

**SOUTHERN SKYLAND REGIONAL
HEALTH INSURANCE FUND
(A COMPONENT UNIT OF THE COUNTY OF SOMERSET,
STATE OF NEW JERSEY)**

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

December 31, 2021

**SOUTHERN SKYLAND REGIONAL HEALTH INSURANCE FUND
(A COMPONENT UNIT OF THE COUNTY OF SOMERSET, STATE OF NEW JERSEY)**

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INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT

To the Executive Committee of the
Southern Skyland Regional Health Insurance Fund
Parsippany, New Jersey 07054

Report on the Audits of the Financial Statements

Opinions

We have audited the accompanying financial statements of the Southern Skyland Regional Health Insurance Fund (the "Fund"), a component unit of the County of Somerset, State of New Jersey, as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which comprise the Fund's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above, except for the effects of any potential adjustments pertaining to the unaudited Incurred But Not Reported ("IBNR") reserve balance as described in the Basis for Qualified Opinion paragraph, present fairly, in all material respects, the financial position of the Fund as of December 31, 2021 and 2020, and the changes in financial position and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and audit requirements prescribed by the State of New Jersey, Departments of Community Affairs ("DCA") and Banking and Insurance ("DOBI"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Fund, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

As permitted by the DCA and DOBI, audit procedures were not extended to the underlying actuarial assumptions for IBNR reserve amounts, as these assumptions are prepared by the Fund's actuary.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fund's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Auditors' Responsibilities for the Audits of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and audit requirements prescribed by the DCA and DOBI, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit 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 Fund's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fund's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Other Supplementary Information

Management is responsible for the other supplementary information included in the financial statements. The other supplementary information, as listed in the table of contents, does not include the basic financial statements and our auditors' report thereon. Our opinions on the basic financial statements do not cover the other supplementary information, and we do not express an opinion or any form of assurance thereon.

In connection with our audits of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 13, 2022, on our consideration of the Fund'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 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 Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

Merodien, P.C.

Certified Public Accountants

May 13, 2022

**MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

**SOUTHERN SKYLAND REGIONAL HEALTH INSURANCE FUND
(A COMPONENT UNIT OF THE COUNTY OF SOMERSET, STATE OF NEW JERSEY)**

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

December 31, 2021

On January 1, 2017, the Somerset County Board of County Commissioners adopted a resolution, which authorized the establishment of the Somerset County Insurance Commission (the "Commission"). The Commission was established under N.J.S.A. 40A: 10-6, which authorizes a governing body of any local unit to establish an Insurance Fund for the purposes provided by law. This was based on the County's determination that cost savings and efficiencies can be achieved if the County Proper and its inter-agencies share the cost of insurance, claim management and services, wellness initiatives, and consolidation of insurance policies.

Effective January 1, 2020, the Commission transitioned to a Health Insurance Fund under the N.J.S.A. 40A: 10-36 et seq. The Commissioners unanimously voted to file with the State to form the Southern Skyland Regional Health Insurance Fund (the "Fund") for the purposes of expanding its pooling footprint. The Fund allows for municipalities and school boards in Somerset, Sussex, Warren and Hunterdon Counties to join; whereas the Commission was built for Somerset County entities only. The run out from the Commission will run simultaneously with the Fund and all assets will be transferred to the Fund when the run-out period is complete.

The following tables summarize the net position and results of operations for the Fund as of and for the years ended December 31, 2021, 2020 and 2019.

Summary Statements of Net Position

	2021	2020	2019	2021-2020	% Change
Assets					
Cash & Cash Equivalents	\$ 1,934,233	\$ 1,785,954	\$ 1,942,635	\$ 148,279	8.30%
Contributions Receivable	2	421,437	127,983	(421,435)	-100.00%
Other Assets	2,292,718	1,911,599	2,158,848	381,119	19.94%
Total Assets	\$ 4,226,953	\$ 4,118,990	\$ 4,229,466	\$ 107,963	2.62%
Liabilities, Reserves & Net Position					
Liabilities and Reserves					
Loss Reserves	\$ 2,607,000	\$ 2,054,000	\$ 2,677,429	\$ 553,000	26.92%
Other Liabilities	1,342,673	507,066	200,266	835,607	164.79%
Total Liabilities and Reserves	3,949,673	2,561,066	2,877,695	1,388,607	54.22%
Net Position - Unrestricted	\$ 277,280	\$ 1,557,924	\$ 1,351,771	\$ (1,280,644)	-82.20%

**SOUTHERN SKYLAND REGIONAL HEALTH INSURANCE FUND
(A COMPONENT UNIT OF THE COUNTY OF SOMERSET, STATE OF NEW JERSEY)**

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

December 31, 2021

Summary Statements of Revenues, Expenses and Changes in Net Position

	2021	2020	2019	2021-2020	% Change
Operating Revenues					
Regular Assessments & Other Income	\$ 39,494,020	\$ 38,568,711	\$ 35,796,782	\$ 925,309	2.40%
Operating Expenses:					
Provision for Claims and					
Claims Adjustment Expense	32,955,735	30,419,126	30,882,108	2,536,609	8.34%
Premium for Excess Insurance	1,340,910	1,562,898	1,384,799	(221,988)	-14.20%
Partnership Health Center	3,346,479	3,018,456	2,732,228	328,023	10.87%
Dental Pass Through Expense	1,252,968	1,305,891	-	(52,923)	-4.05%
Administrative and Operating Expenses	2,140,238	2,073,241	1,558,483	66,997	3.23%
Total Operating Expenses	41,036,330	38,379,612	36,557,618	2,656,718	6.92%
Operating (Loss)/Income	(1,542,310)	189,099	(760,836)	(1,731,409)	-915.61%
Non-Operating Revenue:					
Interest Income	11,666	17,053	56,929	(5,387)	-31.59%
Dental Surplus Return	250,000	-	-	-	100.00%
Total Non-Operating Revenue	261,666	17,053	56,929	244,613	1434.43%
Changes in Net Position	\$ (1,280,644)	\$ 206,152	\$ (703,907)	\$ (1,486,796)	-721.21%

The Fund offers health and prescription coverage to its members. The Fund's total assets at the end of December 31, 2021 and 2020, were \$4,226,953 and \$4,118,990, respectively, and total liabilities and reserves were \$3,949,673 and \$2,561,066, respectively, resulting in a surplus in an unrestricted net position of \$277,280 and \$1,557,924, respectively.

