

**The North Carolina Health Insurance
Risk Pool, Inc. d/b/a Inclusive Health**
(A Component Unit of the
State of North Carolina)

Financial Statements
Years Ended June 30, 2014 and 2013

Performed under Contract with the
North Carolina Office of the State Auditor

Beth A. Wood, CPA
State Auditor



DIXON HUGHES GOODMAN^{LLP}
Certified Public Accountants and Advisors

**The North Carolina Health Insurance Risk Pool, Inc.
d/b/a Inclusive Health
(A Component Unit of the State of North Carolina)**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
The North Carolina Health Insurance Risk Pool, Inc.
d/b/a Inclusive Health
Raleigh, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of The North Carolina Health Insurance Risk Pool, Inc. d/b/a Inclusive Health (the Pool), a component unit of the State of North Carolina, which are comprised of the Statements of Net Position as of June 30, 2014 and 2013, and the related Statements of Revenues, Expenses and Changes in Net Position, and Cash Flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Pool's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Pool as of June 30, 2014 and 2013, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Dissolution of Pool

As discussed in Note 11 to the financial statements, actions were taken by the North Carolina General Assembly for a planned "Dissolution of the Pool." As planned, the Pool's insurance operations did sunset on January 1, 2014 and, after "Dissolution of the Pool," any remaining excess funds, after settlement of Pool obligations, will be distributed to the North Carolina General Fund. The financial statements do not include any adjustments that might result from the outcome of the Dissolution of the Pool. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 7 and the Six-year Claims Development Information on pages 23 and 24 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.

Other Financial Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements of the Pool. The Schedule of Other Expenses, Statements of Net Position by Program, and the Statements of Revenues, Expenses, and Changes in Net Position by Program are presented for the purpose of additional analysis and are not a required part of the basic financial statements.

The Schedule of Other Expenses, Statements of Net Position by Program, and the Statements of Revenues, Expenses, and Changes in Net Position by Program in the accompanying other financial information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, The Schedule of Other Expenses, Statements of Net Position by Program, and the Statements of Revenues, Expenses, and Changes in Net Position by Program are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2014, on our consideration of the Pool's internal control over financial reporting, and on 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 control 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 *Government Auditing Standards* in considering the Pool's internal control over financial reporting and compliance.

Dixon Hughes Goodman LLP

September 12, 2014

THE NORTH CAROLINA HEALTH INSURANCE RISK POOL, INC.
d/b/a INCLUSIVE HEALTH
(A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA)
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014 and 2013

This section of the annual financial report of The North Carolina Health Insurance Risk Pool, Inc. d/b/a Inclusive Health (the Pool) presents a discussion and analysis of the financial performance of the Pool as of and for the years ended June 30, 2014 and 2013. Please read it in conjunction with the basic financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Pool's basic financial statements are prepared in accordance with accounting principles generally accepted in the United States of America for governmental entities. The Pool was created by the North Carolina General Assembly in 2007 to provide affordable individual health insurance coverage for residents of North Carolina who do not have access to an employer health plan. The Pool also offers coverage to individuals who are federally defined HIPAA eligible or who qualify under the Health Coverage Tax Credit due to loss of employment due to effects of international trade. The basic financial statements are presented on the accrual basis of accounting. The three basic financial statements presented within the financial statements are as follows:

Statements of Net Position - This statement presents information reflecting the Pool's assets, liabilities and net position. Net position represents the amount of total assets less total liabilities. The statement of net position is categorized as to current and noncurrent assets and liabilities. For purposes of the basic financial statements, current assets and liabilities are those assets and liabilities with immediate liquidity, or which are collectible or become due within 12 months of the statement date.

Statements of Revenues, Expenses and Changes in Net Position - This statement reflects the operating revenues and expenses, as well as nonoperating revenues and expenses of the Pool. The Pool's major source of operating revenues is premium income, with the major source of operating expenses being claims expense. The change in net position is similar to net profit or loss for any other insurance company.

Statements of Cash Flows - The statement of cash flows is presented on the direct method of reporting, which reflects cash flows from operating, capital and related financing, noncapital and related financing, and investing activities. Cash collections and payments are reflected in this statement to arrive at the net increase (decrease) in cash and cash equivalents for the fiscal year. Due to timing differences associated with accrual accounting, net cash provided (used) by operating activities is different than the amount of operating loss reported on the statement of revenues, expenses and changes in net position; therefore, a reconciliation is also provided.

THE NORTH CAROLINA HEALTH INSURANCE RISK POOL, INC.
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MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014 and 2013

FINANCIAL SUMMARY

The following table summarizes the financial position of the Pool at June 30, 2014 and 2013, respectively:

Summary of Net Position

	<u>2014</u>	<u>2013</u>
Assets		
Cash and cash equivalents	\$ 1,971,084	\$ 18,966,544
Fixed-income and equity securities	-	3,176,176
Other assets	1,308,056	10,462,964
Capital assets	<u>-</u>	<u>2,486</u>
Total assets	<u>\$ 3,279,140</u>	<u>\$ 32,608,170</u>
Liabilities	\$ 533,724	\$ 22,430,167
Net position		
Invested in capital assets	-	2,486
Unrestricted	<u>2,745,416</u>	<u>10,175,517</u>
Total liabilities and net position	<u>\$ 3,279,140</u>	<u>\$ 32,608,170</u>

Total Assets

Total assets consisted of a range of asset classes led by cash and cash equivalents, investments, and federal grant receivables, which are included in other assets. The decrease in total assets of \$29,329,030 from 2013 to 2014 was driven by a decrease of \$3,176,176 in fixed-income and equity securities. Other assets include accrued pharmaceutical rebates, which decreased \$1,144,773 as a result of a decrease in pharmaceutical claims expense due to dissolution of both the State and Federal Pool. Grants receivable and draw-downs of the HHS due from Federal Risk Pool decreased \$8,069,517 due to dissolution of both the Federal and State Pools. There was an increase in other assets of \$59,382 for prepaids and a decrease of claims payable. The decrease in cash and cash equivalents \$16,995,460 is primarily due to the close of the investment account and returning the funds to the North Carolina General Fund.

Total Liabilities

The decrease in total liabilities of \$21,896,443 from 2013 to 2014, consist primarily of the significant decrease in unpaid claims and claims adjustment due to the wind down and dissolution of the State and Federal Pool. Total liabilities for 2014 primarily consist of IBNR Reserves for claims of \$360,000 and accounts payable of \$118,859 for year-end incurred expenses not yet paid.

