



South Carolina Health Insurance Pool
PO BOX 61173
COLUMBIA, SC 29260-1173

(803) 788-0500
1-800-868-2500
Membership - ext. 42757
Claims - ext. 41000

BlueCross BlueShield Web site:
www.SouthCarolinaBlues.com

February 24, 2014

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FEB 27 2014

INSURANCE DEPARTMENT
OF SOUTH CAROLINA

Mr. Raymond G. Farmer
Director of Insurance
South Carolina Department of Insurance
Post Office Box 100105
Columbia, South Carolina 29202-3105

Dear Mr. Farmer:

You will find enclosed three copies of the Audited Financial Statement for the South Carolina Health Insurance Pool for years ended December 31, 2013 and 2012. Section 38-74-20 (F) (9) of the Code of Laws of South Carolina requires that the Board of Directors of the Pool obtain an independent audit of the finances of the Pool every two years and submit the Report of Audit to the Director. It has been the practice of the Board to obtain such an audit and forward a copy of the audit to the Department annually rather than every two years as required by the law.

Please let me know if you have any questions concerning this Audited Financial Statement.

Sincerely,

C. Michael Jordan
Chairman of the Board
and President, (AX-555)

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FEB 27 2014

STATE OF SOUTH CAROLINA
DEPARTMENT OF INSURANCE

cc: ✓ Ms. Leslie Jones, Deputy Director
Actuarial
South Carolina Department of Insurance

Ms. Kendall Buchanan, Deputy Director
Market and Consumer Services
South Carolina Department of Insurance

Enclosures

SCHIP2014.002

THE BRITTINGHAM GROUP, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

501 STATE STREET
POST OFFICE BOX 5949
WEST COLUMBIA, SOUTH CAROLINA 29171

PHONE: (803) 739-3090
FAX: (803) 791-0834

The Board of Directors
South Carolina Health Insurance Pool
c/o BC/BS of South Carolina
I-20 at Alpine Road
Columbia, South Carolina 29219

We are pleased to have the opportunity to meet with you to discuss the results of the audits of the South Carolina Health Insurance Pool's (the "Pool") December 31, 2013 and 2012 statutory basis financial statements. Our opinion, dated February 18, 2014, on the December 31, 2013 and 2012 financial statements was unmodified. We have included an emphasis of matter paragraph due to the fact that substantial doubt exists as to the Pool's ability to continue as a going concern. Auditing standards generally accepted in the United States of America require that certain matters related to the conduct of our audit be communicated to management. Those matters requiring communication are as follows:

The Brittingham Group, L.L.P.'s Responsibility under Auditing Standards Generally Accepted in the United States of America

We conducted our audit in accordance with auditing standards generally accepted in the United States of America which are designed to provide reasonable assurance that the financial statements are free of material misstatement. We also obtained a sufficient understanding of the internal control to plan the audit and to determine the nature, timing and extent of the tests to be performed.

Major Issues Discussed with Management Prior to Retention

There were no major issues discussed with management prior to retention.

The Adoption of, or a Change in, an Accounting Principle

There were no major changes, or adoption of new accounting principles.

Methods of Accounting for Significant Unusual Transactions and for Controversial or Emerging Areas

There were no matters that are required to be reported for this item.

Sensitive Accounting Estimates

The preparation of financial statements in conformity with the accounting practices prescribed or permitted by the Insurance Department of South Carolina requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. The significant estimates reported in the financial statements are the liability for unpaid claims and the liability for unpaid loss adjustment expenses. Actual results could differ from these estimates.

Significant Audit Adjustments

An audit adjustment, whether or not recorded by the entity based on materiality to the financial statements taken as a whole, is a proposed correction of the financial statements that, in the auditor's judgment, may not have been detected except through the auditing procedures performed.

- Adjustment for reclassification of IBNR expenses.
- Adjustment for recognition of assessment income.
- Adjustment for reduction in ULAE expenses.

Disagreements with Management

There were no disagreements with management.

Consultations with Other Accountants

We are not aware of any instances in which management consulted with other accountants about significant accounting, auditing and reporting matters.

Difficulties Encountered in Dealing with Management When Performing the Audit

There were no difficulties encountered in dealing with management when performing the audit.

* * * * *

This report is intended solely for the information and use of the Board of Directors, management and others within the organization.

The Bristleman Group, L.L.P.

