

**SOUTHERN NEW JERSEY REGIONAL
EMPLOYEE BENEFITS FUND
REPORT ON AUDIT OF FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**



SOUTHERN NEW JERSEY REGIONAL
EMPLOYEE BENEFITS FUND

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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Southern New Jersey Regional Employee Benefits Fund
250 Pehle Avenue
Suite 701
Saddle Brook, New Jersey 07663

We have audited the accompanying statements of net assets of the Southern New Jersey Regional Employee Benefits Fund, a Municipal Employees Health Insurance Joint Insurance Fund (the "Fund"), as of December 31, 2009 and 2008, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and in compliance with audit requirements as prescribed by the Department of Banking and Insurance and the Division of Local Government Services, Department of Community Affairs of the State of New Jersey. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Southern New Jersey Regional Employee Benefits Fund as of December 31, 2009 and 2008 and the results of its operations and cash flows for the years 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 June 28, 2010, on our consideration of Southern New Jersey Regional Employee Benefits Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Board of Commissioners
Southern New Jersey Regional Employee Benefits Fund

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying additional supplementary information note and exhibits are 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 audits 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.

Respectfully submitted,

Bowman & Company LLP
BOWMAN & COMPANY LLP



James J. Miles, Jr.
Certified Public Accountant

Woodbury, New Jersey
June 28, 2010

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

Board of Commissioners
Southern New Jersey Regional Employee Benefits Fund
250 Pehle Avenue
Suite 701
Saddle Brook, New Jersey 07663

We have audited the financial statements of the Southern New Jersey Regional Employee Benefits Fund (the “Fund”) as of December 31, 2009, and have issued our report thereon dated June 28, 2010. We conducted our audit in accordance with generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and in compliance with audit requirements as prescribed by the Department of Banking and Insurance and the Division of Local Government Services, Department of Community Affairs of the State of New Jersey.

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 internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Board of Commissioners
Southern New Jersey Regional Employee Benefits Fund

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Southern 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 and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards, and audit requirements as prescribed by the Department of Banking and Insurance and the Division of Local Government Services, Department of Community Affairs of the State of New Jersey.

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

Respectfully submitted,

BOWMAN & COMPANY LLP

James J. Miles, Jr.

Certified Public Accountant

Woodbury, New Jersey
June 28, 2010

SOUTHERN NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND

Management's 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 and 2008. 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 is to provide medical and other health insurance coverage for municipalities and school boards 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

	<u>12/31/2009</u>	<u>12/31/2008</u>	<u>Change \$</u>	<u>Change %</u>
Assets:				
Cash	\$ 13,034,983	\$ 9,642,621	\$ 3,392,362	35.18%
Contributions Receivable	822,124	97,225	724,899	745.59%
Refund Receivable	162,758	109,676	53,082	48.40%
Dividend Receivable		95,234	(95,234)	-100.00%
Prepaid Insurance		117,185	(117,185)	-100.00%
Excess Insurance Receivable	410,070	585,782	(175,712)	-30.00%
Investment in Joint Venture	<u>1,998,616</u>	<u>946,097</u>	<u>1,052,519</u>	<u>111.25%</u>
Total Assets	<u><u>16,428,551</u></u>	<u><u>11,593,820</u></u>	<u><u>4,834,731</u></u>	<u><u>41.70%</u></u>
Liabilities & Net Assets				
Liabilities:				
Accrued Insurance Premiums	680,732	256,084	424,648	165.82%
Accrued Expenses	24,525	52,447	(27,922)	-53.24%
Advanced Contributions	67,441	10,941	56,500	516.41%
Return of Surplus Payable		18,065	(18,065)	-100.00%
Actuarial Liability	<u>3,463,590</u>	<u>1,858,000</u>	<u>1,605,590</u>	<u>86.41%</u>
Total Liabilities	<u><u>4,236,288</u></u>	<u><u>2,195,537</u></u>	<u><u>2,040,751</u></u>	<u><u>92.95%</u></u>
Net Assets	<u><u>\$ 12,192,263</u></u>	<u><u>\$ 9,398,283</u></u>	<u><u>\$ 2,793,980</u></u>	<u><u>29.73%</u></u>

