

New Jersey Schools Insurance Group
For the Fiscal Year Ended June 30, 2014
Burlington, New Jersey

NEW JERSEY SCHOOLS INSURANCE GROUP
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JUNE 30, 2014

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Independent Auditors' Report

The Honorable Chairperson and Members
of the Board of Trustees
New Jersey Schools Insurance Group
Burlington, New Jersey

Report on the Financial Statements

We have audited the accompanying financial statements of the New Jersey Schools Insurance Group (the "Group") as of and for the fiscal years ended June 30, 2014 and 2013 and the related notes to the financial statements, which collectively comprise the Group'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 opinions on these financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Group'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 Group'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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Group as of June 30 2014 and 2013, and the changes in financial position and cash flows thereof for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the accompanying Reconciliation of Claims Liabilities by Fund and Ten-Year Claims Development Information Schedules 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2014 on our consideration of the Group's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Group's internal control over financial reporting and compliance.

September 19, 2014
Mount Arlington, New Jersey

NISIVOCIA LLP

Valerie A. Dolan
Licensed Public School Accountant #2526
Certified Public Accountant

**New Jersey Schools Insurance Group
Management's Discussion and Analysis
(Unaudited)**

This section of the annual financial report of the Group presents a discussion and analysis of the financial performance of the Group for the fiscal years ended June 30, 2014 and 2013. Please read it in conjunction with the basic financial statements, s that follow this section.

Overview of Basic Financial Statements

The Group'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 Group is to administer a program of self funding and reinsurance to provide protection to members primarily in the areas of workers' compensation, general liability, property, errors and omissions, and crime coverage. The basic financial statements are presented on an accrual basis of accounting. The three basic financial statements presented are as follows:

Statement of Net Position - This statement presents information reflecting the Fund's assets, liabilities, deferred outflows and inflows of resources, and net position. Net position represents the amount of total assets and deferred outflows of resources less total liabilities and deferred inflows of resources.

Statement of Revenue, Expenses, and Changes in Net Position – This statement reflects the Group'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.

Statement of Cash Flows – The statement of cash flows is presented on the direct method of reporting, which reflects cash flows from operating and investing activities. Cash collections and payments are reflected in this statement to arrive at the net increase or decrease in cash and cash equivalents for the fiscal year.

Financial Highlights

The following tables summarize the financial position and results of operations for the Group as of and for the fiscal years ended June 30, 2014, 2013 and 2012.

Summary Statement of Net Position

	2014	2013	2013/2014 Percent Change	2012	2012/2013 Percent Change
Assets:					
Cash and Cash Equivalents and Investments	\$270,716,803	\$254,809,366	6.24%	\$259,167,073	-1.68%
Other Assets	23,078,883	22,932,206	0.64%	8,757,436	161.86%
Total Assets	293,795,686	277,741,572	5.78%	267,924,509	3.66%
Liabilities:					
Loss Reserves	213,382,000	198,995,000	7.23%	189,146,000	5.21%
Other Liabilities	14,243,924	13,357,250	6.64%	14,635,125	-8.73%
Total Liabilities	227,625,924	212,352,250	7.19%	203,781,125	4.21%
Net Position:					
Invested in Capital Assets	379,892	227,917	66.68%	359,455	-36.59%
Unrestricted	65,789,870	65,161,405	0.96%	63,783,929	2.16%
Net Position - Unrestricted	\$ 66,169,762	\$ 65,389,322	1.19%	\$ 64,143,384	1.94%

Summary Statement of Revenue, Expenses, and Changes in Net Position

	2014	2013	2013/2014 Percent Change	* 2012	2012/2013 Percent Change
Operating Revenue:					
Assessments and Other Income	<u>\$119,852,548</u>	<u>\$113,723,547</u>	5.39%	<u>\$107,637,184</u>	5.65%
Operating Expenses:					
Provision for Claims and Claim Adjustment Expense	65,701,497	58,565,055	12.19%	60,795,893	-3.67%
Unallocated Adjustment Expenses	50,662	143,743	-64.76%	832,266	-82.73%
Reinsurance Premiums	26,839,580	26,172,619	2.55%	23,526,358	11.25%
Agent Commissions	14,483,381	13,462,665	7.58%	12,919,894	4.20%
Salaries & Fringe Benefits	7,468,813	7,043,173	6.04%	6,750,179	4.34%
Professional & Contractual Services	2,939,850	2,560,426	14.82%	2,352,767	8.83%
Safety Grant Expense	1,700,000	5,175,335	-67.15%		100.00%
Other	337,190	235,310	43.30%	180,461	30.39%
Depreciation	<u>322,462</u>	<u>365,221</u>	-11.71%	<u>466,508</u>	-21.71%
Total Operating Expenses	<u>119,843,435</u>	<u>113,723,547</u>	5.38%	<u>107,824,326</u>	5.47%
Operating Income/(Loss)	9,113		100.00%	(187,142)	-100.00%
Investment Income	<u>771,327</u>	<u>1,245,938</u>	-38.09%	<u>1,528,269</u>	-18.47%
Change in Net Position	<u>\$ 780,440</u>	<u>\$ 1,245,938</u>	-37.36%	<u>\$ 1,341,127</u>	-7.10%

*As restated, for reallocating income of reinsurance premiums from a reduction of operating revenue to an operating expense. Overall Operating (Loss) remained the same.

Net Position increased primarily due to investment income an increase in assessment revenue offset by an increase in claims expense.

Economic Conditions

The Group continues to be affected by the escalation of insurance and claim costs. The Group will continue to monitor its claims and work with its members via the safety program to minimize the number and severity of claims.

Contacting the Group's Financial Management

This financial report is designed to provide the Group's members, oversight entities and creditors with a general overview of the Group's finances and to demonstrate the Group's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Executive Director's Office, 450 Veterans Drive, Burlington, New Jersey 08016.