West Columbia, South Carolina

February 18, 2014

SOUTH CAROLINA HEALTH INSURANCE POOL

AUDITED FINANCIAL STATEMENTS - STATUTORY BASIS

YEARS ENDED DECEMBER 31, 2013 AND 2012

WITH

INDEPENDENT AUDITOR'S REPORT

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FEB 27 2014

STATE OF SOUTH CAROLINA
DEPARTMENT OF INSURANCE

THE BRITTINGHAM GROUP, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

SOUTH CAROLINA HEALTH INSURANCE POOL

AUDITED FINANCIAL STATEMENTS - STATUTORY BASIS

YEARS ENDED DECEMBER 31, 2013 AND 2012

WITH

INDEPENDENT AUDITOR'S REPORT

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SOUTH CAROLINA HEALTH INSURANCE POOL

AUDITED FINANCIAL STATEMENTS - STATUTORY BASIS

YEARS ENDED DECEMBER 31, 2013 AND 2012

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THE BRITTINGHAM GROUP, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

501 STATE STREET
POST OFFICE BOX 5949
WEST COLUMBIA, SOUTH CAROLINA 29171

PHONE: (803) 739-3090
FAX: (803) 791-0834

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
South Carolina Health Insurance Pool
I-20 at Alpine Road
Columbia, South Carolina 29219

We have audited the accompanying statutory basis financial statements of the South Carolina Health Insurance Pool (the "Pool") which comprise the statements of admitted assets, liabilities and surplus as of December 31, 2013 and 2012, and the related statements of operations and changes in surplus and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the statutory basis of accounting as prescribed or permitted by the Insurance Department of South Carolina. Management is also responsible for 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.

Auditor's Responsibility

Our responsibility is to express opinions 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 *Government 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 financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the South Carolina Health Insurance Pool as of December 31, 2013 and 2012, and the changes in its surplus and its cash flows for the years then ended, on the statutory basis of accounting as prescribed or permitted by the Insurance Department of South Carolina.

Basis of Accounting

We draw attention to *Note 2* of the financial statements, which describes the basis of accounting. As described in *Note 2* to the financial statements, the financial statements are prepared by the South Carolina Health Insurance Pool on the basis of the financial reporting provisions of the Insurance Department of South Carolina, also referred to as the statutory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the Insurance Department of South Carolina. Our opinion is not modified with respect to this matter.

Emphasis of Matter

As discussed in *Note 10* to the financial statements, due to the enactment of new federal mandates concerning health insurance for individuals and states, we have concluded that there exists substantial doubt as to the ability of the Pool to continue as a going concern. Our opinion is not modified with respect to this matter.

Other Matters

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the South Carolina Health Insurance Pool's basic financial statements. The *Schedule of Expenditures of Federal Awards*, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organization* is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The *Schedule of Expenditures of Federal Awards* is the responsibility of management and was derived from and relates 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 basic 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 Expenditures of Federal Awards* is 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 February 18, 2014 on our consideration of the South Carolina Health Insurance Pool's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. 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 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 South Carolina Health Insurance Pool's internal control over financial reporting and compliance.

The Brattleboro Group, C.C.P.

West Columbia, South Carolina

February 18, 2014

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SOUTH CAROLINA HEALTH INSURANCE POOL

STATEMENTS OF ADMITTED ASSETS, LIABILITIES AND SURPLUS
STATUTORY BASIS

	December 31,	
	2013	2012
Admitted Assets		
Cash and cash equivalents:		
Unrestricted	\$ 3,394,604	\$ 3,481,383
Restricted	-	5,249,144
Accounts receivable:		
Subscribers (net of allowance for doubtful accounts, \$0 and \$198, respectively)	52,559	54,301
Assessments	1,196,341	-
Administrator	90,920	53,818
Federal grants	267,319	-
Others (net of allowance for doubtful accounts, \$149,918 and \$157,007, respectively)	27,530	4,856
Total admitted assets	\$ 5,029,273	\$ 8,843,502
Liabilities and Surplus		
Liabilities:		
Accrued expenses	\$ 200,000	\$ 230,850
Accounts payable - administrator	154,442	114,627
Accounts payable - miscellaneous	69,499	76,671
Unearned premiums	723,972	481,956
Unpaid claims	3,369,811	2,577,279
Total liabilities	4,517,724	3,481,383
Contingencies (<i>Note 6</i>)		
Surplus	511,549	5,362,119
Total liabilities and surplus	\$ 5,029,273	\$ 8,843,502

See accompanying notes.

