

**NEW JERSEY SCHOOL BOARDS ASSOCIATION
INSURANCE GROUP**

Financial Statements

June 30, 2012 and 2011

With Independent Auditors' Report

New Jersey School Boards Association Insurance Group
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June 30, 2012 and 2011

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**New Jersey School Boards Association Insurance Group
Management's Discussion and Analysis
June 30, 2012 and 2011**

This section of New Jersey School Boards Association Insurance Group's (referred to herewith as "NJSBAIG" or "the Group") annual financial report represents a discussion and analysis of the financial performance of NJSBAIG for the years ended June 30, 2012 and 2011. Please read it in conjunction with the financial statements, which follow this section. The following table(s) summarizes the financial position and results of operations of NJSBAIG as of and for the years ended June 30, 2012 and 2011:

	2012	2011
Assets		
Cash and investments	\$ 259,167,073	\$ 246,778,056
Furniture, fixtures & equipment, net	359,455	582,744
Receivables, net	7,336,644	5,122,952
Other assets	<u>1,061,337</u>	<u>1,406,409</u>
	<u>\$ 267,924,509</u>	<u>\$ 253,890,161</u>
Liabilities and Fund Surplus		
Reserves for unpaid claims	\$ 189,146,000	\$ 173,946,000
Reserves for unallocated adj. exp.	1,593,680	761,414
Unearned premiums	2,268,061	2,974,588
Other liabilities	<u>10,773,384</u>	<u>13,405,902</u>
Total liabilities	203,781,125	191,087,904
Fund surplus	<u>64,143,384</u>	<u>62,802,257</u>
	<u>\$ 267,924,509</u>	<u>\$ 253,890,161</u>
Revenues and Expenses		
Net premiums earned	\$ 83,928,778	\$ 80,243,296
Net investment income	1,528,269	3,485,891
Other income	<u>182,048</u>	<u>264,491</u>
Total revenue	<u>85,639,095</u>	<u>83,993,678</u>
Claims expense - net	61,628,159	52,902,133
Other operating expenses	<u>22,669,809</u>	<u>26,273,358</u>
Total expenses	<u>84,297,968</u>	<u>79,175,491</u>
Net income	<u>\$ 1,341,127</u>	<u>\$ 4,818,187</u>

Overview of the Financial Statements:

NJSBAIG's 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 NJSBAIG is to provide local and regional school districts a joint insurance fund. The NJSBAIG fund provides the availability of insurance to New Jersey school districts by offering the best possible coverage at the lowest possible cost and by providing insurance education, loss control services and management services to its members. The financial statements are presented on the accrual basis of accounting. The basic financial statements presented within the financial statement package are as follows:

Balance Sheets: This statement presents information reflecting NJSBAIG's assets, liabilities, and fund equity (surplus). Fund equity (surplus) represents the amount of total assets less total liabilities.

New Jersey School Boards Association Insurance Group

Management's Discussion and Analysis

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Statements of Revenues, Expenses and Changes in Fund Surplus: This statement reflects the operating revenues and expenses, as well as non-operating revenues and expenses, and investment income during the operating year. Major sources of operating revenues are premium income with major sources of operating expenses being losses and loss adjustments expenses related to claims. The major source of non-operating revenue is investment income.

Statements of Cash Flows: This statement presents changes in cash and cash equivalents from operating and investing activities.

Financial Highlights:

Analysis of Financial Position and Results of Operations: As indicated on the summarized Statement of Revenues and Expenses, Net Income for the fiscal year ended June 30, 2012 amounted to \$1,341,127 compared to Net Income of \$4,818,187 for the fiscal year ended June 30, 2011, a decrease of \$(3,477,060) or 72.2% decline.

The first component of the decrease in Net Income was the direct result of an unfavorable decrease in Net Investment Income in the amount of \$(1,957,622) or 56.2% decline to \$1,528,269 for the fiscal year ended June 30, 2012 from \$3,485,891 for the fiscal year ended June 30, 2011. This decrease in investment income resulted in a decrease in net income of 40.6% out of the total decrease of 72.2%. This unfavorable result was related to decreased interest rates based on the current economic market conditions which yielded minimal June 30, 2012 interest income and an unrealized loss on securities in the NJ Investment Fund.