The Fund's unrestricted net position decreased by \$1,280,644 during 2021, compared to an increase of \$206,152 during 2020. The primary components of the decrease during 2021 were an increase in claims adjustment and Partnership Health Center expenses, offset by an increase in regular assessments and other income. The primary components of the increase during 2020 were an increase in regular assessments and other income, offset by increased Dental Pass Through and administrative expenses.

Economic Conditions

The future financial position of the Fund will be impacted by trends in medical and prescription costs. The Fund will attempt to offset these trends by streamlining claims processing and management utilization.

Contacting the Fund's Management

This financial report is designed to provide the Fund members, Department of Banking and Insurance, and the Division of Local Government Services, Department of Community Affairs, State of New Jersey with a general overview of the Fund's finances and to demonstrate the Fund's accountability for the public funds it receives. If you have any questions about this report or need additional financial information, contact the Executive Director of the Southern Skyland Regional Health Insurance Fund office located at 9 Campus Drive, Suite 216, Parsippany, New Jersey 07054 or by phone at (201) 881-7632.

BASIC FINANCIAL STATEMENTS

**SOUTHERN SKYLAND REGIONAL HEALTH INSURANCE FUND
(A COMPONENT UNIT OF THE COUNTY OF SOMERSET, STATE OF NEW JERSEY)**

STATEMENTS OF NET POSITION

December 31, 2021 and 2020

	2021	2020
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 1,934,233	\$ 1,785,954
Contributions Receivable	2	421,437
Other Assets	2,292,718	1,911,599
	<u>4,226,953</u>	<u>4,118,990</u>
<u>LIABILITIES, RESERVES AND NET POSITION</u>		
Liabilities:		
Accrued Expenses	513,740	240,201
Accounts Payable	241	266,865
Claims Payable	828,692	-
	<u>1,342,673</u>	<u>507,066</u>
Claims Reserves:		
IBNR Reserves	2,607,000	2,054,000
	<u>2,607,000</u>	<u>2,054,000</u>
Total Liabilities and Reserves	<u>3,949,673</u>	<u>2,561,066</u>
Net Position:		
Unrestricted	<u>\$ 277,280</u>	<u>\$ 1,557,924</u>

**SOUTHERN SKYLAND REGIONAL HEALTH INSURANCE FUND
(A COMPONENT UNIT OF THE COUNTY OF SOMERSET, STATE OF NEW JERSEY)**

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Years Ended December 31, 2021 and 2020

	2021	2020
Operating Revenues:		
Regular Contributions	\$ 38,913,624	\$ 38,115,860
Employee Contributions	580,396	452,851
Total Operating Revenues	<u>39,494,020</u>	<u>38,568,711</u>
Operating Expenses:		
Provision for Claims and Claim Adjustment Expense	32,955,735	30,419,126
Excess Insurance Premiums	1,340,910	1,562,898
Partnership Health Center	3,346,479	3,018,456
Dental Pass Through Expense	1,252,968	1,305,891
Administrative Expenses:		
Actuary	1,500	20,000
Attorney	15,548	14,160
Auditor	15,360	16,584
GASB 75	-	7,500
Broker	129,881	129,346
Executive Director	488,994	488,378
TPA - Medical	724,297	709,999
Medicare Advantage	706,347	634,579
Miscellaneous Expenses	10,609	4,594
Patient Center Outcome Research	9,774	9,557
Wellness	(49,376)	10,002
NJ State Surcharge: Med	30,394	28,345
Marketing Fee	56,250	-
Postage Fee	660	197
Total Operating Expenses	<u>41,036,330</u>	<u>38,379,612</u>
Operating (Loss)/Income	<u>(1,542,310)</u>	<u>189,099</u>
Non-Operating Revenue:		
Interest Income	11,666	17,053
Dental Surplus Return	250,000	-
Total Non-Operating Revenue	<u>261,666</u>	<u>17,053</u>
Changes in Net Position	(1,280,644)	206,152
Net Position - Beginning of Year	<u>1,557,924</u>	<u>1,351,772</u>
Net Position - End of Year	<u>\$ 277,280</u>	<u>\$ 1,557,924</u>

