

**NEW HAMPSHIRE SCHOOL HEALTH  
CARE COALITION**

**FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION**

**JUNE 30, 2016 AND 2015**

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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), which comprise the statements of net position as of June 30, 2016 and 2015, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

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

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audits 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, 2016 and 2015 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 Information***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the accompanying financial information in schedules 1 and 2 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Reporting on Other Legal and Regulatory Requirements***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2016 on our consideration of the Coalition's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering New Hampshire School Health Care Coalition internal control over financial reporting and compliance.



Crowe Horwath LLP

Simsbury, Connecticut  
October 19, 2016

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016**

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, 2016, 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 \$23,478,165 at June 30, 2016; this net position consisted of the Coalition's investment in property and equipment of \$516,165 and the unrestricted amounts for the medical risk corridor of \$22,326,000 and the dental risk corridor of \$636,000. The Coalition did not retain any unrestricted or undesignated surplus.
- The Coalition has reported a liability at June 30, 2016 of \$5,845,197 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 \$1,208,806 were applied to member contribution invoices as of July 1, 2016. The remaining, premium holiday payable, \$4,636,391 represents the surplus at June 30, 2016 to be applied to member contribution invoices as of July 1, 2017.
- 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.

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 two-year comparative reconciliation of claims liabilities.

**Analysis of Financial Information Presented in the Statements:**

Statements of Net Position:

The following table summarizes the Statements of Net Position:

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	Percentage Change	<u>June 30, 2014</u>	Percentage Change
Cash and cash equivalents	\$ 15,544,773	\$ 14,525,316	7%	\$ 29,696,786	-51%
Investments	26,674,135	27,910,979	-4%	29,425,002	-5%
Other assets	<u>3,754,411</u>	<u>3,315,570</u>	13%	<u>2,199,721</u>	51%
<b>Total assets</b>	<u>45,973,319</u>	<u>45,751,865</u>	0%	<u>61,321,509</u>	-25%
Claims payable	2,662,441	1,951,088	36%	3,171,018	-38%
Claims reserves	11,935,008	12,217,117	-2%	10,277,713	19%
Premium holiday payable	5,845,197	5,509,171	6%	25,982,652	-79%
Other liabilities	<u>1,500,952</u>	<u>1,273,055</u>	18%	<u>1,062,368</u>	20%
<b>Total liabilities</b>	<u>21,943,598</u>	<u>20,950,431</u>	5%	<u>40,493,751</u>	-48%
Deferred inflows of resources	<u>551,555</u>	<u>429,766</u>	28%	<u>468,065</u>	-8%
Net position:					
Invested in capital assets	516,165	699,668	-26%	773,693	-10%
Unrestricted	<u>22,962,000</u>	<u>23,672,000</u>	-3%	<u>19,586,000</u>	21%
<b>Total net position</b>	<u>\$ 23,478,165</u>	<u>\$ 24,371,668</u>	-4%	<u>\$ 20,359,693</u>	20%

Total assets for FY2016, FY2015 and FY2014 are \$45,973,319, \$45,751,865, and \$61,321,509, respectively. The increase in assets from FY 2015 to FY 2016 is due to an increased cash and cash equivalents balance. The decrease in assets from FY2014 to FY 2015 is largely due to a decreased cash and cash equivalents balance. premium holiday credits in the amount of \$21,673,842 were applied to member contribution invoices as of July 1, 2014. As such, cash balances decreased due to a reduction in premium payments for the month of July 2014.

Total liabilities for FY2016, FY2015 and FY2014 are \$21,943,598, \$20,950,431 and \$40,493,751, respectively. The increase in liabilities from FY 2015 to FY 2016 is due to a larger premium holiday payable as well as an increase in accounts payable due to higher wellness program utilization. The decrease in liabilities from

FY2014 to FY2015 is also due to the premium holiday payable amount of \$21,673,842 made on July 1, 2014 to members.

Unrestricted net position has decreased over the prior year by \$799,000 in the medical risk corridor and increased by \$89,000 in the dental risk corridor mostly due to a decrease in medical trend and an increase in dental membership. The portion of net position which represents the Coalition's investment in property and equipment decreased from the prior year due to depreciation expense for the year as well as a write off of wellness software from Planned Action Toward Health (PATH) that is no longer in use as of September 30, 2015.

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, 2016</u>	<u>June 30, 2015</u>	Percentage Change	<u>June 30, 2014</u>	Percentage Change
Operating revenues:					
Member contributions	\$ 172,891,675	\$ 168,862,262	2%	\$ 150,489,954	12%
Premium holiday credits	(4,636,391)	(1,221,079)	280%	(4,308,810)	-72%
Other	3,200,398	994,466	222%	1,499,609	-34%
Total operating revenues	<u>171,455,682</u>	<u>168,635,649</u>	2%	<u>147,680,753</u>	14%
Operating expenses:					
Claims expense	149,188,684	143,438,801	4%	131,242,421	9%
Insurance	12,740,985	11,630,973	10%	9,319,237	25%
Claims administration	5,026,781	5,227,151	-4%	4,862,342	8%
Health and wellness benefits	3,295,351	2,162,001	52%	1,992,559	9%
Administration	2,328,616	1,710,538	36%	1,188,186	44%
Other	751,296	1,137,265	-34%	1,168,687	-3%
Total operating expenses	<u>173,331,712</u>	<u>165,306,729</u>	5%	<u>149,773,432</u>	10%
Operating gain (loss)	(1,876,030)	3,328,920	-156%	(2,092,679)	-259%
Nonoperating revenues:					
Earnings on investments	982,527	683,055	44%	2,477,625	-72%
Change in net position	(893,503)	4,011,975	-122%	384,946	942%
Beginning net position, July 1	<u>24,371,668</u>	<u>20,359,693</u>	20%	<u>19,974,747</u>	2%
Ending net position, June 30	<u>\$ 23,478,165</u>	<u>\$ 24,371,668</u>	-4%	<u>\$ 20,359,693</u>	20%

Revenues - Total operating revenues of FY2016, FY2015 and FY2014 were \$171,455,682, \$168,635,649, and \$147,680,753, respectively. The smaller increase in member contributions from FY 2015 to FY 2016 was due to a 6.3% health care medical increase coupled with a larger premium holiday payable. The increase in other revenues is largely due to an increase in pharmacy rebates year over year due to renegotiated terms with Cigna.

