

**CENTRAL NEW JERSEY REGIONAL
EMPLOYEE BENEFITS FUND**

**AUDIT REPORT FOR THE YEAR
DECEMBER 31, 2009**

CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND

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CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND

**INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS**

FOR THE YEAR ENDED DECEMBER 31, 2009



Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT

The Honorable Chairman and Members
of the Board of Commissioners
Central New Jersey Regional Employee Benefits Fund

We have audited the accompanying basic financial statements of the Central New Jersey Regional Employee Benefits Fund (the "Fund") as of December 31, 2009 as listed in the foregoing table of contents. These basic financial statements are the responsibility of the Fund's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and in compliance with audit requirements as prescribed by the Department of Banking and Insurance, State of New Jersey. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 basic financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of December 31, 2009 and the results of its operations and its 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 May 11, 2010, on our consideration of the Fund'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.

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

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Our audit was performed for the purpose of forming an opinion on the financial statements of the Central New Jersey Regional Employee Benefits Fund taken as a whole. The accompanying supplementary schedules, listed in the table of contents, are presented for purposes of additional analysis and are 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.

A handwritten signature in cursive script that reads "Holman & Frenia, P.C.".

HOLMAN & FRENIA, P. C.
Certified Public Accountants

Medford, New Jersey
May 11, 2010



Certified Public Accountants & Consultants

**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***

The Honorable Chairman and Members
of the Fund of Commissioners
Central New Jersey Regional Employee Benefits Fund

We have audited the financial statements of the Central New Jersey Regional Employee Benefits Fund as of and for the year ended December 31, 2009, and have issued our report thereon dated May 11, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and audit requirements as prescribed by the Department of Banking and Insurance, State of New Jersey.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fund'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 Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Central New Jersey Regional Employee Benefits Fund'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,

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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 Department of Banking and Insurance, State of New Jersey.

This report is intended solely for the information and use of the Central New Jersey Regional Employee Benefits Fund's management and members, others within the organization, the Department of Banking and Insurance, and state and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Holman & Frenia, P.C.".

HOLMAN & FRENIA, P. C.
Certified Public Accountants

Medford, New Jersey
May 11, 2010

REQUIRED SUPPLEMENTARY INFORMATION – PART I

Management's Discussion and Analysis

CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND

MANAGEMENT DISCUSSION AND ANALYSIS

This section of the annual financial report of the Fund presents a discussion and analysis of the financial performance of the Fund for the year ended December 31, 2009. Please read it in conjunction with the basic financial statements that follow this section.

Overview of Basic Financial Statements

The Fund'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 Fund was to provide medical and other health coverage for municipalities that are members of the Fund. The Fund 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 financial position and results of operations for the Fund as of and for the years ended December 31, 2009 and 2008.

Summary Statement of Net Assets

	2009	2008	Increase/ (Decrease) from 2008	% of Increase/ (Decrease)
Assets:				
Cash, Cash Equivalents & Investments	\$ 13,359,506	11,279,030	\$ 2,080,476	18.45%
Assessments Receivable	1,627,718	1,186,704	441,014	37.16%
Excess Insurance Receivable	246,195	430,564	(184,369)	-42.82%
Investment in Joint Venture	2,064,075	1,113,123	950,952	85.43%
Other	179,687	380,676	(200,989)	-52.80%
			-	
Total Assets	17,477,181	14,390,097	3,087,084	21.45%
Liabilities:				
Accounts Payable, Accrued Expenses, and Prepaid Contributions	419,465	12,813	406,652	3173.75%
Actuarial Liability	3,100,000	2,169,088	930,912	42.92%
Total Liabilities	3,519,465	2,181,901	1,337,564	61.30%
Net Assets	\$ 13,957,716	12,208,196	\$ 1,749,520	14.33%

Summary Statement of Revenue, Expenses, and Changes in Net Assets

	2009	2008	Increase/ (Decrease) from 2008	% of Increase/ (Decrease)
Operating Revenue:				
Assessments and Other Income	\$ 33,481,720	27,357,819	\$ 6,123,901	22.38%
Operating Expenses:				
Provision for Claims and Claim Adjustment Expense	27,043,933	22,902,970	4,140,963	18.08%
Reinsurance Premiums	1,938,985	1,623,918	315,067	19.40%
General and Administrative Services	1,757,851	1,449,815	308,036	21.25%
Total Operating Expenses	30,740,769	- 25,976,703	4,764,066	18.34%
Operating Income/(Loss)	2,740,951	1,381,116	1,359,835	98.46%
Change in Joint Venture	950,952	336,546	614,406	182.56%
Dividend & Interest Income	57,694	448,643	(390,949)	-87.14%
Dividends Paid	2,000,077	1,512,771	487,306	32.21%
Change in Net Assets	1,749,520	653,534	1,095,986	167.70%

Total assets increased by 21.45% and net assets increased by 14.33%. This is a result of an increase in assessments of 22.38%. The large increase in assessments is primarily due to increased membership during 2009.

