

**SALEM COUNTY INSURANCE FUND COMMISSION**  
**REPORT ON AUDIT OF FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**



SALEM COUNTY INSURANCE FUND COMMISSION

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## **INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying financial statements of the Salem County Insurance Fund Commission (the "Commission") as of and for the year ended December 31, 2013, 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 opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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, 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 opinion.

## **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, 2013 and the changes in its financial position and its cash flows for the year then ended, 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.

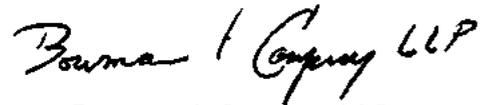
### ***Other Information***

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. The accompanying supplementary schedules as listed in the table of contents are not a required part of the basic financial statements and are presented for purposes of additional analysis. The accompanying supplementary schedules listed in the table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated August 7, 2014 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 in considering the Commission's internal control over financial reporting and compliance.

Respectfully Submitted,



Bowman & Company LLP  
Certified Public Accountants  
& Consultants

Woodbury, New Jersey  
August 7, 2014

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

**INDEPENDENT AUDITORS' REPORT**

Board of 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 year ended December 31, 2013, 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 7, 2014.

**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

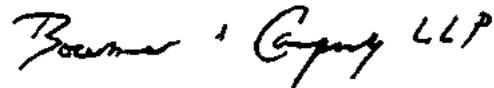
**Compliance and Other Matters**

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, audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey 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 7, 2014

# 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 year ended December 31, 2013. 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 represents the amount of total assets less total liabilities.

Statement of Revenues, 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 and for the year ended December 31, 2013.

Summary Statement of Net Position		<u>12/31/2013</u>
Assets		
Cash & Cash Equivalents		\$ 198,500
Surplus Dividend Receivable		1,259
Investment in Joint Venture		89,440
		<hr/>
Total Assets		289,199
Liabilities & Net Position		
Liabilities		
Loss Reserves		523,646
Other Liabilities		8,542
		<hr/>
Total Liabilities		532,188
		<hr/>
Net Position - Unrestricted		<u>\$ (242,989)</u>

Summary Statement of Revenues, Expenditures, and Change in Net Position		<u>12/31/2013</u>
Operating Revenue		
Regular Contributions and Other Income		\$ 1,357,716
		<hr/>
Operating Expenses:		
Provision for Claims and Claims Adjustment Expenses		909,454
Premium for Excess Insurance		762,587
Administrative and Operating Expenses		71,638
		<hr/>
Total Operating Expenses		1,743,679
		<hr/>
Operating Loss		(385,963)
Non-Operating Revenue:		
Change in Investment in Joint Venture		77,378
		<hr/>
Change In Net Position		<u>\$ (308,585)</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 second year and first full year of operations were \$289,199, and total liabilities were \$532,188 resulting in a deficit in unrestricted net position of \$242,989. 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 \$762,587. That Fund is a cost sharing excess fund that assumes risk on behalf of the Commission and the other members of that Fund, the Camden County Insurance Fund Commission, Cumberland County Insurance Fund Commission, Burlington County Insurance 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, 2013

2013

ASSETS

Cash and Cash Equivalents	\$ 198,500
Surplus Dividend Receivable	1,259
Investment in Joint Venture	<u>89,440</u>
Total Assets	<u>289,199</u>

LIABILITIES AND RESERVES

## Liabilities:

Accrued Administrative Expenses	8,536
Excess Insurance Payable	<u>6</u>

Total Liabilities	<u>8,542</u>
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## Claims Reserves:

Case Reserves	362,700
IBNR Reserves	201,035
Less Reserve Discount	<u>(40,089)</u>

Total Reserves	<u>523,646</u>
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Total Liabilities and Reserves	<u>532,188</u>
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NET POSITION

Unrestricted	<u><u>\$ (242,989)</u></u>
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The accompanying Notes to Financial Statements are an integral part of this statement.