Expenses - Total operating expenses for FY2016, FY2015 and FY2014 were \$173,331,712, \$165,306,729 and \$149,773,432, respectively. The increase in claims expense from FY 2015 to FY 2016 is due to increased utilization, and overall health care costs. The increase in health and wellness is due to a new partnership with Viverae along with increased participation and payouts.

**Other matters:**

Investment Portfolio

The Coalition's investment portfolio on June 30, 2016 was valued at \$26,674,135. The June 30, 2015 value of the investment portfolio was \$27,910,979. The June 30, 2014 value of the investment portfolio was \$29,425,002. The Coalition's Risk Pool Practices Agreement with the NH Secretary of State required that investments be compliant with the requirements imposed upon municipalities pursuant to NH RSA 35:9, allowing for certain exceptions, by April 25, 2014. In the Agreement, the NH Secretary of State consents to the Coalition temporarily retaining the investment in Real Estate Investment Trusts (REITs) on the following conditions: (a) SCHOOLCARE shall liquidate the REIT investments as soon as it is practicable to do so without incurring penalties or breakage fees; (b) SCHOOLCARE shall limit its investment in these REITs by requiring any dividends paid by the REIT investments be paid to SCHOOLCARE in cash and not reinvested in the REIT; (c) the SCHOOLCARE REITs shall not be considered as part of the allowable percentage of the non-complaint investments and (d) SCHOOLCARE shall provide the BSR with annual updates on the status of the REIT investments and with more frequent updates should unexpected events occur with respect to the REIT investments. The Coalition is also permitted to include investments that are non-compliant with NH RSA 35:9 in an aggregate amount not to exceed 8% of the Coalition's cash, cash equivalents, and other non-REIT investments provided such non-compliant investments are specifically approved for investment by a non-life insurer pursuant to RSA 402:28, I with the exception of 402:28, I, o. As management reviewed the June 30, 2016 investment statements, they determined that approximately 5.5% of the Coalition's investments were non-compliant with the regulatory requirements. This is within the 8% limit set by the Risk Pool Practices Agreement. The REIT balances were \$1,582,493 at June 30, 2016, \$1,731,394 at June 30, 2015 and \$2,352,461 at June 30, 2014. The Coalition held securities that were non-complaint with NH RSA 35:9 in the amount of \$2,340,310 at June 30, 2016, \$5,179,088 at June 30, 2015 and \$6,769,599 at June 30, 2014. In addition, the Coalition held certain securities that were non-compliant with both NH RSA 35:9, NH RSA 402:28, I as well as the Agreement in the amount \$201,905 as of June 30, 2015 and \$2,219,014 as of June 30, 2014. These securities have been sold as of April 15, 2016.

In addition, on May 25, 2016, the Coalition entered into an agreement with Strategic Asset Alliance (SAA) as an investment consultant to the Board and organization. SAA replaced Eagle Point Investment Advisors as the Board's advisor effective May 25, 2016. The Board also authorized agreements with US Bank on August 10, 2016 for custodian services as well as Asset Allocation and Management Company (AAM) on August 15, 2016 for investment management and accounting services. US Bank replaces LPL Financial as the custodian of Coalition funds as of September 1, 2016.

## Capital Assets and Debt

The Coalition's property and equipment at June 30, 2016 was valued at \$516,165 compared to \$699,668 on June 30, 2015 and \$773,693 on June 30, 2014. The changes at June 30, 2016 are due to a depreciation amount of \$48,085 as well as the disposal of PATH software in the amount of \$135,417. The Coalition has no long-term debt.

## **Outlook / Economic Factors:**

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

The SCHOOLCARE medical and dental plans provide comprehensive benefits to support this endeavor. Health care is evolving rapidly due to rising health care trends as a result of the Patient Protection and Affordable Care Act (PPACA) and particularly in the area of specialty prescription drugs. The PPACA Excise Tax on high cost plans was delayed from 2018 to 2020. This delay has allowed more time for Member groups to consider and transition to products with deductibles and coinsurance that encourage greater consumer accountability in care as well as promotion of cost sharing between employers and employees. To assist in these efforts, the Coalition continues to develop next generation products that offer a variety of options through cost sharing and various tax-advantaged financial accounts. These include health reimbursement accounts, health savings accounts and flexible spending accounts. The Coalition will further develop these plans and educate Membership in order to assist with mitigating or eliminating Excise Tax on SCHOOLCARE medical plans.

In conjunction with next generation plans, the Coalition believes that wellness plays an integral role in one's health. As such, Staff has continued to update and develop the Coalition's comprehensive *Good For You!* wellness programs to promote consumer awareness and accountability of one's own health. These programs echo the Coalition's mission of promoting healthier lifestyles while making wellness fun and easy to participate in. The Coalition partnered with Viverrac in 2015, a leader in workplace wellness offerings, to utilize their wellness portal. This portal works to educate on a holistic level, while allowing for technological advancements like participation through device integration. Development of these programs will continue as the Coalition integrates both membership feedback as well as best practices in health and wellness. Participation continues to grow. 38% of eligible subscribers participated in the program in FY 2016 alone. Staff expects that number to continue to grow as communication, awareness and utilization expands.

In addition to this, the Coalition's Board of Directors, Staff and Key Stakeholders developed and embarked on a new Strategic Objective Plan for 2016 - 2020. This plan encompasses the education of Members while developing products and technology that further meets their needs and objectives. In a rapidly changing world, the Coalition must be nimble and responsive over the years to come and this new Strategic Plan will aid and assist in that task.

