

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

Filed

December 4, 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 15, 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:

**MORRIS COUNTY 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, 2001. The examination was conducted at the office of the Fund's Executive Director, PERMA Risk Management Services, 9 Campus Drive, 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's solvency.

COMPLIANCE WITH PRIOR REPORT RECOMMENDATIONS

Fidelity Bond and Other Insurance Coverage

Review of coverage in effect revealed the Fund's third party administrator for liability claims Dorsey and Fisher did not maintain a surety bond as required by statute.

The Fund has complied with this recommendation.

HISTORY AND KIND OF BUSINESS

The Fund was established January, 1987 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, motor vehicles and equipment liability and workers compensation.

The Morris County Fund commenced operations on January 1, 1987 with 16 charter members. The Fund presently has the following 39 members:

	Date Joined
*Boonton Town	1/01/87
*Butler Borough	1/01/87
*Denville Township	1/01/87
*Dover Town	1/01/87
*East Hanover Township	1/01/87
*Hanover Township	1/01/87
*Lincoln Park Borough	1/01/87
*Madison Borough	1/01/87
*Montville Township	1/01/87
*Morris Plains Borough	1/01/87
*Mount Arlington	1/01/87 – 12/31/04
Mount Arlington	1/1/11

*Mountain Lakes Borough	1/01/87
*Mount Olive Township	1/01/87
*Long Hill Township	1/01/87
*Randolph Township	1/01/87
*Rockaway Township	1/01/87
Essex Fells Borough	5/01/87
Caldwell Borough	9/07/87-12/31/98
North Caldwell Borough	10/01/87
Sparta Township	1/01/88
Millburn Township	11/01/90
Chatham Borough	1/01/91
Stanhope Borough	1/01/91
Andover Township	5/01/91
Hawthorne Borough	5/19/91
Boonton Township	1/01/96
Wharton Borough	1/01/96
Roxbury Township	1/1/97 – 12/31/11
Hopatcong Borough	1/1/97
Mendham Township	1/1/98
Rockaway Borough	1/1/01
Chester Borough	1/1/03
Florham Park Borough	1/1/03
Frelinghuysen Township	1/1/03
Bloomingtondale Borough	1/1/05
Washington Township	1/1/06
Mendham Borough	1/1/06
Netcong Borough	1/1/06
Chatham Township	1/1/06
Harding	1/1/06-12/31/09
West Milford Township	1/1/08
Parsippany Troy-Hills Township	1/1/09 – 12/31/11
Kinnelon	1/01/11

The registered agent upon whom process may be served is PERMA, 9 Campus Drive, Parsippany, New Jersey 07054.

TERRITORY AND PLAN OF OPERATION

The Fund was formed to provide local governing bodies with an economical means of obtaining insurance coverages. The coverage provided includes property, boiler and machinery, automobile liability and physical damage, general liability, public official liability, contractors equipment, public employees blanket bond, law enforcement liability, educators legal liability, environmental liability and excess liability.

New Municipalities

Any municipality seeking membership into the Fund shall submit an application for membership along with the necessary resolution, copies of current policies, five year

historical claim information, latest budget, latest auditor’s report, and an application fee of \$1,500.

New members should meet the following criteria:

a) Be within a geographical radius of Morris County, such radius described as an area contained within a quadrilateral created by extending a straight line out from the northerly-southerly-easterly and westerly-most lines of Morris County, such area being specifically depicted on a map presented at a meeting of the Morris County Joint Insurance Fund August 10, 1988, and excluding those municipalities outside the state of New Jersey or those in a non-contiguous county (Map directly following).

b) Be homogeneous in nature and operations to existing members of the Fund

c) Not to exceed a population of 30,000

d) Receive a score equal to 100 or greater based on the following four criteria:

1. Workers Compensation Experience Modification
2. Loss Ratio
3. Loss Fund Assessment
4. Safety Rating

Criteria	Minimum	Points	Target	Points	Maximum	Points
Exp. Mod	0.95	15 pts	0.75	25 pts	0.55	40 pts
Loss Ratio	100%	10 pts	80%	30 pts	60%	50 pts
Loss Funds	\$50,000	10 pts	\$75,000	20 pts	\$100,000	25 pts
Safety Rating	Average	25 pts	Average	25 pts	Above Average	30 pts

e) Not to have experienced three (3) losses greater than one-half the Fund’s SIR in the last five (5) years

f) A safety rating of average or better

g) Generally have shown a proven dedication to loss prevention/control

h) Show a willingness to participate in Fund activities and development

i) Agree to comply with the Fund’s bylaws, state regulations which govern the Fund, and all regulations promulgated by the Fund.

