

**SOUTHERN SKYLAND REGIONAL  
HEALTH INSURANCE FUND**

FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION

December 31, 2022

# SOUTHERN SKYLAND REGIONAL HEALTH INSURANCE FUND

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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"), as of and for the years ended December 31, 2022 and 2021, 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 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, 2022 and 2021, 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 Audits 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, *Government Auditing Standards*, and audit requirements prescribed by the DCA and DOBI 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 audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

### ***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 GAAS, 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 June 16, 2023, 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*

June 16, 2023

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

## SOUTHERN SKYLAND REGIONAL HEALTH INSURANCE FUND

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

December 31, 2022

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 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, with Somerset County acting as lead agency. 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 of Commission liabilities and transfer of assets from the Commission to the Fund was completed in fiscal year 2022. The Fund is no longer a component unit of the County of Somerset.

The following tables summarize the net position and results of operations for the Fund as of and for the years ended December 31, 2022, 2021 and 2020.

#### Summary Statements of Net Position

	2022	2021	2020	\$ Change 2021-2022	% Change
<b>Assets</b>					
Cash & Cash Equivalents	\$ 4,092,758	\$ 1,934,233	\$ 1,785,954	\$ 2,158,525	111.60%
Contributions Receivable	222,379	2	421,437	222,377	100.00%
Other Assets	3,360,639	2,292,718	1,911,599	1,067,921	46.58%
<b>Total Assets</b>	<b>\$ 7,675,776</b>	<b>\$ 4,226,953</b>	<b>\$ 4,118,990</b>	<b>3,448,823</b>	<b>81.59%</b>
<b>Liabilities, Reserves &amp; Net Position</b>					
<b>Liabilities and Reserves</b>					
Loss Reserves	\$ 1,762,266	\$ 2,607,000	\$ 2,054,000	(844,734)	-32.40%
Other Liabilities	305,581	1,342,673	507,066	(1,037,092)	-77.24%
<b>Total Liabilities and Reserves</b>	<b>2,067,847</b>	<b>3,949,673</b>	<b>2,561,066</b>	<b>(1,881,826)</b>	<b>-47.65%</b>
<b>Net Position - Unrestricted</b>	<b>\$ 5,607,929</b>	<b>\$ 277,280</b>	<b>\$ 1,557,924</b>	<b>5,330,649</b>	<b>1,922.48%</b>



# SOUTHERN SKYLAND REGIONAL HEALTH INSURANCE FUND

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

December 31, 2022

### Summary Statements of Revenues, Expenses and Changes in Net Position

	2022	2021	2020	\$ Change 2021-2022	% Change
Operating Revenues					
Regular Assessments & Other Income	\$ 41,385,310	\$ 39,494,020	\$ 38,568,711	\$ 1,891,290	4.79%
Operating Expenses:					
Provision for Claims and					
Claims Adjustment Expense	28,564,369	32,955,735	30,419,126	(4,391,366)	-13.33%
Premium for Excess Insurance	1,315,554	1,340,910	1,562,898	(25,356)	-1.89%
Partnership Health Center	3,255,014	3,346,479	3,018,456	(91,465)	-2.73%
Dental Pass-Through Expense	1,175,077	1,252,968	1,305,891	(77,891)	-6.22%
Administrative and Operating Expenses	2,111,435	2,140,238	2,073,241	(28,803)	-1.35%
Total Operating Expenses	36,421,449	41,036,330	38,379,612	(4,614,881)	-11.25%
Operating (Loss)/Income	4,963,861	(1,542,310)	189,099	6,506,171	421.85%
Non-Operating Revenue:					
Interest Income	34,268	11,666	17,053	22,602	193.74%
Dental Surplus Return	332,520	250,000	-	82,520	33.01%
Total Non-Operating Revenue	366,788	261,666	17,053	105,122	40.17%
Changes in Net Position	\$ 5,330,649	\$ (1,280,644)	\$ 206,152	6,611,293	516.25%

The Fund offers health and prescription coverage to its members. The Fund's total assets at the end of December 31, 2022 and 2021, were \$7,675,776 and \$4,226,953, respectively, and total liabilities and reserves were \$2,067,647 and \$3,949,673, respectively, resulting in a surplus in an unrestricted net position of \$5,607,929 and \$277,280, respectively.

The Fund's unrestricted net position increased by \$5,330,649 during 2022, compared to a decrease of \$1,280,644 during 2021. The primary components of the increase during 2022 were an increase in regular assessments and other income and decreases in claims adjustment, Partnership Health Center, and Dental Pass-Through expenses. 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.

