

AUDITED FINANCIAL STATEMENTS
AND
REQUIRED SUPPLEMENTAL INFORMATION
STATE FISCAL ACCOUNTABILITY AUTHORITY
INSURANCE RESERVE FUND

June 30, 2016



**South Carolina
Office of the State Auditor**

**George L. Kennedy, III, CPA
State Auditor**

September 28, 2016

The Honorable Nikki R. Haley, Governor
and
Members of the State Fiscal Accountability Authority
Columbia, South Carolina

This report on the audit of the financial statements of the State Fiscal Accountability Authority – Insurance Reserve Fund for the fiscal year ended June 30, 2016, was issued by The Hobbs Group, PA, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

A handwritten signature in blue ink that reads "George L. Kennedy, III".

George L. Kennedy, III, CPA
State Auditor

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June 30, 2016

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1704 Laurel Street
Columbia, SC 29201

P.O. Box 2411
Columbia, SC 29202



Phone (803) 799-0555
Fax (803) 799-4212

www.hobbsepa.com

INDEPENDENT AUDITORS' REPORT

Mr. George L. Kennedy, III, CPA
South Carolina Office of the State Auditor
Columbia, South Carolina

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the State Fiscal Accountability Authority Insurance Reserve Fund (the "*Fund*"), a fund of the State Fiscal Accountability Authority, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Fund's 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 audit. We conducted our audit 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 audit 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 opinion.

OPINION

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State Fiscal Accountability Authority Insurance Reserve Fund as of June 30, 2016, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

EMPHASIS OF MATTER

As discussed in Note A, the financial statements present only the State Fiscal Accountability Authority Insurance Reserve Fund and do not purport to, and do not, present fairly the financial position of the State of South Carolina State Fiscal Accountability Authority, which is a part of the State of South Carolina primary government, as of June 30, 2016, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. 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, schedule of the Fund's proportionate share of the net pension liability – South Carolina Retirement System, and schedule of the Fund's contributions – South Carolina Retirement System on pages 3 through 6 and pages 38 through 39 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 REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2016 on our consideration of the Fund'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 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 Fund's internal control over financial reporting and compliance.

The Holla Group, P.A.

Columbia, South Carolina
September 28, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the State Fiscal Accountability Authority Insurance Reserve Fund (IRF) Audited Financial Statements and Other Financial Information presents management's discussion and analysis of IRF's financial performance during the fiscal year ended June 30, 2016. This discussion should be read in conjunction with the financial statements and the notes, which follow this section.

The financial statement presentation required by current governmental accounting standards provides a comprehensive perspective of IRF's assets, liabilities, net position, revenues, expenses, changes in net position, and cash flows.

Financial Highlights:

- IRF's net position decreased by \$15,552,790 or 7.52 percent;
- The assets of IRF exceeded its liabilities at June 30, 2016 by \$191,160,213.
- IRF experienced an operating loss of \$16,911,703 compared with a loss of \$1,126,558 in the prior year.

Overview of Financial Statements:

IRF is engaged only in Business-Type Activities (BTA) financed in part by premiums charged to governmental entities for insurance policies. Accordingly, its activities are reported using the three financial statements required for proprietary funds: Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; and Statement of Cash Flows.

The Statement of Net Position presents the financial position of IRF at the end of the fiscal year and requires classification of assets and liabilities into current, non-current and deferred categories. The difference between total assets and total liabilities is reflected in the net position section, which displays net position in three broad categories: net investment in capital assets, restricted and unrestricted. Net position is one indicator of the current financial condition of IRF, while the change in net position is an indicator of whether the overall financial condition has improved or worsened during the year.

The Statement of Revenues, Expenses, and Changes in Net Position categorizes revenues as operating and non operating revenues and expenses as operating and non-operating expenses.

The Statement of Cash Flows will aid readers in identifying the sources and uses of cash by the categories of operating, financing, and investment activities.

Financial Analysis of IRF

This schedule is a condensed version of IRF's assets, liabilities, and net position and is prepared from the Statement of Net Position as of June 30, 2015 and 2016.

Condensed Statements of Net Position (In millions)

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Assets		
Current assets	\$ 98.6	\$ 106.0
Noncurrent assets:	431.4	439.3
Total assets	<u>\$ 530.0</u>	<u>\$ 545.3</u>
Deferred Outflows of Resources		
Deferred pension charges	0.4	0.4
Liabilities		
Current liabilities	\$ 333.9	\$ 334.5
Noncurrent liabilities	4.9	4.2
Total liabilities	<u>338.8</u>	<u>338.7</u>
Deferred Inflows of Resources		
Deferred pension credits	0.4	0.3
Net Position		
Investment in capital assets	-	-
Restricted for loans	-	19.0
Unrestricted	191.2	187.7
Total net position	<u>191.2</u>	<u>206.7</u>
Total liabilities and net position	<u>\$ 530.0</u>	<u>\$ 545.4</u>

Net position may serve over time as a useful indicator of an entity's financial position. Assets exceeded liabilities by \$206,713,003 at the close of the fiscal year ended June 30, 2015 and assets exceeded liabilities by \$191,160,213 at the close of fiscal year ended June 30, 2016.

The following schedule is a summary of the IRF's operating results for the fiscal years ended June 30, 2015 and 2016.

Condensed Statements of Revenue, Expenses and Changes in Net Position
(In millions)

	Year Ended June 30,	
	2016	2015
Operating		
Operating revenue:		
Insurance premiums	\$ 118.9	\$ 124.8
Operating expenses:		
Claims	76.7	54.4
Reinsurance and other premiums	38.2	40.2
Administrative	20.9	31.3
Total operating expenses	<u>135.8</u>	<u>125.9</u>
Net operating income (loss)	(16.9)	(1.1)
Non operating revenue:		
Income from deposits and investments	1.4	6.3
Notes receivable interest and other	-	0.1
Total non operating revenue	<u>1.4</u>	<u>6.4</u>
Change in net position	(15.5)	5.3
Net position, beginning of the year	206.7	201.4
Net position, end of the year	<u>\$ 191.2</u>	<u>\$ 206.7</u>

A condensed version of the Statement of Cash Flows is presented as follows for the years ended June 30, 2015 and 2016:

Condensed Statements of Cash Flows
(In millions)

	Year Ended June 30,	
	2016	2015
Net cash (used in) operating activities	\$ (15.9)	\$ (0.1)
Net cash provided by (used in) investing activities	8.9	24.6
Net increase (decrease) in cash and cash equivalents	(7.0)	24.5
Cash and cash equivalents, beginning of year	45.8	21.3
Cash and cash equivalents, end of year	<u>\$ 38.8</u>	<u>\$ 45.8</u>

Overview of IRF

The Insurance Reserve Fund is a self-insurance mechanism operated by the State of South Carolina. In many respects, IRF functions in the same way as an insurance company. IRF issues policies, collects premiums, pays losses, and purchases reinsurance against swings in experience or catastrophic losses. As an insurance operation, the IRF files a National Association of Insurance Commissioners Annual Statement each year with and is subject to periodic audits by the South Carolina Department of Insurance. The IRF does not market its services or pay marketing costs. Also, the IRF does not pay taxes or participate in any Guaranty Fund or Pool. As a self-insurance mechanism, IRF is responsible for funding fortuitous losses experienced by governmental entities in South Carolina and offers very broad and, in some cases, unique coverage for its insureds.