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 applicants loss experience and exposures. In addition, the Executive Director/Administrator simultaneously requests the Fund's safety director to undertake a comprehensive physical inspection on 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 majority vote of the Fund Commissioners or a two-thirds vote of the Executive Committee if a quorum of the entire membership is not present.

If the application is approved by the Fund, it shall be concurrently filed with the Department of Banking and Insurance and the Department of Community Affairs and shall be accompanied by such amendments to the Fund's By-laws, budget and plan of risk management as may be appropriate.

In addition revisions made to N.J.S.A. 40A: 10-36 allows 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 Consultants: The fire district will be served by the Fund's designated Risk Management Consultant of the sponsoring municipality.
- (f) Underwriting Guidelines: Fire districts will be underwritten as if they were applying as a new member. This includes the payment of any established

new member review fees. 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 Executive Committee 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 Executive Board from coverage for failure to follow safety and loss control guidelines set forth by the safety director. Termination of a fire district will not affect 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 Camden 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 LLC – 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: Nisivoccia LLP – 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: Dorsey & Semrau, Esqs – 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: Grace Brennan-- The Treasurer shall be a certified municipal financial 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. Perform 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 – 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 JA 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: Conner Strong & Buckelew – 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 and Associates – The internal auditor shall perform the following services:

- A. Perform all of the duties of Internal Auditor for the Fund as the same are set forth in the By-laws, Risk Management Plan, applicable statutes and regulations and policies adopted by the Fund Commissioners-Executive Committee.
- B. Perform the services 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.
- C. To professionally perform such other duties as may be determined by the FUND Commissioners -Executive Committee.

Asset Manager: TD Bank/Wells Fargo 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.

Third Party Administrators: In settling claims the Fund utilizes the services of third party administrators Qual-Lynx for workers compensation claims and D&H Alternative Risk Solutions for property/liability claims.

CDL Testing Compliance - Valley Physician Services

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:

Commissioner

Municipality

Vita Thompson	Township of Andover
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Clerk	134 Newton-Sparta Road Newton, NJ 07860
John Dunleavy Mayor	Borough of Bloomingdale 101 Peterson-Hamburg Turnpike Bloomingdale NJ 07403
Terry McCue Administrator	Town of Boonton 100 Washington Street Boonton NJ 07005
Barbara Shepard Clerk	Township of Boonton 155 Powerville Road Boonton Township, NJ 07005
James Lampmann Administrator	Borough of Butler 1 Ace Road Butler, NJ 07405
Thomas Ciccarone Administrator	Township of Chatham 58 Meyersville Road Chatham, NJ 07928
Robert Falzarano Administrator	Borough of Chatham 54 Fairmount Avenue Chatham, NJ 07928
Valerie Egan Administrator	Borough of Chester 50 North Road Chester, NJ 07930
Michael Guarino CFO	Township of Denville 1 Saint Mary's Place Denville, NJ 07834
Joseph Tempesta Administrator	Township of East Hanover 411 Ridgedale Avenue East Hanover, NJ 07936
William Close Business Administrator	Town of Dover 37 North Sussex Street Dover, NJ 07801
Francine Paserchia Borough Clerk/Administrator	Borough of Essex Fells 255 Roseland Avenue PO Box 38 Essex Fells, NJ 07021
William Huyler Borough Administrator	Borough of Florham Park 111 Ridgedale Avenue Florham Park, NJ 07932
David Boynton Councilman	Township of Frelinghuysen 210 Main Street Johnsonburg, NJ 07825
Kelli Schanz Municipal Housing Liaison, Senior Services Advisor	Township of Hanover 1000 Rte 10 Po Box 250 Whippany, NJ 07981
Eric Maurer Administrator	Borough of Hawthorne 445 Lafayette Avenue Hawthorne, NJ 07506
Robert Elia Administrator	Borough of Hopatcong 111 River Styx Rd