THE NORTH CAROLINA HEALTH INSURANCE RISK POOL, INC.
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MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014 and 2013

FINANCIAL SUMMARY (Continued)

The following table summarizes the changes in net position for fiscal year ended June 30:

Summary of Revenues, Expenses and Changes in Net Position

	<u>2014</u>	<u>2013</u>
Operating revenues		
Premiums earned	\$ 26,494,997	\$ 72,040,114
Total operating revenues	<u>26,494,997</u>	<u>72,040,114</u>
Operating expenses		
Claims expenses	28,703,684	112,504,239
Contractual expenses	4,290,168	8,989,348
Personnel expenses	269,164	536,581
General expenses	<u>81,339</u>	<u>129,512</u>
Total operating expenses	<u>33,344,355</u>	<u>122,159,680</u>
Operating loss	<u>(6,849,358)</u>	<u>(50,119,566)</u>
Nonoperating revenues (expenses)		
State aid	15,202,111	3,299,344
Return of State aid	(16,000,000)	-
Federal aid	196,426	28,584,214
Investment income	46,970	555,245
Realized capital losses	<u>(28,736)</u>	<u>(435,526)</u>
Total nonoperating (expenses) revenues	<u>(583,229)</u>	<u>32,003,277</u>
Change in net position	(7,432,587)	(18,116,289)
Net position - beginning of year	<u>10,178,003</u>	<u>28,294,292</u>
Net position, end of year	<u>\$ 2,745,416</u>	<u>\$ 10,178,003</u>

**THE NORTH CAROLINA HEALTH INSURANCE RISK POOL, INC.
d/b/a INCLUSIVE HEALTH
(A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA)
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014 and 2013**

RESULTS OF OPERATIONS

Revenues

Total operating revenues decreased by \$45,545,117 or 63% from \$72,040,114 at June 30, 2013 to \$26,494,997 at June 30, 2014. This was driven by a decrease in premium revenues due to the dissolution of the Pool. Total nonoperating revenues and expenses decreased by \$32,586,506 or 102% from \$32,003,277 at June 30, 2013 to \$(583,229) at June 30, 2014 as a result of the Pool's return of \$16,000,000 in state aid, reduced federal aid due to the contract close-out period of the Federal Pool, and the planned dissolution of the State Pool.

Expenses

Operating expenses are comprised of claims expense and the Pool's general and administrative expenses. Operating expenses totaled \$33,344,355 in 2014, representing a decrease of \$88,815,325 from the prior year. The operating loss decreased from \$50,119,566 to \$6,849,358. The decrease in operating expenses is comprised of two key components, decrease in claims expenses of \$83,800,555, and decrease in contractual expenses of \$4,699,180, which is related to dissolution of the Pool and a decrease in medical claims payments.

Future Conditions and Facts

With the end of coverage of Federal Pool members on June 30, 2013, and State Pool members after December 31, 2013, the Pool has ceased operations and will dissolve by the end of 2014. Based on the amendment to the risk pool enabling statute passed in 2013 by the North Carolina General assembly, the Federal Pool and State Pool coverage have now ended. The final date for submission of claims was March 31, 2014 and the final date for filing of any legal claims against the Pool is December 31, 2014. Monthly payments to CoreSource for processing any remaining claims which is the final administrative expense of significance other than audit fees will also thus end at that point as well.

The overall impact that we expect to see is a continued steady decline in the Net Position balance with the wind down of operations as specified in the Plan of Dissolution filed with the North Carolina Commissioner of Insurance.

Information Requests

This financial report is designed to provide the members of the Pool and the North Carolina General Assembly with a general overview of the Pool's finances, and to demonstrate the Pool's accountability for the money it receives. Questions concerning this report or requests for additional financial information should be addressed to Maribel Pinol; North Carolina Health Insurance Risk Pool, Inc., c/o McGladrey; 1201 Edwards Mill Rd. Suite 300, Raleigh NC 27607; (919) 645-6888.

THE NORTH CAROLINA HEALTH INSURANCE RISK POOL, INC.
d/b/a INCLUSIVE HEALTH
(A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA)
STATEMENTS OF NET POSITION
June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,844,661	\$ 18,061,878
Fixed-income securities	-	2,456,176
Accrued interest	-	11,240
Premiums receivable, net of allowance of \$0 and \$25,000 in 2014 and 2013, respectively	-	14,924
Grants receivable	178,453	797,142
Rebates receivable	987,021	1,583,582
Other assets	119,110	31,461
Restricted assets:		
Cash and cash equivalents	126,423	904,666
Grants receivable	12,113	7,462,941
Rebates receivable	-	548,212
Other assets	11,359	13,462
Total current assets	<u>3,279,140</u>	<u>31,885,684</u>
Noncurrent assets:		
Fixed-income securities	-	720,000
Capital assets, net of accumulated depreciation of \$3,511 and \$10,651 in 2014 and 2013, respectively	-	2,486
Total noncurrent assets	<u>-</u>	<u>722,486</u>
TOTAL ASSETS	<u><u>\$ 3,279,140</u></u>	<u><u>\$ 32,608,170</u></u>
LIABILITIES AND NET POSITION		
LIABILITIES		
Current liabilities:		
Unpaid claims and claims adjustment expenses	\$ 360,000	\$ 20,997,208
Accounts payable	118,859	96,027
Unearned federal grant revenue:		
Obligated unearned grant revenue	-	740,553
Unobligated unearned grant revenue	-	56,589
Unearned state aid	-	143,660
Advance premiums	-	226,409
Unapplied premiums	-	4,256
Other liabilities	54,865	165,465
Total current liabilities	<u>533,724</u>	<u>22,430,167</u>
NET POSITION		
Net investment in capital assets	-	2,486
Unrestricted	2,745,416	10,175,517
Total net position	<u>2,745,416</u>	<u>10,178,003</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 3,279,140</u></u>	<u><u>\$ 32,608,170</u></u>

