STATE OF NEW JERSEY
INDIVIDUAL HEALTH COVERAGE PROGRAM
Financial Statements
June 30, 2017
With Independent Auditors' Reports

withum
AUDIT TAX ADVISORY

State of New Jersey
Individual Health Coverage Program
June 30, 2017

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AUDIT TAX ADVISORY

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the State of New Jersey Individual Health Coverage Program (the "Program"), which includes the General Fund and the Agency Fund, and comprise the statement of net assets as of June 30, 2017, and the related statements of changes in net assets, and changes in assets and liabilities-loss assessment (Agency) fund for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2017, and the changes in its net assets and the changes in its assets and liabilities-loss assessment (Agency) fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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Other Matters

As described in Note 2, State of New Jersey Individual Health Coverage Program adopted ASU 2016-14*, Not-for-profit Entities (Topic 958) Presentation of Financial Statements of Not-for-profit Entities*. Our opinion is not modified with respect to this matter.

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.

WithumSmith+Brown, PC

February 5, 2018

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, 2017.

General Information

In fiscal year 2017 the Program issued the initial administrative assessments for the fiscal years ending June 30, 2018 and 2019 which resulted in invoicing the carriers $658,200 for those fiscal years according to the budget..

The administrative audit for the fiscal year ended June 30, 2016 was completed, and an unqualified opinion was issued on March 7, 2017.

The audits for the losses for the calculation periods 1997/1998 and 1999/2000 were completed in fiscal year 2017 and the 2001/2002 loss audit was completed in August of fiscal year 2018. It is anticipated that all final reconciliations of those loss periods and the 2000 through 2003 administrative periods will be finalized in fiscal year 2018.

Financial Highlights

The Program's assets totaled $13,385,695, a decrease of $3,430,696 from the prior fiscal year due mainly to a net decrease in Cash of $3,860,957 for:

1) Release of the restricted cash and payment to the carrier of $2,694,974 for the 1997/1998 and 1999/2000 loss calculation periods.
2) Reimbursement to the carriers who incurred losses for the 1997/1998 calculation period of $1,760,110.
3) Payment received from two carriers who were overpaid due to cash advances toward the 1997/1998 losses of $590,574 where the final audited loss amount resulted in less than the reported amount.
4) Payment received from carriers for the 1997/1998 loss reconciliation and the 2014/2015 administrative reconciliation of $254,712.
5) Payment of current year operating expenditures of $340,273 offset by interest income of $81,830 on funds held in Treasury and in the bank.

Total liabilities decreased by $742,606 primarily due to refunds to carriers who incurred losses related to the 1997/1998 loss calculation period and the 2014/2015 final administrative assessment offset by interest income of $81,830 on funds held in Treasury and in the bank

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 funds are 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.

There is no balance for Net Assets Without Restrictions because 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 carriers.

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

	2017	2016
Total Assets	$ 13,385,695	$ 16,816,391
Liabilities		
Due to Carriers for Losses	$ 6,138,544	$ 8,506,548
Other Liabilities	$ 7,247,151	$ 5,621,753
Total Revenue & Expenditures	$ 262,348	$ 239,839
Total Budgeted Expenditures	$ 350,570	$ 348,970

Total expenditures increased by $22,509 as compared to fiscal year 2016. This was the result of an increase in fringe benefits and legal fees. The fringe benefit rates increased from 45.25% in 2016 to 51.95% in 2017.

Expenditures were favorable as compared to budget due primarily to less than expected legal fees, and salaries and fringe due to one less staff member.

For the fiscal year ended June 30, 2017, salaries and fringe accounted for 81.9% of total expenditures and legal fees accounted for 6.2%, as compared to 85.0% and 2.7%, respectively, for the fiscal year ended June 30, 2016. Overhead Allocation accounted for 4.0% of total expenditures in 2017 as compared to 4.6% in 2016.