**SOUTHERN SKYLAND REGIONAL HEALTH INSURANCE FUND
(A COMPONENT UNIT OF THE COUNTY OF SOMERSET, STATE OF NEW JERSEY)**

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2021 and 2020

	2021	2020
Cash Flows from Operating Activities:		
Receipts from Contributions	\$ 39,915,455	\$ 38,275,257
Payments for Claims	(31,574,043)	(31,029,760)
Payments for Insurance Premiums	(1,525,383)	(1,378,425)
Payments to Professionals and Suppliers	(6,679,416)	(6,040,806)
Net Cash from Operating Activities	<u>136,613</u>	<u>(173,734)</u>
Cash Flows from Investing Activities:		
Interest Income	<u>11,666</u>	<u>17,053</u>
Net Cash from Investing Activities	<u>11,666</u>	<u>17,053</u>
Net Changes in Cash and Cash Equivalents	148,279	(156,681)
Cash and Cash Equivalents, Beginning of Year	<u>1,785,954</u>	<u>1,942,635</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,934,233</u>	<u>\$ 1,785,954</u>
Reconciliation of Operating (Loss)/Income to Cash Flows from Operating Activities:		
Operating (Loss)/Income	\$ (1,542,310)	\$ 189,099
Adjustment to Reconcile Operating (Loss)/Income to Net Cash Provided by Operating Activities:		
Change in Assets and Liabilities:		
Contributions Receivable	421,435	(293,454)
Other Assets	(131,119)	247,249
Accrued Expenses	273,539	190,282
Accounts Payable	(266,624)	116,519
Claims Payable	828,692	-
IBNR	553,000	(623,429)
Net Cash Provided by Operating Activities	<u>\$ 136,613</u>	<u>\$ (173,734)</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

**SOUTHERN SKYLAND REGIONAL HEALTH INSURANCE FUND
(A COMPONENT UNIT OF THE COUNTY OF SOMERSET, STATE OF NEW JERSEY)**

NOTES TO FINANCIAL STATEMENTS

A. ORGANIZATION AND DESCRIPTION OF THE FUND

On January 1, 2017, the Somerset County Insurance Commission (the "Commission") was formed in accordance with P.L. 1992, C.51, entitled "*An Act Concerning Insurance Funds for Local Units of Government*", and supplementing Chapter 10 of Title 40A: 10-6. Effective January 1, 2020, the Commission transitioned to a Health Insurance Fund (the "Fund") under the N.J.S.A 40A: 10-36 et seq. The Fund is operated in accordance with regulations of the Division of Local Government Services of the Department of Community Affairs, State of New Jersey for the purpose of securing significant savings in insurance cost as well as providing stability in coverage.

The Executive Committee of the Fund may approve subsequent membership by a majority vote of the Fund Commissioners or may terminate any member by a majority vote, after proper notice has been given. Early terminations require prior approval by the Fund Commissioners and 90-day notification from either party.

From inception in 2017 through the current year, members of the Fund included Somerset County, Somerset County Park Fund, Somerset County Vo-Tech, and Somerset County Library.

All members' assessments, including a reserve for contingencies, are based on annual actuarial assumptions determined by the Fund's actuary. The Fund Commissioners may order additional assessments to supplement the Fund's claim, loss retention or administrative accounts to assure the payment of the Fund's obligations.

Effective January 1, 2017, the Fund offers the following health coverages to its members:

Medical
Prescription

The Fund provides coverage on a self-insured basis and secures excess insurance in a form and an amount from an insurance company acceptable to the Commissioner of Insurance.

HEALTH INSURANCE

The limits of liability under the various health coverages for 2021 were as follows:

I. Fund's Self-Insured Retained ("S.I.R.") Limit of Liability

Specific limit - With the exception of one specific enrolled participant, the specific excess limit is \$325,000 per enrolled participant per reinsurance policy year. The specific excess limit for the specific enrolled participant is \$400,000.

II. Excess Insurers' Limit of Liability

A. \$ unlimited Reimbursement in excess of the Fund's specific S.I.R.

**SOUTHERN SKYLAND REGIONAL HEALTH INSURANCE FUND
(A COMPONENT UNIT OF THE COUNTY OF SOMERSET, STATE OF NEW JERSEY)**

NOTES TO FINANCIAL STATEMENTS

A. ORGANIZATION AND DESCRIPTION OF THE FUND (CONTINUED)

Health Insurance Coverage Notes

1. "Health Insurance" means health insurance as defined pursuant to N.J.S.A. 17B:17-4 or service benefits as provided by health service corporations, hospital service corporations or medical service corporations authorized to do business in the State.
2. "Incurred Claims" means claims which occur during a Fund year, including claims paid during a later period. The exact definition of "Incurred Claims" or any similar term is the definition used in the excess insurance policy purchased by the Fund.
3. The Fund's reinsurance agreement for 2021 was with HCC Life Insurance Company. The agreement is on a twelve-month exposure period covering claims incurred during the twelve-month policy period January 1, 2021 to December 31, 2021.
4. Open enrollment for Somerset County, Somerset County Park Commission, and Somerset County Library participating employees was offered on November 17, 2020 through November 29, 2020 for changes effective January 1, 2021. Open enrollment for Somerset County Vo-Tech was April 27, 2020 through May 15, 2020, for changes effective July 1, 2020, since the Somerset County Vo-Tech plan year is July 1, 2020 to June 30, 2021.
5. Medical coverage consists of each participating member's individual medical benefits plan.
6. Medicare provides secondary coverage for eligible active employees and primary coverage for eligible Medicare participants.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the more significant policies followed by the Fund in the preparation of the accompanying financial statements:

Component Unit

In evaluating how to define the Fund for financial reporting purposes, management has considered all potential component units. The decision to include any potential component units in the financial reporting entity was made by applying the criteria set forth in Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an Amendment of GASB Statements No. 14 and No. 34*, and GASB Statement No. 80, *Blending Requirements for Certain Component Units - an Amendment of GASB Statement No. 14*. Blended component units, although legally separate entities, are in substance part of the primary entity's operations. Each discretely presented component unit would be or is reported in a separate column in the financial statements to emphasize that it is legally separate from the primary entity.

