STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

B38866

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

July 5, 2011

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 reports prepared by Katz, Sapper & Miller, LLP, Independent Public Accountants, for the periods January 1, 2009 to December 31, 2009 and January 1, 2010 to December 31, 2010. Per the auditors' opinion, the audits were conducted in accordance with auditing standards generally accepted in the United States of America and the financial statements included in the reports present fairly the financial condition of the Indiana Comprehensive Health Insurance Association as of December 31, 2009 and December 31, 2010, respectively, and the results of its operations for the periods then ended, on the basis of accounting described in the reports.

The Independent Public Accountants' reports are 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, 2009 and 2008

KATZ, SAPPER & MILLER
Certified Public Accountants

INDIANA COMPREHENSIVE HEALTH INSURANCE ASSOCIATION

CONTENTS

	Page
FINANCIAL STATEMENTS	
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-4
Statements of Net Assets (Deficiency)	5
Statements of Revenue, Expenses and Change in Net Assets (Deficiency)	6
Statements of Cash Flows	7
Notes to Financial Statements	8-11
OTHER REPORTS AND SCHEDULES	
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*	12-13
Schedule of Expenditures of Federal Awards	14-15
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	16-17
Schedule of Findings and Questioned Costs	18-19

KATZ, SAPPER & MILLER

Katz, Sapper & Miller, LLP
Certified Public Accountants

800 East 96th Street
Suite 500
Indianapolis, IN 46240

Tel 317.580.2000
Fax 317.580.2117

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, 2009 and 2008, 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.

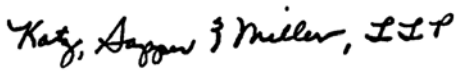
We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 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, 2009 and 2008, 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 14, 2010, 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 considered in assessing the results of our audit.

Our audit was conducted 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 purpose 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.



Indianapolis, Indiana
May 14, 2010

Indiana Comprehensive Health Insurance Association
Management's Discussion and Analysis (Unaudited)

Introduction

The Management's Discussion and Analysis (MD&A) of Indiana Comprehensive Health Insurance Association's (the Association) financial performance provides an overall view of the entity's activities for the fiscal years ended December 31, 2009 and 2008. The intent of this discussion and analysis is to look at the Association's financial performance as a whole. Readers should also review the financial statements and notes to the financial statements to enhance their understanding of the Association's financial performance.

The MD&A is an element of the reporting model adopted by the Governmental Standards Board (GASB) in their *Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued in June of 1999. The Association began presenting its financial statements on a GASB basis in 2005.

Financial Statements

The Statement of Net Assets (Deficiency) presents the Association's assets, liabilities and net assets (deficiency) as of the Association's year end. Net assets (deficiency) reflects the Association's overall financial position, represents total assets less liabilities of the Association, and is generally an accumulation of the excess or deficit from operations. The Statement of Revenue, Expenses and Changes in Net Assets (Deficiency) presents the results of the Association's operating and non-operating revenues and expenses for the year.

Total assets at December 31, 2009 decreased 57% from 2008 and are comprised of cash, cash equivalents and receivables. Total liabilities increased 43% from 2008, and are primarily comprised of reserves for unpaid claims and unearned premium revenue.

Membership, representing eligible persons covered, has increased 2%, or 154 members, during 2009, compared to a decrease during 2008 of 7% or 272 members.

Cash and cash equivalents, representing 54% of total assets at December 31, 2009, has decreased $8.2 million during the year. Premiums, assessments and grant proceeds collected and investment earnings totaled $101.9 million, compared to claims and administrative expenses paid of $110.1 million, resulting in the decrease of cash and cash equivalents.

Premiums receivable, representing amounts due from insureds but not yet collected, decreased 23% at December 31, 2009 compared to December 31, 2008.

The Interim II assessment of $32 million was made in July 2009 and was largely collected by year end; only $.8 million remains due the Association at December 31, 2009.

The liability for unpaid claims and claims adjustment expenses on the statements of net assets represents claims incurred by covered members prior to December 31, 2009 but not yet reported, and represents 68% of Total Liabilities at December 31, 2009. The increase in the liability of $8.4 million over the prior year, or 62%, is primarily due to increased costs in heath care delivery and increased utilization.

