

**CENTRAL NEW JERSEY REGIONAL  
EMPLOYEE BENEFITS FUND**

**AUDIT REPORT FOR THE YEAR  
DECEMBER 31, 2010**

# 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, 2010**

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## 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, 2010 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, 2010 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 12, 2011, 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.

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.

**HOLMAN & FRENIA, P.C.**  
Certified Public Accountants

Medford, New Jersey  
May 12, 2011

**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, 2010, and have issued our report thereon dated May 12, 2011. 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,

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.

HOLMAN & FRENIA, P. C.  
Certified Public Accountants

Medford, New Jersey  
May 12, 2011

**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, 2010. 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 and board of educations 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, 2010 and 2009.

### Summary Statement of Net Assets

Assets:	2010	2009	Increase/ (Decrease) from 2009	% of Increase/ (Decrease)
Cash, Cash Equivalents and Investments	\$ 14,108,685	13,359,506	\$ 749,179	5.61%
Assessments Receivable	781,130	1,627,718	(846,588)	-52.01%
Excess Insurance Receivable	727,569	246,195	481,374	195.53%
Investment in Joint Venture	2,987,886	2,064,075	923,811	44.76%
Other	152,721	179,687	(26,966)	-15.01%
			-	
<b>Total Assets</b>	<b>18,757,991</b>	<b>17,477,181</b>	<b>1,280,810</b>	<b>7.33%</b>
<b>Liabilities:</b>				
Accounts Payable, Accrued Expenses, and Prepaid Contributions	189,062	419,465	(230,403)	-54.93%
Actuarial Liability	4,100,000	3,100,000	1,000,000	32.26%
<b>Total Liabilities</b>	<b>4,289,062</b>	<b>3,519,465</b>	<b>769,597</b>	<b>21.87%</b>
<b>Net Assets</b>	<b>\$ 14,468,929</b>	<b>13,957,716</b>	<b>\$ 511,213</b>	<b>3.66%</b>

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

Operating Revenue:	2010	2009	Increase/ (Decrease) from 2009	% of Increase/ (Decrease)
Assessments and Other Income	\$ 40,649,715	33,481,720	\$ 7,167,995	21.41%
<b>Operating Expenses:</b>				
Provision for Claims and Claim Adjustment Expense	34,475,150	27,043,933	7,431,217	27.48%
Reinsurance Premiums	2,634,931	1,938,985	695,946	35.89%
General and Administrative Services	2,300,956	1,757,851	543,105	30.90%
<b>Total Operating Expenses</b>	<b>39,411,037</b>	<b>30,740,769</b>	<b>8,670,268</b>	<b>28.20%</b>
<b>Operating Income/(Loss)</b>	<b>1,238,678</b>	<b>2,740,951</b>	<b>(1,502,273)</b>	<b>-54.81%</b>
Change in Joint Venture	923,811	950,952	(27,141)	-2.85%
Dividend & Interest Income	392,814	57,694	335,120	580.86%
Dividends Paid	2,044,091	2,000,077	44,014	2.20%
<b>Change in Net Assets</b>	<b>511,212</b>	<b>1,749,520</b>	<b>(1,238,308)</b>	<b>-70.78%</b>

Total assets increased by 7.33% and net assets increased by 3.66%. This is a result of an increase in assessments of 21.41%. The large increase in assessments is primarily due to increased membership during 2010.

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 27.48%, 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 30.90% 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.

Interest income decreased due to the low interest rate environment which limited the ability of the Fund to earn investment income during this reporting period. During 2010 the Municipal Reinsurance Health Insurance Fund paid a dividend to the member HIF’s and the Fund’s share of the dividend was \$348,375

A dividend of \$2,044,091 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, 2010 AND 2009**

