New Jersey Schools Insurance Group
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**Board of Trustees Meeting of October 24, 2017**
**Action Item**
**NJSIG Financial Audit as of June 30, 2017**

Representatives from Nisivoccia will be presenting NJSIG's 06/30/2017 draft financial audit report at this meeting. Please find the attached draft audit report for your review and approval. After board resolution, the final audit report will be posted on NJSIG's website and submitted to NJ Department of Banking and Insurance (DOBI).

**Recommended Resolution:** to approve the financial statements and audit report as presented by Nisivoccia for the 2016/2017 fund year.

*Michele Carosi*

Michele Carosi, Comptroller

NEW JERSEY SCHOOLS INSURANCE GROUP
AUDITORS' MANAGEMENT REPORT ON
ADMINISTRATIVE FINDINGS - FINANCIAL,
COMPLIANCE AND PERFORMANCE
FISCAL YEAR ENDED JUNE 30, 2017

NISIVOCCIA LLP
Certified Public Accountants & Advisors

Mount Arlington Corporate Center
200 Valley Road, Suite 300
Mt. Arlington, NJ 07856
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11 Lawrence Road
Newton, NJ 07860
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September 23, 2017

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, and *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the New Jersey Schools Insurance Group (the "Group") for the fiscal year ended June 30, 2017, and have issued our report thereon dated September 23, 2017.

As part of our audit, we performed procedures required by the New Jersey Department of Community Affairs, Division of Local Government Services, and the findings and results thereof are disclosed on the following pages. This letter does not affect our report dated September 23, 2017 on the financial statements of the Group.

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

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

NISIVOCCIA LLP

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

NEW JERSEY SCHOOLS INSURANCE GROUP
COMMENTS AND RECOMMENDATIONS

Management Suggestions

Economic Conditions and their Effect on Operations

The prolonged period of low interest rates we are experiencing has negatively affected the Group's investment yield and as a result Net Position. Investment income has declined from a high of more than $7,400,000 in 2008 to approximately $1,332,620 in 2017.

Governmental Accounting Standards Board Statements

The next Governmental Accounting Standards Board ("GASB") statement which will have a significant impact on the Group will be GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which will be effective for the fiscal year ending June 30, 2018. This standard replaces GASB No. 45, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. It is similar to GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* in that successful implementation of this standard will require the provision of certain key financial and non-financial information from the New Jersey Division of Pensions.

Investments

As of June 30, 2017 the Group did not hold any investments. We would suggest that the Group review investment's available to the Group to maximize their investment income in accordance with the cash management policy.

Status of Prior Year Comments and Recommendations

There were no recommendations in the prior year.

New Jersey Schools Insurance Group

For the Fiscal Year Ended June 30, 2017

Mount Laurel, New Jersey

NEW JERSEY SCHOOLS INSURANCE GROUP
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Independent Auditors' Report

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of the New Jersey Schools Insurance Group (the "Group") as of and for the fiscal years ended June 30, 2017 and June 30, 2016, and the related notes to the financial statements, which collectively comprise the Group's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

***Opinions***

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 2017 and June 30, 2016, and the changes in financial position and cash flows thereof for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Group's Proportionate Share of the Net Pension Liability and Schedule of Group Contributions and the related notes; and the accompanying Reconciliation of Claims Liabilities by Fund and Ten-Year Claims Development Information Schedules be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2017 on our consideration of the Group's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Group's internal control over financial reporting and compliance.

Mount Arlington, New Jersey
September 23, 2017

NISIVOCCIA LLP

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

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

This section of the annual financial report of the Group presents a discussion and analysis of the financial performance of the Group for the fiscal years ended June 30, 2017 and 2016. Please read it in conjunction with the basic financial statements, the notes, and the 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, deferred outflows and inflows of resources, and net position. Net position represents the amount of total assets and deferred outflows of resources less total liabilities and deferred inflows of resources.

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

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

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

## 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, 2017, 2016 and 2015.

### Summary Statement of Net Position

| | 2017 | 2016 | 2016/2017 Percent Change | 2015 | 2015/2016 Percent Change |
|---|---|---|---|---|---|
| Assets: | | | | | |
| Cash and Cash Equivalents and Investments | $ 325,631,556 | $ 305,785,525 | 6.49% | $ 287,673,393 | 6.30% |
| Other Assets | 2,367,096 | 4,437,325 | -46.65% | 6,646,713 | -33.24% |
| Capital Assets | 774,210 | 791,566 | -2.19% | 305,983 | 158.70% |
| Total Assets | 328,772,862 | 311,014,416 | 5.71% | 294,626,089 | 5.56% |
| Deferred Outflow of Resources | 7,185,341 | 3,430,390 | 109.46% | 946,598 | 262.39% |
| Liabilities: | | | | | |
| Loss Reserves | 218,935,000 | 218,760,994 | 0.08% | 214,919,588 | 1.79% |
| Other Liabilities | 17,525,621 | 11,339,772 | 54.55% | 10,424,806 | 8.78% |
| Total Current Liabilities | 236,460,621 | 230,100,766 | 2.76% | 225,344,394 | 2.11% |
| Long-Term Liabilities: | | | | | |
| Net Pension Liability | 20,713,990 | 15,866,572 | 30.55% | 12,186,706 | 30.20% |
| Total Long-Term Liabilities | 20,713,990 | 15,866,572 | 30.55% | 12,186,706 | 30.20% |
| Total Liabilities | 257,174,611 | 245,967,338 | | 237,531,100 | 3.55% |
| Deferred Inflow of Resources | 120,962 | 255,104 | -52.58% | 726,261 | -64.87% |
| Net Position: | | | | | |
| Invested in Capital Assets | 774,210 | 791,566 | -2.19% | 305,983 | 158.70% |
| Unrestricted | 77,888,420 | 67,430,798 | 15.51% | 57,009,343 | 18.28% |
| Net Position - Unrestricted | $ 78,662,630 | $ 68,222,364 | 15.30% | $ 57,315,326 | 19.03% |