BASIC FINANCIAL STATEMENTS

NEW JERSEY SCHOOLS INSURANCE GROUP
STATEMENT OF NET POSITION

June 30,

	2014	2013
<u>ASSETS:</u>		
Cash and Cash Equivalents	\$ 102,149,821	\$ 70,981,806
Investments	168,566,982	183,827,560
Accrued Interest and Dividends	494,743	537,047
Assessment Receivable, Net	4,234,378	3,798,085
Reinsurance Receivable	16,747,077	17,083,241
Prepaid Expenses and Other Assets	1,222,793	1,285,916
Capital Assets (Net of Accumulated Depreciation of \$1,296,559 and \$1,262,170 for 2014 and 2013, respectively)	379,892	227,917
Total Assets	293,795,686	277,741,572
 <u>LIABILITIES:</u>		
Loss Reserves	213,382,000	198,995,000
Reserves for Unallocated Adjustment Expense	1,788,085	1,737,423
Unearned Assessments	1,711,496	1,830,369
Accounts Payable and Accrued Expenses	3,928,122	3,945,597
Safety Grant Payable	6,816,221	5,843,861
Total Liabilities	227,625,924	212,352,250
 <u>NET POSITION:</u>		
Investment in Capital Assets	379,892	227,917
Unrestricted	65,789,870	65,161,405
Total Net Position	\$ 66,169,762	\$ 65,389,322

THE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS ARE
AN INTEGRAL PART OF THIS STATEMENT

NEW JERSEY SCHOOLS INSURANCE GROUP
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION

	For the Fiscal Year Ended June 30,	
	2014	2013
Operating Revenue:		
Assessments from Participating Members	\$ 119,742,207	\$ 113,612,750
Claims Servicing Revenue	90,403	31,256
Other Income	19,938	79,541
Total Operating Revenue	<u>119,852,548</u>	<u>113,723,547</u>
Operating Expenses:		
Provision for Claims and Claim Adjustment Expense	65,701,497	58,565,055
Unallocated Adjustment Expenses	50,662	143,743
Reinsurance Premiums	26,839,580	26,172,619
Salaries and Fringe Benefits	7,468,813	7,043,173
Agent Commissions	14,483,381	13,462,665
Safety Grant Expense	1,700,000	5,175,335
Management Fees	843,750	675,000
Office Expenses	1,000,130	902,898
Consulting and Professional Fees	855,809	714,689
Travel and Meeting Expense	240,161	267,839
Other	337,190	235,310
Depreciation	322,462	365,221
Total Operating Expenses	<u>119,843,435</u>	<u>113,723,547</u>
Operating Income	9,113	-0-
Non-Operating Revenue:		
Investment Income	771,327	1,245,938
Total Non-Operating Revenue	<u>771,327</u>	<u>1,245,938</u>
Change in Net Position	780,440	1,245,938
Net Position - Beginning of Year	<u>65,389,322</u>	<u>64,143,384</u>
Net Position - End of Year	<u>\$ 66,169,762</u>	<u>\$ 65,389,322</u>

THE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS ARE
AN INTEGRAL PART OF THIS STATEMENT

NEW JERSEY SCHOOLS INSURANCE GROUP
STATEMENT OF CASH FLOWS

	For the Fiscal Year Ended June 30,	
	2014	2013
Cash Flows from Operating Activities:		
Assessments Received	\$ 119,187,041	\$ 112,918,063
Reinsurance Premiums Paid	(26,839,580)	(26,172,619)
Claims Paid	(51,314,497)	(48,716,055)
Operating Expenses Paid	(18,106,249)	(36,650,658)
Salaries and Fringe Benefits	(7,468,813)	(7,043,173)
Other Income Received	110,341	110,797
Net Cash Provided by/(Used) for Operating Activities	15,568,243	(5,553,645)
Cash Flows from Investing Activities:		
Purchase of Investment Securities	(101,112,171)	(118,423,583)
Proceeds from the Sales and Maturities of Investment Securities	115,898,312	136,749,279
Interest and Dividends on Investments	813,631	1,429,621
Net Cash Provided by Investing Activities	15,599,772	19,755,317
Net Increase in Cash and Cash Equivalents	31,168,015	14,201,672
Cash and Cash Equivalents - Beginning of Year	70,981,806	56,780,134
Cash and Cash Equivalents - End of Year	\$ 102,149,821	\$ 70,981,806
Reconciliation of Operating Income to Net Cash Used for Operating Activities:		
Operating Income	\$ 9,113	\$ -0-
Adjustments to Reconcile Operating Income to Net Cash		
Provided by/(Used) for Operating Activities:		
Depreciation	322,462	365,221
Changes in Assets and Liabilities:		
(Increase)/Decrease in Assets:		
Assessment Receivable	(436,293)	(256,995)
Reinsurance Receivable	336,164	(14,008,417)
Prepaid Expenses and Other Assets	63,123	(224,579)
Increase/(Decrease) in Liabilities:		
Accounts Payable	(17,475)	(2,182,998)
Safety Grant Payable	972,360	1,199,072
Reserve for Unpaid Claims and Allocated Adjustment Exper	14,387,000	9,849,000
Reserve for Unallocated Adjustment Expense	50,662	143,743
Unearned Assessments	(118,873)	(437,692)
Net Cash Provided by/(Used) for Operating Activities	\$ 15,568,243	\$ (5,553,645)

THE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS ARE
AN INTEGRAL PART OF THIS STATEMENT

NEW JERSEY SCHOOLS INSURANCE GROUP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1: NATURE OF OPERATIONS

The New Jersey Schools Insurance Group (the "Group") was created on October 3, 1983, in accordance with the New Jersey statutes (NJSA 18A:18b-1 et seq). The bylaws of the Group, as supplemented by the Risk Management Plan, set forth the various procedures which are to be followed in the organization, administration and operation of the Group. During the year ended June 30, 2014 the Bylaws were amended changing the name from New Jersey School Boards Association Insurance Group to New Jersey Schools Insurance Group.

The Group provides coverage for workers' compensation, general and automobile liability physical damage, property, errors and omissions and crime. The Group uses reinsurance agreements to reduce its exposure to large losses on the types of coverages.

