STATE OF NEW JERSEY
INDIVIDUAL HEALTH COVERAGE PROGRAM

Financial Statements

June 30, 2009

With Independent Auditors' Report

State of New Jersey
Individual Health Coverage Program
Table of Contents
June 30, 2009

Page(s)

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Independent Auditors' Report

To the Board of Directors,
State of New Jersey Individual Health Coverage Program

We have audited the accompanying statement of net assets of the State of New Jersey Individual Health Coverage Program (the "Program"), as of June 30, 2009, and the related statements of changes in net assets, 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, 2009, and the changes in its net assets and the changes in its assets and liabilities-loss assessment fund 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.

As discussed in Note 3 to the financial statements, the Program adopted the provisions of Statement of Financial Accounting Standards No. 157, *Fair Value Measurements,* as of July 1, 2008.

WithumSmith+Brown, PC

February 19, 2010

The following narrative provides an overview and analysis concerning the New Jersey Individual Health Coverage Program's ("Program") financial performance of its activities for the fiscal year ended June 30, 2009.

General Information

In fiscal year 2009, litigation was settled in favor of the Board relating to the interim loss assessments for the calculation periods 1997/1998 and 1999/2000 and the assessment for the 2001/2002 calculation period. The issue related to the years that the adjusted net earned premium methodology should apply. This resulted in $1,882,102 being released from restricted funds.

Because of the downturn in the market and to avoid any loss of funds, the mutual funds previously held at Wachovia were transferred to interest bearing funds in Treasury. The funds in Treasury are also collateralized.

In fiscal year 2009 the Program assessed for the 2005/2006 Loss Assessment Interim Reconciliation which resulted in $8,952 due to IHC and $5,447 refunded to the carriers. The reconciliation based on revised Exhibit K's was prepared due to change in the way Medicare Advantage and Medicare Part D was to be reported. The 1993-1999 Final Administrative Assessment Reconciliation was also prepared based on completed audits for those years. The administrative reconciliation resulted in $421,544 due to IHC and $192,703 refunded to the carriers.

Administrative audits for the fiscal years ended June 30, 2000 through 2008 were completed.

Financial Highlights

The Program's assets totaled $31,185,753, an increase of $126,688 from the prior fiscal year. The increase is due primarily to the increase in cash. Cash increased by $133,414 due to collection of the 2005/2006 loss assessment reconciliation and the 1993-1999 administrative assessment reconciliation, and interest earned on the funds at Wachovia and in Treasury, offset by payment to carriers for the 1993-1999 administrative assessment reconciliation and payment of operating expenses.

Total liabilities increased $1,968,213 due primarily to the release of $1,882,102 of restricted funds due to settlement of litigation, interest income of $322,322 offset by recognition of assessment revenue for fiscal year 2009 of $508,600 previously recorded to deferred income when billed in fiscal year 2008.

Restricted Cash and restricted net assets relates to monies received from a carrier refunding the Board for cash advances and assessment credits made against the reported net reimbursable losses. The funds are in a separate interest bearing account held in Treasury. The restricted net assets decreased due to settlement of litigation.

Overview of the Financial Statements

The Program has a General Fund and an Agency Fund. The General Fund uses the cash received from assessments to pay for operating expenditures. The fund is reported using the accrual basis of accounting. The Agency Fund is used to record the liability due to the carriers who incurred net paid losses.

The Program has no capital assets.

There is no balance for Unrestricted 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. In fiscal year 2009, carriers were billed the budgeted amount for fiscal year 2009 administrative expenditures of $508,600, which exceeded the actual expenditures of $310,242.

Restricted Net Assets decreased due to settlement of litigation related to the 1997/1998 and the 1999/2000 assessment reconciliation offset by interest earned on the remaining balance in the restricted funds.

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

	2009	2008
Total Assets	$31,185,753	$31,059,065
Liabilities:		
Due to Carriers for Losses	$12,970,694	$12,720,552
Other Liabilities	$15,569,255	$13,851,184
Total Revenues & Expenditures	$ 310,242	$ 347,670
Total Budgeted Expenditures	$ 508,600	$ 351,800

Total expenses decreased by $37,428 as compared to fiscal year 2008. This was the result of less legal fees offset by the expense for audit costs for the reimbursable losses for the calculation period 2007/2008. No audit costs related to reimbursable losses were recorded in fiscal year 2008. The audit costs are accrued in the fiscal year the losses are reported.