SALEM COUNTY INSURANCE FUND COMMISSION  
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>2013</u>
Operating Revenue:	
Regular Contributions	\$ 1,356,457
CEL Dividend	1,259
	<hr/>
Total Operating Revenue	1,357,716
	<hr/>
Operating Expenses:	
Provision for Claims and Claims Adjustment Expenses	909,454
Premium for Excess Insurance	762,587
Administrative Expenses:	
Actuary	7,500
Auditor	7,500
Claims Administrator	20,229
Fund Administrator	33,465
Miscellaneous Expenses	2,930
Postage	14
	<hr/>
Total Operating Expenses	1,743,679
	<hr/>
Operating Loss	(385,963)
	<hr/>
Non-Operating Revenue:	
Change in Investment in Joint Venture	77,378
	<hr/>
Change in Net Position	(308,585)
Net Position - Beginning of Year	65,596
Distributions to Members	-
	<hr/>
Net Position - End of Year	<u>\$ (242,989)</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 YEAR ENDED DECEMBER 31, 2013

2013

Cash Flows From Operating Activities:	
Cash Flows From Operating Activities:	
Receipts From Regular Contributions	\$ 1,628,692
Payments For Claim Payments	(440,782)
Payments For Insurance Premiums	(910,007)
Payments To Professionals and Suppliers	<u>(79,403)</u>
Net Cash Flows Provided By Operating Activities	<u>198,500</u>
Net Cash Flows Provided By Investing Activities	<u>-</u>
Net Cash Flows Provided By Noncapital Financing Activities	<u>-</u>
Net Increase in Cash and Cash Equivalents	198,500
Cash and Cash Equivalents - Beginning of Year	<u>-</u>
Cash and Cash Equivalents - End of Year	<u><u>\$ 198,500</u></u>
Reconciliation of Operating Loss to	
Cash Flows From Operating Activities:	
Operating Loss	\$ (385,963)
Adjustments to Reconcile Operating Loss to	
Net Cash Provided By Operating Activities:	
Changes in Assets and Liabilities:	
Contributions Receivable	272,235
Surplus Dividend Receivable	(1,259)
Accrued Administrative Expenses	(7,765)
Excess Insurance Payable	(147,420)
Claims Reserves	<u>468,672</u>
Net Cash Flows Provided By Operating Activities	<u><u>\$ 198,500</u></u>
Supplemental Disclosure - Noncash Activity:	
Change in Investment in Joint Venture	<u><u>\$ 77,378</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 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 2013, 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:

**Component Unit**

Governmental Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity, and GASB Statement No. 39, Determining Whether Certain Organizations are Component Units, provide guidance that all entities associated with a primary government are potential component units, and should be evaluated for inclusion in the financial reporting entity. A primary government is financially accountable not only for the organizations that make up its legal entity, but also for legally separate organizations that meet the criteria established by GASB Statements No. 14 and No. 39.

In addition, GASB Statement No. 61, The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34, provides additional guidance for organizations that do not meet the financial accountability criteria for inclusion as component units but that nevertheless should be included because the primary government's management determines that it would be misleading to exclude them. In addition, GASB Statement No. 61 clarifies the manner in which component units are presented, whether discretely presented, blended, or included in the fiduciary fund financial statements.

As of December 31, 2013, it has been determined by the Commission that no component unit exists. In addition, the Commission is not includable in any other reporting entity on the basis of such criteria.

**Basis of Presentation**

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 - Exchange and Non-Exchange Transactions** - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value is recorded on the accrual basis when the exchange takes place. 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.

**SALEM COUNTY INSURANCE FUND COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**

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

**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.

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 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.

**SALEM COUNTY INSURANCE FUND COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**

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

**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.

**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, 2013. 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.

**SALEM COUNTY INSURANCE FUND COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**

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

**Subrogation**

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

**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 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.

**Net Position**

In accordance with the provisions of the Governmental Accounting Standards Board Statement 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments", the Commission has classified its net position as unrestricted. This component of net position consists of net positions that do not meet the definition of "restricted" or "net investment in capital assets" and includes net position that may be allocated for specific purposes by the Board.

