

**STATE OF NEW JERSEY  
SMALL EMPLOYER HEALTH  
BENEFITS PROGRAM**

**Financial Statements**

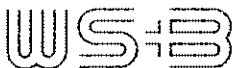
**June 30, 2007**

**With Independent Auditors' Report**

**State of New Jersey  
Small Employer Health Benefits Program  
Table of Contents  
June 30, 2007**

---

	<b>Page(s)</b>
<b>Independent Auditors' Report</b> .....	1
Management's Discussion and Analysis .....	2
<b>Financial Statements</b>	
Statement of Net Assets .....	3
Statement of Changes in Net Assets.....	4
Notes to Financial Statements.....	5-7



WithSmith+Brown, PC  
Certified Public Accountants and Consultants

5 Vaughn Drive  
Princeton, New Jersey 08540 USA  
609 520 1188 . fax 609 520 9882  
www.withum.com

Additional Offices in New Jersey  
New York, Pennsylvania, Maryland,  
Florida and Colorado

## Independent Auditors' Report

To the Board of Directors,  
State of New Jersey Small Employer Health Benefits Program

We have audited the accompanying statement of net assets of the State of New Jersey Small Employer Health Benefits Program (the "Program"), as of June 30, 2007 and the related statement of changes in net assets for the year then ended. These financial statements are the responsibility of the Program's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Program's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Program as of June 30, 2007, and the changes in its net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplemental 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. However, we did not audit the information and express no opinion on it.

*WithSmith+Brown, PC*

April 13, 2009

**State of New Jersey  
Small Employer Health Benefits Program  
Management's Discussion and Analysis  
June 30, 2007**

---

The following narrative provides an overview and analysis concerning the New Jersey Small Employer Health Benefits Program's ("Program") financial performance of its activities for the fiscal year ended June 30, 2007.

**Financial Highlights**

The Program's assets totaled \$609,274, an increase of \$184,895 from the prior fiscal year, which is due primarily to an increase in cash resulting from collection of an administrative assessment for fiscal year 2007 budgeted expenditures of \$245,000.

Liabilities also increased due to invoicing of the 2006 actual expenditures in fiscal year 2007. Prior to invoicing for the 2006 assessment, the receivable amount was netted against the payable due to member companies. The interest income is used to reduce the amount due from member carriers in accordance with N.J.A.C. 11:21-2.10(c)2.

**Overview of the Financial Statements**

The Program has only the General Fund, which uses the cash received to pay for operating expenditures. The fund is reported using the accrual basis of accounting.

The Program has no capital assets.

There are no net assets since revenues are equal to actual expenditures. The difference in an assessment billed to the carriers and the revenue is recorded as a receivable from or payable to the members.

The Notes to the Financial Statements provide additional background information to assist the reader in understanding the data provided in the financial statements.

**Financial Analysis**

	2007	2006
Total Assets & Liabilities	\$ 609,274	\$ 424,379
Total Revenue & Expenditures	214,527	213,577
Total Budgeted Expenditures	245,000	261,500

For fiscal year ended June 30, 2007, salaries and fringe benefits accounted for 86.0% of total expenditures and legal fees accounted for 6.7%, as compared to 84.7% and 7.6%, respectively, for fiscal year ended June 30, 2006.

The variance between actual and budgeted expenditures for the fiscal year 2007 is primarily due to less than expected salary and fringe benefit expense and legal fees.

**Contacting the Program Board**

This financial report is designed to provide the Small Employer Health Benefits Program Board and the member carriers with a general overview of the Program's finances and to demonstrate the Board's accountability for the administrative assessment funds received. If there are any questions about this report or need additional information, contact the State of New Jersey Small Employer Health Benefits Program at 20 West State Street, 11<sup>th</sup> floor, PO Box 325, Trenton, New Jersey 08625-0325.

**State of New Jersey  
Small Employer Health Benefits Program  
Statement of Net Assets  
June 30, 2007**

---

**Assets**

Cash and cash equivalents	\$	569,509
Accounts receivable		
Accounts receivable - members (billed)		7,473
Due from IHC program		<u>32,292</u>
Total accounts receivable		<u>39,765</u>
Total assets	\$	<u>609,274</u>

**Liabilities and net assets**

**Liabilities**

Accounts payable - members		477,923
Accrued expenses		33,352
Interest payable - members		<u>97,999</u>
Total liabilities		609,274
Net assets		<u>--</u>
Total liabilities and net assets	\$	<u>609,274</u>

The Notes to Financial Statements are an integral part of these statements.