A summary of the risk amounts retained by the Group, by line of coverage, are as follows:

<u>Line of Coverage</u>	<u>Retention</u>
Workers' compensation	\$1,000,000 per occurrence for fund years 2004 to 2013, \$350,000 per occurrence for fund years 1992 to 2002, and \$500,000 per occurrence for fund years 1986 to 1991 and 2003. For periods prior to 1987, annual aggregate retention based on minimum varying percentages of standard earned premium.
General liability and automobile liability	\$500,000 per occurrence for fund years 2003 to 2013, \$100,000 per occurrence for fund years 1999 to 2002, \$250,000 per occurrence for fund years 1988 to 1998, and \$200,000 per occurrence for periods prior to fund year 1988.
Property	\$1,000,000 per occurrence for fund years 2002 to 2013, \$150,000 per occurrence for fund years 1989 to 2001, and \$250,000 per occurrence for periods prior to fund year 1989.
Errors and Omissions	\$1,000,000 per occurrence for fund years 2003 to 2008.
Crime	\$100,000 per occurrence

In, addition, there are aggregate retentions applicable to losses in excess of the per occurrence retentions. For fund years 1994 to 1998 the aggregate retention is \$250,000 for general and automobile liability losses and \$350,000 for workers' compensation losses. For fund years 1999 to 2002, the aggregate retention is \$100,000 for general and automobile liability and \$350,000 workers' compensation losses. For fund years 2003 to 2008 the aggregate retention is \$500,000 for general and automobile liability and workers' compensation losses.

NEW JERSEY SCHOOLS INSURANCE GROUP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014
(Continued)

NOTE 1: NATURE OF OPERATIONS (Cont'd)

The Group also writes policies covering umbrella liability, boiler, electronic data processing, pollution, student violent acts and errors and omissions (prior to 2004, and for the 2013 and 2014 fund year), all of which are ceded 100% to reinsurance.

During the fiscal year ended June 30, 2014 there were 399 New Jersey School Districts that were members of the Group.

The Group members are subject to supplemental assessments in the event of deficiencies. If the assets of the Group were to be exhausted, members would be responsible for the Group's liabilities. The Group considers investment income when determining if a delinquency exists. The Group also may return surpluses to members.

The Group also provides claims processing services and purchases reinsurance policies for several New Jersey School Districts. The Group does not retain any risk for these school districts. The Group had revenue from these services of \$90,403 and \$31,256 during the fiscal year ended June 30, 2014 and 2013, respectively.

Brokerage of policies is administered by Willis Pooling Administrative Services Corporation under contract with the Group. The Group administers the billings to members.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing government accounting and financial reporting principles. The more significant of the Group's accounting policies are described below.

Reporting Entity

Governmental Accounting Standards Board publication, Codification of Governmental Accounting and Financial Reporting Standards, Section 2100, "Defining the Financial Reporting Entity" establishes standards to determine whether a governmental component unit should be included in the financial reporting entity. The basic criterion for inclusion or exclusion from the financial reporting entity is the exercise of oversight responsibility over agencies, boards and commissions by the primary government and financial accountability. The exercise of oversight responsibility includes financial interdependency and a resulting financial benefit or burden relationship, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters. In addition, certain legally separate, tax-exempt entities that meet specific criteria (i.e. benefit of economic resources, access/entitlement to economic resources, and significance) should be included in the financial reporting entity. The combined financial statements include all funds of the Group over which the Group exercises operating control. There were no additional entities required to be included in the reporting entity under the criteria as described above, in the current fiscal year. Furthermore, the Group is not includable in any other reporting entity on the basis of such criteria.

NEW JERSEY SCHOOLS INSURANCE GROUP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014
(Continued)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Basis of Accounting

The Group utilizes the accrual basis of accounting whereby revenue is recorded as earned and expenses are reflected as the liability is incurred. The Group utilizes total economic resources as their measurement focus. Operating revenue, such as charges for services, result from exchange transactions associated with the principal activity of the Group. Exchange transactions are those in which each party receives and gives up essentially equal value. Nonoperating revenue, such as subsidies and investment earnings, results from nonexchange transactions or ancillary activities. Nonexchange transactions, in which the Group gives or receives value without directly receiving or giving equal value in exchange, generally do not occur, with the exception of investment earnings.

Investments

Investments consist of government backed fixed maturities and are carried at fair value. Fair value has been supplied by the custodian, TD Bank. The Fund generally records certain investments at fair value and records the unrealized gains and losses as a part of investment income. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties.

Income Taxes

The Group is an instrumentality of the State of New Jersey and therefore a governmental entity, has determined itself to be a tax-exempt organization and not subject to either federal or state income taxes.

Assessments

The gross claim fund assessment is determined by the actuary and when combined with expense and premium projections, constitutes the Group's budget. Assessments for participating School Districts are determined by underwriting criteria established by the Executive Committee. Assessments are recognized over the course of the year for which coverage is being provided.

Assessments Receivable

Assessments receivable are unsecured and non-interest bearing and are recorded when invoices are issued and are presented in the statement of net position. The Group recorded a reserve against assessments receivables as of June 30, 2014 and 2013, in the amount of \$368,792 for both years. Payments of assessments receivable are allocated to specific invoices identified on the member's invoice or if unspecified, they are applied "on account" to the member until identification is received from the member. Assessments receivable are written off when they are determined to be uncollectible.

Assessments Earned

Assessments earned are recognized on a daily pro rata basis over the term of the policy. Assessments applicable to the unexpired terms of the policies in force are reported as a liability and classified as unearned assessments at the balance sheet date.

NEW JERSEY SCHOOLS INSURANCE GROUP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014
(Continued)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Unpaid Claims Liabilities

The Group establishes claims liabilities based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of salvage and subrogation and reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount, particularly for coverages such as workers compensation. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. The Group does not discount estimated claim liabilities. Adjustments to claim liabilities are charged or credited to expense in the periods in which they are made. Salvage and Subrogation, excluding reinsurance recoveries, are recognized as a reduction of claim payments upon receipt of cash. During the fiscal year ended June 30, 2014 and 2013 subrogation income was \$838,893 and \$727,530, respectively.

Reinsurance

The Group uses reinsurance agreements to reduce its exposure to large losses on certain types of insured events. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Group as direct insurer of the risks reinsured. The Group does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers. The amounts deducted against claims expense as of June 30, 2014 and 2013 for reinsurance recoveries was \$19,064,286 and \$26,530,816, respectively.