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

	<u>12/31/2009</u>	<u>12/31/2008</u>	<u>Change \$</u>	<u>Change %</u>
Operating Revenues:				
Regular Contributions	<u>\$ 46,085,799</u>	<u>\$29,432,663</u>	<u>\$16,653,136</u>	<u>56.58%</u>
Expenses and Cumulative Adjustments:				
Claims Benefits - Net	37,350,574	22,518,575	14,831,999	65.87%
Insurance Premiums	2,519,251	1,811,185	708,066	39.09%
Administrative	<u>4,198,645</u>	<u>2,670,204</u>	<u>1,528,441</u>	<u>57.24%</u>
Total Expenses and Cumulative Adjustments	<u><u>44,068,470</u></u>	<u><u>26,999,964</u></u>	<u><u>17,068,506</u></u>	<u><u>63.22%</u></u>
Excess of Revenue from Operations	<u>2,017,329</u>	<u>2,432,699</u>	<u>(415,370)</u>	<u>-17.07%</u>
Non-Operating Revenues:				
Investment Income	87,165	170,500	(83,335)	-48.88%
Municipal Reinsurance Health Insurance Fund Dividend		95,234	(95,234)	-100.00%
Change in Investment in Joint Venture	<u>1,052,519</u>	<u>334,608</u>	<u>717,911</u>	<u>214.55%</u>
Excess of Revenues	<u>3,157,013</u>	<u>3,033,041</u>	<u>123,972</u>	<u>4.09%</u>
Return of Surplus	<u>(363,033)</u>	<u>(363,000)</u>	<u>33</u>	<u>0.01%</u>
Change In Net Assets	<u><u>\$ 2,793,980</u></u>	<u><u>\$ 2,670,041</u></u>	<u><u>\$ 123,939</u></u>	<u><u>4.64%</u></u>

Financial Highlights Continued

During 2009 the Fund added 3 Municipalities, 10 Boards of Education and 1 Fire District with 1 Board of Education leaving the Fund. The net growth of the fund added approximately 1,700 lives being covered. Accordingly, the overall increase created significant changes in assets, liabilities, revenues and expenses. Net assets increased by 29.73% primarily due to an increase in assessments of 56.58%. Total assets and total liabilities increased 41.70% and 92.95%, respectively. The most sensitive liability and the one requiring the most judgment, actuarial reserves, increased by 86.41% reflecting inflation of claims expense and growth in exposures.

Claims expense increased by 65.87%, primarily due to increased membership coupled with industry trends. Reinsurance premiums increased as a result of greater exposure and a higher percentage of claims cost being incurred by the Municipal Reinsurance Health Insurance Fund. During the year, professional and administrative operating costs increased by 57.24% reflecting growth in service contracts due to increased membership.

The value of the Fund's share of the Municipal Reinsurance Health Insurance Fund increased by 111.25%.

Interest income decreased by 48.88% due to the low interest rate environment which limited the ability of the Fund to earn investment income during this reporting period.

The Fund paid a dividend of \$363,033 as surplus exceeded the Fund's surplus retention guidelines.

Economic Conditions

The SNJREBF continues to be affected by inflation of health benefit costs. SNJREBF's strategy is to continue to attempt to moderate such increases by leveraging purchasing power with other Funds, using one of the largest and most effective medical networks in the nation, and assisting members with plan design and labor negotiation efforts. During 2009 and 2008 several boards of educations became members of the Fund.

Contacting the Fund's Management

This financial report is designed to provide the Southern New Jersey Regional Employee Benefits Fund members and the Department of Banking and Insurance of the State of New Jersey with a general overview of the Fund's finances and to demonstrate the Fund's accountability for the public funds it receives. If you have any questions about this report or need additional financial information, contact the Executive Director of the Southern New Jersey Regional Employee Benefits Fund office located at 250 Pehle Avenue, Suite 701, Saddle Brook, New Jersey 07663 or by phone at 201-587-0555.

SOUTHERN NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND
STATEMENTS OF NET ASSETS
AS OF DECEMBER 31, 2009 AND 2008

<u>ASSETS</u>	<u>2009</u>	<u>2008</u>
Cash	\$ 13,034,983	\$ 9,642,621
Contributions Receivable	822,124	97,225
Refund Receivable	162,758	109,676
Dividend Receivable		95,234
Prepaid Insurance		117,185
Excess Insurance Receivable	410,070	585,782
Investment in Joint Venture	1,998,616	946,097
	<hr/>	<hr/>
Total Assets	16,428,551	11,593,820
	<hr/>	<hr/>
<u>LIABILITIES, RESERVES AND NET ASSETS</u>		
Liabilities:		
Accrued Insurance Premiums	680,732	256,084
Accrued Expenses	24,525	52,447
Advanced Contributions	67,441	10,941
Return of Surplus Payable		18,065
	<hr/>	<hr/>
Total Liabilities	772,698	337,537
	<hr/>	<hr/>
Reserves:		
Actuarial Liability	3,463,590	1,858,000
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Total Liabilities and Reserves	4,236,288	2,195,537
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Net Assets - Unrestricted	\$ 12,192,263	\$ 9,398,283
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The accompanying Notes to Financial Statements are an integral part of this statement.