**State of New Jersey**  
**Small Employer Health Benefits Program**  
**Statement of Changes in Net Assets**  
**For the Year Ended June 30, 2007**

---

Revenues		
Administrative Assessment		\$ 214,527
Expenditures		
Salaries		137,168
Fringe benefits		47,332
Legal fees		14,295
Audit fees		8,750
Staff training		1,912
Office supplies		1,215
Other expenditures		3,618
Bank fees		237
		<u>214,527</u>
Total expenditures		<u>214,527</u>
Change in net assets		--
Net assets - beginning of the year		--
Net assets - end of the year		<u>\$ --</u>

The Notes to Financial Statements are an integral part of these statements.

**State of New Jersey  
Small Employer Health Benefits Program  
Notes to Financial Statements  
June 30, 2007**

---

**1. Organization and Purpose**

The State of New Jersey Small Employer Health Benefits Program (the "Program") was created pursuant to L.1992, c.162 (N.J.S.A. 17B:27A-17 et seq.), and has been amended by subsequent acts of the legislature. It has as its members all insurance companies, health service corporations, hospital service corporations, medical service corporations and health maintenance organizations that issue or have in force health benefits plans in New Jersey. The purpose of the Program is to assure the availability of standardized health benefits plans to New Jersey small employers, their eligible employees and the dependents of those eligible employees, on a guaranteed issue basis. Small employers are considered any person, firm, corporation, partnership, or political subdivision that is actively engaged in business that employed an average of at least two but not more than fifty eligible employees on business days during the preceding calendar year and who employs at least two eligible employees on the first day of the plan year, and the majority of the eligible employees are employed in New Jersey. The Program is tax-exempt.

**2. Basis of Presentation and Accounting Policies**

The Program's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board ("GASB"). The Program follows the pronouncements of all Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins on Accounting Procedures issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements. In addition, all financial records are kept in accordance with the State of New Jersey's prescribed policies and procedures.

**Cash and Cash Equivalents**

Cash and cash equivalents include cash held in banks, and cash held by the State of New Jersey. The Program's total cash and cash equivalents were \$569,509 at June 30, 2007. The Program's bank balances were \$543,826 at June 30, 2007, of which \$2,245 was insured by the Federal Deposit Insurance Corporation held in the Program's name by the Program's financial institutions or agents.

As of June 30, 2007, the Board had \$541,581 invested in money market mutual funds, which have no maturity date. The monies were invested in these money market mutual funds because of a low risk of loss with a higher level of interest income, and the funds were readily available for payment of Program expenses. Investments (Demand Deposits) at June 30, 2007 consisted primarily of U.S. Treasury Securities and other obligations of the U.S. government which were guaranteed by the U.S. government and therefore not considered to have credit risk. The funds were recorded at fair value, and interest income was recorded when earned as a payable to member companies. As of June 30, 2007, the amount of interest income held by the Program was \$97,999. Interest income is used to reduce future assessments of members for Program administrative expenses in accordance with N.J.A.C. 11:21-2.10(c)2.

Cash held by the State of New Jersey, Department of Banking and Insurance (DOBI) included funds used for payment of Program expenses, such as staff salaries, fringe benefits, and other miscellaneous expenditures that were provided through State sources.

Cash and cash equivalents consist of:

Commercial Checking	\$ 2,245
NJ State - S.E.H. DOBI - Admin	25,683
Demand Deposits	541,581
Total Cash and Cash Equivalents	<u>\$ 569,509</u>

**State of New Jersey**  
**Small Employer Health Benefits Program**  
**Notes to Financial Statements**  
**June 30, 2007**

---

**Accounts Receivable**

Accounts receivable- members (billed) consisted of amounts invoiced to member carriers for an administrative assessment based on the budgeted amount for Program expenditures in accordance with N.J.S.A 17B:27A-32d, and the Plan of Operations set forth at N.J.A.C. 11:21-2. Member carriers share a portion of the administrative expenditures of the Program on the basis of each carrier's health benefit plan earned premiums as compared to the total of the health benefits plan earned premiums of all member carriers. No allowance for doubtful accounts was recorded since any amount that cannot be collected from a carrier due to inability to pay is redistributed among other carriers pursuant to N.J.A.C.11:21-2.8(c)4.

**Accounts Payable – Member Carriers**

The balance represents amounts owed to the carriers as a result of the difference between the amounts billed for operating expenditures per the annual budget versus actual expenditures incurred less interest income earned on cash and investments. The amounts due will be refunded to the carriers as set forth in a final assessment reconciliation upon completion of the audit of the assessment years' financial transactions.

