

GLOUCESTER COUNTY INSURANCE FUND COMMISSION

REPORT ON AUDIT OF FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010



GLOUCESTER COUNTY INSURANCE FUND COMMISSION

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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Gloucester County Insurance Fund Commission
250 Pehle Avenue
Suite 701
Saddle Brook, New Jersey 07663

We have audited the statements of net assets of the Gloucester County Insurance Fund Commission (the "Commission") as of December 31, 2010, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an 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, 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 Department of Banking and Insurance and the Division of Local Government Services, Department of Community Affairs of the 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Gloucester County Insurance Fund Commission as of December 31, 2010 and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 20, 2011, on our consideration of Gloucester County Insurance Fund 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 read in conjunction with this report in considering the results of our audit.

Board of Commissioners
Gloucester County Insurance Fund Commission

The accompanying management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The information included in the accompanying Supplementary Information Section is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Respectfully Submitted,



Bowman & Company LLP
Certified Public Accountants
& Consultants



James J. Miles, Jr.
Certified Public Accountant

Woodbury, New Jersey
December 20, 2011

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

Board of Commissioners
Gloucester County Insurance Fund Commission
250 Pehle Avenue
Suite 701
Saddle Brook, New Jersey 07663

We have audited the financial statements of the Gloucester County Insurance Fund Commission (the “Commission”) as of December 31, 2010, and have issued our report thereon dated December 20, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission’s internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in finding 2010-1 in the accompanying schedule of findings and recommendations to be a material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Gloucester County Insurance Fund Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, 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 that are required to be reported under Government Auditing Standards, and audit requirements as prescribed by the Department of Banking and Insurance and the Division of Local Government Services, Department of Community Affairs of the State of New Jersey.

This report is intended solely for the information and use of the Commissioners and management of the Gloucester County Insurance Fund Commission and for filing with the Division of Local Government Services, Department of Community Affairs of the of the State of New Jersey and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully Submitted,



Bowman & Company LLP
Certified Public Accountants
& Consultants -



James J. Miles, Jr.
Certified Public Accountant

Woodbury, New Jersey
December 20, 2011

GLOUCESTER 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 year ended December 31, 2010. 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 Gloucester 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 Assets – This statement presents information reflecting the Fund's assets, liabilities, and net assets. Net assets represent the amount of total assets less total liabilities.

Statement of Revenue, Expenses, and Changes in Net Assets – This statement reflects the Fund's operating revenues and expenses, as well as non-operating items during the reporting period. The change in net assets 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 Assets and results of operations for the Fund as of and for the year ended December 31, 2010.

Summary Statement of Net Assets	
	<u>12/31/2010</u>
Assets:	
Cash & Cash Equivalents	\$ 5,053,862
Investment in Joint Venture	73,569
Other Assets	<u>135,617</u>
Total Assets	<u><u>5,263,048</u></u>
Liabilities & Net Assets	
Liabilities:	
Loss Reserves	3,317,075
Other Liabilities & Reserves	<u>31,758</u>
Total Liabilities	<u>3,348,833</u>
Unrestricted Net Assets	<u><u>\$ 1,914,215</u></u>

Summary of Statement of Revenue, Expenditures, and Changes in Net Assets	
	<u>12/31/2010</u>
Operating Revenue:	
Regular Contributions	<u>\$ 31,340,911</u>
Operating Expenses:	
Provision for Claims and claims Expense	24,753,527
Insurance Premiums	1,583,834
Stop Loss Fees	887,697
Administrative and Operating Expenses	<u>2,279,888</u>
Total Operating Expenses	<u>29,504,946</u>
Operating Income	1,835,965
Non-Operating Revenue:	
Investment Income	4,681
Change in Investment in Joint Venture	<u>73,569</u>
Change In Net Assets	<u><u>\$ 1,914,215</u></u>

Financial Highlights Continued

On March 1, 2010, the Gloucester County Board of Chosen Freeholders adopted a resolution which authorized the establishment of the Gloucester 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 Gloucester County Insurance Fund Commission's total assets at the end of the first year of operations were \$5,263,048, and total liabilities were \$3,348,833 resulting in unrestricted net assets of \$1,914,075. 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 \$1,583,834. That Fund is a cost sharing excess fund that assumes risk on behalf of the Commission and the other member of that Fund, the Camden County Insurance Fund Commission

In 2010, investment income was \$4,681 due to the low interest rate environment which limited the ability of the Fund to earn investment income during this reporting period.