**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.

**SALEM COUNTY INSURANCE FUND COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**

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

**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.

**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 Fund 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.

Of the Commission's bank balance of \$243,895 as of December 31, 2013, \$243,895 was insured.

**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, 2013 was \$89,440.

**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.

**SALEM COUNTY INSURANCE FUND COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 5: CHANGES IN UNPAID CLAIMS LIABILITIES (CONT'D)**

The following represents changes in those aggregate undiscounted reported and unreported liabilities for the Commission during 2013 for all open Fund years net of excess insurance recoveries:

	<u>2013</u>
Total unpaid claim and claim adjustment expenses all Fund years - Beginning of Year	\$ 54,974
Incurred claims and claims adjustment expenses:	
Provision for insured events of current fund year	829,261
Changes in provision for insured events of prior fund years	<u>80,193</u>
Total incurred claims and claims adjustment expenses all Fund years	<u>964,428</u>
Payments (Net of Recoveries):	
Claims and claim adjustments expenses:	
Attributable to insured events of current fund year	338,209
Attributable to insured events of prior fund years	<u>102,573</u>
Total Payments all Fund years	<u>440,782</u>
Total unpaid claim and claim adjustment expenses all Fund years - End of Year	<u>\$ 523,646</u>

**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.

**SALEM COUNTY INSURANCE FUND COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 6: MEMBERSHIP IN JOINT INSURANCE FUNDS (CONT'D)**

**New Jersey Counties Excess Joint Insurance Fund (Cont'd)**

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, 2013 is as follows:

Total Assets	\$ 9,849,417
Total Liabilities	\$ 6,063,038
Net Position	\$ 3,786,379
Total Revenue	\$ 13,040,794
Total Expenses	\$ 10,856,623
Change In Net Position	\$ 1,576,620
Distributions to Members	\$ 607,551

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

**Note 7: SUBSEQUENT EVENTS**

During the Commission's June 5, 2014 meeting a supplemental assessment of \$200,000 due from Salem County was approved. The assessment will be due in two installments.

**SALEM COUNTY INSURANCE FUND COMMISSION**  
**REQUIRED SUPPLEMENTARY INFORMATION**

SALEM COUNTY INSURANCE FUND COMMISSION  
 RECONCILIATION OF CLAIMS LIABILITIES BY FUND  
 FOR THE PERIOD OCTOBER 3, 2012 (DATE OF INCEPTION) TO DECEMBER 31, 2013

	<u>Property</u>	<u>General Liability</u>	<u>Automobile</u>	<u>Workers' Compensation</u>	<u>Total</u>
Total unpaid claims and claim adjustment expenses - beginning of year	\$ 1,774	\$ 10,220	\$ 1,013	\$ 41,967	\$ 54,974
Incurred claims and claims adjustment expenses:					
Provision for insured events of current Fund year	36,882	114,106	4,667	673,606	829,261
Changes in provision for insured events of prior Fund years	(1,774)	(2,269)	(1,013)	85,249	80,193
Total incurred claims and claims adjustment expenses all Fund years	36,882	122,057	4,667	800,822	964,428
Payments:					
Claims and claims adjustment expenses:					
Attributable to insured events of current Fund year	28,777	500	773	308,159	338,209
Attributable to insured events of prior Fund years		313		102,260	102,573
Total payments all Fund years	28,777	813	773	410,419	440,782.00
Total unpaid claims and claim adjustment expenses - end of year	\$ 8,105	\$ 121,244	\$ 3,894	\$ 390,403	\$ 523,646