Total expenses for the fiscal year ended June 30, 2012 were \$84,297,968 compared to total expenses of \$79,175,491 for fiscal year ended June 30, 2011. This yielded an unfavorable change of \$(5,122,477) or 6.5% increase in expense. The following factors were the major components of the unfavorable change in the June 30, 2012 total expenses:

- The largest unfavorable change in the June 30, 2012 expenses was related to the change in claims incurred from the June 30, 2011 amount of \$52,902,133 to the June 30, 2012 amount of \$61,628,159. This increased expense yielded a change of \$(8,726,026) which was the result of an overall increase in the change in June 30, 2012 claims reserves of \$(6,254,000) (as calculated by NJSBAIG's independent actuarial firm), an increase in June 30, 2012 paid claims of \$(1,639,760) and an increase in reserves for administering all payments of all open, unpaid claims (unallocated expenses) of \$(832,266).
- The increase in June 30, 2012 Salaries and Benefits of \$6,750,179 from the June 30, 2011 amount of \$6,139,950 or \$(610,229) was related to the full fiscal year's salaries for the new 2011-2012 as related to the transitional year 2010-2011 for new staffing positions and their related benefits.
- The increase in June 30, 2012 Agents' Commission Expenses of \$12,919,894 from the June 30, 2011 amount of \$12,754,473 yielded a change of \$(165,421) which was related to overall increased gross premiums.
- NJSBAIG did not include a June 30, 2012 allowance for bad debt. This created a positive variance of \$369,035 when compared to the June 30, 2011 bad debt expense.
- NJSBAIG did not declare a 2011-2012 Safety Grant at June 30, 2012. This created a positive variance of \$4,032,391 when compared to the 2010-2011 Safety Grant at June 30, 2011.

The final component for the change in Net Income relates to an increase in June 30, 2012 Net Premiums Earned of \$3,685,482 - from the June 30, 2011 amount of \$80,243,296 to the June 30, 2012 amount of \$83,928,778. Gross premiums earned increased from June 30, 2011 to June 30, 2012 by \$4,204,534, but were slightly offset by an unfavorable variance of \$(519,052) in the reinsurance costs related to these premiums. The variance of the June 30, 2012 increased reinsurance costs were directly related to increased gross premium volumes (both represent a 2.4% increase from prior year gross premiums and reinsurance costs).

**New Jersey School Boards Association Insurance Group
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Analysis of Assets and Liabilities: Total assets of \$267,924,509 at June 30, 2012 compared to total assets of \$253,890,161 at June 30, 2011 yielded an increase of \$14,034,348, a 5.5% increase. This increase was primarily related to increased investments. Net liabilities of \$203,781,125 at June 30, 2012 compared to net liabilities of \$191,087,904 at June 30, 2011 yielded an increase of \$12,693,219, a 6.6% increase. This was primarily related to an increase in reserves for unpaid claims as determined by NJSBAIG's independent actuarial firm and an increase in reserves for administering all open, unpaid claims (unallocated adjustment expenses).

Analysis of Surplus Funds: As of June 30, 2012, NJSBAIG has a surplus balance of \$64,143,384 as compared to \$62,802,257 as of June 30, 2011, an increase of \$1,341,127 or 2.1%. At this point in time, no dividend or assessment has been declared (or calculated), nor are any contemplated to occur.

Description of Long-Term Debt Activity: Case reserves and incurred but not reported reserves are calculated by an independent, outside actuarial study.

Known Facts, Decisions, or Conditions Expected to Impact the Financial Position: At this point in time, management is not aware of any facts, decisions, or conditions that would have a significant effect on NJSBAIG's financial position or the results of its operations.



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Independent Auditors' Report

The Board of Trustees
New Jersey School Boards Association Insurance Group

We have audited the accompanying balance sheets of the New Jersey School Boards Association Insurance Group ("the Group") as of June 30, 2012 and 2011, and the related statements of revenues, expenses, and changes in fund surplus and cash flows for the years then ended. These financial statements are the responsibility of the Group's management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2012 and 2011, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 1 through 3 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedules of ten year claims development information and of changes in claim liabilities by line of coverage for the years ended June 30, 2012 and 2011 are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to auditing procedures applied in the audits 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Withum Smith + Brown, P.C.