SOUTH CAROLINA HEALTH INSURANCE POOL

STATEMENTS OF OPERATIONS AND CHANGES IN SURPLUS
STATUTORY BASIS

	Years Ended December 31,	
	2013	2012
Premium Income and Other Revenue		
Premium income	\$ 18,401,431	\$ 20,516,965
Assessment income	1,499,403	-
Grant income	1,205,033	1,464,175
Investment and other income	9,123	29,405
Total premium income and other revenue	<u>21,114,990</u>	<u>22,010,545</u>
Claims Benefits Paid and Incurred		
Claims benefits paid	24,020,770	23,235,659
Change in unpaid claims	792,532	(314,591)
Total claims benefits paid and incurred	<u>24,813,302</u>	<u>22,921,068</u>
Other Expenses		
Administrative expense	1,134,676	1,253,273
Miscellaneous	48,432	54,451
Change in unpaid loss adjustment expenses	(30,850)	(26,010)
Total other expenses	<u>1,152,258</u>	<u>1,281,714</u>
Net loss	(4,850,570)	(2,192,237)
Surplus at beginning of year	<u>5,362,119</u>	<u>7,554,356</u>
Surplus at end of year	<u>\$ 511,549</u>	<u>\$ 5,362,119</u>

See accompanying notes.

SOUTH CAROLINA HEALTH INSURANCE POOL

STATEMENTS OF CASH FLOWS
STATUTORY BASIS

	Years Ended December 31,	
	2013	2012
Operating Activities:		
Cash received from:		
Subscribers	\$ 18,645,188	\$ 20,330,295
Assessments	303,062	-
Grants	937,714	1,464,175
Others	9,123	29,405
Cash paid to:		
Service providers	(24,020,770)	(23,235,461)
Administrator	(1,131,963)	(1,302,111)
Others	(78,277)	(5,727)
Net cash used in operating activities	(5,335,923)	(2,719,424)
Net decrease in cash and cash equivalents	(5,335,923)	(2,719,424)
Cash and cash equivalents at beginning of year	8,730,527	11,449,951
Cash and cash equivalents at end of year	\$ 3,394,604	\$ 8,730,527
Reconciliation of Net Loss to Net Cash used in Operating Activities		
Net loss	\$ (4,850,570)	\$ (2,192,237)
To reconcile net loss to net cash used in operating activities:		
Change in certain assets and liabilities:		
Accounts receivable	(1,521,694)	109,131
Accounts payable	32,643	(62,651)
Unearned premiums	242,016	(233,066)
Unpaid claims and ULAE	761,682	(340,601)
Net cash used in operating activities	\$ (5,335,923)	\$ (2,719,424)
Supplemental Schedule:		
Change in estimated unpaid loss adjustment expenses	\$ (30,850)	\$ (26,010)
Change in unpaid claims	\$ 792,533	\$ (314,591)

See accompanying notes.

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SOUTH CAROLINA HEALTH INSURANCE POOL
NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS

DECEMBER 31, 2013 AND 2012

1. Organization

The South Carolina Health Insurance Pool (the "Pool") was created by South Carolina Statute (the "Law") to administer a major medical expense health insurance program. The effective date of the Law creating the Pool was May 30, 1989. The Pool began writing premiums during February 1990.

Eligibility

Applicants must be a resident of South Carolina. Resident means any person who has for at least 30 days immediately preceding this application for health insurance resided, continuously within the State of South Carolina in a place of permanent habitation. This requirement is waived for a Federally Defined Eligible Individual. However, proof of residency will be required within 30 days after acceptance. Evidence must be provided for any of the following actions by an insurer on an application for health insurance that is comparable to that provided by the Pool submitted on behalf of the person:

- A refusal to issue the insurance for health reasons;
- Refusal to issue the insurance without reducing or excluding coverage for a pre-existing condition for a period longer than twelve months;
- A refusal to issue insurance coverage comparable to that provided by the Pool except at a rate exceeding 150% of the Pool's rate;
- Paying a current single monthly premium amount for the insurance which is or will be increasing to a rate greater than 150% of the SCHIP monthly rate;
- If the individual is under the age of sixty-five and covered under Medicare Parts A and B for reasons other than age.

In addition, certain conditions may exclude persons from Pool coverage.

Administration

The Pool is administered by a Board of Directors and officers elected by the Board of Directors.

