

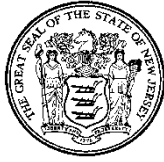
REPORT ON EXAMINATION
AS TO CONDITION OF THE
SUBURBAN MUNICIPAL JOINT INSURANCE FUND
PARSIPPANY, NEW JERSEY 07054
AS AT DECEMBER 31, 2013

Filed

November 25, 2015

**Commissioner
Department of Banking &
Insurance**

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State of New Jersey

DEPARTMENT OF BANKING AND INSURANCE

OFFICE OF SOLVENCY REGULATION

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September 30, 2015

Honorable Richard J. Badolato
Acting Commissioner of Banking and Insurance
New Jersey Department of Banking and Insurance
20 West State Street
P.O. Box 325
Trenton, New Jersey 08625

Commissioner:

In accordance with the authority vested in you by the Revised Statutes of New Jersey, an examination has been made of the assets, liabilities, method of conducting business and other affairs of the:

**SUBURBAN MUNICIPAL JOINT INSURANCE FUND
PARSIPPANY, NEW JERSEY 07054.**

hereinafter referred to in this report as the "Fund."

SCOPE OF EXAMINATION

This financial condition examination was called by the Commissioner of Banking and Insurance of the State of New Jersey pursuant to the authority granted by N.J.S.A. 40A:10-47.

The examination was made as at December 31, 2013. The Fund was last examined at December 31, 1999. The examination was conducted at the office of the Fund's Executive Director, PERMA Risk Management Services 9 Campus Drive, Suite 216, Parsippany, New Jersey 07054.

The conduct of the examination was governed by the procedures outlined in the N.A.I.C. Financial Condition Handbook and followed accepted procedures of regulatory authorities and generally accepted insurance company examination standards. In determining the emphasis to be placed on specific accounts, consideration was given to the Company's system of internal control, the nature and size of each account, its relative importance to solvency and the results of the previous financial condition examination.

In the verification of matters as shown in this report, limited test checks were made, some complete and others partial. Consideration was allowed for limiting the verification on certain accounts at a point where they were determined to be substantially correct or the account under review was considered insignificant and not crucial to the Company' solvency.

COMPLIANCE WITH PRIOR REPORT RECOMMENDATION

The Fund is also covered by an annual aggregate combined single limit stop loss excess of the member's actuarial projected loss funds. It was noted that there was no policy in place for this coverage. It is recommended a policy put in place, which supports this coverage.

The Fund has complied with this recommendation and currently there is a policy issued by the MEL detailing the terms and conditions of this stop loss policy.

HISTORY AND KIND OF BUSINESS

The Fund was established January 1, 1994 in accordance with Public Law 1983, C. 372 entitled " An act concerning joint insurance funds for local units of government and supporting Chapter 10 of Title 40A of the New Jersey Statutes. The Fund is both a self-insured and self administered group of municipalities established for the purpose of insuring against property damage, general liability, motors vehicles and equipment liability and workers compensation.

The Suburban Municipal Joint Insurance Fund commenced operations on January 1, 1994 with 8 charter members. The Fund presently has the following 10 members:

	Date Joined
* City of Summit	1/01/94
* Township of Scotch Plains	1/01/94
* Borough of Mountainside	1/01/94
* Borough of Bernardsville	1/01/94
* Town of Westfield	1/01/94

* Borough of Watchung	1/01/94
* Borough of Fanwood	1/01/94 - 1/01/97
*Township of Bedminster	1/01/94
Township of Bernards	1/01/96
Borough of Far Hills	1/01/98
Township of Hillsborough	1/1/99 – 1/01/00
Township of Harding	1/1/10

* Denotes Charter Member

The registered agent upon whom process may be served is PERMA Risk Management Services, 9 Campus Drive, Suite 216 , Parsippany, New Jersey.