**SOUTHERN SKYLAND REGIONAL HEALTH INSURANCE FUND
(A COMPONENT UNIT OF THE COUNTY OF SOMERSET, STATE OF NEW JERSEY)**

NOTES TO FINANCIAL STATEMENTS

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Component Unit (Continued)

The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the primary entity.

A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the primary entity is able to exercise oversight responsibilities. Finally, the nature and significance of a potential component unit to the primary entity could warrant its inclusion within the reporting entity. Based upon the application of these criteria the Fund has no component units but is a component unit of the County of Somerset, State of New Jersey.

Basis of Presentation

The financial statements of the Fund have been prepared in accordance with accounting principles generally accepted in the United States of America applicable to enterprise funds of state and local governments on a going concern basis. The focus of enterprise funds is the measurement of economic resources, that is, the determination of operating income, changes in net position (or cost recovery), financial position and cash flows. The GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Enterprise funds are accounted for using the accrual basis of accounting.

Revenues - Member Assessments are recognized as revenue at the time of assessment.

Expenses - On the accrual basis of accounting, expenses are recognized at the time they are incurred.

Cash and Cash Equivalents

Cash and cash equivalents includes amounts on deposit, money market accounts, and short-term investments with original maturities of ninety days or less. Deposits were with contracted depository banks in interest-bearing accounts that were insured under the New Jersey Governmental Unit Deposit Protection Act ("GUDPA"). All such deposits are held in the Fund's name.

**SOUTHERN SKYLAND REGIONAL HEALTH INSURANCE FUND
(A COMPONENT UNIT OF THE COUNTY OF SOMERSET, STATE OF NEW JERSEY)**

NOTES TO FINANCIAL STATEMENTS

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents (Continued)

GUDPA permits the deposit of public funds in the State of New Jersey Cash Management Fund or in institutions located in New Jersey that are insured by the Federal Deposit Insurance Corporation ("FDIC") or by any other agencies of the United States that insure deposits. GUDPA requires public depositories to maintain collateral for deposits of public funds that exceed insurance limits as follows:

Each depository participating in the GUDPA system must pledge collateral equal to at least 5% of the average amount of its public deposits and 100% of the average amount of its public funds in excess of the lesser of 75% of its capital funds or \$200 million. The minimum 5% pledge applies to institutions that are categorized as "well capitalized" by federal banking standards. The percentage of the required pledge will increase for institutions that are less than "well capitalized."

No collateral is required for amounts covered by the FDIC. The collateral which may be pledged to support these deposits includes obligations of state and federal governments, insured securities and other collateral approved by the Department of Banking and Insurance ("DOBI"). When the capital position of the depository deteriorates or the depository takes an unusually large amount of public deposits, the DOBI requires additional collateral to be pledged.

If a governmental depository fails and the FDIC or National Credit Union Share Insurance Fund does not insure or pay out the full amount of public deposits, the collateral pledged to protect these funds would first be liquidated and paid out. If this amount is insufficient, other institutions holding public funds would be assessed pro rata up to 4% of their uninsured public funds. Although these protections do not constitute a 100% guarantee of the safety of all funds, no governmental unit under GUDPA has ever lost protected deposits.

Additionally, the Fund has adopted a cash management plan that requires it to deposit public funds in public depositories protected from loss under the provisions of the GUDPA. In lieu of designating a depository, the cash management plan may provide that the local unit make deposits with the State of New Jersey Cash Management Fund.

Health and Prescription Coverage Assessments and Assessments Receivable

Members are assessed monthly contributions based on a pro rata amount of the current estimates of projected losses, administrative expenses and the cost of stop loss insurance.

Supplemental Assessments

The Fund Commissioners shall by majority vote levy upon the participating county agencies additional assessments wherever needed to supplement the Fund's claim, loss retention or administrative accounts, after consideration of anticipated investment income, to assure the payment of the Fund's obligations. Supplemental contributions to cover a deficit are recognized as revenue upon approval whether or not actually received.

**SOUTHERN SKYLAND REGIONAL HEALTH INSURANCE FUND
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NOTES TO FINANCIAL STATEMENTS

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other Assets

Other Assets include excess insurance recoveries receivable, surplus receivable from the dental plan administrator, and other receivables occurring in the ordinary course of business.

Interest Income Allocation

Interest income was allocated based on the ratio of monthly average invested cash balances by line of coverage to the total amount invested applied to interest income credited for the month.

Unpaid Claims Liabilities

In order to recognize unpaid health coverage losses, a reserve was calculated by the Fund's administrator and actuary as of December 31, 2021 and 2020. Liabilities for unpaid losses represent the estimated liability on claims reported to the Fund plus reserves for claims incurred but not yet reported. The liabilities for claims are evaluated using Fund and industry data, case basis evaluations and other statistical analyses, and represent estimates of the ultimate net cost of all losses incurred through December 31, 2021 and 2020. These liabilities are subject to variability between estimated ultimate losses determined as described and the actual experience as it emerges, including the impact of future changes in claim severity, frequency and other factors.

Management believes that the liabilities for unpaid claims above are adequate. The estimates are reviewed periodically and as adjustments to these liabilities become necessary, such adjustments are reflected in cumulative operations.

Stop Loss Insurance

The Fund seeks to limit its exposure to loss on any single insured and to recover a portion of benefits paid by maintaining stop loss insurance coverage with HCC Life Insurance Company.

Refunds

As per Article VIII of the Fund's Rules and Regulations, any monies for a Fund year in excess of the amount necessary to fund all obligations for that fiscal year as certified by an actuary may be declared to be refundable by the Fund. A refund for any fiscal year shall be paid only in proportion to the member's participation in the Fund for such year. Payment of a refund shall not be contingent on the member's continued membership in the Fund. The Fund may apply a refund to any arrearage owed by the member to the Fund. Otherwise, at the option of the member, the refund may be retained by the Fund and applied towards the member's next annual assessment.