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 Gloucester 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 Gloucester County Insurance Fund Commission office located at 250 Pehle Avenue, Suite 701, Saddle Brook, New Jersey 07663 or by phone at 201-587-0555.

GLOUCESTER COUNTY INSURANCE FUND COMMISSION
STATEMENT OF NET ASSETS
AS OF DECEMBER 31, 2010

	2010		
	<u>Total</u>	<u>Health</u>	<u>Property & Casualty</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 5,053,862	\$ 3,404,331	\$ 1,649,531
Contributions Receivable	135,617	123,582	12,035
Investment in Joint Venture	73,569		73,569
	<u>5,263,048</u>	<u>3,527,913</u>	<u>1,735,135</u>
<u>LIABILITIES AND RESERVES</u>			
Liabilities:			
Accrued Administrative Expenses	9,248		9,248
Claims Payable	1,000		1,000
Accrued State Surcharge	21,510	21,510	-
Total Liabilities	<u>31,758</u>	<u>21,510</u>	<u>10,248</u>
Claims Reserves:			
Case Reserves	803,455		803,455
IBNR Reserves	2,513,620	1,705,578	808,042
Total Reserves	<u>3,317,075</u>	<u>1,705,578</u>	<u>1,611,497</u>
Total Liabilities and Reserves	<u>3,348,833</u>	<u>1,727,088</u>	<u>1,621,745</u>
<u>NET ASSETS</u>			
Unrestricted	<u>\$ 1,914,215</u>	<u>\$ 1,800,825</u>	<u>\$ 113,390</u>

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

GLOUCESTER COUNTY INSURANCE FUND COMMISSION
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE PERIOD MARCH 1, 2010 (DATE OF INCEPTION) TO DECEMBER 31, 2010

	2010		
	<u>Total</u>	<u>Health</u>	<u>Property & Casualty</u>
Operating Revenue:			
Regular Contributions	\$ 31,340,911	\$ 27,129,857	\$ 4,211,054
Operating Expenses:			
Provision for Claims and Claims Adjustment Expenses	24,753,527	22,633,036	2,120,491
Premium for Property and Casualty Excess Insurance	1,583,834		1,583,834
Stop Health Coverage Loss Fees	887,697	887,697	
Administrative Expenses:			
Actuary	6,288		6,288
Attorney	16,485		16,485
Auditor	6,707		6,707
Claims Administrators	1,002,209	939,709	62,500
Fund Administrator	957,404	850,062	107,342
Miscellaneous Expenses	9,203		9,203
Postage	82		82
Risk Management Consultants	213,200		213,200
State Surcharge	21,510	21,510	
Underwriting Manager	46,800		46,800
Total Operating Expenses	29,504,946	25,332,014	4,172,932
Operating Income	1,835,965	1,797,843	38,122
Non-Operating Revenue:			
Change in Investment in Joint Venture	73,569		73,569
Investment Income	4,681	2,982	1,699
Total Non-Operating Revenue	78,250	2,982	75,268
Net Income	1,914,215	1,800,825	113,390
Net Assets - Beginning of Year	-	-	-
Distributions to Members	-	-	-
Net Assets - End of Year	\$ 1,914,215	\$ 1,800,825	\$ 113,390

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

GLOUCESTER COUNTY INSURANCE FUND COMMISSION
STATEMENTS OF CASH FLOWS
FOR THE PERIOD MARCH 1, 2010 (DATE OF INCEPTION) TO DECEMBER 31, 2010