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

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

| | 2017 | 2016 | 2016/2017 Percent Change | 2015 | 2015/2016 Percent Change |
|---|---|---|---|---|---|
| Operating Revenue: | | | | | |
| Assessments and Other Income | $ 130,479,173 | $ 124,023,823 | 5.20% | $ 123,173,076 | 0.69% |
| Operating Expenses: | | | | | |
| Provision for Claims and Claim Adjustment Expense | 52,283,259 | 51,920,304 | 0.70% | 63,367,392 | -18.06% |
| Reinsurance Premiums | 32,280,231 | 32,261,555 | 0.06% | 29,099,924 | 10.86% |
| Salaries & Fringe Benefits | 9,995,917 | 8,784,418 | 13.79% | 8,267,768 | 6.25% |
| Agent Commissions | 14,826,534 | 14,673,464 | 1.04% | 15,133,038 | -3.04% |
| Safety Grant Expense | 8,500,000 | 3,000,000 | 183.33% | 2,200,000 | 36.36% |
| Professional & Contractual Services | 2,725,595 | 2,488,127 | 9.54% | 2,436,250 | 2.13% |
| Other | 390,952 | 367,577 | 6.36% | 312,127 | 17.77% |
| Depreciation | 369,039 | 469,736 | -21.44% | 369,371 | 27.17% |
| Total Operating Expenses | 121,371,527 | 113,965,181 | 6.50% | 121,185,870 | -5.96% |
| Operating Income/(Loss) | 9,107,646 | 10,058,642 | -9.45% | 1,987,206 | 406.17% |
| Investment Income | 1,332,620 | 848,396 | 57.08% | 931,484 | -8.92% |
| Change in Net Position | $ 10,440,266 | $ 10,907,038 | -4.28% | $ 2,918,690 | 273.70% |



Net Position increased primarily as a result of increases in assessment income and interest income that was greater than the amount of increases in operating expenses.

**Economic Conditions**

The Group continues to be subject to inflationary trends in 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.

## Capital Assets

More detailed information about the District's capital assets are presented in Note 10 to the financial statements.

### Capital Assets (Net of Depreciation)

| | Business-Type Activities 2017 | Business-Type Activities 2016 | Percent Change 2016-2017 |
|---|---|---|---|
| Furniture and Equipment | $ 774,210 | $ 791,566 | -2.19% |
| Total | $ 774,210 | $ 791,566 | -2.19% |

- The Group's capital assets decreased $17,335, or 2.19%. Which is a result of the acquisition of assets of $351,683 net of the annual depreciation of $369,039.

## Long Term Liabilities

More detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements.

| | 2017 | 2016 | Change 2016-2017 |
|---|---|---|---|
| Net Pension Liability | $ 20,713,990 | $ 15,866,572 | 30.55% |

- The liability for the net pension liability increased $4,847,418 which was primarily a result of GASB 68 reporting requirements.

## Contacting the Group's Financial Management

This financial report is designed to provide the Group's members, oversight entities and creditors with a general overview of the Group's finances and to demonstrate the Group's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Executive Director's Office, 6000 Midlantic Drive, Mount Laurel, New Jersey 08054.

BASIC FINANCIAL STATEMENTS

## NEW JERSEY SCHOOLS INSURANCE GROUP
## STATEMENT OF NET POSITION

| | June 30, 2017 | June 30, 2016 |
|---|---|---|
| ASSETS: | | |
| Current Assets: | | |
| Cash and Cash Equivalents | $ 325,631,556 | $ 265,785,525 |
| Investments | | 40,000,000 |
| Accrued Interest and Dividends | | 477,322 |
| Assessment Receivable, Net | 1,467,213 | 2,647,679 |
| Reinsurance Receivable | 499,271 | |
| Prepaid Expenses and Other Assets | 400,612 | 1,312,324 |
| Total Current Assets | 327,998,652 | 310,222,850 |
| Long-Term Assets: | | |
| Capital Assets (Net of Accumulated Depreciation of $548,391 and $555,569 for 2017 and 2016, respectively) | 774,210 | 791,566 |
| Total Long-Term Assets | 774,210 | 791,566 |
| Total Assets | 328,772,862 | 311,014,416 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Changes in Assumptions - Pensions | 4,290,832 | 1,703,943 |
| Difference in Expected and Actual Experience - Pension | 385,217 | 378,521 |
| Changes in Proportions - Pensions | 1,056,205 | 1,347,926 |
| Net Difference Between Projected and Actual Investment Earnings - Pensions | 789,843 | |
| Contributions Subsequent to Measurement Date | 663,244 | |
| Total Deferred Outflows of Resources | 7,185,341 | 3,430,390 |
| LIABILITIES: | | |
| Curent Liabilities: | | |
| Loss Reserves | 218,935,000 | 218,760,994 |
| Unearned Assessments | 418,661 | 1,606,448 |
| Reinsurance Payable | | 35,689 |
| Accounts Payable and Accrued Expenses | 5,186,120 | 3,900,341 |
| Safety Grant Payable | 11,920,840 | 5,797,294 |
| Total Current Liabilities | 236,460,621 | 230,100,766 |
| Long-Term Liabilities: | | |
| Net Pension Liability | 20,713,990 | 15,866,572 |
| Total Long-Term Liabilities | 20,713,990 | 15,866,572 |
| Total Liabilities | 257,174,611 | 245,967,338 |

NEW JERSEY SCHOOLS INSURANCE GROUP

STATEMENT OF NET POSITION

| | June 30, 2017 | June 30, 2016 |
|---|---|---|
| **DEFERRED INFLOWS OF RESOURCES** | | |
| Net Difference Between Projected and Actual Investment Earnings - Pensions | | $ 255,104 |
| Changes in Proportion - Pensions | $ 120,962 | |
| Total Deferred Inflows of Resources | 120,962 | 255,104 |
| **NET POSITION:** | | |
| Investment in Capital Assets | 774,210 | 791,566 |
| Unrestricted | 77,888,420 | 67,430,798 |
| Total Net Position | $ 78,662,630 | $ 68,222,364 |



