

State of New Jersey
Individual Health
Coverage Program

Financial Statements for the
Year Ended June 30, 1999

STATE OF NEW JERSEY INDIVIDUAL HEALTH COVERAGE PROGRAM

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INDEPENDENT AUDITORS' REPORT

Board of Directors
New Jersey Individual Health Coverage Program
Trenton, New Jersey

We have audited the accompanying balance sheet of the State of New Jersey Individual Health Coverage Program (the "Program"), as of June 30, 1999, and the related statements of revenues, expenditures and changes in fund balance, and changes in assets and liabilities- loss assessment fund 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, 1999, and the change in its fund balance and its changes in assets and liabilities- loss assessment fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte + Touche LLP

February 23, 2007

**STATE OF NEW JERSEY
INDIVIDUAL HEALTH COVERAGE PROGRAM**

**BALANCE SHEET
YEAR ENDED JUNE 30, 1999**

	General Fund	Loss Assessment Fund (Agency Fund)	Total Memorandum Only
ASSETS			
CASH AND CASH EQUIVALENTS:			
Commercial checking	\$ 541	\$ -	\$ 541
NJ State—IHC DOBI—Administrative	2,661	-	2,661
Demand Deposit - 93-95 Loss, 93-97 Administrative	7,490,268	-	7,490,268
Demand Deposit - 1996 Loss	256,970	-	256,970
Demand Deposit - 1998 Administrative	125,352	-	125,352
Restricted Cash	<u>7,636,334</u>	<u>-</u>	<u>7,636,334</u>
Total cash and cash equivalents	<u>15,512,126</u>	<u>-</u>	<u>15,512,126</u>
ACCOUNTS RECEIVABLE:			
Accounts receivable—members	33,824,315	-	33,824,315
Accounts Receivable - Other	2,813	-	2,813
Due from general fund	<u>-</u>	<u>40,232,066</u>	<u>40,232,066</u>
Total accounts receivable	<u>33,827,128</u>	<u>40,232,066</u>	<u>74,059,194</u>
PREPAID EXPENSES:			
	<u>75</u>	<u>-</u>	<u>75</u>
TOTAL	<u><u>\$49,339,329</u></u>	<u><u>\$ 40,232,066</u></u>	<u><u>\$89,571,395</u></u>
LIABILITIES AND FUND BALANCE:			
Accrued expenses	\$ 1,146,049	\$ -	\$ 1,146,049
Due to SEH program	324,880	-	324,880
Due to loss assessment fund	40,232,066	-	40,232,066
Net paid loss reimbursement due	<u>-</u>	<u>40,232,066</u>	<u>40,232,066</u>
Total liabilities	41,702,995	40,232,066	81,935,061
FUND BALANCE:			
Restricted	7,636,334	-	7,636,334
Unrestricted	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balance	<u>7,636,334</u>	<u>-</u>	<u>7,636,334</u>
TOTAL	<u><u>\$49,339,329</u></u>	<u><u>\$ 40,232,066</u></u>	<u><u>\$89,571,395</u></u>

**STATE OF NEW JERSEY
INDIVIDUAL HEALTH COVERAGE PROGRAM**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN UNRESTRICTED
FUND BALANCE FOR THE YEAR ENDED JUNE 30, 1999**

REVENUES—	\$ 742,847
Other miscellaneous income	1,557
Other miscellaneous expense	<u>(104)</u>
Total revenues	<u>744,300</u>
EXPENDITURES:	
Current operations:	
Advertising	\$ 378
Audit fees—loss reimbursements	396,140
Audit fees—program	38,000
Bank fees	386
Computer Training	97
Dues and subscriptions	562
Salaries	134,434
Fringe benefits	30,448
Legal fees	59,060
Meetings and conferences	611
Travel-tolls-parking	2,857
Overhead allocation—DOBI	2,537
Office Equipment Expense	5,438
Telecommunications—fax	837
Telecommunications—telephone	769
Office supplies expense	243
Marketing expense	45,450
Marketing expense—public notices	478
Postage and delivery	2,745
Printing expense	18,649
Professional services	<u>4,181</u>
Total expenditures from current operations	<u>744,300</u>
NET CHANGE IN UNRESTRICTED FUND BALANCE	-
Unrestricted Fund Balance—Beginning of year	<u>-</u>
Unrestricted Fund Balance—End of year	<u>\$ -</u>

See notes to financial statements.

NEW JERSEY INDIVIDUAL HEALTH COVERAGE PROGRAM

STATEMENTS OF CHANGES IN ASSETS AND LIABILITIES - LOSS ASSESSMENT FUND YEAR ENDED JUNE 30, 1999

	Beginning Balance	Additions	Deductions	Ending Balance
Due from General Fund	<u>\$ 21,783,782</u>	<u>\$ 28,534,021</u>	<u>\$ 10,085,737</u>	<u>\$ 40,232,066</u>
Net Paid Loss Reimbursement Due	<u>\$ 21,783,782</u>	<u>\$ 28,534,021</u>	<u>\$ 10,085,737</u>	<u>\$ 40,232,066</u>

See notes to financial statements.