Administrative Expenses

Administrative expenses are comprised mainly of compensation for services rendered by servicing organizations submitted and approved by a majority of the Fund Commissioners. In instances where

**SOUTHERN SKYLAND REGIONAL HEALTH INSURANCE FUND
(A COMPONENT UNIT OF THE COUNTY OF SOMERSET, STATE OF NEW JERSEY)**

NOTES TO FINANCIAL STATEMENTS

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Administrative Expenses (Continued)

invoices have not been submitted for specific periods, the maximum allowable contract amount has been accrued.

Income Taxes

The Fund is exempt from income taxes under Section 115 of the Internal Revenue Code.

Net Position

In accordance with the provisions of GASB Statement 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, the Fund has classified its net position as unrestricted. This component of net position consists of net positions that do not meet the definition of "restricted" or "net investment in capital assets" and includes net position that may be allocated for specific purposes by the Board.

Operating and Non-Operating Revenues and Expenses

Operating revenues include all revenues derived from member assessments. Non-operating revenues principally consist of interest income earned on various interest-bearing accounts and on investments in debt securities and positive changes in the Fund's investments, as well as surplus dental premiums refunded by the dental plan administrator.

Operating expenses include expenses associated with the Fund's operations, including claims expense, insurance and administrative expenses.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes to financial statements. Actual results may differ from those estimates.

C. CASH AND CASH EQUIVALENTS

Custodial Credit Risk Related to Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Fund's deposits might not be recovered. Although the Fund does not have a formal policy regarding custodial credit risk, N.J.S.A. 17:9-41 et seq. requires that governmental units shall deposit public funds in public depositories protected from loss under the provisions of GUDPA. Under the Act, the first \$250,000 of governmental deposits in each insured depository is protected by the FDIC. Public funds owned by the Fund in excess of FDIC insured amounts are protected by GUDPA. However, GUDPA does not protect intermingled trust funds such as salary withholdings or funds that may pass to the Fund

**SOUTHERN SKYLAND REGIONAL HEALTH INSURANCE FUND
(A COMPONENT UNIT OF THE COUNTY OF SOMERSET, STATE OF NEW JERSEY)**

NOTES TO FINANCIAL STATEMENTS

C. CASH AND CASH EQUIVALENTS (Continued)

Custodial Credit Risk Related to Deposits (Continued)

relative to the happening of a future condition. If the Fund had any such funds, they would be shown as uninsured and uncollateralized.

Of the Fund's bank balance of \$2,084,075 and \$2,069,293 as of December 31, 2021 and 2020, respectively, \$250,000 was insured by the FDIC while \$1,834,075 and \$1,819,293, respectively, was collateralized under GUDPA.

D. CHANGES IN UNPAID CLAIMS LIABILITIES

As discussed in Note B, the Fund establishes a liability for both reported and unreported insured events, which includes estimates of future payments of losses and related allocated claims adjustment expenses.

The following represents changes in those aggregate undiscounted reported and unreported liabilities for the years ended December 31, 2021 and 2020, respectively, and for all open fund years net of excess insurance recoveries:

	2021	2020
Total unpaid claims and claim adjustment expenses – Beginning	<u>\$ 2,054,000</u>	<u>\$ 2,677,429</u>
Incurred Claims and Claims Adjustment Expenses:		
Provision for insured events of current fund year	32,890,732	30,769,355
Changes in provision for insured events of prior fund years	<u>65,003</u>	<u>(350,229)</u>
Total incurred claims and claim adjustment expenses all fund years	<u>32,955,735</u>	<u>30,419,126</u>
Payments (Net of Recoveries):		
Claims and claim adjustment expenses:		
Attributable to insured events of current fund year	30,283,732	28,715,355
Attributable to insured events of prior fund years	<u>2,119,003</u>	<u>2,327,200</u>
Total payments all fund years	<u>32,402,735</u>	<u>31,042,555</u>
Total unpaid claim and claim adjustment expenses all fund years - Ending	<u>\$ 2,607,000</u>	<u>\$ 2,054,000</u>

E. PENDING LITIGATION

The Fund has not been named in any lawsuits. In addition, there are no matters of pending or threatened litigation involving the Fund.

F. RELATED PARTIES

The Fund pays underwriting fees and risk management fees to an affiliated company of the Fund's administrator. For the years ended December 31, 2021 and 2020, the Fund paid \$618,875 and \$617,724, respectively, to the Fund's administrator as per the management agreement.

**SOUTHERN SKYLAND REGIONAL HEALTH INSURANCE FUND
(A COMPONENT UNIT OF THE COUNTY OF SOMERSET, STATE OF NEW JERSEY)**

NOTES TO FINANCIAL STATEMENTS

G. IMPACT OF CORONAVIRUS PANDEMIC

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus included restrictions on travel, quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Fund and its members operate.

Due to the impact of New Jersey Governor Murphy's Executive Order No. 107 dated March 21, 2020, mandating statewide stay-at-home practices and closure of all non-essential retail businesses, there has generally been a negative economic impact, however, the impact on the Fund's financial statements and operations was limited in 2020 and 2021. It is unknown how long these conditions will last and what the complete financial affect will be to the Fund.