Unearned premiums represent premiums billed and collected in advance of the policy due date. The balance at December 31, 2009 increased 1% over the December 31, 2008 balance.

Assessments payable represents prior years' interim assessments received in excess of the actual amount subsequently calculated to be due. The amount may be refunded to the carrier or credited against the next assessments. At December 31, 2009, the majority of the excess was to be offset against the 2010 interim assessments.

Accrued expenses and other liabilities represent primarily unpaid expenses of the Association and are a function of the timing of payments.

Unrestricted net assets (deficiency) represent the accumulation of operating revenue (primarily premiums earned), member assessments and investment income less operating expenses. During 2009, the change in net assets (deficiency) was a decrease of $18 million, compared to a decrease in 2008 of $6.8 million, resulting in a net deficiency at December 31, 2009. Restricted net assets represents the balance of grant funds received that have not yet been expended for the purpose outlined in the grant agreement.

Total expenses increased 17% in 2009 from 2008, primarily due to the increase in paid claims.

Premiums earned decreased 2% in 2009, or $994,222, over the 2008 amount. The Association approved an increase in premium rates in 2009.

The increase in claims incurred of $17.4 million, or 18%, is largely attributable to increased utilization by the insureds and rising health care costs.

Plan administrative fees are based on a per-member-per-month fixed rate plus other actual expenses incurred. Plan administrative fees decreased by $37,950, or 1%, over the 2008 amount.

The Center for Medicare and Medicaid Services awarded the Association operating grant funds in 2009 of $1.7 million, to be used to offset operating losses, and bonus grant funds of $1 million, to be used to subsidize premiums to low income insureds and assist with a disease management program.

Investment income decreased significantly during 2009, largely as a result of lower available funds to invest and lower rates experienced during the year.

INDIANA COMPREHENSIVE HEALTH INSURANCE ASSOCIATION

STATEMENTS OF NET ASSETS (DEFICIENCY)
December 31, 2009 and 2008

	2009	2008
ASSETS		
Cash and equivalents	$ 3,288,105	$ 11,439,789
Premiums receivable	1,892,543	2,467,166
Assessments receivable	855,939	279,834
TOTAL ASSETS	$ 6,036,587	$ 14,186,789
LIABILITIES		
Unpaid claims and claims adjustment expenses	$ 22,104,999	$ 13,663,781
Unearned premiums	7,823,388	7,727,921
Assessments payable	625,630	681,392
Assessments received in advance	1,025,692	
Accrued expenses	695,984	355,100
Other liabilities	361,081	294,958
Total Liabilities	32,636,774	22,723,152
NET ASSETS (DEFICIENCY)		
Unrestricted	(26,835,321)	(9,087,827)
Restricted for grant expenditures	235,134	551,464
Total Net Assets (Deficiency)	(26,600,187)	(8,536,363)
TOTAL LIABILITIES AND NET ASSETS (DEFICIENCY)	$ 6,036,587	$ 14,186,789

See accompanying notes.

INDIANA COMPREHENSIVE HEALTH INSURANCE ASSOCIATION

STATEMENTS OF REVENUE, EXPENSES AND CHANGE IN NET ASSETS (DEFICIENCY)
Years Ended December 31, 2009 and 2008

	2009	2008
OPERATING REVENUE		
Premiums earned	$ 49,387,721	$ 50,381,943
OPERATING EXPENSES		
Claims incurred	114,319,439	96,909,880
Plan administration fees	3,952,884	3,990,834
Other general and administrative	348,118	340,074
Total Operating Expenses	118,620,441	101,240,788
Operating Loss	(69,232,720)	(50,858,845)
NONOPERATING REVENUES (EXPENSES)		
Grants	2,249,210	1,658,495
Investment income	39,430	353,942
Other expenses	(268,473)	(133,138)
Total Nonoperating Revenues	2,020,167	1,879,299
Loss before Assessments	(67,212,553)	(48,979,546)
MEMBER ASSESSMENTS	49,148,729	42,204,145
CHANGE IN NET ASSETS (DEFICIENCY)	(18,063,824)	(6,775,401)
NET ASSETS (DEFICIENCY)		
Beginning of Year	(8,536,363)	(1,760,962)
End of Year	$ (26,600,187)	$ (8,536,363)

See accompanying notes.