Management Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3: RESERVES FOR UNPAID CLAIMS AND ALLOCATED ADJUSTMENT EXPENSE

The liability for unpaid losses and loss adjustment expenses represents an estimate of the ultimate net cost of all losses and loss adjustment expenses incurred but not yet paid as of June 30, 2014. This estimate is based on the estimated ultimate cost of settling the claims considering the historical experience of the Group, various other industry statistics, including the effects of inflation and other societal or economic factors, and the Group's self-insured retention level. Management believes that the liability for unpaid losses is adequate to cover the ultimate cost of reported and unreported claims incurred but not yet paid. However, the ultimate cost may be more or less than the estimated liability. The unpaid losses are stated net of any recoveries from excess-loss insurance and reinsurance coverages.

NEW JERSEY SCHOOLS INSURANCE GROUP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014
(Continued)

NOTE 3: RESERVES FOR UNPAID CLAIMS AND ALLOCATED ADJUSTMENT EXPENSE (Cont'd)

The Group has created a loss reserve for any reported and potential unreported losses which have taken place but in which the Group has not received notices or reports of losses. Loss reserves, at June 30, 2014 and 2013 which have been estimated by the Group's Actuary, are as follows:

	<u>2014</u>	<u>2013</u>
Case Reserves	\$ 130,496,000	\$ 117,038,000
Losses Incurred but not Reported	<u>82,886,000</u>	<u>81,957,000</u>
Total Loss Reserves	<u>\$ 213,382,000</u>	<u>\$ 198,995,000</u>

The following represents changes in the aggregate reserves for the Group

	<u>2014</u>	<u>2013</u>
Unpaid Claims and Claim Adjustment Expenses, Beginning of Year	<u>\$ 198,995,000</u>	<u>\$ 189,146,000</u>
Incurred Claims and Claim Adjustment Expenses:		
Provision for Insured Events of the Current Period	75,291,363	66,404,082
(Decrease)/Increase in Provision for Insured Events of Prior Years	<u>(9,589,866)</u>	<u>(7,839,027)</u>
Total Incurred Claims and Claim Adjustment Expenses	<u>65,701,497</u>	<u>58,565,055</u>
Payments:		
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Current Period	17,423,363	14,799,082
Claims and Claim Adjustment Expenses Attributable to Insured Events of Prior Years	<u>33,891,134</u>	<u>33,916,973</u>
Total Payments	<u>51,314,497</u>	<u>48,716,055</u>
Total Unpaid Claims and Claim Adjustment Expenses, End of Year	<u>\$ 213,382,000</u>	<u>\$ 198,995,000</u>

The Fund maintains contracts for insurance including excess insurance covering losses in excess of an amount established between the Fund and the insurer up to the limits of coverage set forth in the contract on a specific occurrence, or per accident or annual aggregate basis.

A contingent liability exists with respect to insurance coverage which would become an actual liability in the event the insuring companies, or any of them, might be unable to meet their obligations to the Fund under existing reinsurance agreements

NEW JERSEY SCHOOLS INSURANCE GROUP
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

(Continued)

NOTE 4: CASH AND CASH EQUIVALENTS

Cash and cash equivalents include petty cash, change funds, amounts in deposits, and short-term investments with original maturities of three months or less.

GASB Statement No. 40, *Governmental Accounting Standards Deposit and Investment Risk* requires disclosure of the level of custodial credit risk assumed by the Group in its cash, cash equivalents and investments, if those items are uninsured or unregistered. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned.

Interest Rate Risk - In accordance with its cash management plan, the Group ensures that any deposit or investment matures within the time period that approximates the prospective need for the funds, deposited or invested, so that there is not a risk to the market value of such deposits or investments.

Credit Risk - The Group limits its investments to those authorized in its cash management plan which are those permitted under state statute as detailed in Note 5.

New Jersey statutes requires that the Group deposit public funds in public depositories located in New Jersey which are insured by the Federal Deposit Insurance Corporation, the Federal Savings and Loan Insurance Corporation, or by any other agency of the United States that insures deposits made in public depositories. The Group is also permitted to deposit public funds in the State of New Jersey Cash Management Fund.

New Jersey statutes require public depositories to maintain collateral for deposits of public funds that exceed depository insurance limits as follows:

The market value of the collateral must equal at least 5% of the average daily balance of collected public funds on deposit, and

In addition to the above collateral requirement, if the public funds deposited exceed 75% of the capital funds of the depository, the depository must provide collateral having a market value at least equal to 100% of the amount exceeding 75%.

All collateral must be deposited with the Federal Reserve Bank, the Federal Home Loan Bank or a banking institution that is a member of the Federal Reserve System and has capital funds of not less than \$25,000,000.

As of June 30, 2014 and 2013 cash and cash equivalents of the Group consisted of the following:

	<u>2014</u>	<u>2013</u>
New Jersey Cash Management	\$ 322,792	\$ 322,409
Petty Cash	201	260
TD Bank Concentration and Checking Accounts	98,408,060	70,346,601
TD Bank Money Market	3,417,076	310,644
Tri-State Capital Account	1,692	1,692
	<u>\$ 102,149,821</u>	<u>\$ 70,981,606</u>

NEW JERSEY SCHOOLS INSURANCE GROUP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014
(Continued)

NOTE 4: CASH AND CASH EQUIVALENTS (Cont'd)

The carrying amount of the Group's cash and cash equivalents at June 30, 2014 was \$102,149,821 and the bank balance was \$105,191,820. The New Jersey Cash Management funds are unregistered and uninsured.

The carrying amount of the Group's cash and cash equivalents at June 30, 2013 was \$70,981,806 and the bank balance was \$84,540,627. The New Jersey Cash Management funds are unregistered and uninsured.