SOUTHERN NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Operating Revenues:		
Regular Contributions	\$ 46,085,799	\$ 29,432,663
Expenses and Cumulative Adjustments:		
Claims Benefits - Net	37,350,574	22,518,575
Insurance Premiums	2,519,251	1,811,185
Administration	4,198,645	2,670,204
Total Expenses and Cumulative Adjustments	<u>44,068,470</u>	<u>26,999,964</u>
Excess of Revenues from Operations	2,017,329	2,432,699
Non-Operating Revenue:		
Investment Income	87,165	170,500
Municipal Reinsurance Health Insurance Fund Dividend		95,234
Change in Investment in Joint Venture	<u>1,052,519</u>	<u>334,608</u>
Excess of Revenues	3,157,013	3,033,041
Net Assets, Beginning of Year	9,398,283	6,728,242
Return of Surplus	<u>(363,033)</u>	<u>(363,000)</u>
Net Assets, End of Year	<u>\$ 12,192,263</u>	<u>\$ 9,398,283</u>

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

SOUTHERN NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND
STATEMENTS OF CASH FLOWS
FOR THE YEARS 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Cash Flows Provided (Used) by Operating Activities:		
Regular Contributions	\$ 45,417,400	\$ 29,522,217
Health Benefits Claims - Net	(35,622,354)	(22,740,375)
Insurance Premiums	(1,977,418)	(1,724,028)
Administrative Expenses	<u>(4,226,567)</u>	<u>(2,639,029)</u>
Net Cash Provided by Operating Activities	3,591,061	2,418,785
Cash Flows Provided by Investing Activities:		
Investment Income	182,399	170,500
Cash Flows Used by Noncapital Financing Activities:		
Return of Surplus	(381,098)	(358,326)
Cash and Cash Equivalents, Beginning of Year	<u>9,642,621</u>	<u>7,411,662</u>
Cash and Cash Equivalents, End of Year	<u>\$ 13,034,983</u>	<u>\$ 9,642,621</u>
 <u>Reconciliation of Operating Results to</u> <u>Net Cash Provided by Operating Activities</u>		
Excess of Revenues from Operations	<u>\$ 2,017,329</u>	<u>\$ 2,432,699</u>
Adjustments:		
Changes in Assets and Liabilities:		
Decrease (Increase) in Assets:		
Contributions Receivable	(724,899)	78,613
Excess Insurance Receivable	175,712	(357,124)
Refunds Receivable	(53,082)	(109,676)
Prepaid Insurance	117,185	(117,185)
Increase (Decrease) in Liabilities:		
Accrued Administrative Expenses	(27,922)	31,175
Accrued Excess Insurance Premium	424,648	204,342
Advanced Contributions	56,500	10,941
Actuarial Liability	<u>1,605,590</u>	<u>245,000</u>
Total Adjustments	<u>1,573,732</u>	<u>(13,914)</u>
Net Cash Provided by Operating Activities	<u>\$ 3,591,061</u>	<u>\$ 2,418,785</u>
Supplemental Disclosure - Noncash Activity:		
Change in Investment in Joint Venture	<u>\$ 1,052,519</u>	<u>\$ 334,608</u>

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

SOUTHERN NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND
A MUNICIPAL EMPLOYEES HEALTH INSURANCE JOINT INSURANCE FUND
NOTES TO FINANCIAL STATEMENTS

Note 1: **ORGANIZATION AND DESCRIPTION OF THE FUND**

The Southern New Jersey Regional Employee Benefits Fund (the "Fund") was formed as a purchasing group effective August 1, 1992 and became a member of the Bergen Municipal Employee Benefits Fund (B-Med) as of September 1, 1992. In 1995 the Fund became an independent health insurance joint insurance fund pursuant to NJSA 40A:10-36 et. seq. and NJAC 11:15-3 when the Fund received approval from the New Jersey Department of Insurance. The Fund is operated in accordance with regulations of the New Jersey Department of Insurance and the Division of Local Government Services of the Department of Community Affairs. The Fund was established for the purpose of containing medical costs.

During the Fund's initial period, any local unit which was a member of the Camden County Municipal Joint Insurance Fund, the Professional Municipal Management Joint Insurance Fund or the Burlington County Municipal Joint Insurance Fund could become a part of the Fund's initial application. Thereafter, the Commissioners/Executive Committee of the Fund may approve subsequent membership by a two-thirds vote of the full authorized membership or may terminate any member by a majority vote, after proper notice has been given.

During the year 2009 the following municipalities were members of the Fund: Gibbsboro, Haddonfield, Runnemede, Bellmawr, Bordentown Township, Brooklawn, Willingboro, Barrington, Magnolia, Mt. Ephraim, Maple Shade, Medford Lakes, Lindenwold, Lawnside, Gloucester City, Chesilhurst, Pitman, Wenonah, Monroe Township, Mansfield, Pine Hill, Paulsboro, Merchantville, Riverside and Cherry Hill Fire District. In addition, the following boards of education were members of the Fund during 2009, Gateway Regional, Delsea Regional, Lumberton Township, Harrison Township, Paulsboro, Collingswood, South Harrison, Riverside Township, Gloucester County Institute of Technology, Gloucester County Special Services District, Mt. Holly, Alloway, Clearview, Medford Lakes, Shamong and Woodstown-Pilesgrove.

All members' assessments, including a reserve for contingencies, are based on annual actuarial assumptions determined by the Fund's Actuary and on monthly and quarterly adjustments determined by the Fund's Actuary and Program Manager based on actual loss experience. The Commissioner of Insurance may order additional assessments to supplement the Fund's claim, loss retention or administrative accounts to assure the payment of the Fund's obligations.