October 9, 2012

New Jersey School Boards Association Insurance Group
Balance Sheets
June 30, 2012 and 2011

	2012	2011
Assets		
Cash and cash equivalents	\$ 56,780,134	\$ 65,183,348
Investments	202,386,939	181,594,708
Accrued interest and dividends	720,730	859,141
Premiums receivable, net	3,541,090	4,263,811
Reinsurance recoverables	3,074,824	-
Furniture, fixtures & equipment (net of accumulated depreciation of \$1,592,761 and \$1,126,253 in 2012 and 2011, respectively)	359,455	582,744
Prepaid expenses and other assets	1,061,337	1,406,409
	<u>\$ 267,924,509</u>	<u>\$ 253,890,161</u>
Liabilities and Fund Surplus		
Liabilities:		
Reserves for unpaid claims and allocated adjustment expenses	\$ 189,146,000	\$ 173,946,000
Reserves for unallocated adjustment expenses	1,593,680	761,414
Unearned premiums	2,268,061	2,974,588
Accounts payable and accrued expenses	6,128,595	4,686,048
Safety grant payable	4,644,789	8,719,854
Total liabilities	<u>203,781,125</u>	<u>191,087,904</u>
Fund surplus	<u>64,143,384</u>	<u>62,802,257</u>
	<u>\$ 267,924,509</u>	<u>\$ 253,890,161</u>

The Notes to Financial Statements are an integral part of these statements.

New Jersey School Boards Association Insurance Group
Statements of Revenues, Expenses and Changes in Fund Surplus
Years Ended June 30, 2012 and 2011

	2012	2011
Revenues		
Premiums written	\$ 106,890,471	\$ 104,241,980
Decrease (increase) in unearned premiums - net	564,665	(991,378)
Premiums earned	<u>107,455,136</u>	<u>103,250,602</u>
Less: Reinsurance premiums	<u>(23,526,358)</u>	<u>(23,007,306)</u>
Premiums earned - net	83,928,778	80,243,296
Claims servicing revenue	60,117	135,651
Other income	<u>121,931</u>	<u>128,840</u>
	<u>84,110,826</u>	<u>80,507,787</u>
Expenses		
Claims		
Claims paid and adjustment expenses - net	45,595,893	43,956,133
Change in reserves for unpaid claims and allocated adjustment expenses - net	15,200,000	8,946,000
Change in unallocated adjustment expenses	<u>832,266</u>	<u>-</u>
Claims - net	61,628,159	52,902,133
Agent commissions	12,919,894	12,754,473
Salaries and fringe benefits	6,750,179	6,139,950
Safety grant expense	-	4,032,391
Management fees	712,500	750,000
Office expenses	795,589	912,037
Consulting and professional fees	598,177	571,209
Travel and meeting expense	246,501	230,229
Depreciation	466,508	359,189
Bad debt	-	369,035
Other	<u>180,461</u>	<u>154,845</u>
	<u>84,297,968</u>	<u>79,175,491</u>
Operating income (loss)	<u>(187,142)</u>	<u>1,332,296</u>
Investment income		
Unrealized loss on investments	(1,167,706)	(918,732)
Other investment income	<u>2,695,975</u>	<u>4,404,623</u>
	<u>1,528,269</u>	<u>3,485,891</u>
Net income	1,341,127	4,818,187
Fund surplus, beginning of year	<u>62,802,257</u>	<u>57,984,070</u>
Fund surplus, end of year	<u>\$ 64,143,384</u>	<u>\$ 62,802,257</u>

The Notes to Financial Statements are an integral part of these statements.