Economic Factors:

IRF has maintained adequate reinsurance; however, catastrophe models have changed significantly in the last few reinsurance cycles. The IRF has purchased \$600 million subject to a maximum self-insured retention of \$10 million per occurrence and \$15 million in the annual aggregate with a \$1 million trailing per occurrence for subsequent claims.

The Flood of October 2015 has had a material impact on the IRF due to the claim costs associated with this catastrophic event. Even though the Fund will receive an estimated reimbursement of \$3 million from the reinsurance markets, the self-insured retention of \$10 million is borne by the Fund and has reduced our net position.

Due to market conditions, IRF investments, managed by the State Treasurers Office, decreased \$13,161,470 in fair market value for the fiscal year. Income from deposits and investments in FY 16 decreased \$5,093,419 compared to FY 15.

Contact Information

Questions related to the Management Discussion and Analysis and the accompanying financial statements should be directed to Stephen Waterhouse, Chief Financial Officer, at (803) 737-3827.

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET POSITION
 STATE FISCAL ACCOUNTABILITY AUTHORITY
 INSURANCE RESERVE FUND
 JUNE 30, 2016

ASSETS

Current Assets

Cash and cash equivalents	\$	38,775,197
Premiums receivable		36,422,838
Reinsurance recoverable		2,961,737
Accrued interest		3,428,941
Prepaid insurance		16,978,123
Total Current Assets		<u>98,566,836</u>

Noncurrent Assets

Investments		431,380,985
Capital assets, net		7,542
Total Noncurrent Assets		<u>431,388,527</u>

Total Assets 529,955,363

DEFERRED OUTFLOWS OF RESOURCES

Deferred pension charges		404,508
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LIABILITIES

Current Liabilities

Accounts payable		13,000
Accrued payroll		301,727
Accrued compensated absences - current		118,581
Deferred premium revenue		69,275,730
Claims payable		167,893,267
Claims incurred but not reported		96,312,487
Total Current Liabilities		<u>333,914,792</u>

Noncurrent Liabilities

Net pension liability		4,660,099
Accrued compensated absences - noncurrent		213,867
Total Liabilities		<u>338,788,758</u>

DEFERRED INFLOWS OF RESOURCES

Deferred pension credits		<u>410,900</u>
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NET POSITION

Net investment in capital assets		7,542
Unrestricted		191,152,671
TOTAL NET POSITION	\$	<u><u>191,160,213</u></u>

The accompanying notes are an integral part of these financial statements.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 STATE FISCAL ACCOUNTABILITY AUTHORITY
 INSURANCE RESERVE FUND
 FOR THE YEAR ENDED JUNE 30, 2016

Operating Revenues		
Insurance premiums	\$	118,955,206
Operating Expenses		
Claims		76,797,109
Claims related expenses		13,546,075
Reinsurance premiums		38,152,642
Professional services		2,440,305
Salaries and benefits		4,079,829
Other services		738,605
Other expenses		112,344
	Total Operating Expenses	<u>135,866,909</u>
	Operating Loss	(16,911,703)
Nonoperating Revenues		
Income from deposits and investments		1,290,851
Interest from note receivables		24,148
Other nonoperating revenue		43,914
	Total Nonoperating Revenues	<u>1,358,913</u>
	CHANGE IN NET POSITION	(15,552,790)
Net position at beginning of year		<u>206,713,003</u>
	NET POSITION AT END OF YEAR	<u>\$ 191,160,213</u>

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS
STATE FISCAL ACCOUNTABILITY AUTHORITY
INSURANCE RESERVE FUND
FOR THE YEAR ENDED JUNE 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received for insurance premiums	\$ 117,192,666
Cash payments for salaries and benefits	(3,437,083)
Cash payments for claims and claims related expenses	(90,476,814)
Cash payments for reinsurance premiums	(35,869,417)
Cash payments for professional services	(2,441,215)
Cash payments for suppliers	(850,949)
NET CASH USED IN OPERATING ACTIVITIES	<u>(15,882,812)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Principal payments received on note receivable	939,618
Purchase of investments	(74,936,305)
Proceeds from sale and maturity of investments	68,284,544
Interest received - deposits and investments	14,523,972
Interest received - notes receivable	36,598
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>8,848,427</u>

NET CHANGE IN CASH AND CASH EQUIVALENTS (7,034,385)

Cash and cash equivalents at beginning of year 45,809,582

CASH AND CASH EQUIVALENTS AT END OF YEAR \$ 38,775,197

RECONCILIATION OF OPERATING LOSS TO NET CASH
USED IN OPERATING ACTIVITIES:

Operating Loss	\$ (16,911,703)
Adjustments to reconcile operating loss to net cash used in operating activities	
Change in assets and liabilities:	
Increase in premiums receivable	(1,561,583)
Decrease in prepaid insurance	2,457,581
Increase in deferred pension charges	(36,248)
Decrease in accounts payable	(175,266)
Increase in accrued payroll	9,222
Increase in compensated absences	81,231
Decrease in deferred premium revenue	(200,957)
Increase in deferred pension credits	62,379
Increase in net pension liability	526,162
Decrease in claims payable and claims incurred but not reported	(133,630)
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (15,882,812)</u>

Non-Cash Investing Activities:

Net change in investments for accretion and amortization	\$ 492,210
Net decrease in fair value of investments	\$ (13,161,470)

The accompanying notes are an integral part of these financial statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS
STATE FISCAL ACCOUNTABILITY AUTHORITY INSURANCE RESERVE FUND
June 30, 2016

NOTE A -- SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the State Fiscal Accountability Authority Insurance Reserve Fund (the “Fund”) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to enterprise funds of governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies utilized by the Fund are described below:

Reporting Entity: The core of the financial reporting entity is the primary government which has a separately elected governing body. As required by accounting principles generally accepted in the United States of America, the financial reporting entity includes both the primary government and all of its component units. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In turn component units may have component units.