TERRITORY AND PLAN OF OPERATION

Any municipality seeking membership into the Fund shall submit an application for membership along with the necessary resolution and copies of current policies, five year historical claim information, latest budget, latest auditor's report, and an application fee of \$1,000. Candidates should meet the following criteria:

- (a) Be located in Union, Somerset counties, or close proximity.
- (b) Be homogeneous in size and operation to existing members of the Fund.
- (c) Show a favorable loss history for at least five years.
- (d) Has shown a proven dedication to loss prevention/control.
- (e) Show a willingness to participate in Fund activities and development.
- (f) Agree to comply with the state regulations which govern the Fund, the Fund Bylaws, and Policies promulgated by the Fund.
- (g) Not to exceed a population of 35,000

The Executive Director/Administrator reviews applications for completeness, accuracy and compliance with established underwriting guidelines. The Executive Director/Administrator then forwards the necessary underwriting information to the Fund's actuary who will develop annualized loss projections by line of coverage based on the applicant's loss experience and exposures. In addition, the Executive

Director/Administrator simultaneously requests the Fund's safety director to undertake a comprehensive physical inspection of the applicant's locations.

Once the process is completed, the Executive Director/Administrator presents the new applicants to the Fund Commissioners for approval consideration. The Commissioners will review such items as:

- New member data summary
- Compatibility studies
- Loss information
- Safety Inspection Reports
- Proposed Annual Assessments

The application requires a two-third vote of the Executive Committee.

Fire Districts

Revisions made to N.J.S.A. 40A:10-36 allow fire districts to join a joint insurance fund. The Fund has adopted the following membership criteria for fire districts:

- (a.) *Sponsorship*: Only fire districts sponsored by a member municipality will be considered.
- (b.) *Financial Responsibility*: The sponsoring member municipality must accept all financial responsibility arising from participation of the fire district including assessments, supplemental contributions, additional assessments and return dividends.
- (c.) *Billing & Vouchering*: The Executive Director/Administrator will bill each fire district separately from that of the member municipality.
- (d.) *Representation*: The fire district will be represented solely by the Fund Commissioner of the sponsoring member municipality.
- (e.) *Risk Management Consultant*: The fire district will be served by the risk management consultant of the sponsoring member municipality.
- (f.) *Underwriting Guidelines*: Fire districts will be underwritten as if they were applying as a new member. This process includes completion of a full application, actuarial review and safety inspection.
- (g.) *Acceptance of a Fire District*: Fire districts may only be admitted by a majority vote of the Fund Commissioners following membership review. The criteria for admission will be the compatibility of the fire district to other fire service exposure currently insured by the Fund.
- (h.) *Termination of Coverage*: A fire district may be terminated by the Fund Commissioner from coverage for failure to follow safety and loss control guidelines set forth by the safety director. Termination of a fire district will not effect membership of sponsoring member municipality. However, the fire district's membership will be concurrently terminated if the sponsoring member municipality terminates its membership for any reason.
- (i.) *Legal Requirement*: As a condition to membership by the fire district, a resolution must be received from the sponsoring member municipality evidencing its agreement with the Suburban Municipal Fund as respects its financial responsibility for the fire district. Likewise, a resolution by the fire district must be executed evidencing

representation by the sponsoring member municipality and compliance to safety directives.

The following is a listing of Fund Professionals serving at December 31, 2013:

Administrator: PERMA Risk Management Services---The Administrator shall act as the executive director of the Fund to carry out the policies established by the commissioners or executive committee. He shall be experienced in risk management matters and shall not be a commissioner of the Fund.

The Administrator shall perform the following:

1. The Administrator shall carry out the day to day operation of the Fund.
2. Shall advise on risk management matters and prepare draft modifications to the Fund's Risk Management Plan.
3. Shall maintain underwriting data.
4. Shall draft bid specifications for services as necessary.
5. Shall monitor the performance of service companies.
6. Shall write a draft budget for review by the Commissioners.
7. Shall perform such other duties as provided for by the Fund Commissioners, the by-laws and New Jersey Statutes.

Fund Actuary: Actuarial Advantage – The Actuary shall certify the actuarial soundness of the Fund and shall provide such actuarial reports and reviews as required by the Fund and the New Jersey Department of Banking and Insurance.

Fund Auditor: Suplee, Clooney & Co. – The Auditor shall be an independent certified public accountant or a registered municipal accountant and not a commissioner. The Auditor shall conduct the annual audit of the Fund and shall perform such other duties as provided for by the Fund commissioners or executive committee, the By-laws and the laws and regulations of the State of New Jersey.

