New Jersey School Boards Association Insurance Group

For the Fiscal Year Ended June 30, 2013
Burlington, New Jersey

NEW JERSEY SCHOOL BOARDS ASSOCIATION INSURANCE GROUP
TABLE OF CONTENTS
JUNE 30, 2013

NISIVOCCIA LLP
Certified Public Accountants & Advisors

Mount Arlington Corporate Center
200 Valley Road, Suite 300
Mt. Arlington, NJ 07856
973-328-1825 | 973-328-0507 Fax
Lawrence Business Center
11 Lawrence Road
Newton, NJ 07860
973-383-6699 | 973-383-6555 Fax

Independent Auditors' Report

The Honorable Chairperson and Members
of the Board of Trustees
New Jersey School Boards Association Insurance Group
Burlington, New Jersey

Report on the Financial Statements

We have audited the financial statements of the New Jersey School Boards Association Insurance Group (the "Group") as of and for the fiscal year ended June 30, 2013 and the related notes to the financial statements, which 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 an opinion on these financial statements based on our audit. 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 opinion.

The Honorable Chairperson and Members
of the Board of Trustees
New Jersey School Boards Association Insurance Group
Page 2

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 2013, and the changes in financial position and cash flows thereof for the fiscal year 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 October 15, 2013 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 Group's internal control over financial reporting and compliance.

October 15, 2013
Mount Arlington, New Jersey

NISIVOCCIA LLP

Valerie A Dolan

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

New Jersey School Boards Association 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 year ended June 30, 2013. Please read it in conjunction with the basic financial statements, the notes, and supplementary schedules 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 Group's assets, liabilities, and net position. Net position represents the amount of total assets less total liabilities.

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, 2013 and 2012

Summary Statement of Net Position

	2013	2012	Increase/ (Decrease) 2012/2013	2012/2013 Percent Change
Assets:				
Cash and Cash Equivalents and Investments	$ 254,809,366	$259,167,073	$ (4,357,707)	-1.68%
Other Assets	22,932,206	8,757,436	14,174,770	161.86%
Total Assets	277,741,572	267,924,509	9,817,063	3.66%
Liabilities:				
Loss Reserves	198,995,000	189,146,000	9,849,000	5.21%
Other Liabilities	13,357,250	14,635,125	(1,277,875)	-8.73%
Total Liabilities	212,352,250	203,781,125	8,571,125	4.21%
Net Position - Unrestricted	$ 65,389,322	$ 64,143,384	$ 1,245,938	1.94%

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

	2013	* 2012	Increase/ (Decrease) 2012/2013	2012/2013 Percent Change
Operating Revenue:				
Assessments and Other Income	$ 113,723,547	$ 107,637,184	$ 6,086,363	5.65%
Operating Expenses:				
Provision for Claims and Claim Adjustment Expense	58,565,055	60,795,893	(2,230,838)	-3.67%
Unallocated Adjustment Expenses	143,743	832,266	(688,523)	-82.73%
Reinsurance Premiums	26,172,619	23,526,358	2,646,261	11.25%
Agent Commissions	13,462,665	12,919,894	542,771	4.20%
Salaries and Fringe Benefits	7,043,173	6,750,179	292,994	4.34%
Professional and Contractual Services	2,560,426	2,352,767	207,659	8.83%
Safety Grant Expense	5,175,335		5,175,335	100.00%
Other	235,310	180,461	54,849	30.39%
Depreciation	365,221	466,508	(101,287)	-21.71%
Total Operating Expenses	113,723,547	107,824,326	5,899,221	5.47%
Operating Income/(Loss)		(187,142)	187,142	-100.00%
Investment Income	1,245,938	1,528,269	(282,331)	-18.47%
Change in Net Position	$ 1,245,938	$ 1,341,127	$ (95,189)	-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 an increase in assessment revenue and a decrease in claims expense related to several old cases closed out during the current year.

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 Director's Office, 450 Veterans Drive, Burlington, New Jersey 08016.

