's SchoolCare 65+ program is fully insured through the United American Insurance Company, and the prescription drug program is fully insured through Express Scripts. The dental insurance benefit option was self-funded through Cigna beginning July 1, 2013.

NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

1. Organization and significant accounting policies (continued):

- N. Deferred revenue - Financials are presented in accordance with GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. In addition to assets and liabilities, deferred outflows of resources (previously reported as assets) and deferred inflows of resources (previously reported as liabilities), are reported as separate sections in the statement of net position. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources in the current period. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources in the current period. The Coalition does not currently report any deferred outflows of resources. The Coalition reports deferred revenue which represents Members' contributions received in advance of the month of coverage as deferred inflows of resources.
- O. Premium deficiency reserve - In accordance with GASB Statement No. 30, "Risk Financing Omnibus," premium deficiencies are required to be calculated and reported by public entity risk pools. A premium deficiency can result when expected costs for coverage obligations as of the financial statement date exceed expected contributions (based on rates set prior to the financial statement date) for such coverage. No premium deficiency reserve was recorded as of June 30, 2018 and 2017. Investment income was included as part of the calculation in determining if a premium deficiency existed.
- P. Subsequent events - The Coalition has evaluated subsequent events through which is the date the financial statements were available to be issued.

2. Investments:

Investments are reported at fair value using quoted market prices. Net realized and unrealized gains and losses are included in the accompanying Statements of Revenues, Expenses and Changes in Net Position in earnings on investments under non-operating revenues and expenses. The Coalition's investments are subject to regulatory compliance requirements and various investment risks. The Coalition's investment policy, as approved by the Board of Directors, contains certain provisions and limitations intended to insure regulatory compliance and to mitigate the Coalition's exposure to investment risks.

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

2. Investments (continued):

Compliance - The Coalition's investment portfolio on June 30, 2018 was valued at \$36,426,720. The June 30, 2017 value of the investment portfolio was \$31,917,489. The June 30, 2016 value of the investment portfolio was \$26,674,135. The Coalition's Risk Pool Practices Agreement with the NH Secretary of State expired as of April 25, 2017. Although the agreement is no longer in effect, operations and policies adopted as a result of its execution remain in place. The Coalition's investments are compliant with the requirements imposed upon municipalities pursuant to NH RSA 35:9, with the exception of an aggregate amount of 1.6% which is compliant with RSA 402:28. This aggregate amount includes the Coalition's cash, cash equivalents, and other non-REIT investments. In August 2017, one (1) REIT was sold, leaving one (1) remaining REIT in the Coalition's portfolio as of June 2018. The REIT balances were \$63,013 at June 30, 2018, \$523,481 at June 30, 2017, and \$1,582,493 at June 30, 2016. The Coalition held securities that were non-compliant with NH RSA 35:9 in the amount of \$922,483 at June 30, 2018, \$1,051,705 at June 30, 2017, and \$2,340,310 at June 30, 2016.

Custodial credit risk - Custodial credit risk is the risk that, in the event of failure of the counterparty to a transaction, the Coalition will not be able to recover the value of its investments or collateral securities that are in the possession of another party. Investments other than the real estate investment trusts were held by US Bank at June 30, 2018 and June 30, 2017.

The Coalition's investments, including compliance consisted of the following as of June 30, 2018:

Category	Amount of Investment Portfolio	Percentage of Investment Portfolio	Non-Compliant Municipal Law RSA 35:9 Investments	Percentage of Municipal Law RSA 35:9 Non-compliant Investments	Non-Insurance Law 402:28:I Investments	Percentage of Insurance Law 402:28:I Non-compliant Investments
Corporate Bonds	\$ 9,687,688	16.78%	\$ 758,130	1.31%	\$ -	0.00%
Government Bonds	926,941	1.61%	-	0.00%	-	0.00%
Municipal Bonds	2,190,968	3.80%	164,353	0.28%	-	0.00%
Asset Backed Corporate	5,483,890	9.50%	-	0.00%	-	0.00%
Mortgage Backed Corporate	8,159,074	14.14%	-	0.00%	-	0.00%
Exchange Traded Funds	7,035,536	12.19%	-	0.00%	-	0.00%
REITs	63,013	0.11%	63,013	0.11%	63,013	0.11%
US Treasuries	2,879,610	4.99%	-	0.00%	-	0.00%
Total Investments	36,426,720	63.11%	-	0.00%	-	0.00%
Cash and Money Markets	21,292,806	36.89%	-	0.00%	-	0.00%
Total Investment Portfolio	\$ 57,719,526	100%	-	0.00%	-	0.00%
Total Out of Compliance			\$ 985,496	1.71%	\$ 63,013	0.11%

