

SALEM COUNTY INSURANCE FUND COMMISSION
REPORT ON AUDIT OF FINANCIAL STATEMENTS
FOR THE PERIOD OCTOBER 3, 2012 (DATE OF INCEPTION)
TO DECEMBER 31, 2012



SALEM COUNTY INSURANCE FUND COMMISSION

TABLE OF CONTENTS

Page No.

Independent Auditors' Report	1
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	4
Management's Discussion and Analysis	6

Financial Statements

Exhibit A-1	Statement of Net Position	9
Exhibit A-2	Statement of Revenues, Expenses and Change in Net Position	10
Exhibit A-3	Statement of Cash Flows	11
	Notes to Financial Statements	12

Required Supplementary Information

Schedule 1	Reconciliation of Claims Liabilities by Fund	21
Schedule 2	One-Year Claims Development Information	22

Supplementary Information

Schedule B-1	Statement of 2012 Fund Year Account Operating Results Analysis	24
Schedule B-2	Statement of 2012 Fund Year Claims Analysis	25
Schedule B-3	Statements of 2012 Fund Year Program Summary	26

Schedule of Findings and Recommendations

Schedule of Findings and Recommendations	28
Schedule of Financial Statement Findings	28
Summary Schedule of Prior Year Audit Findings as Prepared by Management	28
Appreciation	28

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Salem County Insurance Fund Commission
9 Campus Drive
Suite 16
Parsippany, NJ 07054

Report on the Financial Statements

We have audited the accompanying financial statements of the Salem County Insurance Fund Commission (the "Commission") as of December 31, 2012 and for the period October 3, 2012 (Date of Inception) to December 31, 2012, and the related notes to the financial statements, which collectively comprise the Commission'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.

Auditors' Responsibility

Our responsibility is to express opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and in compliance with audit requirements as prescribed by the the Division of Local Government Services, Department of Community Affairs, State of New Jersey. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity'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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Salem County Insurance Fund Commission as of December 31, 2012 and the results of its operations and cash flows for the period October 3, 2012 (Date of Inception), in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary information listed in the table of contents 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 Information

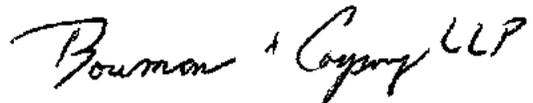
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Salem County Insurance Fund Commission's basic financial statements taken as a whole. The information included in the Supplementary schedules listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Board of Commissioners
Salem County Insurance Fund Commission

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated August 1, 2013 on our consideration of the Commission's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Respectfully Submitted,



Bowman & Company LLP
Certified Public Accountants
& Consultants

Woodbury, New Jersey
August 1, 2013

**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**

Board of Commissioners
Salem County Insurance Fund Commission
9 Campus Drive
Suite 16
Parsippany, NJ 07054

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in compliance with audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs of the State of New Jersey, the financial statements of the Salem County Insurance Fund Commission (the "Commission") as of and for the Period October 3, 2012 (Date of Inception) to December 31, 2012, and the related notes to the financial statements, which collective comprise the Commission's basic financial statements, and have issued our report thereon dated August 1, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission'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 Commission'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 over financial reporting 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 significant deficiencies or material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Commissioners
Salem County Insurance Fund Commission

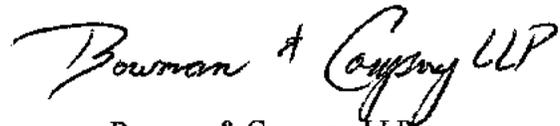
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of 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, and audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey.

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 results 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.

Respectfully Submitted,



Bowman & Company LLP
Certified Public Accountants
& Consultants

Woodbury, New Jersey
August 1, 2013

SALEM COUNTY INSURANCE FUND COMMISSION

Management's Discussion and Analysis

This section of the annual financial report of the Commission presents a discussion and analysis of the financial performance of the Commission for the period October 3, 2012 (Date of Inception) to December 31, 2012. Please read it in conjunction with the basic financial statements that follow this section.