The Fund offers the following coverages to its members:

Medical
Dental
Prescription

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

SOUTHERN NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND
A MUNICIPAL EMPLOYEES HEALTH INSURANCE JOINT INSURANCE FUND
NOTES TO FINANCIAL STATEMENTS

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

The limits of liability under the various coverages for 2009 were as follows:

HEALTH INSURANCE COVERAGE

<u>Limits</u>	<u>Description</u>
<u>I. Fund's Self-Insured Retained Limit of Liability</u>	
A. \$200,000	Specific limit - applies per enrolled participant per reinsurance policy year.
B. \$48,551,165	Aggregate limit of liability (Attachment is based on the aggregate factors multiplied by the Participant Census)
<u>II. Excess Insurers' Limit of Liability</u>	
A. \$9,835,000	Reimbursement in excess of the Fund's specific S.I.R.
B. \$10,000,000	Reimbursement in excess of the Fund's aggregate S.I.R.

Health Insurance Coverage Notes:

1. "Health Insurance" means health insurance as defined pursuant to NJSA 17B:17-4 or service benefits as provided by health service corporations, hospital service corporations or medical service corporations authorized to do business in the state.
2. "Incurred Claims" means claims, which occur during a Fund year, including claims paid during a later period. The exact definition of "Incurred Claims" or any similar term is the definition used in the excess insurance policy purchased by the Fund.
3. The Fund's reinsurance agreement for the year 2009 was with the Municipal Reinsurance Health Insurance Fund. The agreement is on a 12/24 month exposure period covering claims incurred during the twelve month policy period January 1, 2009 to December 31, 2009.
4. Open enrollment for participating employees is offered during the months of May and November.
5. Medical coverage consists of each participating municipality's individual medical benefits plan, the HMO option on a group basis or the PPO option in accordance with a plan on file with the Department of Insurance.
6. Medicare provides secondary coverage for eligible active employees and primary coverage for eligible Medicare participants.

SOUTHERN NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND
A MUNICIPAL EMPLOYEES HEALTH INSURANCE JOINT INSURANCE FUND
NOTES TO FINANCIAL STATEMENTS

Note 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Reporting Entity

The Fund has determined that there were no additional entities required to be included in the reporting entity under the criteria described in accordance with relevant accounting literature. In addition, the Fund is not includable in any other reporting entity on the basis of such criteria.

Basis of Presentation, Fund Accounting

The financial statements of the Fund have been prepared in accordance with generally accepted accounting principles applicable to enterprise funds of State and Local Governments on a going concern basis. The focus of enterprise funds is the measurement of economic resources, that is, the determination of net income, financial position and cash flows.

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

Basis of Accounting

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles on the accrual basis of accounting, whereby income is recorded as earned and expenses are recognized as incurred, as stated below.

Cash and Cash Equivalents - Cash and cash equivalents include cash on deposit with public depositories. Certificates of deposit when purchased are recorded as cash regardless of the date of maturity.

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

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

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

SOUTHERN NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND
A MUNICIPAL EMPLOYEES HEALTH INSURANCE JOINT INSURANCE FUND
NOTES TO FINANCIAL STATEMENTS

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

Revenue Recognition

Member municipalities were assessed monthly contributions based on a pro rata amount of the current estimates of projected losses, administrative expenses, the cost of reinsurance, and contingency fund needs for the year. Pass-through costs regarding HMO premiums were billed directly to the members who incurred the charges.

Interest Income Allocation

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

Additional Assessments and Dividend Credits (Refunds)

Member municipalities are subject to additional assessments if the regular contributions (premiums) collected in a fiscal year are not sufficient to cover all claims and expenses. Should premiums collected exceed claims and expenses, member municipalities may accrue a dividend credit subject to the discretion of the Executive Committee of the Fund and approval by the Department of Insurance. Dividends approved by the Executive Committee are shown in the financial statements as reserved Fund Balance pending State approval. Each member municipality shares in these charges and credits based upon its participation in the various coverages provided. Refunds shall be declared not later than 180 days after the end of a fiscal year unless otherwise extended by the Commissioner of the Department of Insurance.

Payment of refunds shall be made as follows:

At least 50% - not later than 210 days after the fiscal year end or 30 days after the extension period granted above, whichever is later.

Remainder - not later than 270 days after the fiscal year end or 90 days after the extension period granted above, whichever is later.

Claims Funding

The Fund is on a claim payment reimbursement basis with AETNA, Express Scripts, Inc. and Delta Dental (The third party administrators). During the course of each month the third party administrators pay respective plan benefit obligations, including medical services and capitation and incentives, prescription and dental. Upon payment of plan benefit obligations requests for funding are transmitted to the fund Treasurer who wire transfers an amount equal to the paid obligations to the respective third party administrator.

