State of New Jersey Small Employer Health Benefits Program

Financial Statements as of and for the Year Ended June 30, 1996, and Independent Auditors' Report

STATE OF NEW JERSEY SMALL EMPLOYER HEALTH BENEFITS PROGRAM

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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, 1996, and the related statements of revenues and expenses and changes in fund balance 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, 1996, and the change in its fund balance for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

February 22, 2007

STATE OF NEW JERSEY SMALL EMPLOYER HEALTH BENEFITS PROGRAM

BALANCE SHEET
JUNE 30, 1996

ASSETS

CASH AND CASH EQUIVALENTS:	
Commercial—checking	$ 1,392
N.J. State Department of Banking and Insurance (DOBI)	60,786
Demand Deposit	270,538
Total cash and cash equivalents	332,716
ACCOUNTS RECEIVABLE:	
Accounts receivable—members (billed)	686
Due from Individual Health Coverage Program (IHC)	67,994
Total accounts receivable	68,680
TOTAL	$ 401,396

LIABILITIES AND FUND BALANCE

LIABILITIES:	
Accounts payable—Member Carriers	$ 203,557
Accrued expenses	197,839
Total liabilities	401,396
FUND BALANCE	-
TOTAL	$ 401,396

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, 1996

REVENUES:	
Administrative assessment	$ 253,194
Other miscellaneous income	5,200
Total revenues	258,394
EXPENDITURES:	
Current operations:	
Accounting and bookkeeping	4,113
Audit fees	19,500
Bank fees	42
Copy service	4,312
Dues and subscriptions	167
Salaries	110,588
Fringe benefits	23,412
Legal fees	91,143
Meetings and conferences	2,845
Travel, tolls, parking	1,039
Overhead allocation	5,866
Telecommunications—Fax	644
Telecommunications—E-mail	229
Telecommunications—Telephone	242
Office supplies	(644)
Marketing expense	54,489
Postage and delivery	3,611
Printing	1,609
Professional services	9,911
Public notices	357
Total expenditures from current operations	333,475
NET CHANGE IN FUND BALANCE	(75,081)
FUND BALANCE—Beginning of year	75,081
FUND BALANCE—End of year	$ -

See notes to financial statements.

STATE OF NEW JERSEY SMALL EMPLOYER HEALTH BENEFITS PROGRAM

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 1996

1. ORGANIZATION AND PURPOSE

The New Jersey Small Employer Health Benefits Program ("Program") was created pursuant to section 12 of L.1992,c162 (N.J.S.A. 17B:27A-28), amended by L.1993,c-162, L.1994,c-11, L.1995,c298, L1995, c-340 and L.1997,c146. 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. The Program is tax-exempt. 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.

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 applicable 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 (cash) balances were $332,716 at June 30, 1996. The Program's total bank (cash) balances were $271,930 at June 30, 1996, of which $1,392 was 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) include funds used for payment of Program expenses, such as staff salaries, fringe, and other miscellaneous expenses that are provided through State sources.

As of June 30, 1996, the Board has $270,538 invested in money market mutual funds, which have no maturity date. The funds are invested in these funds because of the very low risk of loss with a high level of interest income, and the funds are readily available for payment of Program expenses. 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 at June 30, 1996 consist primarily 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 which is the budgeted amount for Program expenses. No allowance for doubtful accounts is recorded, for according to 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 expenses of the Program on the basis of each carrier's health benefits plan earned premiums as compared to the total of the health benefits plan earned premiums of all member carriers.

Accounts Payable-Member Carriers—The balance represents amounts owed to the carriers as a result of differences between the amounts billed for operating expenses per the annual budget versus actual expenses incurred less interest income earned on the demand deposits. The amounts due will be refunded to the carriers upon 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 an administrative assessment to the member carriers pursuant to N.J.A.C. 11:21-2.8 of a budgeted amount approved by the Board. Non-operating revenue consists mainly of late fees, copies, and purchase of buyers' guides. Operating revenues are recorded when earned; non-operating revenues are recorded when collected. 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 expenses shall be made upon approval of the final audited statement of the Program's financial statements. The member's share shall be calculated based on the audited amount of the expenses and credited for any money advanced against the previous assessment.

Related-Party Transactions—Although the Program and the Small Employer Health Benefits Program ("IHC") are distinct state agencies and have separate Boards and regulations, the Programs share the staff, thus salaries, fringe and other miscellaneous expenses incurred through the Department of Banking and Insurance are recorded equally by each program. In 1996 charges to and from the IHC Program amounted to $133,999 and $1,754, respectively.

Pensions—The staff of the Program Board 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 ("CPFPF"), and the Prison Officers' Pension Fund ("POPF"). The staff of the Small Employer Health Benefits Program Board are members of the Public Employees' Retirement System.

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. As of June 30, 1996, there were 246,212 active members and 87,634 retirees.

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 for 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 System and are included in the normal cost of future employer contributions. Contributions include funding for basic retirement allowances, cost-of-living adjustments, noncontributory death benefits, and cost of medical premiums after retirement for qualified retirees.

Contributions during the fiscal year 1996 for the plan amounted to approximately $528 million; 8.77% increase in employee contributions for 1995, and 39.66% increase in employer contributions. Employee and employer contributions represented 2.13% and 4.86% of covered payroll, respectively.

The full normal rate for employee contributions is 5% of base salary. 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 make a normal contribution and an accrued liability contribution, if applicable, determined by a qualified actuary. The actuary uses the projected unit credit method of funding. The State of New Jersey contribution for the years ended June 30, 1996 and 1995 was based on the 1994 and revised 1993 actuarial valuations. The State-related employer contributions were accrued on June 30, 1996 and 1995 based on the 1995 and 1994 actuarial valuations, respectively. The actuarial assumptions are: Investment rate of return 8.75%, projected salary increases ranging from 6.9% at age 25 to 4.65% at age 69, coat-of-living adjustments of 2.4% and a medical trend assumption of 5%. As of March 31, 1995 and 1994, normal costs were determined to be $204,754,000 and $173,129,000, respectively. The accrued liability funding costs for active COLA benefits were $12,377,000 and $8,047,000 at March 31, 1995 and 1994, respectively.

Assets are stated at market value which recognizes 20% of the realized and unrealized appreciation or depreciation in value each year. Liabilities are determined as of March 31 and projected forward to June 30, allowing for increases in benefits and variations in the population during the three-month period. The System's unfunded accrued liabilities were determined to be $450,820,468 and $88,093,116 as of March 31, 1995 and 1994, respectively.

Employees who are members of PERS and retire at the age of 60 are entitled to a retirement benefit determined to be 1/60th 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).

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