Fund Attorney: Stephen Davis – The Fund Attorney shall be admitted to the Bar of the State of New Jersey and have the following responsibilities:

1. Advise the Fund on legal matters, attend the Fund's regular monthly meetings to advise the Fund on legal matters and consult with counsel representing the Fund in defense of claims.
2. Advise the Fund on selection of counsel to represent the Fund in the defense of claims.

3. Perform such other duties as provided for by the Fund Commissioners, the Fund By-laws and the laws and regulations of the State of New Jersey.

Treasurer: Ralph Maresca- The Treasurer shall be a certified municipal finance officer, not be a commissioner and shall have the following duties and responsibilities:

1. Be the custodian of Fund assets and maintenance of various trust funds.
2. Approve receipts, disbursements and financial records.
3. Prepare cash management plan and invest funds
4. Other related duties as designated by the Fund Commissioners in accordance with the By-laws of the Fund and laws and regulations of the State of New Jersey.

Managed Care Provider: First Managed Care Option (FMCO)- The Managed Care Provider will establish and maintain an adequate network of hospitals, physicians, laboratories and other appropriate facilities and provide notification, within one business day, to the Fund's TPA of all new losses. Other services provided include provider and facility credentialing, pre-authorization of all medical treatment, establishment of treatment schedules and concurrent reviews and discharge coordination for inpatient hospitalization.

Safety Director J.A. Montgomery Risk Control - As Safety Director this professional will provide safety and loss prevention services on behalf of the Fund. As Right to Know Provider this professional will provide a technically qualified instructor to provide right to know training the Fund's members.

Underwriter: Bollinger – Services provided by the Underwriter include the following:

1. Assist in ongoing coordination, updating and preparation of coverage documents detailing all lines and limits of coverage provided by the Fund to the member municipalities as well as coordinating the drafts of these documents.
2. Respond to questions related to coverage from members, insurance producers or the Executive Director.
3. Calculate excess insurance/reinsurance premiums based on rates negotiated with insurer/reinsurer for each member based upon renewal exposure data provided by the Executive Director.

4. Market, negotiate and place excess property insurance and reinsurance coverage in conjunction with the Executive Director and as authorized by the Fund's Executive Committee.

Internal Auditor: Russo & Associates – The Internal Auditor will perform all of the duties of internal auditor as set forth in the By-law, Risk Management Plan, applicable statutes, regulations and policies adopted by the Fund's executive committee. This includes performing the duties set forth in the proposal letters of McGordy and Owen dated July 29, 1994. These services include workers' compensation, vehicle and vehicle inland marine audits.

Asset Manager: TD Bank. – The Asset Manager provides custodial services and assures the safekeeping of all security holdings of the Fund acting as a discretionary trustee over the assigned assets of the Fund in a manner which is consistent with the Fund's Cash and Investment Management Plan.

In settling claims the Fund utilizes the services of a third party administrator -Qual_Lynx.

MANAGEMENT AND CONTROL

Each participating municipality shall appoint one commissioner to the Fund. Each participating municipality shall select either a member of its governing body or one of its municipal employees. In addition each participating municipality shall have the right to appoint one (1) alternate to attend either regular or special meetings on behalf of the municipality in the absence of the Fund Commissioner. The alternate Commissioner must be either an elected official or an employee of the appointing municipality. In the event that the number of participating municipalities is an even number, one additional commissioner shall be appointed annually by a participating municipality on a rotating basis determined alphabetically.

All terms of office shall expire on January 1st or until a successor is duly appointed and qualified. A Commissioner, other than the special commissioner, who is a member of the appointing municipality's governing body shall hold office for two years or for the remainder of his/her term of officer as a member of the governing body whichever shall be less. Commissioners who are employees of the appointing municipality shall hold office at the pleasure of the municipality and can be removed by the municipality at any time without cause. The special commissioner, if any, shall serve until January 1st or the year following appointment provided, however, that if the special commissioner is an employee of the appointing municipality, he can be removed by the appointing municipality at any time without cause.

The unexpired term of a commissioner other than the special commissioner, shall be filled by the appointing municipality in the manner generally prescribed by law. In the event of a vacancy of the special commissioner caused by reason other than the expiration of the term of office, the municipality, which appointed the

commissioner, shall appoint the replacement for the unexpired term. Any commissioner can be removed from office for cause by two-thirds vote of the full membership of the Fund commissioners. Upon such a vote it shall be incumbent upon the member municipality to replace the commissioner.