### 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

## STATEMENTS OF NET POSITION

December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 4,092,758	\$ 1,934,233
Contributions Receivable	222,379	2
Other Assets	3,360,639	2,292,718
	<u>7,675,776</u>	<u>4,226,953</u>
 <u>LIABILITIES, RESERVES AND NET POSITION</u>		
Liabilities:		
Accrued Expenses	305,581	513,740
Accounts Payable	-	241
Claims Payable	-	828,692
	<u>305,581</u>	<u>1,342,673</u>
Claims Reserves:		
IBNR Reserves	1,762,266	2,607,000
	<u>1,762,266</u>	<u>2,607,000</u>
Total Liabilities and Reserves	<u>2,067,847</u>	<u>3,949,673</u>
Net Position:		
Unrestricted	<u>\$ 5,607,929</u>	<u>\$ 277,280</u>

See notes to financial statements.

## SOUTHERN SKYLAND REGIONAL HEALTH INSURANCE FUND

### STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Years Ended December 31, 2022 and 2021

	2022	2021
Operating Revenues:		
Regular Contributions	\$ 40,774,812	\$ 38,913,624
Employee Contributions	610,498	580,396
Total Operating Revenues	41,385,310	39,494,020
Operating Expenses:		
Provision for Claims and Claim Adjustment Expense	28,564,369	32,955,735
Excess Insurance Premiums	1,315,554	1,340,910
Partnership Health Center	3,255,014	3,346,479
Dental Pass-Through Expense	1,175,077	1,252,968
Administrative Expenses:		
Actuary	8,200	1,500
Attorney	3,912	15,548
Auditor	14,400	15,360
GASB 75	3,000	-
Broker	128,913	129,881
Executive Director	511,698	488,994
TPA - Medical	627,651	724,297
Medicare Advantage	655,271	706,347
Miscellaneous Expenses	4,451	10,609
Patient Center Outcome Research	9,282	9,774
Wellness	33,951	(49,376)
NJ State Surcharge: Med	34,806	30,394
Marketing Fee	75,000	56,250
Postage Fee	900	660
Total Operating Expenses	36,421,449	41,036,330
Operating Income/(Loss)	4,963,861	(1,542,310)
Non-Operating Revenue:		
Interest Income	34,268	11,666
Dental Surplus Return	332,520	250,000
Total Non-Operating Revenue	366,788	261,666
Changes in Net Position	5,330,649	(1,280,644)
Net Position - Beginning of Year	277,280	1,557,924
Net Position - End of Year	\$ 5,607,929	\$ 277,280

See notes to financial statements.

## SOUTHERN SKYLAND REGIONAL HEALTH INSURANCE FUND

### STATEMENTS OF CASH FLOWS

Years Ended December 31, 2022 and 2021

	2022	2021
Cash Flows from Operating Activities:		
Receipts from Contributions	\$ 41,162,933	\$ 39,915,455
Payments for Claims	(30,237,795)	(31,574,043)
Payments for Insurance Premiums	(1,315,554)	(1,525,383)
Payments to Professionals and Suppliers	(7,485,327)	(6,679,416)
Net Cash from Operating Activities	2,124,257	136,613
Cash Flows from Investing Activities:		
Interest Income	34,268	11,666
Net Cash from Investing Activities	34,268	11,666
Net Changes in Cash and Cash Equivalents	2,158,525	148,279
Cash and Cash Equivalents, Beginning of Year	1,934,233	1,785,954
Cash and Cash Equivalents, End of Year	\$ 4,092,758	\$ 1,934,233
Reconciliation of Operating Income/(Loss) to		
Cash Flows from Operating Activities:		
Operating Income/(Loss)	\$ 4,963,861	\$ (1,542,310)
Adjustment to Reconcile Operating Income/(Loss) to		
Net Cash Provided by Operating Activities:		
Change in Assets and Liabilities:		
Contributions Receivable	(222,377)	421,435
Other Assets	(735,401)	(131,119)
Accrued Expenses	(208,159)	273,539
Accounts Payable	(241)	(266,624)
Claims Payable	(828,692)	828,692
IBNR	(844,734)	553,000
Net Cash Provided from Operating Activities	\$ 2,124,257	\$ 136,613

See notes to financial statements.