The "Joint Venture" asset represents the value of the Fund's share of the Municipal Reinsurance Health Insurance Fund of which it is a member. Its share increased in accordance with an increase in the net assets for that entity.

Claims expense increased by 18.08%, which is in line with the Fund's actuarial projection and trends in the industry. During the year, professional and administrative operating costs increased by 21.25% as such items continued a trend toward representing an increasing share of total costs. Additionally, as the Fund's membership increases the claims expense and the administrative cost will increase.

Investment income decreased by 87.14% due to the low interest rate environment which limited the ability of the Fund to earn investment income during this reporting period. Also, during 2009 the Municipal Reinsurance Health Insurance Fund did not pay a dividend to the member HIF's.

A dividend of \$2,000,077 was declared and distributed. The Fund established a minimum surplus objective of 3 months of estimated claims, and plans to distribute surplus over a period of years until that level is reached.

Economic Conditions

The CJREBF continues to be affected by inflation of health benefit costs. It's strategy is to continue to attempt to moderate such increases by leveraging purchasing power with other Funds, using a medical network with a strong regional presence, considering supplementing the existing network, and assisting members with plan design and labor negotiation efforts.

FINANCIAL SECTION

BASIC FINANCIAL STATEMENTS

CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND
STATEMENT OF NET ASSETS
DECEMBER 31, 2009 AND 2008

ASSETS	2009	2008
Cash and Cash Equivalents	\$8,668,802	5,456,424
Investments	4,690,704	5,822,606
Assessments Receivable	1,627,718	1,186,704
Excess Insurance Receivable	246,195	430,564
Interest Receivable	31,465	53,509
Dividend Receivable		111,192
Other Assets	148,222	215,975
Investment in Joint Ventures (Note 7)	2,064,075	1,113,123
	<hr/>	<hr/>
Total Assets	17,477,181	14,390,097
	<hr/>	<hr/>
LIABILITIES		
Accounts Payable	22,496	5,329
Prepaid Contributions	396,969	7,484
IBNR Reserves (Note 3)	3,100,000	2,169,088
	<hr/>	<hr/>
Total Liabilities	3,519,465	2,181,901
	<hr/>	<hr/>
NET ASSETS		
Net Assets Unrestricted	13,957,716	12,208,196
	<hr/>	<hr/>
Total Net Assets	\$13,957,716	12,208,196
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The accompanying Notes to the Financial Statements are an integral part of this Statement.

CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
Operating Revenues:		
Assessments	\$33,481,720	27,357,819
Total Revenues	33,481,720	27,357,819
Expenses:		
Claims - Net of Claims Adjustments	27,043,933	22,902,970
Premium Expenses	1,938,985	1,623,918
Contractual Expenses	936,005	734,022
Professional Contractual Expenses	810,227	701,601
Miscellaneous Expenses	11,621	14,192
Total Expenses	30,740,771	25,976,703
Operating Income	2,740,949	1,381,116
Nonoperating Revenue/(Expenses):		
Interest Income	57,696	337,451
Dividend Income		111,192
Dividends Paid	(2,000,077)	(1,512,771)
Investment in Joint Venture	950,952	336,546
Total Nonoperating Revenue/(Expenses)	(991,429)	(727,582)
Net Income/(Loss)	1,749,520	653,534
Net Assets Beginning of Year	12,208,196	11,554,662
Net Assets End of Year	\$13,957,716	12,208,196

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

CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
Cash Flows From Operating Activities:		
Cash Received From Members	\$32,250,971	26,178,599
Cash Paid for Claims, Premiums & Services	(28,353,495)	(25,108,889)
	<hr/>	<hr/>
Net Cash Provided/(Used) by Operating Activities	3,897,476	1,069,710
	<hr/>	<hr/>
Cash Flows From Financing Activities:		
Interest Received	71,885	324,251
Dividend Paid	(1,888,885)	(1,518,885)
	<hr/>	<hr/>
Net Cash Provided/(Used) by Financing Activities	(1,817,000)	(1,194,634)
	<hr/>	<hr/>
Cash Flows From Investing Activities:		
Proceeds from Investments	1,131,902	
Purchase of Investments		(1,204,000)
	<hr/>	<hr/>
Net Cash Provided/(Used) by Investing Activities	1,131,902	(1,204,000)
	<hr/>	<hr/>
Net Increase/(Decrease) in Cash	3,212,378	(1,328,924)
Cash at Beginning of Period	5,456,424	6,785,348
	<hr/>	<hr/>
Cash at End of Period	\$8,668,802	5,456,424
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RECONCILIATION OF OPERATING INCOME/(LOSS) TO CASH PROVIDED/(USED)
BY OPERATING ACTIVITIES:

Operating Income	\$2,740,949	1,381,116
Working Capital Changes Which Provided/(Used) Cash:		
Assessment Receivable	(86,408)	(968,822)
Excess Insurance Receivable	(170,236)	966,855
Other Assets	75,607	(167,078)
Prepaid Contributions	389,485	1,158
IBNR Reserves	930,912	(29,592)
Claims Due & Unpaid		(105,750)
Accounts Payable	17,167	(8,177)
	<hr/>	<hr/>
Net Cash Provided by Operating Activities	\$3,897,476	1,069,710
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The accompanying Notes to the Financial Statements are an integral part of this Statement.

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009**

CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND

NOTES TO FINANCIAL STATEMENT DECEMBER 31, 2009

Note 1. Summary of Significant Accounting Policies

The accompanying financial statements of the Central New Jersey Regional Employee Benefits Fund have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). In June 1999 the GASB issued Statement 34 *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. This statement established new financial reporting requirements for state and local governmental entities throughout the United States. They require new information and restructure much of the information that governments have presented in the past. Comparability with reports issued in prior years is affected.

The Fund has implemented these standards as of the fiscal year-ending December 31, 2004. With the implementation of GASB Statement 34, the Fund has prepared required supplementary information titled *Management’s Discussion and Analysis*, which precedes the basic financial statements.

Other GASB Statements are required to be implemented in conjunction with GASB Statement 34. Therefore, the Fund has implemented the following GASB Statements in the current fiscal year: Statement 33 – *Accounting and Financial Reporting for Nonexchange Transactions*; Statement 36 – *Recipient Reporting for Certain Shared Nonexchange Revenues*; Statement 37 – *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus* and Statement 38 – *Certain Financial Statement Note Disclosures*.

The accompanying financial statements present the financial position of the Fund, the results of operations of the Fund, and the cash flows of the proprietary funds. The financial statements are presented as of December 31, 2009, and for the year then ended.

Basis of Accounting

The Fund utilizes the accrual basis of accounting whereby revenue is recorded as earned and expenses are reflected as incurred.

Cash and Cash Equivalents

Cash and cash equivalents includes all cash balances and highly liquid investments with a maturity of three months or less. The Fund places its temporary cash investments with high credit quality financial institutions. At times such investments may be in excess of the FDIC insurance limits.

Income Taxes

The Fund is a tax-exempt organization and is not subject to either federal or state income taxes.

Assessments

The assessments of the participating members are determined and certified by the actuary and approved by a majority vote of the Fund Commissioners.

CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND

**NOTES TO FINANCIAL STATEMENT (continued)
DECEMBER 31, 2009**

Note 1. Summary of Significant Accounting Policies (continued):

Unpaid Claims Liabilities

The Fund establishes claim liabilities based on estimates 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. 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 factors. 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. Adjustments to claims liabilities are charged or credited to operations in the periods in which they are made.

Organization

The Fund consists of a 23 membership group as of December 31, 2009. Each municipality assigns a commissioner to the Fund. An executive committee is elected consisting of 6 commissioners and 1 alternate. The commissioners elect the officers: a chairperson and a secretary for 1-year terms.

Reinsurance

The Fund uses reinsurance agreements to reduce its exposure to large losses on certain types of insured events. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Fund as direct insurer of the risks reinsured.

Memo Totals

Overviews are captioned 'Memo Only' to indicate that they are presented only to facilitate analysis. The total amounts do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Interfund eliminations are not made in the aggregation of this information. The information is not comparable to consolidated information.

Note 2. Nature of Operations

The Fund was created in February, 1992 in accordance with P.L. 1983, C. 372, entitled "An act concerning joint insurance funds for local units of governments, and supplementing Chapter 10 of Title 40A of the New Jersey statutes." The Fund is a self-administered group of municipalities established for the purpose of providing self-funded employee benefits for the member municipalities. The following coverages are offered by the Fund to its members at the choice of the individual member unit:

- | | | |
|------------|-----------------|---------------|
| a) Medical | c) Vision | e) Disability |
| b) Dental | d) Prescription | |

CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND

**NOTES TO FINANCIAL STATEMENT (continued)
DECEMBER 31, 2009**

Note 2. Nature of Operations (continued):

A participating municipality may be terminated by a majority vote of the Fund Commissioners or a two-thirds vote of the Executive Committee for nonpayment of assessments or continued noncompliance after written notice to comply with the bylaws or other obligations. Termination may occur only after proper notice has been given, in accordance with the Fund's bylaws. A participating member may withdraw before the end of its membership by giving proper notices and following required procedures at least sixty (60) days before the date of withdrawal.