New Jersey School Boards Association Insurance Group
Statements of Cash Flows
Years Ended June 30, 2012 and 2011

	2012	2011
Cash flow provided by (used for) operating activities		
Premiums received	\$ 104,227,111	\$ 102,698,982
Reinsurance premiums paid	(23,438,945)	(24,973,863)
Claims paid - net	(45,595,893)	(43,956,133)
Operating expenses paid	(24,408,765)	(25,254,357)
Other income received	182,048	264,491
Net cash provided by operating activities	<u>10,965,556</u>	<u>8,779,120</u>
Cash flows provided by (used for) investing activities		
Purchase of furniture, fixtures, & equipment	(243,219)	(150,477)
Maturity (purchase) of investments - net	(21,959,937)	(4,626,660)
Investment income	2,834,386	4,680,615
Net cash used for investing activities	<u>(19,368,770)</u>	<u>(96,522)</u>
Net change in cash and cash equivalents	(8,403,214)	8,682,598
Cash and cash equivalents		
Beginning of year	65,183,348	56,500,750
End of year	<u>\$ 56,780,134</u>	<u>\$ 65,183,348</u>
Reconciliation of operating (loss) income to net cash provided by (used for) operating activities		
Operating (loss) income	\$ (187,142)	\$ 1,332,296
Adjustments to reconcile operating (loss) income to net cash provided by operating activities:		
Depreciation	466,508	359,189
Change in operating assets:		
Premiums receivable, net	722,721	(766,571)
Reinsurance recoverables	(3,074,824)	-
Prepaid expenses and other assets	345,072	(133,648)
Change in operating liabilities:		
Reserve for unpaid claims and allocated adjustment expenses	15,200,000	8,946,000
Reserves for unallocated adjustment expenses	832,266	-
Unearned premiums	(706,527)	1,133,240
Safety grant payable	(4,075,065)	(378,454)
Accounts payable and accrued expenses	1,442,547	(1,712,932)
Net cash provided by operating activities	<u>\$ 10,965,556</u>	<u>\$ 8,779,120</u>

The Notes to Financial Statements are an integral part of these statements.

New Jersey School Boards Association Insurance Group
Notes to Financial Statements
June 30, 2012 and 2011

1. Organization

The New Jersey School Boards Association Insurance Group ("the Group") is a school district joint insurance fund formed on October 3, 1983 under the provisions of New Jersey statutes (NJSA 18A:18b-1 et seq). The Group was established to provide insurance coverage for member school districts. The by-laws 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.

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

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

<u>Line of Coverage</u>	<u>Retention</u>
Workers' compensation	\$1,000,000 per occurrence for fund years 2004 to 2012, \$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 2012, \$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 2012, \$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. For fund years 1999 to 2002, the aggregate retention is \$500,000 for general and automobile liability and \$350,000 workers' compensation losses. For fund years 2003 to 2011 the inner aggregate retention is \$500,000 for general and automobile liability.

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 2011 and 2012 fund year), all of which are ceded 100% to reinsurance.

During the year ended June 30, 2012, 392 NJ school districts were members in 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.

New Jersey School Boards Association Insurance Group
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The Group also provides claims processing services and purchases reinsurance policies for several NJ school districts. The Group does not retain any risk for these school districts. The Group had revenue from these services of \$60,117 and \$135,651 during the years ended June 30, 2012 and 2011.

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

2. Summary of Significant Accounting Policies

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as applied to governmental units and insurance companies, where applicable. The Governmental Accounting Standards Board is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the reporting period. In addition certain actuarial assumptions have been made in the preparation of these financial statements. Actual results could differ from those estimates. A summary of significant accounting policies is set forth below:

Cash and Cash Equivalents

The Group considers all highly liquid investments with maturities of less than three months at the time of purchase to be cash equivalents.

Investments

The investments consist of government backed fixed maturities and are carried at fair value. Fair value has been supplied by the custodian, TD Bank.

Fair Value of Financial Instruments

The Group adopted the accounting standard relating to fair value measurements. This standard defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined under this standard as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value under this standard must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

- Level 1—Quoted prices in active markets for identical assets or liabilities.
- Level 2—Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The adoption of this statement did not have a material impact on the Group's financial statements.

New Jersey School Boards Association Insurance Group
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The FASB issued a statement relating to the fair value option for financial assets and financial liabilities which included an amendment of the standard referred to above. This statement permits entities to choose to measure eligible financial instruments and certain other items at fair value. It became effective for fiscal years beginning after November 15, 2007. The Group has not adopted the accounting treatments identified in this standard.

