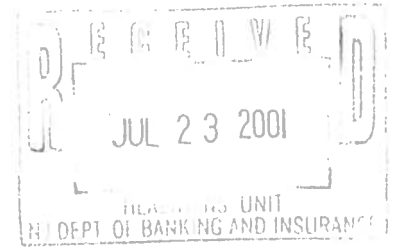


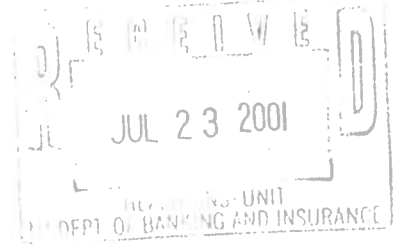


ARTHUR ANDERSEN

NEW JERSEY MEDICARE SUPPLEMENT "UNDER 50" PROGRAM

FINANCIAL STATEMENTS
AS OF DECEMBER 31, 1999
TOGETHER WITH AUDITORS' REPORT





REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of
New Jersey Medicare Supplement "Under 50" Program:

We have audited the accompanying special-purpose statement of assets, liabilities and program equity of New Jersey Medicare Supplement "Under 50" Program (the "Program") as of December 31, 1999, and the related special-purpose statements of income, expenses, and changes in program equity and net cash used in funding operating activities for the year then ended. These financial statements are the responsibility of the Program's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. 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 audit provides a reasonable basis for our opinion.

The accompanying special-purpose financial statements have been prepared for the purpose of complying with, and on the basis of accounting practices specified in Sub Chapter 23A of Chapter 4 of Title 11 of the New Jersey Administrative Code, as discussed in Note 2, and are not intended to be a presentation in conformity with accounting principles generally accepted in the United States.

In our opinion, the accompanying special-purpose financial statements of New Jersey Medicare Supplement "Under 50" Program as of and for the year ended December 31, 1999, are fairly presented, in all material respects, on the basis of accounting described in Note 2.

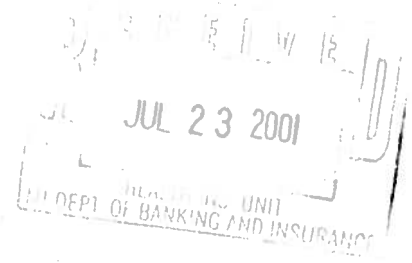
This report was prepared solely for the information and use of the board of directors of New Jersey Medicare Supplement "Under 50" Program and is not intended to be and should not be used by anyone other than these specified parties.

Arthur Andersen LLP

Roseland, New Jersey
March 23, 2001

NEW JERSEY MEDICARE SUPPLEMENT "UNDER 50" PROGRAM

**STATEMENT OF ASSETS, LIABILITIES AND PROGRAM EQUITY
AS OF DECEMBER 31, 1999**



ASSETS:

Premiums receivable	\$ 7,200
Carrier assessments receivable	971,014
Total assets	<u>\$ 978,214</u>

LIABILITIES:

Unearned premiums	\$ 59,439
Advance premiums	46,566
Amounts due contracting carrier	816,464
Accounts payable and accrued expenses	55,745
Total liabilities	<u>978,214</u>


PROGRAM EQUITY

Total liabilities and program equity	<u>\$ 978,214</u>
--------------------------------------	-------------------

The accompanying notes to financial statements are an integral part of this statement.

NEW JERSEY MEDICARE SUPPLEMENT "UNDER 50" PROGRAM

**STATEMENT OF INCOME, EXPENSES, AND CHANGES IN PROGRAM EQUITY
FOR THE YEAR ENDED DECEMBER 31, 1999**


 RECEIVED JUL 23 2001
 UNIT
 DEPARTMENT OF TREASURY AND FINANCE

INCOME:		
Premiums		\$ 646,513
Net investment loss		(77,024)
Total Income		<u>569,489</u>
EXPENSES:		
Medical expenses paid		1,461,615
Administrative expenses		58,147
Other expenses		55,745
Total expenses		<u>1,575,507</u>
Net loss of the program before carrier assessments		<u>(1,006,018)</u>
CARRIER ASSESSMENTS		<u>1,006,018</u>
Net income of the program		-
PROGRAM EQUITY, December 31, 1998		<u>-</u>
PROGRAM EQUITY, December 31, 1999		<u>\$ -</u>

The accompanying notes to financial statements are an integral part of this statement.

NEW JERSEY MEDICARE SUPPLEMENT "UNDER 50" PROGRAM

**STATEMENT OF NET CASH USED IN FUNDING OPERATING ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 1999**

JUL 23 2001
HEALTH INS. UNIT
DEPT. OF BANKING AND INSURANCE

CASH FROM OPERATING ACTIVITIES:

Net Income of the program	\$ -
Net cash used in operating activities -	
Decrease in premiums receivable	2,386
Increase in carrier assessments receivable	(234,623)
Increase in unearned premiums	20,007
Decrease in advance premiums	(985)
Increase in amounts due contracting carrier	223,030
Decrease in accounts payable and accrued expenses	(9,815)
Net cash provided by operating activities	<u>-</u>
Net increase in cash	-
CASH AND CASH EQUIVALENTS, December 31, 1998	<u>-</u>
CASH AND CASH EQUIVALENTS, December 31, 1999	<u>\$ -</u>

The accompanying notes to financial statements are an integral part of this statement.