The Executive Director/Administrator is responsible for the overall administration of the Fund. Fees paid to the Executive Director/Administrator encompass all administrative duties, which are performed at the Executive Director/Administrator's office. Accordingly, the Fund does not maintain any fixed assets or incur any employee payroll expense.

Note 3. Claims Liabilities - IBNR Reserves

In order to recognize unpaid losses, as discussed in the Summary of Significant Accounting Policies, a reserve is calculated and certified by the Fund's actuary, Actuarial Solutions.

Note 4. Reinsurance Receivable

The Fund also maintains contracts for excess insurance, covering losses in excess of an amount established between the Fund and the insurers up to the limits of coverage set forth in the contracts on a specific occurrence, per accident or annual aggregate basis. The estimated reinsurance recoverables on the unpaid claims are:

	Fund Year 2009	Fund Year 2008	Closed Year	Total
Specific	<u>\$152,519</u>	<u>\$93,676</u>	<u>\$ -0-</u>	<u>\$246,195</u>

A contingent liability exists with respect to reinsurance, which would become an actual liability in the event the reinsuring company might be unable to meet their obligations to the Fund under existing reinsurance agreements.

Note 5. Cash and Cash Equivalents and Investments

The Fund is governed by the deposit and investment limitations of New Jersey state law. The Deposits and investments held at December 31, 2009, and reported at fair value are as follows:

CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND

**NOTES TO FINANCIAL STATEMENT (continued)
DECEMBER 31, 2009**

Note 5. Cash and Cash Equivalents and Investments (continued):

Type	Carrying Value
Deposits:	
Demand Deposits	\$ 5,242,013
New Jersey Cash Management	3,426,789
Investments	<u>4,690,704</u>
Total Deposits	<u>\$13,359,506</u>
Reconciliation of Statement of Net Assets:	
Fund Year:	
2009	\$ 4,257,232
2008	1,204,587
Closed Years	<u>7,897,687</u>
Total Reconciliation of Comparative Statement of Net Assets	<u>\$13,359,506</u>

Custodial Credit Risk – Deposits in financial institutions, reported as components of cash, cash equivalents and investments had a bank balance of \$13,387,632 at December 31, 2009. Of the bank balance \$1,014,715 was fully insured by the FDIC (Federal Depository Insurance Corporation) and \$12,372,917 was secured by a collateral pool held by the bank, but not in the Fund's name, as required by New Jersey's Governmental Unit Deposit Protection Act (GUDPA). The Governmental Unit Deposit Protection Act is more fully described in Note 6 of these financial statements.

Investment Interest Rate Risk – The Fund has a formal investment policy that states securities shall be purchased with the ability to hold until maturity. Investment selection will be limited to maturities not exceeding the estimated duration of the Fund's liabilities.

Investment Credit Risk – The Fund has an investment policy that limits its investment choices other than the limitation of state law as follows:

- Bonds or other obligations of the United States of America or obligations guaranteed by the United States of America;
- Government money market mutual funds;
- Any obligation that a federal agency or federal instrumentality has issued in accordance with an act of Congress, which security has a maturity date not greater than 397 days from the date of purchase, provided that such obligations bear a fixed rate of interest not dependent on any index or other external factor;

CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND

**NOTES TO FINANCIAL STATEMENT (continued)
DECEMBER 31, 2009**

Note 5. Cash and Cash Equivalents and Investments (continued):

- Bonds or other obligations of the Fund or bonds or other obligations of the local unit or units within which the Fund is located;
- Bonds or other obligations, having a maturity date of not more than 397 days from the date of purchase, approved by the Division of Investment in the Department of Treasury for investment by the Fund;
- Local Governments investment pools;
- Deposits with the State of New Jersey Cash Management Fund established pursuant to section I of P.L. 1977, c.281; or
- Agreements for the repurchase of fully collateralized securities with certain limitations.

Concentration of Investment Credit Risk – The Fund places no limit on the amount it may invest in any one issuer.

Note 6. Governmental Unit Deposit Protection Act (GUDPA)

The Fund has deposited cash in 2009 with an approved public fund depository qualified under the provisions of the Government Unit Deposit Protection Act. In addition to savings and checking accounts the Fund invests monies in certificates of deposits.