SOUTHERN NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND
A MUNICIPAL EMPLOYEES HEALTH INSURANCE JOINT INSURANCE FUND
NOTES TO FINANCIAL STATEMENTS

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

Actuarial Liability

In order to recognize unpaid losses, a reserve is calculated by the Fund's actuary, Deloitte Consulting LLP.

Liabilities for unpaid losses represent the estimated liability on claims reported to the Fund plus reserves for claims incurred but not yet reported. The liabilities for claims are evaluated using Fund and industry data, case basis evaluations and other statistical analyses, and represent estimates of the ultimate net cost of all losses incurred through December 31, 2009. These liabilities are subject to variability between estimated ultimate losses determined as described and the actual experience as it emerges, including the impact of future changes in claim severity and frequency and other factors. Management believes that the liabilities for unpaid claims are adequate. The estimates are continually reviewed and as adjustments to these liabilities become necessary, such adjustments are reflected in current operations.

Reinsurance

The Fund seeks to limit its exposure to loss on any single insured and to recover a portion of benefits paid by ceding reinsurance to the Municipal Reinsurance Health Insurance Fund ("MRHIF") under excess coverage insurance contracts.

Although the MRHIF is liable to the Fund for the amounts reinsured, the Fund remains liable to its insureds for the full amount of the policies written whether or not the MRHIF meets its obligations to the Fund. Failure of the MRHIF to honor its obligations could result in losses to the Fund.

Losses ceded to reinsurers during the years 2009 and 2008 amounted to \$410,070 and \$584,879, respectively.

Administrative Expenses

Administrative expenses are comprised mainly of compensation for services rendered by servicing organizations and appointed officials pursuant to written fee guidelines submitted and approved by a majority of the Commissioners/Executive Committee. In instances where invoices have not been submitted for specific periods, the maximum allowable contract amount has been accrued.

Income Taxes

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

Subsequent Events

In accordance with relevant accounting literature, a new standard applies to interim and annual financial periods ending after June 15, 2009. This statement establishes principles setting forth the period after the balance sheet date during which management shall evaluate events and transactions that may occur for potential recognition or disclosure in the financial statements. For the purposes of this accounting standard, the organization has evaluated subsequent events through June 28, 2010.

SOUTHERN NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND
A MUNICIPAL EMPLOYEES HEALTH INSURANCE JOINT INSURANCE FUND
NOTES TO FINANCIAL STATEMENTS

Note 3: **CASH AND CASH EQUIVALENTS AND INVESTMENTS**

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of a bank failure, the Fund's deposits may not be returned to it. As described in Note 2, N.J.S.A. 17:9-41 et seq. requires that governmental units shall deposit public funds in public depositories protected from loss under the provisions of the GUDPA. Of the Fund's bank balance of \$13,958,764 as of December 31, 2009, \$500,000 was insured while \$13,458,764 was collateralized under GUDPA.

Note 4: **CHANGES IN UNPAID CLAIMS LIABILITIES**

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

The following represents changes in those aggregate undiscounted reported and unreported liabilities for the Fund during 2009 and 2008 for all open fund years net of excess insurance recoveries:

	<u>2009</u>	<u>2008</u>
Total unpaid claims and claim adjustment expenses all fund years - beginning of year	\$ 1,858,000	\$ 1,613,000
Incurred claims and claim adjustment expenses:		
Provision for insured events of current fund year	37,760,964	23,082,046
Changes in provision for insured events of prior fund years	<u>(410,390)</u>	<u>(563,471)</u>
Total incurred claims and claim adjustment expenses all fund years	<u>39,208,574</u>	<u>24,131,575</u>
Payments:		
Claims and claim adjustment expenses:		
Attributable to insured events of current fund year	34,307,374	21,224,046
Attributable to insured events of prior fund years	<u>1,437,610</u>	<u>1,049,529</u>
Total payments all fund periods	<u>35,744,984</u>	<u>22,273,575</u>
Total unpaid claims and claim adjustment expenses all fund years - end of year	<u>\$ 3,463,590</u>	<u>\$ 1,858,000</u>

Note 5: **LOSS FUND CONTINGENCY FUND ACCOUNT**

Upon recommendation of the Fund's Administrator, the Fund Commissioners agreed to establish a loss fund contingency account. This fund account provides additional assurance that any variances from the expected losses promulgated by the Actuary will be covered without seeking additional assessments. Annual assessments or transfers into this account cannot exceed 2.5% of the Fund's current fiscal year earned income with an aggregate cap of 10% unless approved by the Commissioner of the Department of Insurance.

SOUTHERN NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND
A MUNICIPAL EMPLOYEES HEALTH INSURANCE JOINT INSURANCE FUND
NOTES TO FINANCIAL STATEMENTS

Note 6: **TRANSFER OF 2007 FUND PERIOD SURPLUS**

The Executive Committee approved the closing of the 2007 Fund year and the transfer of the December 31, 2008 balance in the amount of \$1,816,604 to the closed years account.

Note 7: **RETURN OF FUND SURPLUS**

At its March 23, 2009, meeting, the Executive Committee approved the release of surplus in the amount of \$363,033 from the closed year account.