NEW JERSEY SCHOOL BOARDS ASSOCIATION INSURANCE GROUP
STATEMENT OF NET POSITION
JUNE 30, 2013

ASSETS:		
Cash and Cash Equivalents	$	70,981,806
Investments		183,827,560
Accrued Interest and Dividends		537,047
Assessment Receivable, Net		3,798,085
Reinsurance Receivable		17,083,241
Prepaid Expenses and Other Assets		1,285,916
Capital Assets (Net of Accumulated Depreciation of $1,262,170)		227,917
Total Assets		277,741,572
LIABILITIES:		
Loss Reserves		198,995,000
Reserves for Unallocated Adjustment Expense		1,737,423
Unearned Assessments		1,830,369
Accounts Payable and Accrued Expenses		3,945,597
Safety Grant Payable		5,843,861
Total Liabilities		212,352,250
NET POSITION:		
Unrestricted		65,389,322
Total Net Position	$	65,389,322

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

NEW JERSEY SCHOOL BOARDS ASSOCIATION INSURANCE GROUP
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
FISCAL YEAR ENDED JUNE 30, 2013

Operating Revenue:	
Assessments from Participating Members	$ 113,612,750
Claims Servicing Revenue	31,256
Other Income	79,541
Total Operating Revenue	113,723,547
Operating Expenses:	
Provision for Claims and Claim Adjustment Expense	58,565,055
Unallocated Adjustment Expenses	143,743
Reinsurance Premiums	26,172,619
Agent Commissions	13,462,665
Salaries and Fringe Benefits	7,043,173
Safety Grant Expense	5,175,335
Management Fees	675,000
Office Expenses	902,898
Consulting and Professional Fees	714,689
Travel and Meeting Expense	267,839
Other	235,310
Depreciation	365,221
Total Operating Expenses	113,723,547
Operating Income	-0-
Non-Operating Revenue:	
Investment Income	1,245,938
Total Non-Operating Revenue	1,245,938
Change in Net Position	1,245,938
Net Position - Beginning of Year	64,143,384
Net Position - End of Year	$ 65,389,322

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

NEW JERSEY SCHOOL BOARDS ASSOCIATION INSURANCE GROUP
STATEMENT OF CASH FLOWS
FISCAL YEAR ENDED JUNE 30, 2013

Cash Flows from Operating Activities:		
Assessments Received	$	112,918,063
Reinsurance Premiums Paid		(26,172,619)
Claims Paid		(48,716,055)
Operating Expenses Paid		(36,650,658)
Salaries and Fringe Benefits		(7,043,173)
Other Income Received		110,797
Net Cash Used for Operating Activities		(5,553,645)
Cash Flows from Investing Activities:		
Purchase of Investments		(118,423,583)
Maturity of Investments		136,749,279
Interest and Dividends on Investments		1,429,621
Net Cash Provided by Investing Activities		19,755,317
Net Increase in Cash and Cash Equivalents		14,201,672
Cash and Cash Equivalents - Beginning of Year		56,780,134
Cash and Cash Equivalents - End of Year	$	70,981,806
Reconcilation of Operating Income to Net Cash Used for Operating Activities:		
Operating Income	$	-0-
Adjustments to Reconcile Operating Income to Net Cash Used for Operating Activities:		
Depreciation		365,221
Changes in Assets and Liabilities:		
(Increase)/Decrease in Assets:		
Assessment Receivable		(256,995)
Reinsurance Receivable		(14,008,417)
Prepaid Expenses and Other Assets		(224,579)
Increase/(Decrease) in Liabilities:		
Accounts Payable		(2,182,998)
Safety Grant Payable		1,199,072
Reserve for Unpaid Claims and Allocated Adjustment Expense		9,849,000
Reserve for Unallocated Adjustment Expense		143,743
Unearned Assessments		(437,692)
Net Cash Used for Operating Activities	$	(5,553,645)

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

NEW JERSEY SCHOOL BOARDS ASSOCIATION INSURANCE GROUP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1: NATURE OF OPERATIONS

The New Jersey School Boards Association 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.

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:

Line of Coverage	Retention
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 occurance 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 SCHOOL BOARDS ASSOCIATION INSURANCE GROUP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013
(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 2012 and 2013 fund year), all of which are ceded 100% to reinsurance.

During the fiscal year ended June 30, 2013 there were 339 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 $31,256 during the fiscal year ended June 30, 2013.

Brokerage of policies is administered by Willis Corroon 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 SCHOOL BOARDS ASSOCIATION INSURANCE GROUP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013
(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, 2013, in the amount of $368,792. 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 SCHOOL BOARDS ASSOCIATION INSURANCE GROUP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013
(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 changed 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, 2013 subrogation income was $727,530.

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, 2013 for reinsurance recoveries was $26,530,816.