STATE OF NEW JERSEY INDIVIDUAL HEALTH COVERAGE PROGRAM

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 1999

1. ORGANIZATION AND PURPOSE

The New Jersey Individual Health Coverage Program ("Program") was created pursuant to the N.J.S.A. 17B:27A-2 to 16, amended by L. 1993, c.164, L. 1994, c.102, L. 1995, c.291, L. 1997, c.146 and L. 2001, c.368. 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 individual health benefits plans in New Jersey on an open enrollment, community-rated basis, and to reimburse certain losses of member companies for the calendar year ended December 31, 1992 pursuant to N.J.S.A. 17B:27A-13, for each calendar year ended December 31, 1993 through December 31, 1996, and for each two-year calculation period thereafter pursuant to N.J.S.A. 17B:27A-12, as amended. The Program is tax-exempt.

In 1998 one carrier challenged the assessment methodology. In May 2004, in In re New Jersey Individual Health Coverage Program's Readoption of the N.J.A.C. 11:20-1 et seq., the Supreme Court invalidated the method used in calculating the assessment for the calculation periods 1997 through 1998 and forward. In 2004 another carrier filed a challenge asserting that the Supreme Court decision should also apply to assessments for the 1993 through 1996 calculation periods. The Board's proposed new methodology for the years beginning with the 1997 through 1998 calculation periods was published in the February 21, 2006 New Jersey Register as a proposal. The adoption date was December 18, 2006.

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 \$15,512,126 at June 30, 1999. The Program's total bank (cash) balances were \$7,873,131 at June 30, 1999, of which \$541 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, 1999, the Board has \$7,872,590 in demand deposits invested in the Evergreen Treasury money market 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 reimbursement of losses and/or payment of Program expenses. These funds are recorded at fair value, and interest income is recorded when earned. Interest income is recorded as a reduction to receivables in accordance with N.J.A.C. 11:20-2.7(c)2.

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. The State of New Jersey also holds restricted cash funds that are related to litigation over disputed assessment amounts. As of June 30, 1999, the restricted cash balance is \$7,636,334.

Investments at June 30, 1999 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 a loss assessment to reimburse those carriers offering individual health coverage in the State of New Jersey who incur reimbursable losses. Assessments to carriers also include an administrative assessment which is the budgeted amount for Program expenses. No allowance for doubtful accounts is recorded in accordance with N.J.S.A. 17B:27A-12. The total amount of these losses would be collected from the member carriers.

Net Paid Loss Reimbursements Due—Net Paid Loss Reimbursements Due represents amounts due to carriers who have incurred reimbursable losses as a result of offering individual health coverage in the State, in accordance with N.J.A.C. 11:20-8.5. The liability is recorded in the year the paid losses are reported by the members. As of June 30, 1999, \$40.2 million is due to fourteen carriers for the losses incurred for the 1992-1998 calculation periods. No provision has been made in the accompanying financial statements to reflect the possible results of on-going loss audits.

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. 11:20-2.12 of a budgeted amount approved by the Board. Non-operating revenue consists mainly of late fees, copies, and purchase of buyer's guides. Operating revenues are recorded when earned; non-operating revenues are recorded when collected. Expenditures are recorded when incurred.

There is no balance for the unrestricted fund balance of the Program for pursuant to N.J.A.C. 11:20-2.12(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 ("SEH") 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 1999 charges to and from the SEH Program amounted to \$2,267 and \$172,439, 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 ("CPFPP"), and the Prison Officers' Pension Fund ("POPF"). The staff of the Individual Health Coverage 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, 1999, the active membership in the system totaled 246,434, of which 65,100 were state employees and 181,334 were employees from 1,623 participating local employers. There were 98,604 retirees and beneficiaries receiving annual pensions.

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 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.

Through December 31, 1997 the employee contribution rate was 5% of base salary. As a result of legislation (Chapter 115, P.L. 1997) enacted during 1997, effective January 1, 1998, the employee contribution rate was reduced by $\frac{1}{2}$ of 1% to 4.5% for the calendar years 1998 and 1999. It also provided for a reduction in the employee's rate after 1999, providing excess valuation assets are available. This legislation also provided that the State could reduce its contributions to the System based on revaluation of assets, and fund the contributions from excess assets not needed to cover the costs of all accrued 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 used in the valuation were developed on the basis of a five year experience investigation with the March 31, 1998 and March 31, 1997 valuations. The actuarial assumptions are: Investment rate of return 8.75%, salary range 5.95%, cost-of-living adjustments of 2.4%. The asset valuation method is five year average of market value.

Contributions during the fiscal year 1999 for the plan amounted to approximately \$418 million. The State of New Jersey's annual required contribution and actual contributions were \$86,945,810 and \$0, respectively, as compared to 1998 of \$78,833,287 and \$0, respectively. Legislation passed in 1997 (Chapter 115, P.L. 1997) provided for the use of excess valuation assets to offset the required normal contributions of the State of New Jersey and the local participating employers. Through FY2002, excess assets may be used to offset normal contributions. Thereafter, only a certain percentage may be used.

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 1/60th 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 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.

The System adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 25 "Financial Reporting for Defined Benefit Plans and Note Disclosures for Defined Contribution Plans" and No. 26, "Financial Reporting for Post employment Healthcare Plans Administered By Defined Benefit Pension Plans" in 1997. The cumulative effect of the change in accounting method in the adoption of Statement No. 25 as of July 1, 1996 was \$3,887,955,321. The effects of the adoption of Statement No. 26 were immaterial.

3. LITIGATION

The Program is party to a number of legal actions. Such legal actions involve challenges to audit methodologies, loss assessment methodologies, and reduction of net paid losses for a member insurance carrier by the Program. In the opinion of management, the ultimate resolution of these matters will not have an effect on the Program's financial statements because any losses incurred will be reallocated to the member insurance carriers. The total potential amount in controversy is approximately \$12.3 million.

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