



REPORT ON AUDIT OF FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

SOUTHERN COASTAL REGIONAL EMPLOYEE BENEFITS FUND

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Southern Coastal Regional Employee Benefits Fund
9 Campus Drive
Suite 216
Parsippany, NJ 07054

Report on the Financial Statements

We have audited the accompanying financial statements of the Southern Coastal Regional Employee Benefits Fund (the "Fund") as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and in compliance with audit requirements as prescribed by the Department of Banking and Insurance and the Division of Local Government Services, Department of Community Affairs, State of New Jersey. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Fund as of December 31, 2017 and 2016 and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary information listed in the table of contents be presented to supplement the basic financial statements. Such information, 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 audit 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.

Other Information

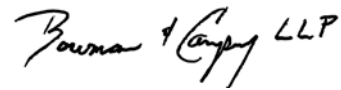
Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Fund's basic financial statements. The accompanying supplementary schedules as listed in the table of contents are not a required part of the basic financial statements and are presented for purposes of additional analysis. The accompanying supplementary schedules listed in the table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Board of Commissioners
Southern Coastal Regional Employee Benefits Fund

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated May 21, 2018 on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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.

Respectfully Submitted,

A handwritten signature in black ink that reads "Bowman & Company LLP". The signature is written in a cursive, flowing style.

Bowman & Company LLP
Certified Public Accountants
& Consultants

Voorhees, New Jersey
May 21, 2018

**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**

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Southern Coastal Regional Employee Benefits Fund
9 Campus Drive
Suite 216
Parsippany, NJ 07054

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and in compliance with audit requirements as prescribed by the Department of Banking and Insurance and the Division of Local Government Services, Department of Community Affairs, State of New Jersey, the financial statements of the Southern Coastal Regional Employee Benefits Fund (the "Fund"), as of December 31, 2017 and for the year then ended, and the related notes to the financial statements, which collective comprise the Fund's basic financial statements, and have issued our report thereon dated May 21, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our 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 over financial reporting 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 significant deficiencies or material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards, and audit requirements as prescribed by the Department of Banking and Insurance and the Division of Local Government Services, Department of Community Affairs, State of New Jersey.

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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards and the audit requirements as prescribed by the Department of Banking and Insurance and the Division of Local Government Services, Department of Community Affairs, State of New Jersey in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose

Respectfully Submitted,

A handwritten signature in black ink that reads "Bowman & Company LLP". The signature is written in a cursive, flowing style.

Bowman & Company LLP
Certified Public Accountants
& Consultants

Voorhees, New Jersey
May 21, 2018

SOUTHERN COASTAL REGIONAL EMPLOYEE BENEFITS FUND

Management's Discussion and Analysis – Unaudited

This section of the annual financial report of the Southern Coastal Regional Employee Benefits Fund (the "Fund") presents a discussion and analysis of the financial performance of the Fund for the years ended December 31, 2017 and 2016. Please read it in conjunction with the basic financial statements that follow this section.

Overview of Basic Financial Statements

The Fund's basic financial statements are prepared on the basis of accounting principles generally accepted in the United States of America for governmental entities and insurance enterprises where applicable. The primary purpose of the Fund is to provide health coverage for municipalities and other governmental entities that are members of the Fund. The Fund maintains separate enterprise funds by incurred years and line of coverage. The basic financial statements are presented on an accrual basis of accounting. The three basic financial statements presented are as follows:

Comparative Statements of Net Position – This statement presents information reflecting the Fund's assets, liabilities and reserves, and net position. Net position represents the amount of total assets less total liabilities and reserves.

Comparative Statements of Revenues, Expenses, and Changes in Net Position – This statement reflects the Fund's operating revenues and expenses, as well as non-operating items during the reporting period. The change in net position for an enterprise fund is similar to net profit or loss for any other insurance company.

Comparative Statements of Cash Flows – The comparative statements of cash flows is presented on the direct method of reporting, which reflects cash flows from operating, investing and noncapital financing activities. Cash collections and payments are reflected in this statement to arrive at the net increase or decrease in cash for the reporting period.

Financial Highlights

The following tables summarize the net position and results of operations for the Fund as of and for the years ended December 31, 2017 and 2016.

Summary Statements Of Net Position		2016 to 2017 Change		
	<u>2017</u>	<u>2016</u>	<u>Change \$</u>	<u>Change %</u>
Assets:				
Cash And Cash Equivalents	\$ 9,939,639	\$ 8,676,016	\$ 1,263,623	14.6%
Investments	9,944,730	-	9,944,730	100.0%
Contributions And Other Receivables	421,315	1,557,733	(1,136,418)	-73.0%
Excess Insurance Receivable	248,755	2,730,817	(2,482,062)	-90.9%
Other Assets	12,504	8,043	4,461	55.5%
Investment In Joint Venture	1,039,755	1,010,827	28,928	2.9%
Total Assets	21,606,698	13,983,436	7,623,262	54.5%
Liabilities, Reserves & Net Position				
Liabilities:				
Accrued Expenses	525,702	1,555,551	(1,029,849)	-66.2%
Return of Surplus Payable	168,865	-	168,865	100.0%
Loss Reserves	4,730,000	5,380,000	(650,000)	-12.1%
Total Liabilities & Reserves	5,424,567	6,935,551	(1,510,984)	-21.8%
Net Position - Unrestricted	\$ 16,182,131	\$ 7,047,885	\$ 9,134,246	129.6%

Financial Highlights Continued

Summary Statements Of Revenues, Expenses, And Changes In Net Position				
	<u>2017</u>	<u>2016</u>	<u>2016 to 2017 Change</u>	
			<u>Change \$</u>	<u>Change %</u>
Operating Revenue:				
Regular And Employee Contributions	\$ 56,333,936	\$ 52,625,859	\$ 3,708,077	7.0%
Operating Expenses:				
Provision For Claims and Claims Expense	43,575,514	45,100,933	(1,525,419)	-3.4%
Insurance Premiums	3,068,056	3,198,980	(130,924)	-4.1%
Administrative and Operating	4,535,682	4,500,192	35,490	0.8%
Total Operating Expenses	51,179,252	52,800,105	(1,620,853)	-3.1%
Operating Income (Loss)	5,154,684	(174,246)	5,328,930	3058.3%
Non-Operating Revenues:				
Investment Income	112,611	58,856	53,755	91.3%
Dividend Income	303,939	-	303,939	100.0%
Change In Investement In Joint Venture	28,928	407,651	(378,723)	-92.9%
Excess of Revenues	5,600,162	292,261	5,307,901	1816.2%
Transfer From The Southern New Jersey				
Regional Employee Benefits Fund	3,702,949	6,755,624	(3,052,675)	-45.2%
Return Of Surplus	(168,865)	-	(168,865)	100.0%
Change In Net Position	\$ 9,134,246	\$ 292,261	\$ 8,841,985	3025.4%

On January 1, 2016, the Southern Coastal Regional Employee Benefits Fund (the "Fund") was formed pursuant to NJSA 40A:10-36 et. seq. and NJAC 11:15-3 when the Fund received approval from the New Jersey Department of Banking and Insurance. The Fund is operated in accordance with regulations of the Department of Banking and Insurance and the Division of Local Government Services, Department of Community Affairs, State of New Jersey. The Fund was established for the purpose of containing medical costs.