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

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

| | For the Fiscal Year Ended June 30, 2017 | For the Fiscal Year Ended June 30, 2016 |
|---|---|---|
| Operating Revenue: | | |
| Assessments from Participating Members | $ 129,697,236 | $ 123,998,389 |
| Claims Servicing Revenue | 17,749 | 13,945 |
| Other Income | 764,188 | 11,489 |
| Total Operating Revenue | 130,479,173 | 124,023,823 |
| Operating Expenses: | | |
| Provision for Claims and Claim Adjustment Expense | 52,283,259 | 51,920,304 |
| Reinsurance Premiums | 32,280,231 | 32,261,555 |
| Salaries and Fringe Benefits | 9,995,917 | 8,784,418 |
| Agent Commissions | 14,826,534 | 14,673,464 |
| Safety Grant Expense | 8,500,000 | 3,000,000 |
| Management Fees | 675,000 | 675,000 |
| Office Expenses | 1,274,609 | 1,023,520 |
| Consulting and Professional Fees | 654,918 | 616,145 |
| Travel and Meeting Expense | 121,068 | 173,462 |
| Other | 390,952 | 367,577 |
| Depreciation | 369,039 | 469,736 |
| Total Operating Expenses | 121,371,527 | 113,965,181 |
| Operating Income | 9,107,646 | 10,058,642 |
| Non-Operating Revenue: | | |
| Investment Income | 1,332,620 | 848,396 |
| Total Non-Operating Revenue | 1,332,620 | 848,396 |
| Change in Net Position | 10,440,266 | 10,907,038 |
| Net Position - Beginning of Year | 68,222,364 | 57,315,326 |
| Net Position - End of Year | $ 78,662,630 | $ 68,222,364 |



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

NEW JERSEY SCHOOLS INSURANCE GROUP
STATEMENT OF CASH FLOWS

| | For the Fiscal Year Ended June 30, | |
|---|---|---|
| | 2017 | 2016 |
| Cash Flows from Operating Activities: | | |
| Assessments Received | $ 129,689,915 | $ 123,771,337 |
| Reinsurance Premiums Paid | (32,280,231) | (32,261,555) |
| Claims Paid | (52,109,253) | (48,078,898) |
| Operating Expenses Paid | (18,657,004) | (17,806,169) |
| Salaries and Fringe Benefits | (9,037,592) | (8,059,501) |
| Other Income Received | 781,937 | 25,434 |
| Net Cash Provided by/(Used) for Operating Activities | 18,387,772 | 17,590,648 |
| Cash Flows from Investing Activities: | | |
| Proceeds from the Sales and Maturities of Investment Securities | 39,648,317 | 141,969,058 |
| Interest and Dividends on Investments | 1,809,942 | 1,476,803 |
| Net Cash Provided by/(Used) for Investing Activities | 41,458,259 | 143,445,861 |
| Net Increase in Cash and Cash Equivalents | 59,846,031 | 161,036,509 |
| Cash and Cash Equivalents - Beginning of Year | 265,785,525 | 104,749,016 |
| Cash and Cash Equivalents - End of Year | $ 325,631,556 | $ 265,785,525 |
| Reconcilation of Operating Income to Net Cash Provided by/(Used) for Operating Activities: | | |
| Operating Income | $ 9,107,646 | $ 10,058,642 |
| Adjustments to Reconcile Operating Income to Net Cash Provided by/(Used) for Operating Activities: | | |
| Depreciation | 369,039 | 469,736 |
| Changes in Assets and Liabilities: | | |
| (Increase)/Decrease in Assets: | | |
| Assessment Receivable | 1,180,466 | (278,030) |
| Reinsurance Receivable | (499,271) | 2,059,120 |
| Prepaid Expenses and Other Assets | 911,712 | (200,109) |
| Change in Assumptions - Pensions | (2,586,889) | (1,320,728) |
| Difference in Expected and Actual Experience - Pension | (6,696) | (378,521) |
| Changes in Proportions - Pensions | 291,721 | |
| Net Difference Between Projected and Actual Investment Earnings - Pension | (789,843) | |
| Changes in Proportion- Pensions | (663,244) | (784,543) |

NEW JERSEY SCHOOLS INSURANCE GROUP

STATEMENT OF CASH FLOWS

| | For the Fiscal Year Ended June 30, 2017 | 2016 |
|---|---|---|
| Adjustments to Reconcile Operating Income to Net Cash | | |
| Provided by/(Used) for Operating Activities: | | |
| Changes in Assets and Liabilities: | | |
| Increase/(Decrease) in Liabilities: | | |
| Accounts Payable and Accrued Expenses | $ 1,285,779 | $ (166,633) |
| Safety Grant Payable | 6,123,546 | 994,932 |
| Reinsurance Payable | (35,689) | 35,689 |
| Change in Loss Reserves | 174,006 | 3,841,406 |
| Unearned Assessments | (1,187,787) | 50,978 |
| Net Pension Liability | 4,847,418 | 3,679,866 |
| Changes in Proportion - Pensions | 120,962 | |
| Net Difference Between Projected and Actual Investment Earnings - Pension | (255,104) | (471,157) |
| Net Cash Provided by/(Used) for Operating Activities | $ 18,387,772 | $ 17,590,648 |



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

NOTE 1: NATURE OF OPERATIONS

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

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

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

| **Line of Coverage** | **Retention** |
|---|---|
| Workers' compensation | \$1,000,000 per occurrence for fund years 2004 to 2017, \$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 2017, \$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 2017, \$150,000 per occurrence for fund years 1989 to 2001, and \$250,000 per occurrence for periods prior to fund year 1989. |
| 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. For fund years 2003 to 2008 there was an additional one time, inner aggregate retention of \$500,000 excess of the \$500,000 retention for general and automobile liability.

NOTE 1: NATURE OF OPERATIONS (Cont'd)

The Group also writes policies covering umbrella liability, equipment breakdown, cyber liability, supplemental indemnity, environmental, and crisis management. All of which are ceded 100% to reinsurance. The errors and omissions prior to 2004, and 2008 to 2017, was ceded 100% to reinsurance. During 2004 to 2008, the Group had a $1,000,000 retention.

During the fiscal year ended June 30, 2017 there were 413 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 provides claims processing services 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 $17,749 and $13,945 during the fiscal years ended June 30, 2017 and 2016, respectively.

Brokerage of policies is administered by Willis Re Pooling 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 ("GASB") Codification Section 2100, "Defining the Financial Reporting Entity" establishes standards to determine whether a governmental component unit should be included in the financial reporting entity. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In addition, component units can be other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading. The primary government is financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. A legally separate, tax-exempt organization should be reported as a component unit of a reporting entity if all of the following criteria are met: (1) The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents. (2) The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization. (3). The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government. 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.

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

The Group generally records investments at fair value and records the unrealized gains and losses as part of investment income. Fair value is the price that would be received to sell an investment in an orderly transaction between market participants at the measurement date. The Group categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Income Taxes

The Group is 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, 2017 and 2016, in the amount of $368,792 and $369,314 respectively. 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.