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, 2013. 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 SCHOOL BOARDS ASSOCIATION INSURANCE GROUP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013
(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, 2013 which have been estimated by the Group's Actuary, are as follows:

	2013
Case Reserves	$ 117,038,000
Losses Incurred but not Reported	81,957,000
Total Loss Reserves	$ 198,995,000

The following represents changes in the aggregate reserves for the Group for the Fiscal Year Ended June 30, 2013:

Unpaid Claims and Claim Adjustment Expenses, Beginning of Year	$ 189,146,000
Incurred Claims and Claim Adjustment Expenses:	
Provision for Insured Events of the Current Period	66,404,082
(Decrease)/Increase in Provision for Insured Events of Prior Years	(7,839,027)
Total Incurred Claims and Claim Adjustment Expenses	58,565,055
Payments:	
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Current Period	14,799,082
Claims and Claim Adjustment Expenses Attributable to Insured Events of Prior Years	33,916,973
Total Payments	48,716,055
Total Unpaid Claims and Claim Adjustment Expenses, End of Year	$ 198,995,000

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.

NEW JERSEY SCHOOL BOARDS ASSOCIATION INSURANCE GROUP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013
(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, 2013 cash and cash equivalents of the Group consisted of the following:

	2013
New Jersey Cash Management	$ 322,609
Petty Cash	260
TD Bank Concentration and Checking Accounts	70,346,601
TD Bank Money Market	310,644
Tri-State Capital Account	1,692
	$ 70,981,806

NEW JERSEY SCHOOL BOARDS ASSOCIATION INSURANCE GROUP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)

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

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 SCHOOL BOARDS ASSOCIATION INSURANCE GROUP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013
(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, 2013	Weighted Average Maturity in Months
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
	$ 183,827,558	51.54

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) and $-0- (as of June 30, 2012). In fiscal year 2013, the Trustees awarded safety grants in the amount of $5,175,335, paid $3,976,263 from the prior awarded safety grants, for which $5,843,861 recorded as a payable as of June 30, 2013.

NEW JERSEY SCHOOL BOARDS ASSOCIATION INSURANCE GROUP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)

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 $447,098, $444,520 and $403,940 for the fiscal years ended June 30, 2013, 2012 and 2011, respectively.

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 $192,936 for the year ended June 30, 2013.

At June 30, 2013, the minimum rental commitment for the aforementioned non-cancellable operating lease and the option period is as follows:

Year Ending June 30,		
2014	$	139,014
2015		139,014
2016		69,507
	$	347,535

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.

NEW JERSEY SCHOOL BOARDS ASSOCIATION INSURANCE GROUP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013
(Continued)

NOTE 9: 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 interest discount rate of 6%.

The present value of $751,642 has been recorded as a liability and $148,793 was expensed by the Group during the fiscal year ended June 30, 2013 and is included in accounts payable and accrued expenses on the accompanying balance sheet and salaries and fringe benefits on the accompanying statements of revenues, expenses and changes in net position respectively.

NOTE 10: CAPITAL ASSETS

Capital assets balances and activity for the fiscal year ended June 30, 2013 were as follows:

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

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.

NOTE 11: ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and Accrued Expenses for the fiscal year ended June 30, 2013 were as follows:

	2013
Accounts Payable - Vendors	$ 618,595
Rate Stabilization Reserves - SubFunds	2,575,360
Post Employement Retirement Benefits	751,642
	$ 3,945,597

NEW JERSEY SCHOOL BOARDS ASSOCIATION INSURANCE GROUP
RECONCILIATION OF CLAIMS LIABILITIES BY FUND
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012
(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 at Beginning of Year	$189,146,000	$152,148,000	$ 26,110,000	$ 2,047,000	$ 7,090,000	$ 376,000	$ 1,375,000	$ -0-
Incurred 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 at 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 SCHOOL BOARDS ASSOCIATION INSURANCE GROUP
SCHOOL BOARD GROUP INSURANCE POOL
RECONCILIATION OF CLAIMS LIABILITIES BY FUND
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012
(Unaudited)