## **NOTES TO FINANCIAL STATEMENTS**

# SOUTHERN SKYLAND REGIONAL HEALTH INSURANCE FUND

## NOTES TO FINANCIAL STATEMENTS

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### 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 N.J.S.A. 40A: 10-36 et seq. With the transition allowing for the entities outside of County of Somerset to join, as of January 1, 2022, the Fund is no longer a component unit of the County of Somerset. 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 2022 were as follows:

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

Specific limit - The specific excess limit is \$325,000 per enrolled participant per reinsurance policy year.

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

## NOTES TO FINANCIAL STATEMENTS

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### 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 2022 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, 2022 to December 31, 2022.
4. Open enrollment for Somerset County, Somerset County Park Commission, and Somerset County Library participating employees was offered on November 1, 2021 and extended through November 19, 2022, for changes effective January 1, 2022. Open enrollment for Somerset County Vo-Tech was April 25, 2022 through May 13, 2022, for changes effective July 1, 2022, since the Somerset County Vo-Tech plan year is July 1, 2022 to June 30, 2023.
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:

#### **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.



# SOUTHERN SKYLAND REGIONAL HEALTH INSURANCE FUND

## NOTES TO FINANCIAL STATEMENTS

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### B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **Basis of Accounting (Continued)**

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.

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.

# SOUTHERN SKYLAND REGIONAL HEALTH INSURANCE FUND

## NOTES TO FINANCIAL STATEMENTS

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### **B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **Health and Prescription Coverage Assessments and Contributions 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.

#### **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, 2022 and 2021. 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, 2022 and 2021. 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.

# SOUTHERN SKYLAND REGIONAL HEALTH INSURANCE FUND

## NOTES TO FINANCIAL STATEMENTS

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### **B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **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 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 No. 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.

# SOUTHERN SKYLAND REGIONAL HEALTH INSURANCE FUND

## NOTES TO FINANCIAL STATEMENTS

### 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 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 \$4,092,758 and \$2,084,075 as of December 31, 2022 and 2021, respectively, \$250,000 was insured by the FDIC while \$3,842,758 and \$1,834,075, 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, 2022 and 2021, respectively, and for all open fund years net of excess insurance recoveries:

	<u>2022</u>	<u>2021</u>
Total unpaid claims and claim adjustment expenses – Beginning	\$ 2,607,000	\$ 2,054,000
Incurred Claims and Claims Adjustment Expenses:		
Provision for insured events of current fund year	28,172,882	32,890,732
Changes in provision for insured events of prior fund years	<u>391,487</u>	<u>65,003</u>
Total incurred claims and claim adjustment expenses all fund years	<u>28,564,369</u>	<u>32,955,735</u>
Payments (Net of Recoveries):		
Claims and claim adjustment expenses:		
Attributable to insured events of current fund year	26,410,616	30,283,732
Attributable to insured events of prior fund years	<u>2,998,487</u>	<u>2,119,003</u>
Total payments all fund years	<u>29,409,103</u>	<u>32,402,735</u>
Total unpaid claim and claim adjustment expenses all fund years - Ending	<u>\$ 1,762,266</u>	<u>\$ 2,607,000</u>

## **SOUTHERN SKYLAND REGIONAL HEALTH INSURANCE FUND**

### **NOTES TO FINANCIAL STATEMENTS**

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#### **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, 2022 and 2021, the Fund paid \$640,611 and \$618,875, respectively, to the Fund's administrator as per the management agreement.

#### **G. SUBSEQUENT EVENTS**

The Fund has evaluated subsequent events occurring after December 31, 2022, through June 16, 2023, which is the date the financial statements were available to be issued. None were noted that require disclosure, except for the following:

In May 2023, the Fund offered membership to three additional entities for medical and prescription coverage. The addition of these members to the Fund will significantly increase the Fund's operating revenues and expenses, including provision for claims expense and IBNR reserves.

**REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)**

# SOUTHERN SKYLAND REGIONAL HEALTH INSURANCE FUND

## TEN YEAR CLAIMS DEVELOPMENT INFORMATION

	Fund Year					
	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Underwriting Income-Required Contribution	\$ 30,946,771	\$ 32,424,406	\$ 35,796,782	\$ 38,568,711	\$ 39,494,020	\$ 41,385,310
Investment Income	14,551	51,230	56,929	17,053	11,666	34,268
Dental Surplus Return	-	-	-	-	250,000	332,520
	<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>	<u>41,752,098</u>
Excess Insurance Premiums	1,084,878	1,157,541	1,384,799	1,562,898	1,340,910	1,315,554
Dental Pass-Through Expense	-	-	-	1,305,891	1,252,968	1,175,077
Administrative Expenses	1,492,644	1,593,593	1,558,453	2,073,240	2,140,238	2,111,435
	<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>	<u>4,602,066</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>30,890,732</u>	<u>28,172,882</u>
Cumulative Paid Claims:						
End of Policy Year	25,461,113	28,876,746	29,353,682	28,715,355	30,283,732	26,410,616
One Year Later	26,651,438	30,543,024	31,576,034	31,614,731	33,183,108	-
Two Years Later	26,651,438	30,648,097	31,675,168	31,713,842	-	-
Three Years Later	26,651,213	30,575,398	31,675,168	-	-	-
Four Years Later	26,651,213	30,575,398	-	-	-	-
Five Years Later	26,651,213	-	-	-	-	-
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	30,890,732	28,172,882
One Year Later	25,907,907	29,275,047	31,313,097	30,662,525	33,183,108	-
Two Years Later	25,953,850	29,317,780	31,412,231	30,761,636	-	-
Three Years Later	25,953,625	29,390,479	31,412,231	-	-	-
Four Years Later	25,953,625	29,390,479	-	-	-	-
Five Years Later	25,953,625	-	-	-	-	-
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>\$ 7,719</u>	<u>\$ (2,292,376)</u>	<u>\$ -</u>

## SOUTHERN SKYLAND REGIONAL HEALTH INSURANCE FUND

### RECONCILIATION OF CLAIMS LIABILITIES BY COVERAGE

Years Ended December 31, 2022 and 2021

	2022			2021		
	Medical	Prescription	Total	Medical	Prescription	Total
Total unpaid claims and claims adjustment expenses, all fund years – Beginning	\$ 2,236,000	\$ 371,000	\$ 2,607,000	\$ 1,749,000	\$ 305,000	\$ 2,054,000
Incurred Claims and Claims Adjustment Expenses:						
Provision for insured events of current fund year	22,093,465	6,079,417	28,172,882	24,919,624	7,971,108	32,890,732
Changes in provision for insured events of prior fund years	295,234	96,253	391,487	222,458	(157,455)	65,003
Total incurred claims and claims adjustment expenses, all fund years	22,388,699	6,175,670	28,564,369	25,142,082	7,813,653	32,955,735
Payments (Net of Recoveries):						
Claims and claims adjustment expenses:						
Attributable to insured events of current fund year	20,767,690	5,642,926	26,410,616	22,683,624	7,600,108	30,283,732
Attributable to insured events of prior fund years	2,531,234	467,253	2,998,487	1,971,458	147,545	2,119,003
Total payments, all fund years	23,298,924	6,110,179	29,409,103	24,655,082	7,747,653	32,402,735
Total unpaid claims and claims adjustment expenses, all fund years - Ending	\$ 1,325,775	\$ 436,491	\$ 1,762,266	\$ 2,236,000	\$ 371,000	\$ 2,607,000

See independent auditors' report.



**SUPPLEMENTARY SCHEDULES (UNAUDITED)**

## SOUTHERN SKYLAND REGIONAL HEALTH INSURANCE FUND

### STATEMENT OF CUMULATIVE OPERATING RESULTS ANALYSIS

Year Ended December 31, 2022

	Medical	Prescription	Dental	Reinsurance	Expense & Contingency	Total
Underwriting Income:						
Regular Contributions	\$ 140,783,013	\$ 44,535,967	\$ 3,327,333	\$ 7,520,095	\$ 22,449,591	\$ 218,615,999
Total Income	140,783,013	44,535,967	3,327,333	7,520,095	22,449,591	218,615,999
Incurred Expenses:						
Claims						
Paid	139,538,326	48,568,591	9,835	-	-	188,116,752
IBNR	(187,355)	1,949,621	-	-	-	1,762,266
Recoverable	(3,929,122)	(7,075,935)	-	-	-	(11,005,057)
Expenses	2,763,568	-	3,660,996	7,846,580	20,631,181	34,902,325
Total Expenses	138,185,417	43,442,277	3,670,831	7,846,580	20,631,181	213,776,286
Underwriting Surplus	2,597,596	1,093,690	(343,498)	(326,485)	1,818,410	4,839,713
Adjustments:						
Investment Income	63,686	52,870	452	178	68,510	185,696
Dental Surplus Return	-	-	582,520	-	-	582,520
Permanent Transfers	-	-	-	-	-	-
Total Adjustments	63,686	52,870	582,972	178	68,510	768,216
Gross Surplus	2,661,282	1,146,560	239,474	(326,307)	1,886,920	5,607,929
Return of Surplus	-	-	-	-	-	-
Net Surplus (Deficit)	\$ 2,661,282	\$ 1,146,560	\$ 239,474	\$ (326,307)	\$ 1,886,920	\$ 5,607,929

See independent auditors' report.