	2010		
	<u>Total</u>	<u>Health</u>	<u>Property & Casualty</u>
Cash Flows Provided By Operating Activities:			
Cash Flows From Operating Activities:			
Regular Contributions	\$ 31,205,294	\$ 27,006,275	\$ 4,199,019
Claim Payments	(21,435,452)	(20,927,458)	(507,994)
Insurance Premiums	(1,583,834)		(1,583,834)
Stop Loss Fees	(887,697)	(887,697)	
State Surcharge			
Payments to Professionals and Suppliers	(2,249,130)	(1,789,771)	(459,359)
Net Cash Flows Provided By Operating Activities	<u>5,049,181</u>	<u>3,401,349</u>	<u>1,647,832</u>
Cash Flows From Investing Activities:			
Investment Income	4,681	2,982	1,699
Net Increase in Cash and Cash Equivalents	5,053,862	3,404,331	1,649,531
Cash and Cash Equivalents - Beginning of Year	-	-	
Cash and Cash Equivalents - End of Year	<u>\$ 5,053,862</u>	<u>\$ 3,404,331</u>	<u>\$ 1,649,531</u>
Reconciliation of Operating Income to Cash Flows From Operating Activities:			
Operating Income	\$ 1,835,965	\$ 1,797,843	\$ 38,122
Adjustments to Reconcile Operating Loss to Net Cash Provided By Operating Activities:			
Increase in Contributions Receivable	(135,617)	(123,582)	(12,035)
Increase in Refunds Receivable	-		
Increase in Accrued Administrative Expenses	9,248		9,248
Increase in Accrued State Surcharge Payable	21,510	21,510	
Increase in Claims Payable	1,000		1,000
Increase in Claims Reserves	3,317,075	1,705,578	1,611,497
Net Cash Flows Provided By Operating Activities	<u>\$ 5,049,181</u>	<u>\$ 3,401,349</u>	<u>\$ 1,647,832</u>
Supplemental Disclosure - Noncash Activity:			
Change in Investment in Joint Venture	<u>\$ 73,569</u>	<u>\$ -</u>	<u>\$ 73,569</u>

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

GLOUCESTER COUNTY INSURANCE FUND COMMISSION
NOTES TO FINANCIAL STATEMENTS

Note 1: ORGANIZATION AND DESCRIPTION OF THE COMMISSION

Effective March 1, 2010 the Gloucester 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 the fiscal year ended December 31, 2010, members of the Commission included: Gloucester County, Gloucester County College, Gloucester County Improvement Authority, Gloucester County Utility Authority, and Gloucester County Library.

All members' property and casualty assessments, including a reserve for contingencies, are based on annual actuarial assumptions determined by the Fund's Actuary and on monthly and quarterly adjustments determined by the Fund's Actuary and Program Manager based on actual loss experience.

All members' health coverage contributions are assessed monthly based on the members' census data, including a pro rata amount of the current estimates of projected losses, administrative expenses and the cost of stop loss insurance. The Commissioner of Insurance may order additional assessments to supplement the Fund's claim, loss retention or administrative accounts to assure the payment of the Fund's obligations.

The Commission offers the following property and casualty coverage's to its members:

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

The Commission offers the following health coverages to its members:

- Medical
- Dental
- Prescription

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

GLOUCESTER COUNTY INSURANCE FUND COMMISSION
NOTES TO FINANCIAL STATEMENTS

Note 1: ORGANIZATION AND DESCRIPTION OF THE FUND (CONT'D)

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.

PROPERTY AND CASUALTY INSURANCE

The limits of Commission liability per occurrence for property and casualty coverages net of member entity deductibles for 2010 were as follows:

Property	\$100,000
Auto	\$250,000
General Liability	\$250,000
Workers Compensation	\$250,000

Coverage in excess of the Commission's retention limits is provided through the Commission's membership in the New Jersey Counties Excess Joint Insurance Fund (the "CEL")

HEALTH INSURANCE

The limits of liability under the various health coverages for 2010 were as follows:

Limits

Description

I. Fund's Self-Insured Retained Limit of Liability

- | | |
|-----------------|--|
| A. \$200,000 | Specific limit - applies per enrolled participant per reinsurance policy year. |
| B. \$22,973,701 | Aggregate limit of liability (Attachment is based on the aggregate factors multiplied by the Participant Census) |

II. Excess Insurers' Limit of Liability

- | | |
|----------------|--|
| A. \$800,000 | Reimbursement in excess of the Fund's specific S.I.R. |
| B. \$1,000,000 | Reimbursement in excess of the Fund's aggregate S.I.R. |

Health Insurance Coverage Notes:

1. "Health Insurance" means health insurance as defined pursuant to NJSA 17B:17-4 or service benefits as provided by health service corporations, hospital service corporations or medical service corporations authorized to do business in the state.
2. "Incurred Claims" means claims, which occur during a Fund year, including claims paid during a later period. The exact definition of "Incurred Claims" or any similar term is the definition used in the excess insurance policy purchased by the Fund.