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

2. Investments (continued):

The Coalition's investments, including compliance consisted of the following as of June 30, 2017:

Category	Amount of Investment Portfolio	Percentage of Investment Portfolio	Non- Compliant Municipal Law RSA 35:9 Investments	Percentage of Municipal Law RSA 35:9 Non- compliant Investments	Non- Compliant Law 402:28:I Investments	Percentage of Insurance Law 402:28:I Non- compliant Investments
Corporate Bonds	\$ 8,220,640	17.72%	\$ 1,051,705	2.27%	\$ -	0.00%
Government Bonds	12,503,390	26.95%	-	0.00%	-	0.00%
Municipal Bonds	1,414,161	3.05%	-	0.00%	-	0.00%
Mutual Funds	6,460,798	13.92%	-	0.00%	-	0.00%
REITs	523,481	1.13%	523,481	1.13%	523,481	1.13%
US Treasuries	<u>2,845,277</u>	<u>6.13%</u>	-	0.00%	-	0.00%
Total Investments	31,967,747	68.89%	-	0.00%	-	0.00%
Cash and Money Markets	14,433,584	31.11%	-	0.00%	-	0.00%
Total Investment Portfolio	<u>\$ 46,401,331</u>	<u>100%</u>	-	0.00%	-	0.00%
Total Out of Compliance			<u>\$ 1,575,187</u>	<u>3.39%</u>	<u>\$ 523,481</u>	<u>1.13%</u>

Interest rate risk - Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally the longer the maturity of an investment the greater the sensitivity of its fair value to changes in the market interest rates. The Coalition mitigates the risk that the market value of securities will fall due to changes in general interest rates by structuring the portfolio with allocations across asset class sectors to position the portfolio to take advantage of changes in the interest rate environment.

Maturities of interest earning investments at June 30, 2018 are as follows:

	Fair Value	Less than One Year	1 to 5 Years	6 to 10 Years	After 10 Years
US Treasuries	\$ 2,879,610	\$ 1,992	\$ 1,977,372	\$ 900,246	\$ -
Government bonds	926,941	-	519,975	406,966	-
Corporate bonds	9,687,688	504,655	6,412,762	2,448,338	321,933
Municipal bonds	2,190,968	-	1,134,711	681,879	374,378
Asset backed	5,483,890	759,832	4,250,805	334,182	139,071
Mortgage backed	8,159,074	92,315	1,997,090	587,863	5,481,806
	<u>\$ 29,328,171</u>	<u>\$ 1,358,794</u>	<u>\$ 16,292,715</u>	<u>\$ 5,359,474</u>	<u>\$ 6,317,188</u>

NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

2. Investments (continued):

Maturities of interest earning investments at June 30, 2017 are as follows:

	Fair Value	Less than One Year	1 to 5 Years	6 to 10 Years	After 10 Years
US Treasuries	\$ 2,845,277	\$ 325,414	\$ 466,205	\$ 2,053,658	\$ -
Government bonds	12,503,390	29,565	5,246,545	2,038,341	5,188,939
Corporate bonds	8,220,640	149,910	3,875,346	3,851,573	343,811
Municipal bonds	1,414,161	-	351,439	896,906	165,816
	<u>\$ 24,983,468</u>	<u>\$ 504,889</u>	<u>\$ 9,939,535</u>	<u>\$ 8,840,478</u>	<u>\$ 5,698,566</u>

Credit risk - Credit risk is the risk that an issuer of or counterparty to an investment will not fulfill its obligations. Concentration of credit risk is the risk of loss attributed to the magnitude of an investor's investment in a single issuer. Except for the concentration of investments in Mutual Funds, the Coalition investments are diversified.