## Membership

The exceptional service to our existing Membership is a cornerstone of the Coalition's mission. In more recent years, the Coalition's Membership has remained relatively flat with most changes in enrollment occurring as a result of its population retiring. This slower period of growth is mostly attributable to PPACA changes and collective bargaining agreements holding until the effect of the Excise Tax is known. As part of the Strategic Plan for 2016 - 2020, the Coalition's Board of Directors has indicated a desire for growth in the program of

approximately 20% from 2016 to 2020. This will be achieved by servicing current Members to the highest standard possible while marketing to prospective clients through educational opportunities and events.

#### Patient Protection and Affordable Care Act (PPACA)

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

In addition to this, SCHOOLCARE staff has been assisting Members with various reporting requirements under PPACA including 6055 and 6056 reporting. Staff has also continued to educate Members on potential Excise Tax implications. As such, the Coalition has developed various spreadsheets to estimate how much each Member would pay in Excise Tax by plan option. Staff will also continue to develop next generation, lower cost, products to assist in Excise Tax avoidance for the year 2020 and beyond.

From an administrative perspective, SCHOOLCARE currently pays two PPACA fees on its Members behalf, the Comparative Effectiveness Research Fee and the Transitional Reinsurance Fee. The Transitional Reinsurance Fee continues through December 31, 2016 with final payment due January 2017 while the Comparative Effectiveness Research fee will continue through June 30, 2019 for SCHOOLCARE with a final payment date of July 31, 2020.

#### Medical Costs

Medical costs continue to escalate as a result of various factors, mostly attributable to the use of specialty drugs, price inflation, utilization, government-mandated benefits/fees, and new treatments, therapies and technology. 2016 brought much change as its Membership continued to move towards alternative plan designs. As the Coalition looks to 2017, it is anticipated that employers and employees alike will be considering alternative plan designs to reduce health care rates. The Coalition continues to support such joint management/labor initiatives through existing SCHOOLCARE plans with higher copays/cost sharing and lower cost plans with deductibles/coinsurance. Staff estimates that over half of SCHOOLCARE's population will be enrolled in high deductible plans by 2017.

#### 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). As stated previously, the Coalition entered into a five (5) year Risk Pool Practices Agreement in April 2012. The Coalition will continue to comply with the Agreement and will closely monitor any legislative changes that may affect the Coalition and its membership. The Agreement is effective through April 25, 2017.

#### **Requests for Information:**

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

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION  
STATEMENTS OF NET POSITION  
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 15,544,773	\$ 14,525,316
Investments	26,674,135	27,910,979
Member receivables	2,121,395	1,105,773
Accounts receivable	877,234	1,343,706
Accrued interest receivable	171,606	131,443
Prepaid expenses	68,012	34,980
Total current assets	<u>45,457,154</u>	<u>45,052,197</u>
Property and equipment, net	<u>516,165</u>	<u>699,668</u>
Total assets	<u><u>\$ 45,973,319</u></u>	<u><u>\$ 45,751,865</u></u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>		
<b>LIABILITIES:</b>		
Accounts payable	\$ 1,011,742	\$ 338,148
Accrued expenses	489,211	934,907
Claims payable	2,662,441	1,951,088
Claims reserves	11,935,008	12,217,117
Premium holiday payable	5,845,197	5,509,171
Total current liabilities	<u>21,943,599</u>	<u>20,950,431</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>		
Deferred revenue	<u>551,555</u>	<u>429,766</u>
<b>NET POSITION:</b>		
Invested in capital assets	516,165	699,668
Unrestricted	<u>22,962,000</u>	<u>23,672,000</u>
Total net position	<u>23,478,165</u>	<u>24,371,668</u>
Total liabilities, deferred inflows of resources and net position	<u><u>\$ 45,973,319</u></u>	<u><u>\$ 45,751,865</u></u>

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION  
STATEMENTS OF CHANGES IN NET POSITION  
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Operating revenues:		
Member contributions	\$ 172,891,675	\$ 168,862,262
Premium holiday credits	(4,636,391)	(1,221,079)
Medicare drug subsidy	37,491	60,512
Other income	3,162,907	933,954
Total operating revenues	<u>171,455,682</u>	<u>168,635,649</u>
Operating expenses:		
Claims expense	149,188,684	143,438,801
Insurance stop-loss	1,460,836	1,367,992
Insurance premiums	11,280,149	10,262,981
Claims administration	5,026,781	5,227,151
Contractual services	637,330	507,924
Affordable Care Act fees	751,296	1,137,265
Administration	1,670,238	1,192,295
Health and wellness benefits	3,295,351	2,162,000
Conference expenses	21,048	10,320
Total operating expenses	<u>173,331,712</u>	<u>165,306,729</u>
Operating (loss) gain	(1,876,030)	3,328,920
Nonoperating revenues:		
Earnings on investments	<u>982,527</u>	<u>683,055</u>
Change in net position	(893,504)	4,011,975
Beginning net position, July 1	<u>24,371,668</u>	<u>20,359,693</u>
Ending net position, June 30	<u>\$ 23,478,164</u>	<u>\$ 24,371,668</u>