The Fund's total assets as of December 31, 2017 were \$21,606,698 and total liabilities and reserves were \$5,424,567 resulting in a surplus in unrestricted net position of \$16,182,131.

The Fund's operating revenues were \$56,333,936 during the year. Claims expenses represented \$43,575,514 in health benefit costs. Reinsurance premiums were composed of \$2,225,031 being incurred by the Municipal Reinsurance Health Insurance Fund and \$843,025 being incurred by State Health Benefits Program Surcharge Premiums. During the reporting period, administrative and operating costs were composed of administrative expenses of \$4,519,252 and Affordable Care Act taxes of \$16,616.

The value of the Fund's share of the Municipal Reinsurance Health Insurance Fund (MRHIF) was \$1,039,755. The Fund also received a dividend distribution from MRHIF for \$303,939.

Investment income was \$112,611 due to Fund's active pursuit of higher interest rates from area financial institutions.

Economic Conditions

The Fund continues to be affected by inflation of health benefit costs. The Fund's strategy is to continue to attempt to moderate such increases by leveraging purchasing power with other Funds, using one of the largest and most effective medical networks in the nation, and assisting members with plan design and labor negotiation efforts.

Contacting the Fund's Management

This financial report is designed to provide the Southern Coastal Regional Employee Benefits Fund members and the 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 Coastal Regional Employee Benefits Fund's office located at 9 Campus Drive, Suite 216, Parsippany, New Jersey 07054 or by phone at (201) 881-7632.

SOUTHERN COASTAL REGIONAL EMPLOYEE BENEFITS FUND
COMPARATIVE STATEMENTS OF NET POSITION
AS OF DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
Cash And Cash Equivalents	\$ 9,939,639	\$ 8,676,016
Investments	9,944,730	
Contributions Receivable	402,164	1,557,733
Accrued Interest Receivable	19,151	
Excess Insurance Receivable	248,755	2,730,817
Investment In Joint Venture	1,039,755	1,010,827
Prepaid Expense	<u>12,504</u>	<u>8,043</u>
Total Assets	<u>21,606,698</u>	<u>13,983,436</u>
<u>LIABILITIES AND RESERVES</u>		
Liabilities:		
Accrued Insurance Premiums	338,987	907,051
Accrued Expenses	186,715	168,783
Surplus Return Reserve	168,865	
Due To The Southern New Jersey Regional Employee Health Insurance Fund		<u>479,717</u>
Total Liabilities	<u>694,567</u>	<u>1,555,551</u>
Reserves:		
Actuarial Liability	<u>4,730,000</u>	<u>5,380,000</u>
Total Liabilities And Reserves	<u>5,424,567</u>	<u>6,935,551</u>
<u>NET POSITION</u>		
Unrestricted	<u>\$ 16,182,131</u>	<u>\$ 7,047,885</u>

The Accompanying Notes To Financial Statements Are An Integral Part Of This Statement.

SOUTHERN COASTAL REGIONAL EMPLOYEE BENEFITS FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Operating Revenues:		
Regular Contributions	\$ 56,210,852	\$ 52,519,497
Employee Contribution	123,084	106,362
	<hr/>	<hr/>
Total Operating Revenues	56,333,936	52,625,859
	<hr/>	<hr/>
Operating Expenses:		
Provision For Claims And Claims Adjustment Expenses	43,575,514	45,100,933
Reinsurance	2,225,031	2,291,929
State Health Benefits Program Surcharge Premiums	843,025	907,051
Affordable Care Act Taxes	16,616	199,125
Administration	4,519,066	4,301,067
	<hr/>	<hr/>
Total Operating Expenses	51,179,252	52,800,105
	<hr/>	<hr/>
Operating Income (Loss)	5,154,684	(174,246)
Non-Operating Revenue:		
Investment Income	112,611	58,856
Dividend Income	303,939	
Change In Investment In Joint Venture	28,928	407,651
	<hr/>	<hr/>
Change In Net Position	5,600,162	292,261
Net Position, Beginning	7,047,885	-
Transfer From The Southern New Jersey Regional Employee Benefits Fund	3,702,949	6,755,624
Return Of Surplus	(168,865)	
	<hr/>	<hr/>
Net Position, Ending	<u>\$ 16,182,131</u>	<u>\$ 7,047,885</u>

The Accompanying Notes To Financial Statements Are An Integral Part Of This Statement.

