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STATE OF INDIANA

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August 19, 2009

D. Douglas Stratton, Executive Director
Indiana Comprehensive Health Insurance Association
9465 Counselors Row, Suite 200
Indianapolis, IN 46240

Dear Mr. Stratton:

We have received the audit report prepared by Katz, Sapper & Miller, LLP, Independent Public Accountants, for the period January 1, 2008 to December 31, 2008. Per the auditors' opinion, the audit was conducted in accordance with auditing standards generally accepted in the United States of America and the financial statements included in the report present fairly the financial condition of the Indiana Comprehensive Health Insurance Association as of December 31, 2008, and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Public Accountants' report is filed with this letter in our office as a public record.

STATE BOARD OF ACCOUNTS

INDIANA COMPREHENSIVE HEALTH INSURANCE ASSOCIATION

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

December 31, 2008 and 2007

KATZ, SAPPER & MILLER
Certified Public Accountants

INDIANA COMPREHENSIVE HEALTH INSURANCE ASSOCIATION

CONTENTS

KATZ, SAPPER & MILLER

Katz, Sapper & Miller, LLP
Certified Public Accountants

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Independent Auditors' Report

Board of Directors
Indiana Comprehensive Health Insurance Association

We have audited the accompanying statements of net assets (deficiency) of Indiana Comprehensive Health Insurance Association (the Association) as of December 31, 2008 and 2007, and the related statements of revenue, expenses and change in net assets (deficiency) and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the 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. We were not engaged to perform an audit of the Association's internal control over financial reporting. Our audit included 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 Association'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, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets and net assets (deficiency) of Indiana Comprehensive Health Insurance Association at December 31, 2008 and 2007, and its revenue and expenses, changes in net assets (deficiency), and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated May 8, 2009, on our consideration of Indiana Comprehensive Health Insurance Association's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Indiana Comprehensive Health Insurance Association taken as a whole. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Management's discussion and analysis on pages i through ii is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures to the management's discussion and analysis, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Katz, Sapper & Miller, LLP

Indianapolis, Indiana
May 8, 2009

INDIANA COMPREHENSIVE HEALTH INSURANCE ASSOCIATION

STATEMENTS OF NET ASSETS (DEFICIENCY)
December 31, 2008 and 2007

	2008	2007
ASSETS		
Cash and equivalents	$ 11,439,789	$ 15,935,295
Premiums receivable	2,467,166	2,598,543
Assessments receivable	279,834	729
TOTAL ASSETS	$ 14,186,789	$ 18,534,567
LIABILITIES		
Unpaid claims and claims adjustment expenses	$ 13,663,781	$ 11,109,318
Unearned premiums	7,727,921	8,136,004
Assessments payable	681,392	93
Accrued expenses	355,100	381,850
Other liabilities	294,958	668,264
Total Liabilities	22,723,152	20,295,529
NET ASSETS (DEFICIENCY)		
Unrestricted	(9,087,827)	(2,107,147)
Restricted for grant expenditures	551,464	346,185
Total Net Assets (Deficiency)	(8,536,363)	(1,760,962)
TOTAL LIABILITIES AND NET ASSETS (DEFICIENCY)	$ 14,186,789	$ 18,534,567

See accompanying notes.

INDIANA COMPREHENSIVE HEALTH INSURANCE ASSOCIATION

STATEMENTS OF REVENUE, EXPENSES AND CHANGE IN NET ASSETS (DEFICIENCY)
Years Ended December 31, 2008 and 2007

	2008	2007
OPERATING REVENUE		
Premiums earned	$ 50,381,943	$ 49,792,405
OPERATING EXPENSES		
Policy benefits incurred	96,909,880	92,139,991
Plan administration fees	3,990,834	4,028,171
Other general and administrative	340,074	341,452
Total Operating Expenses	101,240,788	96,509,614
Operating Loss	(50,858,845)	(46,717,209)
NONOPERATING REVENUES (EXPENSES)		
Grants	1,658,495	490,000
Investment income	353,942	987,495
Other expenses	(133,138)	(3,671)
Total Nonoperating Revenues	1,879,299	1,473,824
Loss before Assessments	(48,979,546)	(45,243,385)
MEMBER ASSESSMENTS	42,204,145	37,859,494
CHANGE IN NET ASSETS	(6,775,401)	(7,383,891)
NET ASSETS (DEFICIENCY)		
Beginning of Year	(1,760,962)	5,622,929
End of Year	$ (8,536,363)	$ (1,760,962)

See accompanying notes.