NOTE 5: INVESTMENTS

New Jersey statutes permit the Group to purchase the following types of securities:

- (1) Bonds or other obligations of the United States of America or obligations guaranteed by the United States of America;
- (2) Government money market mutual funds;
- (3) Any obligation that a federal agency or a federal instrumentality has issued in accordance with an act of Congress, which security has a maturity date not greater than 397 days from the date of purchase, provided that such obligation bears a fixed rate of interest not dependent on any index or other external factor;
- (4) Bonds or other obligations of local units or bonds or other obligations of school districts of which the local units are part or within which the school district is located;
- (5) Bonds or other obligations, having a maturity date not more than 397 days from the date of purchase, approved by the Division of Investment of the Department of the Treasury for investment by local units;
- (6) Local government investment pools;
- (7) Deposits with the State of New Jersey Cash Management Fund; or
- (8) Agreements for the repurchase of fully collateralized securities if:
 - (a) the underlying securities are permitted investments pursuant to paragraphs (1) and (3) above;
 - (b) the custody of collateral is transferred to a third party;
 - (c) the maturity of the agreement is not more than 30 days;
 - (d) the underlying securities are purchased through a public depository as defined in statute; and
 - (e) a master repurchase agreement providing for the custody and security of collateral is executed.
- (9) Debt obligations of federal agencies or government corporations with maturities not to exceed 10 years from the date of purchase, excluding mortgage backed or derivative obligations, provided that the investments are purchased through the State Division of Investment and are invested consistent with the rules and regulations of the State Investment Council.

NEW JERSEY SCHOOLS INSURANCE GROUP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014
(Continued)

NOTE 5: INVESTMENTS (Cont'd)

All of the Group's investments are recorded at fair value based on quoted market prices. The investments are held by the Group's custodial bank trust department in the Group's name. The bank's trust department is also its agent in purchasing and selling the securities. The investments are uninsured and unregistered. All of the funds held by the custodial bank are held in a fiduciary account in the Group's name, and are backed by the full faith credit of the U.S. Government. As such, they are protected in the event of the bankruptcy of the bank. Investments consisted of the following:

	Balance June 30, 2014	Weighted Average Maturity in Months
U.S. Treasury Notes	\$ 19,642,607	59.64
Certificates of Deposit - TD Wealth Management	29,707,711	36.00
TD Bank - Certificate of Deposit	6,000,000	24.00
TD Bank - Certificate of Deposit	20,000,000	24.00
TD Bank - Certificate of Deposit	10,042,122	24.00
TD Bank - Certificate of Deposit	10,000,000	24.00
TD Bank - Certificate of Deposit	24,500,000	24.00
TD Bank - Certificate of Deposit	24,500,000	24.00
TD Bank - Certificate of Deposit	12,104,493	36.00
TD Bank - Certificate of Deposit	12,070,049	24.00
	<u>\$ 168,566,982</u>	<u>42.47</u>
	Balance June 30, 2013	
U.S. Treasury Notes	\$ 55,403,975	59.87
Certificates of Deposit - TD Wealth Management	29,707,711	36.00
TD Bank - Certificate of Deposit	10,000,000	18.00
TD Bank - Certificate of Deposit	24,000,000	18.00
TD Bank - Certificate of Deposit	24,103,263	18.00
TD Bank - Certificate of Deposit	12,068,065	18.00
Tri-State Capital - Certificates of Deposit	10,440,051	12.00
TD Bank - Certificate of Deposit	6,000,000	24.00
TD Bank - Certificate of Deposit	12,104,493	36.00
	<u>\$ 183,827,558</u>	<u>51.54</u>

NEW JERSEY SCHOOLS INSURANCE GROUP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014
(Continued)

NOTE 6: SAFETY GRANT

During the fiscal year ended June 30, 2009, the Group approved a new safety grant program to the membership of the Group. The Group recognizes that in this current climate of tightening school budgets it has become increasingly difficult to spend money on safety. In an effort to help alleviate this problem, the Group approved this grant. The program is designed to help members make safety, security and educational related purchases toward loss prevention at the membership level.

Upon renewal, each member will be eligible for the grant amount defined by the Group's Trustees and allocated to sub funds and non-sub funds by the Group's independent actuary. Each sub fund members grant amount will be determined by its respective grant sub fund committee. The Group developed the guidelines, application and approval process under which all members may apply for a grant.

Based on the criteria of the grant and the review of each members' application, grants were awarded for \$3,000,000 (as of June 30, 2009), \$5,000,000 (as of June 30, 2010), \$4,000,000 (as of June 30, 2011), \$-0- (as of June 30, 2012) and \$5,175,335 (as of June 30, 2013). In fiscal year 2014, the Trustees awarded safety grants in the amount of \$1,700,000, paid \$727,640 from the prior awarded safety grants, for which \$5,116,221 is recorded as a payable as of June 30, 2014.

NOTE 7: PENSION PLANS

Employees participate in a contributory, defined benefit public employee retirement system (PERS) of New Jersey; The PERS is sponsored and administered by the State of New Jersey. The PERS is also considered a cost-sharing, multiple-employer plan. As a general rule, all full-time employees are eligible to join the PERS.

Employees who are members of PERS and retire at a specified age according to the relevant tier category for that employee are entitled to a retirement benefit based upon a formula which takes "final average salary" during years of creditable service. Vesting occurs after 10 years of service.

The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, issues publicly available financial reports that include the financial statements and required supplementary information of the above system. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, PO Box 295, Trenton, New Jersey, 08625-0295.

The contribution policy is set by New Jersey State Statutes and, in most retirement systems, contributions are required by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey regulation. The employee contribution rate was 6.64% effective July 1, 2012. Increases are being phased in over 7 years effective on each July 1st to bring the total pension contribution rate to 7.5% of base salary as of July 1, 2018. Employers are required to contribute at an actuarially determined rate. The actuarially determined employer contribution includes funding for cost-of-living adjustments and noncontributory death benefits, and post-retirement medical premiums.

Group contributions to PERS amounted to \$475,891, \$447,098, and \$444,520 for the fiscal years ended June 30, 2014, 2013 and 2012, respectively.

NEW JERSEY SCHOOLS INSURANCE GROUP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014
(Continued)

NOTE 8: COMMITMENTS AND CONTINGENCIES

The Group has a lease agreement for office space in Burlington, New Jersey, through December 31, 2015 for a minimum rental commitment plus operating costs, real estate taxes, and utilities. Total rent expense amounted to \$175,454 for the year ended June 30, 2014.