GLOUCESTER COUNTY INSURANCE FUND COMMISSION
NOTES TO FINANCIAL STATEMENTS

Note 1: ORGANIZATION AND DESCRIPTION OF THE FUND (CONT'D)

Health Insurance Coverage Notes (Cont'd):

3. The Fund's reinsurance agreement for the year 2010 was with Aetna Life Insurance Company. The agreement is on a 12/24 month exposure period covering claims incurred during the twelve month policy period March 1, 2010 to January 31, 2011.
4. Open enrollment for participating employees is offered at December 1st.
5. Medical coverage consists of each participating member's individual medical benefits plan.
6. Medicare provides secondary coverage for eligible active employees and primary coverage for eligible Medicare participants.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

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 generally accepted accounting principles 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 net income, financial position and cash flows.

Enterprise Funds are used to account for activities that are operated in a manner similar to private business enterprises.

Basis of Accounting

Enterprise Funds use the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred. The Commission uses the accrual basis of accounting, whereby income is recorded as earned and expenses are recognized as incurred, except as stated below.

GLOUCESTER COUNTY INSURANCE FUND COMMISSION
NOTES TO FINANCIAL STATEMENTS

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

Governmental Accounting Standards Board - Statement No. 20

The Commission is required to follow all statements of the Governmental Accounting Standards Board (GASB). GASB Statement No. 20 was issued to give guidance in determining Generally Accepted Accounting Principles (GAAP) for governmental proprietary funds. It provides that all proprietary fund activities follow all Financial Accounting Standards Board (FASB) Statements issued prior to November 30, 1989, unless they conflict with GASB standards. It also provides that the governmental unit must elect whether to follow FASB Statements issued after that date. The Commission has elected not to follow any FASB pronouncements issued after November 30, 1989.

Cash and Cash Equivalents

Cash and cash equivalents include cash on deposit with public depositories. Certificates of deposit when purchased are recorded as cash regardless of the date of maturity. Investments are stated at fair value.

New Jersey governmental 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 governmental units. In addition, other State statutes permit investments in obligations issued by local authorities and other state agencies.

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.

The cash management plan adopted by the Commission requires it to deposit funds in public depositories protected from loss under the provisions of the Act.

Revenue Recognition

Property and Casualty Assessments

Annual assessments 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 Executive Committee. The established interest rate for 2010 was 10% per annum from the due date for any delinquent contributions.

GLOUCESTER COUNTY INSURANCE FUND COMMISSION
NOTES TO FINANCIAL STATEMENTS

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

Health Coverage Assessments

Members are assessed monthly contributions based on a pro rata amount of the current estimates of projected losses, administrative expenses and the cost of stop loss insurance.

Supplemental Assessments

The Executive Committee 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.

Unpaid Claims Liabilities – Property and Casualty

The Commission establishes property and casualty 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, 2010. 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.

GLOUCESTER COUNTY INSURANCE FUND COMMISSION
NOTES TO FINANCIAL STATEMENTS

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

Unpaid Claims Liabilities – Health Coverage

In order to recognize unpaid health coverage losses, a reserve was calculated by the Commission's administrator as of December 31, 2010. Liabilities for unpaid losses represent the estimated liability on claims reported to the Commission plus reserves for claims incurred but not yet reported. The liabilities for claims 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, 2010. 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 – Property and Casualty

Coverage in excess of the Commission's property and casualty self insured retention limits is provided through the Commission's membership in the New Jersey Counties Excess Joint Insurance Fund as described in Note 5.

Subrogation – Property and Casualty

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

Stop Loss Insurance – Health Coverage

The Commission seeks to limit its exposure to loss on any single insured and to recover a portion of benefits paid by maintain stop loss insurance coverage with Aetna Insurance Company.

Health coverage losses ceded for 2010 amounted to \$136,689.

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 Commission 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.

GLOUCESTER COUNTY INSURANCE FUND COMMISSION
NOTES TO FINANCIAL STATEMENTS

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

Administrative Expenses

Administrative expenses are comprised mainly of compensation for services rendered by servicing organizations submitted and approved by a majority of the Commissioners/Executive Committee. 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.