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

	June 30, 2016	June 30, 2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from members	\$ 167,697,477	\$ 146,495,086
Subsidies and refund received	3,478,370	410,245
Payments to suppliers	(22,876,209)	(20,779,419)
Payments of claims	(148,601,443)	(142,719,326)
Payments to employees	(857,948)	(769,172)
Net cash used by operating activities	(1,159,752)	(17,362,586)
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:</b>		
Purchase of property and equipment	-	(5,967)
Net cash used by capital financing activities	-	(5,967)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from maturities and sales, net of purchases	1,051,706	971,364
Interest and dividend income	1,127,503	1,225,719
Net cash provided by investing activities	2,179,209	2,197,083
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	1,019,457	(15,171,470)
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	14,525,316	29,696,786
<b>CASH AND CASH EQUIVALENTS, end of year</b>	\$ 15,544,773	\$ 14,525,316
<b>RECONCILIATION OF OPERATING (LOSS) INCOME TO NET CASH USED BY OPERATING ACTIVITIES:</b>		
Operating (loss) income	\$ (1,876,030)	\$ 3,328,920
Adjustments to reconcile operating (loss) income to net cash used by operating activities -		
Depreciation expense	48,086	79,992
Loss on disposal of fixed asset	135,417	-
(Increase) decrease in assets:		
Member receivables	(1,015,622)	(645,031)
Accounts receivable	466,472	(584,222)
Prepaid expenses	(33,032)	39,379
Increase (decrease) in liabilities:		
Accounts payable	673,593	246,069
Claims payable	711,353	(1,219,930)
Accrued expenses	(445,696)	(46,102)
Claims reserves	(282,109)	1,939,405
Premium holiday payable	336,026	(20,473,481)
Increase (decrease) in deferred revenue:	121,789	(27,585)
Total adjustments	716,279	(20,691,506)
Net cash used by operating activities	\$ (1,159,752)	\$ (17,362,586)
<b>SUPPLEMENTAL NON-CASH DISCLOSURE</b>		
Change in unrealized gain (loss) on investments	\$ 249,229	\$ (613,379)

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

**1. Organization and significant accounting policies:**

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

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

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

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

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

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

- B. Membership - Membership is limited to political subdivisions of the State of New Hampshire. Membership was 95 and 96 at June 30, 2016 and 2015.
- C. Basis of accounting - The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) as applied to proprietary funds of governmental units. The Coalition meets the requirements as a public entity risk pool under Governmental Accounting Standards Board (GASB) statements, and accounts for its activities in accordance with the applicable statements.
- D. Cash and cash equivalents - The Coalition considers all deposit accounts with banks and money market accounts held by the Coalition's investment advisor in the Coalition's name to be cash and cash equivalents. The Coalition's accounts are insured or collateralized at June 30, 2016 and June 30, 2015.

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION  
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**1. Organization and significant accounting policies (continued):**

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

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

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

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

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

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

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

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

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

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION  
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**1. Organization and significant accounting policies (continued):**

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

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

- G. Member contributions - Member contributions are based on the program experience and trends as determined by qualified actuaries and are set by the Board annually. The contributions cover all expenses of the Coalition including claims payments and administration, reserves, stop-loss insurance, health and wellness programs, and the Coalition's administration. The rates are effective through June 30, 2016.
- H. Net position - The Coalition reports two classifications of net position, invested in capital assets and unrestricted. Unrestricted net position is defined as that portion of net position that is intended to be used by the Coalition for specific purposes as authorized by the Board of Directors. Undesignated net position would be the residual classification of net position and would include all amounts not otherwise restricted or designated. The Coalition does not report an undesignated net position. Residual amounts are reported as premium holiday payable as the Coalition is required to return any undesignated amount to members. Upon dissolution of the organization, the net position is to be distributed to members.

The following table represents the components of the net position:

	<u>2016</u>	<u>2015</u>
Invested in capital assets	\$ 516,165	\$ 699,668
Designated - medical risk corridor	22,326,000	23,125,000
Designated - dental risk corridor	636,000	547,000
Designated net position	<u>22,962,000</u>	<u>23,672,000</u>
Total net position	<u>\$ 23,478,165</u>	<u>\$ 24,371,668</u>

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

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION  
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**1. Organization and significant accounting policies (continued):**

- J. Marketing - The Coalition expenses marketing and advertising costs when incurred.
- K. Estimates - The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and deferred outflows/inflows of resources as well as disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
- L. Unpaid claims liabilities - The Coalition establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of excess insurance recoverable on unpaid claims are deducted from the liability for unpaid claims. The process used in computing claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using the development actuarial method which assumes that past patterns of lag between the date a service is received and the date the claim is paid for the service will continue in the future and other economic factors. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.
- M. Excess insurance - The Coalition purchases an individual insurance policy in excess of predetermined levels of retained losses or self-insurance. The excess insurance program may change each coverage year to accommodate increased membership and changing insurance market conditions. Excess insurance permits recovery of a portion of losses from excess insurers, although it does not discharge the primary liability of the Coalition as direct insurer of the risks. The Coalition does not report risks covered by excess insurance as liabilities unless it is probable that those risks will not be covered by the excess insurers and is refunded by excess insurers. Premiums paid to excess insurers for the years ended June 30, 2016 and 2015, were \$1,460,836 and \$1,367,992, respectively. Effective June 30, 2015, the NH State Vaccine fees are no longer being paid by the excess insurer to the State of NH on SCHOOLCARE's behalf, which resulted in a decrease in premium paid to excess insurers in previous years. There was \$126,764 and \$284,761 recoverable from excess insurers and deducted from claims paid for fiscal years ended June 30, 2016 and 2015, respectively.

Third party health coverage was purchased from OptumHealth Specialty Benefits for the 2016 and 2015 program years subject to individual losses in excess of \$500,000 per covered enrollee for loss years 2016 and 2015 with a deductible of \$125,000. The Coalition no longer purchases aggregate excess insurance. The Medigap portion of the Coalition's SCHOOLCARE 65+ program is fully insured through the United American Insurance Company, and the prescription drug program is fully insured through Express Scripts. The dental insurance benefit option was self-funded through Cigna beginning July 1, 2013.