An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. That organization is identified herein as a primary entity.

The primary government or entity is financially accountable if it appoints a voting majority of the organization’s governing body including situations in which the voting majority consists of the primary entity’s officials serving as required by law (e.g., employees who serve in an ex officio capacity on the component unit’s board are considered appointments by the primary entity) and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary entity. The primary entity also may be financially accountable if an organization is fiscally dependent on it even if it does not appoint a voting majority of the board. An organization is fiscally dependent on the primary entity that holds one or more of the following powers:

- (1) Determine its budget without another government’s having the authority to approve and modify that budget.
- (2) Levy taxes or set rates or charges without approval by another government.
- (3) Issue bond debt without approval by another government.

Based on these criteria, the Fund has determined that it has no component units. This financial reporting entity includes only the Fund, a primary entity.

The State Fiscal Accountability Authority Insurance Reserve Fund is a fund of the State Fiscal Accountability Authority, which is a part of the State of South Carolina (the “State”) primary government. This report contains only the Fund and no other Offices or funds of the State Fiscal Accountability Authority or any other part of the State of South Carolina primary government are included. The Insurance Reserve Fund (the “Fund”) is under the control of the State Fiscal Accountability Authority (the “Authority”).

The Authority, formerly the Budget and Control Board, was established and created by the South Carolina Restructuring Act of 2014, Act 121. Effective July 1, 2015, the Budget and Control Board was abolished and the Insurance Reserve Fund was transferred to the State Fiscal Accountability Authority. The funds of the Authority are included in the Comprehensive Annual Financial Report of the State of South Carolina.

NOTES TO THE BASIC FINANCIAL STATEMENTS
STATE FISCAL ACCOUNTABILITY AUTHORITY INSURANCE RESERVE FUND

NOTE A -- SIGNIFICANT ACCOUNTING POLICIES – Continued

All of the divisions of the Authority reporting entity are under the control of the Executive Director of the State Fiscal Accountability Authority. The Authority is composed of the Governor; the State Treasurer; the Comptroller General; the Chairman of the Senate Finance Committee; and the Chairman of the House Ways and Means Committee; all of whom serve in an ex-officio capacity.

Programs managed by the Fund are authorized in the following sections of the South Carolina Code of Laws, 1976, as amended: Section 1-11-140 (tort liability, medical professional liability for individuals and entities and risk management section); Section 1-11-710 (A) (4) (risk management section); Regulation 19-612 (automobile liability); Section 10-7-10 et. seq. (property); Section 59-67-710 (school bus liability); and Section 59-67-790 (school bus pupil injury). Section 15-78-10 et. seq. (the S.C. Tort Claims Act) further defines parameters of coverage provided by the Fund.

The Fund insures state agencies, school districts, special purpose political subdivisions, county governments and municipal governments in South Carolina. The Fund provides property insurance on governmentally owned buildings, the contents of such buildings, equipment and automobiles. The Fund provides automobile liability insurance on governmentally owned vehicles and school buses, tort liability insurance for government premises and operations, and medical professional liability for hospitals. The Fund is a self-insurer and purchases reinsurance to limit losses in the areas of property insurance, boiler and machinery insurance, and automobile liability insurance. The Fund collects premiums from participating entities, issues policies, and pay claims incurred under the policies from accumulated premiums and earnings on investments and notes receivable. The premium rates are determined actuarially and approved by the Board. The Fund allocates the costs of providing claims servicing and claims payments by charging each participant a premium. Interest income is considered in the premium rate setting process.

Basis of Presentation: The financial statements present the funds of the State Fiscal Accountability Authority Insurance Reserve Fund.

The financial statement presentation for the Fund meets the requirements of Governmental Accounting Standards Board (“GASB”) Statement No. 34, *Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments*. As an internal service fund, the Fund in its stand-alone financial statements is considered a proprietary fund under the guidance of GASB Statement No. 34. However, the guidance requires internal service funds included in the basic financial statements of the primary government to be reported as part of the governmental activity. Therefore, presentation in the Comprehensive Annual Financial Report of the State of South Carolina will include this fund as a governmental activity. The financial statement presentation provides a comprehensive, entity-wide perspective of the Fund’s net position, revenue, expenses and changes in net position and cash flows that replaces the fund-group perspective previously required.

NOTES TO THE BASIC FINANCIAL STATEMENTS
STATE FISCAL ACCOUNTABILITY AUTHORITY INSURANCE RESERVE FUND

NOTE A -- SIGNIFICANT ACCOUNTING POLICIES – Continued

Financial Statements: The Fund is an internal service fund within the State Fiscal Accountability Authority as the State’s managers have determined that the State is the predominant participant in the Fund.

Basis of Accounting: The Fund’s financial statements have been presented using the economic resources measurement focus which is based upon a determination of net income, financial position, and cash flows. Under this method, all assets and liabilities associated with the operation of the Fund are included on the statement of net position. Net position is segregated into investment in capital assets, net of related debt, restricted, and unrestricted net position components.

The Fund uses the accrual basis of accounting. Revenue is recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred, if measurable. The Fund reports claims liabilities when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

The accounting policies of the Fund conform to accounting principles generally accepted in the United States of America applicable to governmental proprietary activities as prescribed by GASB. Accordingly, the Fund applies all applicable GASB pronouncements and those applicable standards issued by the Financial Accounting Standards Board, and its predecessors on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Cash and Cash Equivalents: For purposes of the statement of cash flows, the Fund considers all highly liquid securities with a maturity of three months or less at the time of purchase to be cash equivalents. Most State agencies, including the Fund, participate in the State’s internal cash management pool; however, some agency accounts are not included in the pool because of restrictions on the use of funds. Because the State’s internal cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The State Treasurer administers the cash management pool. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, and certain corporate bonds. For credit risk information pertaining to the internal cash management pool, see the Deposits and Investments disclosures in Note B.

The State’s internal cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund’s equity interest in the general deposit account; however, all earnings on that account are credited to the General Fund of the State. Deposits in the general deposit account are recorded and reported at cost. However, the Fund reports its deposits in the special deposit accounts at fair value. Interest earned by the agency’s special deposit accounts is posted to the agency’s account at the end of each month and is retained by the agency. Interest earnings are allocated based on the percentage of an agency’s accumulated daily interest receivable to the total income receivable of the pool.

The amounts shown in the financial statements as “cash and cash equivalents” represent cash on deposit with the State Treasurer as a part of the State’s internal cash management pool, and cash invested in various short-term instruments by the State Treasurer and held in separate agency accounts.

NOTES TO THE BASIC FINANCIAL STATEMENTS
STATE FISCAL ACCOUNTABILITY AUTHORITY INSURANCE RESERVE FUND

NOTE A -- SIGNIFICANT ACCOUNTING POLICIES – Continued

Investments: Investments, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price.