The Governmental Unit Deposit Protection Act P.L. 1970, Chapter 236, was passed to afford protection against bankruptcy or default by a depository. C.17:9-42 provides that no governmental unit shall deposit funds in a public depository unless such funds are secured in accordance with this act. C.17:9-42 provides that every public depository having public funds on deposit shall, as security for such deposits, maintain eligible collateral having a market value at least equal to either (1) 5% of the average daily balance of collected public funds on deposit during the 6 month period ending on the next preceding valuation date (June 30 or December 31) or (2) at the election of the depository, at least equal to 5% of the average balance of collected public funds on deposit on the first, eighth, fifteenth, and twenty-second days of each month in the 6 month period ending on the next preceding valuation date (June 30 or December 31). No public depository shall be required to maintain any eligible collateral pursuant to this act as security for any deposit or deposits of any governmental unit to the extent such deposits are insured by F.D.I.C. or any other U.S. agency which insures public depository funds.

No public depository shall at any time receive and hold on deposit for any period in excess of 15 days public funds of a governmental unit(s) which, in the aggregate, exceed 75% of the capital funds of the depository, unless such depository shall, in addition to the security required to be maintained under the

CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND

**NOTES TO FINANCIAL STATEMENT (continued)
DECEMBER 31, 2009**

Note 6. Governmental Unit Deposit Protection Act (GUDPA) (continued):

paragraph above, secure such excess by eligible collateral with a market value at least equal to 100% of such excess.

In the event of a default, the Commissioner of Banking within 20 days after the default occurrence shall ascertain the amount of public funds on deposit in the defaulting depository and the amounts covered by federal deposit insurance and certify the amounts to each affected governmental unit. Within 10 days after receipt of this certification, each unit shall furnish to the Commissioner verified statements of its public deposits. The Commissioner shall ascertain the amount derived or to be derived from the liquidation of the collateral maintained by the defaulting depository and shall distribute such proceeds pro rata among the governmental units to satisfy the net deposit liabilities to such units.

If the proceeds of the sale of the collateral are insufficient to pay in full the liability to all affected governmental units, the Commissioner shall assess the deficiency against all other public depositories having public funds on deposit determined by a formula determined by law. All sums collected by the Commissioner shall be paid to the governmental units having deposits in the defaulting depository in the proportion that the net deposit liability to each such governmental unit bears to the aggregate of the net deposit liabilities to all such governmental units.

All public depositories are required to furnish information and reports dealing with public funds on deposit every six months, June 30th and December 31st, with the Commissioner of Banking. Any public depository which refuses or neglects to give any information so requested may be excluded by the Commissioner from the right to receive public funds for deposit until such time as the Commissioner shall acknowledge that such depository has furnished the information requested.

Upon review and approval of the Certification Statement that the public depository complies with statutory requirements, the Commissioner issues forms approving the bank as a municipal depository. The Fund should request copies of these approval forms semiannually to assure that all depositories are complying with requirements.

Note 7. Membership in Joint Health Insurance Fund

In 1999, the Fund became a member of the Municipal Reinsurance Health Insurance Fund (the "MRHIF"). The MRHIF is a risk-sharing public entity risk pool that is a self-administered group of joint health insurance funds established for the purpose of assuming and discharging the liabilities associated with loss reserves of participating members. The transfer of these loss reserves to the MRHIF results in the closing of those fund years and the un-encumbering of the retained earnings related to those closed fund years. Each member appoints an official to represent their respective joint health insurance fund for the purpose of creating a governing body from which officers for the MRHIF are elected.

CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND

NOTES TO FINANCIAL STATEMENT (continued)

DECEMBER 31, 2009

Note 7. Membership in Joint Health Insurance Fund (continued):

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

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

At December 31, 2009, the MRHIF carried surplus balances of \$7,590,058. The Fund's equity interest in the MRHIF equates to \$2,064,075. Dividends on this surplus have not been declared and this investment is being carried as other assets on the financial statements of the Fund.

SUPPLEMENTARY INFORMATION



Certified Public Accountants & Consultants

**INDEPENDENT AUDITOR'S REPORT ON
SUPPLEMENTARY INFORMATION**

The Honorable Chairman and Members
of the Board of Commissioners
Central New Jersey Regional Employee Benefits Fund

We have audited and reported separately herein on the basic financial statements of the Central New Jersey Regional Employee Benefits Fund Years 2009, 2008 and closed years.

Our audit was made for the purpose of forming an opinion on the basic financial statements of the Central New Jersey Regional Employee Benefits Fund taken as a whole. The required supplementary information included on pages 19 through 29 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Holman & Frenia, P.C." in dark ink.