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION  
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**1. Organization and significant accounting policies (continued):**

- N. Deferred revenue - Financials are presented in accordance with GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. In addition to assets and liabilities, deferred outflows of resources (previously reported as assets) and deferred inflows of resources (previously reported as liabilities), are reported as separate sections in the statement of net position. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources in the current period. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources in the current period. The Coalition does not currently report any deferred outflows of resources. The Coalition reports deferred revenue which represents members' contributions received in advance of the month of coverage as deferred inflows of resources.
- O. Premium deficiency reserve - In accordance with GASB Statement No. 30, "Risk Financing Omnibus," premium deficiencies are required to be calculated and reported by public entity risk pools. A premium deficiency can result when expected costs for coverage obligations as of the financial statement date exceed expected contributions (based on rates set prior to the financial statement date) for such coverage. No premium deficiency reserve was recorded as of June 30, 2016 and 2015. Investment income was included as part of the calculation in determining if a premium deficiency existed.
- P. Subsequent events - The Coalition has evaluated subsequent events through which is the date the financial statements were available to be issued.

**2. Investments:**

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

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION  
NOTES TO THE FINANCIAL STATEMENTS  
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**2. Investments (continued):**

Compliance - The Coalition's Risk Pool Practices Agreement with the NH Secretary of State required that investments be compliant with the requirements imposed upon municipalities pursuant to NH RSA 35:9, allowing for certain exceptions, by April 25, 2014. The Coalition's investment portfolio on June 30, 2016 was valued at \$26,674,135. The June 30, 2015 value of the investment portfolio was \$27,910,979. The Coalition's Risk Pool Practices Agreement with the NH Secretary of State required that investments be compliant with the requirements imposed upon municipalities pursuant to NH RSA 35:9, allowing for certain exceptions, by April 25, 2014. In the Agreement, the NH Secretary of State consents to the Coalition temporarily retaining the investment in Real Estate Investment Trusts (REITs) on the following conditions: (a) SCHOOLCARE shall liquidate the REIT investments as soon as it is practicable to do so without incurring penalties or breakage fees; (b) SCHOOLCARE shall limit its investment in these REITs by requiring any dividends paid by the REIT investments be paid to SCHOOLCARE in cash and not reinvested in the REIT; (c) the SCHOOLCARE REITs shall not be considered as part of the allowable percentage of the non-complaint investments and (d) SCHOOLCARE shall provide the BSR with annual updates on the status of the REIT investments and with more frequent updates should unexpected events occur with respect to the REIT investments.

The Coalition is also permitted to include investments that are non-compliant with NH RSA 35:9 in an aggregate amount not to exceed 8% of the Coalition's cash, cash equivalents, and other non-REIT investments provided such non-compliant investments are specifically approved for investment by a non-life insurer pursuant to RSA 402:28, I with the exception of 402:28, I, o. As management reviewed the June 30, 2016 investment statements, they determined that approximately 5.5% of the Coalition's investments were non-compliant with the regulatory requirements. This is within the 8% limit set by the Risk Pool Practices Agreement. The REIT balances were \$1,582,493 and \$1,731,394 at June 30, 2016 and 2015, respectively. The Coalition held securities that were non-complaint with NH RSA 35:9 in the amount of \$2,340,307 and \$5,179,087, respectively. In addition, the Coalition held certain securities that were non-compliant with both NH RSA 35:9, NH RSA 402:28, I as well as the Agreement in the amount \$201,905 as of June 30, 2015. These securities have been sold as of April 15, 2016.

Custodial credit risk - Custodial credit risk is the risk that, in the event of failure of the counterparty to a transaction, the Coalition will not be able to recover the value of its investments or collateral securities that are in the possession of another party. Investments other than the real estate investment trusts were held by LPL Financial Services at June 30, 2016 and 2015.

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION  
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**2. Investments (continued):**

The Coalition's investments, including compliance consisted of the following as of June 30, 2016 and 2015:

Category	June 30, 2016					
	Amount of Investment Portfolio	Percentage of Investment Portfolio	Non-Compliant Municipal Law RSA 35:9 Investments	Percentage of Municipal Law RSA 35:9 Non-compliant Investments	Non-Compliant Insurance Law 402:28:I Investments	Percentage of Insurance Law 402:28:I Non-compliant Investments
Corporate Bonds	\$ 4,272,274	10.12%	\$ 2,340,310	5.54%	\$ -	0.00%
Government Bonds	7,373,953	17.47%	-	0.00%	-	0.00%
Municipal Bonds	983,017	2.33%	-	0.00%	-	0.00%
Mutual Funds	4,615,930	10.93%	-	0.00%	-	0.00%
REITs	1,582,493	3.75%	1,582,493	3.75%	1,582,493	3.75%
US Treasuries	<u>7,846,468</u>	<u>18.59%</u>	-	0.00%	-	0.00%
Total Investments	26,674,135	63.18%	-	0.00%	-	0.00%
Cash and Money Markets	<u>15,544,773</u>	<u>36.82%</u>	-	0.00%	-	0.00%
Total Investment Portfolio	<b>\$ 42,218,908</b>	<b>100%</b>	<u>-</u>	<u>0.00%</u>	<u>-</u>	<u>0.00%</u>
Total Out of Compliance			<b>\$ 3,922,803</b>	<b>9.29%</b>	<b>\$ 1,582,493</b>	<b>3.75%</b>

Category	June 30, 2015					
	Amount of Investment Portfolio	Percentage of Investment Portfolio	Non-Compliant Municipal Law RSA 35:9 Investments	Percentage of Municipal Law RSA 35:9 Non-compliant Investments	Non-Compliant Insurance Law 402:28:I Investments	Percentage of Insurance Law 402:28:I Non-compliant Investments
Corporate Bonds	\$ 4,494,761	10.59%	\$ 2,911,687	6.86%	\$ -	0.00%
Government Bonds	9,603,424	22.63%	-	0.00%	-	0.00%
Municipal Bonds	949,568	2.24%	-	0.00%	-	0.00%
Mutual Funds	6,878,782	16.21%	2,267,401	0.48%	201,905	0.48%
REITs	1,731,394	4.08%	1,731,394	4.00%	1,731,394	4.00%
US Treasuries	<u>4,253,050</u>	<u>10.02%</u>	-	0.00%	-	0.00%
Total Investments	27,910,979	65.77%	-	0.00%	-	0.00%
Cash and Money Markets	<u>14,525,316</u>	<u>34.23%</u>	-	0.00%	-	0.00%
Total Investment Portfolio	<b>\$ 42,436,295</b>	<b>100%</b>	<u>-</u>	<u>0.00%</u>	<u>-</u>	<u>0.00%</u>
Total Out of Compliance			<b>\$ 6,910,482</b>	<b>11.34%</b>	<b>\$ 1,933,299</b>	<b>4.48%</b>