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SOUTH CAROLINA HEALTH INSURANCE POOL
NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS

(CONTINUED)

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared in conformity with accounting practices prescribed or permitted by the Insurance Department of South Carolina. Prescribed statutory accounting practices include a variety of publications of the National Association of Insurance Commissioners (NAIC), as well as state laws, regulations, and general administrative rules. Permitted statutory accounting practices encompass all accounting practices not so prescribed. These accounting practices vary in some respects from accounting principles generally accepted in the United States of America. The most significant of these differences are that costs related to acquiring new business are charged to current operations as incurred, whereas related premium income is taken into earnings over the periods covered by the policies and reserves for premium deficiencies are not recorded. The effect of such differences on the accumulated surplus and the income (loss) from operations of the Pool has not been determined.

Assessments

The Pool can assess its members for administrative expenses and losses from operations upon approval from its Board of Directors. All insurers authorized to issue or provide health insurance in South Carolina on or after the effective date of the above referenced law are members of the Pool.

The Law creating the Pool states that the Pool may assess members to provide for claims and administrative expenses incurred or estimated to be incurred during the period for which the assessment is made. Any assessments collected in excess of Pool losses must be held and used to offset future losses or reduce Pool premiums. The Pool has historically assessed members. The Pool members were assessed \$1,499,403 in 2013. The Pool did not assess its members in 2012. It is management's intent to assess its members in year 2014 if the Board deems it necessary.

Cash Equivalents

The Pool considers all highly liquid investments with a maturity of three months or less from the date of purchase to be cash equivalents.

Restricted Cash

As noted above, any assessments collected in excess of Pool losses must be held and used to offset future losses or reduce Pool premiums. There was no restricted cash as of December 31, 2013. There was \$5,249,144 restricted cash as of December 31, 2012.

Premiums and Unearned Premiums

Premiums are billed monthly and are earned on a monthly basis.

SOUTH CAROLINA HEALTH INSURANCE POOL
NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS

(CONTINUED)

2. Summary of Significant Accounting Policies (Continued)

The liability for unearned premiums represents amounts received for premiums prior to these amounts being due.

Unpaid Claims

The liability for unpaid claims is based on an independent actuarial evaluation using historical data as to claims paid and claims incurred.

Income Taxes

The Pool is exempt by state statute from South Carolina income taxes. Additionally, the Pool has received notification that it is exempt from federal income taxes under Internal Revenue Code Section 501(c)26. However, it would be subject to tax on income unrelated to its exempt purposes (unless that income is otherwise excluded by the IRC). The tax years ending December 2013, 2012, 2011 and 2010 are still open to audit for both federal and state purposes. The Pool is not classified as a private foundation.

Use of Estimates

The preparation of financial statements in conformity with the accounting practices prescribed or permitted by the Insurance Department of South Carolina 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. Concentrations of Credit and Market Risk

Financial instruments that potentially expose the Pool to concentrations of credit and market risk consist primarily of cash equivalents. Cash equivalents are maintained at financial institutions participating in the Federal Deposit Insurance Corporation program and the Pool has not experienced any losses on its cash equivalents. As of December 31, 2013, the Pool has \$3,682,482 in one financial institution. Approximately \$3,432,482 of this balance is uninsured as of December 31, 2013.

SOUTH CAROLINA HEALTH INSURANCE POOL
 NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS

(CONTINUED)

4. Administrative Service Agreement

The Pool has a service agreement with Blue Cross and Blue Shield of South Carolina. The service agreement is for administrative services including claims handling, billing and collections, and accounting. During the years ended December 2013 and 2012, administrative services (including access to the network providers) were provided with a fee for such services based on a \$61 fee per subscriber at the end of each month. Total expenses incurred under these agreements amounted to \$1,134,676 and \$1,253,273 for the years ended December 31, 2013 and 2012, respectively. The unpaid balance for services as of December 31, 2013 and 2012 were \$154,442 and \$114,627, respectively.

As part of the service agreement, the Pool can borrow funds from Blue Cross and Blue Shield of South Carolina for temporary cash needs. In the event of an advance, interest is charged to the Pool at the current prime rate plus 1%. Blue Cross and Blue Shield of South Carolina did not advance the Pool any funds during the years ended December 31, 2013 or 2012.