	Fiscal Year Ended June 30, 2012							
	Total	Workers' Compensation	General Liability	Property	Automotive Liability	Automobile Physical Damage	Errors & Omissions	Other
Unpaid Claims and Claim Adjustment Expenses, Beginning of Year	$173,946,000	$133,407,000	$ 27,589,000	$ 1,823,000	$ 7,782,000	$ 31,000	$ 3,314,000	$ -0-
Incurred Claims and Claim Adjustment Expenses:								
Provision for Insured Events of the Current Period	66,545,893	49,802,000	8,594,000	4,940,000	2,298,000	780,000		131,893
Increase/(Decrease) 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)	
Total Incurred Claims and Claim Adjustment Expenses	60,795,893	51,696,000	2,737,000	4,336,000	1,131,000	904,000	(140,000)	131,893
Payments:								
Claims and Claim Adjustment Expenses Attributable to Insured Events of the Current Period	14,408,893	10,414,000	175,000	3,090,000	173,000	425,000		131,893
Claims and Claim Adjustment Expenses Attributable to 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	45,595,893	32,955,000	4,216,000	4,112,000	1,823,000	559,000	1,799,000	131,893
Total Unpaid Claims and Claim Adjustment Expenses, End of Year	$189,146,000	$152,148,000	$ 26,110,000	$ 2,047,000	$ 7,090,000	$ 376,000	$ 1,375,000	$ -0-

NEW JERSEY SCHOOL BOARDS ASSOCIATION INSURANCE GROUP
TEN-YEAR CLAIMS DEVELOPMENT INFORMATION
(Unaudited)

	Fiscal Period Ended June 30, 2013 and Policy Period Ended June 30,									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Required contribution and investment revenue:										
Earned	$ 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	$ 113,723,547
Ceded	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	26,172,619
Net Earned	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	87,550,928
Unallocated expenses	19,345,106	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
Estimated claims and expenses, end of policy year										
Incurred	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	83,054,107
Ceded										16,650,025
Net Incurred	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	66,404,082
Net paid (cumulative) as of:										
End of policy year	9,058,429	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
One year later	16,553,074	17,935,800	19,566,609	20,311,351	24,524,664	21,305,541	27,122,752	23,734,133	24,453,866	
Two years later	22,880,000	23,519,800	25,748,609	24,950,352	29,354,664	26,355,541	32,627,752	28,725,133		
Three years later	28,249,000	28,034,000	30,425,609	29,340,352	33,200,664	31,330,541	39,113,752			
Four years later	31,462,000	31,731,800	35,229,609	32,450,352	37,438,664	35,869,541				
Five years later	33,427,000	33,677,800	38,132,609	34,351,352	39,702,664					
Six years later	35,573,000	34,921,800	39,933,609	35,643,352						
Seven years later	36,916,000	35,814,800	41,277,609							
Eight years later	38,442,000	37,227,800								
Nine years later	39,210,000									
Reestimated ceded claims and expenses										16,650,025
Reestimated net incurred claims and expenses:										
End of policy year	41,484,749	47,135,001	55,228,609	60,896,351	68,482,431	57,714,541	64,483,752	63,426,393	66,545,893	66,404,082
One year later	42,362,433	45,469,800	52,639,000	56,598,000	63,759,664	54,347,541	60,776,752	61,249,584	63,401,866	
Two years later	43,492,000	46,435,000	50,143,000	52,642,352	55,515,664	52,595,541	60,096,260	59,683,584		
Three years later	43,137,000	42,446,000	49,378,609	46,570,352	52,510,664	50,921,227	62,300,260			
Four years later	42,354,000	41,489,800	46,577,609	46,311,352	50,706,522	48,688,227				
Five years later	43,211,000	42,594,800	45,649,609	46,216,489	49,870,522					
Six years later	43,945,000	43,729,800	46,542,831	45,019,489						
Seven years later	43,673,000	43,564,554	46,993,831							
Eight years later	44,080,118	44,310,554								
Nine years later	43,784,118									
Increase/(decrease) in estimated net incurred claims and expense from end of policy year	$ 2,299,369	$ (2,824,447)	$ (8,234,778)	$ (15,876,862)	$ (18,611,909)	$ (9,026,314)	$ (2,183,492)	$ (3,742,809)	$ (3,583,317)	$ -0-

NISIVOCCIA LLP
Certified Public Accountants & Advisors

Mount Arlington Corporate Center
200 Valley Road, Suite 300
Mt. Arlington, NJ 07856
973-328-1825 | 973-328-0507 Fax

Lawrence Business Center
11 Lawrence Road
Newton, NJ 07860
973-383-6699 | 973-383-6555 Fax

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

Board of Trustees
New Jersey School Boards Association 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 School Boards Association Insurance Group (the "Group") as of and for the fiscal year ended June 30, 2013 and the related notes to the financial statements, which collectively comprise the Group's basic financial statements, and have issued our report thereon dated October 15, 2013.

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.

October 15, 2013
Mount Arlington, New Jersey

NISIVOCCIA LLP

Valerie A. Dolan

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