Premiums Receivable

Premiums receivable are unsecured and non-interest bearing and are recorded when invoices are issued and are presented in the balance sheets. The Group recorded a reserve against premiums receivable as of June 30, 2012 and 2011, in the amount of \$368,792 for both years. Payments of premiums 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. Premiums receivable are written off when they are determined to be uncollectible.

Premiums Earned

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

Unpaid Claims Liabilities

The Group establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of 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 general liability. 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. Adjustments to claims liabilities are charged or credited to claims expense in the periods in which they are made.

The Group does not discount claims liabilities. Salvage and subrogation, excluding reinsurance recoveries, are recognized as a reduction of claim payments upon receipt of cash. During the years ended June 30, 2012 and 2011 subrogation income was \$1,495,605 and \$2,377,877, respectively.

Reinsurance

The Group uses reinsurance agreements to reduce its exposure to large losses on all types of insured events. This is commonly referred to as reinsurance ceded. 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 netted against claims paid as of June 30, 2012 and 2011 for reinsurance recoveries were \$7,408,291 and \$4,134,116, respectively.

Furniture, Fixtures and Equipment

Furniture, fixtures, and equipment are recorded at cost and depreciated using the straight-line method over the estimated useful lives of the assets ranging from three to ten years. Costs of maintenance and repairs are charged to expense and significant additions and improvements are capitalized.

Income Taxes

Income of the Group is excludible from gross income under Section 115 of the Internal Revenue Code and is therefore not subject to either federal or state income taxes.

New Jersey School Boards Association Insurance Group
Notes to Financial Statements
June 30, 2012 and 2011

3. Cash and Cash Equivalents

At June 30, 2012 and 2011, cash and cash equivalents consisted of the following:

	2012	2011
NJ cash management fund	\$ 322,409	\$ 322,263
TD Bank concentration and checking accounts	48,924,553	62,043,426
TD Bank money market	7,532,081	2,816,569
Tri-State Capital account	<u>1,091</u>	<u>1,090</u>
	<u>\$ 56,780,134</u>	<u>\$ 65,183,348</u>

The bank balances of all cash and cash equivalents were \$59,302,549 and \$66,973,591 as of June 30, 2012 and 2011, respectively. The bank balances have been deposited in public depositories, which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC) and in excess of \$250,000 are fully collateralized by the bank or institution through the Government Unit Deposit Protection Act (GUDPA). Additionally, the FDIC also provides separate coverage for deposit accounts that meet the definition of non-interest bearing accounts.

4. Fair Value Accounting

Recurring Fair Value Measurements

Pursuant to the requirements of the accounting standard dealing with fair value measurements, the Group has provided fair value disclosure information for relevant assets and liabilities in these financial statements. The following table summarizes assets which have been accounted for at fair value on a recurring basis as of June 30, 2012 and 2011, along with the basis for the determination of fair value:

2012

	Total	Basis for Valuation		
		Quoted Prices in Active Markets	Observable Measurement Criteria	Unobservable Measurement Criteria
Certificates of deposit	\$ 103,548,772	\$ --	\$ 103,548,772	\$ --
Fixed maturity investments:				
US Treasury Notes	98,838,167	98,838,167	--	--
Total Investments	\$ 202,386,939	\$ 98,838,167	\$ 103,548,772	\$ --

2011

	Total	Basis for Valuation		
		Quoted Prices in Active Markets	Observable Measurement Criteria	Unobservable Measurement Criteria
Certificates of deposit	\$ 52,938,078	\$ --	\$ 52,938,078	\$ --
Fixed maturity investments:				
Federal Home Loan Bank Bonds	2,036,850	2,036,850	--	--
Federal Home Loan Mortgage Bonds	4,106,564	4,106,564	--	--
Federal National Mortgage Bonds	6,088,411	6,088,411	--	--
US Treasury Notes	116,424,805	116,424,805	--	--
Total Investments	\$181,594,708	\$128,656,630	\$ 52,938,078	\$ --

New Jersey School Boards Association Insurance Group
Notes to Financial Statements
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For applicable assets and liabilities subject to this pronouncement, the Group will value such assets and liabilities using quoted market prices in active markets for identical assets and liabilities to the extent possible. To the extent that such market prices are not available, the Group will next attempt to value such assets and liabilities using observable measurement criteria, including quoted market prices of similar assets and liabilities in active and inactive markets and other corroborated factors. In the event that quoted market prices in active markets and other observable measurement criteria are not available, the Group will develop measurement criteria based on the best information available.