Note 3: CASH AND CASH EQUIVALENTS

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the Commission's deposits may not be returned to it. As described in Note 2, 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 GUDPA. Of the Commission's bank balance of \$5,563,182 as of December 31, 2010, \$250,000 was insured while \$5,313,182 was collateralized under GUDPA.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Commission does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. N.J.S.A. 40A:5-15.1 limits the investments that the Commission may purchase such as Treasury securities in order to limit the exposure of governmental units to credit risk. The Commission has no investment policy that would further limit its investment choices

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 for the year ended December 31, 2010 was \$73,569

GLOUCESTER COUNTY INSURANCE FUND COMMISSION
NOTES TO FINANCIAL STATEMENTS

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 Commission during the initial period ended December 31, 2010 or all open Fund years net of excess insurance recoveries:

	<u>Total</u>	<u>Medical</u>	<u>Property & Casualty</u>
Claim Reserves - Beginning of Year	\$ -	\$ -	\$ -
Incurred claims and claims adjustment expenses:			
Provision for insured events of current fund year	24,753,527	22,633,036	2,120,491
Changes in provision for insured events of prior fund years	-	-	-
	<hr/>	<hr/>	<hr/>
Total incurred claims and claims adjustment expenses all Fund years	24,753,527	22,633,036	2,120,491
	<hr/>	<hr/>	<hr/>
Payments:			
Claims and claims adjustment expenses:			
Attributable to insured events of current fund year	21,436,452	20,927,458	508,994
Attributable to insured events of prior fund years	-	-	-
	<hr/>	<hr/>	<hr/>
Total payments all Fund years	21,436,452	20,927,458	508,994
	<hr/>	<hr/>	<hr/>
Claim Reserves - End of Year	\$ 3,317,075	\$ 1,705,578	\$ 1,611,497
	<hr/>	<hr/>	<hr/>

Note 6: STATE HEALTH BENEFITS PROGRAM SURCHARGE

Chapter 8, Public Law 1993, provides for insurers of school districts that do not participate in the State Health Benefits Program (SHBP) to pay an annual surcharge to the program. The surcharge is determined by the State Treasurer and is based on a percentage of the total claims paid for the coverage of employees of the nonparticipating school districts. The surcharge is to compensate the SHBP for the excess cost of the health coverage of the school district's eligible retirees (25 or more years of credited service in a State-administered pension fund, or retired on disability with fewer years of service), who are covered in the SHBP.

As of December 31, 2010, the Commission has accrued a \$21,510 surcharge liability.

GLOUCESTER COUNTY INSURANCE FUND COMMISSION
NOTES TO FINANCIAL STATEMENTS

Note 7: MEMBERSHIP IN JOINT INSURANCE FUNDS

New Jersey Counties Excess Joint Insurance Fund

Effective March 1, 2010 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 property and casualty 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, 2010 is as follows:

Total Assets	<u>\$ 1,336,602</u>
Total Liabilities	<u>\$ 1,134,274</u>
Net Assets	<u>\$ 202,328</u>
Total Revenues	<u>\$ 4,366,080</u>
Total Expenses	<u>\$ 4,163,752</u>
Net Income	<u>\$ 202,328</u>
Surplus Returned	<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
250 Pehle Avenue, Suite 701
Saddle Brook, NJ 07663
201-587-0555

GLOUCESTER COUNTY INSURANCE FUND COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
AS OF DECEMBER 31, 2010

GLOUCESTER COUNTY INSURANCE FUND COMMISSION
RECONCILIATION OF PROPERTY AND CASUALTY CLAIMS LIABILITIES BY FUND
FOR THE YEAR ENDED DECEMBER 31, 2010

	<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	\$ -	\$ -	\$ -	\$ -	\$ -
Incurred claims and claims adjustment expenses: Provision for insured events of current fund year	60,000	532,532	45,176	1,482,783	2,120,491
Changes in provision for insured events of prior fund years					-
Total incurred claims and claims adjustment expenses all Fund years	60,000	532,532	45,176	1,482,783	2,120,491
Payments:					
Claims and claims adjustment expenses: Attributable to insured events of current fund year	41,122	1,952	6,810	459,110	508,994
Attributable to insured events of prior fund years					-
Total payments all Fund years	41,122	1,952	6,810	459,110	508,994
Total unpaid claims and claim adjustment expenses - End of Year	\$ 18,878	\$ 530,580	\$ 38,366	\$ 1,023,673	\$ 1,611,497