Overview of Basic Financial Statements

The Commission'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 Commission is to provide property and casualty insurance coverage for Salem County Proper and its' inter-agencies that are members of the Commission. The Commission maintains separate enterprise funds by incurred years and line of 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 Commission's assets, liabilities, and net position. Net position represent the amount of total assets less total liabilities.

Statement of Revenue, Expenses, and Change in Net Position – This statement reflects the Commission'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 for the fiscal year.

Financial Highlights

The following tables summarize the Net Position and results of operations for the Commission as of December 31, 2012 and for the period October 3, 2012 (Date of Inception) to December 31, 2012.

Summary Statement of Net Position		<u>12/31/2012</u>
Assets		
Contributions Receivable		\$ 272,235
Investment in Joint Venture		12,062
		<hr/>
Total Assets		<u>284,297</u>
Liabilities & Net Position		
Liabilities		
Loss Reserves		54,974
Other Liabilities		163,727
		<hr/>
Total Liabilities		<u>218,701</u>
Net Position		<u>\$ 65,596</u>

Summary Statement of Revenue, Expenditures, and Change in Net Position		<u>12/31/2012</u>
Operating Revenue		
Regular Contributions		\$ 272,235
		<hr/>
Operating Expenses:		
Provision for Claims and Claims Adjustment Expenses		54,974
Premium for Excess Insurance		147,426
Administrative and Operating Expenses		16,301
		<hr/>
Total Operating Expenses		218,701
Operating Income		53,534
Non-Operating Revenue:		
Change in Investment in Joint Venture		12,062
		<hr/>
Change In Net Position		<u>\$ 65,596</u>

Financial Highlights Continued

On October 3, 2012, the Salem County Board of Chosen Freeholders adopted a resolution which authorized the establishment of the Salem County Insurance Fund Commission. The Commission was established under N.J.S.A. 40A:10-6 which authorizes a governing body of any local unit to establish an Insurance Commission for the purposes provided by law. This was based on the County's determination that cost savings and efficiencies can be achieved if the County Proper and its inter-agencies share the cost of insurance, claim management and services, a safety and loss control program and consolidation of insurance policies.

The Salem County Insurance Fund Commission's total assets at the end of the first year of operations were \$284,297, and total liabilities were \$218,701 resulting in a surplus in a unrestricted net position of \$65,596. The Investment in Joint Ventures represents the Commission's share of net assets in the New Jersey Counties Excess Joint Insurance Fund.

Insurance premiums represent the assessment paid to the New Jersey Counties Excess Joint Insurance Fund were \$147,426. That Fund is a cost sharing excess fund that assumes risk on behalf of the Commission and the other members of that Fund, the Burlington County Insurance Commission, Camden County Insurance Fund Commission, Cumberland County Insurance Fund Commission, Gloucester County Insurance Fund Commission and Union County.

Economic Conditions

The future financial position of the Commission will be impacted by trends in medical costs which affect workers compensation costs. The Commission will attempt to offset these trends by reducing accident frequency and severity, and by streamlining claims processing and management.

Contacting the Fund's Management

This financial report is designed to provide the Salem County Insurance Fund Commission members and the Division of Local Government Services, Department of Community Affairs of the State of New Jersey with a general overview of the Commission's finances and to demonstrate the Commission's accountability for the public funds it receives. If you have any questions about this report or need additional financial information, contact the Executive Director of the Salem County Insurance Fund Commission office located at 9 Campus Drive, Suite 16, Parsippany, New Jersey 07054 or by phone at (201) 881-7632.