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, 2017 and 2016 subrogation was $1,110,218 and $1,237,058, respectively.

Reinsurance

The Group uses reinsurance agreements to reduce its exposure to large losses on certain types of insured events. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Group as direct insurer of the risks reinsured. The Group does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers. The amounts deducted against claims expense as of June 30, 2017 and 2016 for reinsurance recoveries was $11,227,704 and $19,123,139, respectively.

Management Estimates

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

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the State of New Jersey Public Employees' Retirement System (PERS) and additions to/deductions from the PERS's net position have been determined on the same basis as they are reported by the PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Pension Plan investments are reported at fair value.

## 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, 2017. 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.

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, 2017 and 2016 which have been estimated by the Group's Actuary and the Internal Claims Department, are as follows:

| | 2017 | 2016 |
|---|---|---|
| Case Reserves | $ 120,678,000 | $ 122,981,000 |
| Losses Incurred but not Reported | 98,257,000 | 95,779,994 |
| Total Loss Reserves | $ 218,935,000 | $ 218,760,994 |

The following represents changes in the aggregate reserves for the Group

| | 2017 | 2016 |
|---|---|---|
| Unpaid Claims and Claim Adjustment Expenses, Beginning of Year | $ 218,760,994 | $ 214,919,588 |
| Incurred Claims and Claim Adjustment Expenses: | | |
| Provision for Insured Events of the Current Period | 72,028,100 | 66,247,665 |
| (Decrease)/Increase in Provision for Insured Events of Prior Years | (19,744,841) | (14,327,361) |
| Total Incurred Claims and Claim Adjustment Expenses | 52,283,259 | 51,920,304 |
| Payments: | | |
| Claims and Claim Adjustment Expenses Attributable to Insured Events of the Current Period | 14,798,100 | 13,283,259 |
| Claims and Claim Adjustment Expenses Attributable to Insuranced Events of Prior Years | 37,311,153 | 34,795,639 |
| Total Payments | 52,109,253 | 48,078,898 |
| Total Unpaid Claims and Claim Adjustment Expenses, End of Year | $ 218,935,000 | $ 218,760,994 |

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

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

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

## 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 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.

Custodial Credit Risk – The Group's policy with respect to custodial credit risk requires that the Group ensures that Group's cash and cash equivalents are only deposited in financial institutions in which New Jersey insurance funds are permitted to invest their cash and cash equivalents.

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.

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

As of June 30, 2017 and 2016 cash and cash equivalents of the Group consisted of the following:

| | 2017 | 2016 |
|---|---|---|
| New Jersey Cash Management Fund | $ 325,578 | $ 323,785 |
| Petty Cash | 183 | 300 |
| Concentration and Checking Accounts | 325,305,795 | 265,461,440 |
| | $ 325,631,556 | $ 265,785,525 |

The carrying amount of the Group's cash and cash equivalents at June 30, 2017 was $325,631,556 and the bank balance was $327,892,450. The New Jersey Cash Management funds are unregistered and uninsured.

The carrying amount of the Group's cash and cash equivalents at June 30, 2016 was $265,785,525 and the bank balance was $268,575,733, 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 Local Government Services in the Department of Community Affairs for investment by local units;

(6) Local government investment pools;

(7) Deposits with the State of New Jersey Cash Management Fund established pursuant to section 1 of P.L. 1977, c.281 (C.52:18A-90.4); 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;

NOTE 5: INVESTMENTS (Cont'd)

(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 section 1 of P.L. 1970, c.236 (C.17:9-41); 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.

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. The Group did not hold any Investments as of June 30,2017 and the Investments as of June 30, 2016 consisted of the following

| | Balance June 30, 2016 | |
|---|---|---|
| Certificates of Deposit - TD Wealth Management | $ 20,000,000 | 24.00 |
| Certificates of Deposit - TD Wealth Management | 20,000,000 | 24.00 |
| | $ 40,000,000 | 24.00 |

The Group does not currently hold any investments as of June 30, 2017.

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.

NOTE 6: SAFETY GRANT (Cont'd)

Based on the criteria of the grant and the review of each members' application, grants were awarded for $3,000,000 (as of June 30, 2009), $5,000,000 (as of June 30, 2010), $4,000,000 (as of June 30, 2011), $-0- (as of June 30, 2012), $5,175,335 (as of June 30, 2013) $1,700,000 (as of June 30, 2014) $2,200,000 (as of June 30, 2015) $3,000,000 (as of June 30, 2016).

In fiscal year 2017, the Trustees awarded safety grants in the amount of $8,500,000, paid $2,376,453 from the prior awarded safety grants, for which $11,920,840, is recorded as a payable as of June 30, 2017.

The safety grants awarded as of June 30, 2017 will be distributed as follows: $4,00,0000 **distributed after 07/01/2018 to NJSIG 2016/2017 members of record as of 7/01/2018;** $1,500,000 **distributed after 07/01/2019 to NJSIG 2017/2018 members of record as of 07/01/2019;** $1,500,000 **distributed after 07/01/2020 to NJSIG 2018/2019 members of record as of 07/01/2020; and** $1,500,000 **distributed after 07/01/2021 to NJSIG 2019/2020 members of record as of 07/01/2021.**

NOTE 7: LONG-TERM LIABILITIES

During the Fiscal year ended June 30, 2017 the following changes occurred in liabilities reported in the financials.

| | Balance 6/30/2016 | Accrued | Retired | Balance 6/30/2017 |
|---|---|---|---|---|
| Net Pension Liability | $ 15,866,572 | $ 4,847,418 | $ -0- | $ 20,713,990 |

Net Pension Liability:

The Public Employees' Retirement System's (PERS) net pension liability of the governmental fund types is recorded in the current and long-term liabilities and will be liquidated by the General Fund. The current portion of the net pension liability at June 30, 2017 is $-0- and the long-term portion is $20,713,990. See Note 8 for further information on the PERS.

NOTE 8: PENSION PLANS (Cont'd)

The Group's employees participate in a contributory, defined benefit public employee retirement system, Public Employee's Retirement System (PERS) of New Jersey.

A. Public Employees' Retirement System (PERS)

Plan Description

The State of New Jersey, Public Employees' Retirement System (PERS) is a cost-sharing multiple-employer defined benefit pension plan administered by the State of New Jersey, Division of Pensions and Benefits (the Division). For additional information about the PERS, please refer to the Division's Comprehensive Annual Financial Report (CAFR) which can be found at www.state.nj.us/treasury/pensions/annrprts.shtml.