SALEM COUNTY INSURANCE FUND COMMISSION  
TWO-YEAR CLAIMS DEVELOPMENT INFORMATION  
AS OF DECEMBER 31, 2013

	<u>2012</u>	<u>2013</u>
Net Earned Required Contribution and Investment Revenue:		
Earned	\$ 273,494	\$ 1,356,456
Ceded	147,426	762,587
	<hr/>	<hr/>
	126,068	593,869
	<hr/>	<hr/>
Unallocated Expenses	16,301	71,638
	<hr/>	<hr/>
Estimated Claims and Expenses, End of Policy Year:		
Incurred	54,974	829,261
Ceded		
	<hr/>	<hr/>
Net Incurred	54,974	829,261
	<hr/>	<hr/>
Paid (Cumulative) as of:		
End of Policy Year	-	338,209
One Year Later	102,573	
	<hr/>	<hr/>
Reestimated Incurred Claims and Expenses:		
End of Policy Year	54,974	829,261
One Year Later	135,167	
	<hr/>	<hr/>
Change in Estimated Incurred Claims and Expenses from End of Policy Year	<u>\$ 80,193</u>	<u>\$ -</u>

**SALEM COUNTY INSURANCE FUND COMMISSION**  
**SUPPLEMENTARY INFORMATION**

SALEM COUNTY INSURANCE FUND COMMISSION  
STATEMENT OF FUND YEAR 2013 ACCOUNT OPERATING RESULTS ANALYSIS  
FOR THE PERIOD JANUARY 1, 2013 TO DECEMBER 31, 2013

Coverages and Other Accounts

	<u>Property</u>	<u>General Liability</u>	<u>Automobile</u>	<u>Workers' Compensation</u>	<u>CEL</u>	<u>Expense &amp; Contingency</u>	<u>Total</u>
Underwriting Income:							
Regular Contributions	\$ 55,202	\$ 55,601	\$ 5,560	\$ 389,206	\$ 762,583	\$ 88,304	\$ 1,356,456
Total Income	55,202	55,601	5,560	389,206	762,583	88,304	1,356,456
Incurred Liabilities:							
Claims	36,882	114,106	4,667	673,606	762,587	71,638	829,261
Expenses							834,225
Total Liabilities	36,882	114,106	4,667	673,606	762,587	71,638	1,663,486
Underwriting Surplus (Deficit)	18,320	(58,505)	893	(284,400)	(4)	16,666	(307,030)
Adjustments:							
Investment Income							-
Permanent Transfers							-
Total Adjustments	-	-	-	-	-	-	
Gross Surplus (Deficit) Return of Surplus	18,320	(58,505)	893	(284,400)	(4)	16,666	(307,030)
Net Surplus (Deficit) Before Unallocated Investment	\$ 18,320	\$ (58,505)	\$ 893	\$ (284,400)	\$ (4)	\$ 16,666	(307,030)
Investment in Joint Venture							79,755
Net Deficit							<u>\$ (227,275)</u>

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, 2013

Coverages and Other Accounts

	<u>Property</u>	<u>General Liability</u>	<u>Automobile</u>	<u>Workers' Compensation</u>	<u>CEL</u>	<u>Expense &amp; Contingency</u>	<u>Total</u>
Underwriting Income:							
Regular Contributions	\$ 11,764	\$ 11,849	\$ 1,185	\$ 82,946	\$ 147,427	\$ 17,065	\$ 272,236
CEL Dividend					1,259		1,259
Total Income	11,764	11,849	1,185	82,946	148,686	17,065	272,236
Incurred Liabilities:							
Claims		7,951		127,216	147,426	16,301	135,167
Expenses							163,727
Total Liabilities	-	7,951	-	127,216	147,426	16,301	298,894
Underwriting Surplus (Deficit)	11,764	3,898	1,185	(44,270)	1,260	764	(25,399)
Adjustments:							
Investment Income							-
Permanent Transfers							-
Total Adjustments	-	-	-	-	-	-	-
Gross Surplus (Deficit)	11,764	3,898	1,185	(44,270)	1,260	764	(25,399)
Return of Surplus							-
Net Surplus (Deficit)	\$ 11,764	\$ 3,898	\$ 1,185	\$ (44,270)	\$ 1,260	\$ 764	(25,399)
Before Unallocated Investment							
Investment in Joint Venture							9,685
Net Deficit							\$ (15,714)

