

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

**Financial Statements as of and for the year ended June 30, 2003
And Independent Auditors' Report**

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

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Certified Public Accountants
293 Eisenhower Parkway, Suite 270
Livingston, New Jersey 07039
(973) 535-2880

McENERNEY, BRADY & COMPANY, LLC

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheet of the State of New Jersey Small Employer Health Benefits Program (the "Program"), as of June 30, 2003 and the related statement of revenues, expenditures and changes in fund balance for the year then ended. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with accounting standards generally accepted in the United States of America and standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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 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, 2003, and the change in its fund balance for the year then ended in conformity with generally accepted accounting principles in the United States.

McEnerney, Brady & Company, LLC
Certified Public Accountants
Livingston, New Jersey
December 14, 2007

**STATE OF NEW JERSEY
SMALL EMPLOYER HEALTH BENEFITS PROGRAM
BALANCE SHEET
JUNE 30, 2003**

ASSETS

Cash and Cash Equivalents:	
Commercial Checking	\$ 60
NJ Department of Banking & Insurance (DOBI)	184,281
Demand Deposits	<u>609,651</u>
Total Cash and Cash Equivalents	<u>793,992</u>
Accounts Receivable:	
Accounts Receivable – Members (billed)	7,765
Accounts Receivable – Other	<u>1,770</u>
Total Accounts Receivable	<u>9,535</u>
Prepaid Expenses	<u>90</u>
TOTAL	<u>\$803,617</u>

LIABILITIES AND FUND BALANCE

Liabilities:	
Accounts Payable – Member Carriers	\$619,841
Due to IHC Program	91,687
Accrued Expenses	<u>92,089</u>
Total Liabilities	803,617
Fund Balance	<u>-</u>
TOTAL	<u>\$803,617</u>

See Notes to Financial Statements

**STATE OF NEW JERSEY
SMALL EMPLOYER HEALTH BENEFITS PROGRAM
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2003**

REVENUES:

Annual Administrative Assessment	\$171,304
Other Miscellaneous Income	<u> -</u>

Total Revenues	<u>171,304</u>
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EXPENDITURES:

Current Operations:

Audit Fees	2,000
Bank Fees	300
Staff Training	268
Dues & Subscriptions	66
Salaries	107,091
Fringe Benefits	25,768
Legal Fees	12,177
Meetings & Conferences	377
Travel, Tolls, Parking	694
Office Equipment Expense	4,389
Office Supplies	24
Marketing Expense	2,898
Postage & Delivery	955
Printing	3,044
Professional Services	10,900
Public Notices	<u>353</u>

Total Expenditures from Current Operations	<u>171,304</u>
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NET CHANGE IN FUND BALANCE	-
FUND BALANCE – Beginning of Year	<u> -</u>
FUND BALANCE – End of Year	<u><u>\$ -</u></u>

See Notes to Financial Statements

STATE OF NEW JERSEY SMALL EMPLOYER HEALTH BENEFITS PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

1. ORGANIZATION AND PURPOSE

The New Jersey Small Employer Health Benefits Program (the “Program”) was created pursuant to section 12 of L.1992, c.162 (N.J.S.A. 17B:27A-28, amended by L. 1993, c.162, L.1994, c.11, L.1995, c.298, L. 1995, c.340 and L. 1997, c.146. 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 the five 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 book balances were \$793,992 at June 30, 2003. The Program’s total bank balances were \$609,711 at June 30, 2003, of which \$60 was insured by the FDIC held in the Program’s name by the program’s financial institutions or agents.

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

STATE OF NEW JERSEY SMALL EMPLOYER HEALTH BENEFITS PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

BASIS OF PRESENTATION AND ACCOUNTING POLICIES (continued)

As of June 30, 2003, the Board has \$609,651 invested in money market mutual funds, which have no maturity date. The funds are invested in these money market mutual funds because of low risk of loss with a high level of interest income, and the funds are readily available to the Program. The funds are recorded at fair value, and interest income is recorded when earned. 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.

Investments (Demand Deposits) at June 30, 2003 consist mainly of U.S. Treasury Securities and other obligations of the U.S. government which are guaranteed by the U.S. government and therefore are not considered to have credit risk.

Accounts Receivable – Accounts receivable consists of amounts resulting from invoicing to member carriers of an administrative assessment based on the budgeted amount for Program expenditures 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 a basis of each carrier's health benefit plan net earned premiums as compared to the total of the health benefits plan net earned premiums of all member carriers. No allowance for doubtful accounts is 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 based on 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. Operating revenues are recorded when the corresponding expenditures are incurred. Expenditures are recorded when incurred.

There is no fund balance 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 and members are credited for any money advanced against the previous assessment.

STATE OF NEW JERSEY SMALL EMPLOYER HEALTH BENEFITS PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

BASIS OF PRESENTATION AND ACCOUNTING POLICIES (continued)

Related Party Transactions – Although the Program and the Individual Health Coverage Program (IHC) 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 recorded equally by each program. In 2003 charges to and from the IHC Program amounted to \$132,859 and \$16,180, respectively.