Expenditures were favorable as compared to budget due primarily to less than expected legal fees and audit costs for the losses for the calculation period 2007/2008. The audit costs are accrued in the fiscal year the losses are reported. For the 2007/2008 calculation period, only one carrier reported losses. Refer to the Comparison of Budget and Actual Expenditures for more information.

For the fiscal year ended June 30, 2009, salaries and fringe accounted for 71.1% of total expenditures and legal fees accounted for 4.5%, as compared to 59.6% and 27.9%, respectively, for the fiscal year ended June 30, 2008.

Contacting the Program Board

This financial report is designed to provide the Individual Health Coverage 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 Individual Health Coverage Program at 20 West State Street, 11th floor, PO Box 325, Trenton, New Jersey 08625-0325.

State of New Jersey
Individual Health Coverage Program
Statement of Net Assets
June 30, 2009

Assets	**General Fund**	**Loss Assessment Fund (Agency Fund)**	**Total (Memorandum Only)**
Cash and cash equivalents	$ 28,478,204	$ --	$ 28,478,204
Restricted cash - treasury	2,645,804	--	2,645,804
Total cash and cash equivalents	31,124,008	--	31,124,008
Accounts receivable			
Accounts receivable - members (billed)	61,745	--	61,745
Due from general fund	--	12,970,694	12,970,694
Total accounts receivable	61,745	12,970,694	13,032,439
	$ 31,185,753	$ 12,970,694	$ 44,156,447
Liabilities and Net Assets			
Due to loss assessment fund	$ 12,970,694	$ --	$ 12,970,694
Interest payable - members	6,154,947	--	6,154,947
Accounts payable - members	8,239,564	--	8,239,564
Accounts payable	66,503	--	66,503
Accrued expenses	1,078,315	--	1,078,315
Due to SEH program	29,926	--	29,926
Net paid loss reimbursement due - members	--	12,970,694	12,970,694
Total liabilities	28,539,949	12,970,694	41,510,643
Net Assets			
Restricted	2,645,804	--	2,645,804
Unrestricted	--	--	--
	2,645,804	--	2,645,804
	$ 31,185,753	$ 12,970,694	$ 44,156,447

The Notes to the Financial Statements are an integral part of these statements.

State of New Jersey
Individual Health Coverage Program
Statement of Changes in Nets Assets
For the Year Ended June 30, 2009

Revenues		
Administrative assessment	$	310,242
Expenditures		
Current operations		
Audit fees - loss reimbursements		49,051
Audit fees - program		22,500
Salaries and fringe benefits		220,688
Legal fees		14,044
Other administrative expenses		3,361
Printing expenses		598
Total expenditures from current operations		310,242
Changes in net assets- unrestricted		--
Net assets- unrestricted at the beginning of the year		--
Net assets- unrestricted at the end of the year	$	--

The Notes to Financial Statements are an integral part of these statements.

State of New Jersey Individual Health Coverage Program
Statement of Changes in Assets and Liabilities -
Loss Assessment Fund
For the Year Ended June 30, 2009

	Beginning Balance	Additions	Deductions	Ending Balance
Due from general fund	$ 12,720,552	$ 440,516	$ 190,374	$ 12,970,694
Net paid loss reimbursement due - members	$ 12,720,552	$ 440,516	$ 190,374	$ 12,970,694

The Notes to Financial Statements are an integral part of these statements.

1. Organization and Purpose

The State of New Jersey Individual Health Coverage Program (the "Program") was created pursuant to 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, L. 2001, c.368 and L. 2008, c.38. 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 and basic and essential plans in New Jersey on an open enrollment, community-rated or modified 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 through 2007/2008 pursuant to N.J.S.A. 17B:27A-12, as amended. 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 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.

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 $31,124,008 at June 30, 2009. The Program's bank balances were $51,874 at June 30, 2009, all of which was insured by the Federal Deposit Insurance Corporation held in the Program's name by the Program's financial institutions or agents.

Because of the downturn in the market and to avoid any loss of funds, the Evergreen money market funds previously held at Wachovia were transferred to interest bearing funds in the State of New Jersey Treasury (the "Treasury") in December, 2008. The interest income earned on the funds were recorded as a payable to member companies. As of June 30, 2009, the amount of interest income held by the Program is $6,154,947. The amount of interest earned shall be distributed to member carriers in accordance with N.J.A.C. 11:20-2.7(c)2 upon completion of the loss audits, issuance of final assessments, and settlement of outstanding litigation.