At June 30, 2014, the minimum rental commitment for the aforementioned non-cancellable operating lease and the option period is as follows:

Year Ending June 30,		
2015	\$	139,014
2016		<u>69,507</u>
	\$	<u><u>208,521</u></u>

In the normal course of its operations, the Group has a number of lawsuits filed by claimants in various stages. Although estimated loss reserves have been established by the Group, a number of these cases may possibly be settled for amounts in excess of the Group's loss reserves. No provision for these contingencies has been included in the financial statements since the amounts are not reasonably estimable.

NOTE 9: CAPITAL ASSETS

Capital assets balances and activity for the fiscal year ended June 30, 2014 were as follows:

	<u>Balance</u> <u>June 30, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2014</u>
Capital Assets Being Depreciated:				
Furniture and Equipment	\$ 1,490,087	\$ 474,437	\$ (288,073)	\$ 1,676,451
Less Accumulated Depreciation	<u>(1,262,170)</u>	<u>(322,462)</u>	<u>288,073</u>	<u>(1,296,559)</u>
Net Investment in Capital Assets	<u>\$ 227,917</u>	<u>\$ 151,975</u>	<u>\$ -0-</u>	<u>\$ 379,892</u>

	<u>Balance</u> <u>June 30, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2013</u>
Capital Assets Being Depreciated:				
Furniture and Equipment	\$ 1,952,216	\$ 233,683	\$ (695,812)	\$ 1,490,087
Less Accumulated Depreciation	<u>(1,592,761)</u>	<u>(365,221)</u>	<u>695,812</u>	<u>(1,262,170)</u>
Net Investment in Capital Assets	<u>\$ 359,455</u>	<u>\$ (131,538)</u>	<u>\$ -0-</u>	<u>\$ 227,917</u>

Equipment is recorded at cost and depreciation is provided on the straight-line method over the estimated useful lives of the respective assets. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. Capital assets were reviewed for impairment.

NEW JERSEY SCHOOLS INSURANCE GROUP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014
(Continued)

NOTE 10: POSTEMPLOYMENT BENEFIT PLAN

Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*, require to account for other post-employment benefits, on an accrual basis rather than on a pay-as-you go basis.

Plan Description

The Group has established a postemployment benefit plan to assist retirees in paying for medical coverage. The plan will provide a monthly payment of \$500 to all eligible employees with full vesting occurring at retirement age 60 with 25 years of service.

Funding Policy

The present value of \$829,585 has been recorded as a liability and \$77,943 was expensed by the Group during the fiscal year ended June 30, 2014 and is included in accounts payable and accrued expenses on the accompanying statement of net position and salaries and fringe benefits on the accompanying statement of revenues, expenses and changes in net position respectively.

Actuarial Valuations:

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and health care cost trends. Amounts determined regarding the funded status of the Plan and the annual required contributions of the Group are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future.

Actual Methods and Assumptions

Projects of benefits for financial reporting purposes are based on the substantive Plan (as understood by the employer and Plan members) and include the type of benefits provided at the time each valuation and historical pattern of sharing of benefit costs between the Group and the Plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2013 actuarial valuations, the liabilities were computed using the projected credit method and level dollar amortization over 30 years. The actuarial assumptions include a 5.00% discount rate.

Annual OPEB Cost and Net OPEB Obligation

The Group's annual OPEB cost is calculated based on the annual required contribution (ARC) of the employer. The Group has engaged an actuary to calculate the ARC and related information per the provisions of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded liability over a period not to exceed 30 years.

NEW JERSEY SCHOOLS INSURANCE GROUP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014
(Continued)

NOTE 10: POSTEMPLOYMENT BENEFIT PLAN (Cont'd)

Annual OPEB Cost and Net OPEB Obligation (Cont'd)

Benefit Obligations and Normal Cost

	2012	2013	2014
Actuarial accrued liability (AAL):			
Retired employees	\$ -0-	\$ -0-	\$ -0-
Active employees	673,699	673,699	673,699
Unfunded actuarial accrued liability (UAAL)	<u>\$ 673,699</u>	<u>\$ 673,699</u>	<u>\$ 673,699</u>
Normal Cost Component	<u>\$ 77,943</u>	<u>\$ 77,943</u>	<u>\$ 77,943</u>

Level Dollar Amortization

Calculation of ARC under Projected Unit Credit Method

ARC normal cost with interest to end of year	\$ 673,699	\$ -0-	\$ -0-
Amortization of unfunded actuarial accrued liability (UAAL) over 30 years with interest at year end	-0-	77,943	77,943
Annual Required Contribution (ARC)	<u>673,699</u>	<u>77,943</u>	<u>77,943</u>
Interest on net OPEB obligation	-0-	-0-	-0-
Adjustment to ARC	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Annual OPEB cost (expense)	673,699	77,943	77,943
Pay as you go benefits	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Net OPEB expense at June 30,			
2012, 2013 and 2014, respectively	673,699	77,943	77,943
Prior year	<u>-0-</u>	<u>673,699</u>	<u>751,642</u>
Net OPEB obligation June 30,			
2012, 2013 and 2014, respectively	<u>\$ 673,699</u>	<u>\$ 751,642</u>	<u>\$ 829,585</u>
Unfunded actuarial accrued liability (June 30, 2012)			<u>\$ 673,699</u>
Projected unfunded actuarial accrued liability (June 30, 2013)			<u>\$ 751,642</u>
Projected unfunded actuarial accrued liability (June 30, 2014)			<u>\$ 829,585</u>

NEW JERSEY SCHOOLS INSURANCE GROUP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014
(Continued)

NOTE 11: ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and Accrued Expenses for the fiscal year ended June 30, 2014 were as follows:

	<u>2014</u>	<u>2013</u>
Accounts Payable - Vendors	\$ 660,426	\$ 618,595
Rate Stabilization Reserves - SubFunds	2,438,111	2,575,360
Post Employment Retirement Benefits	<u>829,585</u>	<u>751,642</u>
	<u>\$ 3,928,122</u>	<u>\$ 3,945,597</u>