In addition, as a part of the service agreement, the Pool participates in the prescription rebate program of Blue Cross and Blue Shield of South Carolina. Under the rebate program, the Pool receives rebates quarterly for participation. As of December 31, 2013 and 2012, the amount owed to the Pool by Blue Cross and Blue Shield of South Carolina for this program was \$90,920 and \$53,818, respectively. The total reduction in the claims from participation in the program for the years ended December 31, 2013 and 2012 were approximately \$238,356 and \$229,859, respectively.

5. Unpaid Claims

The following is a reconciliation of unpaid claims for the years ended December 31, 2013 and 2012:

	2013	2012
Unpaid claims at beginning of year	\$ 2,577,279	\$ 2,891,870
Claims benefits incurred during the year	24,813,302	22,921,068
Claims paid during the year	(24,020,770)	(23,235,659)
Unpaid claims at end of year	\$ 3,369,811	\$ 2,577,279

SOUTH CAROLINA HEALTH INSURANCE POOL
 NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS

(CONTINUED)

6. Contingencies

The Pool is routinely a party to litigation incidental to its business as well as to other litigation of a non-material nature. In the opinion of the Pool's management, based upon information available on the date of this report, no individual item of litigation or group of similar items of litigation giving effect to insurance is likely to result in judgments for amounts material to the Pool's results of operations.

7. Related Party Transactions

The Pool has a service agreement with Blue Cross and Blue Shield of South Carolina (See *Note 4*). The contract was awarded under a competitive bid process and was ratified by the Pool's Board of Directors. The Pool's Chairman (who receives no compensation) is also employed by Blue Cross and Blue Shield of South Carolina.

8. Grant Income

The Pool received grant proceeds from the United States Department of Health and Human Services.

	For the years ended December 31	
	2013	2012
To reduce premiums for Pool policy holders	\$ 995,377	\$ 1,111,500
Other uses	209,656	352,675
Total grant expenses/income	\$ 1,205,033	\$ 1,464,175

The Pool had \$267,319 in grants receivable due to them at December 31, 2013. There were no amounts due as of December 31, 2012.

9. Fair Values of Financial Instruments

Statutory accounting principles require disclosure of fair value information about financial instruments, whether or not recognized in the statements of admitted assets, liabilities, and surplus, for which it is practical to estimate that value.

SOUTH CAROLINA HEALTH INSURANCE POOL
 NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS

(CONTINUED)

9. Fair Values of Financial Instruments (continued)

The following methods and assumptions were used by the Pool in estimating its fair value disclosures for financial instruments:

Cash and cash equivalents: The carrying amounts reported in the statements of admitted assets, liabilities, and surplus for cash and cash equivalents approximate those assets' fair values.

In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument.

The following levels of input for measurement of fair value have been defined to assist the user in evaluating the fair value disclosure information:

- Level 1 Quoted prices in an active market for identical assets or liabilities.
- Level 2 Other quoted prices in active markets for similar assets or liabilities, quoted prices for identical assets or liabilities in markets that are not active for transactions or availability of information, other observable sources of information, and information derived principally from or corroborated from observable sources of information.
- Level 3 Unobservable sources of information, primarily management's assumptions about potential market participants.

The estimated fair values of the Partnership's financial instruments are as follows and are included in the statements of admitted assets, liabilities, and surplus under similar descriptions:

	Level	Carrying Value	Fair Value
Financial assets			
Cash and cash equivalents	1	\$ 3,394,604	\$ 3,394,604

SOUTH CAROLINA HEALTH INSURANCE POOL
NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS

(CONTINUED)

9. Fair Values of Financial Instruments (continued)

Statutory accounting principles exclude certain financial instruments and all nonfinancial instruments from disclosure requirements. Accordingly, the aggregate fair value amounts presented do not necessarily represent the value of the Pool.

10. Going Concern

Due to the enactment of new federal mandates concerning health insurance for individuals and states, it is unclear as to what purpose the South Carolina Health Insurance Pool will perform in future periods. At the current time, the State of South Carolina has not elected to create its own plan, and conversely South Carolina Citizens are eligible for the Federal Alternative. Due to this uncertainty, we have concluded that there exists substantial doubt as to the ability of the Pool to continue as a going concern.

Management's plans in regards to this significant uncertainty are:

- Continue to serve the subscribers currently enrolled and to administer the operations of the Pool as required by current statute.
- To continue to seek legislative clarity as to the purpose/future of the Pool.
- In the event the Pool ceases operations at a future date, a plan is in place for the orderly run-off of claims expenses.
- To continue to assess members if needed in the event surplus is depleted.