THE NORTH CAROLINA HEALTH INSURANCE RISK POOL, INC.
d/b/a INCLUSIVE HEALTH
(A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA)
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
OPERATING REVENUES		
Premiums earned, net	<u>\$ 26,494,997</u>	<u>\$ 72,040,114</u>
TOTAL OPERATING REVENUES	<u>26,494,997</u>	<u>72,040,114</u>
OPERATING EXPENSES		
Claims expense	28,703,684	112,504,239
Contractual expenses	4,290,168	8,989,348
Personnel expenses	269,164	536,581
General expenses	<u>81,339</u>	<u>129,512</u>
TOTAL OPERATING EXPENSES	<u>33,344,355</u>	<u>122,159,680</u>
NET OPERATING LOSS	<u>(6,849,358)</u>	<u>(50,119,566)</u>
NONOPERATING REVENUES (EXPENSES)		
State aid	15,202,111	3,299,344
Return of state aid	(16,000,000)	-
Federal aid	196,426	28,584,214
Investment income	46,970	555,245
Realized capital losses	<u>(28,736)</u>	<u>(435,526)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(583,229)</u>	<u>32,003,277</u>
DECREASE IN NET POSITION	<u>(7,432,587)</u>	<u>(18,116,289)</u>
NET POSITION, BEGINNING OF YEAR	<u>10,178,003</u>	<u>28,294,292</u>
NET POSITION, END OF YEAR	<u>\$ 2,745,416</u>	<u>\$ 10,178,003</u>

THE NORTH CAROLINA HEALTH INSURANCE RISK POOL, INC.
d/b/a INCLUSIVE HEALTH
(A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA)
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Premiums received	\$ 26,293,893	\$ 72,162,102
Claims paid	(48,187,795)	(107,261,945)
Payments to employees and benefits	(377,781)	(402,686)
Payments to vendors and suppliers	(4,433,435)	(8,699,508)
NET CASH USED BY OPERATING ACTIVITIES	<u>(26,705,118)</u>	<u>(44,202,037)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State and federal aid received	<u>6,509,565</u>	<u>28,229,026</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>6,509,565</u>	<u>28,229,026</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed-income securities	-	(8,019)
Proceeds from the sale of fixed-income and equity securities	3,170,179	17,301,363
Investment income received	<u>29,914</u>	<u>399,408</u>
NET CASH AND CASH EQUIVALENTS PROVIDED BY INVESTING ACTIVITIES	<u>3,200,093</u>	<u>17,692,752</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(16,995,460)	1,719,741
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>18,966,544</u>	<u>17,246,803</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,971,084</u>	<u>\$ 18,966,544</u>
RECONCILIATION OF NET OPERATING LOSS TO NET CASH AND CASH EQUIVALENTS USED BY OPERATING ACTIVITIES		
Net operating loss	\$ (6,849,358)	\$ (50,119,566)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Bad debt (recoveries) expense	(218)	(14,838)
Depreciation	800	2,091
(Increase) decrease in operating assets:		
Premiums receivable	40,086	42,040
Rebates receivable	1,144,773	(476,709)
Experience rated refund receivable	-	189,500
Other assets	(85,560)	525,447
Increase (decrease) in operating liabilities:		
Unpaid claims and claims adjustment expenses	(20,637,208)	5,708,074
Accounts payable	22,832	(108,200)
Advance premiums	(226,409)	(107,043)
Unapplied premiums	(4,256)	2,180
Other liabilities	(110,600)	154,987
NET CASH AND CASH EQUIVALENTS USED BY OPERATING ACTIVITIES	<u>\$ (26,705,118)</u>	<u>\$ (44,202,037)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS:		
Cash and cash equivalents	\$ 1,844,661	\$ 18,061,878
Restricted cash and cash equivalents	<u>126,423</u>	<u>904,666</u>
	<u>\$ 1,971,084</u>	<u>\$ 18,966,544</u>

THE NORTH CAROLINA HEALTH INSURANCE RISK POOL, INC.
d/b/a INCLUSIVE HEALTH
(A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA)
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The North Carolina Health Insurance Risk Pool, Inc. d/b/a Inclusive Health (the Pool) was created by the North Carolina General Assembly in 2007 to provide affordable individual health insurance coverage for residents of North Carolina who do not have access to an employer health plan. It also offers coverage to individuals who are federally defined as HIPAA eligible, or who qualify under the Health Coverage Tax Credit due to loss of employment due to the effects of international trade.

The Pool is a non-profit entity organized under IRC section 501(c)(26) and is deemed a component unit of the State of North Carolina (the State). The Pool is governed by its own Board of Directors.

In July 2010, the Pool contracted with the Centers for Medicare and Medicaid Services (CMS) to administer the newly established Pre-Existing Condition Insurance Plan (PCIP) or federal risk pool that was the first major initiative under the Affordable Care Act. This is a separate pool with strict rules on non-commingling of funds that the Pool runs parallel to the state pool. In the accompanying Statements of Net Position, assets associated with the federal pool have been presented as restricted assets. Funding is provided by the federal government to supplement member premiums. As opposed to immediate coverage from the state pool, eligibility is limited to individuals who have been without creditable coverage for at least six months.

The federal pool's last operating period ended June 30, 2013. No claim for any covered service provided after the operating period is an allowable cost under the PCIP contract. There is a contract close-out period of 18 months which began on July 1, 2013.

Financial Reporting Entity

The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. The Pool is a component unit of the State and is an integral part of the State's *Comprehensive Annual Financial Report*.

Component units are legally separate entities for which the State is financially accountable. Accountability is defined as the State's substantive appointment of a majority of the component unit's governing board. Furthermore, the State must be able to impose its will upon the component unit or there must be a possibility that the component unit may provide specific benefits to, or impose specific financial burdens on, the State.

THE NORTH CAROLINA HEALTH INSURANCE RISK POOL, INC.
d/b/a INCLUSIVE HEALTH
(A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA)
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Reporting Entity (Continued)

The Pool is governed by a 12-member board of directors. As required by General Statute, the Commissioner of Insurance serves as an ex-officio, nonvoting member; one member is appointed by the Governor; two members are appointed by the General Assembly; and eight members are appointed by the Commissioner of Insurance. The State has obligated itself to provide significant funding to the Pool, creating a financial benefit/burden relationship. Because of the State's appointment of the Board of Directors and the benefit/burden relationship, the Pool is a component unit of the State of North Carolina and the Pool's financial statements are included in the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements for the Pool are separate and apart from those of the State of North Carolina, and do not present the financial position of the State, nor changes in the State's financial position and cash flows.