INDIANA COMPREHENSIVE HEALTH INSURANCE ASSOCIATION

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2008 and 2007

	2008	2007
OPERATING ACTIVITIES		
Premiums collected	$ 50,105,237	$ 50,525,834
Claims and claims adjustment expenses paid	(94,355,417)	(90,348,493)
General and administrative expenses paid	(4,864,102)	(4,104,585)
Net Cash Used by Operating Activities	(49,114,282)	(43,927,244)
INVESTING ACTIVITIES		
Investment earnings	353,942	987,495
Net Cash Provided by Investing Activities	353,942	987,495
FINANCING ACTIVITIES		
Assessments collected	42,606,339	37,854,419
Grants received	1,658,495	490,000
Net Cash Provided by Financing Activities	44,264,834	38,344,419
NET DECREASE IN CASH AND EQUIVALENTS	(4,495,506)	(4,595,330)
CASH AND EQUIVALENTS		
Beginning of Year	15,935,295	20,530,625
End of Year	$ 11,439,789	$ 15,935,295

See accompanying notes.

INDIANA COMPREHENSIVE HEALTH INSURANCE ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Indiana Comprehensive Health Insurance Association (the Association), a nonprofit legal entity, was established by the State of Indiana to assure that health insurance is made available throughout the year to each eligible Indiana resident applying to the Association for coverage. At December 31, 2008 and 2007, the Association had 6,561 and 6,833 eligible persons covered.

All insurance carriers, health maintenance organizations, limited service health maintenance organizations, and self-insurers providing health insurance or health care services in Indiana must be members of the Association. A member shall comply with the Association's Plan of Operation, under Indiana Code 27-8-1 0-2.5 (a).

Basis of Presentation: Effective January 1, 2005, the Association adopted Governmental Accounting Standards as its basis of reporting. As a proprietary fund, the Association's financial statements are reported using the accrual basis of accounting in conformity with accounting principles generally accepted in the United States. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

The Association distinguishes operating revenues and expenses from nonoperating. Operating revenues and expenses generally result from providing services in connection with the Association's principal ongoing operations. The principal operating revenues and expenses of the Association relate to premium revenues, policy benefits and administrative expenses. Net investment earnings and grants are reported as nonoperating revenues.

In September 1993, the Governmental Accounting Standards Board (GASB) issued Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting.* As permitted by the statement, the Association has elected not to adopt Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989, unless the GASB specifically adopts such FASB statements or interpretations.

Estimates: Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Cash and Equivalents: All investments with a remaining maturity of three months or less at the date of acquisition are considered cash equivalents. Interest bearing deposits at the Association's financial institution are insured by the Federal Deposit Insurance Corporation up to $250,000 ($100,000 until October 3, 2008) and non-interest bearing deposits are insured on an unlimited basis. At December 31, 2008 and 2007, the Association's uninsured cash and equivalents balances totaled $12,398,642 and $17,483,782, respectively. To date, there have been no losses in such accounts.

Unpaid Claims and Claims Adjustment Expenses: The liability for unpaid claims and claims adjustment expenses is estimated based on historical claims development. Considerable variability is inherent in such estimates. However, management believes that the liability for unpaid claims and claims adjustment expenses is adequate. The estimates are continually reviewed and updated as experience develops or new information becomes known; such adjustments are reflected in current operations.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes: The Internal Revenue Service has determined that the Association qualifies as a tax-exempt organization under Section 501(c)(26) of the Internal Revenue Code (IRC) and is, therefore, not subject to tax under present income tax law. The Association is required to operate in conformity with the IRC to maintain its qualification. The Association is also exempt from taxes in the state of Indiana.

Assessments: The Association has the statutory authority to assess the member insurance carriers writing business in Indiana for 25% of its net operating loss with the remaining 75% to be paid by the State of Indiana. Assessments are approved by the Board of Directors and generally are made in two interim assessments during the year (January and July) based on projected losses and cash flow needs. Subsequent to December 31, a true-up of projected amounts compared to actual results is made and any excess loss is assessed, or if assessments have exceeded the actual losses, then carriers are allowed a credit against the next interim assessment. Subject to Board of Directors approval the credit to be applied and recorded in 2009 totals $3 million and, if approved, will increase the Association's net asset deficiency by that amount.

Assessments receivable represents outstanding balances assessed to the member insurance carriers but not yet collected, and assessments payable represent credit balances due the carriers. Assessments are recognized as contributions to unrestricted net assets.

Revenue Recognition: Premiums are earned pro rata over the policy periods to which the premiums relate. Unearned premiums include amounts billed and collected in advance of the policy due date.

Grant revenue in the amount of $1,658,495 and $490,000 was received by the Association from the Center for Medicare and Medicaid services during the years ended December 31, 2008 and 2007, respectively. These grants were received for the operation of Qualified High Risk Pools, premium subsidies, and disease management. When expenditures are incurred that meet the purpose of both unrestricted and restricted resources, the restricted resources are applied before unrestricted resources.

NOTE 2 - CONTINGENCIES

In the normal course of operations, the Association is subject to various litigation, claims and assessments that it intends to defend. The range of loss from these claims and assessments can not be reasonably estimated. However, management believes that the ultimate resolution of these matters will not have a material adverse effect on the Association's results of operation or financial position.