GLOUCESTER COUNTY INSURANCE FUND COMMISSION
RECONCILIATION OF HEALTH CLAIMS LIABILITIES BY FUND
FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>Health</u>	<u>Prescription</u>	<u>Dental</u>	<u>Total</u>
Total unpaid claims and claim adjustment expenses - Beginning of Year	\$ -	\$ -	\$ -	\$ -
Incurred claims and claims adjustment expenses: Provision for insured events of current fund year Changes in provision for insured events of prior fund years	14,459,389	7,724,396	449,251	22,633,036
Total incurred claims and claims adjustment expenses all Fund years	<u>14,459,389</u>	<u>7,724,396</u>	<u>449,251</u>	<u>22,633,036</u>
Payments: Claims and claims adjustment expenses (Net of Recoveries): Attributable to insured events of current fund year Attributable to insured events of prior fund years	13,114,389	7,382,287	430,782	20,927,458
Total payments all Fund years	<u>13,114,389</u>	<u>7,382,287</u>	<u>430,782</u>	<u>20,927,458</u>
Total unpaid claims and claim adjustment expenses - End of Year	<u>\$ 1,345,000</u>	<u>\$ 342,109</u>	<u>\$ 18,469</u>	<u>\$ 1,705,578</u>

GLOUCESTER COUNTY INSURANCE FUND COMMISSION
ONE-YEAR PROPERTY AND CASUALTY CLAIMS DEVELOPMENT INFORMATION
AS OF DECEMBER 31, 2010

	<u>2010</u>
Net Earned Required Contribution and Investment Revenue:	
Earned	\$ 4,212,753
Ceded	<u>1,583,834</u>
	<u>2,628,919</u>
Unallocated Expenses	<u>468,607</u>
Estimated Claims and Expenses, End of Policy Year:	
Incurred	2,120,491
Ceded	<u> </u>
Net Incurred	<u>2,120,491</u>
Paid (Cumulative) as of:	
End of Policy Year	508,994
Reestimated Incurred Claims and Expenses:	
End of Policy Year	<u>2,120,491</u>
Change in Estimated Incurred Claims and Expenses from End of Policy Year	<u><u> </u></u>

GLOUCESTER COUNTY INSURANCE FUND COMMISSION

SUPPLEMENTARY INFORMATION

AS OF DECEMBER 31, 2010

GLOUCESTER COUNTY INSURANCE FUND COMMISSION
 STATEMENT OF FUND YEAR 2010 PROPERTY AND CASUALTY ACCOUNTS OPERATING RESULTS ANALYSIS
 FOR THE PERIOD MARCH 1, 2010 (DATE OF INCEPTION) TO DECEMBER 31, 2010

Coverages and Other Accounts

	<u>Property</u>	<u>General Liability</u>	<u>Automobile</u>	<u>Workers' Compensation</u>	<u>CEL</u>	<u>Expense & Contingency</u>	<u>Total</u>
Underwriting Income:							
Regular Contributions	\$ 183,654	\$ 813,038	\$ 57,553	\$ 1,044,196	\$ 1,596,572	\$ 516,041	\$ 4,211,054
Incurring Liabilities:							
Claims	60,000	532,532	45,176	1,482,783	1,583,834	468,607	2,120,491
Expenses							2,052,441
Total Liabilities	60,000	532,532	45,176	1,482,783	1,583,834	468,607	4,172,932
Underwriting Surplus (Deficit)	123,654	280,506	12,377	(438,587)	12,738	47,434	38,122
Adjustments:							
Investment Income	155	611	46	620	135	132	1,699
Permanent Transfers							-
Total Adjustments	155	611	46	620	135	132	1,699
Gross Statutory Surplus (Deficit)	123,809	281,117	12,423	(437,967)	12,873	47,566	39,821
Net Assets (Deficit)							
Before Unallocated Investment	\$ 123,809	\$ 281,117	\$ 12,423	\$ (437,967)	\$ 12,873	\$ 47,566	\$ 39,821
Investment in Joint Venture							73,569
Net Assets							\$ 113,390

GLOUCESTER COUNTY INSURANCE FUND COMMISSION
STATEMENT OF FUND YEAR 2010 PROPERTY AND CASUALTY CLAIMS ACCOUNTS ANALYSIS
FOR THE PERIOD MARCH 1, 2010 (DATE OF INCEPTION) TO DECEMBER 31, 2010