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 benefits, 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, 2009, the restricted cash balance was $2,645,804. During fiscal year 2009, litigation regarding the Program's assessment methodology was settled resulting in $1,882,102 being released from the restricted cash funds.

Cash and cash equivalents consist of:

Commercial Checking	$ 51,874
NJ State - IHC DOBI - Loss	14
NJ State - IHC DOBI - Admin	286,917
Cash Held In Treasury	28,139,399
Restricted Cash - Treasury	2,645,804
Total Cash and Cash Equivalents	$ 31,124,008

Accounts Receivable - Billed

Accounts receivable consists of amounts receivable from member carriers that were billed a loss assessment to fund reimbursement to those carriers offering individual health coverage in the State of New Jersey that incurred reimbursable losses. Member carriers are also billed an administrative assessment to fund the budgeted amount for Program expenses. No allowance for doubtful accounts was recorded, since any uncollectible amounts, should they occur, would be reallocated to other member carriers in accordance with N.J.S.A. 17B:27A-11 and 12.

Net Paid Loss Reimbursements Due to Members

Net paid loss reimbursements due to members represents amounts due to member 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, 2009, approximately $13 million was due to fifteen carriers for the losses incurred for the 1993-2008 calculation periods.

Pursuant to N.J.A.C. 11:20-8.8, audits are performed for carriers with reported net paid reimbursable losses, for each calculation period. Due to the timing of the audits, any adjustments are recorded in the year the audit is completed. 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. 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 IHC Program Board. Revenues are recorded when earned. Expenditures are recorded when incurred.

There is no balance for the unrestricted fund balance of the Program 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 Small Employer Health Benefits Program ("SEH Program") are distinct state agencies and have separate Boards of Directors and regulations, the programs share the staff, thus salaries, fringe benefits and other miscellaneous expenses incurred through the Department of Banking and Insurance are recorded equally by each program. In 2009 charges to and from the SEH Program amounted to $1,517 and $220,688, respectively. As of June 30, 2009 the Program owed the SEH Program $29,926.

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 ("CPFPF"), 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. 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 assumed CPI increase of 3.0%. The asset valuation method is the five year average of market value.

Contributions during the fiscal year 2008 for the PERS amounted to approximately $1.5 billion. The State of New Jersey's annual required contribution and actual contributions were $557,237,789 and $234,560,830, respectively.

The PERS had an actuarial accrued liability of $16,028,875,601 as of June 30, 2007. The actuarial value of assets of $11,024,255,608, at June 30, 2007, was less than PERS liabilities, resulting in a funding ratio of 68.8%, or $5,004,619,993 in funding deficit. Covered payroll for employees under the PERS amounted to $4,434,933,181, which translates into a funding deficit of 112.8% 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, 2008, because the report for the fiscal year ended June 30, 2009 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, 2009.

3. Fair Value Measurements

Effective July 1, 2008, the Program adopted Statement of Financial Accounting Standards (SFAS) No. 157, "*Fair Value Measurements*" ("SFAS 157"). In February 2008, the FASB issued FASB Staff Position No. FAS 157-2, "*Effective Date of FASB Statement No. 157*", which provides a one year deferral of the effective date of SFAS 157 for non-financial assets and non-financial liabilities, except those that are recognized or disclosed in the financial statements at fair value at least annually. Therefore, the Program has adopted the provisions of SFAS 157 with respect to its financial assets and liabilities only. SFAS 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined under SFAS 157 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 participants on the measurement date. Valuation techniques used to measure fair value under SFAS 157 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 last unobservable, that may be used to measure fair value which are the following:

- 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 asset 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 asset or liabilities.

In accordance with SFAS 157, the following tables represent the Program's fair value hierarchy for its financial assets (cash equivalents) measured at fair value on a recurring base as of June 30, 2009:

	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 31,124,008	$ --	$ --

Effective July 1, 2008, the Program adopted SFAS No. 159, *Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS 159"). SFAS 159 allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for specified financial assets and liabilities on a contract-by-contract basis. The Program did not elect to adopt the fair value option under this statement.

4. Litigation

The Program is currently party to one legal action, which involves a challenge to the nature and extent of documentation to support the independent audit of the reimbursable losses. In the opinion of management, the ultimate resolution of this matter will not have an effect on the Program's financial statements because any losses incurred will be reallocated to the member insurance carriers.

5. Subsequent Events

The Program has evaluated subsequent events occurring after the statement of net assets through the date of February 19, 2010. Based on this evaluation, the Program has determined that no subsequent events have occurred, which require disclosure in the financial statements.