

**CENTRAL NEW JERSEY REGIONAL
EMPLOYEE BENEFITS FUND**

**AUDIT REPORT FOR THE YEAR
DECEMBER 31, 2011**

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, 2011



Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying basic financial statements of the Central New Jersey Regional Employee Benefits Fund (the "Fund") as of December 31, 2011 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, 2011 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, 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.

HOLMAN & FRENIA, P. C.
Certified Public Accountants

Medford, New Jersey
May 12, 2012



Certified Public Accountants & Consultants

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

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

We have audited the financial statements of the Central New Jersey Regional Employee Benefits Fund as of and for the year ended December 31, 2011, and have issued our report thereon dated . 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.

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 did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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.

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.

HOLMAN & FRENIA, P. C.
Certified Public Accountants

Medford, New Jersey
May 12, 2012

REQUIRED SUPPLEMENTARY INFORMATION – PART I

Management's Discussion and Analysis

CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND
MANAGEMENT DISCUSSION AND ANALYSIS
UNAUDITED

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, 2011. 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, 2011 and 2010.

Summary Statement of Net Assets

Assets:	2011	2010	Increase/ (Decrease) from 2010	% of Increase/ (Decrease)
Cash, Cash Equivalents and Investments	\$ 11,123,067	14,108,685	\$ (2,985,618)	-21.16%
Assessments Receivable	585,120	781,130	(196,010)	-25.09%
Excess Insurance Receivable	358,005	727,569	(369,564)	-50.79%
Investment in Joint Venture	3,007,426	2,987,886	19,540	0.65%
Other	270,266	152,721	117,545	76.97%
Total Assets	<u>15,343,884</u>	<u>18,757,991</u>	<u>(3,414,107)</u>	-18.20%
Liabilities:				
Accounts Payable, Accrued Expenses, and Prepaid Contributions	266,432	189,062	77,370	40.92%
Actuarial Liability	<u>4,181,210</u>	<u>4,100,000</u>	<u>81,210</u>	1.98%
Total Liabilities	<u>4,447,642</u>	<u>4,289,062</u>	<u>158,580</u>	3.70%
Net Assets	<u>\$ 10,896,242</u>	<u>14,468,929</u>	<u>\$ (3,572,687)</u>	-24.69%

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

	<u>2011</u>	<u>2010</u>	<u>Increase/ (Decrease) from 2010</u>	<u>% of Increase/ (Decrease)</u>
Operating Revenue:				
Assessments and Other Income	\$ 43,574,369	40,649,715	\$ 2,924,654	7.19%
Operating Expenses:				
Provision for Claims and Claim Adjustment Expense	40,949,684	34,475,150	6,474,534	18.78%
Reinsurance Premiums	2,625,071	2,634,931	(9,860)	-0.37%
General and Administrative Services	<u>2,494,551</u>	<u>2,300,956</u>	<u>193,595</u>	8.41%
Total Operating Expenses	<u>46,069,306</u>	<u>39,411,037</u>	<u>6,658,269</u>	16.89%
Operating Income/(Loss)	(2,494,937)	1,238,678	(3,733,615)	-301.42%
Change in Joint Venture	19,540	923,811	(904,271)	-97.88%
Dividend & Interest Income	902,710	392,814	509,896	129.81%
Dividends Paid	<u>2,000,000</u>	<u>2,044,091</u>	<u>(44,091)</u>	-2.16%
Change in Net Assets	<u>(3,572,687)</u>	511,212	<u>(4,083,899)</u>	-798.87%

Total assets decreased by 18.20% and net assets decreased by 24.69%. This is a result of an increase in operating expenses of 16.89%.

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

Claims expense increased by 18.78%, 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 8.41% 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 increased despite the low interest rate environment during this reporting period. During 2011 the Municipal Reinsurance Health Insurance Fund paid a dividend to the member HIF's and the Fund's share of the dividend was \$817,344.