INDIANA COMPREHENSIVE HEALTH INSURANCE ASSOCIATION

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2009 and 2008

	2009	2008
OPERATING ACTIVITIES		
Premiums collected	$ 50,057,811	$ 50,105,237
Claims and claims adjustment expenses paid	(105,878,221)	(94,355,417)
General and administrative expenses paid	(4,162,468)	(4,864,102)
Investment earnings	39,430	353,942
Net Cash Used by Operating Activities	(59,943,448)	(48,760,340)
FINANCING ACTIVITIES		
Assessments collected	49,542,554	42,606,339
Grants received	2,249,210	1,658,495
Net Cash Provided by Financing Activities	51,791,764	44,264,834
NET DECREASE IN CASH AND EQUIVALENTS	(8,151,684)	(4,495,506)
CASH AND EQUIVALENTS		
Beginning of Year	11,439,789	15,935,295
End of Year	$ 3,288,105	$ 11,439,789

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, 2009 and 2008, the Association had 6,715 and 6,561 eligible persons covered, respectively.

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, claims incurred 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 and non-interest bearing deposits are insured on an unlimited basis. At December 31, 2009 and 2008, the Association’s uninsured cash and equivalents balances totaled $5,403,690 and $12,398,642, 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 Association is exempt from federal income taxes under Section 501(c)(26) of the Internal Revenue Code. Therefore, no provision or liability for income taxes has been included in the financial statements. In addition, the Association has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Internal Revenue Code. There was no unrelated business income for the years ended December 31, 2009 and 2008.

The Association files U.S. federal and state of Indiana tax returns. The Association is no longer subject to U.S. federal and state tax examinations by tax authorities for years before 2006.

Assessments: Assessments are recorded upon approval of 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 members are allowed a credit against the next interim assessment. Also, uncollectable assessments are allocated to members as part of the true-up. True-up assessments are not recorded until approved by the Board of Directors.

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 received in advance represent amounts paid to the Association for assessments yet to be approved by the Board of Directors. 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 $2,249,210 and $1,658,495 was received by the Association from the Center for Medicare and Medicaid services during the years ended December 31, 2009 and 2008, 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.

Subsequent Events: The Association has evaluated the financial statements for subsequent events occurring through May 14, 2010, the date the financial statements were available to be issued.

NOTE 2 - ASSESSMENTS AND NET ASSET DEFICIENCY

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. The two assessments during the year are calculated based on current cash flow needs of the Association. According to the statute, a true-up assessment is made in July of the following year for the difference between the operational losses and actual assessments made during the year. Subject to Board of Directors approval, the additional assessment to be applied and recorded in 2010 totals approximately $15.2 million and, if approved, will decrease the Association's net asset deficiency by that amount. The remaining $11 million of the net asset deficiency is due to assessment procedures in place prior to the current statute.

NOTE 2 - ASSESSMENTS AND NET ASSET DEFICIENCY (CONTINUED)

The following table provides a reconciliation of the member assessments as reported on the statements of revenue, expenses, and change in net assets (deficiency) for 2009 and 2008:

	2009	2008
Assessments – January	$ 20,000,000	$ 20,000,000
Assessments – July	32,000,000	32,000,000
Assessments - previous year true-up	(2,851,271)	(9,795,855)
Total Member Assessments	$ 49,148,729	$ 42,204,145

NOTE 3 - 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 cannot 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 4 - 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 has an automatic contract extension until written notice is provided. The fee for Administrative Services is fixed at $23.54 per member per month. Additional charges are described in the Administrative Services Agreement.

NOTE 5 - 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:

	2009	2008
Balance at Beginning of Year	$ 13,663,781	$ 11,109,318
Claims incurred related to:		
Current year	112,484,307	95,928,285
Prior year	1,835,132	981,595
Total claims incurred	114,319,439	96,909,880
Paid related to:		
Current year	90,757,203	82,344,173
Prior year	15,121,018	12,011,244
Total paid	105,878,221	94,355,417
Balance at End of Year	$ 22,104,999	$13,663,781

Claims 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 6 - 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 with interest computed at the bank's prime lending rate. No borrowings were outstanding on the line of credit at December 31, 2009 and 2008.