SOUTHERN COASTAL REGIONAL EMPLOYEE BENEFITS FUND
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Cash Flows From Operating Activities:		
Receipts From Regular Contributions	\$ 57,489,505	\$ 51,103,992
Payments For Health Benefits Claims	(41,743,452)	(42,451,750)
Payments For Insurance Premiums	(3,636,120)	(2,291,929)
Payments For Affordable Care Act Taxes	(16,616)	(199,125)
Payments To Professionals And Administrative Expenses	<u>(4,505,595)</u>	<u>(4,199,307)</u>
Net Cash Flows Provided By Operating Activities	<u>7,587,722</u>	<u>1,961,881</u>
Cash Flows From Investing Activities:		
Purchase of Investments	(9,974,375)	
Investment Income	<u>427,044</u>	<u>58,856</u>
Net Cash Provided By (Used In) Investing Activities	<u>(9,547,331)</u>	<u>58,856</u>
Cash Flows From Noncapital Financing Activities:		
Due To The Southern New Jersey Regional Employee Health Insurance Fund	(479,717)	479,717
Transfer From The Southern New Jersey Regional Employee Benefits Fund	<u>3,702,949</u>	<u>6,175,562</u>
Net Cash Flows Provided By Noncapital Financing Activities	<u>3,223,232</u>	<u>6,655,279</u>
Net Increase In Cash And Cash Equivalents	1,263,623	8,676,016
Cash And Cash Equivalents, Beginning	<u>8,676,016</u>	<u>-</u>
Cash And Cash Equivalents, Ending	<u><u>\$ 9,939,639</u></u>	<u><u>\$ 8,676,016</u></u>
Reconciliation Of Operating Income (Loss) To		
Cash Flows From Operating Activities:		
Operating Income (Loss)	\$ 5,154,684	\$ (174,246)
Adjustments To Reconcile Operating Income (Loss) to Net		
Cash Provided By Operating Activities:		
Changes In Assets And Liabilities:		
Decrease (Increase) In Assets:		
Contributions Receivable	1,155,569	(1,521,867)
Excess Insurance Receivable	2,482,062	(2,730,817)
Prepaid Expense	(4,461)	(8,043)
Increase (Decrease) In Liabilities:		
Accrued Administrative Expenses	17,932	109,803
Accrued Excess Insurance Premium	(568,064)	907,051
Actuarial Liability	<u>(650,000)</u>	<u>5,380,000</u>
Total Adjustments	<u>2,433,038</u>	<u>2,136,127</u>
Net Cash Provided By Operating Activities	<u><u>\$ 7,587,722</u></u>	<u><u>\$ 1,961,881</u></u>
Supplemental Disclosure - Noncash Activity:		
Change In Unrealized Loss On Investments Included In Investment Income	<u><u>\$ (29,645)</u></u>	<u><u>\$ -</u></u>
Change In Investment In Joint Venture	<u><u>\$ 28,928</u></u>	<u><u>\$ 407,651</u></u>

The Accompanying Notes To Financial Statements Are An Integral Part Of This Statement.

SOUTHERN COASTAL REGIONAL EMPLOYEE BENEFITS FUND
NOTES TO FINANCIAL STATEMENTS

Note 1: ORGANIZATION AND DESCRIPTION OF THE FUND

On July 31, 2015, the Southern Coastal Regional Employee Benefits Fund (the "Fund") was formed pursuant to NJSA 40A:10-36 et. seq. and NJAC 11:15-3 when the Fund received a certificate of authority from the New Jersey Department of Banking and Insurance and commenced operations on January 1, 2016. The Fund is operated in accordance with regulations of the Department of Banking and Insurance and the Division of Local Government Services, Department of Community Affairs, State of New Jersey. The Fund was established for the purpose of containing medical costs.

During the Fund's initial year, Southern New Jersey Coastal area members of the Southern New Jersey Regional Employee Benefits Fund could become a part of the Fund's initial application. Thereafter, the Executive Committee of the Fund may approve subsequent membership by a two-thirds vote of the full-authorized membership or may terminate any member by a two-thirds vote, after proper notice has been given.

All member's assessments, including a reserve for contingencies, are based on annual actuarial assumptions determined by the Fund's Actuary and on monthly and quarterly adjustments determined by the Fund's Actuary and Program Manager based on actual loss experience. The Commissioner of Insurance may order additional assessments to supplement the Fund's claim, loss retention or administrative accounts to assure the payment of the Fund's obligations.

The Fund offers the following coverages to its members:

Medical
Dental
Prescription

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

During 2017, the following boards of education, municipalities and other governmental entities were members of the Fund:

Brigantine City	Lawrence Township BOE
Bridgeton BOE	Lower Cape May Regional BOE
Buena Regional BOE	Middle Township
Commercial Township BOE	Millville BOE
Cumberland County Improvement Authority	Millville Public Library
Cumberland County Charter School Network	Pittsgrove Township
Cumberland Regional BOE	Upper Deerfield BOE
Cumberland County Technical Education Cntr	West Cape May BOE
Dennis Township BOE	Woodstown Borough
Hopewell Township BOE	

SOUTHERN COASTAL REGIONAL EMPLOYEE BENEFITS FUND
NOTES TO FINANCIAL STATEMENTS

Note 1: ORGANIZATION AND DESCRIPTION OF THE FUND (CONT'D)

The limits of liability under the various coverages during 2017 were as follows:

HEALTH INSURANCE COVERAGE

Medical and Prescription:

<u>Limits</u>	<u>Description</u>
<u>I. Fund's Self-Insured Retained Limit of Liability (S.I.R.)</u>	
A. \$325,000	Specific limit - applies per enrolled participant per reinsurance policy year.
B. \$67,484,669	Aggregate limit of liability (Attachment is based on the aggregate factors multiplied by the Participant Census)
<u>II. Excess Insurers' Limit of Liability</u>	
A. Unlimited	Reimbursement in excess of the Fund's specific S.I.R.
B. \$10,000,000	Reimbursement in excess of the Fund's aggregate S.I.R.

Dental Aggregate Retention: None – Self-insured with risk retained by the Fund.

Medical, Prescription, and Prescription coverage without Medical coverage retentions will vary with census and can also vary depending upon the allocation of claims.

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 during 2017 was with the Municipal Reinsurance Health Insurance Fund ("MRHIF"). The agreement is on a 12/24 month exposure period covering claims incurred during the twelve-month policy period January 1, 2017 to December 31, 2017.
4. Open enrollment for participating employees is offered during the months of May and November.
5. Medical coverage consists of each participating governmental entity member's individual medical benefits plan, the HMO option on a group basis or the PPO option in accordance with a plan on file with the Department of Insurance.
6. Medicare provides secondary coverage for eligible active employees and primary coverage for eligible Medicare participants.

SOUTHERN COASTAL REGIONAL EMPLOYEE BENEFITS FUND
NOTES TO FINANCIAL STATEMENTS

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the more significant policies followed by the Southern Coastal Regional Employee Benefits Fund:

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 GASB Statements 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*. 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.

The basic-but not the only-criterion for including a potential component unit within the reporting entity is the governing body is 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 and is not includable in any other reporting entity.

Basis of Presentation, Fund Accounting

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 Governmental Accounting Standards Board (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 - Exchange and Non-Exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value is recorded on the accrual basis when the exchange takes place. Member Assessments are recognized as revenue at the time of assessment.

SOUTHERN COASTAL REGIONAL EMPLOYEE BENEFITS FUND
NOTES TO FINANCIAL STATEMENTS

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Cash, Cash Equivalents and Investments

Cash and cash equivalents include petty cash, change funds and cash in banks and all highly liquid investments with a maturity of three months or less at the time of purchase and are stated at cost plus accrued interest. Such is the definition of cash and cash equivalents used in the statement of cash flows. U.S. treasury and agency obligations and certificates of deposit with maturities of one year or less when purchased are stated at cost. All other investments are stated at fair value.