A dividend of \$2,000,000 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, 2011
(With comparative totals for December 31, 2010)

ASSETS	2011	(Memo Only) 2010
Cash and Cash Equivalents	\$10,088,107	11,451,233
Investments	1,034,960	2,657,452
Assessments Receivable	585,120	781,130
Excess Insurance Receivable	358,005	727,569
Interest Receivable	5,835	23,334
Other Assets	264,431	129,387
Investment in Joint Ventures (Note 8)	3,007,426	2,987,886
	<hr/>	<hr/>
Total Assets	15,343,884	18,757,991
	<hr/>	<hr/>
LIABILITIES		
Accounts Payable	2,729	1,997
Accrued Expenses	175,553	73,354
Surplus Return Reserve	88,150	95,178
Prepaid Contributions		18,533
IBNR Reserves (Note 3)	4,181,210	4,100,000
	<hr/>	<hr/>
Total Liabilities	4,447,642	4,289,062
	<hr/>	<hr/>
NET ASSETS		
Net Assets Unrestricted	10,896,242	14,468,929
	<hr/>	<hr/>
Total Net Assets	\$10,896,242	14,468,929
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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 YEAR ENDED DECEMBER 31, 2011
(With comparative totals for December 31, 2010)

	2011	(Memo Only) 2010
Operating Revenues:		
Assessments	\$43,574,369	40,649,715
	<hr/>	<hr/>
Total Revenues	43,574,369	40,649,715
	<hr/>	<hr/>
Expenses:		
Claims - Net of Claims Adjustments	40,949,684	34,475,150
Premium Expenses	2,625,071	2,634,931
Contractual Expenses	1,323,909	1,250,249
Professional Contractual Expenses	1,161,103	1,035,684
Miscellaneous Expenses	9,539	15,023
	<hr/>	<hr/>
Total Expenses	46,069,306	39,411,037
	<hr/>	<hr/>
Operating Income	(2,494,937)	1,238,678
	<hr/>	<hr/>
Nonoperating Revenue/(Expenses):		
Interest Income	85,366	44,439
Dividend Income	817,344	348,375
Dividends Paid	(2,000,000)	(2,044,091)
Investment in Joint Venture	19,540	923,811
	<hr/>	<hr/>
Total Nonoperating Revenue/(Expenses)	(1,077,750)	(727,466)
	<hr/>	<hr/>
Net Income/(Loss)	(3,572,687)	511,212
Net Assets Beginning of Year	14,468,929	13,957,717
	<hr/>	<hr/>
Net Assets End of Year	\$10,896,242	14,468,929
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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 YEAR ENDED DECEMBER 31, 2011
(With comparative totals for December 31, 2010)

	2011	(Memo Only) 2010
Cash Flows From Operating Activities:		
Cash Received From Members	\$43,045,970	41,117,867
Cash Paid for Claims, Premiums & Services	(44,951,797)	(38,725,542)
Net Cash Provided/(Used) by Operating Activities	<u>(1,905,827)</u>	<u>2,392,325</u>
Cash Flows From Financing Activities:		
Interest Received	102,865	52,570
Dividend Income	817,344	348,375
Dividend Paid	(2,000,000)	(2,044,091)
Net Cash Provided/(Used) by Financing Activities	<u>(1,079,791)</u>	<u>(1,643,146)</u>
Cash Flows From Investing Activities:		
Proceeds from Investments	<u>1,622,492</u>	<u>2,033,251</u>
Net Cash Provided/(Used) by Investing Activities	<u>1,622,492</u>	<u>2,033,251</u>
Net Increase/(Decrease) in Cash	(1,363,126)	2,782,430
Cash at Beginning of Period	<u>11,451,233</u>	<u>8,668,803</u>
Cash at End of Period	<u><u>\$10,088,107</u></u>	<u><u>11,451,233</u></u>

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

Operating Income	(\$2,494,937)	1,238,678
Working Capital Changes Which Provided/(Used) Cash:		
Assessment Receivable	196,010	846,588
Excess Insurance Receivable	369,564	(481,374)
Surplus Return Reserve	(7,028)	95,178
Other Assets	(135,044)	18,835
Prepaid Contributions	(18,533)	(378,436)
Accrued Expenses	102,200	73,354
IBNR Reserves	81,210	1,000,000
Accounts Payable	733	(20,498)
Net Cash Provided by Operating Activities	<u><u>(\$1,905,825)</u></u>	<u><u>2,392,325</u></u>