The commissioners are hereby authorized and empowered to operate the Fund in accordance with these By-laws and appropriate state laws and regulations.

Each commissioner shall have one vote, provided however, that the special commissioner shall only vote in the event of a tie.

The following is listing of commissioners serving at December 31, 2013:

Megan Champney	Summit
Gail McKane	Harding
Jim Gildea	Westfield
Tom Atkins/Albert Ellis	Watchung
Bruce MacArthur/Terri Johnson	Township of Bernards
Craig Lawrence/Sandra Jones	Bernardsville
Judy Sullivan/Sean McCarthy	Bedminster
James Debbie	Mountainside
Sheila Tweedie	Far Hills
Ray Poerio	Scotch Plains

If the total number of commissioners exceeds seven (7), as soon as possible after the beginning of the year they shall meet and elect five (5) commissioners to serve with the Chairperson and the Secretary as the executive committee of the Fund. During their terms of office, members of the executive committee shall exercise the full power and authority of the commissioners except as otherwise provided.

The executive committee shall serve until January 1st of the following year or until their successors are duly elected and qualified.

In the event the Commissioners shall elect an Executive Committee as provided for above, they shall also elect two (2) Commissioners to serve as alternate members of the Executive Committee to attend either regular or special meetings to serve in the absence of a member, or members, of the Executive Committee. An alternate or alternates serving in the absence of a member, or members, of the Executive Committee shall exercise the full power and authority of that absent member or members

The members of the executive committee and alternates elected and serving at December 31, 2013 were as follows:

Megan Champney, Chair CitySummit
Gail McKane, Secretary Township of Harding
James Gildea, Town of Westfield
Tom Atkins, Borough of Watchung

Bruce McArthur, Township of Bernards
Craig Lawrence, Borough of Bernardsville
Judy Sullivan, Township of Bedminster

EXECUTIVE COMMITTEE ALTERNATES:

James Debbie, Borough of Mountainside
Joseph Carty, Borough of Far Hills
Raymond Poerio, Township of Scotch Plains

As soon as possible after the beginning of each year the commissioners shall meet to elect officers of the Fund from their own membership including a chairperson and a secretary who shall be elected annually. Officers will serve until January 1st of the following year or until a successor is duly elected and qualified.

The Chairperson shall preside at all meetings of the commissioners and shall perform such other duties provided for in the By-laws and the laws and regulations of the State of New Jersey.

The Secretary shall preside over meeting of the commissioners in the absence of the Chairperson, maintains minutes of meetings, retain all books, records, files and other documents of the Fund, and shall perform such other duties as provided for in the By-laws.

In the event of vacancy in any of the officer positions caused by other than the expiration of the term of office, the commissioners shall by majority vote, fill the vacancy for the unexpired term. Any officer can be removed without cause by two-thirds vote of the full membership of Fund commissioners. In this event the full membership of Fund commissioners shall fill the vacancy for the unexpired term.

At December 31, 2013, the Chairperson was Megan Champney and the Secretary was Gail McKane .

The following is a listing of fund Committees elected and serving at December 31, 2013:

2013 Standing Suburban Municipal JIF Committees

Safety Committee - Chairperson	Ray Poerio, Township of Scotch Plains
	Allen Rome, Borough of Bernardsville
	Bob Burns, Borough of Watchung
	Tricia Cowell, Township of Bernards
	Ron Romak, Mountainside
	Megan Champney, City of Summit

Paul Cascais, City of Summit
Dave Kelly, Town of Westfield
Robin Collins, Borough of Far Hills
Jim Metzler, Township of Bedminster
Tracey Bisgaard, Risk Manager
Jack Dibble, Risk Manager
PERMA Representative

Coverage Committee –Chairperson

Tom Atkins, Borough of Watchung
Chan Coddington, Underwriter
Jack Dibble, Underwriter
Candy Forster, RMC
Craig Sutherland, RMC
PERMA Representative

**Contracts Review - Chairperson
Committee**

James Gildea, Town of Westfield
Albert Ellis, Borough of Watchung
PERMA Representative

**Membership - Chairperson
Committee**

Bruce McArthur, Bernards Twp
Gail McKane, Harding
PERMA Representative

**Fund Chairman is ex officio member of all committees.*

A review of the minutes indicates the transactions and events of the Fund are adequately reviewed.