Note 8: **MUNICIPAL REINSURANCE HEALTH INSURANCE FUND**

Effective January 1, 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 insurance funds established for the purpose of providing excess health insurance coverage to participating members. Each member appoints an official to represent their respective joint insurance fund for the purpose of creating a governing body from which officers for the MRHIF are elected.

As a member of the MRHIF, the Fund 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 severely 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 Insurance. These distributions are divided among the members in the same ratio as their individual assessment relates to the total assessment of the membership for that fund year.

Selected, summarized financial information for the Municipal Reinsurance Health Insurance Fund as of December 31, 2009 is as follows:

Total Assets	<u>\$9,726,995</u>
Total Liabilities	<u>\$2,136,937</u>
Net Assets	<u>\$7,590,058</u>
Total Revenues	<u>\$6,913,963</u>
Total Expenses	<u>\$3,453,974</u>
Net Income	<u>\$3,459,989</u>
Surplus Returned	<u>\$ ---</u>

Financial statements for the Municipal Reinsurance Health Insurance Fund are available at the office of the Fund's Executive Director:

PERMA
250 Pehle Avenue, Suite 710
Saddle Brook, NJ 07663
201-587-0555

SOUTHERN NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND
A MUNICIPAL EMPLOYEES HEALTH INSURANCE JOINT INSURANCE FUND
NOTES TO FINANCIAL STATEMENTS

Note 9: **SUBSEQUENT EVENT**

Subsequent to year end and as of the issuance of this report, the following new Boards of Education (BOE) have joined or will join the fund, Burlington Township BOE, Monroe Township BOE, Woodbury Heights BOE, Educational Information and Resource Center, Lower Alloway Township BOE, Pennauken Township, North Hanover Township, Clayton BOE, Hainsport BOE and Black Horse Pike Regional BOE.

SUPPLEMENTARY INFORMATION

SOUTHERN NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND
A MUNICIPAL EMPLOYEES HEALTH INSURANCE JOINT INSURANCE FUND
NOTES TO SUPPLEMENTARY INFORMATION

Note 1: **RELATIONSHIP WITH BASIC FINANCIAL STATEMENTS**

The information in the Fund's basic financial statements, Exhibits A-1 through A-3, differ from the accompanying Supplementary schedules required by the Division of Banking and Insurance. The Supplementary schedules do not reflect the Fund's Investment in Joint Venture as follows:

	<u>2009</u>	<u>2008</u>
Total Assets – Statement of Net Assets	\$16,428,551	\$11,593,820
Less Investment in Joint Ventures	<u>1,998,616</u>	<u>946,097</u>
Total Assets – Statutory Basis	<u>\$14,429,935</u>	<u>\$10,647,723</u>
Net Assets – Statement of Net Assets	\$12,192,263	\$ 9,398,283
Less Investment in Joint Ventures	<u>1,998,616</u>	<u>946,097</u>
Net Assets – Statutory Basis	<u>\$10,193,647</u>	<u>\$ 8,452,186</u>

SOUTHERN NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND
COMBINING STATEMENT OF NET ASSETS - STATUTORY BASIS
AS OF DECEMBER 31, 2009

	<u>FUND YEAR</u>			<u>Total</u>
	<u>2009</u>	<u>2008</u>	<u>Closed Years</u>	
<u>ASSETS</u>				
Cash	\$ 4,325,689	\$ 2,649,053	\$ 6,060,241	\$ 13,034,983
Contributions Receivable	739,619		82,505	822,124
Refund Receivable	162,758			162,758
Excess Insurance Receivable	372,545	37,525		410,070
Total Assets	<u>\$ 5,600,611</u>	<u>\$ 2,686,578</u>	<u>\$ 6,142,746</u>	<u>\$ 14,429,935</u>
 <u>LIABILITIES, RESERVES AND NET ASSETS</u>				
Liabilities:				
Accrued Insurance Premiums	\$ 424,186	\$ 203,953	\$ 52,593	\$ 680,732
Accrued Expenses	24,525			24,525
Advanced Contributions	67,441			67,441
Total Liabilities	516,152	203,953	52,593	772,698
Reserves:				
Actuarial Liability	3,453,590	10,000		3,463,590
Total Liabilities and Reserves	<u>3,969,742</u>	<u>213,953</u>	<u>52,593</u>	<u>4,236,288</u>
Net Assets - Unrestricted	<u>\$ 1,630,869</u>	<u>\$ 2,472,625</u>	<u>\$ 6,090,153</u>	<u>\$ 10,193,647</u>

SOUTHERN NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - STATUTORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2009