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

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011**

CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

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, 2011, 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, 2011

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, 2011. 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 |
| b) Dental | d) Prescription |

**CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

Note 2: Nature of Operations (continued)

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

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

Note 3: Claims Liabilities - IBNR Reserves

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

Note 4: Reinsurance Receivable

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

	Fund Year 2011	Fund Year 2010	Closed Year	Total
Specific	<u>\$97,785</u>	<u>\$266,220</u>	<u>\$ -0-</u>	<u>\$358,005</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

The Fund is governed by the deposit and investment limitations of New Jersey state law. The Deposits and investments held at December 31, 2011, and reported at fair value are as follows:

CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

Note 5: Cash and Cash Equivalents (continued):

Deposits:

Demand Deposits	\$ 6,649,010
New Jersey Cash Management	<u>3,439,097</u>
Total Deposits	<u>\$10,088,107</u>

Reconciliation of Statement of Net Assets:

Fund Year:	
Closed Years	\$ 8,134,539
2010	63,949
2011	<u>1,889,619</u>
Total Reconciliation of Comparative Statement of Net Assets	<u>\$10,088,107</u>

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. The Fund does not have a deposit policy for custodial credit risk. As of December 31, 2011, the Fund's bank balance of \$10,117,111 was insured or collateralized as follows:

Insured	\$ 496,545
Collateralized in the Fund's Name	
Under GUDPA (See Note 5)	6,181,469
Collateralized not in the Fund's Name	
(New Jersey Cash Management Fund)	<u>3,439,097</u>
Total	<u>\$10,117,111</u>

Note 6: Investments

A. Custodial Credit Risk

For an investment, custodial credit risk is a risk that, in the event of the failure of the counterparty, the Fund will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Fund, and are held by either the counterparty or the counterparty's trust department or agent but not in the Fund's name. All of the Fund's investments are held in the name of the Fund and are collateralized by GUDPA.

**CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

Note 6: Investments (continued):

B. Investment Interest Rate Risk

Interest rate risk is the risk that changes in interest rates that will adversely affect the fair value of an investment. The Fund has no formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Maturities of investments held at December 31, 2011, are provided in the above schedule.

C. Investment Credit Risk

- 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;
- 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.

As of December 31, 2011, the Fund had the following investments and maturities:

<u>Investment</u>	<u>Fair Value</u>
Investments	\$ <u>1,034,960</u>
Total	\$ <u>1,034,960</u>

CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

Note 7: 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 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

CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

Note 7: Governmental Unit Deposit Protection Act (GUDPA) (continued)

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 8: 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.

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, 2011, the MRHIF carried surplus balances of \$11,362,180. The Fund's equity interest in the MRHIF equates to \$3,007,426. Dividends on this surplus have not been declared and this investment is being carried as other assets on the financial statements of the Fund.