## SOUTHERN SKYLAND REGIONAL HEALTH INSURANCE FUND

### STATEMENT OF 2022 FUND YEAR OPERATING RESULTS ANALYSIS

Year Ended December 31, 2022

	Medical	Prescription	Dental	Reinsurance	Expense & Contingency	Total
Underwriting Income:						
Regular Contributions	\$ 27,450,592	\$ 6,754,910	\$ 954,206	\$ 1,219,483	\$ 4,993,444	\$ 41,372,635
Total Income	27,450,592	6,754,910	954,206	1,219,483	4,993,444	41,372,635
Incurred Expenses:						
Claims						
Paid	20,767,690	8,786,187	-	-	-	29,553,877
IBNR	1,325,775	436,491	-	-	-	1,762,266
Recoverable	-	(3,143,261)	-	-	-	(3,143,261)
Expenses	688,142	-	1,089,394	1,315,554	4,715,915	7,809,005
Total Expenses	22,781,607	6,079,417	1,089,394	1,315,554	4,715,915	35,981,887
Underwriting Surplus	4,668,985	675,493	(135,188)	(96,071)	277,529	5,390,748
Adjustments:						
Investment Income	18,860	-	133	11	2,378	21,382
Dental Surplus Return	-	-	332,520	-	-	332,520
Total Adjustments	18,860	-	332,653	11	2,378	353,902
Gross Surplus	4,687,845	675,493	197,465	(96,060)	279,907	5,744,650
Return of Surplus	-	-	-	-	-	-
Net Surplus (Deficit)	\$ 4,687,845	\$ 675,493	\$ 197,465	\$ (96,060)	\$ 279,907	\$ 5,744,650

See independent auditors' report.

## SOUTHERN SKYLAND REGIONAL HEALTH INSURANCE FUND

### STATEMENT OF 2021 FUND YEAR OPERATING RESULTS ANALYSIS

Year Ended December 31, 2022

	Medical	Prescription	Dental	Reinsurance	Expense & Contingency	Total
Underwriting Income:						
Regular Contributions	\$ 24,581,856	\$ 7,678,011	\$ 1,205,299	\$ 1,425,039	\$ 4,829,479	\$ 39,719,684
Total Income	24,581,856	7,678,011	1,205,299	1,425,039	4,829,479	39,719,684
Incurred Expenses:						
Claims						
Paid	26,116,325	9,770,110	-	-	-	35,886,435
IBNR	(305,000)	305,000	-	-	-	-
Recoverable	(695,578)	(2,007,749)	-	-	-	(2,703,327)
Expenses	738,676	-	1,265,711	1,525,383	4,905,280	8,435,050
Total Expenses	25,854,423	8,067,361	1,265,711	1,525,383	4,905,280	41,618,158
Underwriting Surplus	(1,272,567)	(389,350)	(60,412)	(100,344)	(75,801)	(1,898,474)
Adjustments:						
Investment Income	5,056	186	-	-	4,625	9,867
Dental Surplus Return	-	-	250,000	-	-	250,000
Total Adjustments	5,056	186	250,000	-	4,625	259,867
Gross Surplus	(1,267,511)	(389,164)	189,588	(100,344)	(71,176)	(1,638,607)
Return of Surplus	-	-	-	-	-	-
Net Surplus (Deficit)	\$ (1,267,511)	\$ (389,164)	\$ 189,588	\$ (100,344)	\$ (71,176)	\$ (1,638,607)

See independent auditors' report.