	Hopatcong, NJ 07843
Daniel O'Dougherty Councilman	Borough of Kinnelon 130 Kinnelon Road Kinnelon, NJ 07405
Perry Mayers Administrator	Borough of Lincoln Park 34 Chapel Hill Road Lincoln Park, NJ 07035
Neil Henry Administrator/Deputy Clerk	Township of Long Hill 915 Valley Road Gillette, NJ 07933
Robert Kalafut CFO	Borough of Madison Hartley Dodge Memorial-Kings Road Madison, NJ 07940
Ellen Sandman Administrator	Borough of Mendham 2 West Main Street Mendham, NJ 07945
Tim Day CFO	Township of Mendham 2 West Main Street Po Box 520 Brookside, NJ 07926-0520
Jason Gabloff CFO	Township of Millburn 375 Millburn Avenue Millburn, NJ 07041
Victor Canning Administrator	Township of Montville 195 Changebridge Rd Montville, NJ 07045
June Uhrin Clerk	Borough of Morris Plains 531 Speedwell Avenue Morris Plains, NJ 07950
Carolyn Rinaldi Acting CFO	Borough of Mount Arlington 419 Howard Blvd. Mt. Arlington, NJ 07856
Robert Tovo Deputy Manager	Borough of Mountain Lakes 400 Boulevard Mountain Lakes, NJ 07046
Frank Wilpert Health Director	Township of Mount Olive 204 Flanders-Drakestown Road Po Box 450 Mt. Olive, NJ 07828
Ralph Blakeslee Borough Administrator	Borough of Netcong 23 Maple Avenue Netcong, NJ 07857
Mel Levine Administrator	Borough of North Caldwell 141 Gould Avenue North Caldwell, NJ 07006
Michael Soccio Finance Director	Township of Randolph 502 Millbrook Avenue Randolph, NJ 07869
Sheila Seifert Clerk	Borough of Rockaway 1 East Main Street

	Rockaway, NJ 07866
Gregory Poff Manager	Township of Rockaway 65 Mount Hope Road Rockaway, NJ 07866
Michele Landtau Confidential Secretary	Township of Sparta 65 Main Street Sparta, NJ 07871
Brian McNeilly Administrator	Borough of Stanhope 77 Main Street Stanhope, NJ 07874
Andrew Coppola Administrator	Township of Washington 43 Schooley's Mountain Road Long Valley, NJ 07853
Nancy Gage Administrator	Township of West Milford 1480 Union Valley Road West Milford NJ 07480
Jonathan Rheinhardt Administrator/CFO	Borough of Wharton 10 Robert St Wharton, NJ 07885

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:

Jason Gabloff, Chairperson
William Close, Secretary
Jon Rheinhardt
Robert Kalafut
Frank Wilpert

Ralph Blakeslee
Michael Guarino

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 Jason Gabloff and the Secretary was William Close.

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

Coverage: This Committee is charged evaluating potential exposures and questions of coverage and determines whether policy decision should be made by Executive Committee.

Chair	Michael Guarino, Denville Township Michael Soccio, Randolph Township Tim Day, Mendham Township Terry McCue, Boonton Township Jim Lampmann, Borough of Butler David Troast , Town of Sparta
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Safety: This Committee is charged with coordinating the activities of the Safety Director and the relationship of same with member municipalities; evaluating, analyzing, and reviewing the Fund's safety programs and making recommendations to the Fund; and monitoring the Fund's Safety Incentive Program.

Chair-	Frank Wilpert, Mt Olive Township William Close, Dover Township
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Eric Maurer, Hawthorne borough
Deborah Burd, Washington Township
Alex McDonald, Millburn Township

Contract Review: This Committee is charged with meeting at least once a year, with a mandatory meeting in September to review professional services and make recommendations on fees and providers.

Chair Ralph Blakeslee, Netcong borough
 William Close, Dover Township
 Eric Maurer, Hawthorne Borough
 Deborah Burd, Washington Township
 Joseph Tempesta, East Hanover Township
 Catherine Shanahan, West Milford Township

Membership - This Committee is charged with developing a mechanism of communication through the membership and community, and to actively pursue potential members.

Chair John Rheinhardt, Wharton Borough
 Ellen Sandman, Mendham Borough
 Catherine Shanahan, West Milford Township
 Nancy Gage – Florham Park Borough
 Robert Kalafut – Madison Borough
 Donna Molinaux – Bloomingdale Borough

Finance - This Committee is charged with developing long range budgetary and dividend strategies.