ASSETS	2010	2009
Cash and Cash Equivalents	\$11,451,233	8,668,803
Investments	2,657,452	4,690,704
Assessments Receivable	781,130	1,627,718
Excess Insurance Receivable	727,569	246,195
Interest Receivable	23,334	31,465
Other Assets	129,387	148,222
Investment in Joint Ventures (Note 7)	2,987,886	2,064,075
	<hr/>	<hr/>
Total Assets	18,757,991	17,477,182
	<hr/>	<hr/>
LIABILITIES		
Accounts Payable	1,997	22,496
Accrued Expenses	73,354	
Surplus Return Reserve	95,178	
Prepaid Contributions	18,533	396,969
IBNR Reserves (Note 3)	4,100,000	3,100,000
	<hr/>	<hr/>
Total Liabilities	4,289,062	3,519,465
	<hr/>	<hr/>
NET ASSETS		
Net Assets Unrestricted	14,468,929	13,957,717
	<hr/>	<hr/>
Total Net Assets	\$14,468,929	13,957,717
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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, 2010 AND 2009**

	2010	2009
Operating Revenues:		
Assessments	\$40,649,715	33,481,720
	<hr/>	<hr/>
Total Revenues	40,649,715	33,481,720
	<hr/>	<hr/>
Expenses:		
Claims - Net of Claims Adjustments	34,475,150	27,043,933
Premium Expenses	2,634,931	1,938,985
Contractual Expenses	1,250,249	936,005
Professional Contractual Expenses	1,032,999	810,227
Miscellaneous Expenses	17,708	11,621
	<hr/>	<hr/>
Total Expenses	39,411,037	30,740,771
	<hr/>	<hr/>
Operating Income	1,238,678	2,740,949
	<hr/>	<hr/>
Nonoperating Revenue/(Expenses):		
Interest Income	44,439	57,696
Dividend Income	348,375	
Dividends Paid	(2,044,091)	(2,000,077)
Investment in Joint Venture	923,811	950,952
	<hr/>	<hr/>
Total Nonoperating Revenue/(Expenses)	(727,466)	(991,429)
	<hr/>	<hr/>
Net Income/(Loss)	511,212	1,749,520
Net Assets Beginning of Year	13,957,717	12,208,197
	<hr/>	<hr/>
Net Assets End of Year	\$14,468,929	13,957,717
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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 CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

	2010	2009
Cash Flows From Operating Activities:		
Cash Received From Members	\$41,117,867	32,250,971
Cash Paid for Claims, Premiums & Services	(38,725,542)	(28,353,495)
	<hr/>	<hr/>
Net Cash Provided/(Used) by Operating Activities	2,392,325	3,897,476
	<hr/>	<hr/>
Cash Flows From Financing Activities:		
Interest Received	52,570	71,885
Dividend Income	348,375	
Dividend Paid	(2,044,091)	(1,888,885)
	<hr/>	<hr/>
Net Cash Provided/(Used) by Financing Activities	(1,643,146)	(1,817,000)
	<hr/>	<hr/>
Cash Flows From Investing Activities:		
Proceeds from Investments	2,033,251	1,131,902
	<hr/>	<hr/>
Net Cash Provided/(Used) by Investing Activities	2,033,251	1,131,902
	<hr/>	<hr/>
Net Increase/(Decrease) in Cash	2,782,430	3,212,378
Cash at Beginning of Period	8,668,803	5,456,425
	<hr/>	<hr/>
Cash at End of Period	\$11,451,233	8,668,803
	<hr/> <hr/>	<hr/> <hr/>

**RECONCILIATION OF OPERATING INCOME/(LOSS) TO CASH PROVIDED/(USED)  
BY OPERATING ACTIVITIES:**

Operating Income	\$1,238,678	2,740,949
Working Capital Changes Which Provided/(Used) Cash:		
Assessment Receivable	846,588	(86,408)
Excess Insurance Receivable	(481,374)	(170,236)
Surplus Return Reserve	95,178	
Other Assets	18,835	75,607
Prepaid Contributions	(378,436)	389,485
Accrued Expenses	73,354	
IBNR Reserves	1,000,000	930,912
Accounts Payable	(20,498)	17,167
	<hr/>	<hr/>
Net Cash Provided by Operating Activities	\$2,392,325	3,897,476
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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, 2010**

**CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010**

**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, 2010, 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 STATEMENTS**  
**DECEMBER 31, 2010**

**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 28 membership group as of December 31, 2010. 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 STATEMENTS**  
**DECEMBER 31, 2010**

**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:

	<b>Fund Year 2010</b>	<b>Fund Year 2009</b>	<b>Closed Year</b>	<b>Total</b>
Specific	<u>\$409,512</u>	<u>\$318,057</u>	<u>\$ -0-</u>	<u>\$727,569</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, 2010, and reported at fair value are as follows:

**CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010**

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

<b>Type</b>	<b>Carrying Value</b>
<b>Deposits:</b>	
Demand Deposits	\$ 8,015,755
New Jersey Cash Management Investments	3,435,478
	<u>2,657,452</u>
Total Deposits	<u>\$14,108,685</u>
 <b>Reconciliation of Statement of Net Assets:</b>	
Fund Year:	
2010	\$ 4,101,617
2009	2,284,019
Closed Years	<u>7,723,049</u>
Total Reconciliation of Comparative Statement of Net Assets	<u>\$ 14,108,685</u>

**Custodial Credit Risk** – Deposits in financial institutions, reported as components of cash, cash equivalents and investments had a bank balance of \$14,509,206 at December 31, 2010. Of the bank balance \$1,000,000 was fully insured by the FDIC (Federal Depository Insurance Corporation) and \$13,509,206 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 STATEMENTS**  
**DECEMBER 31, 2010**

**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 1 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 2010 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

**CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010**

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

under the 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 STATEMENTS**  
**DECEMBER 31, 2010**

**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, 2010, the MRHIF carried surplus balances of \$10,889,913. The Fund's equity interest in the MRHIF equates to \$2,987,886. 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**

**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 2010, 2009 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.

**HOLMAN & FRENIA, P. C.**  
Certified Public Accountants

Medford, New Jersey  
May 12, 2011

**CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND**  
**BALANCE SHEET**  
**DECEMBER 31, 2010 - CLOSED YEARS**

SCHEDULE 1

ASSETS	GENERAL AND ADMINISTRATIVE FUND
Cash and Cash Equivalents	\$5,065,597
Investments	2,657,452
Interest Receivable	<u>13,169</u>
Total Assets	<u><u>\$7,736,218</u></u>
<b>LIABILITIES, RESERVES &amp; FUND BALANCE</b>	
Surplus Return Reserve	<u>95,178</u>
Total Liabilities	<u>95,178</u>
Fund/(Deficit) Balance	<u>\$7,641,040</u>
Total Liabilities, Reserves & Fund Balance	<u><u>\$7,736,218</u></u>

**CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND  
BALANCE SHEET  
DECEMBER 31, 2010 - FUND YEAR 2009**

ASSETS	MEDICAL FUND	PRESCRIPTIONS FUND	DENTAL FUND	VISION FUND	DISABILITY FUND	GENERAL & ADMINISTRATIVE FUND	(MEMO ONLY) COMBINED TOTAL
Cash and Cash Equivalents	\$1,984,477	339,215	(61,223)	73,256	27,216	(78,922)	2,284,019
Excess Insurance Receivable	318,057						318,057
Interest Receivable	7,199	757		107	40	260	8,363
<b>Total Assets</b>	<b>\$2,309,733</b>	<b>339,972</b>	<b>(61,223)</b>	<b>73,363</b>	<b>27,256</b>	<b>(78,662)</b>	<b>2,610,439</b>
<b>LIABILITIES, RESERVES &amp; FUND BALANCE</b>							
Accrued Expenses	2,685						2,685
IBNR Reserves (Note 3)	100,000						100,000
<b>Total Liabilities</b>	<b>102,685</b>						<b>102,685</b>
<b>Fund/(Deficit) Balance</b>	<b>2,207,048</b>	<b>339,972</b>	<b>(61,223)</b>	<b>73,363</b>	<b>27,256</b>	<b>(78,662)</b>	<b>2,507,754</b>
<b>Total Liabilities, Reserves &amp; Fund Balance</b>	<b>\$2,309,733</b>	<b>339,972</b>	<b>(61,223)</b>	<b>73,363</b>	<b>27,256</b>	<b>(78,662)</b>	<b>2,610,439</b>

**CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND  
BALANCE SHEET  
DECEMBER 31, 2010 - FUND YEAR 2010**

ASSETS	MEDICAL FUND	PRESCRIPTIONS FUND	DENTAL FUND	VISION FUND	GENERAL AND ADMINISTRATIVE FUND	(MEMO ONLY) COMBINED TOTAL
Cash and Cash Equivalents	\$3,642,257		245,980	74,028	(238,296)	4,101,617
Assessment Receivable	781,130					781,130
Excess Insurance Receivable	409,512					409,512
Interest Receivable	1,563		123		116	1,802
Other Assets	4,599	124,788				129,387
<b>Total Assets</b>	<b>\$4,839,061</b>	<b>502,436</b>	<b>246,103</b>	<b>74,028</b>	<b>(238,180)</b>	<b>5,423,448</b>
<b>LIABILITIES, RESERVES &amp; FUND BALANCE</b>						
Accounts Payable					1,997	1,997
Accrued Expenses	44,791		25,878			70,669
Prepaid Contributions	18,533					18,533
IBNR Reserves (Note 3)	3,587,439	294,875	117,686			4,000,000
<b>Total Liabilities</b>	<b>3,650,763</b>	<b>294,875</b>	<b>143,564</b>		<b>1,997</b>	<b>4,091,199</b>
<b>Fund/(Deficit) Balance</b>	<b>1,188,298</b>	<b>207,561</b>	<b>102,539</b>	<b>74,028</b>	<b>(240,177)</b>	<b>1,332,249</b>
<b>Total Liabilities, Reserves &amp; Fund Balance</b>	<b>\$4,839,061</b>	<b>502,436</b>	<b>246,103</b>	<b>74,028</b>	<b>(238,180)</b>	<b>5,423,448</b>

SCHEDULE 4

**CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND  
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED DECEMBER 31, 2010 - CLOSED YEARS**

	GENERAL & ADMINISTRATIVE FUND
Expenses:	
Claims - Net of Claims Adjustments	(133,549)
	(133,549)
Total Claims Expenses	(133,549)
	133,549
Excess/(Deficit) of Revenues over Expenses	133,549
Other Financing Sources/(Uses):	
Interest Income	27,315
Dividend Income	348,375
Dividends Paid	(2,044,091)
Closing of Fund Year 2008	1,258,856
	(409,545)
Total Other Financing Sources/(Uses)	(409,545)
Excess/(Deficit) of Revenues & Other Financing Sources Over Expenses & Other Financing Uses	(275,996)
Fund Balance Beginning of Year	7,917,036
	7,917,036
Fund Balance/(Deficit) End of Year	\$7,641,040

**CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND  
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED DECEMBER 31, 2010 - FUND YEAR 2009**

	MEDICAL FUND	PRESCRIPTIONS FUND	DENTAL FUND	VISION FUND	DISABILITY FUND	GENERAL & ADMINISTRATIVE FUND	(MEMO ONLY) COMBINED TOTAL
Revenues:							
Assessments	(\$209)						(209)
Total Revenues	(209)						(209)
Expenses:							
Adjustments	349,283	(104,440)	(57,791)			23,418	210,470
Network Access						9,839	9,839
State Reserve for Retirees	2,685						2,685
Miscellaneous						1,174	1,174
Total Claims Expenses	351,968	(104,440)	(57,791)			34,431	224,168
Excess/(Deficit) of Revenues Over Expenses	(352,177)	104,440	57,791			(34,431)	(224,377)
Other Financing Sources/(Uses):							
Interest Income	12,236	1,395		197	73	481	14,382
Total Other Financing Sources/(Uses)	12,236	1,395		197	73	481	14,382
Excess of Revenue Over Expenses & Adjustments	(339,941)	105,835	57,791	197	73	(33,950)	(209,995)
Fund Balance Beginning of Year	2,546,989	234,137	(119,014)	73,166	27,183	(44,712)	2,717,749
Fund Balance/(Deficit) End of Year	\$2,207,048	339,972	(61,223)	73,363	27,256	(78,662)	2,507,754

**CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND  
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED DECEMBER 31, 2010 - FUND YEAR 2010**

