



Finance-Audit Committee Meeting

October 12, 2020

SCHOOLCARE Office

Manchester, NH

3:00 p.m. via [Microsoft Team Meeting](#)

- A. Adoption of Agenda
- B. Approval of April 23, 2020 Committee Minutes (*enclosure*)
- C. Report from Independent Auditors (*enclosure*)
Joe Pieksza and Heather Gagnon, Crowe LLC
 - Presentation of FY 2020 Draft
- D. Discussion/Reporting from Investment Advisor (*enclosures*)
Dan Smereck, Strategic Asset Alliance
 - Review of Quarterly Investments through September 30, 2020
 - Investment Policy Statement (IPS) Annual Review
 - High Yield Fixed Income
- E. Set Next Committee Meeting Date
- F. Adjournment



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New Hampshire School Health Care Coalition
Presentation of Audit Results

Joe Pieksza, Audit Partner
Heather Gagnon, Audit Senior Manager
October 12, 2020

Agenda

Changes in 2020

Timeline of Engagement

Areas of Audit Emphasis

Results of Control Testing

Use of Specialist

Loss Reserves

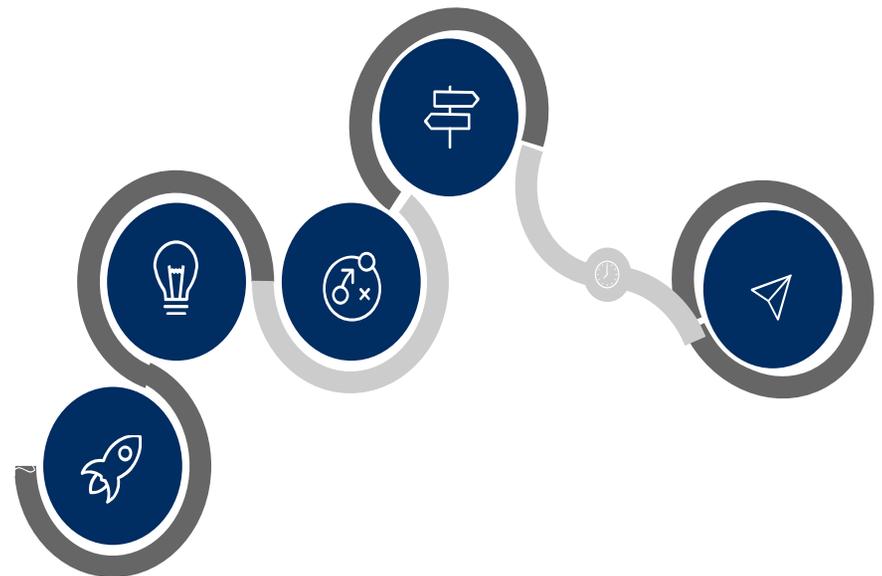
Results of the Audit

Required Communications

Independence

Changes in 2020

- Staff turnover and additional members added to the accounting department.
- Coverages for ancillary lines.
- Impacts and risks of COVID-19.



Timeline of Engagement

| | |
|-----------------------------------|--|
| May 2020 | Planning and Interim Selections |
| June 2020 | Interim Work – Revenue, Claims and Cash Testing |
| August 31 – September 11, 2020 | Year-End Field Work |
| September 21, 2020 | Financial Statements Draft provided by Management |
| October 5, 2020 | Final Draft Financial Statements Provided |
| October 12, 2020 | Year-End Audit Committee Presentation, Approval of Draft |
| October 19, 2020 | Year-End Board of Director Presentation, Approval of Draft |

Areas of Audit Emphasis

| Audit Area | Substantive Testing with Control Reliance | Substantive Testing |
|-----------------------------------|---|---------------------|
| • Financial Reporting | ✓ | |
| • Cash Receipts and Disbursements | ✓ | |
| • Payroll | | ✓ |
| • Claim Administration | ✓ | |
| • Actuarial | | ✓ |
| • Reinsurance | | ✓ |
| • Contributions | ✓ | |
| • Accounts Payable and Expenses | | ✓ |

Use of Specialists

During our audit, we interacted frequently with management and utilized the work of specialists and others as follows, and where appropriate, placed reliance on their work:

| Specialist | Purpose |
|--|---|
| Crowe Pricing Desk and Harvest Investments | Provided certain valuation services related to the investment portfolio. |
| Willis Towers Watson | Actuarial review on unpaid loss and loss adjustment expense reserves, premium deficiency reserves and contingency reserves. |

Loss Reserves

The following is a summary of the results of the review of the Coalition's loss reserves, which are based upon an analysis by the Coalition's independent actuary:

| Line of Business | June 30, 2020 | June 30, 2019 |
|------------------|---------------------|---------------------|
| Medical - IBNP | \$10,783,662 | \$11,762,547 |
| Dental - IBNP | 209,292 | 166,867 |
| Claims Payable | 2,754,931 | 3,134,277 |
| PDR | <u>3,916,051</u> | <u>-</u> |
| Total | <u>\$17,663,936</u> | <u>\$15,063,691</u> |

Loss Reserves - continued

The following is a summary of the results of the review of the Coalition's contingency reserves, which are based upon an analysis by the Coalition's independent actuary:

| Line of Business | June 30, 2020 | June 30, 2019 |
|-------------------------------|---------------------|---------------------|
| Medical - Contingency Reserve | \$27,513,000 | \$25,592,000 |
| Dental - Contingency Reserve | <u>779,000</u> | <u>759,000</u> |
| Total | <u>\$28,292,000</u> | <u>\$26,351,000</u> |

2020 – Medical Contingency Reserve is based on 16,043 covered adults and 4,932 covered children.

2019 – Medical Contingency Reserve is based on 16,027 covered adults and 4,966 covered children.

Results of Audit

- Issued an unmodified opinion on the financial statements as of and for the year ended June 30, 2020 of the Coalition;
- Issued a report on our consideration of the Coalition's internal control over financial reporting, no deficiencies noted.

Required Communications

| Topic | Comments |
|---|--|
| Changes in accounting principles | None |
| Disagreements with management on financial accounting and reporting | None |
| Audit Results included in Other External Reporting | Will review annual report prior to submission to Members |
| Corrected or Uncorrected audit adjustments | None |
| Major issues discussed with management prior to retention | None |
| Consultations with other accountants | None |
| Difficulties in performing the audit | None |
| Material errors, irregularities or illegal acts | None identified |
| Material alternative accounting treatments used | None |
| Material weaknesses in internal control | None |
| Representation letter | To be provided to Crowe prior to release of Audited Financial Statements |

Independence

- Our professional standards require us to be independent to provide our opinion.
- We are not aware of any relationships that would impair our independence.
- We are independent certified public accountants in accordance with our professional standards.



Thank You

Joe Pieksza

Phone: 860.470.2112

Joseph.Pieksza@crowe.com

Heather Gagnon

Phone: 802.448.9601

Heather.Gagnon@crowe.com

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**NEW HAMPSHIRE SCHOOL HEALTH
CARE COALITION**

**FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION

JUNE 30, 2020 AND 2019

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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), as of and for the years ended June 30, 2020 and 2019 and the related notes to the financial statements, which collectively comprise the Coalition'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 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, 2020 and 2019 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 <>, 2020 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.

DRAFT



Simsbury, Connecticut
<>, 2020

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020**

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, 2020, 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 \$28,694,358 at June 30, 2020; this net position consisted of the Coalition's investment in property and equipment of \$402,358 and the unrestricted amounts for the medical contingent reserve of \$27,513,000 and the dental contingent reserve of \$779,000. The Coalition did not retain any unrestricted or undesignated surplus.
- The Coalition has reported a liability at June 30, 2020 of \$24,926,502 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 \$11,967,897 were paid to former Members in June 2020 or applied to Member contribution invoices as of July 1, 2020. Current Member groups also have the option of receiving premium holiday credits via invoice credits or checks. The remaining premium holiday payable of \$13,138,415 is the surplus at June 30, 2020 to be applied to Member contribution invoices as of July 1, 2021. If a group terminates before July 2021, their premium holiday is paid out via check. Of the \$13,138,415, \$12,272,531 represents a medical premium holiday and \$865,884 represents 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, 2020**

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, 2020**

Analysis of Financial Information Presented in the Statements:

Statements of Net Position:

The following table summarizes the Statements of Net Position:

| | <u>June 30, 2020</u> | <u>June 30, 2019</u> | Percentage Change | <u>June 30, 2018</u> | Percentage Change |
|-------------------------------|-----------------------------|-----------------------------|----------------------|-----------------------------|----------------------|
| Cash and cash equivalents | \$ 28,085,628 | \$ 23,189,849 | 21% | \$ 21,292,806 | 9% |
| Investments | 41,051,142 | 39,111,027 | 5% | 36,426,720 | 7% |
| Other assets | <u>4,899,811</u> | <u>4,201,846</u> | 17% | <u>2,986,637</u> | 41% |
| Total assets | <u>74,036,581</u> | <u>66,502,723</u> | 11% | <u>60,706,163</u> | 10% |
| Claims payable | 2,754,931 | 3,134,277 | -12% | 2,933,422 | 7% |
| Claims reserves | 10,992,954 | 11,929,414 | -8% | 12,167,934 | -2% |
| Premium holiday payable | 24,926,502 | 22,823,081 | 9% | 16,826,495 | 36% |
| Premium deficiency reserve | 3,916,051 | - | 100% | - | 0% |
| Other liabilities | <u>1,900,727</u> | <u>1,347,499</u> | 41% | <u>1,300,795</u> | 4% |
| Total liabilities | <u>44,491,164</u> | <u>39,234,271</u> | 13% | <u>33,228,645</u> | 18% |
| Deferred inflows of resources | <u>851,058</u> | <u>500,016</u> | 70% | <u>1,116,215</u> | -55% |
| Net position: | | | | | |
| Invested in capital assets | 402,358 | 417,436 | -4% | 446,303 | -6% |
| Unrestricted | <u>28,292,000</u> | <u>26,351,000</u> | 7% | <u>25,915,000</u> | 2% |
| Total net position | <u>\$ 28,694,358</u> | <u>\$ 26,768,436</u> | 7% | <u>\$ 26,361,303</u> | 2% |

Total assets for FY2020, FY2019, and FY2018 are \$74,036,581, \$66,502,723, and \$60,706,163, respectively. The increase in assets from FY 2019 to FY2020 is because of increased cash balances due to lower than anticipated claims experience in the latter part of the year due to the COVID-19 pandemic. Investments also performed well and increased year over year. The increase in assets from FY2018 to FY2019 is attributed to an increased investment balance due to favorable market performance as well as increased Member contributions.

Total liabilities for FY2020, FY2019 and FY2018, are \$44,491,164, \$39,234,271 and \$33,228,645, respectively. The increase in Total liabilities from FY2019 to FY2020 is because of lower than anticipated claims experience in the latter part of the year due to the COVID-19 pandemic resulting in a higher Premium Holiday payable for return to members as well as a premium deficiency reserve due to deferred claims into FY2021. The lower claims experience resulted in a higher Premium Holiday payable for return to members (increased surplus) as well as a premium deficiency reserve due to deferred claims into FY2021. The increase in liabilities from FY2018 to FY2019 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.

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020**

Unrestricted net position increased over the prior year by \$1,921,000 in the medical contingent reserve and \$20,000 in the dental contingent reserve. The increase in medical contingent reserve was calculated using a 7.86% melded trend for projected 2020-21 claims. A higher trend was used for medical due to increased utilization and deferred services. The increase in dental contingent reserve was calculated by considering increased Membership as well as an estimated two months of projected 2020-21 claims. Both reserves were “normalized” using months of claims experience that were not affected by the COVID-19 pandemic.

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020**

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, 2020</u> | <u>June 30, 2019</u> | Percentage Change | <u>June 30, 2018</u> | Percentage Change |
|--------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Operating revenues: | | | | | |
| Member contributions | \$ 195,565,845 | \$ 188,351,300 | 4% | \$ 182,330,644 | 3% |
| Other | <u>6,184,105</u> | <u>4,928,618</u> | 25% | <u>3,807,505</u> | 29% |
| Total operating revenues | <u>201,749,950</u> | <u>193,279,917</u> | 4% | <u>186,138,149</u> | 4% |
| Operating expenses: | | | | | |
| Claims expense | 156,292,633 | 157,279,710 | -1% | 147,114,883 | 7% |
| Insurance premiums | 17,221,056 | 15,675,659 | 10% | 15,394,793 | 2% |
| Claims administration | 5,080,260 | 4,579,602 | 11% | 4,410,416 | 4% |
| Self-insured pool assessments | 901,011 | 777,060 | 16% | - | 0% |
| Health and wellness benefits | 3,070,376 | 3,536,826 | -13% | 3,530,431 | 0% |
| Administration | 2,183,822 | 1,913,525 | 14% | 2,395,848 | -20% |
| Premium deficiency expense | 3,916,051 | - | 100% | - | 0% |
| Other | <u>442,857</u> | <u>38,165</u> | 1060% | <u>37,196</u> | 3% |
| Total operating expenses | <u>189,108,065</u> | <u>183,800,546</u> | 3% | <u>172,883,567</u> | 6% |
| Operating gain | 12,641,885 | 9,479,371 | 33% | 13,254,583 | -28% |
| Nonoperating revenues: | | | | | |
| Premium holiday credits | (13,138,415) | (11,967,897) | 10% | (11,081,914) | 8% |
| Earnings on investments | <u>2,422,453</u> | <u>2,895,659</u> | -16% | <u>673,080</u> | 330% |
| Change in net position | 1,925,923 | 407,133 | 373% | 2,845,749 | -86% |
| Beginning net position, July 1 | <u>26,768,435</u> | <u>26,361,303</u> | 2% | <u>23,515,554</u> | 12% |
| Ending net position, June 30 | <u>\$ 28,694,358</u> | <u>\$ 26,768,435</u> | 7% | <u>\$ 26,361,303</u> | 2% |

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020**

Revenues - Total operating revenues of FY2020, FY2019 and FY2018, were \$201,749,950, \$193,279,917 and \$186,138,149, respectively. The increase in Member contributions from FY2019 to FY2020 is due to increased membership/subscribers in the medical program of about 5% as well as the addition of ancillary products such as life, long-term disability, short-term disability and vision. The medical and dental premium increases for FY2020 were virtually flat. The increase in Member contributions from FY2018 to FY2019 was due to a medical premium increase of approximately 4% as of 7/1/18 and a dental premium increase of .7%. Enrollment in the dental program also increased by approximately 14% as of July 1, 2018. The increase in other revenues is due to higher negotiated Cigna pharmacy rebates coupled with utilization year over year.

Expenses - Total operating expenses for FY2020, FY2019 and FY2018 were \$189,108,066, \$183,800,547 and \$172,883,566, respectively. For 2020, operating expenses increased largely due to a premium deficiency expense of \$3,916,051 as well as an increase in the Insurance line item to account for premiums paid to Mutual of Omaha and VSP for ancillary coverages which is offsetting revenue that is recorded as Member contributions as this acts as a pass through risk for SchoolCare. For FY2019, operating expenses were mostly driven by increased claims expense year over year. A new line item was added in 2019, self-insured pool assessments. It contains the New Hampshire Vaccine as well as the New Hampshire Health Plan Assessment fee. The New Hampshire Health Plan Assessment fee had previously been paid by the Coalition's stop loss provider Optum. The New Hampshire Vaccine Fee was categorized as an administrative expense in prior years.

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, 2020 was valued at \$41,051,142. The June 30, 2019 value of the investment portfolio was \$39,111,027. The June 30, 2018 value of the investment portfolio was \$36,426,720. 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 .47% 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 no securities that are non-compliant with NH RSA 35:9 as of June 30, 2020. The Coalition held securities that are non-compliant with NH RSA 35:9 in the amount of \$289,721 at June 30, 2019 and \$922,483 at June 30, 2018.

There remains one (1) Real Estate Investment Trust (REIT) in the Coalition's portfolio as of June 2020. The REIT balances were \$68,764 at June 30, 2020, \$66,854 at June 30, 2019 and \$63,034 at June 30, 2018. 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.

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020**

Capital Assets and Debt

The Coalition's property and equipment at June 30, 2020 was valued at \$402,358 compared to \$417,436 at June 30, 2019 and \$446,303 at June 30, 2018. The changes at June 30, 2020 were due to various reasons including a depreciation amount of \$27,717, purchases of equipment of \$12,356, building improvements of \$5,000 and loss on asset disposal of \$4,716. The Coalition has no long-term debt.

Outlook / Economic Factors:

Calendar year 2020 has proven to be a challenging year for health care and consumers alike. With the rapid spread of COVID-19 in the spring and the shutdown of many medical facilities, the Coalition reaffirmed and remained 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. As such, at the direction of the Board, Staff remained in continuous contact with Member groups (management) and Participants (labor) alike throughout the pandemic. The result of this contact as well as adapting to Member needs throughout the crisis was a shift in operations and delivery of services to a 100% virtual model. Staff delivered presentations and group meetings virtually and continues to do so.

In addition to a shift in operations, the Coalition experienced lower than normal claims costs in the second half of the plan year as a result of decreased utilization and the closure of medical facilities. During this time, communications were sent to participants advising them of virtual care options as well as emergency options if needed. Facilities began reopening in late May/early June and claims began to rise in the second half of June. Although facilities have reopened and participants have started to seek medical services in person once more, there may be many who deferred services and continue to do so. As such Staff and consultants continue to monitor claims and utilization closely to analyze. There is a \$13.1 million premium holiday as a result of this decreased expense.

In response to the COVID-19 pandemic, the Coalition adjusted its medical coverages to ensure Membership wellbeing and peace of mind. The Coalition through Cigna waived cost sharing for both COVID-19 testing as well as treatment regardless of whether for in or out of network services. The Coalition also extended the waiver of cost shares through October 31, 2020 and will be revisiting this deadline if necessary. In addition to these services, virtual care and resources through MDLive are available to Participants. This year more than ever, holistic health continues to be the driver behind keeping Coalition participants happy and healthy. The holistic approach to health includes both mental health as well as wellness programs.

As of July 1, 2019, the Coalition integrated the *Good For You!* Wellness programs with its medical and dental partner, Cigna. This has provided one platform for participants on myCigna.com to access benefits. In addition, these wellness programs include self-care such as ideas on stress management, mental resiliency and at home exercise programs, all of which may prove beneficial in these trying times. Due to the integration with myCigna along with consumer driven plans, participation in the programs has significantly increased year over year. FY2020 saw a participation rate of 56.4% compared to 41.2% in FY2019.

In addition, the Coalition's Board of Directors, Staff and Key Stakeholders are beginning the framework for the next organizational Strategic Plan. Keeping in mind the current environment as well as Member needs as they stand today, all involved agree that a shorter range strategic plan is appropriate to provide for both an organized plan as well as nimbleness as the external environment continues to change rapidly. The initial strategic plan will be a rolling 12 to 18 months with quarterly updates to the Board.

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020**

In 2019, the Coalition Board of Directors authorized Staff to move forward in partnership with Businessolver, a benefits administration platform. Following months of prep work as well as discussions with Businessolver, it was determined by both Board and Staff that Businessolver would not effectively meet Member needs as originally thought. Staff will continue to research alternative options in the future as the Coalition believes online enrollment will become vital in the future. It will also allow for Member groups to have greater options for enrollment.

Finally, as part of continuing to provide excellent service to our Member groups now and in the future, the Coalition added fully insured ancillary products including Life, Accidental Death & Dismemberment, and Disability as well as a voluntary vision hardware plan beginning July 1, 2019. This was a request of Membership in a 2018 survey as well as years past. The Coalition will offer these benefits in an on-going effort to a responsive employee benefits partner for Member groups

In the coming months, the Coalition will continue to be responsive to Member needs as they arise allowing for quick transitions as needed. The Coalition remains strong financially and well positioned to support Member groups and Participants now and in the future. This is the organization's 25th year in business. The pandemic has shown that the Coalition, Board and Staff continue to have the mission statement front and center no matter the obstacles.

Membership

The exceptional service to our existing Membership is a cornerstone of the Coalition's mission. The Coalition's Membership in medical plans grew by approximately 5% due to new groups joining the program. Dental has remained relatively flat. The Coalition's dental plans continue to grow with approximately 50% of subscribers participating currently. Staff continues to service current Members to the highest standard possible while marketing to prospective clients through educational opportunities and events. These opportunities have now shifted to virtual formats and Staff has modeled either live or recorded presentations to meet Member's needs.

Membership Services

The Coalition offers many administrative services to its Member Groups to provide flexibility, education, convenience and time saving options through expert Coalition Staff:

- Retiree Administration Services - Member Groups are provided with this service option which offers Retiree medical and dental billing administration, collecting payments and coordination with the New Hampshire Retirement System. Coalition Staff also assist both Members and individual retirees with any questions or concerns they may have regarding coverage or claims.
- COBRA Administration Services - The Coalition administers various required COBRA notices along with issuance of invoices and collection of COBRA payments on its Members behalf. In addition, the Coalition Staff has three (3) certified COBRA administrators knowledgeable in the intricacies and regulations of the law.
- Dependent Benefit Protection - In the unfortunate instance of an employee's death, the Coalition provides extended medical and dental benefits at no cost to dependents of the employee for the first twelve (12) months of COBRA continuation coverage, no matter the cause of death. As of June 30, 2020, 13 individuals were covered for medical benefits and 11 for dental benefits.

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020**

- Onsite Services - Benefit education is offered through the Coalition to Member groups through various onsite events and presentations. In addition, the Coalition provides various value-added services including but not limited to biometric screenings, flu shot clinics and Employee Assistance Program seminars all in an effort to support holistic health.
- Claims Advocates - One of the key differentiators between the Coalition and traditional insurance products is having key advocates when the need arises. If a Participant is experiencing issues with claims payments or approvals in general, Coalition staff may act as an advocate on behalf of a Participant to resolve related issues. Knowledgeable staff help to navigate Participants through the sometimes-confusing world of health care through both education and solutions.