Benefits Provided

The vesting and benefit provisions are set by N.J.S.A. 43:15A. PERS provides retirement, death and disability benefits. All benefits vest after ten years of service. The following represents the membership tiers for PERS:

| Tier | Definition |
|---|---|
| 1 | Members who were enrolled prior to July 1, 2007 |
| 2 | Members who were eligible to enroll on or after July 1, 2007 and prior to November 2, 2008 |
| 3 | Members who were eligible to enroll on or after November 2, 2008 and prior to May 22, 2010 |
| 4 | Members who were eligible to enroll on or after May 22, 2010 and prior to June 28. 2011 |
| 5 | Members who were eligible to enroll on or after June 28, 2011 |

Service retirement benefits of $1/55^{th}$ of final average salary for each year of service credit is available to Tiers 1 and 2 members upon reaching age 60 and to Tier 3 members upon reaching age 62. Service retirement benefits of $1/60^{th}$ of final average salary for each year of service credit is available to Tier 4 members upon reaching age 62 and to Tier 5 members upon reaching age 65. Early retirement benefits are available to Tiers 1 and 2 members before reaching age 60, to Tiers 3 and 4 with 25 or more years of service credit before age 62 and Tier 5 with 30 or more years of service credit before age 65. Benefits are reduced by a fraction of a percent for each month that a member retires prior to the age at which a member can receive full early retirement benefits in accordance with their respective tier. Tier 1 members can receive an unreduced benefit from age 55 to age 60 if they have at least 25 years of service. Deferred retirement is available to members who have at least 10 years of service credit and have not reached the service retirement age for the respective tier.

NOTE 8: PENSION PLANS (Cont'd)

A. Public Employees' Retirement System (PERS) (Cont'd)

Contributions

The contribution policy for PERS is set by N.J.S.A. 43:15A and requires contributions by active members and contributing members. The local employers' contribution amounts are based on an actuarially determined rate which includes the normal cost and unfunded accrued liability. Chapter 19, P.L. 2009 provided an option for local employers of PERS to contribute 50% of the normal and accrued liability contribution amounts certified for payments due in State fiscal year 2009. Such employers will be credited with the full payment and any such amounts will not be included in their unfunded liability. The actuaries will determine the unfunded liability of those retirement systems, by employer, for the reduced normal and accrued liability contributions provided under this law. This unfunded liability will be paid by the employer in level annual payments over a period of 15 years beginning with the payments due in the fiscal year ended June 30, 2012 and will be adjusted by the rate of return on the actuarial value of assets. The Group's contributions to PERS amounted to $643,434 for fiscal year 2017.

The employee contribution rate was 7.20% effective July 1, 2016. Subsequent increases after October 1, 2011 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.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the Group reported a liability of $20,713,990 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015 which was rolled forward to June 30, 2016. The Group's proportion of the net pension liability was based on a projection of the Group's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined. At June 30, 2016, the Group's proportion was 0.069%, which was an decrease of 0.001% from its proportion measured as of June 30, 2015.

For the fiscal year ended June 30, 2017, the Group recognized pension expense of $2,242,860. At June 30, 2017, the Group reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

NOTE 8: PENSION PLANS (Cont'd)

A. Public Employees' Retirement System (PERS) (Cont'd)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Cont'd)

| | Year of Deferral | Amortization Period in Years | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|---|---|
| Changes in Assumptions | 2014 | 6.44 | $ 260,379 | |
| | 2015 | 5.72 | 1,063,966 | |
| | 2016 | 5.57 | 2,966,487 | |
| | | | 4,290,832 | |
| Difference Between Expected and Actual Experience | 2015 | 5.72 | 295,192 | |
| | 2016 | 5.57 | 90,025 | |
| | | | 385,217 | |
| Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments | 2014 | 5.00 | (390,181) | |
| | 2015 | 5.00 | 249,635 | |
| | 2016 | 5.00 | 930,389 | |
| | | | 789,843 | |
| Changes in Proportion | 2014 | 6.44 | 356,257 | |
| | 2015 | 5.72 | 699,948 | |
| | 2016 | 5.57 | | $ 120,962 |
| | | | 1,056,205 | 120,962 |
| District Contribution Subsequent to the Measurement Date | 2016 | 1.00 | 663,244 | |
| | | | $ 7,185,341 | $ 120,962 |

Amounts reported as deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts including changes in proportion) related to pensions will be recognized in pension expense as follows:

NOTE 8. PENSION PLANS (Cont'd)

A. Public Employees' Retirement System (PERS) (Cont'd)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Cont'd)

| Fiscal Year Ending June 30, | Total |
|---|---|
| 2017 | $ 1,230,595 |
| 2018 | 1,230,596 |
| 2019 | 1,425,687 |
| 2020 | 1,197,786 |
| 2021 | 381,228 |
| | $ 5,465,892 |

Actuarial Assumptions

The total pension liability for the June 30, 2016 measurement date was determined by an actuarial valuation as of July 1, 2015 which was rolled forward to June 30, 2016. This actuarial valuation used the following actuarial assumptions:

| | |
|---|---|
| Inflation Rate | 3.08% |
| Salary Increases: | |
| Through 2026 | 1.65 – 4.15% based on age |
| Thereafter | 2.65 – 5.15% based on age |
| Investment Rate of Return | 7.65% |

Pre-retirement mortality rates were based on the RP-2000 Employee Pre-retirement Mortality Table for male and female active participants. For local employees, mortality tables are set back 2 years for males and 7 years for females. In addition, the tables provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Post-retirement mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (set back 1 year for males and females) for service retirements and beneficiaries of former members and a one-year static projection based on mortality improvement Scale AA. In addition, the tables for service retirements and beneficiaries of former members provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Disability retirement rates used to value disabled retirees were based on the RP-2000 Disabled Mortality Table (set back 3 years for males and set forward one year for females).

NOTE 8. PENSION PLANS (Cont'd)

A. Public Employees' Retirement System (PERS) (Cont'd)

Actuarial Assumptions (Cont'd)

The actuarial assumptions used in the July 1, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2011 to June 30, 2014. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates, the larger the impact on future financial statements.