SALEM COUNTY INSURANCE FUND COMMISSION
STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2012

2012

ASSETS

Contributions Receivable	\$ 272,235
Investment in Joint Venture	12,062
	<hr/>
Total Assets	284,297
	<hr/>

LIABILITIES AND RESERVES

Liabilities:

Accrued Administrative Expenses	16,301
Excess Insurance Payable	147,426
	<hr/>

Total Liabilities	163,727
	<hr/>

Claims Reserves:

Case Reserves	18,626
IBNR Reserves	40,474
Reserve Discount	(4,126)
	<hr/>

Total Reserves	54,974
	<hr/>

Total Liabilities and Reserves	218,701
	<hr/>

NET POSITION

Unrestricted	\$ 65,596
	<hr/> <hr/>

The accompanying Notes to Financial Statements are an integral part of this statement.

SALEM COUNTY INSURANCE FUND COMMISSION
STATEMENT OF REVENUE, EXPENSES AND CHANGE IN NET POSITION
FOR THE PERIOD OCTOBER 3, 2012 (DATE OF INCEPTION) TO DECEMBER 31, 2012

	<u>2012</u>
Operating Revenue:	
Regular Contributions	<u>\$ 272,235</u>
Operating Expenses:	
Provision for Claims and Claims Adjustment Expenses	54,974
Premium for Excess Insurance	147,426
Administrative Expenses:	
Actuary	500
Auditor	3,400
Claims Administrator	5,250
Fund Administrator	<u>7,151</u>
Total Operating Expenses	<u>218,701</u>
Operating Income	<u>53,534</u>
Non-Operating Revenue:	
Change in Investment in Joint Venture	<u>12,062</u>
Change in Net Position	65,596
Net Position - Beginning of Year	-
Distributions to Members	<u>-</u>
Net Position - End of Year	<u><u>\$ 65,596</u></u>

The accompanying Notes to Financial Statements are an integral part of this statement.

SALEM COUNTY INSURANCE FUND COMMISSION
STATEMENT OF CASH FLOWS
FOR THE PERIOD OCTOBER 3, 2012 (DATE OF INCEPTION) TO DECEMBER 31, 2012

2012

Cash Flows From Operating Activities:	
Cash Flows From Operating Activities:	
Regular Contributions	\$ -
Claim Payments	
Insurance Premiums	
Payments to Professionals and Suppliers	
	<hr/>
Net Cash Flows Provided By Operating Activities	<hr/> -
Cash Flows From Investing Activities:	
Investment Income	
	<hr/>
Net Cash Flows Provided By Investing Activities	<hr/> -
Net Increase in Cash and Cash Equivalents	
Cash and Cash Equivalents - Beginning of Year	<hr/> -
Cash and Cash Equivalents - End of Year	<u><u>\$ -</u></u>
Reconciliation of Operating Income to	
Cash Flows From Operating Activities:	
Operating Income	\$ 53,534
Adjustments to Reconcile Operating Income to	
Net Cash Provided By Operating Activities:	
Changes in Assets and Liabilities:	
Contributions Receivable	(272,235)
Accrued Administrative Expenses	16,301
Excess Insurance Payable	147,426
Claims Reserves	54,974
	<hr/>
Net Cash Flows Provided By Operating Activities	<u><u>\$ -</u></u>
Supplemental Disclosure - Noncash Activity:	
Change in Investment in Joint Venture	<u><u>\$ 12,062</u></u>

The accompanying Notes to Financial Statements are an integral part of this statement.

SALEM COUNTY INSURANCE FUND COMMISSION
NOTES TO FINANCIAL STATEMENTS

Note 1: ORGANIZATION AND DESCRIPTION OF THE COMMISSION

On October 3, 2012 the Salem County Insurance Fund Commission (the "Commission") was formed in accordance with P.L. 1992, C.51, entitled "An Act Concerning Insurance Funds for Local Units of Government", and supplementing Chapter 10 of Title 40A:10-6. The Commission is operated in accordance with regulations of the Division of Local Government Services of the Department of Community and Urban Affairs for the purpose of securing significant savings in insurance cost as well as providing stability in coverage.