Investment income consists of interest earned during the year, amortization of premiums and accretion of discounts, realized gains/losses on securities, and unrealized gains/losses resulting from changes in fair value. Earnings are posted to the Fund's account at the end of each month. Securities and securities transactions are reflected in the financial statements on a trade-date basis.

Investment Valuation: Investments are valued on a daily basis at fair value. Fair value is defined by GASB Statement No. 72, *Fair Value Measurement and Application*, as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date." Debt securities are generally valued by independent pricing services based upon market transactions for normal, institutional-size trading units of similar securities. The services may use various pricing techniques which take into account appropriate factors such as yield, quantity, coupon rate, maturity, type of issue, trading characteristics and other data, as well as broker quotes. Debt securities for which quotations are readily available may also be valued based upon an over-the-counter or exchange bid quotation.

Premium Revenue: Premiums billed to agencies (premiums receivable) for insurance coverage are deferred and amortized into income over the term of the insurance policy.

Deferred Premium Revenue: Premiums billed in advance of coverage, payments received in advance of coverage, or in excess of amounts billed and premiums collected but unearned are recorded as deferred premium revenue.

Prepaid Insurance: Payments made to insurers and reinsurers for services that will benefit future periods are recorded as prepaid expenses and other assets. The related expense is recognized pro-rata over the policy periods.

Capital Assets: Capital assets are capitalized at cost if purchased. Capital assets contributed by other State agencies or funds are recorded at the State's original acquisition cost less accumulated depreciation from the purchase date. Assets donated by other parties are valued at fair market value at the date of the gift. The Fund has one class of capital asset, furniture and equipment, which is depreciated on the straight-line basis over the estimated useful lives of 3-10 years. The capitalization threshold limited for furniture and equipment is \$5,000.

Claims Incurred but not Reported (IBNR): Losses are recorded at estimated amounts at the time they are reported and include a provision for expenses associated with claim settlements. Insurance claims are expensed as incurred over the period of coverage. The Fund establishes an unpaid claim liability for claims in the process of review, and for IBNR claims. The liability for IBNR claims is actuarially estimated based on the most current historical claims experience of previous payments, changes in number of members and participants, inflation, and award trends. Estimates of liabilities for incurred claims are continually reviewed and revised as changes in these factors occur and revisions are reflected in the current year's operating statement in the applicable claims

NOTES TO THE BASIC FINANCIAL STATEMENTS
STATE FISCAL ACCOUNTABILITY AUTHORITY INSURANCE RESERVE FUND

NOTE A -- SIGNIFICANT ACCOUNTING POLICIES – Continued

expense. The liability is reported net of estimated receivables for salvage, subrogation, and reinsurance. Amounts for allocated and unallocated claims adjustment expenses have been included in the calculation of IBNR.

Claims Payable: Claims payable represents claims resulting from losses that have been incurred but not paid at June 30th. The claims payable balance is based on actual losses incurred and settled and estimated losses for claims in the final stages of review and settlement.

Compensated Absences: Generally all permanent full-time State employees and certain part-time employees scheduled to work at least twenty hours per workweek are entitled to accrue and carry forward at calendar year-end maximums of 180 days sick leave and 45 days annual vacation leave. Upon termination of State employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum, but are not entitled to any payment for unused sick leave. The compensated absences liability includes accrued annual leave earned for which the employees are entitled to paid time off or payment at termination. The leave liability also includes an estimate for unused sick leave and leave from the agency's leave transfer pool for employees who have been approved as leave recipients under personal emergency circumstances. The Fund calculates the gross compensated absences liability based on recorded balances of unused leave. The entire unpaid liability for which the employer expects to compensate employees through paid time off or cash payments, inventoried at fiscal year-end current salary costs and the cost of the salary – related benefit payments, is recorded in the Fund.

Net Position: Net position is reported in the following three categories:

Net Investment in Capital Assets: Consists of capital assets, net of accumulated depreciation, reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted Net Position: Result when constraints placed on the use of assets reduced by liabilities and deferred inflows of resources related to those assets are either externally imposed by creditors, grantors, contributors, and the like or imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position: Consists of the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

The Fund applies expenses that can be used for both restricted and unrestricted resources against restricted resources first.

NOTES TO THE BASIC FINANCIAL STATEMENTS
STATE FISCAL ACCOUNTABILITY AUTHORITY INSURANCE RESERVE FUND

NOTE A -- SIGNIFICANT ACCOUNTING POLICIES – Continued

Deferred Outflows and Inflows of Resources: In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Fund currently has one type of deferred outflows of resources. The Fund reports deferred pension charges in its Statement of Net Position in connection with its participation in the South Carolina Retirement System.

These deferred pension charges are either (a) recognized in the subsequent period as a reduction of the net pension liability (which includes pension contributions made after the measurement date) or (b) amortized in a systematic and rational method as pension expense in future periods in accordance with GAAP.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Fund currently has one type of deferred inflows of resources. The Fund reports deferred pension credits in its Statement of Net Position in connection with its participation in the South Carolina Retirement System. These deferred pension credits are amortized in a systematic and rational method and recognized as a reduction of pension expense in future periods in accordance with GAAP.

Pensions: In government-wide financial statements, pensions are required to be recognized and disclosed using the accrual basis of accounting, regardless of the amount recognized as pension expenditures on the modified accrual basis of accounting. The Fund recognizes a net pension liability for each qualified pension plan in which it participates, which represents the excess of the total pension liability over the fiduciary net position of the qualified pension plan, or the Fund's proportionate share thereof in the case of a cost-sharing multiple employer plan, measured as of the Fund's fiscal year-end.

Changes in the net pension liability during the period are recorded as pension expense, or as deferred outflows or inflows of resources depending on the nature of the change, in the period incurred. Those changes in net pension liability that are recorded as deferred outflows or inflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan and recorded as a component of pension expense beginning with the period in which they are incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred outflows or inflows of resources and amortized as a component of pension expense on a closed basis over a five year period beginning with the period in which the difference occurred.

NOTES TO THE BASIC FINANCIAL STATEMENTS
STATE FISCAL ACCOUNTABILITY AUTHORITY INSURANCE RESERVE FUND

NOTE A -- SIGNIFICANT ACCOUNTING POLICIES – Continued

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Subsequent Events: Management has evaluated subsequent events through September 28, 2016 the date in which the financial statements were available to be issued.

Classification of Revenue: The Fund has established the following criteria for reporting operating revenue or nonoperating revenue:

Operating revenue generally results from exchange transactions to provide the services authorized by State statute. These revenues include (1) premiums for insurance coverage, (2) administrative fees, and (3) other receipts arising from services provided.