HOLMAN & FRENIA, P. C.
Certified Public Accountants

Medford, New Jersey
May 11, 2010

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CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND
BALANCE SHEET
DECEMBER 31, 2009 - CLOSED YEARS

SCHEDULE 1

	GENERAL AND ADMINISTRATIVE FUND
ASSETS	
Cash and Cash Equivalents	\$3,206,983
Investments	4,690,704
Interest Receivable	18,479
Other Receivable	870
	<hr/>
Total Assets	<u>\$7,917,036</u>
LIABILITIES, RESERVES & FUND BALANCE	
Fund/(Deficit) Balance	<hr/> \$7,917,036
Total Liabilities, Reserves & Fund Balance	<u>\$7,917,036</u>

**CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND
BALANCE SHEET
DECEMBER 31, 2009 - FUND YEAR 2008**

ASSETS	MEDICAL FUND	PRESCRIPTIONS FUND	DENTAL FUND	VISION FUND	DISABILITY FUND	GENERAL & ADMINISTRATIVE FUND	(MEMO ONLY) COMBINED TOTAL
Cash and Cash Equivalents	(\$137,613)	394,744	524,049	69,257	(2,961)	357,111	1,204,587
Excess Insurance Receivable	93,676						93,676
Interest Receivable	755	591	1,306	155		1,601	4,408
Other Assets						6,185	6,185
Total Assets	(\$43,182)	395,335	525,355	69,412	(2,961)	364,897	1,308,856
LIABILITIES, RESERVES & FUND BALANCE							
IBNR Reserves (Note 3)	\$50,000						50,000
Total Liabilities	50,000						50,000
Fund/(Deficit) Balance	(93,182)	395,335	525,355	69,412	(2,961)	364,897	1,258,856
Total Liabilities, Reserves & Fund Balance	(\$43,182)	395,335	525,355	69,412	(2,961)	364,897	1,308,856

CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND
BALANCE SHEET
DECEMBER 31, 2009 - FUND YEAR 2009

ASSETS	MEDICAL FUND	PRESCRIPTIONS FUND	DENTAL FUND	VISION FUND	DISABILITY FUND	GENERAL AND ADMINISTRATIVE FUND	(MEMO ONLY) COMBINED TOTAL
Cash and Cash Equivalents	\$3,457,508	406,148	(5,983)	73,035	27,133	299,391	4,257,232
Assessment Receivable	1,627,718						1,627,718
Excess Insurance Receivable	152,519						152,519
Interest Receivable	5,836	2,046	397	131	50	118	8,578
Other Assets	13,370	106,270				21,527	141,167
Total Assets	\$5,256,951	514,464	(5,586)	73,166	27,183	321,036	6,187,214
LIABILITIES, RESERVES & FUND BALANCE							
Accounts Payable	\$14,628					7,868	22,496
Prepaid Contributions	39,089					357,880	396,969
IBNR Reserves (Note 3)	2,656,245	280,327	113,428				3,050,000
Total Liabilities	2,709,962	280,327	113,428			365,748	3,469,465
Fund/(Deficit) Balance	2,546,989	234,137	(119,014)	73,166	27,183	(44,712)	2,717,749
Total Liabilities, Reserves & Fund Balance	\$5,256,951	514,464	(5,586)	73,166	27,183	321,036	6,187,214

SCHEDULE 4

CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2009 - CLOSED YEARS

	GENERAL & ADMINISTRATIVE FUND
Expenses:	
Claims - Net of Claims Adjustments	(\$32,275)
	(32,275)
Total Claims Expenses	(32,275)
Excess/(Deficit) of Revenues over Expenses	32,275
Other Financing Sources/(Uses):	
Interest Income	37,327
Dividends Paid	(2,000,077)
Closing of Fund Year 2007	1,873,837
	(88,913)
Total Other Financing Sources/(Uses)	(88,913)
Excess/(Deficit) of Revenues & Other Financing Sources	
Over Expenses & Other Financing Uses	(56,638)
Fund Balance Beginning of Year	7,973,674
Fund Balance/(Deficit) End of Year	\$7,917,036

**CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2009 - FUND YEAR 2008**

	MEDICAL FUND	PRESCRIPTIONS FUND	DENTAL FUND	VISION FUND	DISABILITY FUND	GENERAL & ADMINISTRATIVE FUND	(MEMO ONLY) COMBINED TOTAL
Revenues:							
Assessments	(\$2,108)						(2,108)
Total Revenues	(2,108)						(2,108)
Expenses:							
Adjustments	213,057	(185,547)	(35,452)				(7,942)
Network Access						6,489	6,489
Professional Services						(2,264)	(2,264)
Executive Director						(2,192)	(2,192)
Miscellaneous						408	408
Total Claims Expenses	213,057	(185,547)	(35,452)			2,441	(5,501)
Excess/(Deficit) of Revenues Over Expenses	(215,165)	185,547	35,452			(2,441)	3,393
Other Financing Sources/(Uses):							
Interest Income	1,418	1,097	2,451	289		2,647	7,902
Total Other Financing Sources/(Uses)	1,418	1,097	2,451	289		2,647	7,902
Excess of Revenue Over Expenses & Adjustments	(213,747)	186,644	37,903	289		206	11,295
Fund Balance Beginning of Year	120,565	208,691	487,452	69,123	(2,961)	364,691	1,247,561
Fund Balance/(Deficit) End of Year	(\$93,182)	395,335	525,355	69,412	(2,961)	364,897	1,258,856

**CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2009 - FUND YEAR 2009**

	MEDICAL FUND	PRESCRIPTIONS FUND	DENTAL FUND	VISION FUND	DISABILITY FUND	GENERAL & ADMINISTRATIVE FUND	(MEMO ONLY) COMBINED TOTAL
Revenues:							
Assessments	\$21,411,838	6,945,876	1,234,716	73,001	27,122	3,791,275	33,483,828
Total Revenues	21,411,838	6,945,876	1,234,716	73,001	27,122	3,791,275	33,483,828
Expenses:							
Claims - Net of Claims Adjustments	18,834,057	6,714,821	1,354,203			181,069	27,084,150
NY State Surcharge	39,089						39,089
Claims Administrator						873,854	873,854
Network Access						50,835	50,835
Program Manager						484,329	484,329
Reinsurance						1,899,896	1,899,896
Executive Director						230,027	230,027
Professional Services						98,135	98,135
Disability Management						4,827	4,827
Miscellaneous						13,404	13,404
Total Claims Expenses	18,873,146	6,714,821	1,354,203			3,836,376	30,778,546
Excess/(Deficit) of Revenues Over Expenses	2,538,692	231,055	(119,487)	73,001	27,122	(45,101)	2,705,282
Other Financing Sources/(Uses):							
Interest Income	8,297	3,082	473	165	61	389	12,467
Total Other Financing Sources/(Uses)	8,297	3,082	473	165	61	389	12,467
Excess of Revenue Over Expenses & Adjustments	2,546,989	234,137	(119,014)	73,166	27,183	(44,712)	2,717,749
Fund Balance/(Deficit) End of Year	\$2,546,989	234,137	(119,014)	73,166	27,183	(44,712)	2,717,749

CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND
SCHEDULE OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2009 - CLOSED YEARS

Cash Flows From Operating Activities:		
Cash Received/(Paid) for Claims, Premiums & Services		<u>\$63,510</u>
Net Cash Provided by Operating Activities		<u>63,510</u>
Cash Flows From Financing Activities:		
Interest Received		64,502
Dividends Paid		<u>(1,888,885)</u>
Net Cash Used by Financing Activities		<u>(1,824,383)</u>
Cash Flows From Investing Activities:		
Proceeds from Investments		<u>1,131,902</u>
Net Cash Provided by Investing Activities		<u>1,131,902</u>
Net Decrease in Cash		<u>(628,971)</u>
Cash at Beginning of Period - Closed Year	\$1,989,001	
Cash at Beginning of Period - 2007 Fund Year	<u>1,846,954</u>	<u>3,835,955</u>
Cash at End of Period		<u><u>\$3,206,984</u></u>

RECONCILIATION OF REVENUES IN EXCESS OF EXPENSES TO CASH PROVIDED
BY OPERATING ACTIVITIES:

Excess/(Deficit) of Revenues Over Expenses & Adjustment Working Capital	\$32,275
Changes Which Provided/(Used) Cash:	
Excess Insurance Receivable	75,959
Accounts Payable	(3,854)
IBNR Reserves	(40,000)
Other Receivable	<u>(870)</u>
Net Cash Provided by Operating Activities	<u><u>\$63,510</u></u>

**CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND
SCHEDULE OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2009 - FUND YEAR 2008**

Cash Flows From Operating Activities:	
Cash Received From Members	(\$2,108)
Cash Received/(Paid) for Claims, Premiums & Services	<u>(417,269)</u>
Net Cash Used by Operating Activities	<u>(419,377)</u>
Cash Flows From Financing Activities:	
Interest Received	<u>3,494</u>
Net Cash Provided by Financing Activities	<u>3,494</u>
Net Decrease in Cash	(415,883)
Cash at Beginning of Period	<u>1,620,470</u>
Cash at End of Period	<u><u>\$1,204,587</u></u>

**RECONCILIATION OF REVENUES IN EXCESS OF REVENUES TO CASH USED
BY OPERATING ACTIVITIES:**

Revenues in Excess of Expenses	\$3,393
Working Capital Changes Which Provided/(Used) Cash:	
Assessment Receivable	1,541,310
IBNR Reserves	(2,079,088)
Excess Insurance Receivable	(93,676)
Other Receivable	217,644
Prepaid Contributions	(7,484)
Accounts Payable	<u>(1,476)</u>
Net Cash Used by Operating Activities	<u><u>(\$419,377)</u></u>

**CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND
SCHEDULE OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2009 - FUND YEAR 2009**

Cash Flows From Operating Activities:	
Cash Received From Members	\$32,253,079
Cash Paid for Claims, Premiums & Services	<u>(27,999,736)</u>
Net Cash Provided by Operating Activities	<u>4,253,343</u>
Cash Flows From Financing Activities:	
Interest Received	<u>3,889</u>
Net Cash Provided by Financing Activities	<u>3,889</u>
Net Increase in Cash	<u>4,257,232</u>
Cash at End of Period	<u><u>\$4,257,232</u></u>

**RECONCILIATION OF REVENUES IN EXCESS OF REVENUES TO CASH PROVIDED
BY OPERATING ACTIVITIES:**

Revenues in Excess of Expenses	\$2,705,282
Working Capital Changes Which Provided/(Used) Cash:	
Assessment Receivable	(1,627,718)
Excess Insurance Receivable	(152,519)
Other Assets	(141,167)
Prepaid Contributions	396,969
IBNR Reserves	3,050,000
Accounts Payable	<u>22,496</u>
Net Cash Provided by Operating Activities	<u><u>\$4,253,343</u></u>

CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND
 REQUIRED SUPPLEMENTARY INFORMATION
 RECONCILIATION OF CLAIMS LIABILITIES
 FOR THE YEAR ENDED DECEMBER 31, 2009

	MEDICAL FUND	PRESCRIPTIONS FUND	DENTAL FUND	CLOSED YEARS	(MEMO ONLY) COMBINED TOTAL
Unpaid Claims at December 31, 2008:					
Adjustments to Incurred Claims from Prior Period	\$213,057	(185,547)	(35,452)	(32,275)	(40,217)
Incurred Claims for Current Period	19,022,714	6,714,821	1,354,203	181,069	27,272,807
Total Incurred Claims	19,235,771	6,529,274	1,318,751	148,794	27,232,590
Payment:					
Claims Attributable to the Prior Periods	163,057	(185,547)	(35,452)	(32,275)	(90,217)
Claims Attributable to the Current Period	16,366,469	6,434,494	1,240,775		24,041,738
Total Payments	16,529,526	6,248,947	1,205,323	(32,275)	23,951,521
Incurred But Not Reported Related to Fund Year 2008	50,000				50,000
Incurred But Not Reported Related to Fund Year 2009	2,656,245	280,327	113,428		3,050,000
Total Incurred But Not Reported at December 31, 2009	\$2,706,245	280,327	113,428	-	3,100,000

**CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND
REQUIRED SUPPLEMENTARY INFORMATION
NUMBER OF COVERED INDIVIDUALS BY MEMBER
FOR FUND YEARS 2009, 2008, 2007**

LINE OF COVERAGE	FUND YEAR 2009	FUND YEAR 2008	FUND YEAR 2007
Medical	2,053	1,567	1,611
Dental	1,707	1,596	1,583
Prescription	1,989	1,991	2,045
Vision	682	680	686

**CLAIMS DEVELOPMENT INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2009**

	FUND YEAR 2009	FUND YEAR 2008
Net Earned Required Contribution & Investment Revenue (Cumulative)	<u>\$33,496,295</u>	<u>27,390,757</u>
Unallocated Expenses (Cumulative)	<u>\$3,836,376</u>	<u>3,071,394</u>
Estimated Incurred Claims & Expense, (Net of Reinsurance) End of Policy Period	<u>\$26,942,170</u>	<u>23,071,802</u>
Paid/(Cumulative) as of December 31, 2008	<u>23,892,170</u>	<u>20,942,714</u>
Re-estimated Incurred Claims & Expenses (Cumulative)/(Net of Reinsurance)	<u>26,942,170</u>	<u>23,071,802</u>
Increase/(Decrease) in Estimated Incurred Claims		

CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND

**COMMENTS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2009**



Certified Public Accountants & Consultants

Board of Commissioners
Central New Jersey Regional Employee Benefits Fund
Saddle Brook, New Jersey 07662

Dear Sirs:

In connection with our audit of the basic financial statements of the Central New Jersey Regional Employee Benefits Fund for the year ended December 31, 2009, we found no matters of noncompliance relating to the operations of the Fund and the system of internal accounting control.

General Comments & Recommendations

None

Acknowledgment

We would like to acknowledge the courtesy and assistance extended to us by the officials of the Fund during our audit. Should you have any questions concerning the matters presented herein, we shall be pleased to discuss them with you at your convenience.

A handwritten signature in black ink that reads "Holman & Frenia, P.C." in a cursive script.

HOLMAN & FRENIA, P. C.
Certified Public Accountants

Medford, New Jersey
May 11, 2010