Long Term Expected Rate of Return

In accordance with State statute, the long-term expected rate of return on pension plan investments (7.65% at June 30, 2016) is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the Board of Trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in PERS' target asset allocation as of June 30, 2016 are summarized in the following table:



| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Cash | 5.00% | 0.87% |
| U.S. Treasuries | 1.50% | 1.74% |
| Investment Grade Credit | 8.00% | 1.79% |
| Mortgages | 2.00% | 1.67% |
| High Yield Bonds | 2.00% | 4.56% |
| Inflation-Indexed Bonds | 1.50% | 3.44% |
| Broad U.S. Equities | 26.00% | 8.53% |
| Developed Foreign Equities | 13.25% | 6.83% |
| Emerging Market Equities | 6.50% | 9.95% |
| Private Equity | 9.00% | 12.40% |
| Hedge Funds/Absolute Return | 12.50% | 4.68% |
| Real Estate (Property) | 2.00% | 6.91% |
| Commodities | 0.50% | 5.45% |
| Global Debt ex. U.S. | 5.00% | -0.25% |
| REIT | 5.25% | 5.63% |

NOTE 8. PENSION PLANS (Cont'd)

A. Public Employees' Retirement System (PERS) (Cont'd)

Discount Rate

The discount rate used to measure the total pension liability was 3.98% as of June 30, 2016. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.65% and a municipal bond rate of 2.85% as of June 30, 2016 based on the Bond Buyer Go 20 Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based upon the contribution rate in the most recent fiscal year. The local employers contributed 100% of their actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2034. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2034, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

Sensitivity of the Group's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Group's proportionate share of the collective net pension liability as of June 30, 2016 calculated using the discount rate as disclosed below, as well as what the Group's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

| | June 30, 2016 | | |
|---|---|---|---|
| | 1% Decrease (2.98%) | Current Discount Rate (3.98%) | 1% Increase (4.98%) |
| Groups 's proportionate share of the Net Pension Liability | $ 25,382,576 | $ 20,713,990 | $ 16,859,666 |

Pension plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial statements.

NOTE 9: COMMITMENTS AND CONTINGENCIES

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

NOTE 10: CAPITAL ASSETS

Capital assets balances and activity for the fiscal years ended June 30, 2017 and 2016 were as follows:

| | Balance June 30, 2016 | Increases | Decreases | Balance June 30, 2017 |
|---|---|---|---|---|
| Capital Assets Being Depreciated: | | | | |
| Furniture and Equipment | $ 1,347,135 | $ 351,683 | $ (376,219) | $ 1,322,599 |
| Less Accumulated Depreciation | (555,569) | (369,039) | 376,219 | (548,389) |
| Net Investment in Capital Assets | $ 791,566 | $ (17,356) | $ -0- | $ 774,210 |

| | Balance June 30, 2015 | Increases | Decreases | Balance June 30, 2016 |
|---|---|---|---|---|
| Capital Assets Being Depreciated: | | | | |
| Furniture and Equipment | $ 967,521 | $ 955,318 | $ (575,704) | $ 1,347,135 |
| Less Accumulated Depreciation | (661,538) | (469,735) | 575,704 | (555,569) |
| Net Investment in Capital Assets | $ 305,983 | $ 485,583 | $ -0- | $ 791,566 |



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: POSTEMPLOYMENT BENEFIT PLAN

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

Plan Description

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

NOTE 11: POSTEMPLOYMENT BENEFIT PLAN (Cont'd)

Funding Policy

The present value of $1,363,343 has been recorded as a liability and $182,402 was expensed by the Group during the fiscal year ended June 30, 2017 and is included in accounts payable and accrued expenses on the accompanying statement of net position and salaries and fringe benefits on the accompanying statement of revenues, expenses and changes in net position respectively.

Actuarial Valuations:

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

Actual Methods and Assumptions

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

In the June 30, 2017 actuarial valuations, the liabilities were computed using the projected credit method and level dollar amortization over 30 years. The actuarial assumptions include a 5.00% discount rate.

Annual OPEB Cost and Net OPEB Obligation

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

**Benefit Obligations and Normal Cost**

| | 2015 | 2016 | 2017 |
|---|---|---|---|
| Actuarial accrued liability (AAL): | | | |
| Retired employees | $ -0- | $ -0- | $ -0- |
| Active employees | 673,699 | 1,010,799 | $1,010,799 |
| Unfunded actuarial accrued liability (UAAL) | $ 673,699 | $1,010,799 | $1,010,799 |
| Normal Cost Component | $ 77,943 | $ 182,402 | $ 182,402 |

## NOTE 12: ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and Accrued Expenses for the fiscal years ended June 30, 2017 and 2016 were as follows:

| | 2017 | 2016 |
|---|---|---|
| Accounts Payable - Vendors | $ 1,341,008 | $ 621,922 |
| Rate Stabilization Reserves - SubFunds | 1,818,525 | 2,091,457 |
| Post Employement Retirement Benefits | 1,363,343 | 1,186,962 |
| Pension Contribution Subesquent to Measurement Date | 663,244 | |
| | $ 5,186,120 | $ 3,900,341 |

# REQUIRED SUPPLEMENTARY INFORMATION

NEW JERSEY SCHOOLS INSURANCE GROUP
REQUIRED SUPPLEMENTARY INFORMATION SCHEDULES
SCHEDULE OF GROUP'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
PUBLIC EMPLOYEES RETIREMENT SYSTEM
LAST THREE FISCAL YEARS
UNAUDITED



| | Fiscal Year Ending June 30, 2015 | 2016 | 2017 |
|---|---|---|---|
| Group's proportion of the net pension liability | 0.0650904158% | 0.0706814610% | 0.0699392154% |
| Group's proportionate share of the net pension liability | $ 12,186,706 | $ 15,866,572 | $ 20,713,990 |
| Group's covered employee payroll | $ 4,699,250 | $ 4,979,739 | $ 5,027,295 |
| Group's proportionate share of the net pension liability as a percentage of its covered employee payroll | 259.33% | 318.62% | 412.03% |
| Plan fiduciary net position as a percentage of the total pension liability | 52.08% | 47.93% | 40.14% |

Note: This schedule does not contain ten years of information as GASB No. 68 was implemented during the fiscal year ended June 30, 2015.