Nonoperating revenue includes activities that have the characteristics of nonexchange transactions. These revenues include appropriations, investment income, and contract revenue not classified as operating revenue or restricted by the provider to be used exclusively for capital purposes.

NOTE B -- DEPOSITS AND INVESTMENTS

For cash and cash equivalents, the fair values are equal to the bank balances, which approximate the carrying amount. The cash and cash equivalents reported consist of the following as of June 30, 2016:

Deposits held by Third Party Administrators	\$	200,813
Cash held at the South Carolina Treasurer’s Office		<u>38,574,384</u>
	\$	<u>38,775,197</u>

Balances held by the third party administrator are exposed to custodial credit risk. In the case of deposits, this is the risk that in the event of a bank failure, the Fund’s deposits may not be returned. The Fund does not have a deposit policy for custodial credit risk. As of June 30, 2016, \$200,813 of the Fund’s bank balance was uninsured or collateralized with securities held by the pledging financial institution’s trust department or agent, but not in the Fund’s name.

Balances held by the South Carolina State Treasurer’s Office are classified by risk category in the Comprehensive Annual Financial Report of the State of South Carolina. Information about the classification of a portion of its pooled funds is not available.

NOTES TO THE BASIC FINANCIAL STATEMENTS
 STATE FISCAL ACCOUNTABILITY AUTHORITY INSURANCE RESERVE FUND

NOTE B -- DEPOSITS AND INVESTMENTS – Continued

The following schedule reconciles investments and deposits reported in the statement of net position to disclosures included in this note.

	Note Disclosure	Statement of Net Position
Cash and cash equivalents		\$ 38,775,197
Deposits held by Third Party Administrators	\$ 200,813	
Cash held at the State Treasurer's Office	38,574,384	
Investments	431,380,985	431,380,985
TOTAL	<u>\$ 470,156,182</u>	<u>\$ 470,156,182</u>

Fair Value of Investments

The Fund categorizes its fair value measurements according to a three-level hierarchy that maximizes the use of observable inputs and minimizes the use of unobservable inputs by prioritizing that the most observable input be used when available. Observable inputs are those that market participants would use in pricing an investment based on market data obtained from sources independent of the reporting entity. Unobservable inputs are those that reflect the Fund’s assumptions about the information market participants would use in pricing an investment. An investment’s level within the fair value hierarchy is based on the lowest level of any input that is deemed significant to the asset’s or liability’s fair value measurement. The input levels are not necessarily an indication of the risk or liquidity associated with investments at that level. For example, certain U.S. government securities are generally high quality and liquid, however, they are reflected as Level 2 because the inputs used to determine fair value may not always be quoted prices in an active market.

Fair value inputs are summarized in the three broad levels listed below:

- Level 1 Valuations based on quoted prices for investments in active markets that the Fund has the ability to access at the measurement date. Valuation adjustments are not applied to Level 1 investments.
- Level 2 Valuations based on other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risks, etc.).
- Level 3 Valuations based on significant unobservable inputs (including the Fund’s own assumptions and judgement in determining the fair value of investments).

Inputs that are used in determining fair value of an investment may include price information, credit data, volatility statistics, and other factors. These inputs can be either observable or unobservable. The availability of observable inputs can vary between investments, and is affected by various factors such as the type of investment, and the volume and level of activity for that investment or similar investments in the marketplace.

NOTES TO THE BASIC FINANCIAL STATEMENTS
 STATE FISCAL ACCOUNTABILITY AUTHORITY INSURANCE RESERVE FUND

NOTE B -- DEPOSITS AND INVESTMENTS – Continued

As prescribed by Statute, the State Treasurer is the custodian and investment manager of all investments and deposits of the Fund. In accordance with State Law, the Fund may invest in a variety of instruments including obligations of the United States and its agencies and securities fully guaranteed by the United States, certain corporate obligations, certain shares of Federal savings and loan associations and State chartered savings and loan associations, and collateralized repurchase agreements.

With respect to investments in the State’s internal cash management pool, all of the State Treasurer’s investments are insured or registered or are investments for which the securities are held by the State or its agents in the State’s name. Information pertaining to the reported amounts, fair values, and credit risk of the State Treasurer’s investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

The following tables set forth by level, within the fair value hierarchy, the Agency’s assets at fair value as of June 30, 2016:

	Assets at Fair Value as of June 30, 2016			
	Level 1	Level 2	Level 3	Total
Federal agency bonds		\$ 19,000,000		19,000,000
Collateralized mortgage-backed obligations		5,829,285		5,829,285
Other governmental guaranteed investments		319,625		319,625
Political subdivision bonds		56,375,554		56,375,554
Corporate bonds		334,858,687		334,858,687
Financial paper		14,997,834		14,997,834
TOTAL	\$ 0	\$ 431,380,985	\$ 0	\$ 431,380,985

The Fund’s assets assigned to the Level 2 input category are generally valued using the market approach, in which a security’s value is determined through reference to prices and information from market transactions for similar or identical assets.

There were no transfers of financial assets between levels during the period.

Investment income consisted of the following at June 30:

	2016
Interest earned	\$ 14,944,531
Accretion of discount	(492,210)
Change in unrealized gains (losses)	(13,161,470)
TOTAL INVESTMENT INCOME	\$ 1,290,851

NOTES TO THE BASIC FINANCIAL STATEMENTS
 STATE FISCAL ACCOUNTABILITY AUTHORITY INSURANCE RESERVE FUND

NOTE C -- PREMIUMS RECEIVABLE

Premiums receivable at June 30, 2016 consist of the following:

Local government	\$	13,059,887
State government		21,555,881
Other		1,807,070
	<u>\$</u>	<u>36,422,838</u>

Premiums receivable and deferred premium revenue include \$31,864,815 attributable to premiums billed in advance of coverage at June 30, 2016.

As of June 30, 2016, all of the receivables are deemed by management to be collectible. Therefore, no allowance for doubtful accounts has been recognized. In addition, the Fund has applied no discounts to its receivables as of June 30, 2016.

NOTE D -- CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended June 30, 2016:

	Beginning Balance	Additions	Disposals	Ending Balance
Capital Assets Being Depreciated:				
Furniture and equipment	\$ 100,451	\$ 8,485		\$ 108,936
Accumulated depreciation	(100,451)	(943)		(101,394)
CAPITAL ASSETS, NET	<u>\$ 0</u>	<u>\$ 7,542</u>	<u>\$ 0</u>	<u>\$ 7,542</u>

Depreciation expense for the year ended June 30, 2016 was \$943.