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, although to a lesser extent than in the past. Staff regularly monitors, educates and assists Members with the implementation of changes required by PPACA. All Coalition medical plans are in compliance with health care reform provisions. In addition to this, Coalition staff continues to assist Members with various reporting requirements under PPACA including 6055 and 6056 reporting

Although PPACA continues to be monitored by Staff, there are few fees and upcoming deadlines remaining. The Excise Tax previously scheduled for a 2022 start was repealed on December 20, 2019. From an administrative perspective, the Coalition paid the Comparative Effectiveness Research PPACA fee on its Members behalf during the fiscal year. The Comparative Effectiveness Research fee was originally expected to sunset with a final payment date of July 31, 2020. The fee has been extended through June 30, 2029 for fiscal year health plans such as SchoolCare with a final payment date of July 31, 2030.

Medical Costs

Medical cost trends had stabilized in recent years mostly due to a large Membership move to Consumer Driven Plan products. With the COVID-19 pandemic as well as uncertainty in usage and demand in the near future, medical trend costs have climbed in both usage and projections. An average projection in New Hampshire for the coming year is around 8.5%. There are many unknowns as to how the pandemic will affect both FY2021 as well as the effect of delayed services such as preventive care on health and costs in years to come. Now more than ever, consumerism will be key for both Participants as well as Staff communications. 79% of SchoolCare's population is enrolled in a consumer driven plan as of 2020. SchoolCare will continue to work with employers and employees to educate and identify alternative options/locations for care that may provide cost savings. Staff also will support any employer efforts for quotes on lower cost plans and cost/benefit analysis as needed.

In addition to outreach, Staff has been working to develop materials and content to assist in education of Membership virtually. As part of the Coalition's mission statement, the organization believes that education of its Member groups is of the utmost importance to train and inform Members and Participants 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 to empower each participant to be their own health advocate. As such, Staff continues to deliver quality materials via news articles, Facebook live events, 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, 2020**

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.

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION
STATEMENTS OF NET POSITION
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

| | June 30, 2020 | June 30, 2019 |
|--|-------------------|-------------------|
| ASSETS: | | |
| Cash and cash equivalents | 28,085,628 | \$ 23,189,849 |
| Investments | 41,051,142 | 39,111,027 |
| Member receivables | 2,727,797 | 2,335,491 |
| Accounts receivable | 1,578,325 | 1,231,643 |
| Accrued interest receivable | 165,550 | 177,399 |
| Prepaid expenses | 25,782 | 39,878 |
| Total current assets | 73,634,223 | 66,085,287 |
| Property and equipment, net | 402,358 | 417,436 |
| Total assets | \$ 74,036,581 | \$ 66,502,723 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION | | |
| LIABILITIES: | | |
| Accounts payable | \$ 1,329,051 | \$ 1,229,478 |
| Accrued expenses | 571,676 | 118,021 |
| Claims payable | 2,754,931 | 3,134,277 |
| Claims reserves | 10,992,954 | 11,929,414 |
| Premium deficiency reserve | 3,916,051 | - |
| Premium holiday payable | 24,926,502 | 22,823,081 |
| Total current liabilities | 44,491,164 | 39,234,271 |
| DEFERRED INFLOWS OF RESOURCES: | | |
| Deferred revenue | 851,058 | 500,016 |
| NET POSITION: | | |
| Invested in capital assets | 402,358 | 417,436 |
| Unrestricted | 28,292,000 | 26,351,000 |
| Total net position | 28,694,358 | 26,768,436 |
| Total liabilities, deferred inflows of resources and net position | \$ 74,036,581 | \$ 66,502,723 |

NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

| | June 30, 2020 | June 30, 2019 |
|--------------------------------|----------------|----------------|
| Operating revenues: | | |
| Member contributions | \$ 195,565,845 | \$ 188,351,300 |
| Other income | 6,184,105 | 4,928,618 |
| Total operating revenues | 201,749,950 | 193,279,917 |
| Operating expenses: | | |
| Claims expense | 156,292,633 | 157,279,710 |
| Insurance premiums | 17,221,056 | 15,675,659 |
| Claims administration | 5,080,260 | 4,579,602 |
| Contractual services | 740,463 | 625,577 |
| Affordable Care Act fees | 41,858 | 38,165 |
| Legal settlement expense | 401,000 | - |
| Self-insured pool assessments | 901,011 | # 777,060 |
| Administration | 1,428,502 | 1,281,004 |
| Premium deficiency expense | 3,916,051 | - |
| Health and wellness benefits | 3,070,376 | 3,536,826 |
| Conference expenses | 14,857 | 6,943 |
| Total operating expenses | 189,108,066 | 183,800,545 |
| Operating gain | 12,641,884 | 9,479,372 |
| Nonoperating revenues: | | |
| Premium holiday credits | (13,138,415) | (11,967,897) |
| Earnings on investments | 2,422,453 | 2,895,659 |
| Change in net position | 1,925,922 | # 407,134 |
| Beginning net position, July 1 | 26,768,437 | 26,361,303 |
| Ending net position, June 30 | \$ 28,694,358 | \$ 26,768,437 |

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

| | June 30, 2020 | June 30, 2019 |
|--|----------------|----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Receipts from members | \$ 184,489,588 | \$ 180,453,551 |
| Subsidies and refund received | 5,837,423 | 5,014,494 |
| Payments to suppliers | (31,147,815) | (25,512,827) |
| Payments of claims | (153,692,389) | (157,317,375) |
| Payments to employees | (1,100,660) | (936,368) |
| Net cash and cash equivalents provided by operating activities | 4,386,147 | 1,701,474 |
| CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES: | | |
| Purchase of property and equipment | 17,356 | 5,383 |
| Net cash and cash equivalents provided by capital and financing activities | 17,356 | 5,383 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from maturities and sales, net of purchases | (717,301) | (815,622) |
| Interest and dividend income | 1,209,577 | 1,005,807 |
| Net cash and cash equivalents provided by investing activities | 492,277 | 190,186 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | | |
| | 4,895,779 | 1,897,043 |
| CASH AND CASH EQUIVALENTS, beginning of year | 23,189,849 | 21,292,806 |
| CASH AND CASH EQUIVALENTS, end of year | \$ 28,085,628 | \$ 23,189,849 |
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | | |
| Operating income | \$ 12,641,884 | \$ 9,479,371 |
| Adjustments to reconcile operating income to net cash and cash equivalents provided by operating activities - | | |
| Depreciation expense | 27,717 | 28,867 |
| Premium holiday credit | (13,138,415) | (11,967,897) |
| Loss on fixed assets disposal, net | (4,716) | - |
| (Increase) decrease in assets: | | |
| Member receivables | (392,306) | (1,310,238) |
| Accounts receivable | (346,682) | 85,876 |
| Prepaid expenses | (9,271) | (3,931) |
| Increase (decrease) in liabilities: | | |
| Accounts payable | 99,573 | 15,428 |
| Claims payable | (379,346) | 200,855 |
| Premium deficiency reserve | 3,916,051 | - |
| Accrued expenses | 453,655 | 31,276 |
| Claims reserves | (936,460) | (238,520) |
| Premium holiday payable | 2,103,421 | 5,996,586 |
| Increase in deferred revenue: | 351,042 | (616,200) |
| Total adjustments | (8,255,737) | (7,777,897) |
| Net cash and cash equivalents provided by operating activities | \$ 4,386,147 | \$ 1,701,474 |
| SUPPLEMENTAL NON-CASH DISCLOSURE | | |
| Change in unrealized gain on investments | \$ 821,906 | \$ 1,752,616 |

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

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.

Beginning July 1, 2019, the Coalition began offering fully insured life, long term disability and short term disability plans in partnership with Mutual of Omaha. The Coalition also began offering a hard wear only, voluntary vision plan in partnership with VSP Vision.

B. Membership - Membership is limited to political subdivisions of the State of New Hampshire. Membership was 91 at June 30, 2020 and 89 at June 30, 2019.

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.

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

1. Organization and significant accounting policies (continued):

- 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, 2020 and June 30, 2019.
- 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 statement 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. The amortized cost of debt securities are adjusted using the interest method for amortization of premiums and accretion of discounts. Such amortization and accretion is included in net investment income. Investment purchases are recognized on the settlement date. Investments are stated at fair value based on quoted market prices or through a recognized pricing service. Annual changes in fair values are recognized in the statement of revenue, expenses, and changes in net position as unrealized gains or losses on investments.

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.

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

1. Organization and significant accounting policies (continued):

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.

- 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 reflect all amounts charged for self-funded and fully insured employee benefit programs. The majority of contributions are for the core medical program which is 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, insurance premiums, health and wellness programs, and the Coalition's administration. The rates are effective through June 30, 2020.
- 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.

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

1. Organization and significant accounting policies (continued):

The following table represents the components of the net position:

| | 2020 | 2019 |
|---|---------------|---------------|
| Invested in capital assets | \$ 402,358 | \$ 417,436 |
| Unrestricted - medical contingent reserve | 27,513,000 | 25,592,000 |
| Unrestricted - dental contingent reserve | 779,000 | 759,000 |
| Unrestricted net position | 28,292,000 | 26,351,000 |
| Total net position | \$ 28,694,358 | \$ 26,768,436 |

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

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

1. Organization and significant accounting policies (continued):

M. 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, 2020 and 2019, were \$2,596,101 and \$1,830,356, respectively, which is recorded within Insurance on the Statements of Revenues, Expenses and Changes in Net Position. There was \$1,181,929 and \$227,784 recovered from excess insurers and deducted from claims paid for fiscal years ended June 30, 2020 and 2019, respectively. COVID-19 pandemic has had an impact on health care costs. As a result, the third party actuary and management acknowledge this shift and considered this change in determining the estimates. Due to the high degree of uncertainty associated with the pandemic, results may vary from the estimates determined.

Third party health coverage was purchased from Optum for the 2019 a program year subject to individual losses in excess of \$500,000 per covered enrollee for loss year 2019 with an aggregating deductible of \$125,000. Beginning July 1, 2020, the Coalition purchased coverage subject to individual losses in excess of \$550,000 with an aggregating deductible of \$125,000. The Coalition does not currently purchase aggregate excess insurance.

The Coalition administers several fully insured employee benefit programs which pay pass through insurance premiums to carriers. Specifically, the Coalition's SchoolCare 65+ program through the United American Insurance Company and Express Scripts, as well as ancillary insurance through Mutual of Omaha and VSP.

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. As a result of delay in services and reporting of services in the last quarter of policy year ending June 30, 2020 as a result of the COVID-19 pandemic, there is excess expected losses to be reported in the policy period effective July 1, 2020. Therefore, a premium deficiency reserve of \$3,916,051 was recorded as of June 30, 2020. No premium deficiency reserve was recorded as of June 30, 2019. Investment income was included as part of the calculation in determining if a premium deficiency existed.

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

1. Organization and significant accounting policies (continued):

- P. Risks and uncertainties - In December 2019, a novel strain of coronavirus surfaced in Wuhan, China, and has spread around the world, with resulting business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. The operations and business results of the Company could be materially adversely affected. The extent to which the coronavirus may impact business activity or investment results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions required to contain the coronavirus or treat its impact, among others.
- Q. 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.

Compliance - The Coalition's investment portfolio on June 30, 2020 was valued at \$41,051,142. On June 30, 2019 it was valued at \$39,111,027. The June 30, 2018 value of the investment portfolio was \$36,426,720. 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 .47% which is compliant with RSA 402:28. This aggregate amount includes the Coalition's cash, cash equivalents, and other non-REIT investments. There is one remaining REIT in the portfolio as of June 30, 2020. The REIT balances were \$68,764 at June 30, 2020, \$66,854 at June 30, 2019 and \$63,013 at June 30, 2018. The Coalition held securities that are non-compliant with NH RSA 35:9 in the amount of \$53,249 at June 30, 2020, \$253,300 at June 30, 2019 and \$922,483 at June 30, 2018.

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, 2020 and June 30, 2019.

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

2. Investments (continued):

The Coalition's investments, including compliance consisted of the following as of June 30, 2020:

| 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 | \$ 11,481,264 | 16.61% | \$ 53,249 | 0.08% | \$ - | 0.00% |
| Government Bonds | 701,563 | 1.01% | - | 0.00% | - | 0.00% |
| Municipal Bonds | 4,397,870 | 6.36% | - | 0.00% | - | 0.00% |
| Asset Backed Corporate | 4,073,157 | 5.89% | - | 0.00% | - | 0.00% |
| Mortgage Backed Corporate | 11,168,713 | 16.15% | - | 0.00% | - | 0.00% |
| Exchange Traded Funds | 5,889,883 | 8.52% | - | 0.00% | - | 0.00% |
| REITs | 68,764 | 0.10% | 68,764 | 0.10% | 68,764 | 0.10% |
| US Treasuries | 3,269,928 | 4.73% | - | 0.00% | - | 0.00% |
| Total Investments | 41,051,142 | 59.38% | - | 0.00% | - | 0.00% |
| Cash and Money Markets | 28,085,628 | 40.62% | - | 0.00% | - | 0.00% |
| Total Investment Portfolio | \$69,136,770 | 100% | - | 0.00% | - | 0.00% |
| Total Out of Compliance | | | \$ 122,013 | 0.18% | \$ 68,764 | 0.10% |

The Coalition's investments, including compliance consisted of the following as of June 30, 2019:

| 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 | \$ 10,851,049 | 15.70% | \$ 253,300 | 0.41% | \$ - | 0.00% |
| Government Bonds | 808,896 | 1.17% | - | 0.00% | - | 0.00% |
| Municipal Bonds | 2,868,153 | 4.15% | - | 0.00% | - | 0.00% |
| Asset Backed Corporate | 4,517,764 | 6.53% | - | 0.00% | - | 0.00% |
| Mortgage Backed Corporate | 9,321,435 | 13.48% | - | 0.00% | - | 0.00% |
| Exchange Traded Funds | 7,505,919 | 10.86% | - | 0.00% | - | 0.00% |
| REITs | 66,854 | 0.10% | 66,854 | 0.11% | 66,854 | 0.11% |
| US Treasuries | 3,170,957 | 4.59% | - | 0.00% | - | 0.00% |
| Total Investments | 39,111,027 | 56.57% | - | 0.00% | - | 0.00% |
| Cash and Money Markets | 23,189,849 | 33.54% | - | 0.00% | - | 0.00% |
| Total Investment Portfolio | \$62,300,876 | 100% | - | 0.00% | - | 0.00% |
| Total Out of Compliance | | | \$ 320,154 | 0.51% | \$ 66,854 | 0.11% |

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

2. Investments (continued):

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, 2020 are as follows:

| | Fair Value | Less than One Year | 1 to 5 Years | 6 to 10 Years | After 10 Years |
|------------------|----------------------|-----------------------|----------------------|----------------------|---------------------|
| US Treasuries | \$ 3,269,928 | \$ 43,060 | \$ 1,471,184 | \$ 1,755,684 | \$ - |
| Government bonds | 701,563 | - | 701,563 | - | - |
| Corporate bonds | 11,481,264 | 754,500 | 5,968,790 | 4,546,334 | 211,640 |
| Municipal bonds | 4,397,870 | 561,324 | 1,029,412 | 2,512,653 | 294,481 |
| Asset backed | 4,073,157 | 533,693 | 2,635,765 | 372,102 | 531,597 |
| Mortgage backed | 11,168,713 | 595,272 | 841,727 | 1,263,403 | 8,468,311 |
| | <u>\$ 35,092,495</u> | <u>\$ 2,487,849</u> | <u>\$ 12,648,441</u> | <u>\$ 10,450,176</u> | <u>\$ 9,506,029</u> |

Maturities of interest earning investments at June 30, 2019 are as follows:

| | Fair Value | Less than One Year | 1 to 5 Years | 6 to 10 Years | After 10 Years |
|------------------|----------------------|-----------------------|----------------------|---------------------|---------------------|
| US Treasuries | \$ 3,170,957 | \$ - | \$ 1,950,787 | \$ 1,220,169 | \$ - |
| Government bonds | 808,896 | - | 534,791 | 274,105 | - |
| Corporate bonds | 10,851,049 | 284,198 | 6,298,158 | 3,790,411 | 478,282 |
| Municipal bonds | 2,868,153 | - | 1,353,259 | 1,514,894 | - |
| Asset backed | 4,517,764 | 793,907 | 2,847,602 | 517,636 | 358,619 |
| Mortgage backed | 9,321,435 | 171,775 | 1,213,412 | 831,897 | 7,104,351 |
| | <u>\$ 31,538,254</u> | <u>\$ 1,249,880</u> | <u>\$ 14,198,009</u> | <u>\$ 8,149,112</u> | <u>\$ 7,941,252</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.

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

2. Investments (continued):

The table below outlines third party credit ratings of the Coalition's fixed maturity securities at June 30, 2020:

| | U.S. Treasuries | Government Bonds | Corporate Bonds | Municipal Bonds | Asset Backed | Mortgage Backed | Totals |
|------|---------------------|---------------------|----------------------|---------------------|---------------------|----------------------|----------------------|
| AAA | \$ - | \$ - | \$ - | \$ 1,576,618 | \$ 3,902,759 | \$ 4,020,828 | \$ 9,500,205 |
| AA+ | 3,269,928 | 701,563 | 159,286 | 1,550,129 | - | 6,483,997 | 12,164,903 |
| AA | - | - | 768,203 | 595,758 | 76,754 | - | 1,440,715 |
| AA- | - | - | 1,116,440 | 210,654 | 93,644 | - | 1,420,738 |
| A+ | - | - | 2,364,789 | - | - | - | 2,364,789 |
| A | - | - | 4,081,552 | 250,585 | - | - | 4,332,137 |
| A- | - | - | 2,990,994 | - | - | - | 2,990,994 |
| BBB+ | - | - | - | - | - | - | - |
| BBB | - | - | - | - | - | - | - |
| BBB- | - | - | - | - | - | - | - |
| BB | - | - | - | - | - | - | - |
| NA | - | - | - | 214,126 | - | 663,888 | 878,014 |
| NR | - | - | - | - | - | - | - |
| | <u>\$ 3,269,928</u> | <u>\$ 701,563</u> | <u>\$ 11,481,264</u> | <u>\$ 4,397,870</u> | <u>\$ 4,073,157</u> | <u>\$ 11,168,713</u> | <u>\$ 35,092,495</u> |

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

2. Investments (continued):

The table below outlines the third party credit ratings of the Coalition's fixed maturity securities at June 30, 2019:

| | U.S. Treasuries | Government Bonds | Corporate Bonds | Municipal Bonds | Asset Backed | Mortgage Backed | Totals |
|------|---------------------|---------------------|----------------------|---------------------|---------------------|---------------------|----------------------|
| AAA | \$ - | \$ - | \$ 108,972 | \$ 599,748 | \$ 4,517,764 | \$ 3,631,628 | \$ 8,858,112 |
| AA+ | 3,170,957 | 808,896 | 153,604 | 1,425,657 | - | 5,030,909 | 10,590,023 |
| AA | - | - | 1,112,176 | 641,671 | - | - | 1,753,847 |
| AA- | - | - | 874,668 | 201,077 | - | - | 1,075,745 |
| A+ | - | - | 1,822,011 | - | - | - | 1,822,011 |
| A | - | - | 4,080,252 | - | - | - | 4,080,252 |
| A- | - | - | 2,359,199 | - | - | - | 2,359,199 |
| BBB+ | - | - | - | - | - | - | - |
| BBB | - | - | 90,624 | - | - | - | 90,624 |
| BBB- | - | - | 102,785 | - | - | - | 102,785 |
| BB | - | - | 96,312 | - | - | - | 96,312 |
| NA | - | - | - | - | - | 658,898 | 658,898 |
| NR | - | - | 50,446 | - | - | - | 50,446 |
| | - | - | - | - | - | - | - |
| | <u>\$ 3,170,957</u> | <u>\$ 808,896</u> | <u>\$ 10,851,049</u> | <u>\$ 2,868,153</u> | <u>\$ 4,517,764</u> | <u>\$ 9,321,435</u> | <u>\$ 31,538,254</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, 2020 AND 2019

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, 2020 and 2019:

| June 30, 2020 | Quoted Prices in Active Markets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---------------------------|--|--|--|
| Corporate Bonds | \$ - | \$ 11,481,264 | \$ - |
| Government Bonds | - | 701,563 | - |
| Municipal Bonds | - | 4,397,870 | - |
| Asset Backed Corporate | - | 4,073,157 | - |
| Mortgage Backed Corporate | - | 11,168,713 | - |
| Exchange Traded Funds | 5,889,883 | - | - |
| REITs | - | - | 68,764 |
| US Treasuries | - | 3,269,928 | - |
| | <hr/> | <hr/> | <hr/> |
| Total Investments | <u>\$ 5,889,883</u> | <u>\$ 35,092,495</u> | <u>\$ 68,764</u> |
| | | | |
| June 30, 2019 | Quoted Prices in Active Markets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Corporate Bonds | \$ - | \$ 10,851,049 | \$ - |
| Government Bonds | - | 808,896 | - |
| Municipal Bonds | - | 2,868,153 | - |
| Asset Backed Corporate | - | 4,517,764 | - |
| Mortgage Backed Corporate | - | 9,321,435 | - |
| Exchange Traded Funds | 7,505,919 | - | - |
| REITs | - | - | 66,854 |
| US Treasuries | - | 3,170,957 | - |
| | <hr/> | <hr/> | <hr/> |
| Total Investments | <u>\$ 7,505,919</u> | <u>\$ 31,538,254</u> | <u>\$ 66,854</u> |

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

2. Investments (continued):

Earnings on investments for the years ended June 30, 2020 and 2019, is summarized as follows:

| | <u>June 30, 2020</u> | <u>June 30, 2019</u> |
|-------------------------|----------------------|----------------------|
| Interest income, net | \$ 1,197,719 | \$ 1,256,812 |
| Amortization expense | (124,766) | (116,371) |
| Realized gains (losses) | <u>525,684</u> | <u>(1,239)</u> |
| Premium holiday credits | 1,598,637 | 1,139,202 |
| Unrealized gains | <u>823,816</u> | <u>1,756,457</u> |
| Earnings on investments | <u>\$ 2,422,453</u> | <u>\$ 2,895,659</u> |

3. Property and equipment:

Property and equipment consisted of the following at year end:

| | <u>Balance June 30, 2019</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance June 30, 2020</u> |
|---|----------------------------------|--------------------|-------------------|----------------------------------|
| Capital assets, being depreciated | | | | |
| Buildings and improvements | \$ 609,762 | \$ 5,000 | \$ (6,000) | \$ 608,762 |
| Furniture and equipment | <u>148,835</u> | <u>12,356</u> | <u>(23,689)</u> | <u>137,502</u> |
| Total capital assets being depreciated | <u>758,597</u> | <u>17,356</u> | <u>(29,689)</u> | <u>746,264</u> |
| Less: accumulated depreciation for: | | | | |
| Buildings and improvements | (199,340) | (20,430) | 2,775 | (216,995) |
| Furniture and equipment | <u>(141,821)</u> | <u>(7,288)</u> | <u>22,198</u> | <u>(126,911)</u> |
| Total accumulated depreciation | <u>(341,161)</u> | <u>(27,717)</u> | <u>24,973</u> | <u>(343,906)</u> |
| Total capital assets being depreciated, net | <u>\$ 417,436</u> | <u>\$ (10,361)</u> | <u>\$ (4,716)</u> | <u>\$ 402,358</u> |

Depreciation expense was \$27,717 and \$28,867 for the years ended June 30, 2020 and 2019, respectively.