INSURANCE COVERAGE AND EXCESS INSURANCE

The following is a summary of insurance coverages the Fund provides to its members:

PROPERTY

Property coverage is provided by Zurich American Insurance for a \$125,000,000 limit with a \$250,000 per occurrence deductible. The \$125,000,000 per occurrence limit is shared by all member entities of the Municipal Excess Liability Joint Insurance Fund (MEL) member JIFS. The \$250,000 deductible is covered by the Fund for \$50,000 per occurrence, less a member deductible. The standard member deductible is \$2,500 per occurrence. The MEL provides coverage for \$200,000 per occurrence in excess of \$50,000 per occurrence.

The policy with Zurich provides a sublimit for flood of \$50,000,000 per occurrence and in the aggregate. There is also a limitation of \$2,500,000 per location for loss or damage arising from flood for locations wholly or partially within Special Flood Hazard Areas, areas of 100 year flooding as defined by the Federal Emergency Management Agency. In addition the policy contains a per occurrence deductible for municipalities \$500,000 per building and \$500,000 per building contents for locations within the Special Flood Hazard Area.

Other sub-limits contained in the Zurich Policy are as follows:

Peril	Limit
Earthquake	\$50,000,000 annual aggregate
Builders Risk	\$25,000,000 per occurrence
Demolition and Increased cost of Construction	\$25,000,000 per occurrence
Newly Acquired Real and Personal Property (90 days)	\$25,000,000 per occurrence
Leasehold Interest	\$15,000,000 per occurrence
Loss of Rents	\$15,000,000 per occurrence
Debris Removal	\$15,000,000 per occurrence or 25% of the cost whichever is less
Valuable Papers and Records	\$10,000,000 per occurrence
Extra Expense	\$10,000,000 per occurrence
Accounts Receivable	\$10,000,000 per occurrence
Expediting Expense	\$10,000,000 per occurrence
Miscellaneous Unnamed Locations	\$5,000,000 per occurrence
Civil Authority	\$5,000,000 per occurrence time element coverages only for revenue producing properties
Business Interruption	\$5,000,000 per occurrence time element coverages only for revenue

	producing properties
Service Interruption	\$10,000,000 per occurrence property damage and time element combined
Ingress/Egress	\$5,000,000 per occurrence or (30) days whichever is less
Soft Costs	\$5,000,000 per occurrence
Fine Arts	\$2,500,000 for Fine Arts owned and non-owned
Cyber Secure	\$1,000,000 per occurrence Member Entity Deductible of \$100,000
Transit	\$1,000,000 per conveyance/occurrence
Tenant Relocation	\$750,000 per occurrence
Pollution and Contamination Clean up	\$250,000 per occurrence and in the aggregate
Loss Adjustment Expenses	\$250,000 per occurrence and \$500,000 annual aggregate
Asbestos Clean up	\$50,000 per occurrence and in the aggregate

The JIF and MEL do not provide primary flood coverage for any locations wholly or partially within Special Flood Hazard Areas (SFHA), areas of 100-year flooding, as defined by the Federal Emergency Management Agency. The member local unit may purchase this coverage from the National Flood Insurance Program

PROPERTY PROGRAM EXCEPTIONS

There is a program exception for named storms which is defined as a storm system that has been declared a hurricane, typhoon, tropical cyclone or tropical storm by the National Hurricane Center of the National Oceanic and Atmospheric Administration's National Weather Service. This exception applies to the peril of windstorm and flood resulting from a Named Storm for any covered property in Atlantic, Ocean, Monmouth and Burlington Counties East of the Garden State Parkway and for all covered property in Cape May County.

The MEL does not provide coverage for the perils of flood and windstorm for named storm at the above locations. Zurich American provides named storm coverage up to the policy per occurrence limit of \$125,000,000 subject to a deductible. This deductible requires all member entities of each MEL member located in the locations noted above to retain 1% of the total insurable values of all covered locations (excluding automobiles) reporting loss of damage, subject to a \$250,000 minimum per occurrence deductible and a \$1,000,000 maximum per occurrence deductible.