Chair Robert Kalafut, Madison Borough
 Michael Guarino, Denville Township
 Michael Soccio, Randolph Township
 Frank Wilpert, Mt Olive Township
 Jon Rheinhardt, Wharton Township
 Dana Mooney, Stanhope Borough

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 \$1,250 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 of \$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 MEL does 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 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:

Morris County JIF	Limit
Workers Compensation	\$300,000
Employers Liability	\$300,000
Municipal Excess Liability JIF	
Workers Compensation	\$1,700,000 excess \$300,000
Employers Liability	\$1,700,000 excess \$300,000
Safety National (Rated A+ AMBest)	
Workers Compensation	Statutory Limits excess \$2,000,000
Employers Liability	\$5,000,000 excess \$2,000,000

GENERAL LIABILITY

The JIF provides coverage for Auto and General Liability which includes Commercial General Liability and Law Enforcement Professional Liability for \$300,000 CSL. The MEL Provides excess insurance coverage for general liability as follows:

\$1,450,000 excess \$300,000 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 Morris County JIF purchased optional coverage ranging from \$0 to \$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. Members entities in the Morris County JIF purchased additional coverage ranging from 0 to \$8,000,000. The MEL has reinsured this coverage with A+ rated reinsurers.

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 \$1,250. 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

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.

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 \$4,356,740.

UNDERGROUD 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

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.

A review of coverage in effect revealed the Fund's third party administrator for liability claims D&H Alternative Risk Solutions did not maintain a surety bond as required by statute. The Fund has indicated that they have contacted D&H Alternative risk Solutions and they are in the process of obtaining a surety which will be in place for 2016.

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 Nisivoccia and Company and an audited report was filed with the Commissioner of the Department of Banking and Insurance.

TREATMENT OF MEMBERS

The Fund records all complaints in the minutes under the correspondence section. The minutes include a copy of the written complaint and disposition thereof. In addition the TPA maintains a complaint register. During the review no unfair treatment of members was noted.

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	\$ 3,384,538	\$ 6,493,826
Investments	15,768,054	11,637,530
Accrued Interest Receivable	40,974	26,917
Due MEL Residual Claims Fund	145,759	236,089
Due Municipal Environment Risk Management Fund	-	87,081
Excess Insurance Receivable	989,641	391,109
Other Receivables	133,908	1,530
Total Assets	<u>20,462,874</u>	<u>18,874,082</u>
<u>LIABILITIES</u>		
Loss Reserves	14,645,882	13,532,800
Accounts Payable - Vendors	154,073	84,866
Insurance Premiums Payable	881,304	-
Assessment Overpayments	7,928	3,414
Total Liabilities	<u>15,689,187</u>	<u>13,621,080</u>
<u>NET POSITION</u>		
Net Statutory Surplus - Unrestricted	4,773,687	5,253,002
Total Liabilities and Surplus	<u>\$ 20,462,874</u>	<u>\$ 18,874,082</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	\$ 14,989,848	\$ 14,651,332
Total Operating Revenue	<u>14,989,848</u>	<u>14,651,332</u>
 <u>EXPENSES</u>		
Provision for Claims and Claims Adj. Expense ⁽¹⁾	6,493,678	8,131,531
Assessment for Participation in MELRCF	1,464,133	1,318,327
Assessment for Participation in MELJIF	3,655,300	3,820,200
Assessment for Participation in MERMF ⁽²⁾	381,796	439,600
Insurance Premiums	1,338,892	1,182,456
Claims Administration	463,487	454,399
Other Contractual Services	936,653	760,721
Non-Contractual Expenses	30,722	58,683
Administration	230,615	226,092
Managed Care/Employee Defense	223,552	218,811
Risk Management Fees	330,696	351,148
Total Expenses	<u>15,549,524</u>	<u>16,961,968</u>
Operating Income (Loss)	<u>(559,676)</u>	<u>(2,310,636)</u>
 <u>NON-OPERATING REVENUE</u>		
Investment Income	<u>80,361</u>	<u>172,294</u>
Change in Net Position	<u>(479,315)</u>	<u>(2,138,342)</u>
 Net Position - Beginning of Year		
	5,253,002	7,391,344
Less: Distribution to Participating Members	-	-
Net Position - End of Year	<u>\$ 4,773,687</u>	<u>\$ 5,253,002</u>

(1) Net of Reinsurance of \$187,824 and \$387,873 for 2013 and 2012, respectively.

(2) Net of Dividend of \$62,699 and \$87,071 for 2013 and 2012, respectively.

LOSS RESERVES

The loss reserves reported by the Fund at December 31, 2013 were \$14,645,882. A review by an actuary from the New Jersey Department of Banking and Insurance Indicated the reserves established by the Fund were reasonable.

Data supporting the Fund's actuarial calculation was reconciled to supporting records without exception. Samples of paid and outstanding losses were traced to claim files without 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

MORRIS COUNTY 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 joint insurance fund 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

My commission expires: *July 2020*