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

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.

The following represents changes in those aggregate liabilities for the Coalition for the years ended June 30, 2020, 2019 and 2018:

| | <u>June 30, 2020</u> | <u>June 30, 2019</u> | <u>June 30, 2018</u> |
|---|----------------------|----------------------|----------------------|
| Unpaid claims and allocated claims adjustment expenses at beginning of year | \$ 15,063,691 | \$ 15,101,356 | \$ 13,541,422 |
| Incurred claims and allocated claim adjustment expenses: | | | |
| Provision for insured events of current fiscal year | 158,820,984 | 159,370,120 | 148,725,597 |
| Changes in the provision for insured events of prior fiscal years | (2,528,351) | (2,090,410) | (1,610,715) |
| Claims administration expenses, current year | <u>5,080,260</u> | <u>4,579,603</u> | <u>4,410,416</u> |
| Total incurred claims and claim adjustment expenses | 161,372,893 | 161,859,313 | 151,525,298 |
| Claim and allocated claim adjustment expense payments: | | | |
| Attributable to insured events of current fiscal year | 145,073,100 | 144,306,429 | 133,624,241 |
| Attributable to insured events of prior fiscal years | 12,535,340 | 13,010,946 | 11,930,707 |
| Claims administration expenses, current year | <u>5,080,260</u> | <u>4,579,603</u> | <u>4,410,416</u> |
| Total payments | <u>162,688,700</u> | <u>161,896,978</u> | <u>149,965,364</u> |
| Total unpaid claims and claim adjustment expenses at end of the year | <u>\$ 13,747,884</u> | <u>\$ 15,063,691</u> | <u>\$ 15,101,356</u> |

As a result of changes in estimates of insured events in prior years, incurred losses and loss adjustment expenses decreased by \$2,528,351 and 2,090,410 in 2020 and 2019, respectively, due to favorable loss development.

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, 2020 AND 2019**

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. Current Member groups also have the option of receiving premium holiday credits via invoice credits or checks.

| <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 |
| July 1, 2019 | \$ 11,081,915 |
| July 1, 2020 | \$ 11,967,897 |

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 October of 2019 to reflect changes in market value measurements between US Bank and Clearwater.

The Coalition’s investment portfolio on June 30, 2020 was valued at \$41,051,142. On June 30, 2019 it was valued at \$39,111,027. The June 30, 2018 value of the investment portfolio was \$36,426,720. 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 .47% which is compliant with RSA 402:28. This aggregate amount includes the Coalition’s cash, cash equivalents, and other non-REIT investments. There is one remaining REIT in the portfolio as of June 30, 2020. The REIT balances were \$68,764 at June 30, 2020, \$66,854 at June 30, 2019 and \$63,013 at June 30, 2018. The Coalition held no securities that are non-compliant with NH RSA 35:9 as of June 30, 2020. The Coalition held securities that are non-complaint with NH RSA 35:9 in the amount of \$289,721 at June 30, 2019 and \$922,483 at June 30, 2018.

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

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 2020, the Coalition has accrued fees of \$41,857 which represent the Coalition's annual assessment under the Act for the Comparative Effectiveness Research Fee. The Comparative Effectiveness Research fee was originally expected to sunset with a final payment date of July 31, 2020. The fess has been extended through June 30, 2029 for SchoolCare with a final payment date of July 31, 2030.

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, 2020, 2019 and 2018
Schedule 1**

| | <u>SchoolCare-Medical</u> | | | <u>SchoolCare - Dental</u> | | |
|---|---------------------------|----------------------|----------------------|----------------------------|-------------------|-------------------|
| | <u>6/30/2020</u> | <u>6/30/2019</u> | <u>6/30/2018</u> | <u>6/30/2020</u> | <u>6/30/2019</u> | <u>6/30/2018</u> |
| Unpaid claims and allocated claims adjustment expenses at beginning of year | \$ 14,811,620 | \$ 14,862,279 | \$ 13,352,791 | \$ 252,072 | \$ 239,078 | \$ 188,632 |
| Incurred claims and allocated claim adjustment expenses: | | | | | | |
| Provision for insured events of current fiscal year | 155,031,129 | 155,064,665 | 144,954,163 | 3,789,855 | 4,305,455 | 3,771,434 |
| Changes in the provision for insured events of prior fiscal year | (2,492,755) | (2,039,738) | (1,597,063) | (35,596) | (50,672) | (13,652) |
| Claims administration expenses, current year | <u>4,931,552</u> | <u>4,434,274</u> | <u>4,284,348</u> | <u>148,708</u> | <u>145,329</u> | <u>126,068</u> |
| Total incurred claims and claim adjustment expenses | <u>157,469,926</u> | <u>157,459,201</u> | <u>147,641,448</u> | <u>3,902,967</u> | <u>4,400,112</u> | <u>3,883,850</u> |
| Claim and allocated claim adjustment expense payments: | | | | | | |
| Attributable to insured events of current fiscal year | 141,559,168 | 140,253,046 | 130,091,885 | 3,513,933 | 4,053,383 | 3,532,356 |
| Attributable to insured events of prior fiscal years | 12,318,864 | 12,822,540 | 11,755,727 | 216,476 | 188,406 | 174,980 |
| Claims administration expenses, current year | <u>4,931,552</u> | <u>4,434,274</u> | <u>4,284,348</u> | <u>148,708</u> | <u>145,329</u> | <u>126,068</u> |
| Total payments | <u>158,809,584</u> | <u>157,509,860</u> | <u>146,131,960</u> | <u>3,879,117</u> | <u>4,387,118</u> | <u>3,833,404</u> |
| Total unpaid claims and claim adjustment expenses at the years ended June 30, 2020, 2019 and 2018 | <u>\$ 13,471,962</u> | <u>\$ 14,811,620</u> | <u>\$ 14,862,279</u> | <u>\$ 275,922</u> | <u>\$ 252,072</u> | <u>\$ 239,078</u> |

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION
COMPARATIVE SCHEDULE OF CLAIM DEVELOPMENT,
EARNED ASSESSMENTS AND UNALLOCATED EXPENSES
JUNE 30, 2020
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 or the fully insured ancillary products. (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, 2020
Schedule 2 (Page 2 of 2)

| | <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> | <u>6/30/2019</u> | <u>6/30/2020</u> |
|---|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| (1) Required contribution and investment revenue: | | | | | | | | | | | |
| Earned | \$ 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 | \$ 177,144,772 | \$ 183,041,152 |
| Ceded | 533,577 | 793,399 | 1,126,463 | 1,430,523 | 1,974,516 | 2,206,484 | 1,460,836 | 1,608,270 | 1,631,254 | 1,830,356 | 2,596,101 |
| Net earned | 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 | 175,314,415 | 180,445,051 |
| (2) Unallocated expenses | 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 | 10,588,285 | 15,276,340 |
| (3) Estimated claims and expenses, end of policy year | | | | | | | | | | | |
| Incurred | 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 | 159,597,904 | 160,002,913 |
| Ceded | - | 1,032,391 | - | 255,417 | 1,045,871 | 418,193 | 175,325 | 623,032 | 1,808,003 | 227,784 | 1,181,929 |
| Net incurred | 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 | 159,370,120 | 158,820,984 |
| (4) Net paid (cumulative) as of: | | | | | | | | | | | |
| End of the policy year | 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 | 144,306,429 | 145,073,100 |
| One year later | 67,415,030 | 95,043,861 | 109,607,207 | 122,066,073 | 129,827,079 | 142,862,668 | 150,426,323 | 146,901,477 | 146,635,188 | 156,841,769 | |
| Two years later | 67,415,030 | 95,043,861 | 109,607,207 | 122,066,073 | 129,827,079 | 142,862,668 | 150,426,323 | 146,901,477 | 146,635,188 | | |
| Three years later | 67,415,030 | 95,043,861 | 109,607,207 | 122,066,073 | 129,827,079 | 142,862,668 | 150,426,323 | 146,901,477 | | | |
| Four years later | 67,415,030 | 95,043,861 | 109,607,207 | 122,066,073 | 129,827,079 | 142,862,668 | 150,426,323 | | | | |
| Five years later | 67,415,030 | 95,043,861 | 109,607,207 | 122,066,073 | 129,827,079 | 142,862,668 | | | | | |
| Six years later | 67,415,030 | 95,043,861 | 109,607,207 | 122,066,073 | 129,827,079 | | | | | | |
| Seven years later | 67,415,030 | 95,043,861 | 109,607,207 | 122,066,073 | | | | | | | |
| Eight years later | 67,415,030 | 95,043,861 | 109,607,207 | | | | | | | | |
| Nine years later | | | | | | | | | | | |
| (5) Re-estimated ceded claims and expenses | - | 1,171,022 | - | 255,417 | 1,195,297 | 649,305 | 257,907 | 790,968 | 3,333,399 | 863,082 | 1,181,929 |
| (6) Re-estimated net incurred claims and expenses: | | | | | | | | | | | |
| End of the policy year | 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 | 159,370,120 | 158,820,984 |
| One year later | 67,415,030 | 95,043,861 | 109,607,207 | 122,066,073 | 129,827,079 | 142,862,667 | 150,426,323 | 146,901,477 | 146,635,187 | 156,841,769 | |
| Two years later | 67,415,030 | 95,043,861 | 109,607,207 | 122,066,073 | 129,827,079 | 142,862,667 | 150,426,323 | 146,901,477 | 146,635,187 | | |
| Three years later | 67,415,030 | 95,043,861 | 109,607,207 | 122,066,073 | 129,827,079 | 142,862,667 | 150,426,323 | 146,901,477 | | | |
| Four years later | 67,433,284 | 95,043,861 | 109,607,207 | 122,066,073 | 129,827,079 | 142,862,667 | 150,426,323 | | | | |
| Five years later | 67,433,284 | 95,043,861 | 109,607,207 | 122,066,073 | 129,827,079 | 142,862,667 | | | | | |
| Six years later | 67,433,284 | 95,043,861 | 109,607,207 | 122,066,073 | 129,827,079 | | | | | | |
| Seven years later | 67,433,284 | 95,043,861 | 109,607,207 | | | | | | | | |
| Eight years later | 67,433,284 | 95,043,861 | | | | | | | | | |
| Nine years later | | | | | | | | | | | |
| (7) Increase (decrease) in estimated net incurred claims and expenses from end of the policy year | (1,898,432) | (2,396,961) | (2,826,080) | (1,060,171) | (2,475,115) | (3,051,249) | (1,813,910) | (1,610,715) | (2,090,410) | (2,528,351) | - |

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

To the Board of Directors of
New Hampshire School Health Care Coalition

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of New Hampshire School Health Care Coalition (the Coalition) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Coalition's basic financial statements, and have issued our report thereon dated XXX.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Coalition's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Coalition's internal control. Accordingly, we do not express an opinion on the effectiveness of Coalition's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Coalition'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*.

Purpose of this Report

The purpose of this report is solely 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 effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Crowe LLP

Simsbury, Connecticut

Date

SCHOOLCARE
HEALTH BENEFIT PLANS
of the NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION

Fiscal Q4 2019-2020 Investment Review

July 21, 2020

Presented by: Dan Smereck
Managing Director & Principal



STRATEGIC ASSET ALLIANCE
THE INSURANCE INVESTMENT SPECIALIST

We have performed a detailed review of the investment performance for NH SchoolCare. This report is based upon results submitted by the investment managers and NH SchoolCare. This report reflects all of the information currently received and analyzed. Any changes or corrections to that information may impact the conclusions of this review.

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Summary Capital Market Commentary – 2nd Quarter 2020

- **The easing of Covid-19 lockdowns and early signs of economic recovery saw risk appetite return rapidly in Q2, supporting equity and credit markets. As June ended, cases were rising across the world and economic recovery expectations remain wildly volatile. And, the US presidential election is about four months away...**

- GLOBAL FINANCIAL MARKETS – EQUITIES & COMMODITIES

- US equities rebounded in Q2 and outperformed (value underperformed growth across large and small cap stocks) other major equity markets as improving jobs and retail sales data provided cause for optimism. However, investor optimism was tempered by a subsequent rise in Covid-19 cases that has prompted some states to rethink or reversing the easing of lockdown measures. US-wide, the trend of new cases accelerated rapidly into the end of June potentially impacting the perceived pace of economic recovery.
- Eurozone shares posted strong gains in Q2 as lockdown restrictions were eased. Another source of support was news of EU plans for post-Covid-19 recovery with the European Commission proposing a €750 billion fund. This would be in addition to a €540 billion rescue package agreed in April. The European Central Bank also offered support, expanding its pandemic emergency purchase program to €1.35 trillion.
- Japanese shares gained, supported by the improved global picture. Stocks sensitive to the economic cycle tended to fare best while domestic-focused stocks underperformed.
- Emerging market (EM) equities advanced amid global monetary and fiscal stimulus. However, there was an acceleration in the number of new daily cases of Covid-19 in some EM countries.
- In commodities, the energy component rallied as oil-producing countries agreed temporary production cuts.

- GLOBAL FINANCIAL MARKETS – FIXED INCOME

- Broadly, government bond yields saw a degree of divergence over the quarter. The US and Germany's 10-year yields were little changed, but those countries are more sensitive to risk sentiment declined (meaning prices rose). The US 10-year yield remained in a narrow range and finished one basis point lower. It sold off in early June following a stronger-than-expected US labor market data release, though the move reversed later in the month.
 - The US 10-year yield dropped from 0.67% to 0.66% over the quarter, while the two-year yield dropped from 0.25% to 0.15%.
 - U.S. corporate bonds performed strongly, outpacing government bonds, as they benefited from stronger risk appetite, which caused spreads to tighten sharply on the heels of strong fiscal and monetary policy responses from the Federal Reserve and Congress, respectively.



Capital Markets' Performance

| Index | Asset Class | Apr-20 | May-20 | Jun-20 | 2nd QTR | YTD | Trailing 1 Yr | Trailing 3 Yr | Trailing 5 Yr |
|--|-----------------------------|---------|--------|--------|---------------|---------|---------------|---------------|---------------|
| Alerian MLP | Master Limited Partnerships | 49.62% | 8.95% | -7.87% | 50.18% | -35.71% | -41.43% | -16.79% | -12.85% |
| S&P Composite 1500 Growth | U.S. Equity | 14.37% | 6.11% | 3.95% | 26.15% | 6.62% | 16.06% | 15.72% | 13.94% |
| BofA Merrill Lynch US Convertibles | U.S. Convertible Bond | 11.09% | 6.75% | 4.69% | 24.15% | 7.25% | 15.34% | 11.68% | 9.22% |
| S&P MidCap 400 | U.S. Equity | 14.18% | 7.31% | 1.26% | 24.07% | -12.78% | -6.70% | 2.39% | 5.22% |
| S&P SmallCap 600 | U.S. Equity | 12.70% | 4.31% | 3.73% | 21.94% | -17.85% | -11.29% | 0.56% | 4.48% |
| S&P Composite 1500 | U.S. Equity | 12.89% | 4.89% | 1.99% | 20.77% | -4.08% | 6.08% | 9.91% | 10.20% |
| S&P 500 | U.S. Equity | 12.82% | 4.76% | 1.99% | 20.54% | -3.08% | 7.51% | 10.73% | 10.73% |
| MSCI World Index | World Equity | 10.98% | 4.90% | 2.69% | 19.54% | -5.48% | 3.40% | 7.29% | 7.50% |
| Dow Jones Industrial Average | U.S. Equity | 11.22% | 4.66% | 1.82% | 18.51% | -8.43% | -0.54% | 9.08% | 10.62% |
| MSCI EM (Emerging Markets) | International Equity | 9.18% | 0.79% | 7.40% | 18.18% | -9.67% | -3.05% | 2.27% | 3.24% |
| MSCI World Ex. US Index | World Equity | 7.06% | 4.32% | 3.47% | 15.55% | -11.20% | -4.98% | 1.35% | 2.53% |
| MSCI EAFE Index | International Equity | 6.54% | 4.42% | 3.44% | 15.08% | -11.07% | -4.73% | 1.30% | 2.54% |
| MSCI EAFE (Net) | International Equity | 6.46% | 4.35% | 3.40% | 14.88% | -11.34% | -5.13% | 0.81% | 2.05% |
| S&P Composite 1500 Value | U.S. Equity | 10.98% | 3.29% | -0.72% | 13.81% | -16.11% | -5.54% | 3.19% | 5.66% |
| S&P GSCI Commodities | U.S. Equity | -9.67% | 16.37% | 5.09% | 10.47% | -36.31% | -33.90% | -8.71% | -12.54% |
| Barclays Capital U.S. Corporate High Yield | U.S. Fixed Income | 4.51% | 4.41% | 0.98% | 10.18% | -3.80% | 0.03% | 3.33% | 4.79% |
| S&P/LSTA US Leveraged Loan Index | U.S. Fixed Income | 4.50% | 3.80% | 1.14% | 9.70% | -4.61% | -1.99% | 2.07% | 2.89% |
| Dow Jones U.S. Select REIT | U.S. Real Estate | 7.83% | -0.63% | 1.84% | 9.11% | -22.01% | -17.71% | -1.99% | 2.45% |
| Barclays Capital U.S. Corporate Investment Grade | U.S. Fixed Income | 5.24% | 1.56% | 1.96% | 8.98% | 5.02% | 9.50% | 6.34% | 5.83% |
| Barclays U.S. Treasury: U.S. TIPS | U.S. Fixed Income | 2.78% | 0.30% | 1.12% | 4.24% | 6.01% | 8.28% | 5.05% | 3.75% |
| Barclays U.S. Government/Credit | U.S. Fixed Income | 2.23% | 0.58% | 0.87% | 3.71% | 7.21% | 10.02% | 5.87% | 4.74% |
| Citigroup WorldBIG Index | World Fixed Income | 1.69% | 0.64% | 0.91% | 3.27% | 3.61% | 4.83% | 4.01% | 3.70% |
| Barclays Capital U.S. Aggregate | U.S. Fixed Income | 1.78% | 0.47% | 0.63% | 2.90% | 6.14% | 8.74% | 5.32% | 4.30% |
| Barclays Intermediate U.S. Government/Credit | U.S. Fixed Income | 1.41% | 0.76% | 0.62% | 2.81% | 5.28% | 7.12% | 4.43% | 3.46% |
| Barclays Capital Municipal Bond | U.S. Fixed Income | -1.26% | 3.18% | 0.82% | 2.72% | 2.08% | 4.45% | 4.22% | 3.93% |
| S&P GSCI Crude Oil | U.S. Equity | -40.69% | 54.98% | 9.59% | 0.74% | -66.60% | -64.72% | -23.00% | -26.02% |
| 10-Year US Treasury | U.S. Treasury | 0.70% | -0.02% | -0.01% | 0.67% | 12.68% | 14.21% | 7.05% | 4.87% |
| 5-Year US Treasury | U.S. Treasury | 0.18% | 0.20% | 0.17% | 0.55% | 7.25% | 8.44% | 4.68% | 3.21% |
| Merrill Lynch US Treasury Master | U.S. Fixed Income | 0.41% | -0.31% | 0.11% | 0.20% | 9.02% | 10.76% | 5.72% | 4.22% |
| Citigroup 3-month T-bill | Cash/Cash Equivalent | 0.08% | 0.04% | 0.01% | 0.14% | 0.52% | 1.56% | 1.72% | 1.15% |

❖ **KEY THEME** – The support of herculean monetary and fiscal stimuli worldwide helped global markets recovery even though the uncertainty from COVID-19 remains unabated.

Indices sorted high/low by Q2-2020 performance.



U.S. Equity Market – Beneath the “Recovery”



❖ **KEY THEME** – Reduced technology sector index weightings yield materially different perspectives on the US equity market’s “recovery” from the initial COVID-19 shock in March.