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 Auditors' Report

The Honorable Chairperson and Members
of the Board of Trustees
New Jersey Schools Insurance Group
Burlington, New Jersey

We have audited, in accordance with the auditing standards generally accepted in the United States of America, audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the New Jersey Schools Insurance Group (the "Group") as of and for the fiscal year ended June 30, 2014 and the related notes to the financial statements, which collectively comprise the Group's basic financial statements, and have issued our report thereon dated September 19, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Group'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 Group's internal control. Accordingly, we do not express an opinion on the effectiveness of the Group'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 Group's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Group's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

September 19, 2014
Mount Arlington, New Jersey

NISIVOCCIA LLP

Valerie A. Dolan
Licensed Public School Accountant #2526
Certified Public Accountant

REQUIRED SUPPLEMENTARY INFORMATION

NEW JERSEY SCHOOLS INSURANCE GROUP
 RECONCILIATION OF CLAIMS LIABILITIES BY FUND
 FOR THE FISCAL YEARS ENDED JUNE 30, 2014 AND 2013
 (Unaudited)

	Fiscal Year Ended June 30, 2014							
	Total	Workers' Compensation	General Liability	Property	Automotive Liability	Automobile Physical Damage	Errors & Omissions	Other
Unpaid Claims and Claim Adjustment Expenses at Beginning of Year	\$ 198,995,000	\$ 164,223,000	\$ 26,183,000	\$ 1,160,000	\$ 6,567,000	\$ 135,000	\$ 727,000	\$ -0-
Incurred Claims and Claim Adjustment Expenses:								
Provision for Insured Events of the Current Period	75,291,363	56,300,267	3,965,360	11,027,326	3,450,096	540,377	7,937	
Increase/(Decrease) in Provision for Insured Events of Prior Years	(9,589,866)	(7,780,032)	(4,164,873)	1,690,185	423,650	(115,495)	356,699	
Total Incurred Claims and Claim Adjustment Expenses	65,701,497	48,520,235	(199,513)	12,717,511	3,873,746	424,882	364,636	
Payments:								
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Current Period	17,423,363	12,501,267	(3,408,640)	7,705,326	140,096	477,377	7,937	
Claims and Claim Adjustment Expenses Attributable to Insured Events of Prior Years	33,891,134	25,790,968	3,795,127	2,287,185	1,464,650	(13,495)	566,699	
Total Payments	51,314,497	38,292,235	386,487	9,992,511	1,604,746	463,882	574,636	
Total Unpaid Claims and Claim Adjustment Expenses at End of Year	\$ 213,382,000	\$ 174,451,000	\$ 25,597,000	\$ 3,885,000	\$ 8,836,000	\$ 96,000	\$ 517,000	\$ -0-

NEW JERSEY SCHOOLS INSURANCE GROUP
 SCHOOL BOARD GROUP INSURANCE POOL
 RECONCILIATION OF CLAIMS LIABILITIES BY FUND
 FOR THE FISCAL YEARS ENDED JUNE 30, 2014 AND 2013
 (Unaudited)

Fiscal Year Ended June 30, 2013

	Total	Workers' Compensation	General Liability	Property	Automotive Liability	Automobile Physical Damage	Errors & Omissions	Other
Unpaid Claims and Claim Adjustment Expenses, Beginning of Year	\$189,146,000	\$152,148,000	\$ 26,110,000	\$ 2,047,000	\$ 7,090,000	\$ 376,000	\$ 1,375,000	\$ -0-
Incurring Claims and Claim Adjustment Expenses:								
Provision for Insured Events of the Current Period	66,404,082	50,997,583	8,224,913	3,487,137	2,748,832	799,984	145,633	
Increase/(Decrease) in Provision for Insured Events of Prior Years	(7,839,027)	(3,191,008)	(2,501,192)	(1,359,398)	(918,621)	(31,000)	162,192	
Total Incurred Claims and Claim Adjustment Expenses	58,565,055	47,806,575	5,723,721	2,127,739	1,830,211	768,984	307,825	
Payments:								
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Current Period	14,799,082	11,166,583	92,913	2,610,137	112,832	670,984	145,633	
Claims and Claim Adjustment Expenses Attributable to Insured Events of Prior Years	33,916,973	24,564,992	5,557,808	404,602	2,240,379	339,000	810,192	
Total Payments	48,716,055	35,731,575	5,650,721	3,014,739	2,353,211	1,009,984	955,825	
Total Unpaid Claims and Claim Adjustment Expenses, End of Year	\$198,995,000	\$164,223,000	\$ 26,183,000	\$ 1,160,000	\$ 6,567,000	\$ 135,000	\$ 727,000	\$ -0-

NEW JERSEY SCHOOLS INSURANCE GROUP
TEN-YEAR CLAIMS DEVELOPMENT INFORMATION
(Unaudited)