KATZ, SAPPER & MILLER

Katz, Sapper & Miller, LLP
Certified Public Accountants

800 East 96th Street
Suite 500
Indianapolis, IN 46240

Tel 317.580.2000
Fax 317.580.2117

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Year Ended December 31, 2009

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, 2009, and have issued our report thereon dated May 14, 2010. 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 the Indiana Comprehensive Health Insurance Association's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Indiana Comprehensive Health Insurance Association's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 09-01 to be a material weakness.

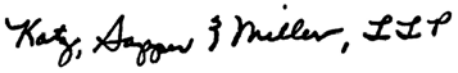
Compliance and Other Matters

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 grant agreements, 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2009-1.

We also noted certain other matters that we reported to management in a separate letter dated May 14, 2010.

Indiana Comprehensive Health Insurance Association's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Indiana Comprehensive Health Insurance Association's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of 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.



Indianapolis, Indiana
May 14, 2010

INDIANA COMPREHENSIVE HEALTH INSURANCE ASSOCIATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2009

	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	$ 13,910,900	$ 2,249,210	$ 2,565,540
TOTAL FEDERAL AWARDS				$ 2,249,210	$ 2,565,540

INDIANA COMPREHENSIVE HEALTH INSURANCE ASSOCIATION

NOTE 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

KATZ, SAPPER & MILLER

Katz, Sapper & Miller, LLP
Certified Public Accountants

800 East 96th Street
Suite 500
Indianapolis, IN 46240

Tel 317.580.2000
Fax 317.580.2117

Independent Auditors' 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, 2009

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, 2009. 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 of 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, 2009.

Internal Control Over Compliance

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 the 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 *deficiency in 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 *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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 management, board of directors, others within the entity, and 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 14, 2010

INDIANA COMPREHENSIVE HEALTH INSURANCE ASSOCIATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2009

SECTION I – SUMMARY OF AUDITORS' RESULTS

Type of auditors' report issued on the financial statements:	Unqualified
Material weakness in internal control over financial reporting:	Yes
Significant deficiencies in internal control over financial reporting:	None reported
Material noncompliance:	No
Material weakness in internal control over compliance for major programs:	No
Significant deficiencies in internal control over compliance for major programs:	None reported
Type of auditors' 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

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

Indiana Comprehensive Health Insurance Association (the Association) did not qualify as a low risk auditee.

SECTION II - FINANCIAL STATEMENT FINDINGS

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

2009-1: **Material Adjusting Journal Entry was Recorded During the Audit**

Criteria: Misstatements of the Association's financial statements should be detected and prevented by the Association's internal control over financial reporting.

Statement of Condition: During our audit, we proposed an adjusting journal entry to correct previously undetected material misstatements in the Association's financial statements.

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

Cause and Effect: The Association's internal control was not effective in identifying an unrecorded liability for pharmacy costs that should have been included in the unpaid claims and claims adjustment expenses. Costs incurred for pharmacy claims had been incurred prior to December 31, 2009, but were not included in the unpaid claims and claims adjustment expenses. The audit adjustment indicates a material weakness in the internal controls over financial reporting at the Association.

Recommendation: The Association should consider making changes to review procedures that are currently in place. Changes to the current procedures may involve personnel with appropriate understanding of operations to review workpapers that support final balances. It is important to have someone performing a review of the monthly transactions as well as having someone that has a good understanding of operations to do a review of ending balances for reasonableness based on their understanding of activity within the Association.

Management Response: An under accrual of pharmacy costs for 2009 were not recorded or documented which represented a material oversight. The recommended processes and procedures for implementing adequate protocols will be taken. Specifically, there will be an enhanced review of the current procedures; there will be steps taken to assure a qualified and experienced person is doing the review; and there will be added to the review process a person with a good operations understanding. These steps will be taken immediately.