- ❖ NASDAQ 100 – 55% Technology (RED)
- ❖ S&P 500 – 28% Technology (WHITE)
- ❖ S&P 500 Equal Weighted – 15% Technology (GREEN)
- ❖ S&P 500 Ex-Technology (BLUE)



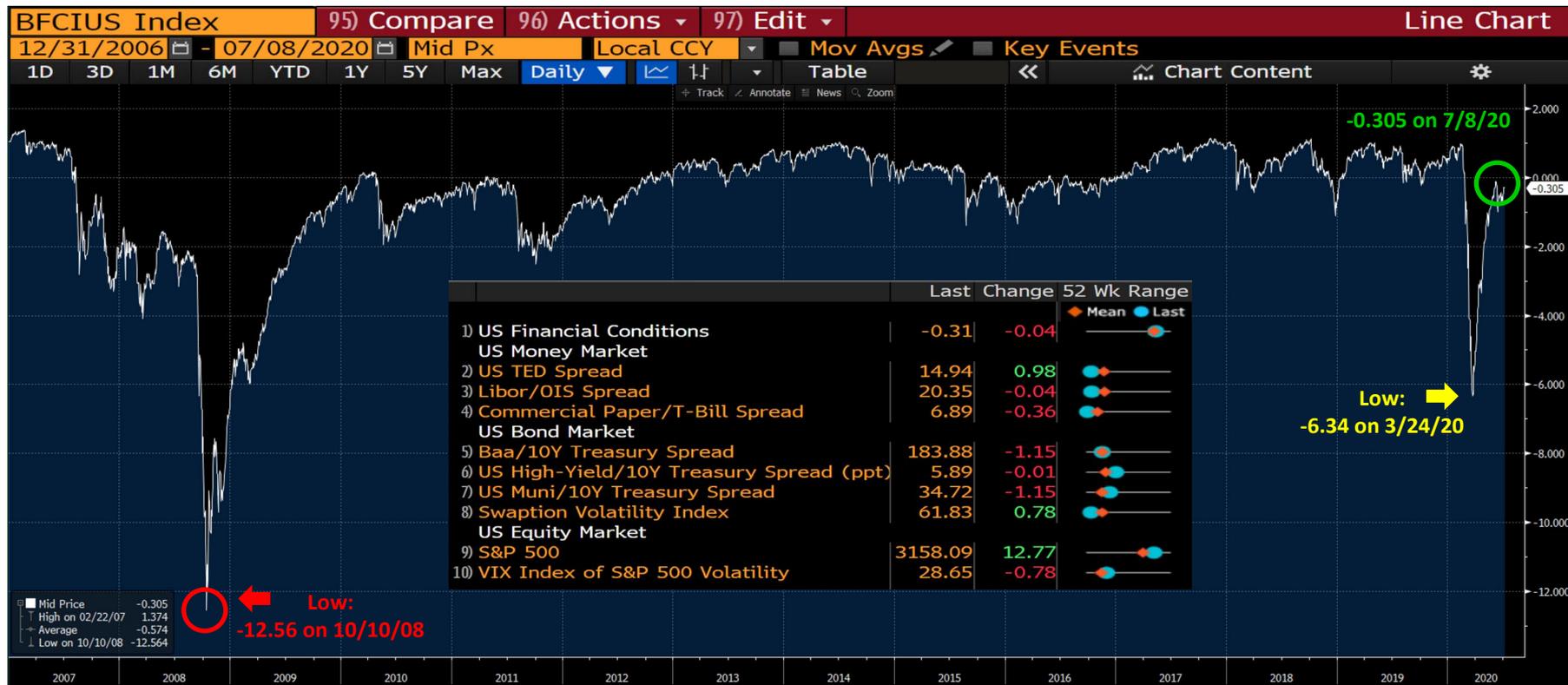
Fixed Income Yields

| Index YTW | 12/31/2018 | 12/31/2019 | 3/31/2020 | 6/30/2020 | Chg Prior QTR |
|----------------------------------|--------------|--------------|--------------|--------------|---------------|
| Aggregate | 3.28% | 2.31% | 1.59% | 1.25% | -0.34% |
| Intermediate Aggregate | 3.13% | 2.14% | 1.33% | 0.97% | -0.36% |
| U.S. Treasury | 2.61% | 1.80% | 0.58% | 0.50% | -0.08% |
| <i>U.S. 2-Yr Treasury</i> | 2.50% | 1.56% | 0.15% | 0.15% | 0.00% |
| <i>U.S. 5-Yr Treasury</i> | 2.51% | 1.68% | 0.38% | 0.29% | -0.09% |
| <i>U.S. 10-Yr Treasury</i> | 2.69% | 1.91% | 0.70% | 0.65% | -0.05% |
| <i>U.S. 30-Yr Treasury</i> | 3.02% | 2.38% | 1.35% | 1.41% | 0.06% |
| U.S. Agency MBS | 3.39% | 2.54% | 1.34% | 1.36% | 0.02% |
| ABS | 3.44% | 2.05% | 2.40% | 0.85% | -1.55% |
| CMBS | 3.06% | 2.48% | 2.37% | 1.72% | -0.65% |
| U.S. Credit | 4.09% | 2.79% | 3.23% | 2.05% | -1.18% |
| <i>A-Rated Corporates</i> | 3.89% | 2.64% | 2.94% | 1.81% | -1.13% |
| <i>BBB-Rated Corporates</i> | 4.69% | 3.19% | 4.55% | 2.68% | -1.87% |
| Municipal Bond | 2.69% | 1.78% | 2.01% | 1.50% | -0.51% |
| U.S. High Yield | 7.95% | 5.19% | 9.44% | 6.87% | -2.57% |
| Global Aggregate (USD) | 2.03% | 1.45% | 1.22% | 0.95% | -0.27% |
| U.S. Agg. vs. Global Agg. | 1.25% | 0.86% | 0.37% | 0.30% | -0.07% |
| UST 2yr-10yr Spread (bps) | 19.0 | 35.0 | 55.0 | 50.0 | |

❖ **KEY THEME** – Given the sharp decline in UST yields due to Federal Reserves policy actions, fixed income investment portfolios will face investment income erosion due to lower reinvestment yields for the foreseeable future. Shorter maturity portfolios will see this impact much sooner than longer maturity portfolios.



US Financial Condition Index – 7/8/2020



The Bloomberg U.S. Financial Conditions Index tracks the overall level of financial stress in the U.S. money, bond, and equity markets to help assess the availability and cost of credit. A positive value indicates accommodative financial conditions, while a negative value indicates tighter financial conditions relative to pre-crisis norms.

All of the indicators included in the composite BFCIUS index are normalized by subtracting the mean and dividing by the standard deviation for each series. The mean and standard deviation are calculated from observations during the pre-crisis period, which is defined as the period from 1994 to July 1, 2008. The normalized values are then combined into the composite BFCIUS index, which is itself normalized relative to its pre-crisis values. As such, the BFCIUS index is a Z-Score that indicates the number of standard deviations by which current financial conditions deviate from normal (pre-crisis) levels.

- ❖ **KEY THEME** – For the time being, unprecedented monetary and fiscal stimulus measures continue to bolster confidence across the U.S. capital markets. Although capital markets are forward looking and anticipate an abysmal short/intermediate term outlook, expect financial conditions' volatility to continue as the markets absorb/react to fast moving information flows regarding COVID-19.



Euro-Zone Financial Condition Index – 7/8/2020



The Bloomberg Euro Area Financial Conditions Index tracks the overall level of financial stress in Euro area money, bond, and equity markets to help assess the availability and cost of credit. A positive value indicates accommodative financial conditions, while a negative value indicates tighter financial conditions relative to pre-crisis norms.

All of the indicators included in the composite BFCIEU index are normalized by subtracting the mean and dividing by the standard deviation for each series. The mean and standard deviation are calculated from observations during the pre-crisis period, which is defined as the period from 1999 to July 1, 2008. The normalized values are then combined into the composite BFCIEU index, which is itself normalized relative to its pre-crisis values. As such, the BFCIEU index is a Z-Score that indicates the number of standard deviations by which current financial conditions deviate from normal (pre-crisis) levels.

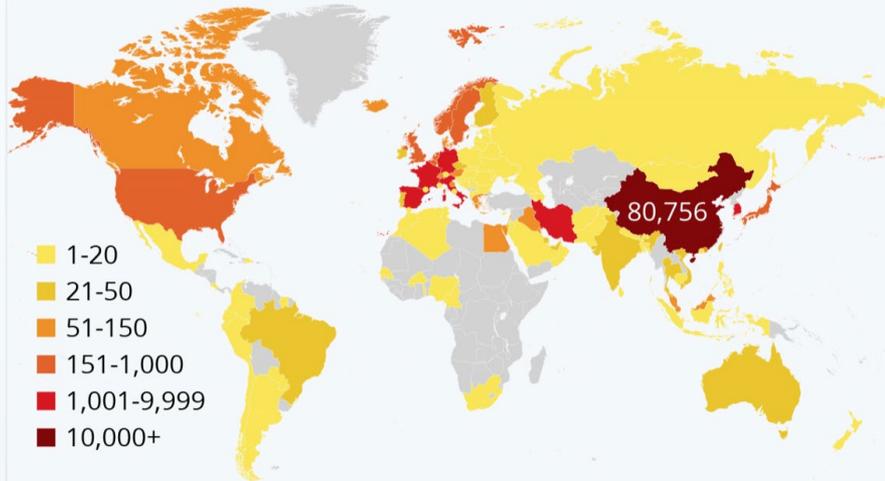
- ❖ **KEY THEME** – For the time being, unprecedented monetary and fiscal stimulus measures continue to bolster confidence across the U.S. capital markets. Although capital markets are forward looking and anticipate an abysmal short/intermediate term outlook, expect financial conditions' volatility to continue as the markets absorb/react to fast moving information flows regarding COVID-19.



Coronavirus Pandemic

Over 110,000 Cases of COVID-19 Confirmed Worldwide

Locations by number of confirmed COVID-19 cases*



* As of 10 March, 2020 at 10:00am CET
Source: Johns Hopkins University

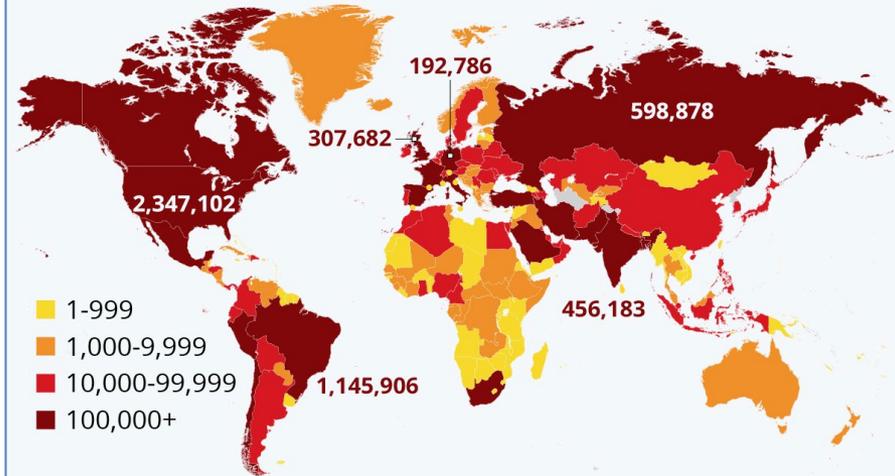


statista

March 10, 2020

The Virus That Has Enveloped the World

Locations by number of confirmed COVID-19 cases



Hong Kong and Macau included in China figure
As of June 24 2020 at 3:30 a.m. EST
Source: Johns Hopkins CSSE

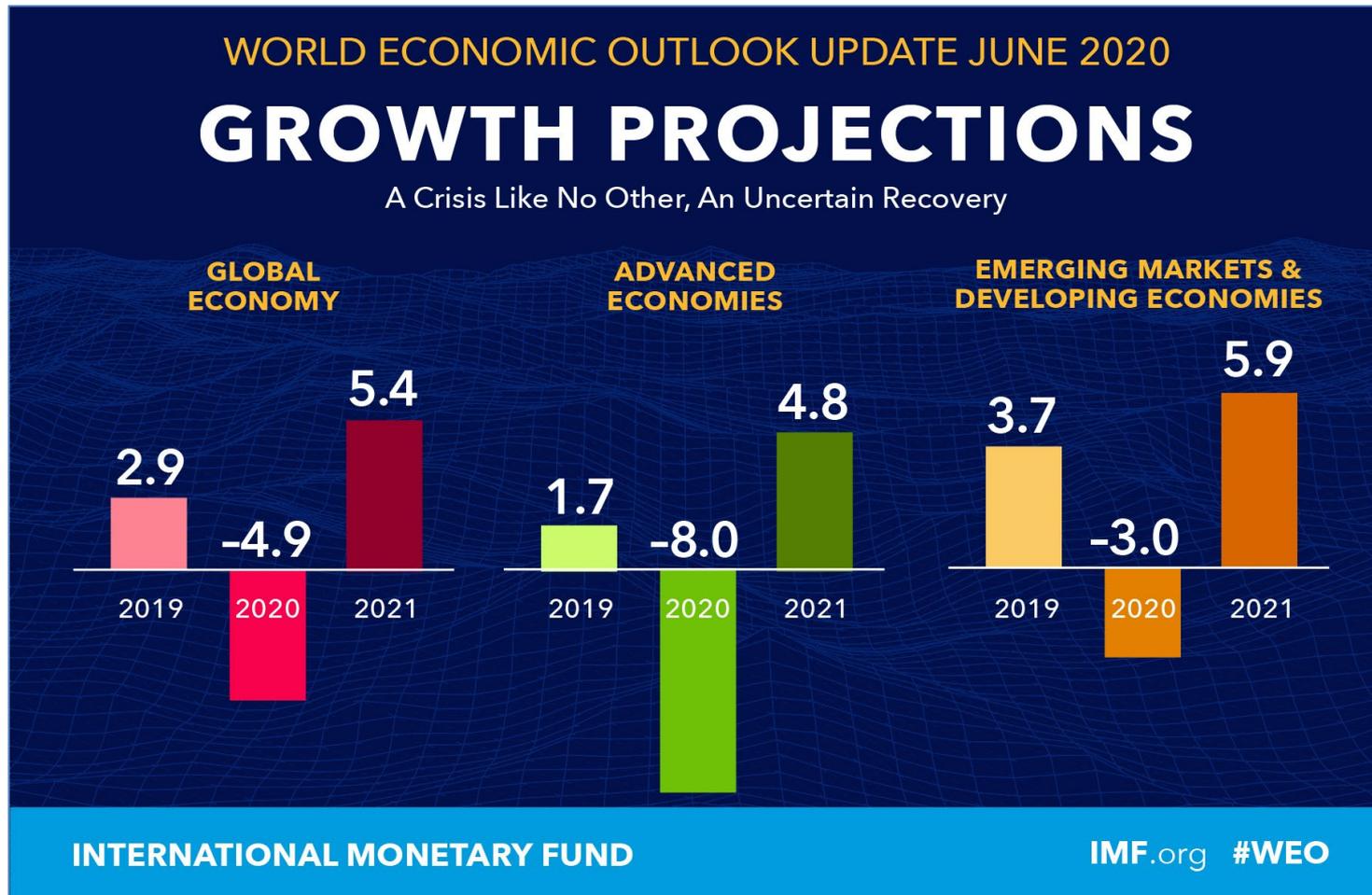


statista

June 24, 2020

- ❖ **KEY THEME** - A global health natural disaster that continues to evolve is the catalyst for a global financial crises, which assures that capital market and societal uncertainty will remain high for the next few quarters.





- ❖ **KEY THEME** – In SAA’s opinion, until a vaccine and/or a proven regimen of care for supporting better outcomes for severe COVID-19 cases is/are developed, the uncertainty for economic projections will be subject to continued downside risk.



Global Workforce Could Lose \$3.4 Trillion in Income This Year

Estimated decline in worldwide labor income in 2020 due to the coronavirus pandemic



Source: International Labour Organization



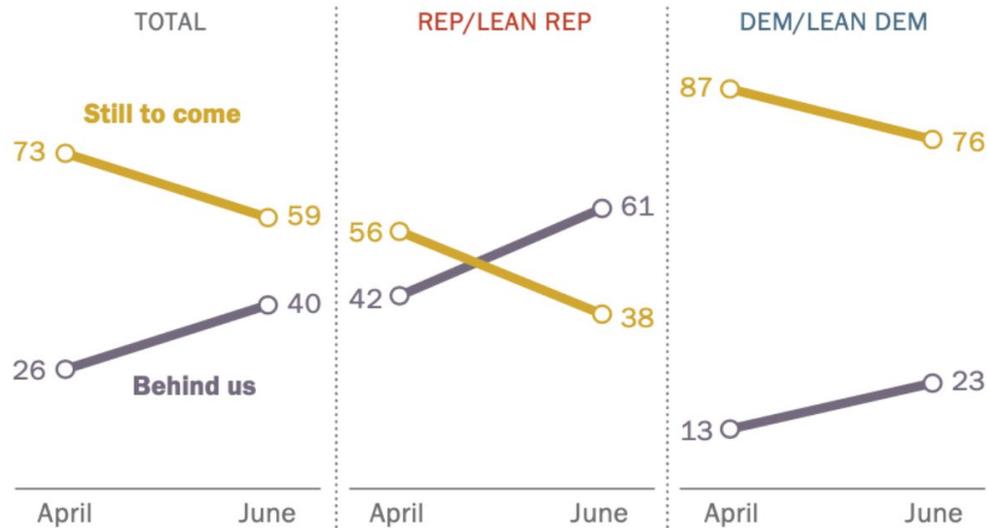
statista

- ❖ According to a preliminary assessment by the International Labor Organization (ILO), the COVID-19 pandemic will have a significant effect on labor markets around the world, with unemployment rising by up to 24.7 million people compared to a baseline scenario, depending on how badly global economic activity is impacted. Assuming a 2 percent decline in global GDP for 2020, the ILO expects global unemployment to increase by 5.3 million, while a 4 percent drop in GDP would result in 13 million additional jobless people. The worst-case scenario sees global economic activity disrupted heavily, global GDP dropping by 8 percent and an increase in global unemployment of 24.7 million.
- ❖ **KEY THEME** – The range of estimates by the ILO are increasingly daunting as larger estimates have accelerating downside implications for consumer spending, consumer debt payments, real estate valuation, financial institution balance sheets, etc.



Consumer Behavior Expectations – Politicized? Mental Health?

% who say, in thinking about the problems the country is facing from the coronavirus outbreak, the worst is ...



Note: No answer responses not shown.

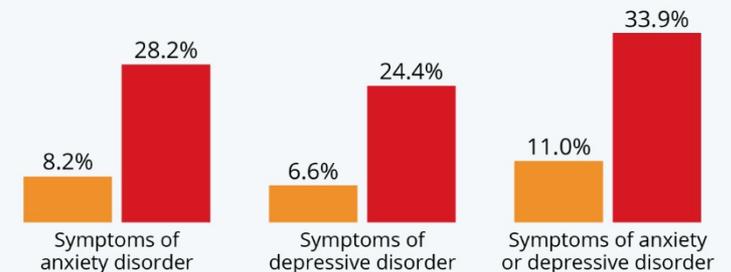
Source: Survey of U.S. adults conducted June 16-22, 2020.

PEW RESEARCH CENTER

Pandemic Causes Spike in Anxiety & Depression

% of U.S. adults showing symptoms of anxiety and/or depressive disorder*

■ January-June 2019 ■ May 14-19, 2020



* Based on self-reported frequency of anxiety and depression symptoms. They are derived from responses to the first two questions of the eight-item Patient Health Questionnaire (PHQ-2) and the seven-item Generalized Anxiety Disorder (GAD-2) scale.

Sources: CDC, NCHS, U.S. Census Bureau

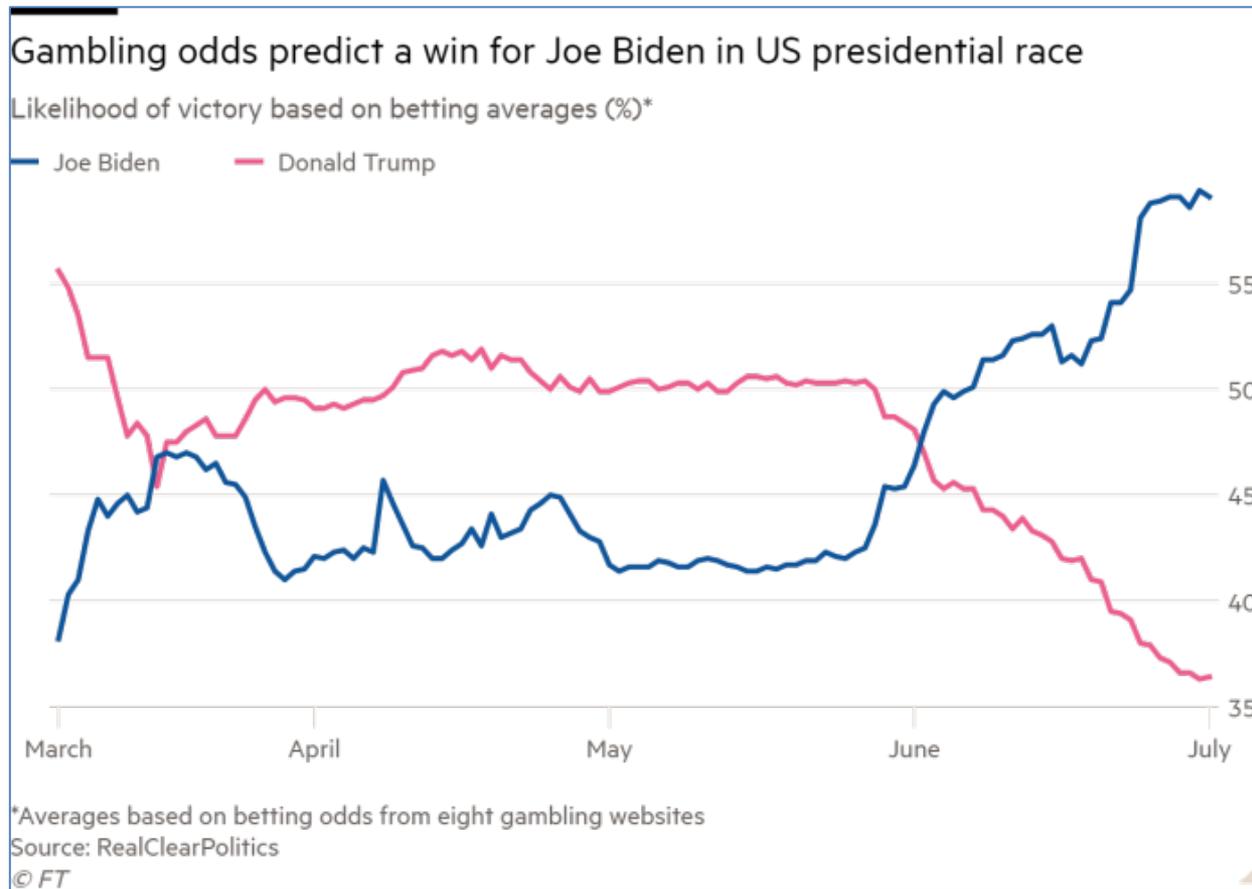


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- ❖ **KEY THEME** – In a matter of months, the entire pace and structure of day-to-day life has been upended by the coronavirus pandemic adding to the stresses people faced before COVID-19.
- ❖ How this affects peoples' economic behavior is rapidly evolving and influenced by many factors some of which are geographical location, family composition, cultural influences, political views, etc.