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION  
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**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, 2016 are as follows:

	Fair Value	Less than One Year	1 to 5 Years	6 to 10 Years	After 10 Years
U.S. Treasuries	\$ 7,846,468	\$ 524,464	\$1,397,741	\$ 5,813,358	\$ 110,905
U.S. Agencies MBS	7,373,953	609,251	1,846,456	1,865,694	3,052,552
Corporate bonds	4,272,274	-	103,838	2,876,187	1,292,249
Municipal bonds	983,017	-	-	-	983,017
	<u>\$20,475,712</u>	<u>\$ 1,133,715</u>	<u>\$3,348,035</u>	<u>\$ 10,555,239</u>	<u>\$ 5,438,723</u>

Maturities of interest earning investments at June 30, 2015 are as follows:

	Fair Value	Less than One Year	1 to 5 Years	6 to 10 Years	After 10 Years
U.S. Treasuries	\$ 4,253,050	\$ -	\$2,463,771	\$ 1,789,279	\$ -
U.S. Agencies MBS	9,603,424	101,941	594,537	371,202	8,535,744
Corporate bonds	4,494,761	-	810,536	2,354,733	1,329,492
Municipal bonds	949,568	-	202,954	-	746,614
	<u>\$ 19,300,803</u>	<u>\$ 101,941</u>	<u>\$4,071,798</u>	<u>\$ 4,515,214</u>	<u>\$ 10,611,850</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  
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**2. Investments (continued):**

The table below outlines the Standard & Poor's credit ratings of the Coalition's fixed maturity securities at June 30, 2016.

	U.S. Treasuries	U.S. Agencies MBS	Corporate Bonds	Municipal Bonds	Totals
AAA	\$ 7,846,468	\$ 3,273,463	\$ -	\$ -	\$ 11,119,931
AA+	-	4,100,490	157,101	-	4,257,591
AA	-	-	349,362	-	349,362
AA-	-	-	-	983,017	983,017
A+	-	-	208,427	-	208,427
A	-	-	329,859	-	329,859
A-	-	-	370,023	-	370,023
BBB+	-	-	1,359,305	-	1,359,305
BBB	-	-	571,117	-	571,117
BBB-	-	-	927,080	-	927,080
	<u>\$ 7,846,468</u>	<u>\$ 7,373,953</u>	<u>\$ 4,272,274</u>	<u>\$ 983,017</u>	<u>\$ 20,475,712</u>

The table below outlines the Standard & Poor's credit ratings of the Coalition's fixed maturity securities at June 30, 2015:

	U.S. Treasuries	U.S. Agencies MBS	Corporate Bonds	Municipal Bonds	Totals
AAA	\$ 4,253,050	\$ 8,614,436	\$ -	\$ -	\$ 12,867,486
AA+	-	988,988	217,907	-	1,206,895
AA	-	-	-	124,381	124,381
AA-	-	-	-	348,150	348,150
A+	-	-	148,111	-	148,111
A	-	-	310,607	274,083	584,690
A-	-	-	906,449	202,954	1,109,403
BBB+	-	-	595,355	-	595,355
BBB	-	-	1,246,255	-	1,246,255
BBB-	-	-	1,070,077	-	1,070,077
	<u>\$ 4,253,050</u>	<u>\$ 9,603,424</u>	<u>\$ 4,494,761</u>	<u>\$ 949,568</u>	<u>\$ 19,300,803</u>

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**2. Investments (continued):**

Marketable equity securities were recorded using Level 1 fair values based on observable quoted market prices from national securities exchanges. Corporate bonds, 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.

The following table sets forth by level, within the fair value hierarchy, the Coalition's investments at fair value as of June 30, 2016 and 2015:

<b>June 30, 2016</b>	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Marketable equity securities	\$ 4,615,930	\$ -	\$ -
Corporate bonds	-	4,272,274	-
Government bonds	-	16,203,438	-
Real estate investment trusts (REITs)	-	-	1,582,493
	<u>\$ 4,615,930</u>	<u>\$ 20,475,712</u>	<u>\$ 1,582,493</u>

<b>June 30, 2015</b>	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Marketable equity securities	\$ 6,878,782	\$ -	\$ -
Corporate bonds	-	4,494,761	-
Government bonds	-	14,806,042	-
Real estate investment trusts (REITs)	-	-	1,731,394
	<u>\$ 6,878,782</u>	<u>\$ 19,300,803</u>	<u>\$ 1,731,394</u>

For the years ended June 30, 2016 and 2015, the Coalition realized a net loss of \$434,369 and a net gain of \$70,715 from the sale of investment securities. The calculation of the realized gains and losses is independent of a calculation of the net change in the fair value of investments. Realized gains and losses on investments that have been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year.

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION  
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**3. Property and equipment:**

Property and equipment consisted of the following at year end:

	<u>Balance June 30, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2016</u>
Capital assets, being depreciated				
Buildings and improvements	\$ 609,763	\$ -	\$ -	\$ 609,763
Furniture and equipment	398,835	-	(135,417)	263,418
Total capital assets being depreciated	<u>1,008,598</u>	<u>-</u>	<u>(135,417)</u>	<u>873,181</u>
Less: accumulated depreciation for:				
Buildings and improvements	(116,245)	(21,879)	-	(138,124)
Furniture and equipment	<u>(192,685)</u>	<u>(26,207)</u>	<u>-</u>	<u>(218,892)</u>
Total accumulated depreciation	<u>(308,930)</u>	<u>(48,086)</u>	<u>-</u>	<u>(357,016)</u>
Total capital assets being depreciated, net	<u>\$ 699,668</u>	<u>\$ (48,086)</u>	<u>\$ (135,417)</u>	<u>\$ 516,165</u>

Depreciation expense was \$48,086 and \$79,992 for the years ended June 30, 2016 and 2015, respectively.