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

INDIANA COMPREHENSIVE HEALTH INSURANCE ASSOCIATION

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

December 31, 2010 and 2009

KATZ, SAPPER & MILLER
Certified Public Accountants

INDIANA COMPREHENSIVE HEALTH INSURANCE ASSOCIATION

CONTENTS

	Page
FINANCIAL STATEMENTS	
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-4
Statements of Net Assets (Deficiency)	5
Statements of Revenue, Expenses and Change in Net Assets (Deficiency)	6
Statements of Cash Flows	7
Notes to Financial Statements	8-11
OTHER REPORTS AND SCHEDULES	
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*	12-13
Schedule of Expenditures of Federal Awards	14-15
Independent Auditors' Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	16-17
Schedule of Findings and Questioned Costs	18-19

KATZ, SAPPER & MILLER

Katz, Sapper & Miller, LLP
Certified Public Accountants

800 East 96th Street
Suite 500
Indianapolis, IN 46240

Tel 317.580.2000
Fax 317.580.2117

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, 2010 and 2009, 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as 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, liabilities and net assets (deficiency) of Indiana Comprehensive Health Insurance Association at December 31, 2010 and 2009, 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 12, 2011, on our consideration of the Association's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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 considered in assessing the results of our audit.

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages 3 and 4 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted 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 purpose 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 is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Katz, Sapper & Miller, LLP

Indianapolis, Indiana
May 12, 2011

INDIANA COMPREHENSIVE HEALTH INSURANCE ASSOCIATION
Management Discussion and Analysis (Unaudited)

Introduction

The Management's Discussion and Analysis (MD&A) of Indiana Comprehensive Health Insurance Association's (the Association) financial performance provides an overall view of the entity's activities for the fiscal years ended December 31, 2010 and 2009. The intent of this discussion and analysis is to look at the Association's financial performance as a whole. Readers should also review the financial statements and notes to the financial statements to enhance their understanding of the Association's financial performance.

The MD&A is an element of the reporting model adopted by the Governmental Standards Board (GASB). The Association began presenting its financial statements on a GASB basis in 2005.

Financial Statements

The Statement of Net Assets (Deficiency) presents the Association's assets, liabilities and net assets (deficiency) as of the Association's year end. Net assets (deficiency) reflects the Association's overall financial position, represents total assets less liabilities of the Association, and is generally an accumulation of the excess or deficit from operations. The Statement of Revenue, Expenses and Changes in Net Assets (Deficiency) presents the results of the Association's operating and non-operating revenues and expenses for the year.

Total assets at December 31, 2010 increased 94% from 2009 and are comprised of cash, cash equivalents and premium and assessment receivables. Total liabilities decreased 15% from 2009, and are primarily comprised of reserves for unpaid claims and unearned premiums.

Membership, representing eligible persons covered, has increased 9%, or 612 members, during 2010, compared to a increase during 2009 of 2% or 154 members.

Cash and cash equivalents, representing 62% of total assets at December 31, 2010, has increased $4 million during the year. Premiums, assessments and grant proceeds collected and investment earnings totaled $134 million, compared to benefits and administrative expenses paid of $130 million, resulting in the increase of cash and cash equivalents.

Premiums receivable, representing amounts due from insureds but not yet collected, increased 23% at December 31, 2010 compared to December 31, 2009.

The Interim II assessment of $28 million was made in July 2010 of which $2.1 million remains due the Association at December 31, 2010.

The liability for unpaid claims and claims adjustment expenses represents claims incurred by covered members prior to December 31, 2010 but not yet reported, and represents 64% of total liabilities at December 31, 2010.

Unearned premiums represent premiums billed and collected, but not yet earned. The balance at December 31, 2010 increased 13% over the December 31, 2009 balance.

Assessments payable represents prior years' interim assessments received in excess of the actual amount subsequently calculated to be due. The amount may be refunded to the carrier or credited against the next assessments. At December 31, 2010, there were no assessments payable. The total assessments for calendar year 2010 were consistent with the actual cash requirements for that period.

Accrued expenses and other liabilities represent primarily unpaid expenses of the Association and are a function of the timing of payments.

Unrestricted net assets (deficiency) represent the accumulation of operating revenue (primarily premiums earned), member assessments and investment income less operating expenses. During 2010, the change in net assets (deficiency) was a increase of $10.7 million, compared to a decrease in 2009 of $18 million. Restricted net assets represents the balance of grant funds received that have not yet been expended for the purpose outlined in the grant agreement.