11. Subsequent events

Subsequent events were evaluated through February 18, 2014, which is the date the financial statements were available for issue. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.



SINGLE AUDIT ACT REQUIREMENTS

SOUTH CAROLINA HEALTH INSURANCE POOL
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

DECEMBER 31, 2013

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Period	Expenditures
Department of Health and Human Services:			
Grants to States for Operation of Qualified High-Risk Pools - grant award number 1G0CMS030291	93.780	1/1/13 - 12/31/13	\$ 1,205,033
Total Federal Awards			<u>\$ 1,205,033</u>

SOUTH CAROLINA HEALTH INSURANCE POOL
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

DECEMBER 31, 2013

1. Description

South Carolina Health Insurance Pool has adopted the Federal Office of Management and Budget's OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, whereby the Single Audit Act Amendments of 1996 were adopted to fulfill the financial and compliance audit requirements of federal grantor agencies. For purposes of implementing OMB Circular A-133, federal grant awards were made susceptible to audit and are included in the Schedule of Expenditures of Federal Awards.

2. Summary of Significant Accounting Policies

The financial activity shown on the Schedule of Expenditures of Federal Awards reflects amounts recorded by South Carolina Health Insurance Pool during its fiscal year, January 1, 2013 through December 31, 2013. The Pool reports these on the accrual basis of accounting.

THE BRITTINGHAM GROUP, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

501 STATE STREET

POST OFFICE BOX 5949

WEST COLUMBIA, SOUTH CAROLINA 29171

PHONE: (803) 739-3090

FAX: (803) 791-0834

Independent Auditor's 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*

The Board of Directors
South Carolina Health Insurance Pool
c/o BC/BS of South Carolina
I-20 at Alpine Road
Columbia, South Carolina 29219

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 *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the South Carolina Health Insurance Pool, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Pool's basic financial statements and have issued our report thereon dated February 18, 2014.

Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered the South Carolina Health Insurance Pool's (the "Pool") internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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 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. *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 from 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 *Government Auditing Standards* in considering the Pool's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

The Battleground Group, L.L.P.

West Columbia, South Carolina

February 18, 2014

THE BRITTINGHAM GROUP, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

501 STATE STREET
POST OFFICE BOX 5949
WEST COLUMBIA, SOUTH CAROLINA 29171

PHONE: (803) 739-3090

FAX: (803) 791-0834

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133

The Board of Directors
South Carolina Health Insurance Pool
c/o BC/BS of South Carolina
I-20 at Alpine Road
Columbia, South Carolina 29219

Report on Compliance for Each Major Federal Program

We have audited the South Carolina Health Insurance Pool's (the "Pool") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each the Pool's major federal programs for the years ended December 31, 2013 and 2012. The Pool's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Pool's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; 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 the Pool'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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Pool's compliance.

Opinion on Each Major Federal Program

In our opinion, the South Carolina Health Insurance Pool complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the years ended December 31, 2013 and 2012.

Report on Internal Control Over Compliance

Management of the Pool is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Pool's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 the Pool'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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of *OMB Circular A-133*. Accordingly, this report is not suitable for any other purpose.

The Baittingham Group, L.L.P.

West Columbia, South Carolina

February 18, 2014

SOUTH CAROLINA HEALTH INSURANCE POOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

DECEMBER 31, 2013

Summary of Auditors' Results:

Financial Statements

The auditors' report expresses an unqualified opinion on the financial statements of the South Carolina Health Insurance Pool.

Internal control over financial reporting:

- Material weakness(es) identified? yes X no
- Significant deficiencies identified at are
not considered to be material weaknesses? yes X none reported
- Non compliance material to financial
statements noted? yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes X no
- Significant deficiencies identified are
not considered to be material weaknesses? yes X none reported

Type of auditor's report issued on compliance for major programs. Unmodified

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

Major federal programs:

Grant to States for Operation of Qualified High-Risk Pools -- CFDA #93.780

The threshold for distinguishing between Type A and Type B Programs was \$300,000.

The South Carolina Health Insurance Pool qualified to be a low risk auditee.

SOUTH CAROLINA HEALTH INSURANCE POOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

-CONTINUED-

Financial Statement Findings:

No financial statement findings.

Federal Awards Findings and Questioned Costs:

No findings or questioned costs.

Status of Prior Year Findings:

No findings in prior year.