Based on this exception each JIF may determine the extent of coverage for the Named Storm within its funding level. The Atlantic, Burlington, Central, Mid New Jersey, Monmouth, New Jersey Public housing Authority and Ocean JIFs participate in a program to share the first \$50,000 of loss less an entity member deductible of \$5,000. These JIFs also agree to share ~~in any share~~ in any loss excess of \$250,000 up to a maximum deductible of \$1,000,000.

Neither the member JIF nor the MEL provide boiler and machinery coverage. Coverage for boiler and machinery is provided by Zurich American at a sub-limit of \$125,000,000 excess of the \$5,000 member entity deductible. The sub-limit is on a per accident basis and is reinstated after every accident.

WORKERS COMPENSATION

Workers compensation coverage is provided as follows:

Suburban Municipal JIF	Limit
Workers Compensation	\$250,000
Employers Liability	\$250,000
Municipal Excess Liability JIF	
Workers Compensation	\$1,750,000 excess \$250,000
Employers Liability	\$1,750,000 excess \$250,000
Safety National (Rated A+ AMBest)	
Workers Compensation	Statutory Limits excess \$2,000,000
Employers Liability	\$5,000,000 excess \$2,000,000

GENERAL LIABILITY

General liability includes general liability, auto liability, law enforcement professional liability and employee benefits liability.

The JIF provides coverage for General Liability which includes Commercial General Liability and Law Enforcement Professional Liability for \$250,000 CSL. The MEL Provides excess insurance coverage for general liability as follows:

\$1,500,000 excess \$250,000 CSL per occurrence
 \$3,250,000 excess of \$1,750,000` per occurrence and in the aggregate

In addition member towns may purchase coverage in excess of \$5,000,000 per occurrence and in the aggregate (business auto is unaggregated). Member entities in the Suburban Municipal JIF all purchased optional coverage of \$15,000,000.

It is noted that for coverage in excess of \$1,750,000 the MEL has purchased reinsurance from A+ rated carriers.

The JIF provides underinsured/uninsured motorist liability for \$15,000/\$30,000/\$5,000 and Personal Injury Protection Coverage of \$250,000.

PUBLIC OFFICIALS/EMPLOYMENT PRACTICES LIABILITY

Coverage for Public Official and Employment Practices Liability is provided by Indian Harbor Insurance Company. Indian Harbor Insurance Company is an eligible surplus lines writer in New Jersey and is a member of the XL Group which is A rated by AM Best.

The coverage provided is for \$2,000,000 in the aggregate on a claims made basis per member municipality for each fund year.

For the Public Officials Liability Coverage there is a \$20,000 deductible per occurrence except that a \$75,000 deductible per occurrence applies for local units with unfavorable loss experience. The same deductible applies for Employment Practices Liability Coverage for member entities which have an approved EPL Loss Control/Risk Management Program. There is also a 20% co-insurance of the first \$250,000 of loss.

For member entities without an approved EPL Loss Control/Risk Management Programs for Employment Practices Liability Coverage there is a \$100,000 deductible per occurrence and a \$150,000 deductible per occurrence of member entities with unfavorable loss experience.

Individual member entities can purchase additional coverage in excess of the \$2,000,000 limit from the MEL. Member entities in the Suburban Municipal JIF all purchased additional coverage of \$8,000,000. The MEL has reinsured this coverage with A+ rated reinsurers.

EXCESS PUBLIC OFFICIALS BOND

The MEL provides coverage for excess employee dishonesty and faithful performance coverage for those employed positions which are required by law to be individually bonded at limit of \$1,000,000 less a local member units' deductible. The deductible is the higher of the amount said persons are required by law to be individually bonded whether or not such bond is in place or the amount of the individual bond in place.

NON-OWNED AIRCRAFT

The MEL through Catlin Insurance Company, Inc. which has an A rating from AM Best provided non-owned aircraft coverage for \$5,000,000 combined single limit for bodily injury and property damage liability and \$5,000 medical expenses for each passenger

OPTIONAL DIRECTORS AND OFFICERS LIABILITY

The JIF provides to its members the option to purchase Directors and Officers Liability Coverage for Fire Companies and Emergency Service Units. The coverage is for a \$1,000,000 to \$2,000,000 annual aggregate and the policy is issued by Indian Harbor Insurance Company. There are optional deductibles of \$1,000, \$2,000 or \$5,000.