The Board of Commissioners of the Commission may approve subsequent membership by a majority vote of the commissioners or may terminate any member by a majority vote, after proper notice has been given. Early terminations require prior approval by the Commissioners.

During 2012, members of the Commission included Salem County.

All members' assessments, including a reserve for contingencies, are based on annual actuarial assumptions determined by the Commission's Actuary. The Commissioners may order additional assessments to supplement the Commission's claim, loss retention or administrative accounts to assure the payment of the Commission's obligations.

The Commission offers the following primary insurance coverage to its members:

- Workers' Compensation including Employers' Liability.
- General Liability other than motor vehicles.
- Property damage other than motor vehicles.
- Automobile Liability and damage.

Through membership in the New Jersey Counties Excess Joint Insurance Fund, the Commission offers the following ancillary insurance coverage to its members:

- Public Officials Liability/School Board Legal/Employment Practices Liability
- Crime
- Pollution Liability
- Medical Professional Liability
- Employed Lawyers Liability

The Commission provides coverage on a self-insured basis and secures excess insurance in a form and an amount from an insurance company acceptable to the Commissioner of Insurance.

SALEM COUNTY INSURANCE FUND COMMISSION
NOTES TO FINANCIAL STATEMENTS

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the more significant policies followed by the Salem County Insurance Fund Commission (the "Commission") in the preparation of the accompanying financial statements:

Reporting Entity-Component Unit

The Commission has determined that there were no additional entities required to be included in the reporting entity under the criteria described in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 14. In addition, the Commission is not includable in any other reporting entity on the basis of such criteria.

Basis of Presentation, Fund Accounting

The financial statements of the Commission have been prepared in accordance with accounting principles generally accepted in the United States of America applicable to enterprise funds of State and Local Governments on a going concern basis. The focus of enterprise funds is the measurement of economic resources, that is, the determination of operating income, changes in net position (or cost recovery), financial position and cash flows. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Enterprise funds are accounted for using the accrual basis of accounting.

Revenues - Revenue is recorded on the accrual basis. Member Assessments are recognized as revenue at the time of assessment.

Expenses - On the accrual basis of accounting, expenses are recognized at the time they are incurred.

Cash, Cash Equivalents and Investments

Cash and cash equivalents include petty cash, change funds and cash in banks and all highly liquid investments with a maturity of three months or less at the time of purchase and are stated at cost plus accrued interest. Such is the definition of cash and cash equivalents used in the statement of cash flows. U.S. treasury and agency obligations and certificates of deposit with maturities of one year or less when purchased are stated at cost. All other investments are stated at fair value.

New Jersey governments units are required by N.J.S.A. 40A:5-14 to deposit public funds in a bank or trust company having its place of business in the State of New Jersey and organized under the laws of the United States or of the State of New Jersey or in the New Jersey Cash Management Fund. N.J.S.A. 40A:5-15.1 provides a list of investments which may be purchased by New Jersey municipal units. In addition, other State statutes permit investments in obligations issued by local authorities and other state agencies.

SALEM COUNTY INSURANCE FUND COMMISSION
NOTES TO FINANCIAL STATEMENTS

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Cash, Cash Equivalents and Investments (Cont'd)

Additionally, the Commission has adopted a cash management plan which requires it to deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act. The Act was enacted in 1970 to protect Governmental Units from a loss of funds on deposit with a failed banking institution in New Jersey. In lieu of designating a depository, the cash management plan may provide that the local unit make deposits with the State of New Jersey Cash Management Fund.

N.J.S.A. 17:9-41 et seq. establishes the requirements for the security of deposits of governmental units. The statute requires that no governmental unit shall deposit public funds in a public depository unless such funds are secured in accordance with the Governmental Unit Deposit Protection Act ("GUDPA"), a multiple financial institutional collateral pool, which was enacted in 1970 to protect governmental units from a loss of funds on deposit with a failed banking institution in New Jersey. Public depositories include State or federally chartered banks, savings banks or associations located in or having a branch office in the State of New Jersey, the deposits of which are federally insured. All public depositories must pledge collateral, having a market value at least equal to five percent of the average daily balance of collected public funds, to secure the deposits of governmental units. If a public depository fails, the collateral it has pledged, plus the collateral of all other public depositories, is available to pay the amount of their deposits to the governmental units.