	FUND YEAR			<u>Total</u>
	<u>2009</u>	<u>2008</u>	<u>Closed Years</u>	
Operating Revenues:				
Regular Contributions	\$ 46,087,075	\$ (1,276)		\$ 46,085,799
Expenses and Cumulative Adjustments:				
Claims Benefits - Net	37,760,964	(540,505)	\$ 130,115	37,350,574
Insurance Premiums	2,518,790	(389)	850	2,519,251
Administration	4,194,196	4,449		4,198,645
Total Expenses and Cumulative Adjustments	44,473,950	(536,445)	130,965	44,068,470
Excess of Revenues from Operations	1,613,125	535,169	(130,965)	2,017,329
Non-Operating Revenue:				
Investment Income	17,744	21,890	47,531	87,165
Excess of Revenues	1,630,869	557,059	(83,434)	2,104,494
Net Assets, Beginning of Year		1,915,566	6,536,620	8,452,186
Return of Surplus			(363,033)	(363,033)
Net Assets, End of Year	\$ 1,630,869	\$ 2,472,625	\$ 6,090,153	\$ 10,193,647

SOUTHERN NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND
COMBINING STATEMENT OF CASH FLOWS - STATUTORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2009

	FUND YEAR			Total
	<u>2009</u>	<u>2008</u>	<u>Closed Years</u>	
Cash Flows Provided (Used) by Operating Activities:				
Regular Contributions	\$ 45,414,897	\$ 85,008	\$ (82,505)	\$ 45,417,400
Health Benefits Claims	(34,842,677)	(758,289)	(21,388)	(35,622,354)
Insurance Premiums	(2,094,604)	117,185	1	(1,977,418)
Administrative Expenses	(4,169,671)	(46,364)	(10,532)	(4,226,567)
Net Cash Provided by Operating Activities	4,307,945	(602,460)	(114,424)	3,591,061
Cash Flows Provided by Investing Activities:				
Investment Income	17,744	21,890	142,765	182,399
Cash Flows Used by Noncapital Financing Activities:				
Return of Surplus			(381,098)	(381,098)
Cash and Cash Equivalents, Beginning of Year		3,229,623	6,412,998	9,642,621
Cash and Cash Equivalents, End of Year	<u>\$ 4,325,689</u>	<u>\$ 2,649,053</u>	<u>\$ 6,060,241</u>	<u>\$ 13,034,983</u>
 <u>Reconciliation of Operating Results to</u> <u>Net Cash Provided by Operating Activities</u>				
Excess of Revenues from Operations	\$ 1,613,125	\$ 535,169	\$ (130,965)	\$ 2,017,329
Adjustments:				
Changes in Assets and Liabilities:				
Decrease (Increase) in Assets:				
Contributions Receivable	(739,619)	97,225	(82,505)	(724,899)
Excess Insurance Receivable	(372,545)	439,530	108,727	175,712
Refunds Receivable	(162,758)	109,676		(53,082)
Prepaid Insurance		117,185		117,185
Increase (Decrease) in Liabilities:				
Accrued Administrative Expenses	24,525	(41,915)	(10,532)	(27,922)
Accrued Excess Insurance Premium	424,186	(389)	851	424,648
Advanced Contributions	67,441	(10,941)		56,500
Actuarial Liabilities	3,453,590	(1,848,000)		1,605,590
Total Adjustments	2,694,820	(1,137,629)	16,541	1,573,732
Net Cash Provided (Used) by Operating Activities	<u>\$ 4,307,945</u>	<u>\$ (602,460)</u>	<u>\$ (114,424)</u>	<u>\$ 3,591,061</u>

SOUTHERN NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND
 SUPPLEMENTARY INFORMATION
 STATEMENT OF FUND YEAR 2009 ACCOUNT OPERATING RESULTS ANALYSIS - STATUTORY BASIS
 FOR THE PERIOD JANUARY 1, 2009 TO DECEMBER 31, 2009

	<u>Medical*</u>	<u>Prescription</u>	<u>Dental</u>	<u>Reinsurance</u>	<u>Contingency</u>	<u>Administrative</u>	<u>Total</u>
Income:							
Regular Contributions	\$ 30,976,223	\$ 7,840,120	\$ 1,338,301	\$ 2,099,327		\$ 3,833,104	\$ 46,087,075
Investment Income	12,714	4,462	568				17,744
Total Income	30,988,937	7,844,582	1,338,869	2,099,327	-	3,833,104	46,104,819
Incurred Liabilities:							
Claims Paid (Net of Refunds)	26,690,993	6,828,377	1,160,549				34,679,919
Excess Insurance Receivable	(372,545)						(372,545)
Actuarial Liability	3,073,590	360,000	20,000				3,453,590
Insurance Premiums	424,093		1,117	2,093,580			2,518,790
Administrative Expenses						4,194,196	4,194,196
Total Liabilities	29,816,131	7,188,377	1,181,666	2,093,580	-	4,194,196	44,473,950
Fund Equity (Deficit), December 31, 2009	\$ 1,172,806	\$ 656,205	\$ 157,203	\$ 5,747	-	\$ (361,092)	\$ 1,630,869

*Includes Retirees and COBRA

SOUTHERN NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND
 SUPPLEMENTARY INFORMATION
 STATEMENT OF FUND YEAR 2008 ACCOUNT OPERATING RESULTS ANALYSIS - STATUTORY BASIS
 FOR THE PERIOD JANUARY 1, 2008 TO DECEMBER 31, 2009