Basis of Presentation

The financial statements of the Pool have been prepared on the accrual basis of accounting, whereby all revenues are recorded when earned and all expenses are recorded when they have been reduced to a legal contractual obligation to pay. The statements are intended to report the Pool as an economic unit that includes all measurable assets, liabilities, and capital of the Pool.

The Statements of Revenues, Expenses, and Changes in Net Position for special-purpose governments engaged in business-type activities requires an operating/nonoperating format to be used. The Statements of Cash Flows are presented under the direct method, which depicts cash flows from operating activities and a reconciliation of operating cash flows to operating income.

One of the primary purposes of financial reporting is to account for resources received and used, as well as accounted for and reported. In certain situations, both restricted and unrestricted net position may be available to cover an expense incurred. In those few cases, as long as the expense meets all the requirements of the restricted net position, restricted resources would be applied first.

Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that directly affect the results of reported amounts and disclosures. Accordingly, actual results may differ from these estimates.

Net Position

The Pool's net position is classified as invested in capital assets, which represent the Pool's total investment in capital assets net of accumulated depreciation, restricted assets, which include any net position associated with the operation of the federal pool, and unrestricted net position, which include all resources not invested in capital assets or restricted.

THE NORTH CAROLINA HEALTH INSURANCE RISK POOL, INC.
d/b/a INCLUSIVE HEALTH
(A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA)
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits and highly liquid financial instruments with an original maturity of three months or less at the date of acquisition. The Pool's cash equivalents consist of a money market account with a bank.

Investments

The Pool's investments in fixed-income securities are reported at estimated fair value as determined by quoted market prices, where available. The net change in the estimated fair value of investments and interest income is recognized as investment income in the accompanying Statements of Revenues, Expenses, and Changes in Net Position. Realized capital losses are the difference between the cost basis of investments sold and the proceeds received. Realized capital losses are included in the accompanying Statements of Revenues, Expenses, and Changes in Net Position.

The Pool's investments with a maturity greater than one year as of the balance sheet date are classified as noncurrent assets in the accompanying Statements of Net Position, whereas fixed-income securities with maturities of less than one year as of the balance sheet date are classified as current assets in the accompanying Statements of Net Position.

Premiums Receivable

The Pool grants credit to policyholders for premiums. Collateral is not required to secure receivables. Premiums receivable are recorded at their net realized values. Management accounts for bad debts using the allowance method. Management reviews all outstanding premiums receivable and estimates an allowance based on the age of the accounts, creditworthiness of the member, and historical payments. The allowance for doubtful accounts recorded against premiums receivable at June 30, 2014 and 2013 was approximately \$0 and \$25,000, respectively.

Amounts billed to members are generally due upon receipt and are contractually past due after 30 days. The Pool does not accrue finance charges on past due accounts. Premiums receivable net of allowance for doubtful accounts at June 30, 2014 and 2013 were \$0 and \$14,924, respectively.

Grants Receivable

The Pool receives funding in the form of grants from federal government agencies as discussed in Note 9. The Pool accrues grant revenue pursuant to the respective agreements. Accrued but not received grant revenue is recorded as grants receivable in the accompanying Statements of Net Position.

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NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Rebates Receivable

The Pool provides pharmaceutical coverage to its policyholders. As a result, some of the pharmaceutical claim payments are for brand-name drugs. The pharmaceutical benefit manager (PBM) receives rebates from the pharmacies when some of these drugs are purchased. Pursuant to the service agreement between the Pool and the PBM, these rebates are passed on to the Pool. There is currently a two-quarter lag in the remittance of the rebates to the Pool. Due to the lag in receipt of these funds, the Pool estimates the uncollected rebates and records this amount as rebates receivable in the accompanying Statements of Net Position.

Capital Assets

Capital assets are recorded at their purchase price or fair value at the date of donation. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets, which varies between five and seven years. Depreciation expense for the years ended June 30, 2014 and 2013 was \$800 and \$2,091, respectively.

Expenditures for repairs and maintenance are charged to expense as incurred. The costs of major renewals and betterments in excess of \$500, and a useful life in excess of one year, are capitalized. The cost and related accumulated depreciation of property and equipment are removed from the books upon retirement or other disposition; any realized profit or loss at disposition is reflected in the accompanying Statements of Revenues, Expenses and Changes in Net Position. Realized losses on the sale of capital assets for the years ended June 30, 2014 and 2013 were \$440 and \$0, respectively.

Unpaid Claims and Claims Adjustment Expenses

Unpaid claims and claims adjustment expenses are charged to operations as incurred. The Pool does not discount the liabilities for unpaid claims and claims adjustment expenses. Liabilities for unpaid claims and claims adjustment expenses are actuarially determined based on historical experience, and include estimates for both reported but not paid and incurred but not reported claims. Those estimates are subject to the effects of trends in claim severity and frequency. Although considerable variability is inherent in such estimates, management believes the liabilities for unpaid claims and claim adjustment expenses are adequate. The estimates are continually reviewed and adjusted as necessary, as experience develops or new information becomes known; such adjustments are included in current operations.

Unearned Federal Grant Revenue

The Pool receives funding from CMS to provide premium subsidies for qualified applicants. The obligated unearned grant revenue represents the Pool's estimate for the amount of premium subsidy payments current policyholders would receive through the end of the grant year ending December 31, 2013. The unobligated unearned grant revenue is the difference between the amount obligated for current policyholders and the maximum funds available through December 31, 2013, per the grant agreement.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unearned State Aid

The Pool receives funding from the North Carolina Department of Health and Human Services (HHS) to prepay deductibles and premium subsidies for certain members in the Federal Pool. Amounts received in aid in excess of the amounts earned pursuant to the contract between the Pool and HHS is classified as unearned state aid in the accompanying Statements of Net Position.

Revenue Recognition

Premiums are generally recognized as revenue during the month coverage is afforded to the member. The portion of premiums that are collected in advance of their effective dates are deferred and reported as advance premiums in the accompanying Statements of Net Position.

The Pool classifies its revenues as operating or nonoperating in the accompanying Statements of Revenues, Expenses and Changes in Net Position. Operating revenues generally result from providing services in connection with the Pool's ongoing operations. Operating revenues include activities that have characteristics of exchange transactions. Nonoperating revenues are from investment income and public funding from the State of North Carolina and the Federal government. For the years ended June 30, 2014 and 2013, nonoperating revenue sources accounted for (2)% and 31% of all revenues, respectively.