The table below outlines third party credit ratings of the Coalition's fixed maturity securities at June 30, 2018:

	U.S. Treasuries	Government Bonds	Corporate Bonds	Municipal Bonds	Asset Backed	Mortgage Backed	Totals
AAA	\$ -	\$ -	\$ 97,922	\$ 695,116	\$ 5,483,890	\$ 2,175,886	\$ 8,452,814
AA+	2,879,610	926,941	147,611	883,065	-	5,350,037	10,187,264
AA	-	-	953,041	258,706	-	-	1,211,747
AA-	-	-	503,048	189,728	-	-	692,776
A+	-	-	1,829,533	-	-	-	1,829,533
A	-	-	3,378,107	-	-	-	3,378,107
A-	-	-	1,821,399	-	-	-	1,821,399
BBB+	-	-	486,126	164,353	-	-	650,479
BBB	-	-	86,063	-	-	-	86,063
BBB-	-	-	94,437	-	-	-	94,437
BB	-	-	91,504	-	-	-	91,504
NA	-	-	-	-	-	633,151	633,151
NR	-	-	198,897	-	-	-	198,897
	-	-	-	-	-	-	-
	<u>\$ 2,879,610</u>	<u>\$ 926,941</u>	<u>\$ 9,687,688</u>	<u>\$ 2,190,968</u>	<u>\$ 5,483,890</u>	<u>\$ 8,159,074</u>	<u>\$ 29,328,171</u>

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

2. Investments (continued):

The table below outlines the third party credit ratings of the Coalition's fixed maturity securities at June 30, 2017:

	U.S. Treasuries	Government Bonds	Corporate Bonds	Municipal Bonds	Totals
AAA	\$ 2,845,277	\$ 6,697,070	\$ 301,060	\$ 318,951	\$ 10,162,358
AA+	-	5,806,319	302,492	686,655	6,795,466
AA	-	-	689,555	49,521	739,076
AA-	-	-	571,926	193,218	765,144
A+	-	-	1,305,768	-	1,305,768
A	-	-	2,626,895	165,816	2,792,711
A-	-	-	1,225,693	-	1,225,693
BBB+	-	-	899,564	-	899,564
BBB	-	-	-	-	-
BBB-	-	-	201,805	-	201,805
BB+	-	-	95,883	-	95,883
	<u>\$ 2,845,277</u>	<u>\$ 12,503,390</u>	<u>\$ 8,220,640</u>	<u>\$ 1,414,161</u>	<u>\$ 24,983,468</u>

Marketable equity securities were recorded using Level 1 fair values based on observable quoted market prices from national securities exchanges. Corporate bonds and government bonds were recorded using Level 2 fair values are priced using standard inputs, when available, which include: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, bids, offers, and reference data. Inputs used also take into consideration market indicators, industry, and economic events. REITS classified as Level 3 are valued using discounted cash flow techniques.

NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

2. Investments (continued):

The following table sets forth by level, within the fair value hierarchy, the Coalition's investments at fair value as of June 30, 2018 and 2017:

June 30, 2018	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Corporate Bonds	\$ -	\$ 9,687,688	\$ -
Government Bonds	-	926,941	-
Municipal Bonds	-	2,190,968	-
Asset Backed Corporate	-	5,483,890	-
Mortgage Backed Corporate	-	8,159,074	-
Exchange Traded Funds	7,035,536	-	-
REITs	-	-	63,013
US Treasuries	-	2,879,610	-
	<u>\$ 7,035,536</u>	<u>\$ 29,328,171</u>	<u>\$ 63,013</u>
June 30, 2017	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Corporate Bonds	\$ 8,220,640	\$ -	\$ -
Government Bonds	-	12,503,390	-
Municipal Bonds	-	1,414,161	-
Mutual Funds	6,460,798	-	-
REITs	-	-	523,481
US Treasuries	2,845,277	-	-
	<u>\$ 17,526,715</u>	<u>\$ 13,917,551</u>	<u>\$ 523,481</u>

As a result of different pricing sources utilized from June 30, 2018 and June 30, 2017, the Corporate Bonds have been moved from Level 1 securities to Level 2. The investment footnotes have been updated to reflect additional categories of bonds such as asset backed and mortgage backed corporate bonds.