H. SUBSEQUENT EVENTS

The Fund has evaluated subsequent events occurring after December 31, 2021, through May 13, 2022, which is the date the financial statements were available to be issued. None were noted that require disclosure.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

**SOUTHERN SKYLAND REGIONAL HEALTH INSURANCE FUND
(A COMPONENT UNIT OF THE COUNTY OF SOMERSET, STATE OF NEW JERSEY)**

TEN YEAR CLAIMS DEVELOPMENT INFORMATION

	Fund Year				
	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Underwriting Income-Required Contribution	\$ 30,946,771	\$ 32,424,406	\$ 35,796,782	\$ 38,568,711	\$ 39,494,020
Investment Income	14,551	51,230	56,929	17,053	11,666
Dental Surplus Return	-	-	-	-	250,000
	<u>30,961,322</u>	<u>32,475,636</u>	<u>35,853,711</u>	<u>38,585,764</u>	<u>39,755,686</u>
Excess Insurance Premiums	1,084,878	1,157,541	1,384,799	1,562,898	1,340,910
Dental Pass Through Expense	-	-	-	1,305,891	1,252,968
Administrative Expenses	1,492,644	1,593,593	1,558,453	2,073,240	2,140,238
	<u>2,577,522</u>	<u>2,751,134</u>	<u>2,943,252</u>	<u>4,942,029</u>	<u>4,734,116</u>
Estimated Incurred Claims-End of Policy Year	<u>27,016,885</u>	<u>30,144,716</u>	<u>31,705,833</u>	<u>30,769,355</u>	<u>32,890,732</u>
Cumulative Paid Claims:					
End of Policy Year	25,461,113	28,876,746	29,353,682	28,715,355	30,283,732
One Year Later	26,651,438	30,543,024	31,576,034	30,662,525	-
Two Years Later	26,651,438	30,648,097	31,675,168	-	-
Three Years Later	26,651,213	30,575,398	-	-	-
Four Years Later	26,651,213	-	-	-	-
Five Years Later	-	-	-	-	-
Six Years Later	-	-	-	-	-
Seven Years Later	-	-	-	-	-
Eight Years Later	-	-	-	-	-
Nine Years Later	-	-	-	-	-
Cumulative Incurred Claims:					
End of Policy Year	27,016,885	30,144,716	31,705,833	30,769,355	32,890,732
One Year Later	25,907,907	29,275,047	31,313,097	30,662,525	-
Two Years Later	25,953,850	29,317,780	31,412,231	-	-
Three Years Later	25,953,625	29,390,479	-	-	-
Four Years Later	25,953,625	-	-	-	-
Five Years Later	-	-	-	-	-
Six Years Later	-	-	-	-	-
Seven Years Later	-	-	-	-	-
Eight Years Later	-	-	-	-	-
Nine Years Later	-	-	-	-	-
Increase in Cumulative Incurred Claims from End of Policy Year	<u>\$ 1,063,260</u>	<u>\$ 754,237</u>	<u>\$ 293,602</u>	<u>\$ 106,830</u>	<u>\$ -</u>

**SOUTHERN SKYLAND REGIONAL HEALTH INSURANCE FUND
(A COMPONENT UNIT OF THE COUNTY OF SOMERSET, STATE OF NEW JERSEY)**

RECONCILIATION OF CLAIMS LIABILITIES BY COVERAGE

Years Ended December 31, 2021 and 2020

	2021			2020		
	Medical	Prescription	Total	Medical	Prescription	Total
Total unpaid claims and claim adjustment expenses, all fund years – Beginning	\$ 1,749,000	\$ 305,000	\$ 2,054,000	\$ 2,432,147	\$ 245,282	\$ 2,677,429
Incurred Claims and Claims Adjustment Expenses:						
Provision for insured events of current fund year	24,919,624	7,971,108	32,890,732	23,008,287	7,761,068	30,769,355
Changes in provision for insured events of prior fund years	222,458	(157,455)	65,003	(350,229)	-	(350,229)
Total incurred claims and claim adjustment expenses, all fund years	25,142,082	7,813,653	32,955,735	22,658,058	7,761,068	30,419,126
Payments (Net of Recoveries):						
Claims and claim adjustment expenses:						
Attributable to insured events of current fund year	22,683,624	7,600,108	30,283,732	21,259,287	7,456,068	28,715,355
Attributable to insured events of prior fund years	1,971,458	147,545	2,119,003	2,081,918	245,282	2,327,200
Total payments, all fund years	24,655,082	7,747,653	32,402,735	23,341,205	7,701,350	31,042,555
Total unpaid claim and claim adjustment expenses, all fund years - Ending	\$ 2,236,000	\$ 371,000	\$ 2,607,000	\$ 1,749,000	\$ 305,000	\$ 2,054,000

See independent auditors' report.

SUPPLEMENTARY SCHEDULES (UNAUDITED)