US Presidential Election 2020



- ❖ **KEY THEME** – Be always wary of polling (and gambling odds...), but it is interesting that Wall Street has actually turned towards the possibility of a Biden presidency. With the election only four months away, the markets will remain focused on COVID-19, but become more election aware as the summer progresses and poll numbers accumulate.



Navigating Uncertainty...Ongoing...

● Look Ahead

- COVID-19 Containment vs. Economic Carnage
- US Debt Growth & Monetization
 - Inflation
 - Reserve Currency Implications
- US Tax Revenue Slowdown & Implications
- Increasing Income Inequality
 - Geopolitics
- Qualified Immunity Evolution (for risk pools)
- Climate Change Issues (still here, but pushed to the back pages due to COVID 19)

● Strategic Asset Allocation & Investment Policy

- Confirm and/or reexamine **investment risk appetite** and **liquidity needs** allowing for any potential use(s) of your organizations' surplus to support members/policyholders as a result of COVID-19 considerations.



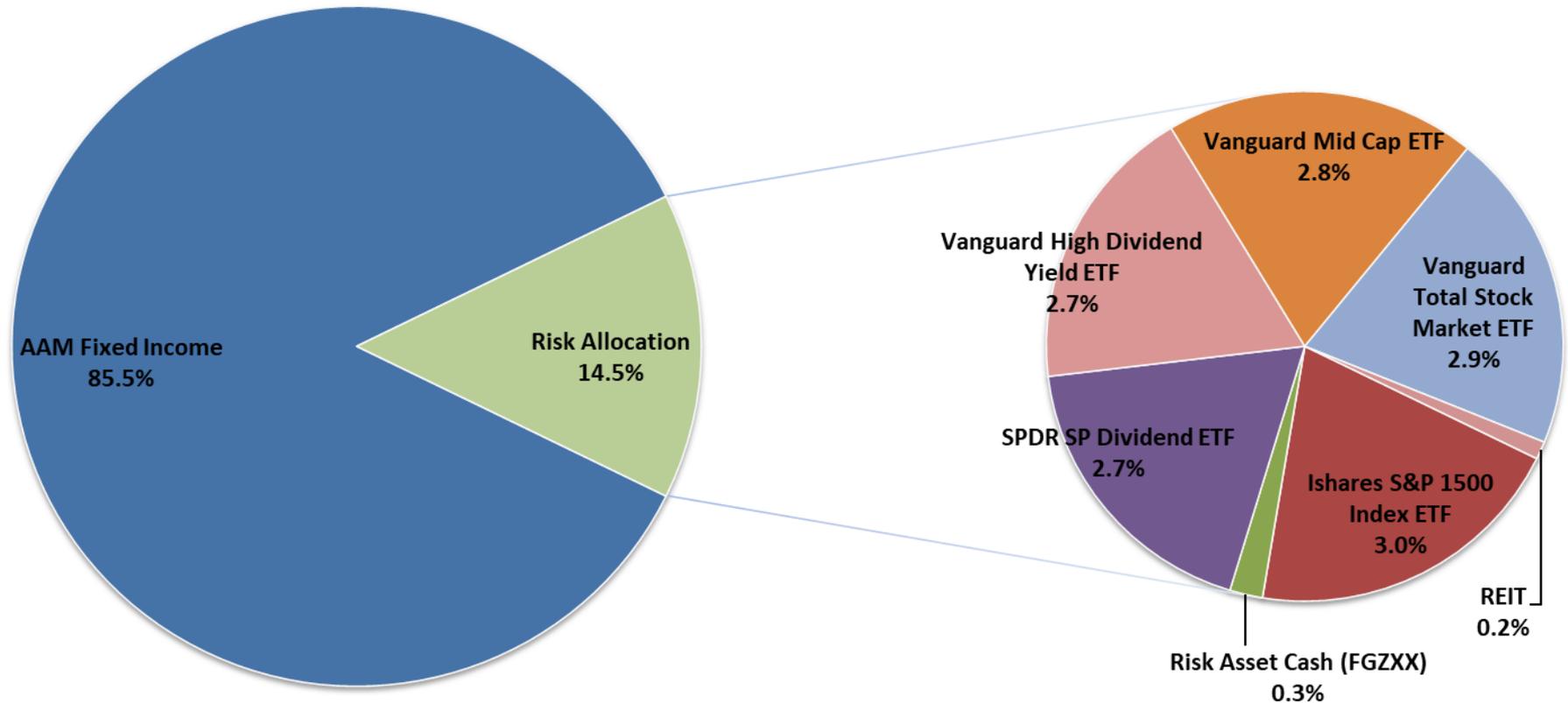


ASSET ALLOCATION



Asset Allocation – As of 6/30/2020

NH SchoolCare Risk Allocation as of 6/30/2020 - \$6.0M
(includes REIT allocation)



- Actual risk asset allocation (equity ETFs) is 14.4%. There is one remaining REIT holding which has not been able to be liquidated to date.
- Risk assets to Net Position equals 20.5%.





PERFORMANCE SUMMARY



Fixed Income and Consolidated Portfolios: As of 6/30/2020

| Portfolio | Market Value | Unrealized Gain/Loss | % of MV | Book Yield | Fiscal Q4 | Fiscal 2019/2020 | Calendar YTD | Annualized | | | | Inception Date | |
|---|--------------|----------------------|---------|------------|-----------|---|--------------|------------|-----------|----------|-----------------|----------------|----------|
| | | | | | | | | 1 Yr | 2Yr | 3Yr | Since Inception | | |
| Consolidated NH SchoolCare Portfolio | \$41,859,532 | \$2,929,644 | 100.0% | 2.43% | 5.17% | 5.58% | 2.48% | 5.58% | 6.31% | 4.89% | 3.89% | Jul-16 | |
| Custom Blend (Allocation Index) | | | | | 4.35% | 5.91% | 2.81% | 5.91% | 6.50% | 5.01% | 4.01% | | |
| Relative Performance | | | | | ↑ 0.82% | ↓ -0.33% | ↓ -0.33% | ↓ -0.33% | ↓ -0.19% | ↓ -0.12% | ↓ -0.12% | | |
| AAM Fixed Income | \$35,775,477 | \$1,730,830 | 85.5% | 2.45% | 3.15% | 6.49% | 4.80% | 6.49% | 6.54% | 4.18% | 4.08% | Jan-17 | |
| Barclays Aggregate/Custom Benchmark | | | | | | Duration: 3.68 Years | 2.23% | 6.81% | 5.12% | 6.81% | 6.71% | 4.28% | 4.10% |
| Relative Performance | | | | | | | ↑ 0.92% | ↓ -0.32% | ↓ -0.32% | ↓ -0.32% | ↓ -0.17% | ↓ -0.10% | ↓ -0.02% |
| Equity Portfolio | \$5,889,883 | \$1,198,814 | 14.1% | 2.42% | 18.93% | 1.67% | -6.58% | 1.67% | 5.23% | 7.46% | 8.02% | Jul-16 | |
| Custom Blend (Allocation Index) | | | | | 18.99% | 2.01% | -6.31% | 2.01% | 5.50% | 7.66% | 8.19% | | |
| Relative Performance | | | | | | Risk Asset-to-Net Position Ratio: 20.5% | ↓ -0.06% | ↓ -0.34% | ↓ -0.27% | ↓ -0.34% | ↓ -0.27% | ↓ -0.20% | ↓ -0.17% |
| Equity vs. Fixed Income Performance | | | | | | | ↑ 15.78% | ↓ -4.82% | ↓ -11.38% | ↓ -4.82% | ↓ -1.31% | ↑ 3.28% | |
| Cash Account² | \$125,407 | | 0.3% | | | | | | | | | | |
| Alternative Investment: REIT³ | \$68,764 | | 0.2% | | | | | | | | | | |

Notes:

- 1) When SAA began tracking combined portfolios. Inception returns are not annualized for period less than one year.
- 2) Risk Asset Cash included in equity performance and total performance; excluded in equity market value
- 3) REIT included in total portfolio market value; excluded from performance; REIT as of 12/31/2019.

-- All returns net of fees
-- Fixed Income Market values include accrued income
-- For each measurement period, **Green** indicates outperformance, and **Red** indicates underperformance

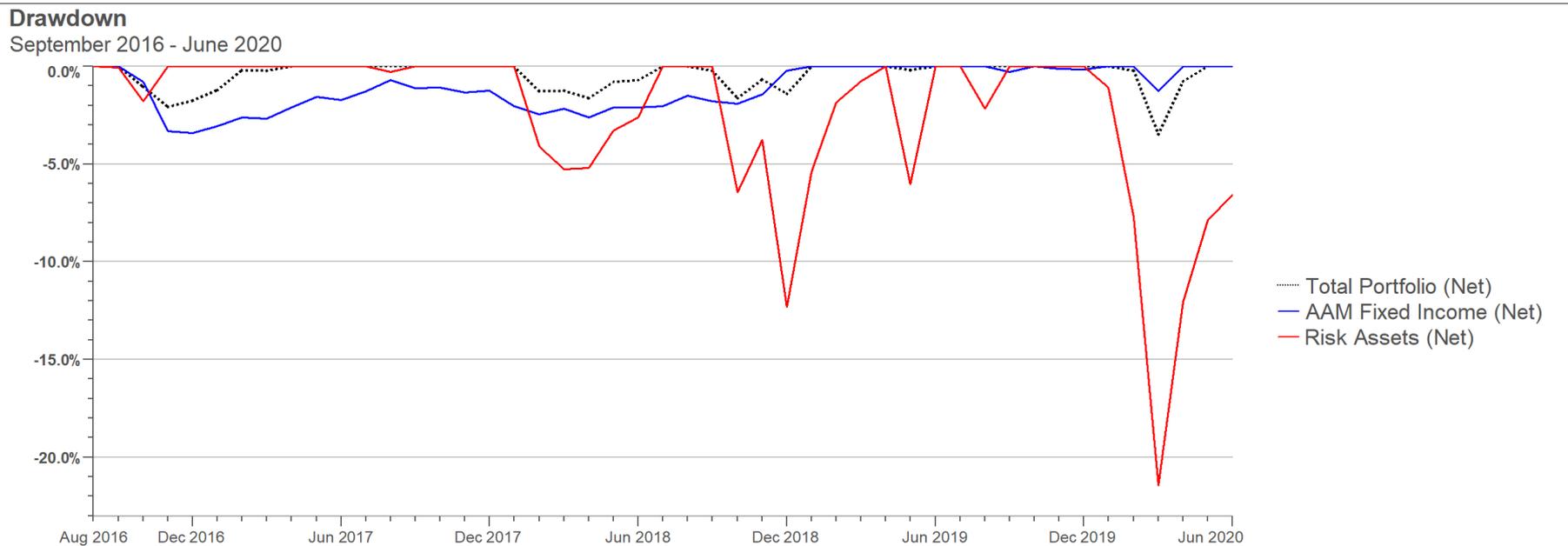


Equity Portfolio: As of 6/30/2020

| Portfolio | Market Value | % of MV | Book Yield | Fiscal Q4 | Fiscal 2019/2020 | Annualized | | Inception Date |
|---|--------------------|---------------|--------------|---------------|------------------|---------------|-----------------|----------------|
| | | | | | | 3Yr | Since Inception | |
| Equity Portfolio | | | | | | | | |
| Consolidated Equity Portfolio | \$6,015,290 | 100.0% | 2.42% | 18.93% | 1.67% | 8.02% | 8.02% | Jul-16 |
| Custom Blend (Allocation Index) | | | | 18.99% | 2.01% | 8.19% | 8.19% | |
| Relative Performance | | | | ↓ -0.06% | ↓ -0.34% | ↓ -0.17% | ↓ -0.17% | |
| iShares S&P 1500 Index ETF | \$1,238,115 | 20.6% | 1.89% | 21.87% | 6.28% | 10.92% | 10.92% | Jul-16 |
| S&P Total Market Index | | | | 22.09% | 7.32% | 11.22% | 11.22% | |
| Relative Performance | | | | ↓ -0.22% | ↓ -1.04% | ↓ -0.30% | ↓ -0.30% | |
| SPDR S&P Dividend ETF | \$1,121,304 | 18.6% | 3.10% | 15.06% | -6.89% | 4.94% | 4.94% | Jul-16 |
| S&P High Yield Dividend Aristocrats Index | | | | 15.13% | -6.58% | 5.30% | 5.30% | |
| Relative Performance | | | | ↓ -0.07% | ↓ -0.31% | ↓ -0.36% | ↓ -0.36% | |
| Vanguard High Dividend Yield ETF | \$1,109,695 | 18.4% | 3.75% | 12.53% | -6.64% | 4.99% | 4.99% | Jul-16 |
| FTSE High Dividend Yield Index | | | | 12.54% | -6.55% | 5.03% | 5.03% | |
| Relative Performance | | | | ↓ -0.01% | ↓ -0.09% | ↓ -0.04% | ↓ -0.04% | |
| Vanguard Mid Cap ETF | \$1,186,217 | 19.7% | 1.78% | 25.01% | -0.19% | 7.94% | 7.94% | Jul-16 |
| CRSP US Mid Cap Index | | | | 24.97% | -0.20% | 7.95% | 7.95% | |
| Relative Performance | | | | ↑ 0.04% | ↑ 0.01% | ↓ -0.01% | ↓ -0.01% | |
| Vanguard Total Stock Market ETF | \$1,234,552 | 20.5% | 1.85% | 21.97% | 6.32% | 11.01% | 11.01% | Jul-16 |
| CRSP US Total Market Index | | | | 22.10% | 6.53% | 11.07% | 11.07% | |
| Relative Performance | | | | ↓ -0.13% | ↓ -0.21% | ↓ -0.06% | ↓ -0.06% | |
| Risk Asset Cash (FGZXX) | \$125,407 | 2.1% | 1.27% | 0.49% | 1.74% | 1.32% | 1.32% | Jul-16 |
| ML 90-day T-Bill Index | | | | 0.02% | 1.63% | 1.45% | 1.45% | |
| Relative Performance | | | | ↑ 0.47% | ↑ 0.11% | ↓ -0.13% | ↓ -0.13% | |
| Notes: | | | | | | | | |
| 1) When SAA began tracking combined portfolios. Inception returns are not annualized for period less than one year. | | | | | | | | |
| -- All returns net of fees | | | | | | | | |
| -- For each measurement period , Green indicates outperformance, and Red indicates underperformance | | | | | | | | |



Drawdown Analysis



Drawdown Table

September 2016 - June 2020: Summary Statistics

| | Return | Standard Deviation | Sharpe Ratio | # of Up Periods | # of Down Periods | Average Up Return | Average Down Return | Best Period Return | Worst Period Return | Max Drawdown | Max Drawdown Length | Max Uninterrupted Loss |
|------------------------|--------|--------------------|--------------|-----------------|-------------------|-------------------|---------------------|--------------------|---------------------|--------------|---------------------|------------------------|
| Total Portfolio (Net) | 4.08% | 3.36% | 0.78 | 35 | 11 | 0.72% | -0.89% | 2.83% | -3.26% | -3.48% | 2 | -3.48% |
| AAM Fixed Income (Net) | 2.80% | 2.66% | 0.50 | 29 | 17 | 0.65% | -0.48% | 1.53% | -2.54% | -3.40% | 3 | -3.40% |
| Risk Assets (Net) | 8.40% | 15.03% | 0.46 | 34 | 12 | 2.62% | -4.47% | 11.96% | -14.89% | -21.45% | 3 | -21.45% |



Performance Disclosures

Performance Disclosures (Summary Page):

- (1) Returns are net of fees - Overperformance is in "GREEN" and underperformance is in "RED."
- (2) Fixed Income market values include accrued income
- (3) Inception returns are not annualized for period less than one year. Dates reflect when SAA began tracking combined portfolios.
- (4) Risk Asset Cash included in equity performance and total performance; excluded in equity market value.
- (5) REIT included in total portfolio market value; excluded from performance; REIT as of 12/31/2019.

Performance Disclosures (Risk Assets Performance):

- (1) Returns are net of fees - Overperformance is in "GREEN" and underperformance is in "RED."
- (2) Inception returns are not annualized for period less than one year. Dates reflect when SAA began tracking combined portfolios.
- (3) Equity Yields sourced from Morningstar.com using TTM Yield or "12 month yield"





AAM – Compliance Exhibit (as of 6/30/2020)

COMPLIANCE

AS OF JUNE 30, 2020



Insurance Investment Management

| Portfolio Allocation | --- Maximum Allowed --- | | --- Current Portfolio --- | | --- In Compliance --- | |
|--|-------------------------|------------|---------------------------|------------|-----------------------|------------|
| | Per Category | Per Issuer | Per Category | Per Issuer | | |
| Asset Allocation | Target | Range | Current | | | |
| Fixed Income | 80.00% | 70%-90% | 85.85% | | Yes | |
| Equity | 20.00% | 16%-22% | 14.15% | | Yes | |
| Diversification | Max Allocation | Per Issuer | Allocation | Per Issuer | Allocation | Per Issuer |
| US, State & Municipal Bonds - % Fixed Portfolio | 100.00% | 2.00% | 24.96% | 1.20% | Yes | Yes |
| Corporate Bonds (US Only) - % Fixed Portfolio | 60.00% | 2.00% | 32.72% | 0.93% | Yes | Yes |
| Asset Backed Securities (ABS) - % Fixed Portfolio | 25.00% | 2.00% | 10.96% | 0.89% | Yes | Yes |
| Commerical Mortgage Backed Securities (CMBS) - % Fixed Portfolio | 20.00% | 2.00% | 19.60% | 0.94% | Yes | Yes |
| US Agency Residential Mortgage Backed Securities - % Fixed Portfolio | 40.00% | 2.00% | 11.77% | 0.88% | Yes | Yes |
| Mutual Fund or ETF | | 5.00% | | 2.97% | - | Yes |
| Quality & Duration | | | | | | |
| Duration (+/- 20% of the Benchmark) | 2.94 - 4.42 | | 3.68 | | Yes | |
| Average Quality | AA- or better | | AA | | Yes | |
| Minimum Quality By Security | A- or better | | BBB | | Yes ¹ | |
| BBB Rated Quality | No Purchases | | 0.15% | | Yes ¹ | |

Prohibited Investments: Privately placed or other non-marketable debt, Naked options or future contracts, Direct investments in oil and gas transactions and venture capital,

¹All securities below A- were held prior to the adoption of the current Investment Policy or have been granted approval to hold.