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

2. Investments (continued):

For the years ended June 30, 2018 and 2017, the Coalition realized a net loss of \$145,861 and a net gain of \$84,874 from the sale of investment securities. The calculation of the realized gains and losses is independent of a calculation of the net change in the fair value of investments. Realized gains and losses on investments that have been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year.

3. Property and equipment:

Property and equipment consisted of the following at year end:

	Balance <u>June 30, 2017</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>June 30, 2018</u>
Capital assets, being depreciated				
Buildings and improvements	\$ 609,763	\$ -	\$ -	\$ 609,763
Furniture and equipment	<u>263,418</u>	<u>-</u>	<u>-</u>	<u>263,418</u>
Total capital assets being depreciated	<u>873,181</u>	<u>-</u>	<u>-</u>	<u>873,181</u>
Less: accumulated depreciation for:				
Buildings and improvements	(160,001)	(21,536)	-	(181,537)
Furniture and equipment	<u>(232,626)</u>	<u>(12,715)</u>	<u>-</u>	<u>(245,341)</u>
Total accumulated depreciation	<u>(392,627)</u>	<u>(34,251)</u>	<u>-</u>	<u>(426,878)</u>
Total capital assets being depreciated, net	<u>\$ 480,554</u>	<u>\$ (34,251)</u>	<u>\$ -</u>	<u>\$ 446,303</u>

Depreciation expense was \$34,251 and \$35,611 for the years ended June 30, 2018 and 2017, respectively.

4. Unpaid claims liabilities:

As discussed in Note 1. A., the Coalition started pooling the risk for prescription drug coverage for retired Members under the Express Scripts Plan on July 1, 2002 through December 31, 2013 and started pooling the risk for the health benefit options on July 1, 2003. The Coalition also started pooling the risk for the dental benefit options as of July 1, 2013. The Coalition establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses, both allocated and unallocated.

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

4. Unpaid claims liabilities (continued):

The following represents changes in those aggregate liabilities for the Coalition for the years ended June 30, 2018, 2017 and 2016:

	June 30, 2018	June 30, 2017	June 30, 2016
Unpaid claims and allocated claims adjustment at beginning of the year	\$ 13,541,422	\$ 14,597,449	\$ 14,168,205
Incurred claims and allocated claim adjustment expenses:			
Provision for insured events of current fiscal year	148,725,597	148,512,192	152,240,233
Changes in the provision for insured events of prior fiscal years	(1,610,715)	(1,813,910)	(3,051,249)
Claims administration expenses, current year	4,410,416	4,168,733	5,026,781
Total incurred claims and claim adjustment expenses	151,525,298	150,867,015	154,215,765
Claim and allocated claim adjustment expense payments:			
Attributable to insured events of current fiscal year	133,624,241	134,970,770	137,642,784
Attributable to insured events of prior fiscal years	11,930,707	12,783,539	11,116,956
Claims administration expenses, current year	4,410,416	4,168,733	5,026,781
Total payments	149,965,364	151,923,042	153,786,521
Total unpaid claims and claim adjustment expenses at end of the year	\$ 15,101,356	\$ 13,541,422	\$ 14,597,449

5. Risk Pool Practices Agreement:

On April 25, 2012, the Coalition entered into a Risk Pool Practices Agreement (the Agreement) with the New Hampshire Secretary of State. The Agreement was effective through April 25, 2017. The provisions of the Agreement significantly changed two areas of the Coalition's operations - return of surplus and investments.

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

5. Risk pool practices agreement (continued):

Return of surplus - From inception in 1995 to 2013, the Coalition returned surplus to its Members through rate stabilization to reduce rate increases. The New Hampshire Secretary of State, Bureau of Securities Regulation, during its 2012 on-site examination, noted the Coalition’s documentation of rate stabilization procedures and designation of surplus for this purpose. However, the Secretary of State, as a policy matter, did not agree that the use of rate stabilization as described is compliant with NH RSA 5-B and required the Coalition to return surplus to its Members through a “Premium Holiday”. The below chart has been updated to illustrate total Premium Holiday amounts paid to both former and current Members by year. Premium Holiday is paid to former Members by June 30th of each fiscal year and current Members as a Premium Holiday Credit on July 1st invoices.