	MEDICAL FUND	PRESCRIPTIONS FUND	DENTAL FUND	VISION FUND	GENERAL & ADMINISTRATIVE FUND	(MEMO ONLY) COMBINED TOTAL
Revenues:						
Assessments	\$27,284,991	7,144,176	1,572,964	74,028	4,573,765	40,649,924
Total Revenues	<u>27,284,991</u>	<u>7,144,176</u>	<u>1,572,964</u>	<u>74,028</u>	<u>4,573,765</u>	<u>40,649,924</u>
Expenses:						
Claims - Net of Claims Adjustments	25,990,990	6,936,722	1,470,517			34,398,229
State Reserve for Retirees	107,960				1,169,017	1,169,017
Claims Administrator					71,393	71,393
Network Access					640,897	640,897
Program Manager					2,526,971	2,526,971
Reinsurance					291,902	291,902
Executive Director					100,200	100,200
Professional Services					13,848	13,848
Miscellaneous						
Total Claims Expenses	<u>26,098,950</u>	<u>6,936,722</u>	<u>1,470,517</u>		<u>4,814,228</u>	<u>39,320,417</u>
Excess/(Deficit) of Revenues Over Expenses	<u>1,186,041</u>	<u>207,454</u>	<u>102,447</u>	<u>74,028</u>	<u>(240,463)</u>	<u>1,329,507</u>
Other Financing Sources/(Uses):						
Interest Income	2,257	107	92		286	2,742
Total Other Financing Sources/(Uses)	<u>2,257</u>	<u>107</u>	<u>92</u>		<u>286</u>	<u>2,742</u>
Excess of Revenue Over Expenses & Adjustments	<u>1,188,298</u>	<u>207,561</u>	<u>102,539</u>	<u>74,028</u>	<u>(240,177)</u>	<u>1,332,249</u>
Fund Balance/(Deficit) End of Year	<u>\$1,188,298</u>	<u>207,561</u>	<u>102,539</u>	<u>74,028</u>	<u>(240,177)</u>	<u>1,332,249</u>

**CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND  
SCHEDULE OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2010 - CLOSED YEARS**

Cash Flows From Operating Activities:		
Cash Received/(Paid) for Claims, Premiums & Services		<u>\$279,458</u>
Net Cash Provided by Operating Activities		<u>279,458</u>
Cash Flows From Financing Activities:		
Interest Received		37,033
Dividend Income		348,375
Dividends Paid		<u>(2,044,091)</u>
Net Cash Used by Financing Activities		<u>(1,658,683)</u>
Cash Flows From Investing Activities:		
Proceeds from Investments		<u>2,033,251</u>
Net Cash Provided by Investing Activities		<u>2,033,251</u>
Net Decrease in Cash		<u>654,026</u>
Cash at Beginning of Period - Closed Year	\$3,206,984	
Cash at Beginning of Period - 2008 Fund Year	<u>1,204,587</u>	<u>4,411,571</u>
Cash at End of Period		<u><u>\$5,065,597</u></u>

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

Excess/(Deficit) of Revenues Over Expenses & Adjustment Working Capital		\$133,549
Changes Which Provided/(Used) Cash:		
Excess Insurance Receivable		93,676
Surplus Return Reserve		95,178
IBNR Reserves		(50,000)
Other Receivable		<u>7,055</u>
Net Cash Provided by Operating Activities		<u><u>\$279,458</u></u>

**CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND**  
**SCHEDULE OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2010 - FUND YEAR 2009**

Cash Flows From Operating Activities:	
Cash Received From Members	\$1,230,540
Cash Received/(Paid) for Claims, Premiums & Services	<u>(3,218,350)</u>
Net Cash Used by Operating Activities	<u>(1,987,810)</u>
Cash Flows From Financing Activities:	
Interest Received	<u>14,597</u>
Net Cash Provided by Financing Activities	<u>14,597</u>
Net Decrease in Cash	(1,973,213)
Cash at Beginning of Period	<u>4,257,232</u>
Cash at End of Period	<u><u>\$2,284,019</u></u>

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

Revenues in Excess of Expenses	(\$224,377)
Working Capital Changes Which Provided/(Used) Cash:	
Assessment Receivable	1,627,718
Accrued Expenses	2,685
IBNR Reserves	(2,950,000)
Excess Insurance Receivable	(165,538)
Other Assets	141,167
Prepaid Contributions	(396,969)
Accounts Payable	<u>(22,496)</u>
Net Cash Used by Operating Activities	<u><u>(\$1,987,810)</u></u>

**CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND  
SCHEDULE OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2010 - FUND YEAR 2010**