	<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) \$	41,122	\$ 1,952	\$ 6,810	\$ 459,110	\$ 508,994
Case Reserves	20,000	30,600	1,300	751,555	803,455
IBNR Reserves	(1,122)	499,980	37,066	272,118	808,042
Subtotal	60,000	532,532	45,176	1,482,783	2,120,491
Excess Insurance Received Recoverable					-
Subtotal	-	-	-	-	-
Limited Incurred Claims	\$ 60,000	\$ 532,532	\$ 45,176	\$ 1,482,783	\$ 2,120,491
Number of Claims	32	54	16	131	233
Average Cost Per Claim	\$ 1,875	\$ 9,862	\$ 2,824	\$ 11,319	\$ 9,101

GLOUCESTER COUNTY INSURANCE FUND COMMISSION
 STATEMENT OF 2010 HEALTH ACCOUNTS OPERATING RESULTS
 FOR THE PERIOD MARCH 1, 2010 (DATE OF INCEPTION) TO DECEMBER 31, 2010

	<u>Medical</u>	<u>Prescription</u>	<u>Dental</u>	<u>Administrative</u>	<u>Total</u>
Income:					
Regular Contributions	\$ 18,146,279	\$ 6,581,740	\$ 612,067	\$ 1,789,771	\$ 27,129,857
Investment Income	2,352	455	154	21	2,982
Total Income	<u>18,148,631</u>	<u>6,582,195</u>	<u>612,221</u>	<u>1,789,792</u>	<u>27,132,839</u>
Incurred Liabilities:					
Claims Paid (Net of Refunds)	13,251,078	7,382,287	430,782		21,064,147
Less Excess Insurance Recoveries	(136,689)				(136,689)
Actuarial Liability	1,345,000	342,109	18,469		1,705,578
Stop Loss Fees	887,697				887,697
State Surcharge				21,510	21,510
Administrative Expenses				1,789,771	1,789,771
Total Liabilities	<u>15,347,086</u>	<u>7,724,396</u>	<u>449,251</u>	<u>1,811,281</u>	<u>25,332,014</u>
Fund Equity (Deficit), December 31, 2010	<u>\$ 2,801,545</u>	<u>\$ (1,142,201)</u>	<u>\$ 162,970</u>	<u>\$ (21,489)</u>	<u>\$ 1,800,825</u>

GLOUCESTER COUNTY INSURANCE FUND COMMISSION
 STATEMENT OF FUND YEAR 2010 PROGRAM SUMMARY--STATUTORY BASIS
 FOR THE PERIOD FEBRUARY 1, 2010 (DATE OF INCEPTION) TO DECEMBER 31, 2010

	<u>Coverages</u>			
	<u>Property</u>	<u>General Liability</u>	<u>Auto</u>	<u>Workers Compensation</u>
Limits	\$260,000,000	\$250,000	\$250,000	STATUTORY
Fund Retention	\$100,000	\$250,000	\$250,000	\$250,000
Excess Insurers	Lexington RSUI	CEL Star	CEL Star	CEL Star
Number of Participants	5	5	5	5
Incurred Liabilities:				
Claims (Schedule D)	\$60,000	\$532,532	\$45,176	\$1,482,783
Administrative Expenses (1)	38,349	111,200	9,433	309,625
	<u>\$98,349</u>	<u>\$643,732</u>	<u>\$54,609</u>	<u>\$1,792,408</u>

(1) Allocated on the basis of assessments and transfers by coverage to total net of Property account insurance premiums.

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.

Finding No. 2010-1

Criteria or Specific Requirement

Management is responsible for establishing and maintaining internal controls in the financial reporting system. Integral to this process is maintaining and reconciling a general ledger to subsidiary accounts.

Condition

The Organization did not maintain a general ledger properly recording revenues and expenses for the health component of the Commission's operations.

Context

The failure to maintain a general ledger for the health component of the Commission's operations was noted during the course of documenting the Commission's recording processes and documenting the system of internal controls.

Effect

Failure to maintain a general ledger could result in misstated financial statements, inaccurate financial documentation.

Cause

This is the Commission's initial year of operations and represents a new type entity combining both property and casualty insurance as well as health benefits insurance to its' members. During the inceptive stages of formation, the accounting function for the two primary divisions of the Commission were separated. A general ledger system and financial reporting system was established for the property and casualty division. However a general ledger was not established for the health division. Records were maintained however to monitor member assessments, pay claims and reconcile bank accounts.

Recommendation

That a general ledger and financial reporting system be established for the health division of the Commission.

Views of the Responsible Officials

The Commission agrees with the recommendation and has taken steps to establish a general ledger and financial reporting system for the health division of the Commission.

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