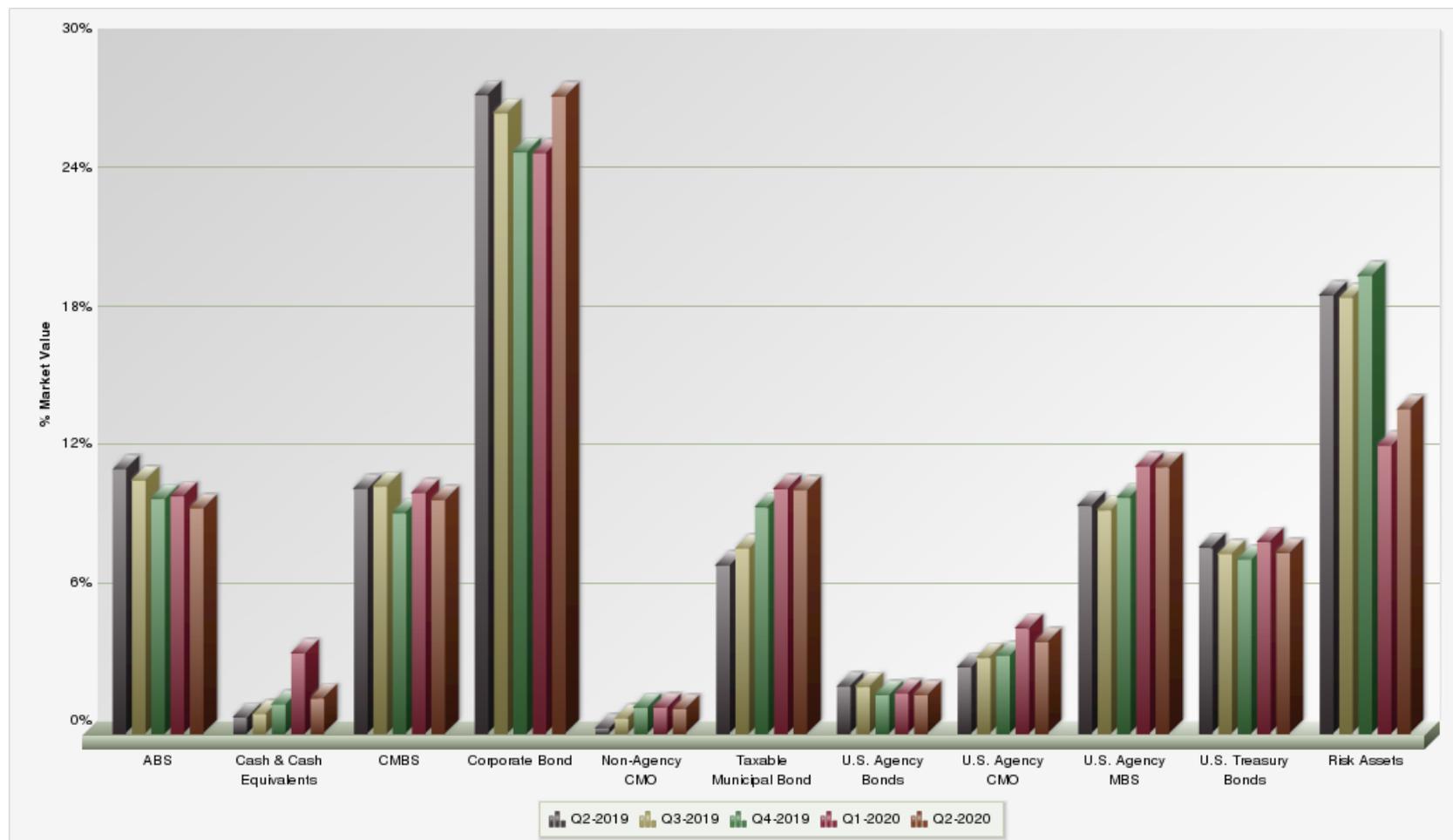




PORTFOLIO CHARACTERISTICS



Asset Allocation – Total Portfolio

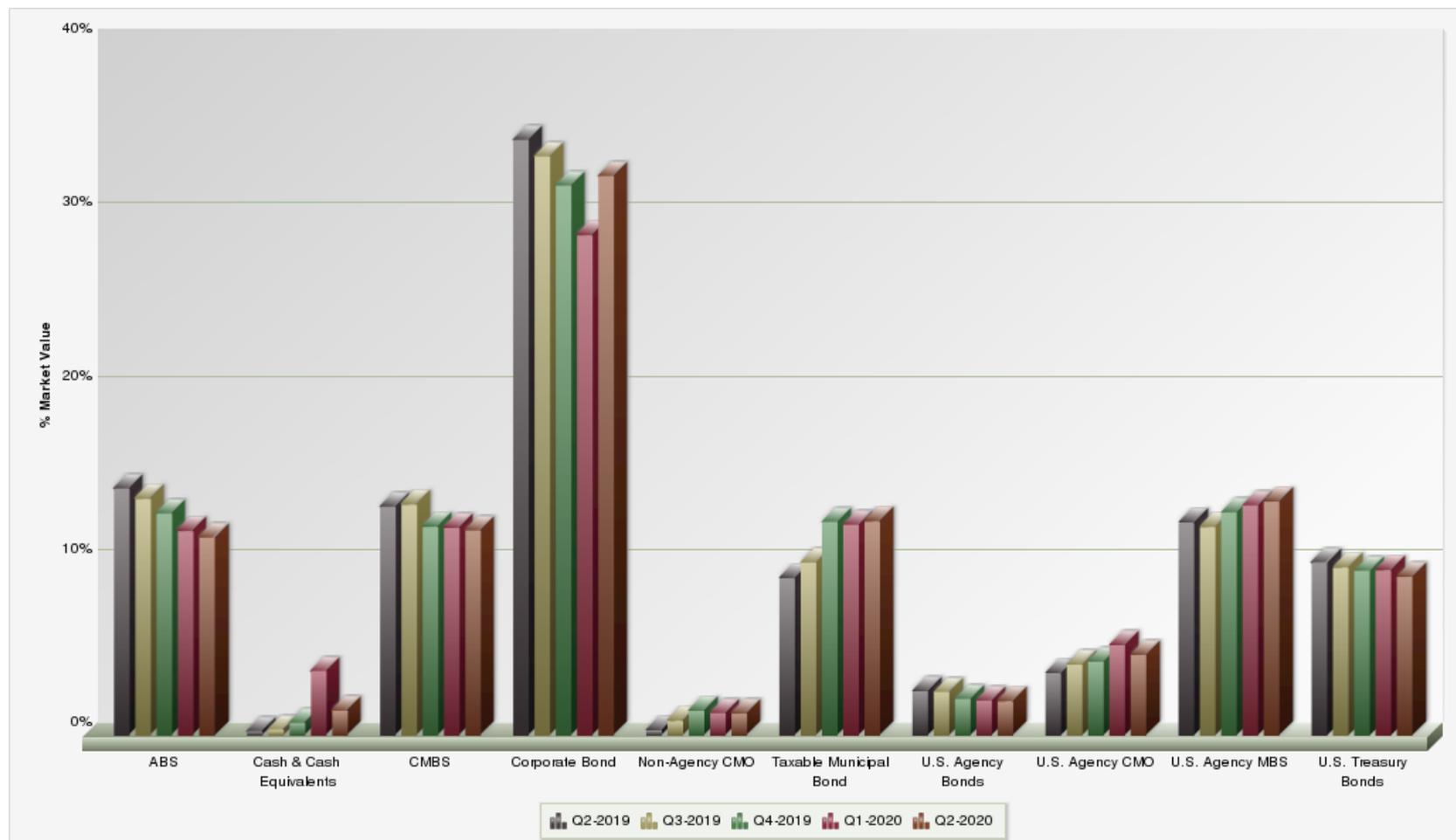


| | ABS | Cash & Cash Equivalents | CMBS | Corporate Bond | Non-Agency CMO | Taxable Municipal Bond | U.S. Agency Bonds | U.S. Agency CMO | U.S. Agency MBS | U.S. Treasury Bonds | Risk Assets |
|---------|--------|-------------------------|--------|----------------|----------------|------------------------|-------------------|-----------------|-----------------|---------------------|-------------|
| Q2-2019 | 11.49% | 0.70% | 10.64% | 27.69% | 0.25% | 7.31% | 2.07% | 2.89% | 9.88% | 8.06% | 19.01% |
| Q3-2019 | 10.99% | 0.87% | 10.73% | 26.91% | 0.68% | 8.05% | 2.04% | 3.30% | 9.70% | 7.81% | 18.92% |
| Q4-2019 | 10.19% | 1.29% | 9.57% | 25.22% | 1.14% | 9.81% | 1.69% | 3.40% | 10.24% | 7.57% | 19.87% |
| Q1-2020 | 10.31% | 3.50% | 10.46% | 25.19% | 1.15% | 10.62% | 1.77% | 4.56% | 11.61% | 8.32% | 12.51% |
| Q2-2020 | 9.79% | 1.54% | 10.15% | 27.65% | 1.09% | 10.58% | 1.69% | 3.99% | 11.56% | 7.85% | 14.09% |

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Asset Allocation – Fixed Income Portfolio



| | ABS | Cash & Cash Equivalents | CMBS | Corporate Bond | Non-Agency CMO | Taxable Municipal Bond | U.S. Agency Bonds | U.S. Agency CMO | U.S. Agency MBS | U.S. Treasury Bonds |
|---------|--------|-------------------------|--------|----------------|----------------|------------------------|-------------------|-----------------|-----------------|---------------------|
| Q2-2019 | 14.27% | 0.27% | 13.22% | 34.39% | 0.31% | 9.08% | 2.57% | 3.59% | 12.28% | 10.02% |
| Q3-2019 | 13.66% | 0.36% | 13.33% | 33.43% | 0.85% | 10.00% | 2.53% | 4.10% | 12.04% | 9.70% |
| Q4-2019 | 12.83% | 0.75% | 12.05% | 31.75% | 1.44% | 12.35% | 2.13% | 4.28% | 12.90% | 9.53% |
| Q1-2020 | 11.81% | 3.74% | 11.99% | 28.87% | 1.31% | 12.18% | 2.03% | 5.23% | 13.30% | 9.54% |
| Q2-2020 | 11.44% | 1.45% | 11.85% | 32.30% | 1.28% | 12.36% | 1.98% | 4.66% | 13.51% | 9.17% |

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Sector Analysis – AAM Fixed Income

| Sector | % of Portfolio (MV) | Average Life | Duration | Convexity | Market Yield | Book Yield | Rating | Book Value | Market Value | Market Value + Accrued |
|----------------------------------|---------------------|--------------|-------------|-------------|--------------|-------------|-----------|-------------------|-------------------|------------------------|
| Corporate | 32.72% | 4.66 | 4.29 | 0.28 | 1.01 | 2.69 | A | 10,978,713 | 11,651,662 | 11,726,050 |
| Commercial MBS | 12.45% | 4.05 | 3.67 | 0.21 | 1.69 | 2.80 | AAA | 4,225,317 | 4,433,297 | 4,444,912 |
| Taxable Municipal | 12.35% | 5.65 | 4.85 | 0.36 | 1.04 | 2.70 | AA+ | 4,130,003 | 4,397,870 | 4,422,870 |
| Asset Backed Securities | 10.96% | 1.65 | 1.55 | 0.07 | 0.94 | 2.30 | AAA | 3,830,985 | 3,902,759 | 3,920,066 |
| U.S. Treasury | 9.18% | 5.78 | 5.41 | 0.39 | 0.38 | 2.08 | AA+ | 2,987,961 | 3,269,928 | 3,282,251 |
| Agency CMBS | 7.15% | 3.54 | 3.27 | 0.21 | 0.92 | 2.10 | AA+ | 2,442,372 | 2,544,803 | 2,550,514 |
| MBS Passthrough | 6.78% | 3.55 | 1.94 | -0.51 | 1.33 | 1.80 | AA+ | 2,383,973 | 2,413,420 | 2,420,541 |
| CMO | 4.99% | 4.11 | 2.84 | -0.91 | 1.59 | 2.82 | AA+ | 1,709,920 | 1,777,194 | 1,781,365 |
| U.S. Agency | 1.97% | 2.63 | 2.51 | 0.09 | 0.29 | 1.94 | AA+ | 672,420 | 701,563 | 708,210 |
| Cash & Money Market | 1.46% | 0.00 | 0.00 | 0.00 | 0.06 | 0.06 | AAA | 518,699 | 518,699 | 518,699 |
| Consolidated Fixed Income | 100% | 4.19 | 3.68 | 0.14 | 1.05 | 2.45 | AA | 33,880,363 | 35,611,194 | 35,775,477 |

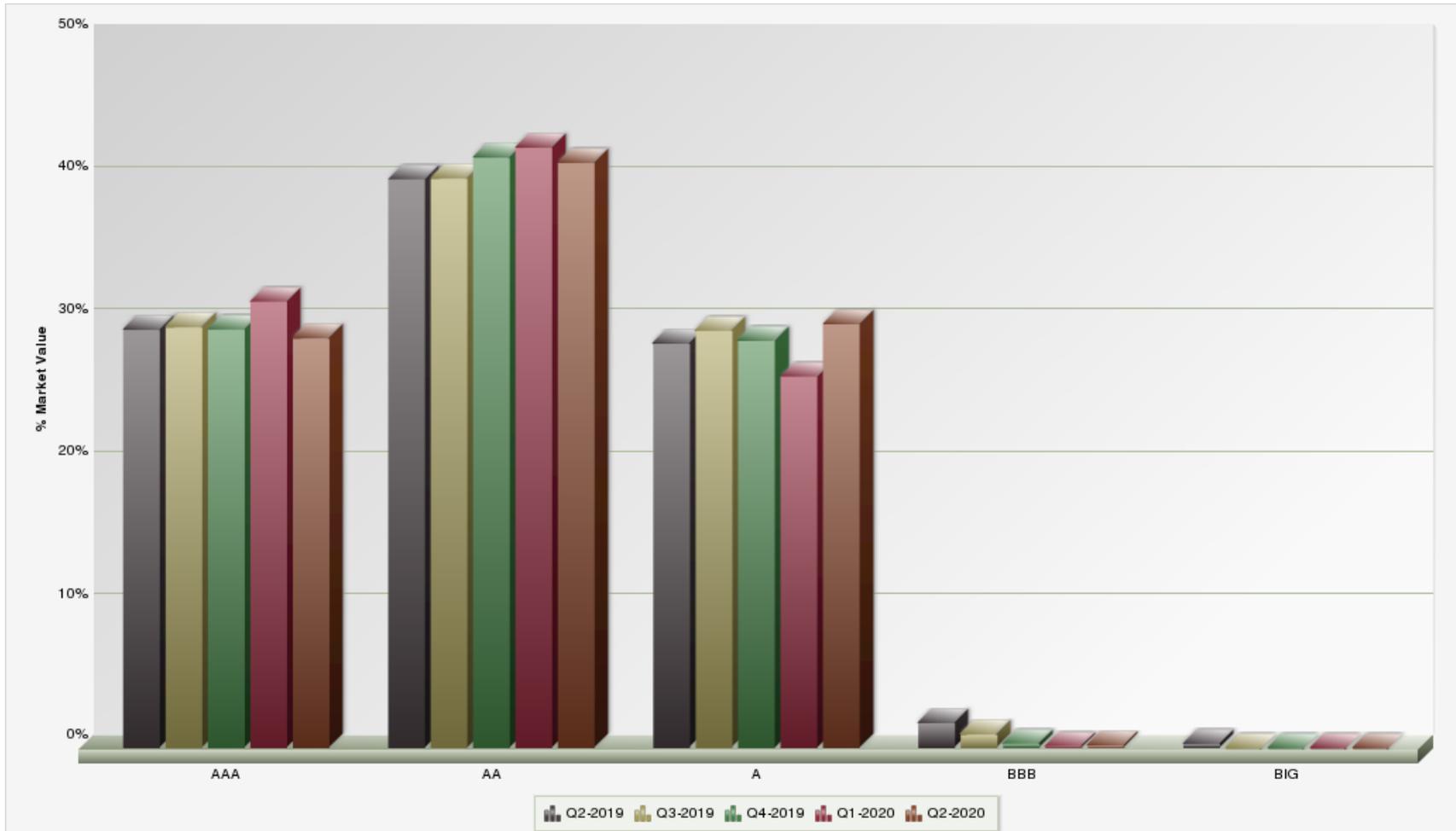


Credit Exposure – Top 10 Fixed Income Holdings

| Bond # | Cusip | AssetType | Issuer | Par | Market Value | % of Port MV | Book Value | CR | Duration | Maturity |
|---------------------|----------|----------------|--|---------|-------------------|--------------------|------------|-----|----------|------------|
| 1 | 06427DAS | CMBS | BACM 17BNK3 A4 | 300,000 | 335,832 | 0.94% | 314,661 | AAA | 5.774 | - |
| 2 | 90276CAE | CMBS | UBSCM 17C2 A4 | 300,000 | 332,226 | 0.93% | 304,369 | AAA | 6.196 | 08/15/2050 |
| 3 | 983919AK | Corporate Bond | XILINX INC | 320,000 | 330,234 | 0.93% | 322,413 | A- | 8.712 | 06/01/2030 |
| 4 | 94989KAV | CMBS | WFCM 2015-C29 A4 | 300,000 | 325,032 | 0.91% | 303,184 | AAA | 4.460 | 06/15/2048 |
| 5 | 254683CD | ABS | DCENT 181 A | 300,000 | 319,968 | 0.90% | 305,922 | AAA | 2.525 | - |
| 6 | 375558BF | Corporate Bond | GILEAD SCIENCES INC | 275,000 | 314,119 | 0.88% | 274,609 | A- | 4.927 | 03/01/2026 |
| 7 | 17305EFM | ABS | Citibank Credit Card Issuance Trust CCCIT 2014-A1 A1 | 300,000 | 304,234 | 0.85% | 302,385 | AAA | 0.552 | 01/21/2021 |
| 8 | 46647PAV | Corporate Bond | JPMORGAN CHASE & CO | 255,000 | 299,409 | 0.84% | 265,686 | A- | 6.845 | 07/23/2029 |
| 9 | 12503MAA | Corporate Bond | CBOE HOLDINGS INC | 250,000 | 280,275 | 0.79% | 250,650 | A- | 5.592 | 01/12/2027 |
| 10 | 87612EBD | Corporate Bond | TARGET CORP | 250,000 | 279,277 | 0.78% | 252,786 | A- | 3.717 | 07/01/2024 |
| Top 10 | | | | | 3,120,606 | 8.76% of MV | | | | |
| Fixed Income | | | | | 35,611,193 | | | | | |



Credit Summary – Fixed Income Portfolio

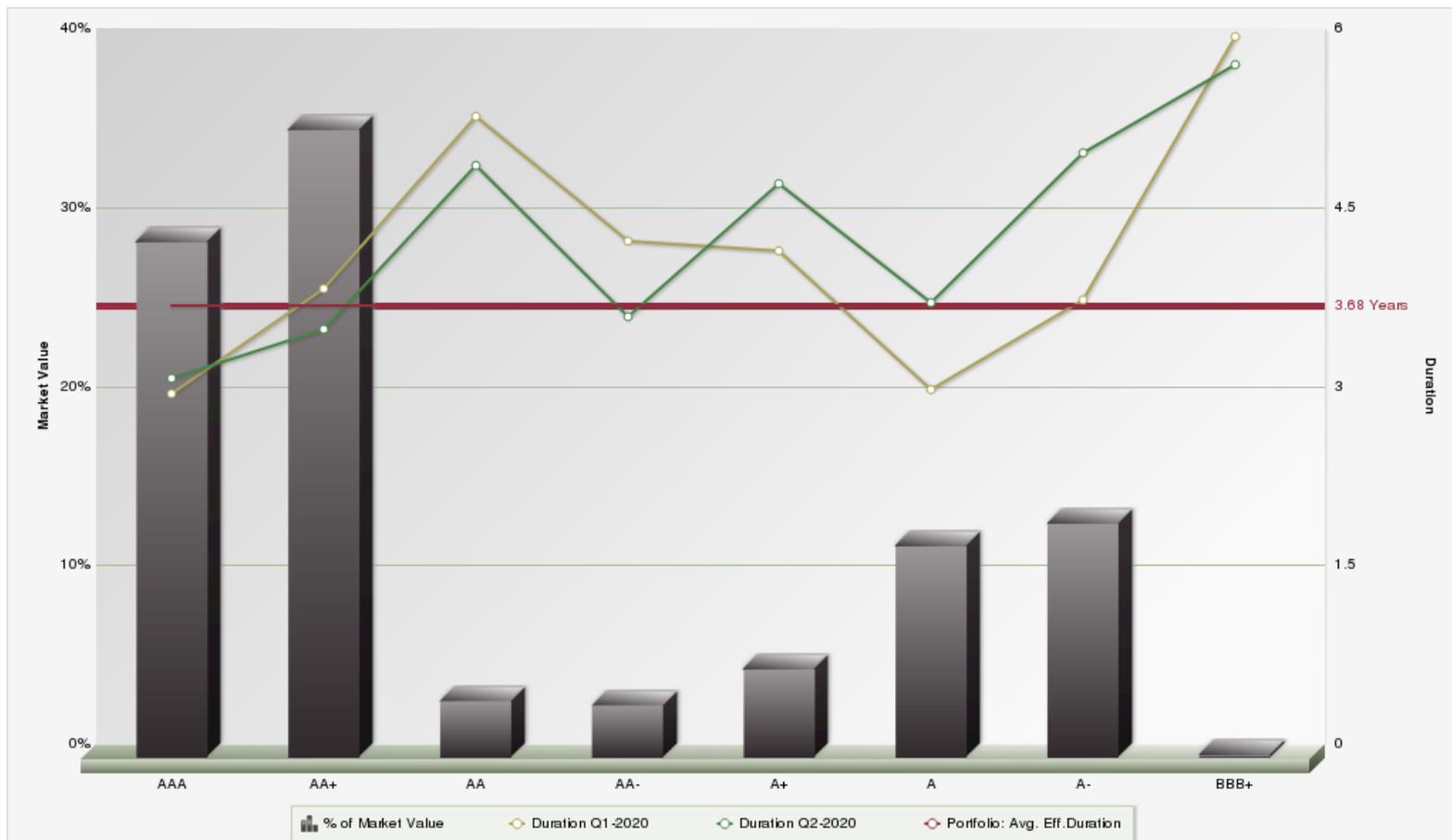


| | AAA | AA | A | BBB | BIG |
|---------|--------|--------|--------|-------|-------|
| Q2-2019 | 29.43% | 40.05% | 28.46% | 1.75% | 0.30% |
| Q3-2019 | 29.61% | 40.08% | 29.38% | 0.93% | 0.00% |
| Q4-2019 | 29.47% | 41.54% | 28.67% | 0.32% | 0.00% |
| Q1-2020 | 31.44% | 42.26% | 26.16% | 0.14% | 0.00% |
| Q2-2020 | 28.82% | 41.19% | 29.84% | 0.15% | 0.00% |

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Credit Duration – Fixed Income Portfolio