BLANKET CRIME

The JIF provides blanket crime coverage to \$50,000 less a member entity deductible of \$2,500. The MEL provides \$1,000,000 in coverage less the member JIF's retention coverage of \$50,000. The coverages insured by this policy are forgery or alteration, theft, disappearance, destruction, robbery and safe burglary, computer fraud and public employee dishonesty

ENVIRONMENTAL IMPAIRMENT LIABILITY

Environmental Impairment Liability Coverage is by the New Jersey Municipal Impairment Risk Management Fund (EJIF).

The EJIF provides the following coverage to the JIF;

- Third party limit of liability for \$1,000,000 per loss per local unit and \$1,000,000 aggregate per local unit. This coverage is subject to the JIF annual aggregate limit as stated below
- First party limit of liability for \$50,000 per loss per local unit and a \$100,000 annual aggregate per local unit.

- Foreclosed property with a limit of liability for \$1,000,000 per loss per local unit and \$1,000,000 annual aggregate per local unit.
- Public Officials Liability with a \$1,000,000 per loss per local unit and a \$1,000,000 annual aggregate per local unit limit of liability subject to the JIF annual aggregate limit as stated below.
- De Minimus Abandoned Property with a limit of \$50,000 per local unit and subject to the JIF annual aggregate as stated below.
- Legal Services with a \$500,000 per loss per local unit and \$500,000 annual aggregate per local unit subject to the JIF annual aggregate limit as stated below.

There is a deductible of \$5,000 per loss and the JIF annual aggregate limit of liability is \$1,316,720.

UNDERGROUND STORAGE TANK

Coverage related to underground storage tanks is provided by EJIF to the following limits:

\$1,000,000 Each Incident
 \$1,000,000 Each Corrective Action
 \$1,000,000 Aggregate Limit
 \$100,000 Aggregate Defense Limit
 Deductible \$5,000 Each Incident

CYBER LIABILITY

Coverage for Cyber Liability is provided by XL Insurance. The policy provides for third party coverage including Communication, Network Security Liability and Privacy Liability. First Party protection includes Extortion Threat, Crisis Management Expenses and Privacy Notification Costs.

The limits of liability are \$1,000,000 per occurrence and \$3,000,000 aggregate with a \$10,000 deductible. The limits are JIF wide and shared among the local member units. The policy also contains a \$500,000 sub-limit each for the following:

- Privacy Notification Costs
- Regulatory Fines/Claims Expenses for Privacy Liability
- Extortion Damages for Extortion Threat
- Crisis Management Expenses

ANNUAL AGGREGATE STOP LOSS

The Fund is covered by an annual aggregate stop loss policy issued by the MEL. The policy provides coverage for losses in excess of 125% of the Fund's actuarial loss funds.

FIDELITY BOND AND OTHER INSURANCE COVERAGES

The Fund is required by N.J.S.A. 11:15-2.6 to maintain the following minimum insurance coverage:

1. A fidelity bond for all persons handling Fund assets
2. A surety bond for the claims administrator
3. Errors and omissions coverage for any servicing organization who negates excess insurance or reinsurance on behalf of the Fund.

Review of coverage in effect revealed the Fund at December 31, 2013 maintained the required coverage. In addition the Fund's contracts with their professionals require, the professionals to maintain coverage in excess of that required by statute and the review indicated the coverage maintained was in compliance with the contract provisions.

ACCOUNTS AND RECORDS

The record keeping of the Fund is comprised of three areas as follows:

1. PERMA handles all of the processing of the general ledger and the accounts payable functions. The system used to control these functions is the MAS 90 Accounting Software which is a product of State of the Art, Inc. This system produces a cumulative general ledger, whereby all of the activity in an account is recorded together with its current balance. The accounts payable function under this system produces a history of payments made to individual vendors with amounts outstanding.
2. The Treasurer of the Fund is responsible for the tracking of cash and investments. PERMA developed a tracking system for both of these areas and supplied it to the Treasurer to use. This system uses Microsoft Excel and allows for the tracking of both cash and investment activity.
3. The third party administrators are responsible for the tracking of all claim activity.

The accounting procedures are based on fund accounting, whereby; all financial activity is allocated to the fund year to which it relates.

Pursuant to N.J.S.A. 18A: 18B-1, N.J.A.C. 11:15-5.1 and the Fund's By-laws, an annual audit was performed by an independent certified public accounting firm Suplee, Clooney & Co. and an audited report was filed with the Commissioner of the Department of Banking and Insurance.