SUPPLEMENTARY INFORMATION



Certified Public Accountants & Consultants

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

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

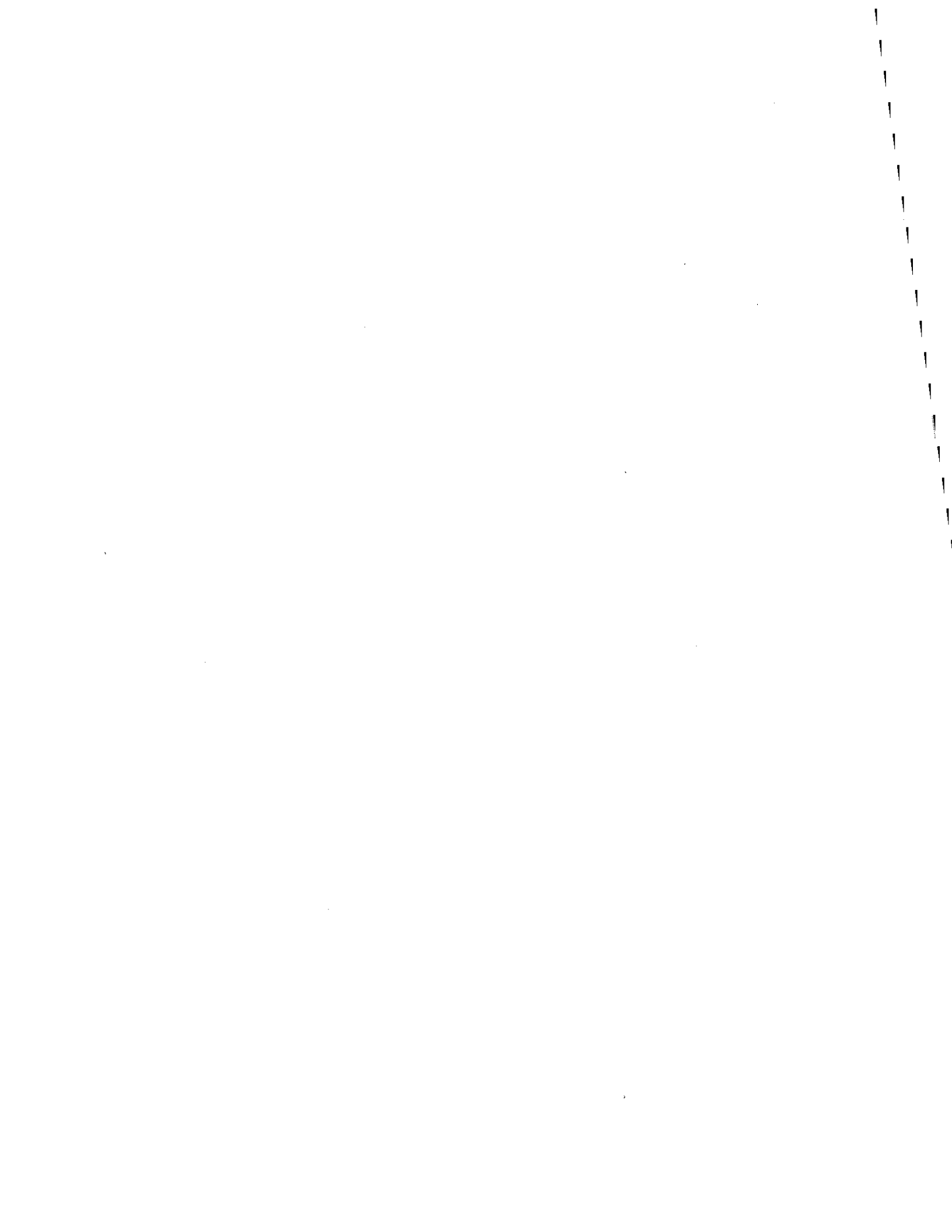
We have audited and reported separately herein on the basic financial statements of the Central New Jersey Regional Employee Benefits Fund Years 2011, 2010 and closed years.

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 18 through 28 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.

HOLMAN & FRENIA, P. C.
Certified Public Accountants

Medford, New Jersey
May 12, 2012



SCHEDULE 1

**CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND
BALANCE SHEET
DECEMBER 31, 2011 - CLOSED YEARS**

	GENERAL & ADMINISTRATIVE FUND
ASSETS	
Cash and Cash Equivalents	\$8,134,539
Investments	1,034,960
Interest Receivable	<u>3,660</u>
Total Assets	<u><u>\$9,173,159</u></u>
LIABILITIES, RESERVES & FUND BALANCE	
Surplus Return Reserve	<u>\$88,150</u>
Total Liabilities	<u>88,150</u>
Fund/(Deficit) Balance	<u>9,085,009</u>
Total Liabilities, Reserves & Fund Balance	<u><u>\$9,173,159</u></u>

**CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND
BALANCE SHEET
DECEMBER 31, 2011 - FUND YEAR 2010**

ASSETS	MEDICAL FUND	PRESCRIPTIONS FUND	DENTAL FUND	VISION FUND	GENERAL & ADMINISTRATIVE FUND	(MEMO ONLY) COMBINED TOTAL
Cash and Cash Equivalents	(\$360,500)	451,819	139,409	74,362	(241,141)	63,949
Excess Insurance Receivable	266,220					266,220
Interest Receivable	2,065	(3)	73	24	3	2,162
Total Assets	(\$92,215)	451,816	139,482	74,386	(241,138)	332,331
LIABILITIES, RESERVES & FUND BALANCE						
Accrued Expenses	\$44,302					44,302
IBNR Reserves (Note 3)	75,000					75,000
Total Liabilities	119,302					119,302
Fund/(Deficit) Balance	(211,517)	451,816	139,482	74,386	(241,138)	213,029
Total Liabilities, Reserves & Fund Balance	(\$92,215)	451,816	139,482	74,386	(241,138)	332,331

**CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND
BALANCE SHEET
DECEMBER 31, 2011 - FUND YEAR 2011**

ASSETS	MEDICAL FUND	PRESCRIPTIONS FUND	DENTAL FUND	VISION FUND	GENERAL AND ADMINISTRATIVE FUND	(MEMO ONLY) COMBINED TOTAL
Cash and Cash Equivalents	\$1,979,389	(318,552)	213,192	38,235	(22,645)	1,889,619
Assessment Receivable	585,120					585,120
Excess Insurance Receivable	91,785					91,785
Interest Receivable	(3)		14	2		13
Other Assets	61,363	203,068				264,431
Total Assets	\$2,717,654	(115,484)	213,206	38,237	(22,645)	2,830,968
LIABILITIES, RESERVES & FUND BALANCE						
Accounts Payable					2,729	2,729
Accrued Expenses	\$131,251					131,251
IBNR Reserves (Note 3)	3,694,530	320,900	90,780			4,106,210
Total Liabilities	3,825,781	320,900	90,780		2,729	4,240,190
Fund/(Deficit) Balance	(1,108,127)	(436,384)	122,426	38,237	(25,374)	(1,409,222)
Total Liabilities, Reserves & Fund Balance	\$2,717,654	(115,484)	213,206	38,237	(22,645)	2,830,968

SCHEDULE 4

**CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2011 - CLOSED YEARS**

	GENERAL & ADMINISTRATIVE FUND
Expenses:	
Claims - Net of Claims Adjustments	<u>(\$65,842)</u>
Total Claims Expenses	<u>(65,842)</u>
Excess/(Deficit) of Revenues over Expenses	<u>65,842</u>
Other Financing Sources/(Uses):	
Interest Income	53,028
Dividend Income	817,344
Dividends Paid	(2,000,000)
Closing of Fund Year 2009	<u>2,507,755</u>
Total Other Financing Sources/(Uses)	<u>1,378,127</u>
Excess/(Deficit) of Revenues & Other Financing Sources Over Expenses & Other Financing Uses	1,443,969
Fund Balance Beginning of Year	<u>7,641,040</u>
Fund Balance/(Deficit) End of Year	<u><u>\$9,085,009</u></u>

**CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2011 - FUND YEAR 2010**

	MEDICAL FUND	PRESCRIPTIONS FUND	DENTAL FUND	VISION FUND	GENERAL & ADMINISTRATIVE FUND	(MEMO ONLY) COMBINED TOTAL
Revenues:						
Assessments	\$286					286
Total Revenues	286					286
Expenses:						
Adjustments	1,386,035	(244,255)	(35,874)			1,105,906
State Reserve for Retirees	44,303					44,303
Miscellaneous					1,029	1,029
Total Claims Expenses	1,430,338	(244,255)	(35,874)		1,029	1,151,238
Excess/(Deficit) of Revenues Over Expenses	(1,430,052)	244,255	35,874		(1,029)	(1,150,952)
Other Financing Sources/(Uses):						
Interest Income	30,237		1,069	358	68	31,732
Total Other Financing Sources/(Uses)	30,237		1,069	358	68	31,732
Excess of Revenue Over Expenses & Adjustments	(1,399,815)	244,255	36,943	358	(961)	(1,119,220)
Fund Balance Beginning of Year	1,188,298	207,561	102,539	74,028	(240,177)	1,332,249
Fund Balance/(Deficit) End of Year	(\$211,517)	451,816	139,482	74,386	(241,138)	213,029

CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2011 - FUND YEAR 2011

	MEDICAL FUND	PRESCRIPTIONS FUND	DENTAL FUND	VISION FUND	GENERAL & ADMINISTRATIVE FUND	(MEMO ONLY) COMBINED TOTAL
Revenues:						
Assessments	\$29,885,878	7,289,734	1,499,390	38,234	4,860,847	43,574,083
Total Revenues	29,885,878	7,289,734	1,499,390	38,234	4,860,847	43,574,083
Expenses:						
Claims - Net of Claims Adjustments	30,806,517	7,726,118	1,376,985			39,909,620
State Reserve for Retirees	188,068					188,068
Claims Administrator					1,267,738	1,267,738
Network Access					56,171	56,171
Program Manager					709,944	709,944
Reinsurance					2,437,003	2,437,003
Executive Director					304,688	304,688
Professional Services					102,168	102,168
Miscellaneous					8,511	8,511
Total Claims Expenses	30,994,585	7,726,118	1,376,985		4,886,223	44,983,911
Excess/(Deficit) of Revenues Over Expenses	(1,108,707)	(436,384)	122,405	38,234	(25,376)	(1,409,828)
Other Financing Sources/(Uses):						
Interest Income	580		21	3	2	606
Total Other Financing Sources/(Uses)	580		21	3	2	606
Excess of Revenue Over Expenses & Adjustments	(1,108,127)	(436,384)	122,426	38,237	(25,374)	(1,409,222)
Fund Balance/(Deficit) End of Year	(\$1,108,127)	(436,384)	122,426	38,237	(25,374)	(1,409,222)

CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND
SCHEDULE OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011 - CLOSED YEARS

Cash Flows From Operating Activities:	
Cash Received/(Paid) for Claims, Premiums & Services	<u>\$274,187</u>
Net Cash Provided by Operating Activities	<u>274,187</u>
Cash Flows From Financing Activities:	
Interest Received	70,900
Dividend Income	817,344
Dividends Paid	<u>(2,000,000)</u>
Net Cash Used by Financing Activities	<u>(1,111,756)</u>
Cash Flows From Investing Activities:	
Proceeds from Investments	<u>1,622,492</u>
Net Cash Provided by Investing Activities	<u>1,622,492</u>
Net Decrease in Cash	<u>784,923</u>
Cash at Beginning of Period - Closed Year	\$5,065,597
Cash at Beginning of Period - 2009 Fund Year	<u>2,284,019</u> 7,349,616
Cash at End of Period	<u><u>\$8,134,539</u></u>

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

Excess/(Deficit) of Revenues Over Expenses & Adjustment Working Capital	\$65,842
Changes Which Provided/(Used) Cash:	
Excess Insurance Receivable	318,057
Surplus Return Reserve	(7,028)
IBNR Reserves	(100,000)
Accrued Expenses	<u>(2,684)</u>
Net Cash Provided by Operating Activities	<u><u>\$274,187</u></u>

CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND
SCHEDULE OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011 - FUND YEAR 2010

Cash Flows From Operating Activities:	
Cash Received From Members	\$57,007
Cash Received/(Paid) for Claims, Premiums & Services	<u>(4,126,047)</u>
Net Cash Used by Operating Activities	<u>(4,069,040)</u>
Cash Flows From Financing Activities:	
Interest Received	<u>31,372</u>
Net Cash Provided by Financing Activities	<u>31,372</u>
Net Decrease in Cash	(4,037,668)
Cash at Beginning of Period	<u>4,101,617</u>
Cash at End of Period	<u><u>\$63,949</u></u>

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

Revenues in Excess of Expenses	(\$1,150,952)
Working Capital Changes Which Provided/(Used) Cash:	
Assessment Receivable	781,130
Accrued Expenses	(26,367)
IBNR Reserves	(3,925,000)
Excess Insurance Receivable	143,292
Other Assets	129,387
Prepaid Contributions	(18,533)
Accounts Payable	<u>(1,997)</u>
Net Cash Used by Operating Activities	<u><u>(\$4,069,040)</u></u>

**CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND
SCHEDULE OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011 - FUND YEAR 2011**