New Jersey governmental units are required by N.J.S.A. 40A:5-14 to deposit public funds in a bank or trust company having its place of business in the State of New Jersey and organized under the laws of the United States or of the State of New Jersey or in the New Jersey Cash Management Fund. N.J.S.A. 40A:5-15.1 provides a list of investments, which may be purchased by New Jersey municipal units. In addition, other State statutes permit investments in obligations issued by local authorities and other state agencies.

N.J.S.A. 17:9-41 et seq. establishes the requirements for the security of deposits of governmental units. The statute requires that no governmental unit shall deposit public funds in a public depository unless such funds are secured in accordance with the Governmental Unit Deposit Protection Act ("GUDPA"), a multiple financial institutional collateral pool, which was enacted in 1970 to protect governmental units from a loss of funds on deposit with a failed banking institution in New Jersey. Public depositories include State or federally chartered banks, savings banks or associations located in or having a branch office in the State of New Jersey, the deposits of which are federally insured. All public depositories must pledge collateral, having a market value at least equal to five percent of the average daily balance of collected public funds, to secure the deposits of governmental units. If a public depository fails, the collateral it has pledged, plus the collateral of all other public depositories, is available to pay the amount of their deposits to the governmental units.

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 Governmental Unit Deposit Protection Act. 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.

Valuation of Investments

Among the Fund's investment objectives are preservation of principal, diversification, and maximization of interest yield. The Fund invests in government securities with the intent of holding them until maturity. Investments are reported at fair value based on quoted market prices. Realized and unrealized gains and losses on investments are recognized as a component of investment income.

Revenue Recognition

Members were assessed monthly contributions based on a pro rata amount of the current estimates of projected losses, administrative expenses, the cost of reinsurance, and contingency fund needs for the year. Pass-through costs regarding HMO premiums were billed directly to the members who incurred the charges.

SOUTHERN COASTAL REGIONAL EMPLOYEE BENEFITS FUND
NOTES TO FINANCIAL STATEMENTS

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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.

Additional Assessments and Dividend Credits (Refunds)

Members are subject to additional assessments if the regular contributions (premiums) collected in a year are not sufficient to cover all claims and expenses. Should premiums collected exceed claims and expenses, members may accrue a dividend credit subject to the discretion of the Executive Committee of the Fund and approval by the Department of Banking and Insurance. Dividends approved by the Executive Committee are shown in the financial statements reserved Net Position pending State approval. Each member shares in these charges and credits based upon its participation in the various coverages provided. Refunds shall be declared not later than 180 days after the end of a year unless otherwise extended by the Commissioner of the Department of Banking and Insurance.

Claims Funding

The Fund is on a claim payment reimbursement basis with AETNA, Amerihealth, Express Scripts, Inc. and Delta Dental (the third party administrators). During the course of each month, the third party administrators pay respective plan benefit obligations, including medical services and capitation and incentives, prescription and dental. Upon payment of plan benefit obligations, requests for funding are transmitted to the fund Treasurer who then wire transfers an amount equal to the paid obligations to the respective third party administrator.

Actuarial Liability

In order to recognize unpaid losses, a reserve is calculated by the Fund's actuary.

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, 2017 and 2016.

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 are adequate. The estimates are continually reviewed and as adjustments to these liabilities become necessary, such adjustments are reflected in current operations.

Reinsurance

The Fund seeks to limit its exposure to loss on any single insured and to recover a portion of benefits paid by ceding reinsurance to the Municipal Reinsurance Health Insurance Fund under excess coverage insurance contracts. Although the MRHIF is liable to the Fund for the amounts reinsured, the Fund remains liable to its insureds for the full amount of the policies written whether or not the MRHIF meets its obligations to the Fund. Failure of the MRHIF to honor its obligations could result in losses to the Fund. Losses ceded to reinsurers during 2017 and 2016 were \$386,677 and \$2,730,817, respectively.

SOUTHERN COASTAL REGIONAL EMPLOYEE BENEFITS FUND
NOTES TO FINANCIAL STATEMENTS

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Administrative Expenses

Administrative expenses are comprised mainly of compensation for services rendered by servicing organizations and appointed officials pursuant to written fee guidelines submitted and approved by a majority of the Trustees/Executive Committee. In instances where invoices have not been submitted for specific periods, the maximum allowable contract amount has been accrued.

Net Position

In accordance with the provisions of the Governmental Accounting Standards Board 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 Trustees.

Income Taxes

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

Operating and Non-Operating Revenues and Expenses

Operating revenues include all revenues derived from member contributions. 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 investment in joint ventures.

Operating expenses include expenses associated with the fund operations, including claims expense, insurance and administrative expenses. Non-operating expenses include negative changes in the Fund's investment in joint ventures.

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 accompanying notes. Actual results may differ from those estimates.

Note 3: 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 the Governmental Unit Deposit Protection Act (GUDPA). Under the Act, the first \$250,000 of governmental deposits in each insured depository is protected by the Federal Deposit Insurance Corporation (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.

SOUTHERN COASTAL REGIONAL EMPLOYEE BENEFITS FUND
NOTES TO FINANCIAL STATEMENTS

Note 3: CASH AND CASH EQUIVALENTS (CONT'D)

Custodial Credit Risk Related to Deposits (Cont'd)

Of the Fund's bank balance of \$9,978,047 as of December 31, 2017, \$769,436 was insured while \$9,208,611 was collateralized under GUDPA.

Of the Fund's bank balance of \$8,712,300 as of December 31, 2016, \$500,000 was insured while \$8,212,300 was collateralized under GUDPA.

Note 4: INVESTMENTS

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Fund will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Fund, and are held by either the counterparty or the counterparty's trust department or agent but not in the Fund's name. All of the Fund's investments in Certificates of Deposits and US Treasury/Agency Securities of \$9,944,730 as of December 31, 2017, respectively, were held by either the counterparty or counterparty's trust department or agent, but not in the Fund's name.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. To limit risk, the Fund's investment policy provides that no investment or deposit shall have a maturity longer than five (5) years from date of purchase.

Credit Risk

Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. N.J.S.A. 40A:5-15.1 limits the investments that the Fund may purchase such as Treasury securities in order to limit the exposure of governmental units to credit risk. The Fund has no investment policy that would further limit its investment choices.

Concentration of Credit Risk

The Fund does not place a limit on the amount that may be invested in any one issuer. All of the Fund's investments are in Certificates of Deposits and US Treasury/Agency Securities.