Reinsurance

The Pool limits the maximum net loss that can arise from large claims by reinsuring (or ceding) certain levels of risk with a reinsurer under a reinsurance treaty. Ceded reinsurance is treated as the risk and liability of the reinsuring company; however, the Pool remains liable to the members, should the reinsurer not meet its obligations. Amounts recoverable from the reinsurer are estimated and recognized in a manner consistent with the claim liabilities arising from reinsured policies including incurred but not reported claims.

Income Taxes

The Pool is exempt from payment of income taxes under the provision of Section 501(c)(26) of the Internal Revenue Code, except to the extent of taxes on any unrelated business income. The Pool had no unrelated business income during the years ended June 30, 2014 and 2013.

Subsequent Events

The Pool evaluated the recognition and disclosure of subsequent events for its financial statements through September 12, 2014, the date the financial statements were available to be issued. There were no subsequent events through the evaluation date that merit disclosure or would have a material effect on the financial condition of the Pool.

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NOTE 2 - INVESTMENTS

The Pool's investment policy was adopted by the Board of Directors in August 2009 and is designated to protect the Pool's capital, while providing liquidity for disbursement needs and maximizing investment returns. The Pool has invested in fixed-income securities and mutual funds.

As of June 30, 2014, the Pool held no invested assets.

As of June 30, 2013, the Pool had the following investments:

<u>Fixed-Income Securities</u>	<u>Estimated Fair Value</u>
Certificates of deposit	\$ 1,999,625
Corporate bonds	456,551
Municipal bonds (VRDN)	<u>720,000</u>
	<u>\$ 3,176,176</u>

At June 30, 2013, within fixed-income securities, the Pool had certificates of deposit with a bank and book balance of \$1,999,625 held in various banking institutions, which were fully covered by FDIC insurance.

Interest Rate Risk

The Pool uses the duration method as a means of limiting its exposure to fair value losses arising from rising interest rates. The Pool's investment policy limits the duration of investments in fixed-income securities to securities maturing no more than five years from the date of purchase. All corporate bonds have a maturity within five years of the date of purchase; however, the municipal bond category contains variable rate demand notes (VRDN). These issues can be put back to the issuers with a seven-day notice. This liquidity provision is backed by letters of credit (LOC) from independent banks, assuring the Pool can redeem the VRDN securities at par plus accrued interest within the seven-day period. The legal maturity dates for the VRDNs are more than five years from date of purchase.

Credit Risk

The Pool's investment policy requires that all investments in corporate bonds maintain a rating of BBB or better by Standard and Poor's, or Baa2 or better by Moody's. Investments in state and local government obligations must maintain a MIG1, SPI, AAA or Aaa from the applicable rating agencies. The LOC-issuing bank backing the liquidity provision in the VRDNs must be rated P-1 or A-1. All VRDNs held by the Pool are backed by LOCs issued by Wells Fargo. Wells Fargo has short-term issuer ratings of F1+, P-1, and A-1 from Fitch, Moody's, and Standard and Poor's, respectively. As of June 30, 2014, the Pool held no corporate or municipal bonds.

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June 30, 2014 and 2013

NOTE 3 - CASH AND CASH EQUIVALENTS

The Pool maintains its cash balances in a federally insured banking institution. As of June 30, 2014, the Pool had a cash balance with a carrying amount of \$1,971,084 and a bank balance of \$2,008,118.

Custodial credit risk is the risk that, in the event of a bank failure, the Pool's deposits may not be returned. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are (a) uncollateralized; (b) collateralized with securities held by pledging financial institution; or (c) collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Pool's name. At June 30, 2013, the Pool's cash deposits bank balance in excess of the insured FDIC limit of \$250,000 were uncollateralized. The Pool mitigates its exposure to losses from these cash deposits by monitoring the financial stability of the financial institutions involved.

Interest rate risk is the risk that changes in interest rates will adversely affect the estimated fair value of an investment. The Pool's policy for managing its exposure to fair value loss arising from increasing interest rates is to maintain its cash and cash equivalents in savings and money market accounts.

NOTE 4 - CHANGE IN CAPITAL ASSETS

	<u>Beginning Balance</u>	<u>Additions and Transfers</u>	<u>Deletions and Transfers</u>	<u>Ending Balance</u>
Depreciable capital assets:				
Furniture and equipment	\$ 13,137	\$ -	\$ (9,626)	\$ 3,511
Accumulated depreciation	<u>(10,651)</u>	<u>(800)</u>	<u>7,940</u>	<u>(3,511)</u>
Net	<u>\$ 2,486</u>	<u>\$ (800)</u>	<u>\$ (1,686)</u>	<u>\$ -</u>

As discussed in Note 11, the Pool is dissolving and therefore disposed of all capital assets. The deletions and transfers noted above resulted in a realized loss of \$440 and is recorded in realized capital losses in the accompanying financial statements.

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NOTE 5 - LIABILITY FOR UNPAID CLAIMS AND CLAIMS ADJUSTMENT EXPENSES

Activity in the liability for unpaid claims and claims adjustment expenses is summarized as follows:

	<u>2014</u>	<u>2013</u>
Balance at July 1	\$ <u>20,997,208</u>	\$ <u>15,289,134</u>
Incurred related to:		
Current year	40,421,811	119,623,755
Prior years	<u>(8,694,979)</u>	<u>(3,409,631)</u>
Total incurred	<u>31,726,832</u>	<u>116,214,124</u>
Paid related to:		
Current year	40,125,607	101,369,058
Prior years	<u>12,238,433</u>	<u>9,136,992</u>
Total paid	<u>52,364,040</u>	<u>110,506,050</u>
Balance at June 30	<u>\$ 360,000</u>	<u>\$ 20,997,208</u>

The total incurred claim and claim adjustment expenses above excludes pharmaceutical rebates earned of \$3,023,148 and \$3,709,885 for the years ended June 30, 2014 and 2013, respectively. Pharmaceutical rebates received during the years ended June 30, 2014 and 2013 of \$4,167,921 and \$3,233,176, respectively, are excluded from the claim and claims adjustment expenses paid in the table above.