## SOUTHERN SKYLAND REGIONAL HEALTH INSURANCE FUND

### STATEMENT OF CLOSED FUND YEARS OPERATING RESULTS ANALYSIS

Year Ended December 31, 2022

	Medical	Prescription	Dental	Reinsurance	Expense & Contingency	Total
Underwriting Income:						
Regular Contributions	\$ 88,750,565	\$ 30,103,046	\$ 1,167,828	\$ 4,875,573	\$ 12,626,668	\$ 137,523,679
Total Income	88,750,565	30,103,046	1,167,828	4,875,573	12,626,668	137,523,679
Incurred Expenses:						
Claims						
Paid	92,654,311	30,012,294	9,835	-	-	122,676,440
IBNR	(1,208,130)	1,208,130	-	-	-	-
Recoverable	(3,233,544)	(1,924,925)	-	-	-	(5,158,469)
Expenses	1,336,750	-	1,305,891	5,005,643	11,009,986	18,658,270
Total Expenses	89,549,387	29,295,499	1,315,726	5,005,643	11,009,986	136,176,241
Underwriting Surplus	(798,822)	807,547	(147,898)	(130,070)	1,616,682	1,347,438
Adjustments:						
Investment Income	39,770	52,684	319	167	61,507	154,447
Total Adjustments	39,770	52,684	319	167	61,507	154,447
Gross Surplus	(759,052)	860,231	(147,579)	(129,903)	1,678,189	1,501,886
Return of Surplus	-	-	-	-	-	-
Net Surplus (Deficit)	\$ (759,052)	\$ 860,231	\$ (147,579)	\$ (129,903)	\$ 1,678,189	\$ 1,501,886

See independent auditors' report.

**SOUTHERN SKYLAND REGIONAL HEALTH INSURANCE FUND**

STATEMENT OF CUMULATIVE CLAIMS ANALYSIS

Year Ended December 31, 2022

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	Medical	Prescription	Dental	Reinsurance	Total
Paid Claims (Net of Recoveries)	\$ 135,675,204	\$ 41,426,656	\$ 9,835	\$ -	\$ 177,111,695
IBNR Reserves	1,325,775	436,491	-	-	1,762,266
Incurred Claims	\$ 137,000,979	\$ 41,863,147	\$ 9,835	\$ -	\$ 178,873,961

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See independent auditors' report.

**SOUTHERN SKYLAND REGIONAL HEALTH INSURANCE FUND**

STATEMENT OF 2022 FUND YEAR CLAIMS ANALYSIS

Year Ended December 31, 2022

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	Medical	Prescription	Dental	Reinsurance	Total
Paid Claims (Net of Recoveries)	\$ 20,767,690	\$ 5,642,926	\$ -	\$ -	\$ 26,410,616
IBNR Reserves	1,325,775	436,491	-	-	1,762,266
Incurred Claims	<u>\$ 22,093,465</u>	<u>\$ 6,079,417</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 28,172,882</u>

See independent auditors' report.

**SOUTHERN SKYLAND REGIONAL HEALTH INSURANCE FUND**

STATEMENT OF 2021 FUND YEAR CLAIMS ANALYSIS

Year Ended December 31, 2022

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	Medical	Prescription	Dental	Reinsurance	Total
Paid Claims (Net of Recoveries)	\$ 25,486,747	\$ 7,696,361	\$ -	\$ -	\$ 33,183,108
IBNR Reserves	-	-	-	-	-
Incurred Claims	\$ 25,486,747	\$ 7,696,361	\$ -	\$ -	\$ 33,183,108

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See independent auditors' report.



**SOUTHERN SKYLAND REGIONAL HEALTH INSURANCE FUND**

STATEMENT OF CLOSED FUND YEARS CLAIMS ANALYSIS

Year Ended December 31, 2022

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	Medical	Prescription	Dental	Reinsurance	Total
Paid Claims (Net of Recoveries)	\$ 89,420,767	\$ 28,087,369	\$ 9,835	\$ -	\$ 117,517,971
IBNR Reserves	-	-	-	-	-
Incurred Claims	<u>\$ 89,420,767</u>	<u>\$ 28,087,369</u>	<u>\$ 9,835</u>	<u>\$ -</u>	<u>\$ 117,517,971</u>

See independent auditors' report.

**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"), as of and for the year ended December 31, 2022, and the related notes to financial statements, which comprise the Fund's basic financial statements, and have issued our report thereon dated June 16, 2023. 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.

*Meredien, P.C.*

*Certified Public Accountants*

June 16, 2023

**SOUTHERN SKYLAND REGIONAL HEALTH INSURANCE FUND**

**SCHEDULE OF CURRENT YEAR FINDINGS AND RECOMMENDATIONS**

Year Ended December 31, 2022

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None reported.

**SOUTHERN SKYLAND REGIONAL HEALTH INSURANCE FUND**

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

Year Ended December 31, 2022

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None reported.