SALEM COUNTY INSURANCE FUND COMMISSION  
STATEMENT OF FUND YEAR 2013 CLAIMS ANALYSIS  
FOR THE PERIOD JANUARY 1, 2013 TO DECEMBER 31, 2013

	<u>Coverages</u>				
	<u>Property</u>	<u>General Liability</u>	<u>Automobile</u>	<u>Workers' Compensation</u>	<u>Total</u>
Paid Claims (Net of Recoveries)	\$ 28,777	\$ 500	\$ 773	\$ 308,159	\$ 338,209
Case Reserves	16,223	65,500	1,000	255,693	338,416
IBNR Reserves	(8,000)	59,000	3,227	136,165	190,392
Reserve Discount	(118)	(10,894)	(333)	(26,411)	(37,756)
Subtotal	36,882	114,106	4,667	673,606	829,261
Excess Insurance Received Recoverable					-
Subtotal	-	-	-	-	-
Limited Incurred Claims	\$ 36,882	\$ 114,106	\$ 4,667	\$ 673,606	\$ 829,261
Number of Claims	4	17	3	58	82
Average Cost Per Claim	\$ 9,221	\$ 6,712	\$ 1,556	\$ 11,614	\$ 10,113

SALEM COUNTY INSURANCE FUND COMMISSION  
STATEMENT OF FUND YEAR 2012 CLAIMS ANALYSIS  
FOR THE PERIOD OCTOBER 3, 2012 (DATE OF INCEPTION) TO DECEMBER 31, 2013

	<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)		\$ 313		\$ 102,260	\$ 102,573
Case Reserves		5,000		19,284	24,284
IBNR Reserves		3,187		7,456	10,643
Reserve Discount		(549)		(1,784)	(2,333)
Subtotal	-	7,951	-	127,216	135,167
Excess Insurance Received Recoverable					-
Subtotal	-	-	-	-	-
Limited Incurred Claims	-	\$ 7,951	-	\$ 127,216	\$ 135,167
Number of Claims		3		8	11
Average Cost Per Claim		\$ 2,650		\$ 15,902	\$ 12,288

SALEM COUNTY INSURANCE FUND COMMISSION  
STATEMENT OF FUND YEAR 2013 PROGRAM SUMMARY  
FOR THE PERIOD JANUARY 1, 2013 TO DECEMBER 31, 2013

	<u>Coverages</u>			
	<u>Property</u>	<u>General Liability</u>	<u>Auto</u>	<u>Workers Compensation</u>
Limits	\$260,000,000	\$25,250,000	\$25,250,000	STATUTORY
Fund Retention	\$100,000	\$250,000	\$250,000	\$250,000
Excess Insurers	Zurich RSUI	CEL Underwriters at Lloyds Starr Indemnity	CEL Underwriters at Lloyds Starr Indemnity	CEL Wesco Safety National
Number of Participants	1	1	1	1
Incurred Liabilities:				
Claims (Schedule B-1a)	\$36,882	\$114,106	\$4,667	\$673,606
Administrative Expenses (1)	7,822	7,879	788	55,150
	<u>\$44,704</u>	<u>\$121,985</u>	<u>\$5,455</u>	<u>\$728,756</u>

SALEM COUNTY INSURANCE FUND COMMISSION  
 STATEMENT OF FUND YEAR 2012 PROGRAM SUMMARY  
 FOR THE PERIOD OCTOBER 3, 2012 (DATE OF INCEPTION) TO DECEMBER 31, 2013

	<u>Coverages</u>			
	<u>Property</u>	<u>General Liability</u>	<u>Auto</u>	<u>Workers 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-1b)	\$0	\$7,951	\$0	\$127,216
Administrative Expenses (1)	1,780	1,793	179	12,549
	<u>\$1,780</u>	<u>\$9,744</u>	<u>\$179</u>	<u>\$139,765</u>

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

**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