The changes in estimates are generally the result of ongoing analysis of claim development trends. Original estimates are adjusted as additional information becomes known regarding individual claims. As a result of changes in estimates of insured events in prior years, the liability for unpaid claims and claim adjustment expenses decreased by \$8,694,979 in fiscal 2014 and \$3,409,631 in fiscal 2013.

NOTE 6 - REINSURANCE ACTIVITY

The Pool cedes a portion of its direct business to a reinsurance company. The Pool's reinsurance contracts provide medical excess-of-loss coverage on a calendar-year basis. These reinsurance contracts do not relieve the Pool from its obligations to members. Failure of the reinsurers to honor their obligations could result in losses to the Pool; consequently, allowances are established for amounts deemed uncollectible. No such allowances were considered necessary for 2014 or 2013. The Pool does not generally require collateral to secure reinsurance recoverables, but periodically evaluates the financial condition of the reinsurer and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurer to minimize its exposure to significant losses from reinsurer insolvency.

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NOTE 6 - REINSURANCE ACTIVITY (Continued)

Amounts recoverable from reinsurers are estimated in a manner consistent with the reinsured policy. At June 30, 2014 and 2013, there were no reinsurance recoverables, funds held, reinsurance treaties, or "prepaids" from the reinsurance company. Based upon management's estimate, no amounts were accrued as a receivable from the reinsurer as of June 30, 2014 and 2013, respectively. As a result of the experience-rated refund estimate, ceded premiums written and earned were reduced by the same amount.

The reinsurance contract for the 2013 calendar year stipulates that the Pool retain a maximum of \$450,000 of coverage per covered person, subject to a 90% coinsurance. The liability to the reinsurer is also limited to \$495,000 per covered person, subject to a lifetime limit of \$1,000,000.

The effect of reinsurance on premiums written and earned for the years ended June 30 is as follows:

	2014		2013	
	Written	Earned	Written	Earned
Direct	\$ 26,596,753	\$ 26,596,753	\$ 72,332,190	\$ 72,332,190
Ceded	<u>(101,756)</u>	<u>(101,756)</u>	<u>(292,076)</u>	<u>(292,076)</u>
Net	<u>\$ 26,494,997</u>	<u>\$ 26,494,997</u>	<u>\$ 72,040,114</u>	<u>\$ 72,040,114</u>

There were no recoveries related to claims incurred under the reinsurance contracts for fiscal years 2014 and 2013.

NOTE 7 - LEASE COMMITMENTS

The Pool entered into an operating lease for its office space. The lease expired December 31, 2013. Lease expense for the year ended June 30, 2014 was \$9,818.

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NOTE 8 - RETIREMENT PLAN

The Pool has established a 401(k) plan for its employees. Employees who meet age and length-of-service requirements are eligible to participate. The Pool matches employee contributions at 100% to a maximum of 6% of eligible salary. For the years ended June 30, 2014 and 2013, the Pool's contributions to the plan were \$18,094 and \$18,687, based on eligible salaries of \$195,859 and \$451,665, respectively.

NOTE 9 - PUBLIC FUNDING

The State Pool's major source of nonoperating revenue was funding from the State of North Carolina based on premium taxes assessed on health insurance policies issued throughout the State and funding through HHS to reimburse allowable expenses incurred to operate the high risk health pool.

The State Pool also utilizes grant income from CMS to provide premium subsidies to applicants who qualify based on income. In the 2012 fiscal year, the demand for premium subsidies by qualifying individuals exceeded the available CMS grant funding. In response, the Board of Directors approved a motion to provide discounted premiums to participants who would otherwise qualify for the CMS premium subsidy, subject to a maximum of 600 members per month. For the year ended June 30, 2014 and 2013, this amounted to a reduction of earned premiums totaling \$413,230 and \$1,144,139, respectively.

The Federal Pool is reimbursed by HHS for allowable and allocable administrative costs and claim costs in the development and operation of the Pool. The effective termination date of the Federal Pool was June 30, 2013. At June 30, 2014 and 2013, the Federal Pool had accrued receivable of \$12,113 and \$7,462,941, respectively, from HHS for allowable and allocable administrative costs, including claim costs incurred. The accrued receivable is expected to be collected after payment of the allowable expenses incurred during June 2014.

In 2013, through legislation of the North Carolina General Assembly, the Federal Pool received nonoperating revenue for coverage of participants in AIDS Drug Assistance Program (ADAP) who are uninsured and meet all Federal Pool eligibility requirements. In return for coverage and services, the Federal Pool received state aid to prepay ADAP members' deductible and subsidize premiums. The Federal Pool received \$2,730,600 in aid and had fully earned the balance as of June 30, 2014. There was no further financing of the ADAP program in 2014.

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NOTES TO FINANCIAL STATEMENTS
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NOTE 10 - RISK MANAGEMENT

The Pool is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employees' health and life; and natural disaster. The Pool manages these various risks of loss as follows:

<u>Type of Loss</u>	<u>Method Managed</u>	<u>Risk of Loss Retained</u>
Torts, errors and omissions, health and life	Purchased commercial insurance	None
Workers Compensation - employee injuries	Purchased commercial insurance	None
Physical property loss and natural disasters	Purchased commercial insurance	None

Management believes such coverage is sufficient to preclude any significant losses to the Pool. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

NOTE 11 - DISSOLUTION

On July 26, 2013 the North Carolina General Assembly ratified House Bill 92 (HB 92). Section 28.5(a) of HB 92 amends Part 6 of Article 50 of Chapter 58 of the General Statutes by adding Section 58-50-260, *Dissolution of Pool*.

Under this law, the Pool's insurance operations have sunset on January 1, 2014. All invoices for medical, pharmacy, and any other services provided must be submitted no later than 90 days after January 1, 2014. All appeals or grievances must also be submitted no later than 90 days after January 1, 2014.

On or before September 1, 2013, the Pool was required to submit a plan for the dissolution of the Pool to the North Carolina Commissioner of Insurance. This plan addressed the winding down of the Pool's operations, including the management of funding held in reserve to be used in connection with actions by or against the Pool that are timely filed in accordance with G.S. 58-56-260(f). This statute states, "Notwithstanding any longer statute of limitations provided under law for an action, all actions by or against the Pool must be filed on or before one year following the sunset of insurance operations of the Pool under subsection (a) of this section. After final dissolution of the Pool, the Pool's liability for insurance benefits, provider or vendor invoices, and all other matters shall be limited to the reserve amount established under subdivision (9) of subsection (d) of this section, less the costs of resolving the claims by or against the Pool."