Annual Contributions

Annual contributions are based on loss funds as determined by the Commission's actuary and are received in three installments. Total contributions are recognized as earned revenue evenly over the fiscal contract period or period of risk, if different. All past due contributions bear interest at the rate established annually by the Fund Commissioners.

Supplemental Contributions

The Commissioners shall by majority vote levy upon the participating county agencies additional assessments wherever needed to supplement the Commission's claim, loss retention or administrative accounts, after consideration of anticipated investment income, to assure the payment of the Commission's obligations. Supplemental contributions to cover a deficit are recognized as revenue upon approval whether or not actually received.

Interest Income Allocation

Interest income was allocated based on the ratio of monthly average invested cash balances by line of coverage to the total amount invested applied to interest income credited for the month.

SALEM COUNTY INSURANCE FUND COMMISSION
NOTES TO FINANCIAL STATEMENTS

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Unpaid Claims Liabilities

The Commission establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount, particularly for coverages such as general liability. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are reflected in reserves and cumulative expenses in the periods being reported upon.

A. Reported Claims Case Reserves

Case reserves include estimated unpaid claims cost for both future payments of losses and related allocated claim adjustment expenses as reported by the service agent, Inservco, Inc.

B. Claims Incurred But Not Reported (IBNR) Reserve

In order to recognize claims incurred but not reported, a reserve is calculated by the Commission's actuary, The Actuarial Advantage Inc.

Case and IBNR Reserves represent the estimated liability on expected future development on claims already reported to the Commission plus claims incurred but not yet reported and unknown loss events that are expected to become claims. The liabilities for claims and related adjustment expenses are evaluated using Commission and industry data, case basis evaluations and other statistical analyses, and represent estimates of the ultimate net cost of all losses incurred through December 31, 2012. These liabilities are subject to variability between estimated ultimate losses determined as described and the actual experience as it emerges, including the impact of future changes in claim severity and frequency and other factors.

Management believes that the liabilities for unpaid claims above are adequate. The estimates are reviewed periodically and as adjustments to these liabilities become necessary, such adjustments are reflected in cumulative operations.

Excess Coverage

Coverage in excess of the Commission's self insured retention limit is provided through the Commission's membership in the New Jersey Counties Excess Joint Insurance Fund as described in Note 6.

Subrogation

Subrogation and all other recoverable claim amounts, excluding excess insurance, are recognized upon receipt of cash only.

SALEM COUNTY INSURANCE FUND COMMISSION
NOTES TO FINANCIAL STATEMENTS

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Refunds

As per Article VIII of the Commission's Rules and Regulations, any monies for a Fund year in excess of the amount necessary to fund all obligations for that fiscal year as certified by an actuary may be declared to be refundable by the Commission. A refund for any fiscal year shall be paid only in proportion to the member's participation in the Commission for such year. Payment of a refund shall not be contingent on the member's continued membership in the Commission. The Commission may apply a refund to any arrearage owed by the member to the Commission. Otherwise, at the option of the member, the refund may be retained by the Commission and applied towards the member's next annual contribution.

Administrative Expenses

Administrative expenses are comprised mainly of compensation for services rendered by servicing organizations submitted and approved by a majority of the Fund Commissioners. In instances where invoices have not been submitted for specific periods, the maximum allowable contract amount has been accrued.

Income Taxes

The Commission is exempt from income taxes under Section 115 of the Internal Revenue Code.