<u>Date of Premium Holiday</u>	<u>Total Amount of Premium Holiday</u>
December 1, 2012	\$ 4,250,000
December 1, 2013	\$ 4,250,000
July 1, 2014	\$ 21,697,052
July 1, 2015	\$ 4,308,814
July 1, 2016	\$ 1,221,078
July 1, 2017	\$ 4,636,390
July 1, 2018	\$ 6,128,691

This practice of return of surplus through a Premium Holiday was considered a change in accounting policy implemented in the year ended June 30, 2012.

Investments - The Board of Directors currently has an investment policy based on the “prudent person” standard whereby investments are made with judgment and care considering the probable safety of the investment as well as the expected income to be derived. This investment policy was updated in January 2017 to reflect changes in benchmarking and reviewed in January 2018 with no changes implemented. Both the Coalition and its investment advisors and managers review this investment policy on a yearly basis.

The Coalition’s investment portfolio on June 30, 2018 was valued at \$36,426,720. The June 30, 2017 value of the investment portfolio was \$31,917,489. The June 30, 2016 value of the investment portfolio was \$26,674,135. The Coalition’s Risk Pool Practices Agreement with the NH Secretary of State expired as of April 25, 2017. Although the agreement is no longer in effect, operations and policies adopted as a result of its execution remain in place. The Coalition’s investments are compliant with the requirements imposed upon municipalities pursuant to NH RSA 35:9, with the exception of an aggregate amount of 1.6% which is compliant with RSA 402:28. This aggregate amount includes the Coalition’s cash, cash equivalents, and other non-REIT investments. In August 2017, one (1) REIT was sold, leaving one (1) remaining REIT in the Coalition’s portfolio as of June 2018. The REIT balances were \$63,034 at June 30, 2018, \$523,481 at June 30, 2017, and \$1,582,493 at June 30, 2016. The Coalition held securities that were non-complaint with NH RSA 35:9 in the amount of \$922,483 at June 30, 2018, \$1,051,705 at June 30, 2017, and \$2,340,310 at June 30, 2016.

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

6. Net position:

Unrestricted net position - The medical contingent reserve is determined annually with advice of the Coalition's actuaries using a stochastic modeling methodology at the 95% confidence level and is held as under unrestricted net position as a designated contingent reserve for all business risks not included in loss reserves. The dental contingent reserve is also determined annually with advice of the Coalition's actuaries using two months projected claims payments. This is used instead of stochastic modeling due to both the size of the program as well as the predictability of claims payments. The Coalition does not retain an undesignated net position.

7. Health care reform:

On March 23, 2010, the Patient Protection and Affordable Care Act (PPACA) made significant changes impacting group health plans including the SchoolCare Medical Plans. Since 2010, the Coalition continues to monitor and assist Members with the implementation of changes required by PPACA. In 2018, the Coalition has accrued fees of approximately \$37,196 which represent the Coalition's annual assessment under the Act. The decreased accrual reflects the expiration of the Transitional Reinsurance Fee and thus no accrual for that particular expense.

Annually the SchoolCare Medical Plans are amended to reflect benefit changes required by PPACA such as lifetime limits and preventive services. In addition, the Health Benefits Booklet has been updated with these benefit changes as well as other federal requirements including but not limited to eligibility criteria and the claims appeals procedures.

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION
RECONCILIATION OF CLAIMS LIABILITIES BY TYPE OF CONTRACT
FOR THE YEARS ENDED JUNE 30, 2018, 2017 and 2016
Schedule 1**