NEW JERSEY SCHOOLS INSURANCE GROUP
REQUIRED SUPPLEMENTARY INFORMATION SCHEDULES
SCHEDULE OF GROUP'S CONTRIBUTIONS
PUBLIC EMPLOYEES RETIREMENT SYSTEM
LAST THREE FISCAL YEARS
UNAUDITED



| | Fiscal Year Ending June 30, | | |
|---|---|---|---|
| | 2015 | 2016 | 2017 |
| Contractually required contribution | $ 536,596 | $ 607,671 | $ 643,434 |
| Contributions in relation to the contractually required contribution | (536,596) | (607,671) | (643,434) |
| Contribution deficiency/(excess) | $ -0- | $ -0- | $ -0- |
| Group's covered employee payroll | $ 4,418,761 | $ 4,699,250 | $ 4,979,739 |
| Contributions as a percentage of covered employee payroll | 12.14% | 12.93% | 12.92% |

Note: This schedule does not contain ten years of information as GASB No. 68 was implemented during the fiscal year ended June 30, 2015.

NEW JERSEY SCHOOLS INSURANCE GROUP
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
UNAUDITED

A. PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Benefit Changes

There were none.

Changes of Assumptions

The discount rate changed from 4.90% as of June 30, 2015 to 3.98% as of June 30, 2016. The municipal bond rate changed from 3.80% to 2.85%. The long-term expected rate of return on pension plan investments changed from 7.90% to 7.65%.

The inflation rate changed from 3.04% as of June 30, 2015 to 3.08% as of June 30, 2016. The salary increases changed from 2.15% - 4.40% for 2012 – 2021 to 1.65%-4.15% through 2026 and from 3.15%-5.40% thereafter to 2.65%-5.15% thereafter.

The mortality rates in the July 1, 2014 actuarial valuation were based on the following:

Mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (setback 1 year for females) for service retirement and beneficiaries of former members with adjustments for mortality improvements from the base year of 2012 based on Projection Scale AA. The RP-2000 Disabled Mortality Tables (setback 3 years for males and setback one year for females) are used to value disabled retirees.

The mortality rates in the July 1, 2015 actuarial valuation were based on the following:

Pre-retirement mortality rates were based on the RP-2000 Employee Pre-retirement Mortality Table for male and female active participants. For local employees, mortality tables are set back 2 years for males and 7 years for females. In addition, the tables provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Post-retirement mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (set back 1 year for males and females) for service retirements and beneficiaries of former members and a one-year static projection based on mortality improvement Scale AA. In addition, the tables for service retirements and beneficiaries of former members provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Disability retirement rates used to value disabled retirees were based on the RP-2000 Disabled Mortality Table (set back 3 years for males and set forward one year for females).

NEW JERSEY SCHOOLS INSURANCE GROUP
RECONCILIATION OF CLAIMS LIABILITIES BY FUND
FOR THE FISCAL YEARS ENDED JUNE 30, 2017 AND 2016
(Unaudited)

Fiscal Year Ended June 30, 2017

| | Total | Workers' Compensation | General Liability | Property | Automotive Liability | Automobile Physical Damage | ULAE | Errors & Omissions |
|---|---|---|---|---|---|---|---|---|
| Unpaid Claims and Claim Adjustment Expenses at Beginning of Year | $ 218,760,994 | $ 178,878,003 | $ 26,448,998 | $ 2,477,999 | $ 9,080,000 | $ 377,000 | $ 1,498,994 | $ -0- |
| Incurred Claims and Claim Adjustment Expenses: | | | | | | | | |
| Provision for Insured Events of the Current Period | 72,028,100 | 54,000,566 | 7,093,106 | 3,350,761 | 3,247,514 | 450,153 | 3,886,000 | |
| Increase/(Decrease) in Provision for Insured Events of Prior Years | (19,744,841) | (16,972,632) | (205,357) | (2,340,677) | (3,296,181) | (345,000) | 3,415,006 | |
| Total Incurred Claims and Claim Adjustment Expenses | 52,283,259 | 37,027,934 | 6,887,749 | 1,010,084 | (48,667) | 105,153 | 7,301,006 | |
| Payments: | | | | | | | | |
| Claims and Claim Adjustment Expenses Attributable to Insured Events of the Current Period | 14,798,100 | 11,994,567 | 162,106 | 2,049,761 | 148,514 | 443,152 | | |
| Claims and Claim Adjustment Expenses Attributable to Insured Events of Prior Years | 37,311,153 | 30,819,368 | 6,381,643 | (29,677) | 139,819 | | | |
| Total Payments | 52,109,253 | 42,813,935 | 6,543,749 | 2,020,084 | 288,333 | 443,152 | | |
| Total Unpaid Claims and Claim Adjustment Expenses at End of Year | $ 218,935,000 | $ 173,092,002 | $ 26,792,998 | $ 1,467,999 | $ 8,743,000 | $ 39,001 | $ 8,800,000 | $ -0- |

NEW JERSEY SCHOOLS INSURANCE GROUP
RECONCILIATION OF CLAIMS LIABILITIES BY FUND
FOR THE FISCAL YEARS ENDED JUNE 30, 2017 AND 2016
(Unaudited)

Fiscal Year Ended June 30, 2016

| | Total | Workers' Compensation | General Liability | Property | Automotive Liability | Automobile Physical Damage | ULAE | Errors & Omissions |
|---|---|---|---|---|---|---|---|---|
| Unpaid Claims and Claim Adjustment Expenses at Beginning of Year | $ 214,919,588 | $ 176,092,001 | $ 24,111,000 | $ 3,451,999 | $ 9,314,000 | $ 229,000 | $ 1,721,588 | $ -0- |
| Incurred Claims and Claim Adjustment Expenses: | | | | | | | | |
| Provision for Insured Events of the Current Period | 66,247,665 | 51,252,225 | 7,403,607 | 3,764,227 | 3,379,803 | 670,397 | (222,594) | |
| Increase/(Decrease) in Provision for Insured Events of Prior Years | (14,327,361) | (7,644,788) | (1,103,940) | (3,509,808) | (2,393,204) | (20,000) | | 344,379 |
| Total Incurred Claims and Claim Adjustment Expenses | 51,920,304 | 43,607,437 | 6,299,667 | 254,419 | 986,599 | 650,397 | (222,594) | 344,379 |
| Payments: | | | | | | | | |
| Claims and Claim Adjustment Expenses Attributable to Insured Events of the Current Period | 13,283,259 | 10,742,224 | 75,608 | 1,846,227 | 116,803 | 502,397 | | |
| Claims and Claim Adjustment Expenses Attributable to Insured Events of Prior Years | 34,795,639 | 30,079,211 | 3,886,061 | (617,808) | 1,103,796 | | | 344,379 |
| Total Payments | 48,078,898 | 40,821,435 | 3,961,669 | 1,228,419 | 1,220,599 | 502,397 | | 344,379 |
| Total Unpaid Claims and Claim Adjustment Expenses at End of Year | $ 218,760,994 | $ 178,878,003 | $ 26,448,998 | $ 2,477,999 | $ 9,080,000 | $ 377,000 | $ 1,498,994 | $ -0- |