Premiums earned increased 17% in 2010, or $8.6 million, over the 2009 amount, largely as a result of a 2010 premium increase and increased membership during the year.

The increase in policy benefits incurred of $6.4 million, or 5.6%, is largely attributable to increased utilization by the insureds, increased benefits offered, increased membership, and rising health care costs.

Total expenses increased 5.7% in 2010 from 2009, primarily due to the items noted in the previous paragraph.

Plan administrative fees are based on a per-member-per-month fixed rate plus other actual expenses incurred. The increase in membership noted during 2010 resulted in a increase in the plan administrative fees of $137,142, or 3.5%, over the 2009 amount.

The Center for Medicare and Medicaid Services awarded the Association operating grant funds in 2010 of $1.2 million, to be used to offset operating losses, and bonus grant funds of $.7 million, to be used to subsidize premiums to low income insureds and assist with a disease management program.

Investment income remained fairly consistent during 2010.

INDIANA COMPREHENSIVE HEALTH INSURANCE ASSOCIATION

STATEMENTS OF NET ASSETS (DEFICIENCY)
December 31, 2010 and 2009

	2010	2009
ASSETS		
Cash and equivalents	$ 7,293,135	$ 3,288,105
Premiums receivable	2,323,778	1,892,543
Assessments receivable	2,116,675	855,939
TOTAL ASSETS	$ 11,733,588	$ 6,036,587
LIABILITIES		
Unpaid claims and claims adjustment expenses	$ 17,765,027	$ 22,104,999
Unearned premiums	8,811,475	7,823,388
Assessments payable		625,630
Assessments received in advance		1,025,692
Accrued expenses	375,500	695,984
Other liabilities	657,429	361,081
Total Liabilities	27,609,431	32,636,774
NET ASSETS (DEFICIENCY)		
Unrestricted	(16,140,365)	(26,835,321)
Restricted	264,522	235,134
Total Net Assets (Deficiency)	(15,875,843)	(26,600,187)
TOTAL LIABILITIES AND NET ASSETS (DEFICIENCY)	$ 11,733,588	$ 6,036,587

See accompanying notes.

INDIANA COMPREHENSIVE HEALTH INSURANCE ASSOCIATION

STATEMENTS OF REVENUE, EXPENSES AND CHANGE IN NET ASSETS (DEFICIENCY)
Years Ended December 31, 2010 and 2009

	2010	2009
OPERATING REVENUE		
Premiums earned	$ 57,977,861	$ 49,387,721
OPERATING EXPENSES		
Claims incurred	120,716,332	114,319,439
Plan administration fees	4,090,026	3,952,884
Other general and administrative	494,786	348,118
Total Operating Expenses	125,301,144	118,620,441
Operating Loss	(67,323,283)	(69,232,720)
NONOPERATING REVENUES (EXPENSES)		
Grants	2,189,039	2,249,210
Investment income	34,281	39,430
Other expenses	(399,356)	(268,473)
Total Nonoperating Revenues (Expenses)	1,823,964	2,020,167
Loss before Assessments	(65,499,319)	(67,212,553)
MEMBER ASSESSMENTS	76,223,663	49,148,729
CHANGE IN NET ASSETS (DEFICIENCY)	10,724,344	(18,063,824)
NET ASSETS (DEFICIENCY)		
Beginning of Year	(26,600,187)	(8,536,363)
End of Year	$ (15,875,843)	$ (26,600,187)

See accompanying notes.