NOTE 3 - PLAN ADMINISTRATION AGREEMENT

The Association has outsourced its administrative services to Affiliated Computer Services, Inc. (ACS). Under the agreement, ACS is compensated based on the number of eligible persons covered. The current contract is for the period from May 1, 2005 through April 30, 2008 with an optional contract extension through April 30, 2009 that is currently being exercised. The fee for Administrative Services is fixed at $23.54 per member per month. Additional charges are described in the Administrative Services Agreement.

NOTE 4 - LIABILITY FOR UNPAID CLAIMS AND CLAIMS ADJUSTMENT EXPENSES

The following table provides a reconciliation of the beginning and ending balances of the liability for unpaid claims and claims adjustment expenses:

	2008	2007
Balance at Beginning of Year	$11,109,318	$ 9,317,820
Policy benefits incurred related to:		
Current year	95,928,285	92,133,096
Prior year	981,595	6,895
Total policy benefits incurred	96,909,880	92,139,991
Paid related to:		
Current year	82,344,173	81,116,194
Prior year	12,011,244	9,232,299
Total paid	94,355,417	90,348,493
Balance at End of Year	$13,663,781	$11,109,318

Policy benefits incurred related to prior years vary from previously estimated liabilities, as the claims are ultimately settled. Positive amounts reported for incurred losses and loss adjustment expenses related to prior years are indicative of unfavorable development in the related prior year end liability.

NOTE 5 - LINE OF CREDIT

The Association has a secured revolving line of credit agreement with Key Bank National Association, which provides for borrowings up to a maximum of $7,000,000. There were no borrowings against the line of credit during 2008 and 2007.

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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

Year Ended December 31, 2008

Board of Directors
Indiana Comprehensive Health Insurance Association

We have audited the financial statements of Indiana Comprehensive Health Insurance Association as of and for the year ended December 31, 2008, and have issued our report thereon dated May 8, 2009, which appears on page 1. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to 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 Indiana Comprehensive Health Insurance Association's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Indiana Comprehensive Health Insurance Association's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Indiana Comprehensive Health Insurance Association's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is a more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Indiana Comprehensive Health Insurance Association's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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 or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Indiana Comprehensive Health Insurance Association in a separate letter dated May 8, 2009

This report is intended solely for the information and use of the board of directors, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Katz, Sapper & Miller, LLP

Indianapolis, Indiana
May 8, 2009

INDIANA COMPREHENSIVE HEALTH INSURANCE ASSOCIATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2008

	CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Revenue Recognized	Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES					
Passed through Centers for Medicare Medicaid Services:					
Indiana State High Risk Pool Program	93.780	11-P-92289-5	$ 11,199,052	$ 1,658,495	$ 1,453,216
TOTAL FEDERAL AWARDS				$ 1,658,495	$ 1,453,216

INDIANA COMPREHENSIVE HEALTH INSURANCE ASSOCIATION

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Indiana Comprehensive Health Insurance Association and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements

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Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

Year Ended December 31, 2008

Board of Directors
Indiana Comprehensive Health Insurance Association

Compliance

We have audited the compliance of Indiana Comprehensive Health Insurance Association with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2008. Indiana Comprehensive Health Insurance Association's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Indiana Comprehensive Health Insurance Association's management. Our responsibility is to express an opinion on Indiana Comprehensive Health Insurance Association's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Indiana Comprehensive Health Insurance Association's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Indiana Comprehensive Health Insurance Association's compliance with those requirements.

In our opinion, Indiana Comprehensive Health Insurance Association complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2008.

Internal Control over Compliance

The management of Indiana Comprehensive Health Insurance Association is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Indiana Comprehensive Health Insurance Association's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Indiana Comprehensive Health Insurance Association's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the board of directors, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Katz, Sapper & Miller, LLP

Indianapolis, Indiana
May 8, 2009

INDIANA COMPREHENSIVE HEALTH INSURANCE ASSOCIATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2008

SECTION I

Summary of Auditors' Results

Type of report issued on the financial statements:	Unqualified
Material weakness in internal control over financial reporting:	No
Material noncompliance:	No
Significant deficiencies in internal control over compliance for major programs:	No
Material weakness in internal control over compliance for major programs:	No
Type of report issued on compliance for major programs:	Unqualified
Any audit findings which are required to be reported under Section 510(a) of OMB Circular A-133:	No

The program identified and tested as major is as follows:

U.S. Department of Health and Human Services – CFDA 93.780

The threshold used to distinguish between type A and type B programs was $300,000.

Auditee qualified as a low risk auditee ___ Yes _X_ No

SECTION II

FINANCIAL STATEMENT FINDINGS

Findings related to the financial statements that are required to be reported in accordance with GAGAS:

None

SECTION III

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Findings and questioned costs for federal awards including audit findings as defined in OMB Circular A-133 Section 510(a):

None