	<u>SchoolCare-Medical</u>			<u>SchoolCare - Dental</u>		
	<u>6/30/2018</u>	<u>6/30/2017</u>	<u>6/30/2016</u>	<u>6/30/2018</u>	<u>6/30/2017</u>	<u>6/30/2016</u>
Unpaid claims and allocated claims adjustment expenses at beginning of year	\$ 13,352,791	\$ 14,390,777	\$ 13,732,633	\$ 188,632	\$ 206,673	\$ 435,572
Incurred claims and allocated claim adjustment expenses:						
Provision for insured events of current fiscal year	144,954,163	145,241,441	148,989,577	3,771,434	3,270,751	3,250,656
Changes in the provision for insured events of prior fiscal year	(1,597,063)	(1,783,579)	(3,010,101)	(13,652)	(30,331)	(41,148)
Claims administration expenses, current year	<u>4,284,348</u>	<u>4,056,605</u>	<u>4,916,603</u>	<u>126,068</u>	<u>112,128</u>	<u>110,179</u>
Total incurred claims and claim adjustment expenses	<u>147,641,448</u>	<u>147,514,467</u>	<u>150,896,078</u>	<u>3,883,850</u>	<u>3,352,548</u>	<u>3,319,687</u>
Claim and allocated claim adjustment expense payments:						
Attributable to insured events of current fiscal year	130,091,885	131,888,651	134,598,800	3,532,356	3,082,119	3,043,983
Attributable to insured events of prior fiscal years	11,755,727	12,607,197	10,722,532	174,980	176,342	394,424
Claims administration expenses, current year	<u>4,284,348</u>	<u>4,056,605</u>	<u>4,916,603</u>	<u>126,068</u>	<u>112,128</u>	<u>110,179</u>
Total payments	<u>146,131,960</u>	<u>148,552,453</u>	<u>150,237,935</u>	<u>3,833,404</u>	<u>3,370,589</u>	<u>3,548,586</u>
Total unpaid claims and claim adjustment expenses at the years ended June 30, 2018, 2017 and 2016	<u>\$ 14,862,279</u>	<u>\$ 13,352,791</u>	<u>\$ 14,390,777</u>	<u>\$ 239,078</u>	<u>\$ 188,632</u>	<u>\$ 206,673</u>

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION
COMPARATIVE SCHEDULE OF CLAIM DEVELOPMENT,
EARNED ASSESSMENTS AND UNALLOCATED EXPENSES
JUNE 30, 2018
Schedule 2
(Page 1 of 2)**

The following table illustrates how the Coalition's earned revenue (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the Coalition as of the end of each of the previous nine years. The rows of the table are defined as follows: (1) This line shows the total of the fiscal year's gross earned contribution revenue and investment revenue, contribution revenue ceded to reinsurers, and net earned contribution revenue and reported investment revenue. (2) This line shows the fiscal year's other operating costs of the Coalition including overhead and claims expense not allocable to individual claims. This operating cost has been updated to reflect administrative costs without inclusion of the SchoolCare 65+ fully-insured Medicare supplement plans. (3) This line shows the Coalition's gross incurred claims and allocated claim adjustment expenses, claims assumed by reinsurers and net incurred claims and allocated adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year). (4) This section of ten rows shows the cumulative net amounts paid as of the end of successive years of each policy year. (5) This line shows the latest reestimated amount of claims assumed by reinsurers as of the end of the current year for each policy year. (6) This section of ten rows shows how each policy year's net incurred claims increased or decreased as of the end of successive years. (This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, and emergence of new claims not previously known). (7) This line compares the latest reestimated net incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of net claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and reestimated amounts commonly is used to evaluate the accuracy of net incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION
COMPARATIVE SCHEDULE OF CLAIM DEVELOPMENT, EARNED ASSESSMENTS AND UNALLOCATED EXPENSES
JUNE 30, 2018
Schedule 2 (Page 2 of 2)