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 loss and 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, 2017

Assets	**General Fund**	**Loss Assessment Fund (Agency Fund)**	**Total (Memorandum Only)**
Cash and cash equivalents	$ 12,955,422	$ --	$ 12,955,422
Accounts receivable			
Accounts receivable - members (billed)	430,273	--	430,273
Due from general fund	--	6,138,544	6,138,544
	$ 13,385,695	$ 6,138,544	$ 19,524,239
Liabilities and Net Assets			
Due to loss assessment fund	$ 6,138,544	$ --	$ 6,138,544
Interest payable - members	1,238,631	--	1,238,631
Accounts payable - members	5,242,255	--	5,242,255
Accrued expenses	20,392	--	20,392
Due to SEH program	87,673	--	87,673
Deferred income	658,200	--	658,200
Net paid loss reimbursement due - members	--	6,138,544	6,138,544
Total liabilities	13,385,695	6,138,544	19,524,239
Net Assets			
Without restrictions	--	--	--
With restrictions	--	--	--
	--	--	--
	$ 13,385,695	$ 6,138,544	$ 19,524,239

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

State of New Jersey
Individual Health Coverage Program
Statement of Changes in Net Assets
For the Year Ended June 30, 2017

Revenues	
Administrative assessment	$ 262,348
Program expenditures	
Current operations	
Audit fees - program	15,000
Salaries and fringe benefits	214,885
Legal fees	16,213
Overhead allocation - DOBI	10,399
Other administrative expenses	908
Printing expenses	4,943
Total expenditures from current operations	262,348
Changes in net assets - without restrictions	--
Net assets - without restrictions at the beginning of the year	--
Net assets - without restrictions at the end of the year	$ --

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

State of New Jersey
Individual Health Coverage Program
Statement of Changes in Net Assets and Liabilities – Loss Assessment (Agency) Fund
For the Year Ended June 30, 2017

	Beginning Balance	Additions	Deductions	Ending Balance
Due from general fund	$ 8,506,548	$ 1,997,026	$ 4,365,030	$ 6,138,544
Net paid loss reimbursement due - members	$ 8,506,548	$ 1,997,026	$ 4,365,030	$ 6,138,544

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

1. ORGANIZATION AND PURPOSE

The State of New Jersey Individual Health Coverage Program (the "Program" or "IHC") was created pursuant to N.J.S.A. 17B:27A-2 to 16, and has been amended by subsequent Acts of 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 individual health benefits plans in New Jersey on an open enrollment, 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. Assessments to carriers subsequent to the 2007/2008 calculation period have been solely to fund administrative expenses. 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.

General Fund and Loss Assessment (Agency) Fund

The IHC Program is made up of two funds, the General Fund and the Loss Assessment (Agency) Fund. The IHC Program Agency Fund was established to separate operating costs from member company loss reimbursements that are based on a formula driven by the established statutory and regulatory authority. The Agency Fund houses the liability for the net paid loss reimbursement due to member companies with the corresponding debit being Due from the General Fund where all the cash balances and administrative activities are maintained.

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 $12,955,422 at June 30, 2017. The Program's bank balances were $70,506 at June 30, 2017, 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.

The interest income earned was recorded as a payable to member companies. As of June 30, 2017, the amount of interest income held by the Program is $1,238,631. 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 and administrative audits and issuance of final reconciliations.

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.

Cash and cash equivalents consist of:

Commercial Checking	$ 803
Money Market	69,703
NJ State - IHC DOBI - Loss	181,415
NJ State - IHC DOBI - Admin	234,252
Cash Held in Treasury	12,469,249
Total Cash and Cash Equivalents	$ 12,955,422

Property and Equipment

Property and equipment are carried at cost and is shared equally with the Small Employer Health Benefits Program. In accordance with the State of New Jersey Circular #11-19-OMB, effective April 6, 2011, the Program follows the practice of capitalizing, at cost, all expenditures for property and equipment in excess of $1,000. The Program provides for depreciation as follows:

Asset	Estimated Useful Life	Method
Computers	3 years	Straight-line

Accounts Payable – Members

The balance represents amounts to be refunded to the members as a result of differences in the assessment to all member carriers of reported losses versus audited losses, budgeted administrative expenses assessed versus audited administrative expenses, and appeals of assessments billed resulting from Exhibit K revisions. The amounts will be refunded to the carriers following the final reconciliation of the reimbursable losses and the Program expenses for those calculation periods.