FINANCIAL STATEMENTS

Comparative Balance Sheet as of December 31, 2013 and 2012

Comparative Statement of Revenue, Expenses and Changes in Fund Equity as of
December 31, 2013 and 2012

EXHIBIT I

COMPARATIVE BALANCE SHEET
FOR YEARS ENDING DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
<u>ASSETS</u>		
Cash & Cash Equivalents	\$ 3,457,169	\$ 2,233,810
Investments	-	1,009,190
Assessments Receivable	1,200,800	1,025,824
Retrospective Premium Recoverable	125,780	-
Interest and Dividend Receivable	-	31,656
Aggregate Excess Insurance Recoverable	198,269	147,587
Other Assets	33,626	31,388
Total Assets	<u>5,015,644</u>	<u>4,479,455</u>
<u>LIABILITIES</u>		
Accounts Payable	74,641	94,286
Excess Insurance Payable	316,225	-
Surplus Return Reserve	46,699	55,010
Loss Reserves	3,125,042	3,482,828
Total Liabilities	<u>3,562,607</u>	<u>3,632,124</u>
<u>NET POSITION</u>		
Net Statutory Surplus - Unrestricted	1,453,037	847,331
Total Liabilities and Surplus	<u>\$ 5,015,644</u>	<u>\$ 4,479,455</u>

EXHIBIT II

COMPARATIVE STATUTORY INCOME STATEMENT FOR YEARS ENDING DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
<u>OPERATING REVENUE</u>		
Assessments - Participating Members	\$ 4,845,080	\$ 4,704,149
Retrospective Premium	125,780	-
Total Operating Revenue	<u>4,970,860</u>	<u>4,704,149</u>
<u>EXPENSES</u>		
Provision for Claims and Claim Adj. Expense	1,496,979	1,862,163
Insurance Premiums	1,920,361	1,860,142
Professional Services	863,801	846,653
Other Expenses	14,435	8,741
Total Expenses	<u>4,295,576</u>	<u>4,577,698</u>
Operating Income (Loss)	<u>675,284</u>	<u>126,451</u>
<u>NON-OPERATING REVENUE</u>		
Interest Income	<u>27,334</u>	<u>56,594</u>
Total Nonoperating Revenues	27,334	56,594
Change in Net Position	<u>702,618</u>	<u>183,045</u>
Net Position - Beginning of Year	847,331	769,720
Less: Distribution to Participating Members	(96,912)	(105,434)
Net Position - End of Year	<u>\$ 1,453,037</u>	<u>\$ 847,331</u>

NOTE 1 LOSS RESERVES

The loss reserves reported by the Fund at December 31, 2013 were \$3,125,042. A review by an actuary from the New Jersey Department of Banking and Insurance indicated the IBNR reserves established by the Fund was reasonable.

The case reserves as well as paid losses and losses adjustment expenses were reconciled to the Fund's actuarial report and annual statement. Samples of outstanding reserves at December 31, 2013 as well as loss and loss adjustment expense payments were verified to individual claim files without material exception.

ACKNOWLEDGEMENT

The examination was completed at the office of the Fund's Executive Director, PERMA Risk Management Services (PERMA) 9 Campus Drive, Parsippany, New Jersey 07054. The courteous cooperation extended to the examiners by Fund Management is acknowledged.

Respectfully submitted,

A handwritten signature in cursive script that reads "Nancy Lee Chice".

Nancy Lee Chice, CFE
Insurance Examiner

SUBURBAN MUNICIPAL JOINT INSURANCE FUND

I, Nancy Lee Chice, do solemnly swear that the foregoing report of examination is hereby represented to be a full and true statement of the condition and affairs of the subject insurer as of December 31, 2013 to the best of my information, knowledge and belief.


Respectfully submitted,



Nancy Lee Chice, CFE
Examiner-In-Charge
New Jersey Department of Banking and Insurance

State of New Jersey
County of Mercer

Subscribed and sworn to before me,
on this *14th* day of *November* 2015



Notary Public of New Jersey

SHEILA M. TKACS
NOTARY PUBLIC
STATE OF NEW JERSEY
My Commission Expires: *July 2020*