Fixed maturity investments are valued at the closing price reported on the active market on which the investments are traded. Certificates of deposit are valued at cost, which approximate fair value based on the maturity dates. The valuation methods for these investments are consistent for the years ended June 30, 2012 and 2011.

5. Investments

At June 30, 2012 and 2011, investments consisted of the following:

	2012	2011
Certificates of deposit	\$103,548,772	\$ 52,938,078
Fixed maturities:		
Face amount	96,500,000	124,500,000
Unamortized premium – net	477,915	1,128,671
Unrealized gain – net	<u>1,860,252</u>	<u>3,027,959</u>
Fair value	<u>\$202,386,939</u>	<u>\$181,594,708</u>

The fixed maturity investments are US Treasury Notes and other government backed notes with maturities ranging from July 2012 to January 2015. These securities are held by TD Bank in book entry form.

6. Reserves for Unpaid Claims and Adjustment Expenses

As discussed in Note 2, the Group establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses and is net of any probable reinsurance coverage.

Management believes that the reserves for unpaid losses are adequate to cover the ultimate cost of reported and unreported claims. However the ultimate cost may be more or less than the estimated liability. The reserves, which have been estimated by the Group's independent actuary and the Group's claims organization, are as follows at June 30, 2012 and 2011:

	2012	2011
Case reserves (reported)	\$ 120,301,000	\$105,628,000
Reserves for losses incurred but not reported	<u>68,845,000</u>	<u>68,318,000</u>
	<u>\$189,146,000</u>	<u>\$173,946,000</u>

New Jersey School Boards Association Insurance Group
Notes to Financial Statements
June 30, 2012 and 2011

The following represents changes in the reserves for unpaid claims and claim adjustment expenses for the Group during the years ended June 30, 2012 and 2011:

	2012	2011
Unpaid claims and claim adjustment expenses at beginning of year	<u>\$173,946,000</u>	<u>\$165,000,000</u>
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current year	66,545,893	63,212,133
Increase (decrease) – net in provision for insured events of prior years	<u>(5,750,000)</u>	<u>(10,310,000)</u>
Total incurred claims and claim adjustment expenses	<u>60,795,893</u>	<u>52,902,133</u>
Less: claim payments – net:		
Claims and claim adjustment expenses attributable to insured events of the current year	14,408,893	14,264,133
Claims and claim adjustment expenses attributable to insured events of prior years	<u>31,187,000</u>	<u>29,692,000</u>
Total payments – net	<u>45,595,893</u>	<u>43,956,133</u>
Total unpaid claims and claim adjustment expense at end of year	<u>\$189,146,000</u>	<u>\$173,946,000</u>

7. 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 in a sub fund will be eligible for the grant amount defined by the Group Trustees and allocated by the grant sub fund committee. Each member not in a sub fund is eligible for the grant amount defined by the Group's actuary. 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 member's application, an amount of \$4,032,391 has been expensed at June 30, 2011 which consists of \$4,000,000 for the Fund Year June 30, 2011 and \$32,391 for Fund Year June 30, 2009. There was no safety grant approved and therefore no expense for the year ended June 30, 2012.

8. Pension Plan

Employees who are eligible to participate in the pension plan are enrolled in the Public Employee's Retirement System which is administered by the Division of Pensions, Treasury Department of the State of New Jersey. The Division annually charges participating governmental units for their respective contributions to the plans based upon actuarial methods. A portion of the cost is contributed by the employees. The Group's share of pension costs, which is based upon the annual billings received from the State, was \$444,520 and \$403,940 for each of the years ended June 30, 2012 and 2011, respectively.

9. Commitments and Contingencies

The Group has a lease agreement for office space in Burlington, New Jersey, through December 31, 2010 for a minimum rental commitment plus operating costs, real estate taxes, and utilities. The Group amended its lease to include additional office space which extended the terms through December 31, 2015. Total rent expense amounted to \$212,268 for the year ended June 30, 2012 and \$212,175 for the year ended June 30, 2011.