Cash Flows From Operating Activities:	
Cash Received From Members	\$39,887,327
Cash Paid for Claims, Premiums & Services	<u>(35,786,650)</u>
Net Cash Provided by Operating Activities	<u>4,100,677</u>
Cash Flows From Financing Activities:	
Interest Received	<u>940</u>
Net Cash Provided by Financing Activities	<u>940</u>
Net Increase in Cash	<u>4,101,617</u>
Cash at End of Period	<u><u>\$4,101,617</u></u>

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

Revenues in Excess of Expenses	\$1,329,507
Working Capital Changes Which Provided/(Used) Cash:	
Assessment Receivable	(781,130)
Excess Insurance Receivable	(409,512)
Other Assets	(129,387)
Accrued Expenses	70,669
Prepaid Contributions	18,533
IBNR Reserves	4,000,000
Accounts Payable	<u>1,997</u>
Net Cash Provided by Operating Activities	<u><u>\$4,100,677</u></u>

**CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND  
REQUIRED SUPPLEMENTARY INFORMATION  
RECONCILIATION OF CLAIMS LIABILITIES  
FOR THE YEAR ENDED DECEMBER 31, 2010**

	MEDICAL FUND	PRESCRIPTIONS FUND	DENTAL FUND	CLOSED YEARS	(MEMO ONLY) COMBINED TOTAL
Unpaid Claims at December 31, 2009:					
Adjustments to Incurred Claims from Prior Period	\$349,283	(104,440)	(57,791)	(133,549)	76,921
Incurred Claims for Current Period	26,098,950	6,936,722	1,470,517		34,506,189
<b>Total Incurred Claims</b>	<b>26,448,233</b>	<b>6,832,282</b>	<b>1,412,726</b>	<b>(133,549)</b>	<b>34,583,110</b>
Payment:					
Claims Attributable to the Prior Periods	249,283	(104,440)	(57,791)	(133,549)	(23,079)
Claims Attributable to the Current Period	22,511,511	6,641,847	1,352,831		30,506,189
<b>Total Payments</b>	<b>22,760,794</b>	<b>6,537,407</b>	<b>1,295,040</b>	<b>(133,549)</b>	<b>30,483,110</b>
<b>Incurred But Not Reported Related to Fund Year 2009</b>	<b>100,000</b>				<b>100,000</b>
<b>Incurred But Not Reported Related to Fund Year 2010</b>	<b>3,587,439</b>	<b>294,875</b>	<b>117,686</b>		<b>4,000,000</b>
<b>Total Incurred But Not Reported at December 31, 2010</b>	<b>\$3,687,439</b>	<b>294,875</b>	<b>117,686</b>	<b>-</b>	<b>4,100,000</b>

**CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND  
REQUIRED SUPPLEMENTARY INFORMATION  
NUMBER OF COVERED INDIVIDUALS BY MEMBER  
FOR FUND YEARS 2010, 2009, 2008**

LINE OF COVERAGE	FUND YEAR 2010	FUND YEAR 2009	FUND YEAR 2008
Medical	2,415	2,053	1,567
Dental	1,766	1,707	1,596
Prescription	1,955	1,989	1,991
Vision	679	682	680

**CLAIMS DEVELOPMENT INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2010**

	FUND YEAR 2010	FUND YEAR 2009
Net Earned Required Contribution & Investment Revenue (Cumulative)	<u>\$40,652,666</u>	<u>33,496,295</u>
Unallocated Expenses (Cumulative)	<u>\$4,814,228</u>	<u>3,836,376</u>
Estimated Incurred Claims & Expense, (Net of Reinsurance) End of Policy Period	<u>\$34,506,189</u>	<u>26,942,170</u>
Paid/(Cumulative) as of December 31, 2010	<u>30,506,189</u>	<u>26,842,170</u>
Re-estimated Incurred Claims & Expenses (Cumulative)/(Net of Reinsurance)	<u>34,506,189</u>	<u>26,942,170</u>
Increase/(Decrease) in Estimated Incurred Claims		

**CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND**

**COMMENTS AND RECOMMENDATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2010**

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Board of Commissioners  
Central New Jersey Regional Employee Benefits Fund  
Saddle Brook, New Jersey 07663

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, 2010, 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.

**HOLMAN & FRENIA, P. C.**  
Certified Public Accountants

Medford, New Jersey  
May 12, 2011