

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

**Financial Statements as of and for the year ended June 30, 2004
And Independent Auditors' Report**

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

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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 statement of net assets of the State of New Jersey Small Employer Health Benefits Program (the "Program"), as of June 30, 2004 and the related statement of changes in net assets 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, 2004, and the change in its net assets for the year then ended in conformity with generally accepted accounting principles in the United States.

The Management's Discussion and Analysis on pages 3 through 4 are not a required part of the basic combined financial statements, but is 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.

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

State of New Jersey
Small Employer Health Benefits Program

Management's Discussion and Analysis
June 30, 2004 and 2003

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, 2004.

This is the first year that the Program is required to account and report under the standards outlined in the Government Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.

FINANCIAL HIGHLIGHTS

The Program's assets totaled \$797,631, a decrease of \$5,986 from the prior fiscal year, which is due to the increase in the receivable balance from the New Jersey Individual Health Coverage Program ("IHC Program"), the increase in Accounts Payable – Member Carriers netted by a decrease in Cash.

The Program shares the staff with the IHC Program, thus half of the salaries, fringe benefits and other miscellaneous expenditures paid by the Program to the Department of Banking and Insurance are reimbursed to the Program by the IHC Program.

The liability to the member carriers increased by \$84,000 as a result of the assessment amount collected from the carriers which exceeded the actual expenditures of the Program for the fiscal year, and the interest earned on the funds held by the Program. 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.

Decrease in cash results from expenditures related to operations of the Program.

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 for 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. For fiscal year 2004, carriers were billed the budgeted amount for administrative expenditures of \$295,400, which exceeded the actual expenditures and miscellaneous income of \$213,751.

Management's Discussion and Analysis
June 30, 2004 and 2003
(continued)

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

	<u>2004</u>	<u>2003</u>
Total Assets & Liabilities	\$797,631	\$803,617
Total Revenue & Expenditures	213,751	171,304
Total Budgeted Expenditures	295,400	250,000

For fiscal year ended June 30, 2004, salaries and fringe accounted for 81.3% of total expenditures and legal fees accounted for 18.0%, as compared to 77.6% and 7.1%, respectively, for fiscal year ended June 30, 2003. Salaries and fringe expenditures increased from the prior year due to hiring a full-time accountant for the Program, and legal fees increased with the re-adoption of N.J.A.C. 11:21.

The variance between actual and budgeted expenditures for the fiscal year 2004 is a result of less than expected salary and fringe 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, 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, 2004**

ASSETS

Cash and Cash Equivalents:	
Commercial Checking	\$ 211
NJ Department of Banking & Insurance (DOBI)	41,844
Demand Deposits	<u>720,092</u>
Total Cash and Cash Equivalents	<u>762,147</u>
Accounts Receivable:	
Accounts Receivable – Members (billed)	7,764
Accounts Receivable – Other	1,770
Due from IHC Program	<u>25,905</u>
Total Accounts Receivable	<u>35,439</u>
Prepaid Expenses	<u>45</u>
TOTAL	<u>\$797,631</u>

LIABILITIES AND NET ASSETS

Liabilities:	
Accounts Payable – Member Carriers	\$704,236
Accrued Expenses	<u>93,395</u>
Total Liabilities	797,631
Net Assets	<u>-</u>
TOTAL	<u>\$797,631</u>

See Notes to Financial Statements

**STATE OF NEW JERSEY
SMALL EMPLOYER HEALTH BENEFITS PROGRAM
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2004**

REVENUES:	
Annual Administrative Assessment	\$213,751
Other Miscellaneous Income	<u>15</u>
 Total Revenues	 <u>213,766</u>
 EXPENDITURES:	
Current Operations:	
Audit Fees	2,000
Bank Fees	302
Staff Training	192
Dues & Subscriptions	104
Salaries	135,227
Fringe Benefits	38,516
Legal Fees	24,909
Meetings & Conferences	290
Travel, Tolls, Parking	717
Office Equipment Expense	1,830
Office Supplies	1,195
Marketing Expense	888
Postage & Delivery	3,531
Printing	432
Professional Services	3,306
Public Notices	<u>327</u>
 Total Expenditures from Current Operations	 <u>213,766</u>
 CHANGE IN NET ASSETS	 -
NET ASSETS – Beginning of Year	 <u>-</u>
NET ASSETS – 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, 2004

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.

The Program 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, 2003.

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 \$762,147 at June 30, 2004. The Program’s total bank balances were \$720,303 at June 30, 2004, of which \$211 was insured by the FDIC held in the Program’s name by the program’s financial institutions or agents.

STATE OF NEW JERSEY SMALL EMPLOYER HEALTH BENEFITS PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2004

BASIS OF PRESENTATION AND ACCOUNTING POLICIES (continued)

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.

As of June 30, 2004, the Board has \$720,092 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, 2004 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. Non-operating revenues consist of copying fees. Operating revenues are recorded when the corresponding expenditures are incurred. Non-operating revenues are recorded when collected. Expenditures are recorded when incurred.

STATE OF NEW JERSEY SMALL EMPLOYER HEALTH BENEFITS PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2004

BASIS OF PRESENTATION AND ACCOUNTING POLICIES (continued)

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 and members are credited for any money advanced against the previous assessment.

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 2004 charges to and from the IHC Program amounted to \$171,867 and \$8,408, 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.

STATE OF NEW JERSEY SMALL EMPLOYER HEALTH BENEFITS PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2004

BASIS OF PRESENTATION AND ACCOUNTING POLICIES (continued)

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, but will return to the normal rate effective July 1, 2004. 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 2004. This is the seventh consecutive year that the State and local participating employers 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 2004, the State made a contribution of \$168.66 million for post-retirement medical.

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, 2003 and 2002. 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 2004 for the plan amounted to approximately \$1,149 million. Member contributions rose by \$20.0 million or 5.6% due to increased membership. In 2004, the State made a contribution of \$168.66 million for post-retirement medical. The State of New Jersey's annual required contribution and actual contributions excluding post retirement medical contributions were \$50,365,892 and \$526,505, respectively as compared to 2003 of \$44,636,619 and \$0, respectively. The \$526,505 contribution represents the fund transfer from the Second Injury Fund in accordance with P.L.2001,c.259.

STATE OF NEW JERSEY SMALL EMPLOYER HEALTH BENEFITS PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2004

BASIS OF PRESENTATION AND ACCOUNTING POLICIES (continued)

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 increased in 2004 by \$2,071,861,293 or 9.9% due to member and employer contributions and investment income. During the year the System had an estimated investment gain of 14.2% as compared to the investment gain of 3.3% in the prior year.

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
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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, 2004 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