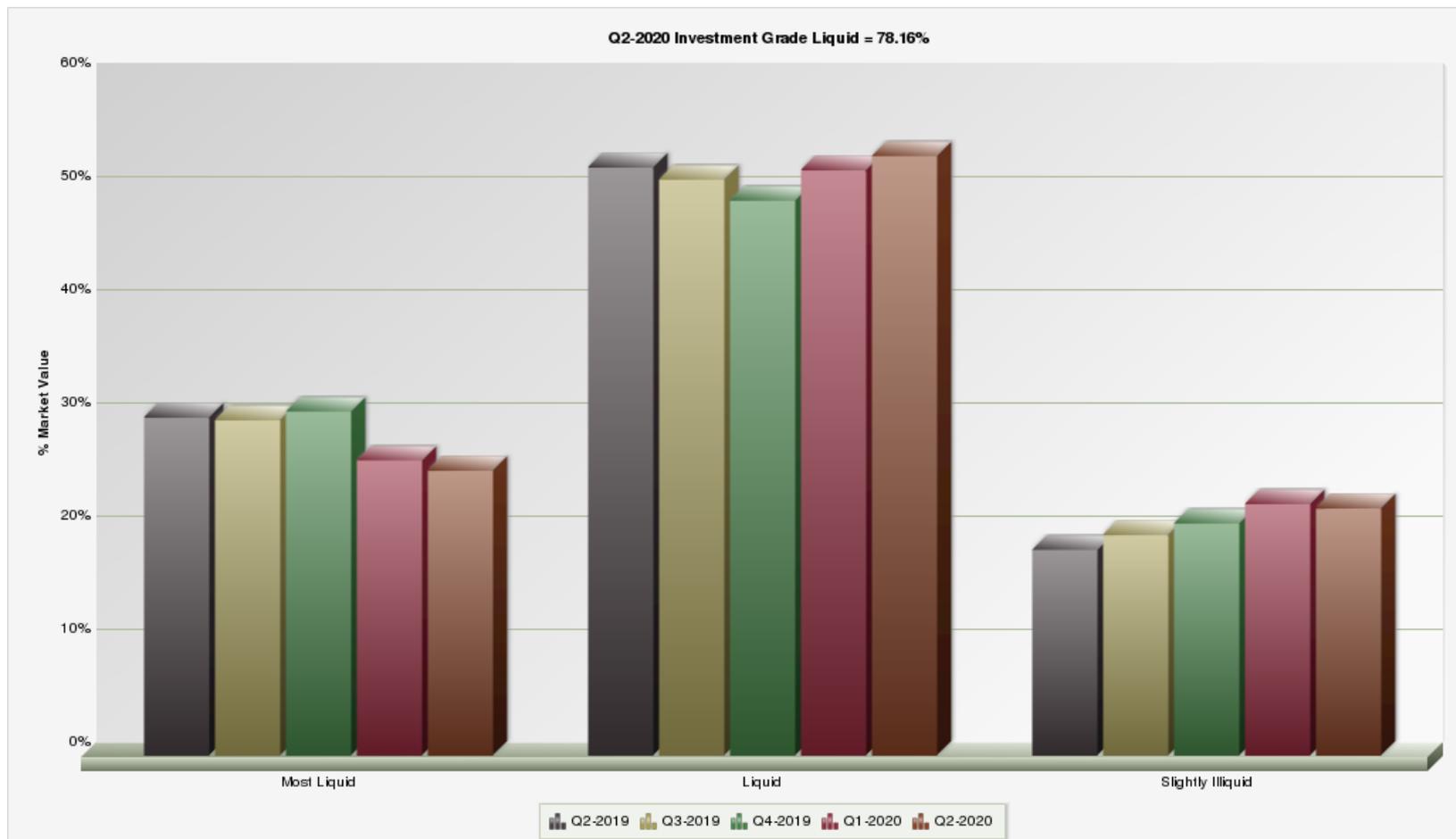


| | AAA | AA+ | AA | AA- | A+ | A | A- | BBB+ |
|--------------------------------------|--------|--------|-------|-------|-------|--------|--------|-------|
| % of Market Value | 28.82% | 35.09% | 3.17% | 2.93% | 4.94% | 11.82% | 13.08% | 0.15% |
| Duration Q1-2020 | 2.93 | 3.82 | 5.26 | 4.22 | 4.13 | 2.97 | 3.72 | 5.93 |
| Duration Q2-2020 | 3.06 | 3.47 | 4.85 | 3.58 | 4.70 | 3.70 | 4.96 | 5.70 |
| Portfolio: Avg. Eff. Duration | 3.68 | 3.68 | 3.68 | 3.68 | 3.68 | 3.68 | 3.68 | 3.68 |

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Portfolio Liquidity – Total Portfolio



| | Most Liquid | | | | Liquid | | | | Slightly Illiquid | | | |
|----------------|-------------------------|-------------------|---------------------|-------------|--------|----------------|-----------------|-----------------|-------------------|----------------|------------------------|--|
| | Cash & Cash Equivalents | U.S. Agency Bonds | U.S. Treasury Bonds | Risk Assets | ABS | Corporate Bond | U.S. Agency CMO | U.S. Agency MBS | CMBS | Non-Agency CMO | Taxable Municipal Bond | |
| Q2-2019 | 0.70% | 2.07% | 8.06% | 19.01% | 11.49% | 27.69% | 2.89% | 9.88% | 10.64% | 0.25% | 7.31% | |
| Q3-2019 | 0.87% | 2.04% | 7.81% | 18.92% | 10.99% | 26.91% | 3.30% | 9.70% | 10.73% | 0.68% | 8.05% | |
| Q4-2019 | 1.29% | 1.69% | 7.57% | 19.87% | 10.19% | 25.22% | 3.40% | 10.24% | 9.57% | 1.14% | 9.81% | |
| Q1-2020 | 3.50% | 1.77% | 8.32% | 12.51% | 10.31% | 25.19% | 4.56% | 11.61% | 10.46% | 1.15% | 10.62% | |
| Q2-2020 | 1.54% | 1.69% | 7.85% | 14.09% | 9.79% | 27.65% | 3.99% | 11.56% | 10.15% | 1.09% | 10.58% | |

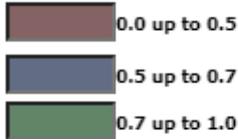
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Potential Impairment Report – Market Value < Book Value of 90%

OTTI (Watch List <= 90%)

Fixed Income



| Cusip | Issuer | AssetType | Quantity | Book Value | Market Value | MV/BV | Unrealized G/L | Duration | Book Yield | CR |
|--|--------|-----------|----------|------------|--------------|-------|----------------|----------|------------|----|
| As of 06/30/2020, there were no securities on the surveillance report with a market/book value ratio less than 90% | | | | | | | | | | |



SCHOOLCARE
HEALTH BENEFIT PLANS
of the NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION

High Yield Fixed Income: An Overview

October 12, 2020

Presented by: Dan Smereck
Managing Director & Principal



STRATEGIC ASSET ALLIANCE
THE INSURANCE INVESTMENT SPECIALIST

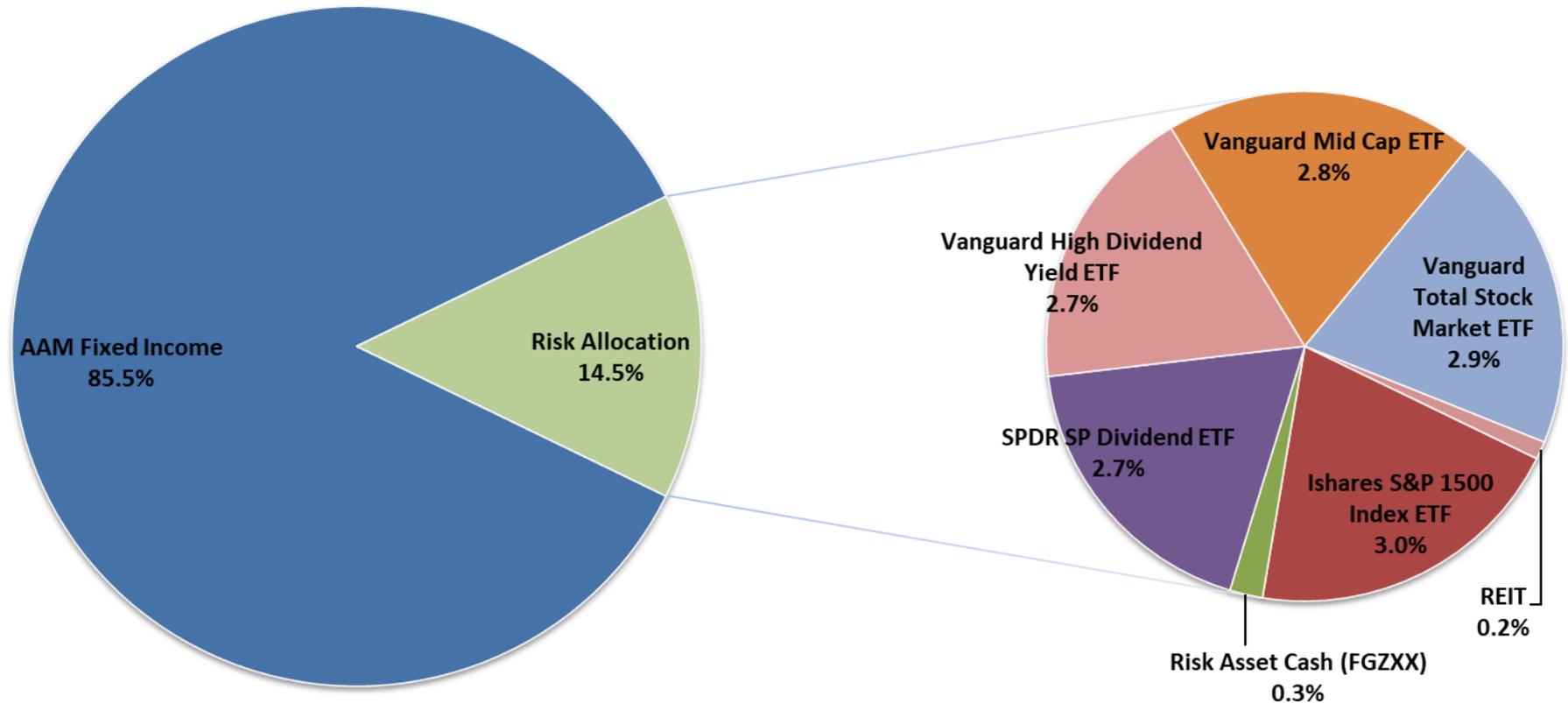


CURRENT MARKET ENVIRONMENT



Asset Allocation – As of 6/30/2020

NH SchoolCare Risk Allocation as of 6/30/2020 - \$6.0M
(includes REIT allocation)



- ❑ Actual risk asset allocation (equity ETFs) is 14.4%. There is one remaining REIT holding which has not been able to be liquidated to date.
- ❑ Risk assets to Net Position equals 20.5%.



Interest Rates

| Index YTW | 12/31/2018 | 12/31/2019 | 6/30/2020 | 7/31/2020 | 8/31/2020 | Chg Prior Month | Chg Prior Qtr | Chg Calendar Yr |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|-----------------|---------------|-----------------|
| Aggregate | 3.28% | 2.31% | 1.25% | 1.05% | 1.15% | ▲ 0.10% | ▼ -0.10% | ▼ -1.16% |
| Intermediate Aggregate | 3.13% | 2.14% | 0.97% | 0.79% | 0.86% | ▲ 0.07% | ▼ -0.11% | ▼ -1.28% |
| U.S. Treasury | 2.61% | 1.80% | 0.50% | 0.41% | 0.49% | ▲ 0.08% | ▼ -0.01% | ▼ -1.31% |
| <i>U.S. 2-Yr Treasury</i> | 2.50% | 1.56% | 0.15% | 0.11% | 0.13% | ▲ 0.02% | ▼ -0.02% | ▼ -1.43% |
| <i>U.S. 5-Yr Treasury</i> | 2.51% | 1.68% | 0.29% | 0.22% | 0.26% | ▲ 0.04% | ▼ -0.03% | ▼ -1.42% |
| <i>U.S. 10-Yr Treasury</i> | 2.69% | 1.91% | 0.65% | 0.54% | 0.69% | ▲ 0.15% | ▲ 0.04% | ▼ -1.22% |
| <i>U.S. 30-Yr Treasury</i> | 3.02% | 2.38% | 1.41% | 1.20% | 1.45% | ▲ 0.25% | ▲ 0.04% | ▼ -0.93% |
| U.S. Agency MBS | 3.39% | 2.54% | 1.36% | 1.07% | 1.23% | ▲ 0.16% | ▼ -0.13% | ▼ -1.31% |
| ABS | 3.44% | 2.05% | 0.85% | 0.71% | 0.59% | ▼ -0.12% | ▼ -0.26% | ▼ -1.46% |
| CMBS | 3.06% | 2.48% | 1.72% | 1.51% | 1.48% | ▼ -0.03% | ▼ -0.24% | ▼ -1.00% |
| U.S. Credit | 4.09% | 2.79% | 2.05% | 1.78% | 1.86% | ▲ 0.08% | ▼ -0.19% | ▼ -0.93% |
| <i>A-Rated Corporates</i> | 3.89% | 2.64% | 1.81% | 1.53% | 1.61% | ▲ 0.08% | ▼ -0.20% | ▼ -1.03% |
| <i>BBB-Rated Corporates</i> | 4.69% | 3.19% | 2.68% | 2.32% | 2.37% | ▲ 0.05% | ▼ -0.31% | ▼ -0.82% |
| Municipal Bond | 2.69% | 1.78% | 1.50% | 1.20% | 1.30% | ▲ 0.10% | ▼ -0.20% | ▼ -0.48% |
| U.S. High Yield | 7.95% | 5.19% | 6.87% | 5.37% | 5.34% | ▼ -0.03% | ▼ -1.53% | ▲ 0.15% |
| Global Aggregate (USD) | 2.03% | 1.45% | 0.95% | 0.82% | 0.90% | ▲ 0.08% | ▼ -0.05% | ▼ -0.55% |
| U.S. Agg. vs. Global Agg. | ▲ 1.25% | ▲ 0.86% | ▲ 0.30% | ▲ 0.23% | ▲ 0.25% | ▲ 0.02% | ▼ -0.05% | ▼ -0.61% |
| UST 2yr-10yr Spread (bps) | 19.0 | 35.0 | 50.0 | 43.0 | 56.0 | | | |

Source: Bloomberg Barclays Indices & BofA ICE Indices

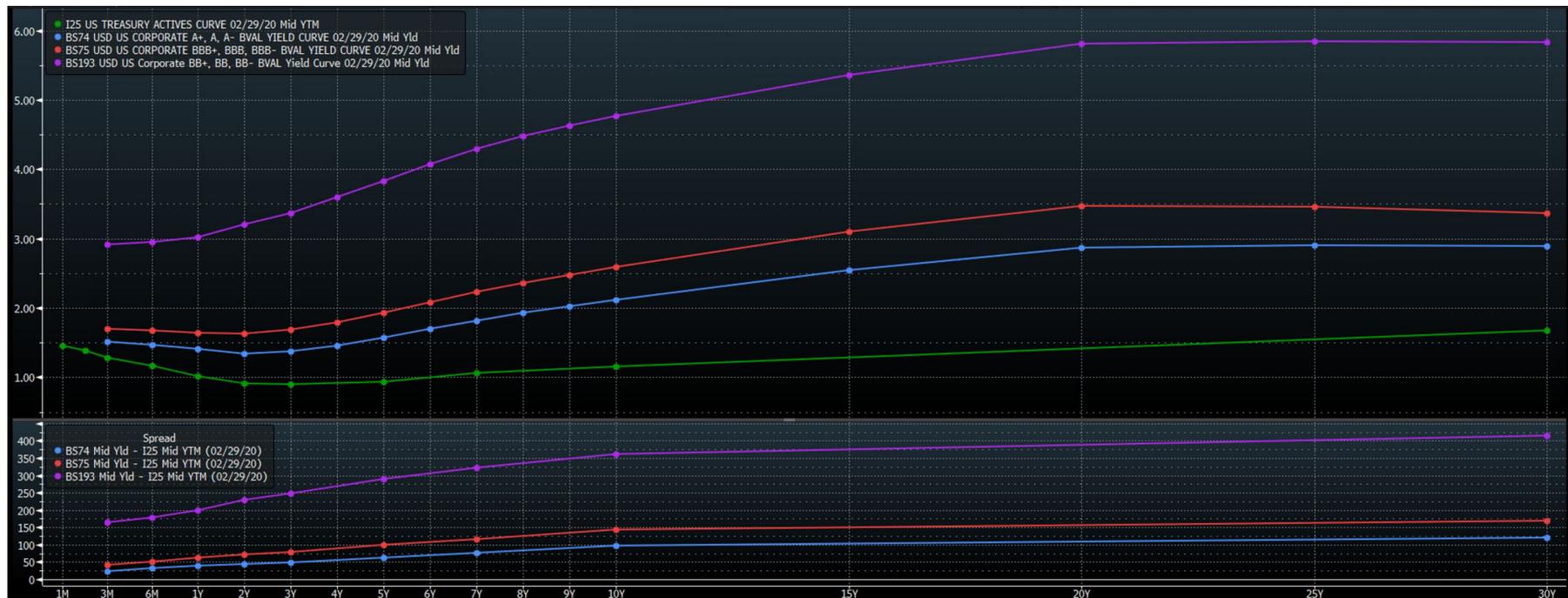




HIGH YIELD FIXED INCOME OVERVIEW



High Yield Bond Market - Overview & Current Yields



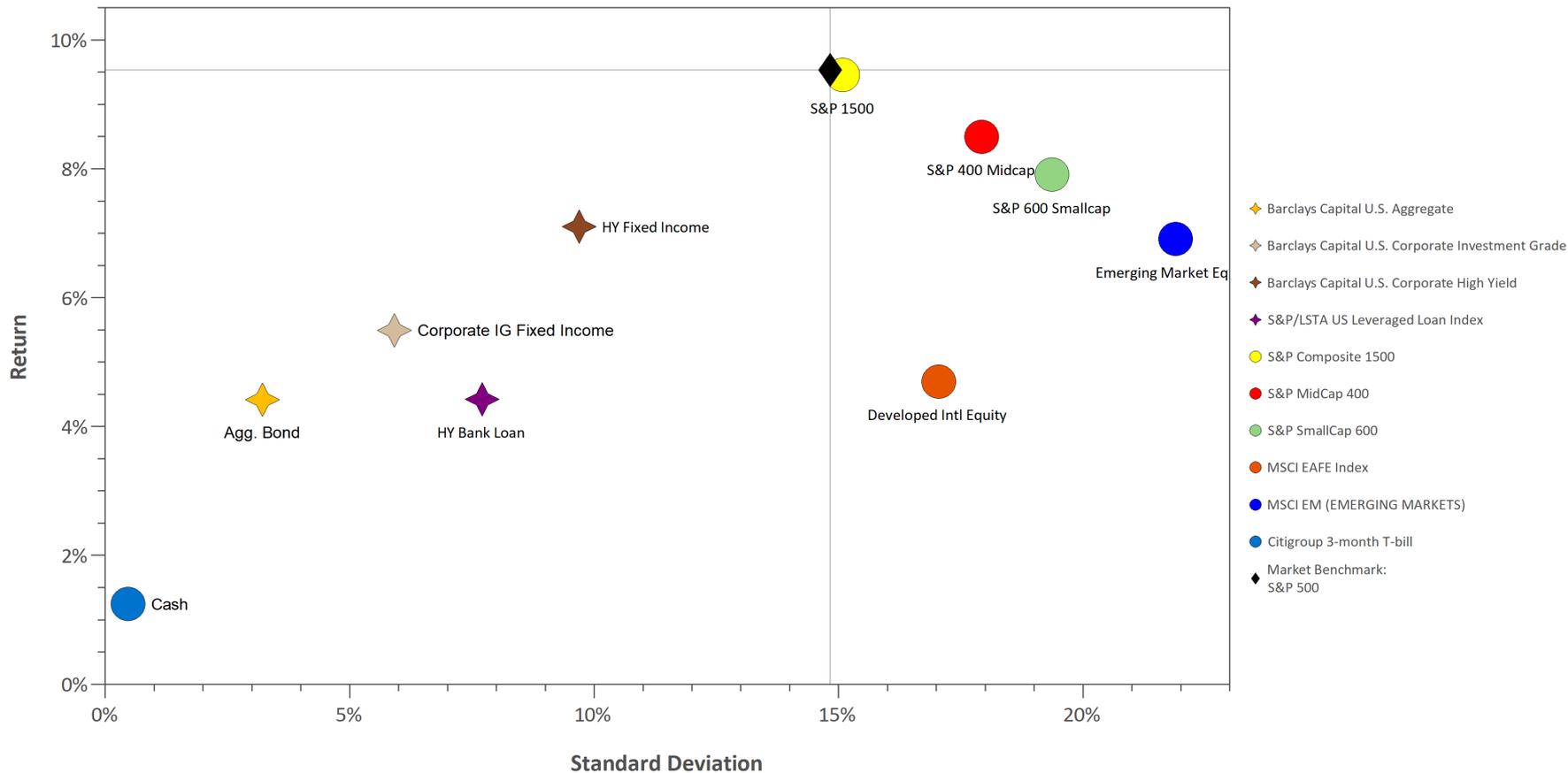
- High yield bonds – defined as corporate bonds rated below BBB– or Baa3 by established credit rating agencies.
- High yield bonds typically offer higher yields than government bonds or high-grade corporate bonds (see above graphic) and have the potential for price appreciation in the event of an improvement in the economy, or performance of the issuing company (of course, if these conditions worsen, then prices can also go down).
- High yield bonds generally have a low correlation to other sectors of the fixed income market along with less sensitivity to interest rate risk, an allocation to high yield bonds may provide portfolio diversification benefits.
- Lastly, high yield bonds have historically offered similar returns to equity markets, but with lower volatility.