INDIANA COMPREHENSIVE HEALTH INSURANCE ASSOCIATION

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2010 and 2009

	2010	2009
OPERATING ACTIVITIES		
Premiums collected	$ 58,534,713	$ 50,057,811
Claims and claims adjustment expenses paid	(125,056,304)	(105,878,221)
General and administrative expenses paid	(4,608,948)	(3,893,995)
Net Cash Used by Operating Activities	(71,130,539)	(59,714,405)
FINANCING ACTIVITIES		
Assessments collected	73,311,605	49,542,554
Investment earnings	34,281	39,430
Other expenses	(399,356)	(268,473)
Grants received	2,189,039	2,249,210
Net Cash Provided by Financing Activities	75,135,569	51,562,721
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	4,005,030	(8,151,684)
CASH AND EQUIVALENTS		
Beginning of Year	3,288,105	11,439,789
End of Year	$ 7,293,135	$ 3,288,105
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	$ (67,323,283)	$ (69,232,720)
Changes in assets and liabilities		
Premiums receivable	(431,235)	574,623
Unpaid claims and claims adjustment expenses	(4,339,972)	8,441,218
Unearned premiums	988,087	95,467
Accrued expenses	(320,484)	340,884
Other liabilities	296,348	66,123
Net Cash Used by Operating Activities	$ (71,130,539)	$ (59,714,405)

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, 2010 and 2009, the Association had 7,327 and 6,715 eligible persons covered, respectively.

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: The Association prepares its financial statements in accordance with Governmental Accounting Standards. 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, claims incurred 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 and noninterest-bearing deposits are insured on an unlimited basis. At December 31, 2010 and 2009, the Association’s uninsured cash and equivalents balances totaled $9,002,384 and $5,403,690, 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 Association is exempt from federal income taxes under Section 501(c)(26) of the Internal Revenue Code. Therefore, no provision or liability for income taxes has been included in the financial statements. In addition, the Association has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Internal Revenue Code. There was no unrelated business income for the years ended December 31, 2010 and 2009.

The Association files U.S. federal and State of Indiana tax returns. The Association is no longer subject to U.S. federal and state tax examinations by tax authorities for years before 2007.

Assessments: Assessments are recorded upon approval of 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 members are allowed a credit against the next interim assessment. Also, uncollectable assessments are allocated to members as part of the true-up. True-up assessments are not recorded until approved by the Board of Directors.

Assessments receivable represents outstanding balances assessed to the member insurance carriers and the State of Indiana but not yet collected, and assessments payable represent credit balances due the carriers. Assessments received in advance represent amounts paid to the Association for assessments yet to be approved by the Board of Directors. Assessments are recognized as an increase 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 $2,189,039 and $2,249,210 was received by the Association from the Center for Medicare and Medicaid services during the years ended December 31, 2010 and 2009, 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.

Subsequent Events: The Association has evaluated the financial statements for subsequent events occurring through May 12, 2011, the date the financial statements were available to be issued.

NOTE 2 - ASSESSMENTS AND NET ASSET DEFICIENCY

The Association has the statutory authority to assess the member insurance carriers writing business in Indiana for 25% of its net loss, with the remaining 75% to be paid by the State of Indiana. The two assessments during the year are calculated based on projected losses and current cash flow needs of the Association. According to the statute, a true-up assessment is made in July of the following year for the difference between the net losses and actual assessments made during the year. Subject to Board of Directors approval, the additional assessment to be applied and recorded in 2011 will be approximately $4.5 million and, if approved, will decrease the Association's net asset deficiency by that amount. The remaining $11 million of the net asset deficiency is due to assessment procedures in place prior to the current process.

NOTE 2 - ASSESSMENTS AND NET ASSET DEFICIENCY (CONTINUED)

The following table provides a reconciliation of the member assessments as reported on the statements of revenue, expenses, and change in net assets (deficiency) for 2010 and 2009:

	2010	2009
Assessments – January	$33,000,000	$20,000,000
Assessments – July	28,000,000	32,000,000
Assessments - previous year true-up	15,223,663	(2,851,271)
Total Member Assessments	$76,223,663	$49,148,729

NOTE 3 - LIABILITY FOR UNPAID CLAIMS AND CLAIMS ADJUSTMENT EXPENSES

The following table provides a reconciliation of the liability for unpaid claims and claims adjustment expenses for the years ended December 31, 2010 and 2009:

	2010	2009
Balance at Beginning of Year	$ 22,104,999	$ 13,663,781
Claims incurred related to:		
Current year	123,047,414	112,484,307
Prior year	(2,331,082)	1,835,132
Total claims incurred	120,716,332	114,319,439
Paid related to:		
Current year	105,472,381	90,757,203
Prior year	19,583,923	15,121,018
Total paid	125,056,304	105,878,221
Balance at End of Year	$ 17,765,027	$ 22,104,999

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

NOTE 4 - 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 cannot 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 5 - PLAN ADMINISTRATION AGREEMENT

The Association has outsourced its administrative services to Affiliated Computer Services, Inc. (ACS). Under the agreement, which expires in June 2014, ACS is compensated based on the number of eligible persons covered. The fee for Administrative Services is fixed at $23.54 per member per month for each member after member count exceeds 300 plus a fixed fee of $7,065 per month to cover the first 300 members. Additional charges are described in the Administrative Services Agreement.