**SOUTHERN SKYLAND REGIONAL HEALTH INSURANCE FUND
(A COMPONENT UNIT OF THE COUNTY OF SOMERSET, STATE OF NEW JERSEY)**

STATEMENT OF CUMULATIVE OPERATING RESULTS ANALYSIS

Year Ended December 31, 2021

	Medical	Prescription	Dental	Reinsurance	Expense & Contingency	Total
Underwriting Income:						
Regular Contributions	\$ 113,332,421	\$ 37,781,057	\$ 2,360,452	\$ 6,300,612	\$ 17,456,147	\$ 177,230,689
Total Income	113,332,421	37,781,057	2,360,452	6,300,612	17,456,147	177,230,689
Incurred Expenses:						
Claims						
Paid	118,475,402	39,686,150	9,835	-	-	158,171,388
IBNR	(1,513,130)	1,513,130	-	-	-	-
Recoverable	(3,929,122)	(3,932,674)	-	-	-	(7,861,796)
Expenses	2,073,491	-	2,558,859	6,531,026	15,881,869	27,045,245
Total Expenses	115,106,641	37,266,606	2,568,694	6,531,026	15,881,869	177,354,837
Underwriting Surplus	(1,774,220)	514,451	(208,242)	(230,414)	1,574,278	(124,148)
Adjustments:						
Investment Income	42,556	52,684	319	167	55,702	151,428
Dental Surplus Return	-	-	250,000	-	-	250,000
Total Adjustments	42,556	52,684	250,319	167	55,702	401,428
Gross Surplus	(1,731,664)	567,135	42,077	(230,247)	1,629,980	277,280
Return of Surplus	-	-	-	-	-	-
Net Surplus (Deficit)	\$ (1,731,664)	\$ 567,135	\$ 42,077	\$ (230,247)	\$ 1,629,980	\$ 277,280

See independent auditors' report.

**SOUTHERN SKYLAND REGIONAL HEALTH INSURANCE FUND
(A COMPONENT UNIT OF THE COUNTY OF SOMERSET, STATE OF NEW JERSEY)**

STATEMENT OF 2021 FUND YEAR OPERATING RESULTS ANALYSIS

Year Ended December 31, 2021

	Medical	Prescription	Dental	Reinsurance	Expense & Contingency	Total
Underwriting Income:						
Regular Contributions	\$ 24,581,856	\$ 7,678,011	\$ 1,192,624	\$ 1,425,039	\$ 4,829,479	\$ 39,707,009
Total Income	24,581,856	7,678,011	1,192,624	1,425,039	4,829,479	39,707,009
Incurred Expenses:						
Claims						
Paid	25,920,202	9,673,857	-	-	-	35,594,059
IBNR	(305,000)	305,000	-	-	-	-
Recoverable	(695,578)	(2,007,749)	-	-	-	(2,703,327)
Expenses	736,741	-	1,252,968	1,525,383	4,944,823	8,459,915
Total Expenses	25,656,365	7,971,108	1,252,968	1,525,383	4,944,823	41,350,647
Underwriting Surplus	(1,074,509)	(293,097)	(60,344)	(100,344)	(115,344)	(1,643,638)
Adjustments:						
Investment Income	2,786	-	-	-	1,200	3,986
Dental Surplus Return	-	-	250,000	-	-	-
Permanent Transfers	-	-	-	-	-	-
Total Adjustments	2,786	-	250,000	-	1,200	253,986
Gross Surplus	(1,071,723)	(293,097)	189,656	(100,344)	(114,144)	(1,389,652)
Return of Surplus	-	-	-	-	-	-
Net Surplus (Deficit)	\$ (1,071,723)	\$ (293,097)	\$ 189,656	\$ (100,344)	\$ (114,144)	\$ (1,389,652)

See independent auditors' report.

**SOUTHERN SKYLAND REGIONAL HEALTH INSURANCE FUND
(A COMPONENT UNIT OF THE COUNTY OF SOMERSET, STATE OF NEW JERSEY)**

STATEMENT OF 2020 FUND YEAR OPERATING RESULTS ANALYSIS

Year Ended December 31, 2021

	Medical	Prescription	Dental	Reinsurance	Expense & Contingency	Total
Underwriting Income:						
Regular Contributions	\$ 23,510,455	\$ 6,878,560	\$ 1,167,828	\$ 1,340,421	\$ 5,533,384	\$ 38,430,648
Total Income	23,510,455	6,878,560	1,167,828	1,340,421	5,533,384	38,430,648
Incurred Expenses:						
Claims						
Paid	24,122,903	9,223,538	-	-	-	33,346,441
IBNR	(305,000)	305,000	-	-	-	-
Recoverable	(758,991)	(1,924,925)	-	-	-	(2,683,916)
Expenses	662,924	-	1,305,891	1,378,425	4,233,701	7,580,941
Total Expenses	23,721,836	7,603,613	1,305,891	1,378,425	4,233,701	38,243,466
Underwriting Surplus	(211,381)	(725,053)	(138,063)	(38,004)	1,299,683	187,182
Adjustments:						
Investment Income	7,864	-	284	42	9,123	17,313
Permanent Transfers	1,366,148	-	-	-	-	1,366,148
Total Adjustments	1,374,012	-	284	42	9,123	1,383,461
Gross Surplus	1,162,631	(725,053)	(137,779)	(37,962)	1,308,806	1,570,643
Return of Surplus	-	-	-	-	-	-
Net Surplus (Deficit)	\$ 1,162,631	\$ (725,053)	\$ (137,779)	\$ (37,962)	\$ 1,308,806	\$ 1,570,643

See independent auditors' report.