**4. Unpaid claims liabilities:**

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

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION  
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**4. Unpaid claims liabilities (continued):**

The following represents changes in those aggregate liabilities for the Coalition for the years ended June 30, 2016, 2015 and 2014:

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Unpaid claims and allocated claims adjustment at beginning of the year	\$ 14,168,205	\$ 13,448,731	\$ 11,979,507
Incurred claims and allocated claim adjustment expenses:			
Provision for insured events of current fiscal year	152,240,233	145,913,916	132,302,195
Changes in the provision for insured events of prior fiscal years	(3,051,249)	(2,475,115)	(1,060,171)
Claims administration expenses, current year	5,026,781	5,227,151	4,862,342
Total incurred claims and claim adjustment expenses	<u>154,215,765</u>	<u>148,665,952</u>	<u>136,104,366</u>
Claim and allocated claim adjustment expense payments:			
Attributable to insured events of current fiscal year	137,642,784	131,745,711	118,853,464
Attributable to insured events of prior fiscal years	11,116,956	10,973,618	10,919,336
Claims administration expenses, current year	5,026,781	5,227,149	4,862,342
Total payments	<u>153,786,521</u>	<u>147,946,478</u>	<u>134,635,142</u>
Total unpaid claims and claim adjustment expenses at end of the year	<u>\$ 14,597,449</u>	<u>\$ 14,168,205</u>	<u>\$ 13,448,731</u>

**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 is effective through April 25, 2017. The provisions of the Agreement significantly changed two areas of the Coalition's operations - return of surplus and investments.

Return of surplus - From inception in 1995 to 2013, the Coalition returned surplus to its members through rate stabilization to reduce rate increases. The BSR, 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 illustrates the amounts and returns of Premium Holiday by year.

<u>Date of Premium Holiday</u>	<u>Amount of Premium Holiday</u>
December 1, 2012	\$4,250,000
December 1, 2013	\$4,250,000
July 1, 2014	\$21,673,842
July 1, 2015	\$4,288,093
July 1, 2016	\$1,208,806

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION  
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**5. Risk pool practices agreement (continued):**

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. The Agreement required investments be compliant with the requirements imposed upon municipalities pursuant to RSA 35:9, allowing for certain exceptions, by April 25, 2014. At June 30, 2016, the Coalition determined that approximately 5.5% of its investments were considered to be non-compliant which is within the 8% or less range. The REIT balances were \$1,582,493 at June 30, 2016 and \$1,731,394 at June 30, 2015. The Coalition held securities that were non-compliant with NH RSA 35:9 in the amount of \$2,340,307 at June 30, 2016 and \$5,179,087 at June 30, 2015. In addition, the Coalition held certain securities that were non-compliant with both NH RSA 35:9 as well as NH RSA 402:28, I as well as the Agreement in the amount \$201,905 as of June 30, 2015. These securities have been sold as of April 15, 2016. The Coalition also adopted changes to its investment policy to implement the provisions of the agreement.

**6. Net position:**

Unrestricted net position - The Medical Risk Corridor and Dental Risk Corridor is determined annually with advice of the Coalition’s actuaries using a stochastic modeling methodology at the 95% confidence level and is held as a contingent reserve for all business risks not included in loss reserves. Under the terms of the Risk Pool Practices Agreement, the Coalition is not permitted to 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 2016, the Coalition has accrued fees of approximately \$751,296 which represent the Coalition’s annual assessment under the Act.

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, 2016, 2015 and 2014  
Schedule 1**

	SchoolCare - Medical			SchoolCare - Dental			SchoolCare 65+ - Pharmacy		
	<u>6/30/2016</u>	<u>6/30/2015</u>	<u>6/30/2014</u>	<u>6/30/2016</u>	<u>6/30/2015</u>	<u>6/30/2014</u>	<u>6/30/2016</u>	<u>6/30/2015</u>	<u>6/30/2014</u>
Unpaid claims and allocated claims adjustment expenses at beginning of year	\$ 13,732,633	\$ 13,265,845	\$ 11,790,026	\$ 435,572	\$ 182,886	\$ -	\$ -	\$ -	\$ 189,482
Incurred claims and allocated claim adjustment expenses:									
Provision for insured events of current fiscal year	148,989,577	142,721,688	127,154,723	3,250,656	3,192,228	2,226,840	-	-	2,920,631
Changes in the provision for insured events of prior fiscal year	(3,010,101)	(2,450,637)	(1,060,171)	(41,148)	(24,478)	-	-	-	-
Claims administration expenses, current year	4,916,603	5,123,611	4,766,113	110,179	103,540	79,711	-	-	16,519
Total incurred claims and claim adjustment expenses	<u>150,896,078</u>	<u>145,394,661</u>	<u>130,860,665</u>	<u>3,319,687</u>	<u>3,271,290</u>	<u>2,306,551</u>	<u>-</u>	<u>-</u>	<u>2,937,150</u>
Claim and allocated claim adjustment expense payments:									
Attributable to insured events of current fiscal year	134,598,800	128,989,055	113,888,878	3,043,983	2,756,656	2,043,954	-	-	2,920,631
Attributable to insured events of prior fiscal years	10,722,532	10,815,207	10,729,855	394,424	158,408	-	-	-	189,482
Claims administration expenses, current year	4,916,603	5,123,611	4,766,113	110,179	103,540	79,711	-	-	16,519
Total payments	<u>150,237,935</u>	<u>144,927,873</u>	<u>129,384,846</u>	<u>3,548,586</u>	<u>3,018,604</u>	<u>2,123,665</u>	<u>-</u>	<u>-</u>	<u>3,126,632</u>
Total unpaid claims and claim adjustment expenses at the years ended June 30, 2016, 2015 and 2014	<u>\$ 14,390,777</u>	<u>\$ 13,732,633</u>	<u>\$ 13,265,845</u>	<u>\$ 206,673</u>	<u>\$ 435,572</u>	<u>\$ 182,886</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION  
COMPARATIVE SCHEDULE OF CLAIM DEVELOPMENT,  
EARNED ASSESSMENTS AND UNALLOCATED EXPENSES  
JUNE 30, 2016  
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 years other operating costs of the Coalition including overhead and claims expense not allocable to individual claims. (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.