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, 2017, approximately $6.1 million was due to 8 carriers for the losses incurred for the 1999-2002 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.

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 net assets without restrictions 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 2017, charges to and from the SEH Program amounted to $10,400 and $140,408, respectively. As of June 30, 2017 the Program owed the SEH Program $87,673.

Pensions

The staff of the Program is covered under the State Health Benefits Plan, which includes health, dental, and prescription coverage.

The State offers eight 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"), the Prison Officers' Pension Fund ("POPF"), and the Central Pension Fund ("CPF"). 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 10 years of service for pension benefits and 25 years for post-retirement health care coverage.

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. Effective October 2011, pursuant to the provisions of Chapter 78, P.L. 2011, the active member contribution rate will be increased from 5.5% of annual compensation to 6.5% plus an additional 1% phased-in over 7 years beginning in the first year. The phase-in of the additional incremental member contribution rate will take place in July of each subsequent fiscal year. The rate for members who are eligible for the Prosecutors Part of PERS will be increased from 8.5% of base salary to 10%.

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 7.65%, salary range of 1.65% to 4.15% for 2012 through 2026 and 2.65% to 5.15% thereafter, based on age, cost-of-living adjustments of -0-% 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 2016 for the PERS amounted to approximately $354.6 million. The State of New Jersey's annual required contribution and actual contributions were $2,098 million and $1,307.1 million, respectively.

The State Health Benefit Plan ("SHBP") had an actuarial accrued liability of $25.9 billion as of July 1, 2015. The actuarial value of assets of $-0-, at July 1 2015, was less than SHBP liabilities, resulting in a funded ratio of -0-%, or $25.9 billion in funding deficit. Covered payroll for employees under the SHBP amounted to $7.7 billion, which translates into a funding deficit of 338.6% 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 30 years of service credit or they may elect deferred retirement after achieving 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, 2016, because the report for the fiscal year ended June 30, 2017 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, 2017.

Recently Issued Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-profit Entities*. ASU 2016-14 requires a change to two areas of not-for-profit accounting and significant new financial statement presentation and disclosure requirements. Under ASU 2016-14, underwater funds will be accounted for within net assets with donor restrictions and not within net assets without donor restrictions as is the current practice. In addition ASU 2016-14 eliminates the accounting policy election to release donor imposed restrictions over the useful life of donated property and equipment when the donor does not explicitly specify the period of time the property must be used. Instead, entities will be required to relieve the donor's restrictions at the time the asset is placed in service. In addition to the above disclosures, ASU 2016-14 changes the presentation and disclosure requirements of not-for-profit entities in the following areas: expense disclosures, display of net asset classes, cash flow presentation, quantitative and qualitative liquidity disclosures and presentation of investment returns. The Program has elected to early adopt this provision.

3. LIQUIDITY AND AVAILABILITY

The Program strives to maintain liquid financial assets sufficient to cover general expenditures. Financial assets in excess of monthly cash requirements are invested in money market funds and Treasury accounts.

The following table reflects the Program's financial assets as of June 30, 2017. There were no net assets with restrictions at June 30, 2017.

Cash and cash equivalents	$ 12,955,422
Accounts receivable	430,273
Total financial assets	$ 13,385,695
Financial assets available to meet cash needs for general expenditures within one year	$ 13,385,695

In addition to financial assets available to meet general expenditures over the next 12 months, the program operates with no profit or loss and collects sufficient revenue to cover general expenditures.

4. 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:

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 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, 2017:

	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 12,955,422	$ --	$ --

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2017:

Computers	$ 1,754
Less: accumulated depreciation	(1,754)
	$ --

Depreciation expense amounted to $-0- for the year ended June 30, 2017.

6. SUBSEQUENT EVENTS

The Program has evaluated subsequent events through February 5, 2018, which is the date the financial statements were available to be issued. Based on this evaluation, the Program has determined that no additional subsequent events have occurred which require disclosure in the financial statements.