New Jersey School Boards Association Insurance Group
Notes to Financial Statements
June 30, 2012 and 2011

At June 30, 2012, the minimum rental commitment for the aforementioned noncancellable operating lease and the option period is as follows:

Year ending June 30:	
2013	\$ 139,014
2014	139,014
2015	139,014
2016	<u>69,507</u>
	<u>\$ 486,549</u>

10. Postemployment Benefit Plan

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.

The present value of the lifetime annuity program was determined by an actuarial valuation using actuarial assumptions for mortality, employee withdrawal, and an interest discount rate of 6%.

The present value of \$602,849 and \$554,627 has been recorded as a liability and \$48,222 and \$48,222 was expensed by the Group during the year ended June 30, 2012 and 2011 and is included in accounts payable and accrued expenses on the accompanying balance sheets and salaries and fringe benefits on the accompanying statements of revenues, expenses, and changes in fund surplus.

11. Subsequent Events

The Group has evaluated subsequent events occurring after the balance sheet date through the date of October 9, 2012, which is the date the financial statements were available to be issued. Based on this evaluation, the Group has determined that no subsequent events have occurred which require disclosure in the financial statements.

Supplementary Information

**New Jersey School Boards Association Insurance Group
Schedule of Ten Year Claims Development Information
June 30, 2012**

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Premium revenue:										
Earned	\$ 53,815,389	\$ 69,939,786	\$ 78,657,690	\$ 86,670,269	\$ 95,871,596	\$ 96,114,604	\$ 98,033,808	\$ 102,995,630	\$ 104,185,604	\$ 105,000,904
Ceded	6,941,799	11,554,553	12,423,723	14,261,188	15,933,127	16,412,244	19,602,011	22,722,740	23,185,771	22,927,326
Net earned	46,873,590	58,385,233	66,233,967	72,409,081	79,938,469	79,702,360	78,431,797	80,272,890	80,999,833	82,073,578
Investment income	2,592,824	3,960,995	5,008,937	6,542,890	7,439,345	6,771,879	3,813,963	2,319,850	1,281,522	421,259
Other income	226,875	243,186	160,056	226,104	194,780	215,574	220,676	215,465	264,491	182,048
Administrative expenses	12,686,280	15,093,817	16,460,470	18,310,403	18,492,925	22,123,012	25,149,175	24,842,110	21,556,113	21,081,929
Reserve for unallocated adjustment expenses	22,697	47,108	64,754	55,222	99,137	110,858	163,686	229,508	313,451	439,290
Estimated incurred claims, end of policy year (or earliest year available)	34,896,888	41,484,749	47,135,001	55,228,609	60,896,351	68,482,431	57,714,541	64,483,752	63,426,393	66,985,183
Cumulative paid claims as of :										
End of policy year	8,767,549	9,058,429	10,129,916	10,974,609	12,236,351	14,415,491	12,536,541	16,681,752	14,264,133	14,408,893
One year later	14,446,724	16,553,074	17,935,800	19,566,609	20,311,351	24,524,664	21,305,541	27,122,752	23,734,133	
Two years later	17,811,569	22,880,000	23,519,800	25,748,609	24,950,352	29,354,664	26,355,541	32,627,752		
Three years later	22,198,000	28,249,000	28,034,000	30,425,609	29,340,352	33,200,664	31,330,541			
Four years later	25,284,000	31,462,000	31,731,800	35,229,609	32,450,352	37,438,664				
Five years later	26,672,000	33,427,000	33,677,800	38,132,609	34,351,352					
Six years later	27,731,000	35,573,000	34,921,800	39,933,609						
Seven years later	28,522,000	36,916,000								
Eight years later	29,105,000	38,442,000								
Nine years later	29,467,000									
Cumulative incurred claims as of:										
End of policy year	34,896,888	41,484,749	47,135,001	55,228,609	60,896,351	68,482,431	57,714,541	64,483,752	63,426,393	66,985,183
One year later	33,643,479	42,362,433	45,469,800	52,639,000	56,598,000	63,759,664	54,347,541	60,776,752	61,249,584	
Two years later	32,675,100	43,492,000	46,435,000	50,143,000	52,642,352	55,515,664	52,595,541	60,096,260		
Three years later	32,953,000	43,137,000	42,446,000	49,378,609	46,570,352	52,510,664	50,921,227			
Four years later	32,404,000	42,354,000	41,489,800	46,577,609	46,311,352					
Five years later	31,836,000	43,211,000	42,594,800	45,649,609	46,216,489					
Six years later	32,281,000	43,945,000	43,729,800	46,542,831						
Seven years later	32,479,000	43,673,000								
Eight years later	31,727,000	44,080,118								
Nine years later	32,183,697									
Increase (decrease) in cumulative incurred claims from end of policy year	\$ (2,713,191)	\$ 2,595,369	\$ (3,570,447)	\$ (8,685,778)	\$ (14,679,862)	\$ (17,775,909)	\$ (6,793,314)	\$ (4,387,492)	\$ (2,176,809)	\$ -

