



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

Financial Statements

June 30, 2011

With Independent Auditors' Report

**State of New Jersey
Small Employer Health Benefits Program
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June 30, 2011**

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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, 2011 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, 2011, 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.

A handwritten signature in blue ink that reads "WithSmith+Brown PC".

October 31, 2011

**State of New Jersey
Small Employer Health Benefits Program
Management's Discussion and Analysis
June 30, 2011**

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, 2011.

General Information

In fiscal year 2011, the Program assessed carriers for budgeted expenses for fiscal year 2012 of \$259,400 and the final reconciliation for FY2010 administrative expenses.

The Program audit for the fiscal year ended June 30, 2010 was completed and an unqualified opinion was issued.

Financial Highlights

The Program's assets totaled \$289,148, an increase of \$2,034 from the prior fiscal year, which is due to an increase in the receivable due from the IHC Program offset by a slight decrease in cash.

Liabilities also increased slightly due to the amount to be refunded to the carriers for the fiscal year ended June 30, 2011. The fiscal year 2012 assessment of \$259,400 was recorded as deferred income.

Financial Analysis

	<u>2011</u>	<u>2010</u>
Total Assets & Liabilities	\$ 289,148	\$ 287,114
Total Revenue & Expenditures	\$ 245,784	\$ 252,448
Total Budgeted Expenditures	\$ 260,000	\$ 262,900

Total expenses decreased by \$6,664 from 2010 to 2011. Legal Fees accounted for the majority of the decrease by \$18,200 offset by an increase in salaries and fringe benefits of \$11,536. The increase in salaries and fringe for fiscal year 2011 results from salary reduction from mandatory furlough days for employees in fiscal year 2010.

Total budgeted expenses exceeded actual expenses by \$14,216 for fiscal year 2011 primarily due to less than expected legal fees. The excess amount will be refunded to the carriers upon completion of the program audit.

For fiscal year ended June 30, 2011, salaries and fringe accounted for 91.4% of total expenditures and legal fees accounted for 2.8%, as compared to 84.4% and 9.9%, respectively, for fiscal year ended June 30, 2010.

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, 11th floor, PO Box 325, Trenton, New Jersey 08625-0325.

**State of New Jersey
Small Employer Health Benefits Program
Statement of Net Assets
June 30, 2011**

Assets

Cash and cash equivalents	\$	241,407
Accounts receivable		
Accounts receivable - other		4
Due from IHC program		<u>47,737</u>
Total accounts receivable		<u>47,741</u>
	\$	<u><u>289,148</u></u>

Liabilities and net assets

Liabilities		
Accounts payable - members	\$	14,883
Accounts payable		1,341
Accrued expenses		13,111
Interest payable - members		413
Deferred income		<u>259,400</u>
Total liabilities		289,148
Net assets		<u> --</u>
	\$	<u><u>289,148</u></u>

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

**State of New Jersey
 Small Employer Health Benefits Program
 Statement of Changes in Net Assets
 For the Year Ended June 30, 2011**

Revenues		
Administrative Assessment		\$ 245,784
Expenditures		
Salaries		164,245
Fringe benefits		60,447
Legal fees		6,847
Audit fees		12,000
Professional services		112
Other expenditures		2,083
Bank fees		50
		<hr/>
Total expenditures		245,784
		<hr/>
Other income and expenditures		
Other miscellaneous income		
Change in net assets		--
Net assets - beginning of the year		--
		<hr/>
Net assets - end of the year		\$ --
		<hr/> <hr/>

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

State of New Jersey
Small Employer Health Benefits Program
Notes to Financial Statements
June 30, 2011

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.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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 \$241,407 at June 30, 2011. The Program's bank balances were \$181,107 at June 30, 2011, all of which were insured by the Federal Deposit Insurance Corporation 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 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	\$	786
Money Market		180,321
NJ State - S.E.H. DOBI - Admin		<u>60,300</u>
Total Cash and Cash Equivalents	<u>\$</u>	<u>241,407</u>

State of New Jersey
Small Employer Health Benefits Program
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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. The amounts due will be refunded to the carriers as set forth in a final assessment reconciliation following completion of the audit of the assessment years' financial transactions.

Deferred Income

The balance represents the amounts invoiced to member carriers for an administrative assessment for the fiscal year ending June 30, 2011 based on the budgeted amount for the Program for that fiscal year 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.

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 2011 charges to and from the IHC Program amounted to \$224,692 and \$1,458 respectively. As of June 30, 2011, the IHC Program owed the SEH Program \$47,737.

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 ("CPFPPF"), and the Prison Officers' Pension Fund ("POPF"). The staff of the Small Employer Health Benefits 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.

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.

State of New Jersey
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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 5.5% of base salary. The rate for members who are eligible for the Prosecutors Part of the PERS (Chapter 366, P.L. 2001) is 8.5% 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 60% of the average consumer price index for the calendar year. The asset valuation method is the five year average of market value.

Contributions during the fiscal year 2010 for the PERS amounted to approximately \$1.7 billion. The State of New Jersey's annual required contribution and actual contributions were \$684,036,322 and \$49,382,647, respectively.

The PERS had an actuarial accrued liability of \$18,947,194,579 as of June 30, 2009. The actuarial value of assets of \$10,692,585,100, at June 30, 2009, was less than PERS liabilities, resulting in a funding ratio of 56.4%, or \$8,254,609,479 in funding deficit. Covered payroll for employees under the PERS amounted to \$4,627,092,235, which translates into a funding deficit of 178.4% 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.

The information contained herein for the pension footnote is taken from the PERS report for the fiscal year ended June 30, 2010, because the report for the fiscal year ended June 30, 2011 is not available at the time of issuance of this audit report and the information contained in the note is not reflected in the financial statements for the Program for the fiscal year ended June 30, 2011.

3. Fair Value Measurements

The Program has adopted the accounting pronouncement for Fair Value Measurements. The pronouncement defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosure about fair value measurements. Fair value is defined under the pronouncement as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participations on the measurement date. Valuation techniques used to measure fair value under the pronouncement must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the third unobservable, that may be used to measure fair value are as follows:

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- Level 1 – Quoted prices in active markets for identical assets or liabilities.
- Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

In accordance with accounting standards, the following tables represent the Program's fair value hierarchy for its financial assets (cash and cash equivalents) measured at fair value on a recurring basis as of June 30, 2011:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and cash equivalents	<u>\$ 241,407</u>	<u>\$ --</u>	<u>\$ --</u>

4. Subsequent Events

The Program has evaluated subsequent events occurring after the statement of net assets through the date of October 31, 2011. Based on this evaluation, the Program has determined that no subsequent events have occurred, which require disclosure in the financial statements.