NEW JERSEY SCHOOLS INSURANCE GROUP

TEN-YEAR CLAIMS DEVELOPMENT INFORMATION

(Unaudited)

| | Fiscal Period Ended June 30, 2017 and Policy Period Ended June 30, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
| Required contribution and investment revenue: | | | | | | | | | | |
| Earned | $ 96,114,604 | $ 98,033,808 | $ 102,995,630 | $ 104,185,604 | $ 105,000,904 | $ 114,969,485 | $ 120,623,875 | $ 124,104,560 | $ 124,872,219 | $131,811,793 |
| Ceded | 16,412,244 | 19,602,011 | 22,722,740 | 23,185,771 | 22,927,326 | 26,172,619 | 26,839,580 | 29,099,924 | 32,261,555 | 32,280,231 |
| Net Earned | 79,702,360 | 78,431,797 | 80,272,890 | 80,999,833 | 82,073,578 | 88,796,866 | 93,784,295 | 95,004,636 | 92,610,664 | 99,531,562 |
| Unallocated expenses | 26,353,791 | 24,315,109 | 23,606,933 | 23,415,577 | 22,124,526 | 22,124,526 | 39,075,484 | 28,652,057 | 29,783,322 | 36,808,037 |
| Estimated claims and expenses, end of policy year | | | | | | | | | | |
| Incurred | 68,482,431 | 57,714,541 | 64,483,752 | 63,426,393 | 66,985,183 | 66,404,082 | 78,845,561 | 73,996,026 | 66,247,665 | 72,834,794 |
| Ceded | | | | | | | | | | 806,694 |
| Net Incurred | 68,482,431 | 57,714,541 | 64,483,752 | 63,426,393 | 66,985,183 | 66,404,082 | 78,845,561 | 73,996,026 | 66,247,665 | 72,028,100 |
| Net paid (cumulative) as of: | | | | | | | | | | |
| End of policy year | 14,415,431 | 12,536,541 | 16,681,752 | 14,264,133 | 14,408,893 | 14,799,082 | 20,977,561 | 17,465,026 | 13,283,259 | 14,798,100 |
| One year later | 24,524,664 | 21,305,541 | 27,122,752 | 23,734,133 | 24,453,866 | 23,643,822 | 35,420,195 | 28,061,255 | 23,392,825 | |
| Two years later | 29,354,664 | 26,355,541 | 32,627,752 | 28,725,133 | 28,641,074 | 21,341,951 | 43,921,706 | 36,401,116 | | |
| Three years later | 33,200,664 | 31,330,541 | 39,113,752 | 34,398,365 | 46,281,423 | 23,412,071 | 50,975,531 | | | |
| Four years later | 37,438,664 | 35,869,541 | 43,484,732 | 40,645,711 | 50,909,174 | 26,997,993 | | | | |
| Five years later | 39,702,664 | 38,313,122 | 47,578,339 | 42,051,625 | 53,467,922 | | | | | |
| Six years later | 40,722,113 | 39,970,807 | 50,846,700 | 43,670,877 | | | | | | |
| Seven years later | 41,737,539 | 41,239,794 | 51,562,764 | | | | | | | |
| Eight years later | 42,361,858 | 41,908,551 | | | | | | | | |
| Nine years later | 42,986,901 | | | | | | | | | |
| Reestimated ceded claims and expenses | 13 | | 868,453 | (8,335) | 76,836 | 2,552,044 | 6,218,839 | (541,733) | 751,524 | 806,694 |
| Reestimated net incurred claims and expenses: | | | | | | | | | | |
| End of policy year | 68,482,431 | 57,714,541 | 64,483,752 | 63,426,393 | 66,545,893 | 66,404,082 | 78,845,561 | 73,996,026 | 66,247,665 | 72,028,100 |
| One year later | 63,759,664 | 54,347,541 | 60,776,752 | 61,249,584 | 62,627,866 | 63,775,822 | 79,447,195 | 71,039,255 | 62,980,231 | |
| Two years later | 55,515,664 | 52,595,541 | 60,096,260 | 59,370,133 | 61,014,074 | 50,189,951 | 79,719,706 | 67,980,116 | | |
| Three years later | 52,510,664 | 50,921,227 | 62,070,752 | 57,591,365 | 69,461,423 | 45,871,071 | 77,865,531 | | | |
| Four years later | 50,706,522 | 48,524,541 | 60,836,732 | 56,920,711 | 67,805,174 | 42,469,993 | | | | |
| Five years later | 49,759,664 | 46,695,122 | 60,156,339 | 53,822,625 | 65,001,922 | | | | | |
| Six years later | 48,946,113 | 46,568,807 | 60,062,701 | 52,245,877 | | | | | | |
| Seven years later | 48,852,539 | 46,412,794 | 59,693,765 | | | | | | | |
| Eight years later | 48,167,857 | 45,892,551 | | | | | | | | |
| Nine years later | 47,358,901 | | | | | | | | | |
| Increase/(decrease) in estimated net incurred claims and expense from end of policy year | $ (21,123,530) | $ (11,821,990) | $ (4,789,987) | $ (11,180,516) | $ (1,983,261) | $ (23,934,089) | $ (980,030) | $ (6,015,910) | $ (3,267,434) | $ -0- |

# REPORT PURSUANT TO GOVERNMENT AUDITING STANDARDS

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Certified Public Accountants & Advisors

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# Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

## Independent Auditors' Report

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



We have audited, in accordance with the auditing standards generally accepted in the United States of America, audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the New Jersey Schools Insurance Group (the "Group") as of and for the fiscal year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise the Group's basic financial statements, and have issued our report thereon dated September 23, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Group's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. Accordingly, we do not express an opinion on the effectiveness of the Group's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Group's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

**Compliance and Other Matters**

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

**Purpose of this Report**

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

September 23, 2017
Mount Arlington, New Jersey

NISIVOCCIA LLP

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