NOTES TO THE BASIC FINANCIAL STATEMENTS
 STATE FISCAL ACCOUNTABILITY AUTHORITY INSURANCE RESERVE FUND

NOTE E -- LEASE OBLIGATIONS

The Fund leases office space from a party outside of State government and this lease is accounted for as an operating lease. Rental expense under this lease for the year ended June 30, 2016 was \$244,260.

The future minimum lease payments due under this lease are as follows for the year ended June 30:

2017	\$	246,119
2018		246,119
2019		246,119
2020		246,119
2021		246,119
2022-2024		1,019,992
	\$	<u>2,250,587</u>

The Fund has also entered into an operating lease from a party outside the State government for office equipment which contains a cancellation provision and is subject to annual appropriation. In the normal course of business, operating leases are generally renewed or replaced by other leases. Operating leases are generally payable on a monthly basis. For the year ended June 30, 2016, expenses under this lease were \$15,412.

NOTE F -- PENSION PLANS

The South Carolina Public Employee Benefit Authority (PEBA), which was created July 1, 2012, administers the various retirement systems and retirement programs managed by its Retirement Division. PEBA has an 11-member Board of Directors, appointed by the Governor and General Assembly leadership, which serves as co-trustee and co-fiduciary of the systems and the trust funds.

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Systems and additions to/deductions from the Systems fiduciary net position have been determined on the accrual basis of accounting as they are reported by the Systems in accordance with generally accepted accounting principles (GAAP). For this purpose, revenues are recognized when earned and expenses are recognized when incurred. Benefit and refund expenses are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value.

By law, the State Fiscal Accountability Authority, which consists of five elected officials, also reviews certain PEBA Board decisions regarding the funding of the systems and serves as co-trustee of the systems in conducting that review. PEBA issues a Comprehensive Annual Financial Report (CAFR) containing financial statements and required supplementary information for the South Carolina Retirement Systems' Pension Trust Funds. The CAFR is publicly available on the Retirement Benefits' link on PEBA's website at www.peba.sc.gov, or a copy may be obtained by submitting a request to PEBA, PO Box 11960, Columbia, South Carolina 29211-1960. PEBA is considered a division of the primary government of the state of South Carolina and therefore, the

NOTES TO THE BASIC FINANCIAL STATEMENTS
STATE FISCAL ACCOUNTABILITY AUTHORITY INSURANCE RESERVE FUND

NOTE F -- PENSION PLANS – Continued

retirement trust fund financial information is also included in the comprehensive annual financial report of the state.

Plan Description

The South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan, was established effective July 1, 1945, pursuant to the provisions of Section 9-1-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for employees of the state, its public school districts, and political subdivisions.

The State Optional Retirement Program (ORP) is a defined contribution plan that is offered as an alternative to certain newly hired state, public school, and higher education employees. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers.

Membership

Membership requirements are prescribed in Title 9 of the South Carolina Code of Laws. A brief summary of the requirements under each system is presented below.

- SCRS – Generally, all employees of covered employers are required to participate in and contribute to the system as a condition of employment. This plan covers general employees and teachers and individuals newly elected to the South Carolina General Assembly beginning with the November 2012 general election. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class Three member.
- State ORP – As an alternative to membership in SCRS, newly hired state, public school, and higher education employees and individuals newly elected to the South Carolina General Assembly beginning with the November 2012 general election have the option to participate in the State Optional Retirement Program (State ORP), which is a defined contribution plan. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers. PEBA assumes no liability for

State ORP benefits. Rather, the benefits are the liability of the investment providers. For this reason, State ORP programs are not considered part of the retirement systems for financial statement purposes. Employee and employer contributions to the State ORP are at the same rates as SCRS. A direct remittance is required from the employers to the member's account with investment providers for the employee contribution (8.16 percent) and a portion of the employer contribution (5 percent). A direct remittance is also required to SCRS for the remaining portion of the employer contribution (5.75 percent) and an incidental death benefit contribution (.15 percent), if applicable, which is retained by SCRS.

Benefits

Benefit terms are prescribed in Title 9 of the South Carolina Code of Laws. PEBA does not have the authority to establish or amend benefit terms without a legislative change in the code of laws. Key elements of the benefit

NOTES TO THE BASIC FINANCIAL STATEMENTS
 STATE FISCAL ACCOUNTABILITY AUTHORITY INSURANCE RESERVE FUND

NOTE F -- PENSION PLANS – Continued

calculation include the benefit multiplier, years of service, and average final compensation. A brief summary of benefit terms is presented below.

- SCRS - A Class Two member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 65 or with 28 years of credited service regardless of age. A member may elect early retirement with reduced pension benefits payable at age 55 with 25 years of service credit. A Class Three member who has separated from service with at least eight or more year of earned service is eligible for a monthly pension upon satisfying the Rule of 90 requirement that the total of the member’s age and member’s creditable service equals at least 90 years. Both Class Two and Class Three members are eligible to receive a reduced deferred annuity at age 60 if they satisfy the five-or eight-year earned service requirement, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program.

The annual retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase. Members who retire under the early retirement provisions at age 55 with 25 years of service are not eligible for the benefit adjustment until the second July 1 after reaching age 60 or the second July 1 after the date they would have had 28 years of service credit had they not retired.

Contributions

Contributions are prescribed in Title 9 of the South Carolina Code of Laws. The PEBA Board may increase the SCRS employer and employee contribution rates on the basis of the actuarial valuations, but any such increase may not result in a differential between the employee and employer contribution rate that exceeds 2.9 percent of earnable compensation for SCRS. An increase in the contribution rates adopted by the board may not provide for an increase of more than one-half of one percent in any one year.

If the scheduled employee and employer contributions provided in the statute or the rates last adopted by the board are insufficient to maintain a thirty-year amortization schedule of the unfunded liabilities of the plans, the board shall increase the contribution rates in equal percentage amounts for the employer and employee as necessary to maintain the thirty-year amortization period; and, this increase is not limited to one-half of one percent per year.

- Required employee contribution rates for fiscal year 2015-2016 are as follows:

SCRS	
Employee Class Two	8.16% of earnable compensation
Employee Class Three	8.16% of earnable compensation
State ORP Employee	8.16% of earnable compensation

NOTES TO THE BASIC FINANCIAL STATEMENTS
 STATE FISCAL ACCOUNTABILITY AUTHORITY INSURANCE RESERVE FUND

NOTE F -- PENSION PLANS – Continued

- Required employer contribution rates for fiscal year 2014-2015 are as follows:

SCRS	
Employee Class Two	10.91% of earnable compensation
Employee Class Three	10.91% of earnable compensation
Employer Incidental Death Benefit	0.15% of earnable compensation
State ORP	
Employer Contribution	10.91% of earnable compensation*
Employer Incidental Death Benefit	0.15% of earnable compensation

* Of this employer contribution of 10.91% of earnable compensation, 5% of earnable compensation must be remitted by the employer directly to the ORP vendor to be allocated to the member’s account with the remainder of the employer contribution remitted to SCRS.