Cash Flows From Operating Activities:	
Cash Received From Members	\$42,988,963
Cash Paid for Claims, Premiums & Services	<u>(41,099,937)</u>
Net Cash Provided by Operating Activities	<u>1,889,026</u>
Cash Flows From Financing Activities:	
Interest Received	<u>593</u>
Net Cash Provided by Financing Activities	<u>593</u>
Net Increase in Cash	<u>1,889,619</u>
Cash at End of Period	<u><u>\$1,889,619</u></u>

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

Revenues in Excess of Expenses	(\$1,409,828)
Working Capital Changes Which Provided/(Used) Cash:	
Assessment Receivable	(585,120)
Excess Insurance Receivable	(91,785)
Other Assets	(264,431)
Accrued Expenses	131,251
IBNR Reserves	4,106,210
Accounts Payable	<u>2,729</u>
Net Cash Provided by Operating Activities	<u><u>\$1,889,026</u></u>

**CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND
REQUIRED SUPPLEMENTARY INFORMATION
RECONCILIATION OF CLAIMS LIABILITIES
FOR THE YEAR ENDED DECEMBER 31, 2011**

	MEDICAL FUND	PRESCRIPTIONS FUND	DENTAL FUND	CLOSED YEARS	(MEMO ONLY) COMBINED TOTAL
Unpaid Claims at December 31, 2010:					
Adjustments to Incurred Claims from Prior Period	\$1,386,035	(244,255)	(35,874)	(65,842)	1,040,064
Incurred Claims for Current Period	30,994,585	7,726,118	1,376,985		40,097,688
Total Incurred Claims	32,380,620	7,481,863	1,341,111	(65,842)	41,137,752
Payment:					
Claims Attributable to the Prior Periods	1,311,035	(244,255)	(35,874)	(65,842)	965,064
Claims Attributable to the Current Period	27,300,055	7,405,218	1,286,205		35,991,478
Total Payments	28,611,090	7,160,963	1,250,331	(65,842)	36,956,542
Incurred But Not Reported Related to Fund Year 2010	75,000				75,000
Incurred But Not Reported Related to Fund Year 2011	3,694,530	320,900	90,780		4,106,210
Total Incurred But Not Reported at December 31, 2011	\$3,769,530	320,900	90,780	-	4,181,210

**CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND
REQUIRED SUPPLEMENTARY INFORMATION
NUMBER OF COVERED INDIVIDUALS BY MEMBER
FOR FUND YEARS 2011, 2010, 2009**

LINE OF COVERAGE	FUND YEAR 2011	FUND YEAR 2010	FUND YEAR 2009
Medical	2,305	2,415	2,053
Dental	1,597	1,766	1,707
Prescription	1,834	1,955	1,989
Vision	252	679	682

**CLAIMS DEVELOPMENT INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2011**

	FUND YEAR 2011	FUND YEAR 2010
Net Earned Required Contribution & Investment Revenue (Cumulative)	<u>\$43,574,689</u>	<u>40,684,684</u>
Unallocated Expenses (Cumulative)	<u>\$4,886,223</u>	<u>3,836,376</u>
Estimated Incurred Claims & Expense, (Net of Reinsurance) End of Policy Period	<u>\$40,097,688</u>	<u>39,320,417</u>
Paid/(Cumulative) as of December 31, 2011	<u>35,991,478</u>	<u>39,245,417</u>
Re-estimated Incurred Claims & Expenses (Cumulative)/(Net of Reinsurance)	<u>40,097,688</u>	<u>40,471,655</u>
Increase/(Decrease) in Estimated Incurred Claims	<u>-</u>	<u>1,151,238</u>

CENTRAL NEW JERSEY REGIONAL EMPLOYEE BENEFITS FUND

**COMMENTS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2011**



Certified Public Accountants & Consultants

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, 2011, we found no matters of noncompliance relating to the operations of the Fund and the system of internal accounting control.

General Comments & Recommendations

None

Acknowledgment

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

A handwritten signature in black ink that reads "HOLMAN & FRENIA, P.C." in a cursive, stylized script.

HOLMAN & FRENIA, P. C.
Certified Public Accountants

Medford, New Jersey
May 12, 2011