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

The staff of the Program are members of the Public Employees Retirement System (PERS), a defined benefit pension fund.

PERS was established January 1, 1955 by N.J.S.A. 43:15A. Changes can only be made through the Legislature by Title 17, Chapter 1 and 2. The system provides retirement, death, disability and medical benefits to certain qualified members. Membership is mandatory.

Vesting occurs after 8 to 10 years of service for pension benefits and 25 years for post retirement health coverage. Members are always fully vested for their own contributions and, after three years of service credit, become vested for 2% of the related interest earned on the contributions. In case of death before retirement, member's beneficiaries are entitled to full interest credited to the members' accounts.

The PERS is a defined benefit plan administered by the New Jersey Division of Pensions and Benefits. Administrative expenses are paid by the System to the State of New Jersey, Department of Treasury. The annual employer contributions include funding for the basic retirement allowances, cost-of-living adjustments and non-contributory death benefits. The State of New Jersey's contribution also includes funding for the cost of medical premiums after retirement for qualified retirees.

Members contribute at a uniform rate. The full normal rate is 5% of base salary, however, the rate was reduced to 3% effective January 1, 2000. Legislation passed in 1997 (P.L. 1997, c.115) provided for the use of excess actuarial valuation assets to offset the required normal contribution of the State of New Jersey for basic pension benefits, non-contributory death benefits and cost-of-living adjustments between the years 1997 and 2003. This is the sixth consecutive year that the state and local participating employers

STATE OF NEW JERSEY SMALL EMPLOYER HEALTH BENEFITS PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

BASIS OF PRESENTATION AND ACCOUNTING POLICIES (continued)

have not been required to make a normal pension contribution to the System. For the years ended June 30, 2001 and 2000, contributions by the State of New Jersey were limited to funding for post-retirement medical benefits. Under P.L.2002, c.11, the state was permitted to use net assets held in trust for post-retirement medical benefits to cover this year's anticipated premiums. In 2003 the state made a contribution of \$69.9 million for post-retirement medical. In addition, \$66.5 million of the post-retirement medical reserve was used to cover additional premiums for fiscal year 2003.

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 most recent actuarial valuation date is June 30, 2002 and 2001. The actuarial cost method is projected unit credit. The actuarial assumptions are: Investment rate of return of 8.75%, salary range of 5.95%, and cost of living adjustments of 2.4%. The assets valuation method is a five year average of market value.

Contributions during the fiscal year 2003 for the plan amounted to approximately \$426 million. Member contributions rose 4.3% due to normal salary increases and increased membership. In 2003 the State made a contribution of \$69.9 million for post-retirement medical. In addition, \$66.5 million of the post-retirement medical reserve was used to cover additional premiums for fiscal year 2003. The State of New Jersey's annual required contribution and actual contributions excluding post retirement medical contributions were \$44,636,619 and \$0, respectively as compared to 2002 of \$88,911,187 and \$0, respectively.

Retirement benefits for age and service are available at age 60. Due to legislation passed during 2001, employees who retire at age 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 of compensation, if other than the final three years. Members may seek early retirement after 25 years service credit, in which case, benefits would begin the first day of the month after the member attains normal retirement age. The System's assets consist mainly of cash, investments and contributions from members and participating employers. The total assets decreased in 2003 by \$595,531,943 or 2.7% due to benefit payments to retirees and beneficiaries which exceeded the revenues received by the System. During the year the System had an estimated investment gain of 3.3% as compared to an investment loss of 9.0% in the prior year.

STATE OF NEW JERSEY SMALL EMPLOYER HEALTH BENEFITS PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

BASIS OF PRESENTATION AND ACCOUNTING POLICIES (continued)

The System adopted the provisions of Governmental Accounting Standards Board (GASB) Statement #25 “Financial Reporting for Defined Benefit Plans and Note Disclosure for Defined Contribution Plans” and GASB #26 “Financial reporting for Post Employment Healthcare Plans Administered by Defined Benefit Pension Plans” in 1997 and conform to the provisions.

The System adopted Governmental Accounting Standards Board (GASB) Statement #34 (amended by Statement #37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments effective July 1, 2000.

Certified Public Accountants
293 Eisenhower Parkway, Suite 270
Livingston, New Jersey 07039
(973) 535-2880

McENERNEY, BRADY & COMPANY, LLC

INDEPENDENT AUDITORS' 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 Directors
State of New Jersey Small Employer Health Benefits Program
Trenton, New Jersey

We have audited the financial statements of the State of New Jersey Small Employer Health Benefits Program (the "Program") as of June 30, 2003 and have issued our report thereon dated December 14, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Program's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition under which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Program'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 statements amounts.

INDEPENDENT AUDITORS' 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* (CONTINUED)

Compliance and Other Matters (continued)

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*.

This report is intended solely for the information and use of the State of New Jersey Small Employer Health Benefits Program Board, the audit committee, management and others within the Program and is not intended to be and should not be used by anyone other than these specified parties.

McEnerney, Brady & Company, LLC
Certified Public Accountants
Livingston, New Jersey
December 14, 2007