NEW JERSEY MEDICARE SUPPLEMENT "UNDER 50" PROGRAM

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1999

1. ORGANIZATION

The New Jersey Medicare Supplement "Under 50" Program (the "Program") is a New Jersey program created under Sub Chapter 23A of Chapter 4 of Title 11 of the New Jersey Administrative Code ("regulations") during 1996. The Program began operations on January 1, 1997 and is administered by a Governing Board (the "Board") through a Plan of Operation approved by the Commissioner of the New Jersey Department of Banking and Insurance ("NJDOBI").

The purpose of the Program is to provide individual Medicare supplement insurance policies for New Jersey residents who are under 50 years of age and who are enrolled in Medicare due to disability or due to end stage renal disease. The Program is regulated by the NJDOBI, but is not a state agency and receives no state funding.

Funding for the Program currently comes from premiums and carrier assessments. The premiums can be no greater than the lowest rate charged by the contracting carrier for Medicare Supplement Plan C policies. Each insurer and HMO providing health benefits plans or health maintenance organization subscriber contracts in New Jersey is liable for an assessment to pay its equitable share of any net loss paid by the Program in the previous calendar year, unless the insurer or HMO has received an exemption or deferment from the Commissioner.

Insurance coverage for Program participants is provided by a contracting carrier. All net losses of the contracting carrier are reimbursed by the assessments. The current contracting carrier is Horizon Blue Cross and Blue Shield of New Jersey, Inc.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The special-purpose financial statements have been prepared for the purpose of complying with, and on the basis of accounting practices specified in Sub Chapter 23A of Chapter 4 of Title 11 of the New Jersey Administrative Code, and are not intended to be a presentation in conformity with generally accepted accounting principles. Claims are accounted for on a cash basis and all other accounts are recorded using the accrual method.

Revenue Recognition

Insurance premium deposits are earned over the period covered by the policy. Any amounts received in advance of the related policy period are treated as advance premiums and recognized over the policy period beginning with the effective date.

NEW JERSEY MEDICARE SUPPLEMENT "UNDER 50" PROGRAM

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1999

Net Investment Loss

Amounts relate to investment income earned by the Program on funds held as well as interest charged to the Program by the contracting carrier, on funds advanced to the Program by the contracting carrier through December 31, 1999. Interest rates charged and credited to the Program fluctuate on a monthly basis. Interest rates utilized during the period consisted of a range of 6.05% to 6.80%.

Claim Liability and Medical Expenses

In accordance with the Program's regulations, the Program accounts for its claims liability and medical expenses on the cash basis of accounting. The basis of accounting used differs from generally accepted accounting principles primarily in that claims are recorded as paid and there is no recording of reserves for reported but unpaid claims or incurred but not reported claims ("IBNR").

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. CARRIER ASSESSMENTS RECEIVABLE

As of December 31, 1999, the carrier assessments receivable is comprised of the following:

Carrier assessments outstanding for the period from inception through December 31, 1998	\$ 26,996
Carrier assessment for the year ending December 31, 1999	944,018
Total Assessments outstanding	<u>\$ 971,014</u>

4. AMOUNTS DUE CONTRACTING CARRIER

The role of the contracting carrier is to process and pay claims and administrative expenses on behalf of the Program. Such amounts paid are reimbursable by the Program to the contracting carrier. These amounts are reflected as "advance from contracting carrier".

5. CARRIER ASSESSMENTS

Carrier Assessments have been calculated in accordance with the guidelines of the Program. This amount relates to claims paid and administrative expenses incurred on behalf of the program in excess of total income for a period. Each insurer and health maintenance organization providing health benefits plans or health maintenance organization subscriber contracts in New Jersey shall be liable for an assessment to pay its equitable share of any net loss paid by the Program in the previous year. These amounts will be recovered from the carriers by the board of the Program.

NEW JERSEY MEDICARE SUPPLEMENT "UNDER 50" PROGRAM

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1999**

December 31, 1999 Assessment Reconciliation:

Program loss for the year ended December 31, 1999	<u>\$ 1,006,018</u>
Projected other expenses for the year ended December 31, 1999 assessed in 1998 carrier assessment	\$ (62,000)
Carrier Assessment for the year ended December 31, 1999	<u>944,018</u>
Uncollected Balances from December 31, 1998 Assessment	2,510
Projected other expenses for the year ended December 31, 2000 assessed in 1999 carrier assessment	45,000
Projected other expenses for the year ended December 31, 2001 assessed in 1999 carrier assessment	46,000
Actual carrier assessment for the year ended December 31, 1999	<u>\$ 1,037,528</u>