High Yield Bond Market - Risk/Return Profile, 15 Y

Risk / Return - Latest 15 Years

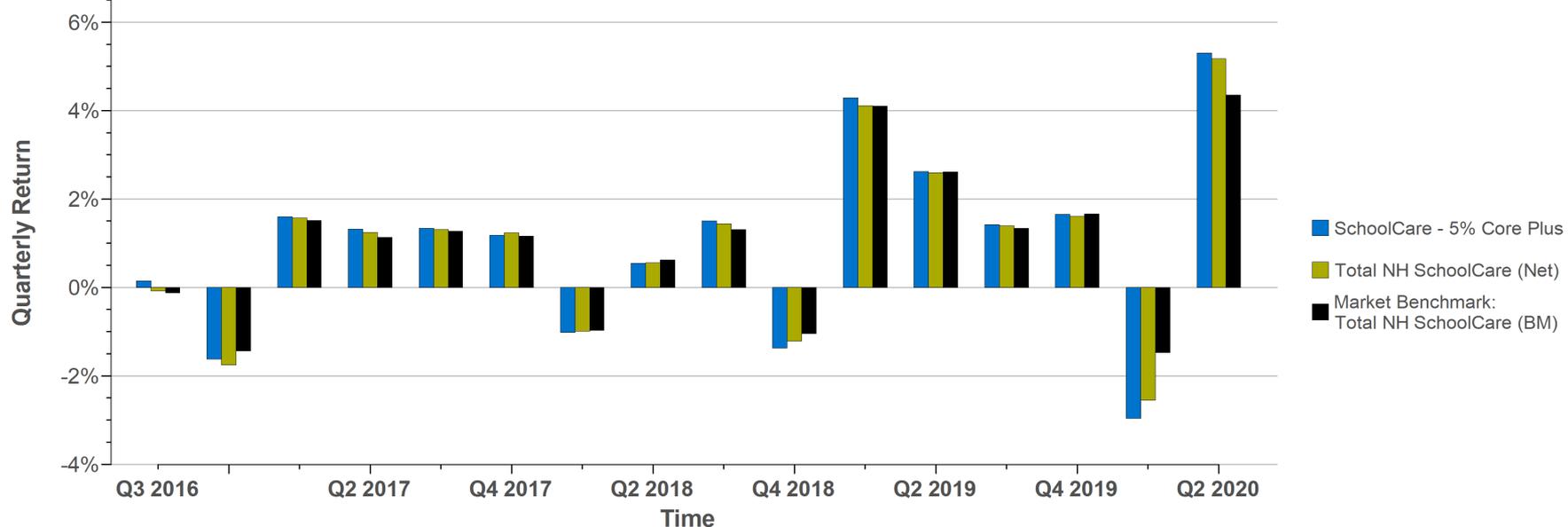
September 2005 - August 2020 (Single Computation)



What If...Back-testing a 5% allocation to high yield (Part 1)

Quarterly Return / Time

July 2016 - June 2020 (Shown Quarterly)



Custom Table

July 2016 - June 2020: Summary Statistics

| | Return | Standard Deviation | Sharpe Ratio | # of Down Periods | Average Down Return | # of Up Periods | Average Up Return | Maximum Drawdown |
|---------------------------|--------|--------------------|--------------|-------------------|---------------------|-----------------|-------------------|------------------|
| SchoolCare - 5% Core Plus | 3.96% | 4.21% | 0.61 | 4 | -1.74% | 12 | 1.91% | -2.96% |
| Total NH SchoolCare (Net) | 3.89% | 4.04% | 0.61 | 5 | -1.32% | 11 | 2.02% | -2.56% |

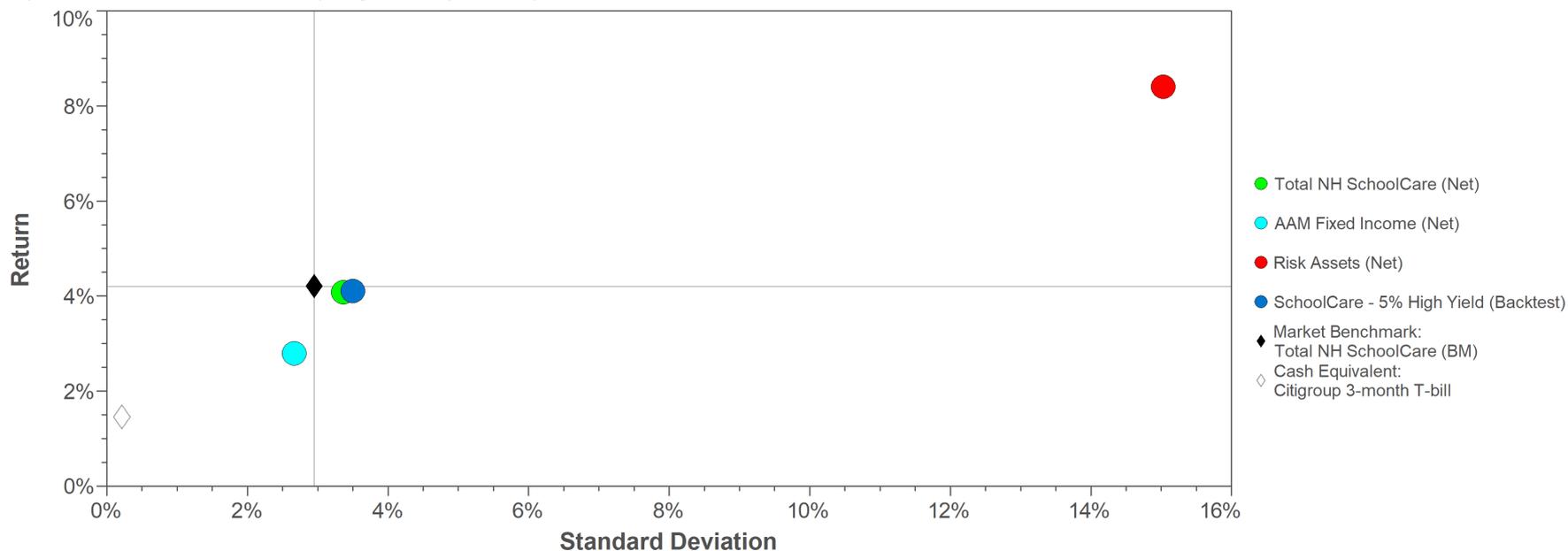
- High yield exposure effected using the Vanguard High Yield Corporate Bond Fund ("VWEAX"), a fund SAA utilizes across its clients.



What If...Back-testing a 5% allocation to high yield (Part 2)

Risk / Return

September 2016 - June 2020 (Single Computation)



Custom Table

September 2016 - June 2020: Summary Statistics

| | Return | Standard Deviation | Sharpe Ratio | # of Down Periods | Average Down Return | # of Up Periods | Average Up Return | Maximum Drawdown | Up Capture vs. Market | Down Capture vs. Market | Beta vs. Market |
|---------------------------------------|--------|--------------------|--------------|-------------------|---------------------|-----------------|-------------------|------------------|-----------------------|-------------------------|-----------------|
| Total NH SchoolCare (Net) | 4.08% | 3.36% | 0.78 | 11 | -0.89% | 35 | 0.72% | -3.48% | 103.74% | 114.80% | 1.12 |
| AAM Fixed Income (Net) | 2.80% | 2.66% | 0.50 | 17 | -0.48% | 29 | 0.65% | -3.40% | 51.86% | 27.50% | 0.55 |
| Risk Assets (Net) | 8.40% | 15.03% | 0.46 | 12 | -4.47% | 34 | 2.62% | -21.45% | 355.07% | 463.31% | 4.08 |
| SchoolCare - 5% High Yield (Backtest) | 4.11% | 3.50% | 0.76 | 12 | -0.84% | 34 | 0.76% | -3.84% | 105.38% | 118.07% | 1.16 |

- High yield exposure effected using the Vanguard High Yield Corporate Bond Fund ("VWEAX"), a fund SAA utilizes across its clients.





QUESTIONS/DISCUSSION



V. Financial Management and Funding

B. Investments (See Section II. – J. Committees, b. Finance-Audit Committee) Investments shall be under the supervision of the Board of Directors through its Finance-Audit Committee, and the policies adopted shall provide for:

1. Explicit delegation of authority regarding investment decisions to appropriate employees or outside investment managers.
2. Explicit authority to make decisions at various levels. For example, there are three basic categories of funds:
 - a. **Operational fund.** These funds are used for daily operations and are generally placed in low-yield, highly liquid instruments such as interest-bearing checking accounts or money market accounts. The Executive Director has complete authority regarding these funds unless expressly limited by the Finance-Audit Committee.
 - b. **Short-term investments.** To keep funds available for unanticipated expenses or for funds not needed until up to twelve months in the future, the Coalition may maintain funds in certificates of deposit, short-term bonds, or other instruments that produce higher yields than money in the operational fund, yet are still somewhat liquid and relatively low risk as determined by the investment manager and in accordance with this Investment Policy. The Executive Director has complete authority regarding these funds unless expressly limited by the Finance-Audit Committee.
 - c. **Long-term investments.** Funds that won't be needed until far into the future, such as claims reserves and surplus funds, are placed in whichever instruments the Coalition may legally use that would produce the highest long-term yield as determined by the investment manager and in accordance with the Investment Policy. Generally, money can only be moved into and out of this fund with approval by the Board. The contract with the money manager to handle investments must explicitly describe the authority that will be placed with the contractor, the Executive Director and the Board.
3. Appropriate internal controls. Like the pool's general financial management policies, investment policies should establish procedures to prevent accidental or intentional mismanagement of funds. Policies for internal control of investments could be similar to or part of the pool's financial management policies.

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Safekeeping and custodial procedures.

4. The Coalition's investment policies shall clearly define safekeeping and custody procedures that should be included within the agreement with the investment manager and any custodial institutions being used.
5. A procedure by which staff regularly monitors investment activities, particularly if the pool contracts with a money manager or investment consultant or broker. Most service providers submit monthly statements of investment activities. Investment activities should be posted in a timely manner and accessible via electronic media whenever possible. Staff should also continuously monitor state and federal requirements to ensure that the pool stays in compliance.
6. Allocation of assets and portfolio diversification consistent with state and federal regulations and prudent investment practices. Regardless of the investment, the investment policy should specify what type and how much of the investment portfolio can be allocated to higher yield/higher risk investments in accordance with Investment Guidelines herein. Many pools are considered public entities and are restricted by the state from investing in certain types of investment instruments.
7. Annual reviews of the Coalition's investment policies by the Board. An annual review of the Coalition's investment and cash management policies, along with a periodic review of investment results, will ensure that the Coalition's investment manager, pool staff and Board of Directors have a clear understanding of asset performance, operational issues, and where changes need to be made in order to meet the Coalition's long-term investment goals. The Coalition's investment policy should require at least an annual review.
8. Periodic reviews of investment results and comparisons with set goals and external indices to ensure that financial goals and risk levels are being met and so that changes can be made if the goals won't be met. Investment results should also be compared with other external indices, such as the stock market averages or yields from other types of funds to determine whether the investments are producing their highest potential returns.
9. Distribution of reports of investment activities to the Coalition Board of Directors at least quarterly. If these reports are not routinely distributed to Members, the Coalition shall establish and publicize a process for making the reports available to Members upon request.

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Investment Policy & Guidelines

Coalition funds will be invested to provide capital preservation, achieve the highest yield available within defined investment guidelines stated herein, and conform to all applicable NH state statutes governing the investment of public funds and the Risk Pool Practices Agreement (RPPA) dated April 25, 2012.

1. Authority

The management of the Coalition is authorized to invest funds directly or through designated portfolio managers approved by the Board of Directors including banks and other financial institutions to implement transactions in accordance with the above Policy statement, and for the safekeeping and custody of investments. The management of the Coalition shall maintain a system to account for all investments with adequate internal controls to prevent collusion or fraud and to document transactions and strategies and shall report quarterly to the Board of Directors the results of the investment activities using appropriate benchmarks to evaluate results. The Board of Directors delegates authority to the Finance-Audit Committee to review and monitor the investment activities of the Coalition. The Committee may also retain the services of an external investment consultant to assist in the implementation of investment policy provisions and oversight of external portfolio managers, funds and ETFs.

The Coalition Board of Directors will designate one or more third party depositories as custodian for safekeeping of securities, which shall collect income and principal when and as it is paid or redeemed. All purchased obligations, unless held in the name of the Coalition, shall be held by a custodian, subject to a written custodial agreement specifying that the Coalition securities will not be commingled with any funds of the custodian, or become part of the backing for any other of the custodian's deposits or liabilities, and how the receipt and release of securities shall be confirmed.

The policy shall be reviewed at least annually by the Finance-Audit Committee and any amendments made thereto must be approved by the Coalition Board of Directors. The Board shall annually adopt by written resolution a statement that it has received and reviewed a report from the Finance-Audit Committee regarding the Investment Policy Statement.

2. Prudence and Ethical Standards

The standard of care to be used by the Investment Manager(s) for managing the Coalition's funds shall be that of a "prudent person". The Investment Manager(s) performing the investment functions, acting in accordance with written policies and procedures and exercising due diligence, shall not be responsible for an individual security's credit risk or market price changes, provided that deviations from expectations are reported in a timely fashion and appropriate action is taken

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to control adverse development. The "prudent person" standard is understood to mean the following:

- Investment transactions shall be in accordance with the Investment Policy and Investment Guidelines.
- Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.
- Losses are acceptable on a sale before maturity if the reinvested proceeds will earn income greater than would have been obtained by the original investment, considering both any capital loss and foregone interest or if the sale will prevent further anticipated losses in the future on these investments

The Executive Director and the Finance-Audit Committee shall insure that these Prudent and Ethical Standards are followed by the Investment Manager.

3. Goals

Net of fees Total Return is the primary performance criterion and will be reviewed on an absolute and risk-adjusted basis. Total Return, as used herein, includes income plus realized and unrealized gains and losses on the Coalition funds, if any, consistent with prudent investment management. To achieve these goals, the Board of Directors seeks to create a well-diversified and balanced portfolio of equity, fixed income, money market and other investments as permitted by NH state statute and in compliance with the Risk Pool Practices Agreement. They will appoint Investment Managers to implement and manage the portfolio in accordance with these guidelines and their responsibilities.

The Investment Committee recognizes the necessity of both a short (and a long term horizon when formulating investment policies and strategies. As a result, short term fluctuations in values will be considered secondary to long term investment results. However, shorter term investment goals will be established and are intended to provide quantifiable benchmarks to measure and evaluate portfolio return and risk.

Most investment styles require a full market cycle to allow Investment Managers to demonstrate their abilities. As many market cycles extend over several years, investment performance results will generally be measured over a three year period. Performance over shorter time periods will be monitored as a means of identifying the current trend of results.

4. Objectives

The following are general investment objectives for the Coalition funds:

- Preservation of Capital - To protect against loss of principal and/or related income.

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- Diversification by financial institution, by investment instrument and by maturity scheduling, including the assumption of a moderate levels of risk consistent with investment restrictions, is warranted to balance safety of principal with satisfactory investment results.
- Maximization of Income without exposing the Coalition reserves to deterioration. All Reserve funds shall be invested at as close to 100% at all times as is practicable.
- Liquidity -To provide sufficient liquidity to enable budgeted cash flow requirements, and unexpected variations in claims expense, to be met.
- Total Returns should meet or exceed the returns of the benchmark index or indices selected as representative of the Coalition holdings.on an absolute and risk-adjusted basis. Compliance with all relevant regulations, including New Hampshire state laws and the Risk Pool Practices Agreement.

5. Asset Allocation & Investment Guidelines

a) Asset Allocation

After a thorough review of the expected risk and return of various assets mixes, the Board of Directors have established the following target asset allocation for all the Coalition funds

Coalition funds will be managed within the below asset allocation framework using a separately managed fixed income portfolio and mutual funds or ETFs for equity exposure. If the total amount of the Risk Assets~~Domestic Equities~~ or Fixed Income reaches the respective upper limit of the target range at any time, then the account will be rebalanced back to 20% Risk Assets~~Equities~~ and 80% Fixed Income no later than the end of the following month.

| Asset Class | Target | Range |
|--------------------------------------|--------|-----------|
| Fixed Income | 80% | 70% - 90% |
| <u>Risk Assets</u> Equity | 20% | 16% - 22% |

The Coalition's risk assets~~equity~~ portfolio will also be constrained in relation to its Net Position. Equity assets should be less than 30% of the Coalition's Net Position. The above targets and ranges do not include the legacy investments in Private REITS that the Coalition currently holds per the provisions in the Risk Pool Practices Agreement. Though no further REITS will be added to the portfolio, the current REIT holdings are not part of the strategic asset allocation structure given they will be liquidated as soon as possible.

b) Permissible & Prohibited Investments

Investment of funds by the Investment Manager(s) shall be permitted as deemed appropriate after a careful evaluation of the risk and returns, provided such investment is not prohibited by NH law or agreement. However, the below securities and investments are ineligible for inclusion within the Board of Director's funds base if owned in a separately managed portfolio. The Board understands that restrictions cannot be placed on mutual fund and/or ETF investments given the broad nature of these strategies. As such, the below restrictions do not apply to investments in mutual funds or ETFs.

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Commented [SG1]: Revised section language to say "risk assets" instead of "equities" in order to expand and include other asset types which would be allowed per the PPA "basket clause"

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- Privately placed or other non-marketable debt;
- Non-dollar fixed income investments
- Derivatives including but not limited to options, swaps and futures contracts;
- Reverse repurchase agreements, dollar rolls and TBA transactions which do not result in taking delivery of the underlying security within 30 days.
- Direct investments in oil and gas transactions and venture capital;
- Individual bonds with a BBB rating or lower at the time of purchase;
- Bond funds which primarily invest in high yield or other lower quality bonds;
- Investment in companies engaged in arms trade and tobacco sales;
- Structured Notes;
- New purchases of non-traded Real Estate Investment Trusts (REITs). Legacy REIT investments held by the Coalition are permitted subject to the Risk Pool Practices Agreement provisions.

c) Diversification

The Investment Manager(s) should diversify the funds among market sectors and within allowable maturities in an attempt to minimize the adverse effects of price fluctuations. Therefore, except for the issues guaranteed by the U.S. Government or one of its Agencies, the portfolio may contain no more than 2% (at time of purchase) of a given issuer of debt or equities within a separately managed portfolio. The maximum investment in any individual mutual fund or ETF is 5%. All Corporate & Asset-Backed Bonds as well as Mortgage-Backed Bonds must be issued, assumed, or guaranteed by companies incorporated in the United States. Since the Coalition is tax-exempt, tax-advantaged securities shall be evaluated for purchase on a pre-tax basis. Depending on market conditions, the portfolio will be diversified and managed within the following maximums:

Fixed Income

| Category | Maximum Allocation |
|--|--------------------|
| U.S., State and Municipal Bonds | 100% |
| Corporate Bonds | 60% |
| Asset Backed Securities (ABS) | 25% |
| Commercial Mortgage Backed Securities (CMBS) | 20% |
| U.S. Agency Residential Mortgage Backed Securities | 40% |

d) Quality & Duration

Overall, the fixed income portfolio should carry an average credit rating of no less than AA- or equivalent. Individual fixed income investments made within the Coalition portfolio must be rated A- or equivalent by a Nationally Recognized Statistical Rating Organization (NRSRO) which shall include Standard & Poor's, Moody's, Fitch and other organizations as added from time to time. Ratings are based on the lowest rating if ratings are provided by more than one NRSRO. In the event of a downgrade below A-, the investment manager shall immediately notify the Coalition

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and provide a recommendation. The Coalition will then direct the investment manager whether the security may be held or if it should be sold. The above requirements conform with applicable NH Statutes as well as the Risk Pool Practices Agreement dated April 25, 2012.

The investment manager should maintain the portfolio's duration in a range of +/- 20% of the duration of the applicable benchmark as stated under the Performance Evaluation section of this policy.

The Board of Directors delegates authority to the Finance-Audit Committee to develop specific guidelines and restrictions to apply to the various invested funds.

e) Performance Evaluation

Investment performance for Coalition funds will be reviewed on a quarterly basis and will be calculated and presented in accordance with the Chartered Financial Analyst (CFA) Institute's Global Investment Performance Standards (GIPS) requirements. Results on both an absolute and risk-adjusted basis will be provided by the Coalition's investment consultant. Returns will be net of investment management fees. The overall return of the Coalition portfolio will be measured against a blended benchmark (the "Allocation Index") of the applicable assets weighted based on the amount investment in each category. In addition, the overall return will be measured against a strategic benchmark as follows:

- 80% Custom Fixed Income Benchmark (as detailed below)
- 20% Russell 1000

Fixed Income Investment Manager Evaluation

The Coalition's fixed income investment manager will be measured against a benchmark on a quarterly basis as follows:

- Custom Index composed of the following Barclays Capital Index Components:
 - 30% Intermediate Credit Ex Baa
 - 45% Intermediate Government
 - 10% Asset Backed Securities
 - 10% Fixed Rate Mortgage Backed Securities
 - 5% Commercial Mortgage Backed Securities

The investment manager should generate an annualized rate of return (net of fees) overall a rolling five-year period (i.e. market cycle), which is 10-30 basis points greater than the target benchmark. The investment manager's results will also be evaluated on a risk-adjusted basis versus the benchmark using various statistics including the Sharpe Ratio, Information Ratio etc.

Over this same timeframe, the active fixed income investment manager's performance is expected to place in the top 50% of similarly styled fixed income managers as measured by a Peer Universe of fixed income managers.

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Equity Fund/ETF Evaluation

The Coalition's equity ETFs will be measured against each ETF respective benchmark as determined by the ETF provider. Each ETF is expected to generate an annualized rate of return (net of fees) over a rolling five-year period (i.e. market cycle) that approximates the target index.

6. Engagement with the Investment Manager & Custodian

The terms of the engagement of an Investment Manager(s) and Custodian shall be specifically outlined in an agreement with the investment management and custodial firms.

The agreement shall include, but not be limited to, the following items: legal names of the Coalition and the investment management or custodial firm; authorizing statement specifying agreement between parties; terms of contract, description of services to be performed by the firm; description of the Coalition's responsibilities; reporting requirements; procedure for asset withdrawal; how amendments shall be made to the contract; liability for non-performance; representations and warranties, compliance with laws assurance, confidentiality; authorized personnel; a termination clause; notices clause and authorized signatures of both parties.

7. Internal Controls

Management is responsible for establishing and maintaining an adequate internal control structure designed to ensure that the investments/assets of the entity are protected from misappropriation, misstatement, misuse or fraud. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The internal controls shall address the following points:

- a) Separation of transaction responsibility over accounting and record keeping reconciliation and control over investments. By separating the person who authorizes or performs the transaction from the person who records or otherwise accounts for the transaction, a separation of duties is achieved.
- b) Custodial safekeeping. Securities purchased from any bank or dealer including appropriate collateral as defined by NH state law shall be placed with an independent and bonded third party for custodial safekeeping.
- c) Clear delegation of authority from the Board of Directors and the Executive Director to financial staff. All must have a clear understanding of their authority and responsibilities to avoid improper actions.
- d) Clear delegation of authority also enhances the internal control structure that is contingent on the various staff positions and their respective responsibilities.
- e) Written confirmation of telephone transactions for investments and wire transfers. Due to the potential for error and improprieties arising from telephone transactions, all telephone transactions must be supported by written communications and approved by the appropriate person, as defined by internal control procedures and financial management policy. Written

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communications may be via fax or e-mail if on letterhead and the safekeeping institution has a list of authorized signatures.

8. Monitoring the Investment Manager(s)

- a) Annually, an independent certified public accountant will conduct a compliance audit to verify the accuracy of transaction records, review internal controls and that all the Coalition funds reported are in accordance with this policy.

- b) On a quarterly basis, the fixed income investment manager shall provide SchoolCare with a reconciliation of the market value of the portfolio on the investment accounting system versus the custody system. If the market value variance is in excess of 0.15%, the fixed income investment manager shall provide a detailed analysis explaining the variance. SchoolCare management shall evaluate the reconciliation and determine if an accounting adjustment to the financial statements is necessary.

[Adopted by the Board of Directors 11/8/07]

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