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NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013**

NOTE 11 - DISSOLUTION (Continued)

After dissolution of the Pool, any funds remaining in the reserve established under Subdivision (9) of Subsection (d) will be paid to the North Carolina General Fund. These funds are to be held in reserve to be used in connection with actions filed by or against the Pool, which should be on or before January 1, 2015. After the resolution of timely filed actions against the Pool, any reserve funds remaining will be paid to the North Carolina General Fund.

During the year-ended June 30, 2014, the Pool determined that there was adequate capital to allow for an early payment to the North Carolina General Fund of \$16 million. This payment was remitted in June of 2014. No further payments are planned until the final dissolution of the Pool on January 1, 2015, after which the final payment will be remitted to the State no later than January 31, 2015.

Section 28.5(b) of HB 92 rewrites North Carolina General Statutes to provide funding for the Pool from the Teachers' and State Employees' Comprehensive Major Medical Plan (the Plan). The Plan will pay an annual surcharge of \$1.50 per member per year based on the enrollment of active employee Plan members and their dependents covered under the Plan. The final surcharge will be paid to the Pool for fiscal year 2013 to 2014 in quarterly installments 60 days after the close of each quarter and due December 1, 2013, March 1, 2014, June 1, 2014, and September 1, 2014.

REQUIRED SUPPLEMENTARY INFORMATION

THE NORTH CAROLINA HEALTH INSURANCE RISK POOL, INC.
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SIX-YEAR CLAIMS DEVELOPMENT INFORMATION (UNAUDITED)
June 30, 2014, 2013, 2012, 2011, 2010 and 2009

The table below illustrates how the Pool's earned premiums (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the Pool as of the end of each of the six years since inception. The rows of the table are defined as follows: 1) This line shows the total of each fiscal year's earned and ceded premiums, administrative fees, other operating, and investment revenues. 2) This line shows each fiscal year's other operating costs of the Pool including overhead and unallocated claims expenses not allocable to individual claims. 3) This line shows the Pool's incurred and ceded claims and allocated claims adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage occurred (called accident year). 4) These lines show the cumulative amounts paid as of the end of successive years for each accident year. 5) This line shows the most current estimate of losses assumed by reinsurers for each accident year. 6) These lines show how each accident year's incurred claims increased or decreased as of the end of successive years. This annual re-estimate results from new information received on known claims, re-evaluation of existing information on known claims, as well as emergence of new claims previously unknown. 7) This line compares the latest re-estimated net incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of net claims cost is greater or less than originally thought. As data for individual accident years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature accident years. The columns of the table show data for successive accident years.

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
(1) Premiums, investment, and other revenues:						
Premiums earned, net	\$ 2,607,553	\$ 15,323,244	\$ 33,102,921	\$ 53,765,104	\$ 72,040,114	\$ 26,494,997
State and federal aid revenue	22,871,880	10,453,118	14,505,740	19,271,388	31,883,558	(601,463)
Investment income	<u>212,195</u>	<u>342,675</u>	<u>466,926</u>	<u>187,894</u>	<u>119,719</u>	<u>18,234</u>
Net earned	<u>25,691,628</u>	<u>26,119,037</u>	<u>48,075,587</u>	<u>73,224,386</u>	<u>104,043,391</u>	<u>25,911,768</u>
(2) Unallocated expenses	\$ 1,220,826	\$ 2,208,772	\$ 4,939,988	\$ 9,341,391	\$ 9,902,441	\$ 2,899,674
(3) Estimated incurred claims and allocated claims adjustment expenses, end of accident year:						
Gross	\$ 4,337,287	\$ 15,473,911	\$ 40,730,575	\$ 77,797,309	\$ 119,623,755	40,421,811
Ceded	<u>-</u>	<u>-</u>	<u>(136,232)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net incurred	<u>\$ 4,337,287</u>	<u>\$ 15,473,911</u>	<u>\$ 40,594,343</u>	<u>\$ 77,797,309</u>	<u>\$ 119,623,755</u>	<u>\$ 40,421,811</u>

THE NORTH CAROLINA HEALTH INSURANCE RISK POOL, INC.
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SIX-YEAR CLAIMS DEVELOPMENT INFORMATION (UNAUDITED)
June 30, 2014, 2013, 2012, 2011, 2010 and 2009

	2009	2010	2011	2012	2013	2014
(4) Paid (cumulative) claims and allocated claims adjustment expense as of:						
End of accident year	\$ 1,895,981	\$ 11,944,083	\$ 33,343,394	\$ 63,787,473	\$ 101,369,058	\$ 40,125,607
One year later	2,562,795	13,733,970	38,148,235	72,918,499	113,598,261	-
Two years later	2,570,056	13,761,642	38,146,632	72,927,869	-	-
Three years later	2,570,172	13,769,212	38,146,492	-	-	-
Four years later	2,570,172	13,769,212	-	-	-	-
Five years later	2,570,172	-	-	-	-	-
(5) Re-estimated ceded claims and expenses	\$ -	\$ -	\$ 136,232	\$ -	\$ -	\$ -
(6) Re-estimated net incurred claims and allocated claims adjustment expense as of:						
End of accident year:	\$ 4,337,287	\$ 15,473,911	\$ 40,594,343	\$ 77,797,309	\$ 119,623,755	\$ 40,421,811
One year later	2,667,105	14,208,798	39,517,533	75,751,009	113,662,056	-
Two years later	2,667,366	13,761,642	38,146,632	72,927,869	-	-
Three years later	2,570,172	13,769,212	38,146,632	-	-	-
Four years later	2,570,172	13,769,212	-	-	-	-
Five years later	2,570,172	-	-	-	-	-
(7) Decrease in estimated net incurred claims and allocated claims adjustment expense from end of accident year	\$ (1,767,115)	\$ (1,704,699)	\$ (2,447,851)	\$ (4,869,440)	\$ (5,961,699)	\$ -

Note: Only six years of information is presented for the Pool, which represents inception through June 30, 2014. The above financial data is summarized for individual contract periods. Subsequent premium and related expense adjustments and reserve developments are recorded in the year incurred for fiscal year financial reporting, but are included in the applicable contract year for purposes of the above schedule. Accordingly, components of change in net position as determined on a contract-year basis will differ from that included in the Pool's accompanying basic financial statements.