**Revenues and Operating Expenditures**

Revenues and expenditures are related to the operation of the Program. Operating revenues are based on actual administrative expenditures of the Program, and are recorded when earned. Expenditures are recorded when incurred.

There are no net assets of the Program for pursuant to N.J.A.C. 11:21-2.8(a) a final reconciliation of the assessment for administrative expenditures shall be made upon approval of the final audited amount of expenditures. Members are credited for any money previously assessed and paid for that fiscal year.

**Related Party Transactions**

Although the Program and the Individual Health Coverage Program (IHC Program) are distinct State agencies and have separate Boards and regulations, the Programs share the staff, thus salaries, fringe benefits and other miscellaneous expenditures incurred through the Department of Banking and Insurance are split equally by each program. In 2007 charges to and from the IHC Program amounted to \$184,500 and \$3,574, respectively. As of June 30, 2007, the IHC Program owed the SEH Program \$32,292.

**Pensions**

The staff of the Program is covered under the State Health Benefits Plan, which includes health, dental, and prescription coverage.

The State offers seven defined benefit pension funds: Public Employees' Retirement System ("PERS"), Teachers' Pension and Annuity Fund ("TPAF"), Police and Firemen's Retirement System ("PFRS"), State Police Retirement System ("SPRS"), Judicial Retirement System ("JRS"), Consolidated Police and Firemen's Pension Fund ("CPFPP"), and the Prison Officers' Pension Fund ("POPF"). The staff of the Small Employer Health Benefit Program are members of the PERS.

The PERS was established in 1955 by New Jersey Statute and can be found in the New Jersey Statutes annotated, Title 43, Chapter 15A. Changes in the law can only be made by an act of the State legislature. Rules governing the operation and administration of the system may be found in Title 17, Chapters 1 and 2 of the New Jersey Administrative Code. The system was established to provide retirement, death and disability benefits, including post-retirement health care, to all full-time employees of the State and any county, municipality, school district, or public agency provided the employee is not a member of any other state-administered retirement system. Membership is mandatory for such employees.

Vesting occurs after 8 to 10 years of service for pension benefits and 25 years for post-retirement health care coverage. Members are always fully vested in their own contributions and, after three years of service credit, become vested for 2% of the related interest earned on the contributions.



**State of New Jersey**  
**Small Employer Health Benefits Program**  
**Notes to Financial Statements**  
**June 30, 2007**

---

The PERS is a defined benefit plan administered by the New Jersey Division of Pensions and Benefits. Administrative expenses are paid by the PERS to the State of New Jersey, Department of Treasury. Contributions include funding for basic retirement allowances, cost-of-living adjustments, noncontributory death benefits, and cost of medical premiums after retirement for qualified retirees.

The full normal employee contribution rate is 5% of base salary. The rate for members who are eligible for the Prosecutors Part of the PERS (Chapter 366, P.L. 2001) remains unchanged at 7.5% of base salary.

Employers are required to contribute at an actuarially determined rate. The annual employer contributions include funding for basic retirement allowances, cost-of-living adjustments, and noncontributory death benefits.

In accordance with the provisions of N.J.S.A. 43:15A, the contribution policy requires State-related employers and the State of New Jersey to contribute at an actuarially determined rate. The actuarial cost method is projected unit credit. The actuarial assumptions were: investment rate of return 8.25%, salary range 5.45%, cost-of-living adjustments of 1.80%. The asset valuation method is the five year average of market value.

Contributions during the fiscal year 2007 for the PERS amounted to approximately \$1.3 billion. The State of New Jersey's annual required contribution and actual contributions were \$379,946,338 and \$215,629,964, respectively.

The PERS had an actuarial accrued liability of \$14,797,684,446 as of June 30, 2006. The actuarial value of assets of \$10,668,645,162, at June 30, 2006, was less than PERS liabilities, resulting in a funding ratio of 72.1%, or \$4,129,039,284 in funding deficit. Covered payroll for employees under the PERS amounted to \$4,253,564,219, which translates into a funding deficit of 97.1% of covered payroll.

Retirement benefits for age and service are available at age 60. Employees who retire at the age of 60 are entitled to a retirement benefit determined to be 1/55th of the final average salary for each year of service credit. Final average salary equals the average salary for the final three years of service prior to retirement (or the highest three years compensation if other than the final three years). Members may seek early retirement after achieving 25 years of service credit or they may elect deferred retirement after achieving eight to ten years of service credit, in which case, benefits would begin the first day of the month after the member attains normal retirement age.

Financial statements for the State of New Jersey Public Employees' Retirement System are available by contacting the Division of Pensions and Benefits, P.O. Box 295, Trenton, NJ 08625-0295.