The Fund’s actual contributions to the SCRS for the years ended June 30, 2016, 2015, and 2014 were \$359,068, \$218,856, and \$207,039, respectively, and equaled the base required retirement contribution rate, excluding retiree insurance surcharge, of 10.91% for 2016, 10.75% for 2015, and 10.45% for 2014. Also, the Fund paid employer incidental death benefit program contributions of \$3,322, \$3,054, and \$2,972, at the rate of .15% of compensation for the current fiscal years ended June 30, 2016, 2015, and 2014, respectively. For fiscal year 2016, total contribution requirements to the ORP were \$29,211 from the Fund as employer and \$14,636 from its employees as plan members.

Net Pension Liability

The June 30, 2015, total pension liability, net pension liability, and sensitivity information were determined by PEBA’s consulting actuary, Gabriel, Roeder, Smith and Company (GRS) and are based on the July 1, 2014, actuarial valuations, as adopted by the PEBA Board and Budget Control Board, which utilized membership data as of July 1, 2014. The total pension liability was rolled-forward from the valuation date to the plan’s fiscal year ended June 30, 2015, using generally accepted actuarial principles. Information included in the following schedules is based on the certification provided by GRS.

The net pension liability (NPL) is calculated separately for each system and represents that particular system’s total pension liability determined in accordance with GASB No. 67 less that system’s fiduciary net position.

As of June 30, 2015, NPL amounts for SCRS are as follows:

System	Total Pension Liability	Plan Fiduciary Net Position	Employers’ Net Pension Liability	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
SCRS	\$ 44,097,310,230	\$ 25,131,828,101	\$ 18,965,482,129	57.0%

The total pension liability is calculated by the Systems’ actuary, and each plan’s fiduciary net position is reported in the Systems’ financial statements. The net position liability is disclosed in accordance with the requirements

NOTES TO THE BASIC FINANCIAL STATEMENTS
 STATE FISCAL ACCOUNTABILITY AUTHORITY INSURANCE RESERVE FUND

NOTE F -- PENSION PLANS – Continued

of GASB 67 in the Systems’ notes to the financial statements and required supplementary information. Liability calculations performed by the Systems’ actuary for the purpose of satisfying the requirements of GASB Nos. 67 and 68 are not applicable for other purposes, such as determining the plans’ funding requirements.

At June 30, 2016, the Fund reported a net pension liability of \$4,660,099 for its proportionate share of the net pension liability for the SCRS. The net pension liability was measured as of June 30, 2015, and the total pension liability for the Plan used to calculate the net pension liability was determined based on the most recent actuarial valuation report as of July 1, 2014 that was projected forward to the measurement date. The Fund’s proportion of the net pension liability was based on a projection of the Fund’s long-term share of contributions to the Plan relative to the projected contributions of all participating South Carolina state and local government employers, actuarially determined. At June 30, 2015 and June 30, 2014 the Fund’s SCRS proportion was .024571% and .024011% respectively.

For the year ended June 30, 2016, the Fund recognized pension expense of \$552,293 for the SCRS. At June 30, 2016, the Fund reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
SCRS		
Differences between expected and actual experience	\$ 113,986	
Net difference between projected and actual earnings		\$ 410,900
Fund’s contributions subsequent to the measurement date	290,522	
	<u>\$ 404,508</u>	<u>\$ 410,900</u>

The Fund reported \$290,522 as deferred outflows of resources related to the Fund’s contributions subsequent to the measurement date to the SCRS, which will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the SCRS will be recognized in pension expense as follows:

For the Year Ended June 30,	SCRS
2017	\$ (107,282)
2018	(107,282)
2019	(135,720)
2020	53,370
	<u>\$ (296,914)</u>

Actuarial Assumptions and Methods

Actuarial valuations involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Amounts determined during the valuation process are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. South

NOTES TO THE BASIC FINANCIAL STATEMENTS
 STATE FISCAL ACCOUNTABILITY AUTHORITY INSURANCE RESERVE FUND

NOTE F -- PENSION PLANS – Continued

Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. The last experience study was performed on data through June 30, 2010, and the next experience study is scheduled to be conducted after the June 30, 2015 annual valuation is complete.

The following table provides a summary of the actuarial assumptions and methods used in the July 1, 2014, valuations for SCRS.

	SCRS
Actuarial cost method	Entry Age
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases	3.50% to 12.5%
Includes inflation at	2.75%
Benefit adjustments	Lesser of 1% or \$500

The post-retiree mortality assumption is dependent upon the member’s job category and gender. This assumption includes base rates which are automatically adjusted for future improvement in mortality using published Scale AA projected from the year 2000. Assumptions used in the July 1, 2014, valuations for SCRS are as follows:

Former Job Class	Males	Females
Educators and Judges	RP-2000 Males (with White Collar adjustment) multiplied by 110%	RP-2000 Females (with White Collar adjustment) multiplied by 95%
General Employees and Members of the General Assembly	RP-2000 Males multiplied by 100%	RP-2000 Females multiplied by 90%
Public Safety and Firefighters	RP-2000 Males (with Blue Collar adjustment) multiplied by 115%	RP-2000 Females (with Blue Collar adjustment) multiplied by 115%

The long-term expected rate of return on pension plan investments, as used in the July 1, 2014, actuarial valuations, was based upon the 30 year capital market outlook at the end of the fourth quarter 2013, as developed by the Retirement Systems Investment Commission in collaboration with its investment consultant, Aon Hewitt. The long-term expected rates of return represent assumptions developed using an arithmetic building block approach, reflecting observable inflation and interest rate information available in the fixed income markets as well as Consensus Economic forecasts. Long-term assumptions for other asset classes are based on historical results, current market characteristic and professional judgment.

The expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted by the Investment Commission for fiscal year 2015. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and by adding expected inflation, which is summarized in the table on the following page. For actuarial purposes, the 7.50

NOTES TO THE BASIC FINANCIAL STATEMENTS
 STATE FISCAL ACCOUNTABILITY AUTHORITY INSURANCE RESERVE FUND

NOTE F -- PENSION PLANS – Continued

percent assumed annual investment rate of return set in statute and used in the calculation of the total pension liability includes a 4.75 percent real rate of return and a 2.75 percent inflation component.