NOTE 6 - 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 with interest computed at the Bank's prime lending rate. No borrowings were outstanding on the line of credit at December 31, 2010 and 2009.

KATZ, SAPPER & MILLER

Katz, Sapper & Miller, LLP
Certified Public Accountants

800 East 96th Street
Suite 500
Indianapolis, IN 46240

Tel 317.580.2000
Fax 317.580.2117

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Year Ended December 31, 2010

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, 2010, and have issued our report thereon dated May 12, 2011. 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 the Indiana Comprehensive Health Insurance Association's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Indiana Comprehensive Health Insurance Association's internal control over financial reporting.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 grant agreements, 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 also noted certain other matters that we reported to management in a separate letter dated May 12, 2011.

This report is intended solely for the information and use of the Association's 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 12, 2011

INDIANA COMPREHENSIVE HEALTH INSURANCE ASSOCIATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended December 31, 2010

	CFDA Number	Program or Award Amount	Revenue Recognized	Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Grants to States for Operation of Qualified High-Risk Pools	93.780	$ 15,789,379	$ 2,189,039	$ 2,159,651
TOTAL FEDERAL AWARDS			$ 2,189,039	$ 2,159,651

INDIANA COMPREHENSIVE HEALTH INSURANCE ASSOCIATION

NOTE 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

KATZ, SAPPER & MILLER

Katz, Sapper & Miller, LLP
Certified Public Accountants

800 East 96th Street
Suite 500
Indianapolis, IN 46240

Tel 317.580.2000
Fax 317.580.2117

Independent Auditors' Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

Year Ended December 31, 2010

Board of Directors
Indiana Comprehensive Health Insurance Association

Compliance

We have audited Indiana Comprehensive Health Insurance Association's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget* (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Indiana Comprehensive Health Insurance Association's major federal programs for the year ended December 31, 2010. 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 its major federal program 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 of 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 compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2010.

Internal Control Over Compliance

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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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 and management of Indiana Comprehensive Health Insurance Association, 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 12, 2011

INDIANA COMPREHENSIVE HEALTH INSURANCE ASSOCIATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2010

SECTION I – Summary of Auditors' Results

Financial Statements

Type of auditor's report issued [*unqualified, qualified, adverse, or disclaimer*]: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes ✓ no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ yes ✓ none reported
- Noncompliance material to financial statements noted? _____ yes ✓ no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes ✓ no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ yes ✓ none reported

Type of auditor's report issued on compliance for major programs [*unqualified, qualified, adverse, or disclaimer*]: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? _____ yes ✓ no

Identification of major programs:

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

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

Indiana Comprehensive Health Insurance Association (the Association) did not qualify as a low risk auditee.

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

SECTION IV – Summary of Prior Year Audit Findings

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

2009-1: **Material Adjusting Journal Entry was Recorded During the Audit**

Statement of Condition: During our audit, we proposed an adjusting journal entry to correct previously undetected material misstatements in the Association's financial statements. The Association's internal control was not effective in identifying an unrecorded liability for pharmacy costs that should have been included in the unpaid claims and claims adjustment expenses. Costs incurred for pharmacy claims had been incurred prior to December 31, 2009, but were not included in the unpaid claims and claims adjustment expenses. The audit adjustment indicates a material weakness in the internal controls over financial reporting at the Association.

Recommendation: The Association should consider making changes to review procedures that are currently in place. Changes to the current procedures may involve personnel with appropriate understanding of operations to review workpapers that support final balances. It is important to have someone performing a review of the monthly transactions as well as having someone that has a good understanding of operations to do a review of ending balances for reasonableness based on their understanding of activity within the Association.

Current Status: The recommendation was implemented during 2010. No similar findings were noted in the 2010 audit.