Operating and Non-Operating Revenues and Expenses

Operating revenues include all revenues derived from member contributions. Non-operating revenues principally consist of interest income earned on various interest-bearing accounts and on investments in debt securities and positive changes in the Commission's investment in the New Jersey Counties Excess Joint Insurance Fund.

Operating expenses include expenses associated with the fund operations, including claims expense, insurance and administrative expenses. Non-operating expenses include negative changes in the Commission's investment in the New Jersey Counties Excess Joint Insurance Fund.

Use of Estimates

Management of the Commission has made certain estimates and assumptions relating to the reporting of assets, liabilities and revenues and expenses to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results may differ from those estimates.

SALEM COUNTY INSURANCE FUND COMMISSION
NOTES TO FINANCIAL STATEMENTS

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

New Accounting Standards Adopted

During the year ended December 31, 2012, the Commission adopted the following new accounting standards issued by the Governmental Accounting Standards Board (GASB):

Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements

Issued in November 2010, the objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

- Financial Accounting Standards Board (FASB) Statements and Interpretations
- Accounting Principles Board Opinions
- Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

Hereinafter, these pronouncements collectively are referred to as the "FASB and AICPA pronouncements."

This Statement also supersedes Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement.

Implementation of this statement had no material impact on the Commission's 2012 financial statements.

Note 3: CASH AND CASH EQUIVALENTS

Custodial Credit Risk Related to Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Commission's deposits might not be recovered. Although the Commission does not have a formal policy regarding custodial credit risk, N.J.S.A. 17:9-41 et seq. requires that governmental units shall deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act (GUDPA). Under the Act, the first \$250,000 of governmental deposits in each insured depository is protected by the Federal Deposit Insurance Corporation (FDIC). Public funds owned by the Commission in excess of FDIC insured amounts are protected by GUDPA. However, GUDPA does not protect intermingled trust funds such as salary withholdings or funds that may pass to the Commission relative to the happening of a future condition. If the Commission had any such funds, they would be shown as Uninsured and Uncollateralized.

The Commission's bank balance as of December 31, 2012 was \$0.

SALEM COUNTY INSURANCE FUND COMMISSION
NOTES TO FINANCIAL STATEMENTS

Note 4: INVESTMENT IN JOINT VENTURE

As discussed in Note 6, the Commission is a member of the New Jersey Counties Excess Joint Insurance Fund (the "CEL"). The CEL is carrying the individual fund year surplus as unrestricted net assets on the Statement of Net Assets. The allocations of those funds attributed to the CEL's individual members are based on the member's percentage of assessments. The Commission's allocated share of surplus as of December 31, 2012 was \$12,137.

Note 5: CHANGES IN UNPAID CLAIMS LIABILITIES

As discussed in Note 2, the Commission establishes a liability for both reported and unreported insured events, which includes estimates of future payments of losses and related allocated claim adjustment expenses.

The following represents changes in those aggregate undiscounted reported and unreported liabilities for the Fund during 2012 for all open Fund years net of excess insurance recoveries:

	<u>2012</u>
Total unpaid claim and claim adjustment expenses all Fund years - Beginning of Year	\$ -
Incurred claims and claims adjustment expenses:	
Provision for insured events of current fund year	54,974
Changes in provision for insured events of prior fund years	-
Total incurred claims and claims adjustment expenses all Fund years	<u>54,974</u>
Payments (Net of Recoveries):	
Claims and claim adjustments expenses:	
Attributable to insured events of current fund year	
Attributable to insured events of prior fund years	-
Total Payments all Fund years	<u>-</u>
Total unpaid claim and claim adjustment expenses all Fund years - End of Year	<u>\$ 54,974</u>

SALEM COUNTY INSURANCE FUND COMMISSION
NOTES TO FINANCIAL STATEMENTS

Note 6: MEMBERSHIP IN JOINT INSURANCE FUNDS

New Jersey Counties Excess Joint Insurance Fund

Effective October 3, 2012 the Commission became a member of the New Jersey Counties Excess Joint Insurance Fund (the "CEL"). The CEL is a risk-sharing public entity risk pool that is a self-administered group of county insurance fund commissions established for the purpose of providing excess insurance coverage to participating members. Each member appoints an official to represent their respective insurance fund commission for the purpose of creating a governing body from which officers for the CEL are elected.