**New Jersey School Boards Association Insurance Group
Schedules of Changes in Claim Liabilities by Line of Coverage
June 30, 2012**

	2012							
	Total	Workers' Compensation	General Liability	Property	Automobile Liability	Automobile Physical Damage	Errors & Omissions	Other
Unpaid claim liabilities, beginning of year	\$ 173,946,000	\$ 133,407,000	\$ 27,589,000	\$ 1,823,000	\$ 7,782,000	\$ 31,000	\$ 3,314,000	\$ -
Incurring claims:								
Provision for insured events of current year	66,545,893	49,802,000	8,594,000	4,940,000	2,298,000	780,000	-	131,893
Increase (decrease) - net in provision for insured events of prior years	(5,750,000)	1,894,000	(5,857,000)	(604,000)	(1,167,000)	124,000	(140,000)	-
Increase (decrease) in incurred claims - net	60,795,893	51,696,000	2,737,000	4,336,000	1,131,000	904,000	(140,000)	131,893
Less claim payments - net:								
Payments - net on claims for insured events of current year	14,408,893	10,414,000	175,000	3,090,000	173,000	425,000	-	131,893
Payments - net on claims for insured events of prior years	31,187,000	22,541,000	4,041,000	1,022,000	1,650,000	134,000	1,799,000	-
Total payments - net	45,595,893	32,955,000	4,216,000	4,112,000	1,823,000	559,000	1,799,000	131,893
Unpaid claim liabilities, end of year	\$ 189,146,000	\$ 152,148,000	\$ 26,110,000	\$ 2,047,000	\$ 7,090,000	\$ 376,000	\$ 1,375,000	\$ -

New Jersey School Boards Association Insurance Group
Schedules of Changes in Claim Liabilities by Line of Coverage
June 30, 2011

	2011						
	Workers' Compensation	General Liability	Property	Automobile Liability	Automobile Physical Damage	Errors & Omissions	Other
Total							
Unpaid claim liabilities, beginning of year	\$ 115,797,000	\$ 29,997,000	\$ 2,670,000	\$ 7,438,000	\$ 21,000	\$ 9,077,000	\$ -
Inurred claims:							
Provision for insured events of current year	47,298,000	7,998,000	4,364,000	2,745,000	532,000	-	275,133
Increase (decrease) - net in provision for insured events of prior years	2,137,000	(6,054,000)	(1,874,000)	(1,168,000)	(50,000)	(3,301,000)	-
Increase (decrease) in incurred claims - net	49,435,000	1,944,000	2,490,000	1,577,000	482,000	(3,301,000)	275,133
Less claim payments - net:							
Payments - net on claims for insured events of current year	10,494,000	78,000	2,704,000	212,000	501,000	-	275,133
Payments - net on claims for insured events of prior years	21,331,000	4,274,000	633,000	1,021,000	(29,000)	2,462,000	-
Total payments - net	31,825,000	4,352,000	3,337,000	1,233,000	472,000	2,462,000	275,133
Unpaid claim liabilities, end of year	\$ 133,407,000	\$ 27,589,000	\$ 1,823,000	\$ 7,782,000	\$ 31,000	\$ 3,314,000	\$ -

**New Jersey School Boards Association Insurance Group
Recommendations
June 30, 2012**

Recommendations:

None