SOUTHERN COASTAL REGIONAL EMPLOYEE BENEFITS FUND
NOTES TO FINANCIAL STATEMENTS

Note 4: INVESTMENTS (CONT'D)

Concentration of Credit Risk

As of December 31, 2017, the Fund had the following investments and maturities:

<u>Investment</u>	<u>Interest Rate</u>	<u>Maturities</u>	<u>Credit Rating</u>	<u>Market Value 2017</u>
Certificate of Deposit	1.500%	03/29/19	N/A	\$ 3,000,000
Certificate of Deposit	1.600%	09/29/19	N/A	3,000,000
U.S. Treasury Note	1.250%	01/30/20	N/A	986,760
U.S. Treasury Note	1.125%	03/31/20	N/A	982,930
U.S. Treasury Note	1.500%	07/15/20	N/A	989,300
U.S. Treasury Note	1.375%	09/15/20	N/A	985,740
				<u>\$ 9,944,730</u>

Fair Value Measurements of Investments

The Fund categorizes its fair value disclosures within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted process in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Fund has the following recurring fair value measurements as of December 31, 2017:

Certificates of Deposits and US Treasury/Agency Securities of \$9,944,730 are valued using quoted market prices for identical assets (Level 1 inputs).

Note 5: STATE HEALTH BENEFITS PLAN SURCHARGE

Chapter 8, Public Law 1993, provides for insurers of school districts that do not participate in the State Health Benefits Plan (SHBP) to pay an annual surcharge to the program. The surcharge is determined by the State Treasurer and is based on a percentage of the total claims paid for the coverage of employees of the nonparticipating school districts. The surcharge is to compensate the SHBP for the excess cost of the health coverage of the school district's eligible retirees (25 or more years of credited service in a State-administered pension fund, or retired on disability with fewer years of service), who are covered in the SHBP.

Every November 1, a survey is sent to each nonparticipating school district requesting the name and address of their health benefits insurance carrier. A response is required by the end of November. The SHBP sends a surcharge payment request form on December 1 to the insurance carrier. The insurance carrier will complete the surcharge form and forward the form and payment to the SHBP by December 31. The surcharge form includes information such as adjustments from prior year payment, total claims paid, the surcharge rate and the amount to be remitted. As of December 31, 2017 and 2016, the Fund recorded insurance expense of \$843,025 and \$907,051 for State Health Benefits Program premium surcharges.

SOUTHERN COASTAL REGIONAL EMPLOYEE BENEFITS FUND
NOTES TO FINANCIAL STATEMENTS

Note 6: CHANGES IN UNPAID CLAIMS LIABILITIES

As discussed in Note 2, the Fund establishes a liability for both reported and unreported insured events, which includes estimates of future payments of losses and related allocated claim adjustment expenses.

The following represents changes in those aggregate undiscounted reported and unreported liabilities for the Fund during 2017 and 2016 for all open fund years net of excess insurance recoveries:

	<u>2017</u>	<u>2016</u>
Total unpaid claims and claim adjustment expenses all fund years - Beginning	\$ 5,380,000	\$ -
Incurring claims and claim adjustment expenses:		
Provision for insured events of current fund year	43,912,311	45,100,933
Changes in provision for insured insured events of prior fund years	<u>(336,797)</u>	<u>-</u>
Total incurred claims and claim adjustment expenses all fund years	<u>43,575,514</u>	<u>45,100,933</u>
Payments:		
Claims and claim adjustment expenses:		
Attributable to insured events of current fund year	39,282,311	39,720,933
Attributable to insured events of prior fund years	<u>4,943,203</u>	<u>-</u>
Total payments all fund periods	<u>44,225,514</u>	<u>39,720,933</u>
Total unpaid claims and claim adjustment expenses all fund years - Ending	<u>\$ 4,730,000</u>	<u>\$ 5,380,000</u>

Note 7: LOSS FUND CONTINGENCY ACCOUNT

Upon recommendation of the Fund's Administrator, the Fund Trustees agreed to establish a loss fund contingency account. This fund account provides additional assurance that any variances from the expected losses promulgated by the Actuary will be covered without seeking additional assessments. Annual assessments or transfers into this account cannot exceed 2.5% of the Fund's current year earned income with an aggregate cap of 10% unless approved by the Commissioner of the Department of Insurance.

Note 8: MUNICIPAL REINSURANCE HEALTH INSURANCE FUND

Effective January 1, 2016, the Fund became a member of the Municipal Reinsurance Health Insurance Fund. The MRHIF is a risk-sharing public entity risk pool that is a self-administered group of joint insurance funds established for the purpose of providing excess health insurance coverage to participating members. Each member appoints an official to represent their respective joint insurance fund for the purpose of creating a governing body from which officers for the MRHIF are elected.

SOUTHERN COASTAL REGIONAL EMPLOYEE BENEFITS FUND
NOTES TO FINANCIAL STATEMENTS

Note 8: MUNICIPAL REINSURANCE HEALTH INSURANCE FUND (CONT'D)

As a member of the MRHIF, the Fund could be subject to supplemental assessments in the event of deficiencies. If the assets of the MRHIF were to be exhausted, members would become jointly and severely liable for the MRHIF's liabilities.

The MRHIF can declare and distribute dividends to members upon approval of the State of New Jersey Department of Banking and Insurance. These distributions are divided among the members in the same ratio as their individual assessment relates to the total assessment of the membership for that fund year.

Equity Interest

As of December 31, 2017 and 2016, the Fund's share of net position in the Municipal Reinsurance Health Insurance Fund were \$1,039,755 and \$1,010,827, respectively.

Selected Financial Information

Selected summarized financial information for the Municipal Reinsurance Health Insurance Fund as of December 31, 2017 were as follows:

Total Assets	<u>\$ 20,481,693</u>
Total Liabilities	<u>\$ 7,763,833</u>
Net Position	<u>\$ 12,717,860</u>
Total Revenues	<u>\$ 13,697,416</u>
Total Expenses	<u>\$ 9,512,768</u>
Change in Net Position	<u>\$ 497,230</u>
Return of Surplus	<u>\$ 3,687,418</u>

Financial statements for the Municipal Reinsurance Health Insurance Fund are available at the office of the Fund's Executive Director:

PERMA
9 Campus Drive, Suite 216
Parsippany, NJ 07054
201-881-7632

Note 9: RELATED PARTY TRANSACTIONS

As disclosed in Note 7, the Fund is a member of the Municipal Reinsurance Health Insurance Fund and accordingly has an ownership interest in MRHIF. Excess insurance premiums paid to MRHIF as of December 31, 2017 and 2016 were \$ 2,002,549 and \$2,111,067, respectively.