	Fiscal Period Ended June 30, 2014 and Policy Period Ended June 30,									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Required contribution and investment revenue:										
Earned	\$ 78,657,690	\$ 86,670,269	\$ 95,871,596	\$ 96,114,604	\$ 98,033,808	\$ 102,995,630	\$ 104,185,604	\$ 105,000,904	\$ 114,969,485	\$ 120,623,875
Ceded	12,423,723	14,261,188	15,933,127	16,412,244	19,602,011	22,722,740	23,185,771	22,927,326	26,172,619	26,839,580
Net Earned	66,233,967	72,409,081	79,938,469	79,702,360	78,431,797	80,272,890	80,999,833	82,073,578	88,796,866	93,784,295
Unallocated expenses	21,694,217	25,134,619	26,226,187	26,353,791	24,315,109	23,606,933	23,415,577	22,124,526	28,985,873	27,302,358
Estimated claims and expenses, end of policy year										
Incurred	47,135,001	55,228,609	60,896,351	68,482,431	57,714,541	64,483,752	63,426,393	66,985,183	82,224,277	82,519,702
Ceded	47,135,001	55,228,609	60,896,351	68,482,431	57,714,541	64,483,752	63,426,393	66,985,183	15,820,195	3,674,141
Net Incurred									66,404,082	78,845,561
Net paid (cumulative) as of:										
End of policy year	10,129,916	10,974,609	12,236,351	14,415,431	12,536,541	16,681,752	14,264,133	14,408,893	14,799,082	20,977,561
One year later	17,935,800	19,566,609	20,311,351	24,524,664	21,305,541	27,122,752	23,734,133	24,453,866	23,643,822	
Two years later	23,519,800	25,748,609	24,950,352	29,354,664	26,355,541	32,627,752	28,725,133	28,641,074		
Three years later	28,034,000	30,425,609	29,340,352	33,200,664	31,330,541	39,113,752	34,398,365			
Four years later	31,731,800	35,229,609	32,450,352	37,438,664	35,869,541	43,484,732				
Five years later	33,677,800	38,132,609	34,351,352	39,702,664	38,313,122					
Six years later	34,921,800	39,933,609	35,643,352	40,722,113						
Seven years later	35,814,800	41,277,609	36,645,116							
Eight years later	37,227,800	41,954,062								
Nine years later	38,167,249									
Reestimated ceded claims and expenses	27,609		12,038	76,969	38,642	165,652	75,000	268,147	12,408,265	3,674,141
Reestimated net incurred claims and expenses:										
End of policy year	47,135,001	55,228,609	60,896,351	68,482,431	57,714,541	64,483,752	63,426,393	66,545,893	66,404,082	78,845,561
One year later	45,469,800	52,639,000	56,598,000	63,759,664	54,347,541	60,776,752	61,249,584	62,627,866	63,775,822	
Two years later	46,435,000	50,143,000	52,642,352	55,515,664	52,595,541	60,096,260	59,370,133	61,014,074		
Three years later	42,446,000	49,378,609	46,570,352	52,510,664	50,921,227	62,070,752	57,591,365			
Four years later	41,489,800	46,577,609	46,311,352	50,706,522	48,524,541	60,836,732				
Five years later	42,594,800	45,649,609	46,216,489	49,759,664	46,695,122					
Six years later	43,729,800	46,542,831	44,920,352	48,946,113						
Seven years later	43,564,554	46,937,609	43,458,116							
Eight years later	44,244,800	46,609,062								
Nine years later	43,928,249									
Increase/(decrease) in estimated net incurred claims and expense from end of policy year	\$ (3,206,752)	\$ (8,619,547)	\$ (17,438,235)	\$ (19,536,318)	\$ (11,019,419)	\$ (3,647,020)	\$ (5,835,028)	\$ (5,971,109)	\$ (2,628,260)	\$ -0-

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 Auditors' Report

The Honorable Chairperson and Members
of the Board of Trustees
New Jersey Schools Insurance Group
Burlington, New Jersey

We have audited, in accordance with the auditing standards generally accepted in the United States of America, audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the New Jersey Schools Insurance Group (the "Group") as of and for the fiscal year ended June 30, 2014 and the related notes to the financial statements, which collectively comprise the Group's basic financial statements, and have issued our report thereon dated September 19, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Group'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 Group's internal control. Accordingly, we do not express an opinion on the effectiveness of the Group'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 Group's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Group's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

September 19, 2014
Mount Arlington, New Jersey

NISIVOCCIA LLP

Valerie A. Dolan
Licensed Public School Accountant #2526
Certified Public Accountant

NEW JERSEY SCHOOLS INSURANCE GROUP
AUDITORS' MANAGEMENT REPORT ON
ADMINISTRATIVE FINDINGS - FINANCIAL,
COMPLIANCE AND PERFORMANCE
FISCAL YEAR ENDED JUNE 30, 2014



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September 19, 2014

The Honorable Chairperson and Members
of the Board of Trustees
New Jersey Schools Insurance Group
Burlington, New Jersey

We have audited, in accordance with auditing standards generally accepted in the United States of America, audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, and *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the New Jersey Schools Insurance Group (the "Group") for the fiscal year ended June 30, 2014, and have issued our report thereon dated September 19, 2014.

As part of our audit, we performed procedures required by the New Jersey Department of Community Affairs, Division of Local Government Services, and the findings and results thereof are disclosed on the following pages. This letter does not affect our report dated September 19, 2014 on the financial statements of the Group.

We will review the status of any comments made during our next audit engagement. We have already discussed any comments and suggestions made with various management personnel, and we will be pleased to discuss them in further detail at your convenience or to perform any additional study of these matters, or to assist you in implementing the recommendations or suggestions.

This report is intended solely for the information and use of the New Jersey Schools Insurance Group's trustees and management and the New Jersey Department of Community Affairs, Division of Local Government Services and the New Jersey Department of Banking and Insurance. However, this report is a matter of public record and its distribution is not limited.

NISIVOCCIA LLP

Valerie A. Dolan
Licensed Public School Accountant #2526
Certified Public Accountant

NEW JERSEY SCHOOLS INSURANCE GROUP
COMMENTS AND RECOMMENDATIONS

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Management Suggestions:

Future Changes in Accounting Standards

Statements of the Governmental Accounting Standards Board

The Governmental Accounting Standards Board (“GASB”) has issued several pronouncements that will be effective in the next two years. It appears that most of these pronouncements will not affect the financial accounting and reporting of the Fund. However, GASB Statement Number 69, *Government Combinations and Disposals of Government Operations* will require additional footnote disclosures. The disclosures do not appear to be onerous nor does it appear that it will be difficult for the Fund to obtain and present the disclosure information in order to comply with the standard. This statement will be effective for the Fund’s fiscal year 2015 financial statements although earlier application is encouraged by the GASB.

Governmental Accounting Standards Board (“GASB”) Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment to GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, are effective for fiscal years beginning after June 15, 2014. The primary objective of GASB Statement No. 68 is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governments about financial support for pensions provided by other entities. Additionally, this statement establishes standards for measuring and recognizing pension liabilities of the District in the financial statements and details the information to be included in the note disclosure and required supplementary information on pensions. Successful implementation of these standards will require the provision of certain key financial and non-financial information from the New Jersey Division of Pensions.

Status of Prior Year Comments and Recommendations

The prior year recommendation regarding GUDPA verification was resolved during the current year.