	Fiscal and Policy Year Ended										
	<u>6/30/2008</u>	<u>6/30/2009</u>	<u>6/30/2010</u>	<u>6/30/2011</u>	<u>6/30/2012</u>	<u>6/30/2013</u>	<u>6/30/2014</u>	<u>6/30/2015</u>	<u>6/30/2016</u>	<u>6/30/2017</u>	<u>6/30/2018</u>
(1) Required contribution and investment revenue:											
Earned	\$ 59,397,133	\$ 69,547,673	\$ 78,191,834	\$ 101,576,541	\$ 101,685,003	\$ 122,926,284	\$ 145,505,569	\$ 159,063,635	\$ 162,438,317	\$ 160,616,072	\$ 169,000,654
Ceded	<u>996,952</u>	<u>665,574</u>	<u>533,577</u>	<u>793,399</u>	<u>1,126,463</u>	<u>1,430,523</u>	<u>1,974,516</u>	<u>2,206,484</u>	<u>1,460,836</u>	<u>1,608,270</u>	<u>1,631,254</u>
Net earned	58,400,181	68,882,099	77,658,257	100,783,142	100,558,540	121,495,761	143,531,053	156,857,151	160,977,481	159,007,802	167,369,400
(2) Unallocated expenses	3,414,497	4,052,154	4,538,115	7,256,765	8,471,257	6,766,446	8,834,804	9,907,428	11,208,816	10,275,523	10,134,359
(3) Estimated claims and expenses, end of policy year											
Incurred	49,511,425	61,413,964	70,131,306	98,473,213	112,433,287	123,381,661	133,348,065	146,332,109	152,415,558	149,135,224	150,533,600
Ceded	<u>108,927</u>	<u>-</u>	<u>-</u>	<u>1,032,391</u>	<u>-</u>	<u>255,417</u>	<u>1,045,871</u>	<u>418,193</u>	<u>175,325</u>	<u>623,032</u>	<u>1,808,003</u>
Net incurred	49,402,498	61,413,964	70,131,306	97,440,822	112,433,287	123,126,244	132,302,194	145,913,916	152,240,233	148,512,192	148,725,597
(4) Net paid (cumulative) as of:											
End of the policy year	44,806,139	56,763,320	63,030,689	89,489,249	99,759,145	111,146,738	118,853,463	131,745,711	137,642,784	134,970,770	133,624,242
One year later	48,283,542	61,358,425	67,415,030	95,043,861	109,607,207	122,066,073	129,827,079	142,862,668	150,426,323	146,901,477	
Two years later	48,283,542	61,358,425	67,415,030	95,043,861	109,607,207	122,066,073	129,827,079	142,862,668	150,426,323		
Three years later	48,283,542	61,358,425	67,415,030	95,043,861	109,607,207	122,066,073	129,827,079	142,862,668			
Four years later	48,283,542	61,358,425	67,415,030	95,043,861	109,607,207	122,066,073	129,827,079				
Five years later	48,283,542	61,358,425	67,415,030	95,043,861	109,607,207	122,066,073					
Six years later	48,283,542	61,358,425	67,415,030	95,043,861	109,607,207						
Seven years later	48,283,542	61,358,425	67,415,030	95,043,861							
Eight years later	48,283,542	61,358,425	67,415,030								
Nine years later	48,283,542										
(5) Re-estimated ceded claims and expenses	106,823	-	-	1,171,022	-	255,417	1,195,297	649,305	257,907	790,968	1,808,003
(6) Re-estimated net incurred claims and expenses:											
End of the policy year	49,402,498	61,413,964	69,313,461	97,440,822	112,433,287	123,126,244	132,302,194	145,913,916	152,240,233	148,512,192	148,725,597
One year later	48,283,542	61,358,425	67,415,030	95,043,861	109,607,207	122,066,073	129,827,079	142,862,667	150,426,323	146,901,477	
Two years later	48,283,542	61,358,425	67,415,030	95,043,861	109,607,207	122,066,073	129,827,079	142,862,667	150,426,323		
Three years later	48,283,542	61,358,425	67,415,030	95,043,861	109,607,207	122,066,073	129,827,079	142,862,667			
Four years later	48,283,542	61,358,425	67,433,284	95,043,861	109,607,207	122,066,073	129,827,079				
Five years later	48,283,542	61,358,425	67,433,284	95,043,861	109,607,207	122,066,073					
Six years later	48,283,542	61,358,425	67,433,284	95,043,861	109,607,207						
Seven years later	48,283,542	61,358,425	67,433,284	95,043,861							
Eight years later	48,283,542	61,358,425	67,433,284								
Nine years later	48,283,542	61,358,425									
(7) Increase (decrease) in estimated net incurred claims and expenses from end of the policy year	(1,118,955)	(55,540)	(1,898,432)	(2,396,961)	(2,826,080)	(1,060,171)	(2,475,115)	(3,051,249)	(1,813,910)	(1,610,715)	-