SOUTHERN COASTAL REGIONAL EMPLOYEE BENEFITS FUND
NOTES TO FINANCIAL STATEMENTS

Note 10: REORGANIZATION

As stated in Note 1, certain members of the Southern New Jersey Regional Employee Benefits Fund transferred their equity interest in the Southern New Jersey Regional Employee Benefits Fund to form the Southern Coastal Regional Employee Benefits Fund on January 1, 2016. At inception, the Fund recorded assets of \$6,814,604 and liabilities of \$58,980 resulting in net position of \$6,755,624 being transferred from the Southern New Jersey Regional Employee Benefits Fund to form the Schools Health Insurance Fund. During 2017, the Fund recorded additional assets in the form of a cash dividend in the amount of \$3,702,949, which was transferred from the Southern New Jersey Regional Employee Benefits Fund.

Note 11: SUBSEQUENT EVENTS

Subsequent to year-end, the following entities have joined the Fund or cancelled their membership:

- Salem County (New Member)
- Waterford BOE (New Member)
- Alloway Township BOE (New Member)
- Millville Public Library (No Longer a Member)

REQUIRED SUPPLEMENTARY INFORMATION

SOUTHERN COASTAL REGIONAL EMPLOYEE BENEFITS FUND
RECONCILIATION OF HEALTH CLAIMS LIABILITIES BY FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Medical</u>	<u>Prescription</u>	<u>Dental</u>	<u>Total</u>
Total unpaid claims and claim adjustment expenses - Beginning of Year	\$ 5,328,770	\$ 43,450	\$ 7,780	\$ 5,380,000
Incurred claims and claims adjustment expenses:				
Provision for insured events of current fund year	42,055,405	1,752,916	103,990	43,912,311
Changes in provision for insured events of prior fund years	(212,350)	(121,228)	(3,219)	(336,797)
Total incurred claims and claims adjustment expenses all Fund years	47,171,825	1,675,138	108,551	48,955,514
Payments:				
Claims and claims adjustment expenses (Net of Recoveries):				
Attributable to insured events of current fund year	37,479,525	1,707,625	95,161	39,282,311
Attributable to insured events of prior fund years	5,016,420	(77,778)	4,561	4,943,203
Total payments all Fund years	42,495,945	1,629,847	99,722	44,225,514
Total unpaid claims and claim adjustment expenses - End of Year	\$ 4,675,880	\$ 45,291	\$ 8,829	\$ 4,730,000

SOUTHERN COASTAL REGIONAL EMPLOYEE BENEFITS FUND
TWO-YEAR CLAIMS DEVELOPMENT INFORMATION
AS OF DECEMBER 31, 2017

	FUND YEAR	
	<u>2016</u>	<u>2017</u>
Net Earned Required Contribution and Investment Revenue:		
Earned	\$ 52,968,475	\$ 56,385,144
Ceded	3,198,980	3,068,056
	<u>\$ 49,769,495</u>	<u>\$ 53,317,088</u>
Unallocated Expenses	<u>\$ 4,500,464</u>	<u>\$ 4,535,411</u>
Estimated Claims and Expenses, End of Policy Year:		
Incurred	\$ 47,994,655	\$ 44,303,520
Ceded	2,893,722	391,209
Net Incurred	<u>45,100,933</u>	<u>43,912,311</u>
Paid (Cumulative) as of:		
End of Policy Year	39,720,933	39,282,311
One Year Later	44,664,135	
Reestimated Incurred Claims and Expenses:		
End of Policy Year	45,100,933	43,912,311
One Year Later	44,764,135	
Increase (Decrease) in Estimated Incurred Claims and Expenses from End of Policy Year	<u>\$ (336,798)</u>	<u>\$ -</u>

SUPPLEMENTARY INFORMATION

SOUTHERN COASTAL REGIONAL EMPLOYEE BENEFITS FUND
STATEMENT OF NET POSITION - STATUTORY BASIS
AS OF DECEMBER 31, 2017

	<u>Total</u>	<u>2017</u>	<u>2016</u>	<u>Closed Years</u>
<u>ASSETS</u>				
Cash And Cash Equivalents	\$ 9,939,639	\$ 6,563,520	\$ 411,568	\$ 2,964,551
Investments	9,944,730	3,000,000		6,944,730
Contributions Receivable	402,164	248,285	153,879	
Accrued Interest Receivable	19,151	9,508	1,945	7,698
Excess Insurance Receivable	248,755	69,034	179,721	
Prepaid Expense	12,504	12,504		
	<hr/>			
Total Assets	\$ 20,566,943	\$ 9,902,851	\$ 747,113	\$ 9,916,979
<hr/>				
<u>LIABILITIES AND RESERVES</u>				
Liabilities:				
Accrued Insurance Premiums	\$ 338,987	\$ 338,987		
Accrued Administrative Expenses	186,715	64,498	\$ 122,217	
Surplus Return Reserve	168,865			\$ 168,865
	<hr/>			
Total Liabilities	694,567	403,485	122,217	168,865
<hr/>				
Reserves:				
Actuarial Liability	4,730,000	4,630,000	100,000	
	<hr/>			
Total Liabilities And Reserves	5,424,567	5,033,485	222,217	168,865
<hr/>				
<u>NET POSITION</u>				
Unrestricted	\$ 15,142,376	\$ 4,869,366	\$ 524,896	\$ 9,748,114
	<hr/>			

SOUTHERN COASTAL REGIONAL EMPLOYEE BENEFITS FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - STATUTORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Total</u>	<u>2017</u>	<u>2016</u>	<u>Closed Years</u>
Operating Revenues:				
Regular Contributions	\$ 56,210,852	\$ 56,210,852		
Employee Contribution	123,084	123,084		
Total Operating Revenues	56,333,936	56,333,936	-	-
Operating Expenses:				
Provision For Claims And				
Claims Adjustment Expenses (Recoveries)	43,575,514	43,912,311	\$ (336,797)	
Reinsurance	2,225,031	2,225,031		
State Health Benefits				
Program Surcharge Premiums	843,025	843,025		
Affordable Care Act Taxes	16,616	16,616		
Administration	4,519,066	4,518,795	271	
Total Operating Expenses	51,179,252	51,515,778	(336,526)	-
Operating Income	5,154,684	4,818,158	336,526	-
Non-Operating Revenue:				
Investment Income	112,611	51,208	15,464	\$ 45,939
Dividend Income	303,939		303,939	
	416,550	51,208	319,403	45,939
Change In Net Position	5,571,234	4,869,366	655,929	45,939
Net Position (Deficit), Beginning	6,037,058	-	(131,033)	6,168,091
Transfer From The Southern New Jersey Regional Employee Benefits Fund	3,702,949			3,702,949
Return Of Surplus	(168,865)	-	-	(168,865)
Net Position, Ending	\$ 15,142,376	\$ 4,869,366	\$ 524,896	\$ 9,748,114