The June 30, 2013 balance for end of policy year net incurred claim expense changed from the 2014 audit to the 2015 report within. The change was due to the fiscal year 2013 balance previously including designations for property and equipment as well as funds from the previously self-funded 65+ program reserve.

Certain numbers from the June 30, 2015 balance changed from the 2015 audit to the 2016 report within. The earned number has been updated as it included funds from the previously self-funded 65+ program. The ceded number has been updated to reflect the adjustment that was received from excess carrier subsequent to June 30, 2015 related to NH State Vaccine Fees. These changes updated the net earned, and incurred numbers. The end of policy year net incurred claim expense changed as it did not previously reflect the self-funded dental program for 2015.

**NEW HAMPSHIRE SCHOOL HEALTH CARE COALITION**  
**COMPARATIVE SCHEDULE OF CLAIM DEVELOPMENT, EARNED ASSESSMENTS AND UNALLOCATED EXPENSES**  
**JUNE 30, 2016**  
**Schedule 2**  
 (Page 2 of 2)

	Fiscal and Policy Year Ended										
	<u>6/30/2007</u>	<u>6/30/2008</u>	<u>6/30/2009</u>	<u>6/30/2010</u>	<u>6/30/2011</u>	<u>6/30/2012</u>	<u>6/30/2013</u>	<u>6/30/2014</u>	<u>6/30/2015</u>	<u>6/30/2016</u>	
(1) Required contribution and investment revenue:											
Earned	\$ 57,037,152	\$ 59,397,133	\$ 69,547,673	\$ 78,191,834	\$ 101,576,541	\$ 101,685,003	\$ 122,926,284	\$ 145,505,569	\$ 159,063,635	\$ 162,438,317	
Ceded	1,048,980	996,952	665,574	533,577	793,399	1,126,463	1,430,523	1,974,516	1,367,992	1,460,836	
Net earned	55,988,172	58,400,181	68,882,099	77,658,257	100,783,142	100,558,540	121,495,761	143,531,053	157,695,643	160,977,481	
(2) Unallocated expenses	3,234,505	3,414,497	4,052,154	4,538,115	7,256,765	8,471,257	6,766,446	8,834,804	9,907,428	11,911,481	
(3) Estimated claims and expenses, end of policy year											
Incurred	46,436,971	49,511,425	61,413,964	70,131,306	98,473,213	112,433,287	123,381,661	133,348,065	146,332,109	152,415,558	
Ceded	330,102	108,927	-	-	1,032,391	-	255,417	1,045,871	418,193	175,325	
Net incurred	46,106,869	49,402,498	61,413,964	70,131,306	97,440,822	112,433,287	123,126,244	132,302,194	145,913,916	152,240,233	
(4) Net paid (cumulative) as of:											
End of the policy year	41,271,041	44,806,139	56,763,320	63,030,689	89,489,249	99,759,145	111,146,738	118,853,463	131,745,711	137,642,784	
One year later	46,276,532	48,283,542	61,358,425	67,415,030	95,043,861	109,607,207	122,066,073	129,827,079	142,862,667		
Two years later	46,276,532	48,283,542	61,358,425	67,415,030	95,043,861	109,607,207	122,066,073	129,827,079			
Three years later	46,276,532	48,283,542	61,358,425	67,415,030	95,043,861	109,607,207	122,066,073				
Four years later	46,276,532	48,283,542	61,358,425	67,415,030	95,043,861	109,607,207					
Five years later	46,276,532	48,283,542	61,358,425	67,415,030	95,043,861						
Six years later	46,276,532	48,283,542	61,358,425	67,415,030							
Seven years later	46,276,532	48,283,542	61,358,425								
Eight years later	46,276,532	48,283,542									
Nine years later	46,276,532										
(5) Re-estimated ceded claims and expenses	1,090,510	106,823	-	-	1,171,022	-	255,417	1,195,297	649,305	175,325	
(6) Re-estimated net incurred claims and expenses:											
End of the policy year	46,106,869	49,402,498	61,413,964	69,313,461	97,440,822	112,433,287	123,126,244	132,302,194	145,913,916	152,240,233	
One year later	46,276,532	48,283,542	61,358,425	67,415,030	95,043,861	109,607,207	122,066,073	129,827,079	142,862,667		
Two years later	46,276,532	48,283,542	61,358,425	67,415,030	95,043,861	109,607,207	122,066,073	129,827,079			
Three years later	46,276,532	48,283,542	61,358,425	67,415,030	95,043,861	109,607,207	122,066,073				
Four years later	46,276,532	48,283,542	61,358,425	67,415,030	95,043,861	109,607,207					
Five years later	46,276,532	48,283,542	61,358,425	67,415,030	95,043,861						
Six years later	46,276,532	48,283,542	61,358,425	67,415,030							
Seven years later	46,276,532	48,283,542	61,358,425	67,415,030							
Eight years later	46,276,532	48,283,542	61,358,425	67,415,030							
Nine years later	46,276,532	48,283,542	61,358,425	67,415,030							
(7) Increase (decrease) in estimated net incurred claims and expenses from end of the policy year	169,663	(1,118,955)	(55,540)	(1,898,432)	(2,396,961)	(2,826,080)	(1,060,171)	(2,475,115)	(3,051,249)	-	