**SOUTHERN SKYLAND REGIONAL HEALTH INSURANCE FUND
(A COMPONENT UNIT OF THE COUNTY OF SOMERSET, STATE OF NEW JERSEY)**

STATEMENT OF CLOSED FUND YEARS OPERATING RESULTS ANALYSIS

Year Ended December 31, 2021

	Medical	Prescription	Dental	Reinsurance	Expense & Contingency	Total
Underwriting Income:						
Regular Contributions	\$ 65,240,110	\$ 23,224,486	\$ -	\$ 3,535,152	\$ 7,093,284	\$ 99,093,031
Total Income	65,240,110	23,224,486	-	3,535,152	7,093,284	99,093,031
Incurred Expenses:						
Claims						
Paid	68,432,297	20,788,756	9,835	-		89,230,888
IBNR	(903,130)	903,130	-	-	-	-
Recoverable	(2,474,553)	-	-	-	-	(2,474,553)
Expenses	673,826	-	-	3,627,218	6,703,345	11,004,389
Total Expenses	65,728,440	21,691,886	9,835	3,627,218	6,703,345	97,760,724
Underwriting Surplus	(488,330)	1,532,600	(9,835)	(92,066)	389,939	1,332,308
Adjustments:						
Investment Income	31,906	52,684	35	125	45,379	130,129
Permanent Transfers	(1,366,148)	-	-	-	-	(1,366,148)
Total Adjustments	(1,334,242)	52,684	35	125	45,379	(1,236,019)
Gross Surplus	(1,822,572)	1,585,284	(9,800)	(91,941)	435,318	96,289
Return of Surplus	-	-	-	-	-	-
Net Surplus (Deficit)	\$ (1,822,572)	\$ 1,585,284	\$ (9,800)	\$ (91,941)	\$ 435,318	\$ 96,289

See independent auditors' report.

**SOUTHERN SKYLAND REGIONAL HEALTH INSURANCE FUND
(A COMPONENT UNIT OF THE COUNTY OF SOMERSET, STATE OF NEW JERSEY)**

STATEMENT OF CUMULATIVE CLAIMS ANALYSIS

Year Ended December 31, 2021

	Medical	Prescription	Dental	Reinsurance	Total
Paid Claims (Net of Recoveries)	\$ 112,005,280	\$ 35,687,477	\$ 9,835	\$ -	\$ 147,702,592
IBNR Reserves	1,027,870	1,579,130	-	-	2,607,000
Incurred Claims	\$ 113,033,150	\$ 37,266,607	\$ 9,835	\$ -	\$ 150,309,592

**SOUTHERN SKYLAND REGIONAL HEALTH INSURANCE FUND
(A COMPONENT UNIT OF THE COUNTY OF SOMERSET, STATE OF NEW JERSEY)**

STATEMENT OF 2021 FUND YEAR CLAIMS ANALYSIS

Year Ended December 31, 2021

	Medical	Prescription	Dental	Reinsurance	Total
Paid Claims (Net of Recoveries)	\$ 22,683,624	\$ 7,600,108	\$ -	\$ -	\$ 30,283,732
IBNR Reserves	2,236,000	371,000	-	-	2,607,000
Incurred Claims	\$ 24,919,624	\$ 7,971,108	\$ -	\$ -	\$ 32,890,732

**SOUTHERN SKYLAND REGIONAL HEALTH INSURANCE FUND
(A COMPONENT UNIT OF THE COUNTY OF SOMERSET, STATE OF NEW JERSEY)**

STATEMENT OF 2020 FUND YEAR CLAIMS ANALYSIS

Year Ended December 31, 2021

	Medical	Prescription	Dental	Reinsurance	Total
Paid Claims (Net of Recoveries)	\$ 23,363,912	\$ 7,298,613	\$ -	\$ -	\$ 30,662,525
IBNR Reserves	(305,000)	305,000	-	-	-
Incurred Claims	\$ 23,058,912	\$ 7,603,613	\$ -	\$ -	\$ 30,662,525

**SOUTHERN SKYLAND REGIONAL HEALTH INSURANCE FUND
(A COMPONENT UNIT OF THE COUNTY OF SOMERSET, STATE OF NEW JERSEY)**

STATEMENT OF CLOSED FUND YEARS CLAIMS ANALYSIS

Year Ended December 31, 2021

	Medical	Prescription	Dental	Reinsurance	Total
Paid Claims (Net of Recoveries)	\$ 65,957,744	\$ 20,788,756	\$ 9,835	\$ -	\$ 86,756,335
IBNR Reserves	(903,130)	903,130	-	-	-
Incurred Claims	\$ 65,054,614	\$ 21,691,886	\$ 9,835	\$ -	\$ 86,756,335

**INDEPENDENT AUDITORS' 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 Executive Committee of the
Southern Skyland Regional Health Insurance Fund
Parsippany, New Jersey 07054

We have audited, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the audit requirements as prescribed by the State of New Jersey, Departments of Community Affairs ("DCA") and Banking and Insurance ("DOBI"), the financial statements of the Southern Skyland Regional Health Insurance Fund (the "Fund"), a component unit of the County of Somerset, State of New Jersey, as of and for the year ended December 31, 2021, and the related notes to financial statements, which comprise the Fund's basic financial statements, and have issued our report thereon dated May 13, 2022. The opinion on the Fund's financial statements was qualified as permitted by the DCA and DOBI, as audit procedures were not extended to the underlying actuarial assumptions for Incurred But Not Reported ("IBNR") reserve amounts, as these assumptions are prepared by the Fund's actuary.

Report on Internal Control Over Financial Reporting

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

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

Our consideration of internal control 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 or significant deficiencies may exist that were not identified.

INDEPENDENT AUDITORS' 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 (CONTINUED)

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and other matters, noncompliance with which could have a direct and material effect on the financial statements. 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 and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund'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 Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mercedien, P.C.
Certified Public Accountants

May 13, 2022

**SOUTHERN SKYLAND REGIONAL HEALTH INSURANCE FUND
(A COMPONENT UNIT OF THE COUNTY OF SOMERSET, STATE OF NEW JERSEY)**

SCHEDULE OF CURRENT YEAR FINDINGS AND RECOMMENDATIONS

Year Ended December 31, 2021

None Reported.

**SOUTHERN SKYLAND REGIONAL HEALTH INSURANCE FUND
(A COMPONENT UNIT OF THE COUNTY OF SOMERSET, STATE OF NEW JERSEY)**

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

Year Ended December 31, 2021

None Reported.