SOUTHERN COASTAL REGIONAL EMPLOYEE BENEFITS FUND
STATEMENT OF CASH FLOWS - STATUTORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Total</u>	<u>2017</u>	<u>2016</u>	<u>Closed Years</u>
Cash Flows From Operating Activities:				
Receipts From Regular Contributions	\$ 57,489,505	\$ 56,085,651	\$ 1,368,754	\$ 35,100
(Payments) Recoveries For Health Benefits Claims	(41,743,452)	(39,351,345)	(2,392,107)	
Payments For Insurance Premiums	(3,636,120)	(2,729,069)	(907,051)	
Payments For Affordable Care Act Taxes	(16,616)	(16,616)		
Payments To Professionals And Supplies	(4,505,595)	(4,466,801)	(38,794)	
Net Cash Flows Provided By (Used In) Operating Activities	7,587,722	9,521,820	(1,969,198)	35,100
Cash Flows From Investing Activities:				
Purchase of Investments	(9,974,375)	(3,000,000)		(6,974,375)
Investment Income	427,044	41,700	317,458	67,886
Net Cash Provided By (Used In) Investing Activities	(9,547,331)	(2,958,300)	317,458	(6,906,489)
Cash Flows From Noncapital Financing Activities:				
Due To The Southern New Jersey Regional Employee Health Insurance Fund	(479,717)		(479,717)	
Transfer From The Southern New Jersey Regional Employee Benefits Fund	3,702,949			3,702,949
Net Cash Flows Provided By (Used In) Noncapital Financing Activities	3,223,232	-	(479,717)	3,702,949
Net Increase (Decrease) In Cash And Cash Equivalents	1,263,623	6,563,520	(2,131,457)	(3,168,440)
Cash And Cash Equivalents, Beginning	8,676,016	-	2,543,025	6,132,991
Cash And Cash Equivalents, Ending	\$ 9,939,639	\$ 6,563,520	\$ 411,568	\$ 2,964,551
Reconciliation Of Operating Income To Cash Flows From Operating Activities:				
Operating Income	\$ 5,154,684	\$ 4,818,158	\$ 336,526	
Adjustments To Reconcile Operating Income To Net Cash Provided By (Used In) Operating Activities:				
Changes In Assets And Liabilities:				
Decrease (Increase) In Assets:				
Contributions Receivable	1,155,569	(248,285)	1,368,754	\$ 35,100
Excess Insurance Receivable	2,482,062	(69,034)	2,551,096	
Prepaid Expense	(4,461)	(12,504)	8,043	
Increase (Decrease) In Liabilities:				
Accrued Administrative Expenses	17,932	64,498	(46,566)	
Accrued Excess Insurance Premium	(568,064)	338,987	(907,051)	
Actuarial Liability	(650,000)	4,630,000	(5,280,000)	
Total Adjustments	2,433,038	4,703,662	(2,305,724)	35,100
Net Cash Provided By (Used In) Operating Activities	\$ 7,587,722	\$ 9,521,820	\$ (1,969,198)	\$ 35,100

SOUTHERN COASTAL REGIONAL EMPLOYEE BENEFITS FUND
NOTES TO SUPPLEMENTARY INFORMATION – STATUTORY BASIS

Note 1: **RELATIONSHIP WITH BASIC FINANCIAL STATEMENTS**

The information in the Southern Coastal Regional Employee Benefits Fund (the “Fund”)’s basic financial statements, Exhibits A-1 through A-3, differ from the accompanying Supplementary schedules required by the Division of Banking and Insurance. The supplementary schedules do not reflect the Fund's Investment in Joint Venture as follows:

	<u>2017</u>	<u>2016</u>
Total Assets – Statement of Net Position	\$ 21,606,698	\$ 13,983,436
Less Investment in Joint Venture	<u>1,039,755</u>	<u>1,010,827</u>
Total Assets – Statutory Basis	<u><u>\$ 20,566,943</u></u>	<u><u>\$ 12,972,609</u></u>
Net Position – Statement of Net Position	\$ 16,182,131	\$ 7,047,885
Less Investment in Joint Venture	<u>1,039,755</u>	<u>1,010,827</u>
Net Position – Statutory Basis	<u><u>\$ 15,142,376</u></u>	<u><u>\$ 6,037,058</u></u>
Change in Net Positon - Statement of Revenues, Expenses and Changes in Net Position	\$ 5,600,162	\$ 292,261
Less Change in Investment in Joint Venture	<u>28,928</u>	<u>407,651</u>
Change in Net Position – Statutory Basis	<u><u>\$ 5,571,234</u></u>	<u><u>\$ (115,390)</u></u>

SOUTHERN COASTAL REGIONAL EMPLOYEE BENEFITS FUND
SUPPLEMENTARY INFORMATION
STATEMENT OF FUND YEAR 2017 ACCOUNT OPERATING RESULTS ANALYSIS - STATUTORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2017

	Medical*	Medical Adv	Dental	Prescription	Vision	Reinsurance	Contingency	Administrative	Total
Income:									
Regular Contributions	\$ 48,444,838	\$ 210,064	\$ 137,541	\$ 1,091,509		\$ 1,990,041	\$ (1,166,519)	\$ 5,503,378	\$ 56,210,852
Employee Contribution	123,084								123,084
Investment Income	39,106		3,371		\$ 580		5,560	2,591	51,208
Total Income	48,607,028	210,064	140,912	1,091,509	580	1,990,041	(1,160,959)	5,505,969	56,385,144
Incurred Liabilities:									
Claims Paid (Net Of Refunds)	37,870,734		95,161	1,707,625					39,673,520
Excess Insurance Recoveries	(391,209)								(391,209)
Actuarial Liability (Net Of Recoverables)	4,575,880		8,829	45,291					4,630,000
Insurance Premiums	843,025	222,482				2,002,549			3,068,056
Affordable Care Act Taxes								16,616	16,616
Administrative Expenses								4,518,795	4,518,795
Total Liabilities	42,898,430	222,482	103,990	1,752,916	-	2,002,549	-	4,535,411	51,515,778
Net Position (Deficit)	\$ 5,708,598	\$ (12,418)	\$ 36,922	\$ (661,407)	\$ 580	\$ (12,508)	\$ (1,160,959)	\$ 970,558	\$ 4,869,366