	<u>Medical*</u>	<u>Prescription</u>	<u>Dental</u>	<u>Reinsurance</u>	<u>Contingency</u>	<u>Administrative</u>	<u>Total</u>
Income:							
Regular Contributions	\$ 18,921,888	\$ 5,355,216	\$ 1,050,428	\$ 1,471,356	\$ 12,389	\$ 2,622,167	\$ 29,433,444
Investment Income	24,504	13,611	13,558	21	192	514	52,400
Total Income	18,946,392	5,368,827	1,063,986	1,471,377	12,581	2,622,681	29,485,844
Incurred Liabilities:							
Claims Paid (Net of Refunds)	18,372,268	3,757,793	916,060				23,046,121
Excess Insurance	(514,580)						(514,580)
Actuarial Liability	10,000						10,000
Insurance Premiums	203,953		1,615	1,606,131			1,811,699
Administrative Expenses						2,659,979	2,659,979
Total Liabilities	18,071,641	3,757,793	917,675	1,606,131	-	2,659,979	27,013,219
Fund Equity (Deficit), December 31, 2009	\$ 874,751	\$ 1,611,034	\$ 146,311	\$ (134,754)	\$ 12,581	\$ (37,298)	\$ 2,472,625

*Includes Retirees and COBRA

SOUTHERN NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND
SUPPLEMENTARY INFORMATION
STATEMENT OF FUND YEAR 2009 EXPENSE ANALYSIS - STATUTORY BASIS
FOR THE PERIOD JANUARY 1, 2009 TO DECEMBER 31, 2009

	<u>Paid</u>	<u>Accrued Expenses</u>	<u>Total</u>
Insurance Premiums:			
Reinsurance	\$ 2,094,604	\$ 93	\$ 2,094,697
State Health Benefits			
Program Surcharge Premiums	-	424,093	424,093
	<hr/>		
Total Insurance Premiums	2,094,604	424,186	2,518,790
	<hr/>		
Administrative Expenses:			
Executive Director	377,734		377,734
Program Manager	1,277,021		1,277,021
Third Party Administrators:			
Medical	2,248,616		2,248,616
Dental	71,162		71,162
Actuary	92,000		92,000
Treasurer	12,893		12,893
Attorney	53,664		53,664
Auditor	-	22,300	22,300
Miscellaneous Expenses	36,581	2,225	38,806
	<hr/>		
Total Administrative Expenses	4,169,671	24,525	4,194,196
	<hr/>		
Total Expenses	\$ 6,264,275	\$ 448,711	\$ 6,712,986
	<hr/>		

SOUTHERN NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND
SUPPLEMENTARY INFORMATION
STATEMENT OF FUND YEAR 2008 EXPENSE ANALYSIS - STATUTORY BASIS
FOR THE PERIOD JANUARY 1, 2008 TO DECEMBER 31, 2009

	<u>Paid</u>	<u>Accrued Expenses</u>	<u>Total</u>
Insurance Premiums:			
Reinsurance	\$ 1,607,746		\$ 1,607,746
State Health Benefits			
Program Surcharge Premiums	-	\$ 203,953	203,953
			<hr/>
Total Insurance Premiums	1,607,746	203,953	1,811,699
			<hr/>
Administrative Expenses:			
Executive Director	251,234		251,234
Program Manager	708,798		708,798
Third Party Administrators:			
Medical	1,448,941		1,448,941
Dental	57,480		57,480
Actuary	61,000		61,000
Treasurer	12,457		12,457
Attorney	28,363		28,363
Auditor	21,642		21,642
Miscellaneous Expenses	70,064		70,064
			<hr/>
Total Administrative Expenses	2,659,979	-	2,659,979
			<hr/>
Total Expenses	\$ 4,267,725	\$ 203,953	\$ 4,471,678
			<hr/> <hr/>

SOUTHERN NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND
SUPPLEMENTARY INFORMATION
SCHEDULE OF CASH ACCOUNTS - STATUTORY BASIS
AS OF DECEMBER 31, 2009

<u>Description</u>	<u>Amount</u>
Cash Accounts	
TD Bank:	
Savings Account	\$ 6,831,496
Expense Imprest Account	140,928
Beneficial Bank	
Money Market Investment Account	<u>6,062,559</u>
Total Cash Accounts per Balance Sheet	<u>\$ 13,034,983</u>
 Total Cash by Fund Year:	
2009	\$ 4,325,689
2008	2,649,053
Closed Years	<u>6,060,241</u>
	<u>\$ 13,034,983</u>

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

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

SCHEDULE OF FINANCIAL STATEMENT FINDINGS

None

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AS PREPARED BY MANAGEMENT

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

There were no findings in the prior year.

APPRECIATION

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

Respectfully submitted,

Bowman & Company LLP

BOWMAN & COMPANY LLP



James J. Miles, Jr.

Certified Public Accountant