As a member of the CEL, the Commission could be subject to supplemental assessments in the event of deficiencies. If the assets of the CEL were to be exhausted, members would become jointly and severally liable for the CEL's liabilities.

The CEL can declare and distribute dividends to members upon approval of the State of New Jersey Department of Insurance. These distributions are divided among the members in the same ratio as their individual assessment relates to the total assessment of the membership for that fund year.

Selected Financial Information

Selected summarized financial information for the New Jersey Counties Excess Joint Insurance Fund as of December 31, 2012 is as follows:

Total Assets	<u>\$ 6,868,168</u>
Total Liabilities	<u>\$ 4,658,409</u>
Net Position	<u>\$ 2,209,759</u>
Total Revenue	<u>\$ 10,940,056</u>
Total Expenses	<u>\$ 9,801,667</u>
Change In Net Position	<u>\$ 1,138,389</u>
Distributions to Members	<u>\$ -</u>

Financial statements for the New Jersey Counties Excess Joint Insurance Fund are available at the office of the Fund's Executive Director:

PERMA
9 Campus Drive, Suite 16
Parsippany, New Jersey 07054
201-881-7632

SALEM COUNTY INSURANCE FUND COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
AS OF DECEMBER 31, 2012

SALEM COUNTY INSURANCE FUND COMMISSION
 RECONCILIATION OF CLAIMS LIABILITIES BY FUND
 FOR THE PERIOD OCTOBER 3, 2012 (DATE OF INCEPTION) TO DECEMBER 31, 2012

	Property	General Liability	Automobile	Workers' Compensation	Total
Total unpaid claims and claim adjustment expenses - beginning of year	\$ -	\$ -	\$ -	\$ -	\$ -
Incurred claims and claims adjustment expenses:					
Provision for insured events of current Fund year	1,774	10,220	1,013	41,967	54,974
Changes in provision for insured events of prior Fund years					-
Total incurred claims and claims adjustment expenses all Fund years	1,774	10,220	1,013	41,967	54,974
Payments:					
Claims and claims adjustment expenses:					
Attributable to insured events of current Fund year					-
Attributable to insured events of prior Fund years					-
Total payments all Fund years					-
Total unpaid claims and claim adjustment expenses - end of year	\$ 1,774	\$ 10,220	\$ 1,013	\$ 41,967	\$ 54,974

SALEM COUNTY INSURANCE FUND COMMISSION
ONE-YEAR CLAIMS DEVELOPMENT INFORMATION
AS OF DECEMBER 31, 2012

2012

Net Earned Required Contribution and Investment Revenue:	
Earned	\$ 272,235
Ceded	<u>147,426</u>
	<u>124,809</u>
Unallocated Expenses	<u>16,301</u>
Estimated Claims and Expenses, End of Policy Year:	
Incurred	54,974
Ceded	<u> </u>
Net Incurred	<u>54,974</u>
Paid (Cumulative) as of: End of Policy Year	<u> </u>
Reestimated Incurred Claims and Expenses: End of Policy Year	<u>54,974</u>
Change in Estimated Incurred Claims and Expenses from End of Policy Year	<u><u>\$ -</u></u>

SALEM COUNTY INSURANCE FUND COMMISSION
SUPPLEMENTARY INFORMATION
AS OF DECEMBER 31, 2012

SALEM COUNTY INSURANCE FUND COMMISSION
STATEMENT OF FUND YEAR 2012 ACCOUNT OPERATING RESULTS ANALYSIS
FOR THE PERIOD OCTOBER 3, 2012 (DATE OF INCEPTION) TO DECEMBER 31, 2012