* Includes Retirees And COBRA

SOUTHERN COASTAL REGIONAL EMPLOYEE BENEFITS FUND
SUPPLEMENTARY INFORMATION
STATEMENT OF FUND YEAR 2016 ACCOUNT OPERATING RESULTS ANALYSIS - STATUTORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Medical*</u>	<u>Medical Adv</u>	<u>Dental</u>	<u>Prescription</u>	<u>Reinsurance</u>	<u>Contingency</u>	<u>Administrative</u>	<u>Total</u>
Income:								
Regular Contributions	\$ 42,964,605	\$ 177,995	\$ 114,014	\$ 1,349,530	\$ 2,092,650	\$ 306,608	\$ 5,514,095	\$ 52,519,497
Employee Contribution	106,362							106,362
Investment Income	18,322	1,566	173	2,940		2,726	12,950	38,677
Dividend Income	303,939							303,939
Total Income	43,393,228	179,561	114,187	1,352,470	2,092,650	309,334	5,527,045	52,968,475
Incurred Liabilities:								
Claims Paid (Net Of Refunds)	46,659,935		95,584	797,806				47,553,325
Excess Insurance Recoveries	(2,889,190)							(2,889,190)
Actuarial Liability (Net Of Recoverables)	100,000							100,000
Insurance Premiums	907,051	180,862			2,111,067		199,125	3,198,980
Affordable Care Act Taxes							199,125	199,125
Administrative Expenses							4,301,339	4,301,339
Total Liabilities	44,777,796	180,862	95,584	797,806	2,111,067	-	4,500,464	52,463,579
Net Position (Deficit) Before Transfer	(1,384,568)	(1,301)	18,603	554,664	(18,417)	309,334	1,026,581	504,896
Transfer from Southern New Jersey Regional Employee Benefits Fund							20,000	20,000
Net Position (Deficit)	\$ (1,384,568)	\$ (1,301)	\$ 18,603	\$ 554,664	\$ (18,417)	\$ 309,334	\$ 1,046,581	\$ 524,896

*Includes Retirees And COBRA

SOUTHERN COASTAL REGIONAL EMPLOYEE BENEFITS FUND
SUPPLEMENTARY INFORMATION
STATEMENT OF FUND YEAR 2017 EXPENSE ANALYSIS - STATUTORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Paid</u>	<u>Accrued Expenses</u>	<u>Total</u>
Administrative Expenses:			
Executive Director	\$ 631,543		\$ 631,543
Program Manager	2,014,662		2,014,662
Third Party Administrators:			
Medical	1,694,028		1,694,028
Dental	6,042		6,042
Actuary	33,813		33,813
Attorney	27,356		27,356
Auditor		\$ 12,252	12,252
Treasurer	18,480		18,480
Postage	117	23	140
Plan Documents	3,825		3,825
Meeting Expense	7,164		7,164
Miscellaneous Expense	9,076	529	9,605
Wellness Program	8,191	51,694	59,885
	<hr/>		
Total Administrative Expenses	\$ 4,454,297	\$ 64,498	\$ 4,518,795
	<hr/>		

SOUTHERN COASTAL REGIONAL EMPLOYEE BENEFITS FUND
SUPPLEMENTARY INFORMATION
STATEMENT OF FUND YEAR 2016 EXPENSE ANALYSIS - STATUTORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Paid</u>	<u>Accrued Expenses</u>	<u>Total</u>
Administrative Expenses:			
Executive Director	\$ 610,647		\$ 610,647
Program Manager	1,848,034		1,848,034
Third Party Administrators:			
Medical	1,568,372		1,568,372
Dental	5,110		5,110
Actuary	33,813		33,813
Attorney	27,063		27,063
Auditor	12,000		12,000
Treasurer	18,147		18,147
Postage	166		166
Plan Documents	5,603		5,603
Meeting Expense	3,565		3,565
Miscellaneous Expense	18,819		18,819
Wellness Program	27,783	\$ 122,217	150,000
	<hr/>		
Total Administrative Expenses	\$ 4,179,122	\$ 122,217	\$ 4,301,339
	<hr/>		

SOUTHERN COASTAL REGIONAL EMPLOYEE BENEFITS FUND
SUPPLEMENTARY INFORMATION
SCHEDULE OF CASH, CASH EQUIVALENTS AND INVESTMENTS - STATUTORY BASIS
AS OF DECEMBER 31, 2017

<u>Description</u>	<u>Amount</u>
<u>Cash and Cash Equivalents</u>	
Cash Accounts	
Investors Bank	
General Account	\$ 398,506
Ocean First Bank	
Operating Account	4,505,244
Investment Account	3,263
Republic Bank	
Investment Account	5,013,190
Wilmington Trust	
Money Market Account	19,436
	<hr/>
Total Cash and Cash Equivalents	9,939,639
	<hr/>
<u>Investments</u>	
Ocean First Bank	
Certificate of Deposit	3,000,000
Republic Bank	
Certificate of Deposit	3,000,000
Wilmington Trust	
Investment Account	3,944,730
	<hr/>
Total Investments	9,944,730
	<hr/>
Total Cash, Cash Equivalents And Investments Per Schedule A Statement Of Net Position - Statutory Basis	\$ 19,884,369
	<hr/>
Total Cash, Cash Equivalents And Investments By Fund Year:	
2017	\$ 9,563,520
2016	411,568
Closed Years	9,909,281
	<hr/>
	\$ 19,884,369
	<hr/>

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2017

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with Government Auditing Standards and with audit requirements as prescribed by the Department of Banking and Insurance and the Division of Local Government Services, Department of Community Affairs, State of New Jersey.

SCHEDULE OF FINANCIAL STATEMENT FINDINGS

None

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AS PREPARED BY MANAGEMENT

This section identifies the status of prior year audit findings related to the financial statements that are required to be reported in accordance with Government Auditing Standards.

None

APPRECIATION

We express our appreciation for the assistance provided to us during our audit.

Respectfully submitted,
BOWMAN & COMPANY LLP
Certified Public Accountants
& Consultants



James J. Miles, Jr.