OTHER FINANCIAL INFORMATION

THE NORTH CAROLINA HEALTH INSURANCE RISK POOL, INC.
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SCHEDULE OF OTHER EXPENSES
June 30, 2014 and 2013

	2014	2013
CONTRACTUAL EXPENSES		
Accounting	\$ 64,014	\$ 69,273
Actuarial services	60,996	97,866
Administrative services	4,063,867	7,831,537
Audit services	44,716	42,936
Communication/outreach	3,500	70,116
Consulting	10,893	-
Legal	41,208	59,824
PBM procurement	938	169
Producer compensation	36	817,627
TOTAL CONTRACTUAL EXPENSES	4,290,168	8,989,348
PERSONNEL EXPENSES		
Insurance	24,897	27,501
Payroll taxes	19,869	22,194
Retirement plan contribution	18,094	18,687
Salaries	195,859	451,665
Travel	3,294	5,154
Other personnel expenses	7,151	11,380
TOTAL PERSONNEL EXPENSES	269,164	536,581
GENERAL EXPENSES		
Bad debt recoveries	(218)	(14,838)
Insurance	25,138	20,191
Postage and delivery	140	564
Rent	9,818	19,153
Telephone	4,219	6,369
Other general expenses	42,242	98,073
TOTAL GENERAL EXPENSES	81,339	129,512
TOTAL OTHER EXPENSES	\$ 4,640,671	\$ 9,655,441

THE NORTH CAROLINA HEALTH INSURANCE RISK POOL, INC.
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STATEMENTS OF NET POSITION BY PROGRAM
June 30, 2014

	<u>State</u>	<u>Federal</u>	<u>Eliminations</u>	<u>Total</u>
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 1,844,661	\$ -	\$ -	\$ 1,844,661
Grants receivable	178,453	-	-	178,453
Rebates receivable	987,021	-	-	987,021
Other assets	119,110	-	-	119,110
Restricted assets:				
Cash and cash equivalents	-	126,423	-	126,423
Grants receivable	-	12,113	-	12,113
Other assets	-	11,359	-	11,359
Total current assets	<u>3,129,245</u>	<u>149,895</u>	<u>-</u>	<u>3,279,140</u>
TOTAL ASSETS	<u>\$ 3,129,245</u>	<u>\$ 149,895</u>	<u>\$ -</u>	<u>\$ 3,279,140</u>
LIABILITIES AND NET POSITION				
LIABILITIES				
Current liabilities:				
Unpaid claims and claims adjustment expenses	\$ 312,000	\$ 48,000	\$ -	\$ 360,000
Accounts payable	16,964	101,895	-	118,859
Other liabilities	54,865	-	-	54,865
Total current liabilities	<u>383,829</u>	<u>149,895</u>	<u>-</u>	<u>533,724</u>
NET POSITION				
Unrestricted	<u>2,745,416</u>	<u>-</u>	<u>-</u>	<u>2,745,416</u>
Total net position	<u>2,745,416</u>	<u>-</u>	<u>-</u>	<u>2,745,416</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 3,129,245</u>	<u>\$ 149,895</u>	<u>\$ -</u>	<u>\$ 3,279,140</u>

THE NORTH CAROLINA HEALTH INSURANCE RISK POOL, INC.**d/b/a INCLUSIVE HEALTH****(A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA)****STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION BY PROGRAM****Year Ended June 30, 2014**

	<u>State</u>	<u>Federal</u>	<u>Eliminations</u>	<u>Total</u>
OPERATING REVENUES				
Premiums Earned, net	\$ 26,499,428	\$ (4,431)	\$ -	\$ 26,494,997
TOTAL OPERATING REVENUES	<u>26,499,428</u>	<u>(4,431)</u>	<u>-</u>	<u>26,494,997</u>
OPERATING EXPENSES				
Claims expense	31,529,547	(2,825,863)	-	28,703,684
Contractual expenses	3,565,642	724,526	-	4,290,168
Personnel expenses	177,678	91,486	-	269,164
General expenses	71,939	9,400	-	81,339
TOTAL OPERATING EXPENSES	<u>35,344,806</u>	<u>(2,000,451)</u>	<u>-</u>	<u>33,344,355</u>
NET OPERATING LOSS	<u>(8,845,378)</u>	<u>1,996,020</u>	<u>-</u>	<u>(6,849,358)</u>
NONOPERATING REVENUES (EXPENSES)				
State aid	15,207,876	(5,765)	-	15,202,111
Return of State aid	(16,000,000)	-	-	(16,000,000)
Federal aid	2,186,681	(1,990,255)	-	196,426
Investment income	46,970	-	-	46,970
Realized capital losses	(28,736)	-	-	(28,736)
TOTAL NONOPERATING REVENUES (EXPENSES), NET	<u>1,412,791</u>	<u>(1,996,020)</u>	<u>-</u>	<u>(583,229)</u>
DECREASE IN NET POSITION	<u>(7,432,587)</u>	<u>-</u>	<u>-</u>	<u>(7,432,587)</u>
NET POSITION, BEGINNING OF YEAR	<u>10,178,003</u>	<u>-</u>	<u>-</u>	<u>10,178,003</u>
NET POSITION, END OF YEAR	<u>\$ 2,745,416</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,745,416</u>

***INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS***

Board of Directors
The North Carolina Health Insurance Risk Pool, Inc.
d/b/a Inclusive Health
Raleigh, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of The North Carolina Health Insurance Risk Pool, Inc. d/b/a Inclusive Health (the Pool), a component unit of the State of North Carolina, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the basic financial statements and have issued our report thereon dated September 12, 2014. Our report included an emphasis of matter paragraph related to the planned dissolution of the Pool.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Pool's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances 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 Pool's internal control. Accordingly, we do not express an opinion on the effectiveness of the Pool's internal control.

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 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. A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Pool'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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Pool's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the Pool's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dixon Hughes Goodman LLP

September 12, 2014

**THE NORTH CAROLINA HEALTH INSURANCE RISK POOL, INC.
d/b/a INCLUSIVE HEALTH
(A COMPONENT UNIT OF THE STATE OF NORTH CAROLINA)
AUDIT HOURS AND COST (UNAUDITED)
June 30, 2014**

This audit required approximately 300 audit hours at a cost of \$43,500.