Coverages and Other Accounts

	Property	General Liability	Automobile	Workers' Compensation	CEL	Expense & Contingency	Total
Underwriting Income:							
Regular Contributions	\$ 11,764	\$ 11,849	\$ 1,185	\$ 82,946	\$ 147,426	\$ 17,065	\$ 272,235
Total Income	11,764	11,849	1,185	82,946	147,426	17,065	272,235
Incurred Liabilities:							
Claims	1,774	10,220	1,013	41,967	147,426	16,301	54,974
Expenses							163,727
Total Liabilities	1,774	10,220	1,013	41,967	147,426	16,301	218,701
Underwriting Surplus	9,990	1,629	172	40,979	-	764	53,534
Adjustments:							
Investment Income	-	-	-	-	-	-	-
Permanent Transfers	-	-	-	-	-	-	-
Total Adjustments	-	-	-	-	-	-	-
Gross Surplus	9,990	1,629	172	40,979	-	764	53,534
Return of Surplus							-
Net Surplus							
Before Unallocated Investment	\$ 9,990	\$ 1,629	\$ 172	\$ 40,979	\$ -	\$ 764	\$ 53,534
Investment in Joint Venture							12,062
Net Surplus							\$ 65,596

SALEM COUNTY INSURANCE FUND COMMISSION
STATEMENT OF FUND YEAR 2012 CLAIMS ANALYSIS
FOR THE PERIOD OCTOBER 3, 2012 (DATE OF INCEPTION) TO DECEMBER 31, 2012

	<u>Coverages</u>				<u>Total</u>
	<u>Property</u>	<u>General Liability</u>	<u>Automobile</u>	<u>Workers' Compensation</u>	
Paid Claims (Net of Recoveries)					\$ -
Case Reserves		\$ 100		\$ 18,526	18,626
IBNR Reserves	\$ 1,800	11,200	\$ 1,100	26,374	40,474
Reserve Discount	(26)	(1,080)	(87)	(2,933)	(4,126)
Subtotal	1,774	10,220	1,013	41,967	54,974
Excess Insurance Received Recoverable					-
Subtotal	-	-	-	-	-
Limited Incurred Claims	\$ 1,774	\$ 10,220	\$ 1,013	\$ 41,967	\$ 54,974
Number of Claims		1		7	8
Average Cost Per Claim		\$ 10,220		\$ 5,995	\$ 6,872

SALEM COUNTY INSURANCE FUND COMMISSION
STATEMENT OF FUND YEAR 2012 PROGRAM SUMMARY
FOR THE PERIOD OCTOBER 3, 2012 (DATE OF INCEPTION) TO DECEMBER 31, 2012

	<u>Property</u>	<u>Coverages</u> General <u>Liability</u>	<u>Auto</u>	<u>Workers</u> <u>Compensation</u>
Limits	\$260,000,000	\$20,500,000	\$20,500,000	STATUTORY
Fund Retention	\$100,000	\$250,000	\$250,000	\$250,000
Excess Insurers	Zurich RSUI	CEL Star	CEL Star	CEL Star
Number of Participants	1	1	1	1
Incurred Liabilities:				
Claims (Schedule B-1a)	\$1,774	\$10,220	\$1,013	\$41,967
Administrative Expenses (1)	1,780	1,793	179	12,549
	<u>\$3,554</u>	<u>\$12,013</u>	<u>\$1,192</u>	<u>\$54,516</u>

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with Government Auditing Standards and in compliance with audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs of the State of New Jersey.

SCHEDULE OF FINANCIAL STATEMENT FINDINGS

None.

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AS PREPARED BY MANAGEMENT

This section identifies the status of prior year audit findings related to the financial statements that are required to be reported in accordance with Government Auditing Standards.

There were no findings in the prior year.

APPRECIATION

We express our appreciation for the assistance provided to us during our audit.

Respectfully submitted,
BOWMAN & COMPANY LLP



James J. Miles, Jr.
Certified Public Accountant