Asset Class	Target Asset Allocation	Expected Arithmetic Real Rate of Return	Long Term Expected Portfolio Real Rate of Return
Short Term			
Cash	2.0%	1.90%	0.04%
Short Duration	3.0%	2.00%	0.06%
Domestic Fixed Income			
Core Fixed Income	7.0%	2.70%	0.19%
Mixed Credit	6.0%	3.80%	0.23%
Global Fixed Income			
Global Fixed Income	3.0%	2.80%	0.08%
Emerging Markets Debt	6.0%	5.10%	0.31%
Global Public Equity	31.0%	7.10%	2.20%
Global Tactical Asset Allocation	10.0%	4.90%	0.49%
Alternatives			
Hedge Funds (Low Beta)	8.0%	4.30%	0.34%
Private Debt	7.0%	9.90%	0.69%
Private Equity	9.0%	9.90%	0.89%
Real Estate (Broad Market)	5.0%	6.00%	0.30%
Commodities	3.0%	5.90%	0.18%
Total Expected Real Return	100%		6.00%
Inflation for Actuarial Purposes			2.75%
Total Expected Nominal Return			8.75%

Discount Rate

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in SCRS will be made based on the actuarially determined rates based on provisions in the South Carolina State Code of Laws. Based on those assumptions, each system’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The following table presents the sensitivity of the Fund’s proportionate share of the net pension liability to changes in the discount rate.

System	1.00% Decrease (6.50%)	Current Discount Rate (7.50%)	1.00% Increase (8.50%)
SCRS	\$ 5,875,032	\$ 4,660,099	\$ 3,641,799

NOTES TO THE BASIC FINANCIAL STATEMENTS
 STATE FISCAL ACCOUNTABILITY AUTHORITY INSURANCE RESERVE FUND

NOTE F -- PENSION PLANS – Continued

Pension Plan Fiduciary Net Position

Detailed information regarding the fiduciary net position of the plans administered by PEBA is publicly available on PEBA’s Retirement Benefits’ website at www.peba.sc.gov, or a copy may be obtained by submitting a request to PEBA, PO Box 11960, Columbia, South Carolina 29211-1960.

NOTE G -- TRANSACTIONS WITH STATE ENTITIES

The Fund has significant transactions with the State of South Carolina and various State agencies.

Property and liability coverage is provided for a fee to various State agencies and within the State Fiscal Accountability Authority. The fees are recorded as revenues in the financial statements for the Fund.

The following details the insurance premiums received by the Fund from other state agencies and divisions of the State Fiscal Accountability Authority during the year ended June 30, 2016:

Adjutant General of South Carolina	\$	229,193
Administrative Law Court		2,170
Admn Administration - OEPP		59,181
Admn Div. of Technology Operations		208,414
Admn Division of General Services		121,724
Admn Executive Budget Office		2,576
Admn GS Facilities Management		423,543
Admn GS State Fleet MGT & IMS		1,171,388
Admn Hunley Commission		3,486
Admn Office of Human Resources		4,581
Admn Office of the Executive Dir.		55,065
Admn Surplus Property		9,174
Aeronautics Division		56,737
Agriculture Dept. SC		86,150
Aiken County Mental Health		1,251
Aiken Technical College		79,450

NOTES TO THE BASIC FINANCIAL STATEMENTS
STATE FISCAL ACCOUNTABILITY AUTHORITY INSURANCE RESERVE FUND

NOTE G -- TRANSACTIONS WITH STATE ENTITIES – Continued

Alcohol & Other Drug Abuse Services	9,067
Anderson-Oconee Pickens	7,061
Appellate Defense Commission	20,842
Archives & History Department	17,590
Arts Commission	12,083
Attorney General Office	36,335
Berkeley County Mental Health	1,103
Blind Commission	20,828
Carolina Cup Racing Association	26,388
Central Carolina Technical College	100,992
Charleston Dorchester Community	4,997
Charleston Naval Complex	17,267
Citadel	617,478
Clemson University	3,380,905
Coastal Carolina University	1,170,835
Coastal Empire - M H Center	1,752
College of Charleston	1,219,087
Columbia Area Mental Health Center	1,403
Commission for Minority Affairs	4,733
Commission on Higher Education	17,798
Commission on Prosecution Coord.	18,139
Comptroller General	11,227
Confederate Relic Room &	18,528
Continuing Legal Education	10,380
Court of Appeal - Finance	71,753
DDSN - Midlands Center	30,978
DDSN - Pee Dee Center	28,066
DDSN - Whitten Village	53,854
Denmark Technical College	58,267
Department of Commerce	17,833
Department of Corrections	1,959,024
Department of Education	4,471,303
Department of Education/First Steps	17,202
Department of Juvenile Justice	484,394
Department of Mental Health	3,250
Department of Natural Resources	950,616

NOTES TO THE BASIC FINANCIAL STATEMENTS
STATE FISCAL ACCOUNTABILITY AUTHORITY INSURANCE RESERVE FUND

NOTE G -- TRANSACTIONS WITH STATE ENTITIES – Continued

Department of Transportation	1,000
Dept of Health and Environmental Co	250
Dept of Juvenile Justice	250
Dept of Mental Health	1,760,667
Dept of Motor Vehicles	172,164
Dept of Social Services	672,870
Dept of Transportation	8,882,825
DHEC	1,099,408
DHEC - Finance Admn	10,000
Disabilities & Special Needs	48,470
Disabilities & Special Needs Dept S	281,876
Education Oversight Comm	7,179
Election Commission	9,056
ETV/SDN	282,639
Financial Inst State Board of	13,923
Financial Institute St Bd Of	66
Florence Darlington Technical College	203,779
Forestry Commission	243,411
Francis Marion University	416,634
Governors Office	26,001
Governor's School for Science	65,137
Greenville Mental Health	2,311
Greenville Technical College	350,433
Health and Human Services Finance	164,894
Higher Education Tuition	1,523
Horry County Higher Education Commi	8,160
Horry-Georgetown Technical College	173,828
House of Representatives	129,152
Human Affairs Comm On	7,744
John De La Howe School	97,639
Lander University	308,860
Legislative Audit Council	4,913
Legislative Council	2,734
Legislative Services Agency	16,770
Lexington County Community Mental H	1,421
Lieutenant Governors Office	18,246

NOTES TO THE BASIC FINANCIAL STATEMENTS
STATE FISCAL ACCOUNTABILITY AUTHORITY INSURANCE RESERVE FUND

NOTE G -- TRANSACTIONS WITH STATE ENTITIES – Continued

LLR - Architectural Exam Bd	182,659
Medical Univ Hospital Authority	2,670,710
Medival Univ of SC	1,657,359
Midlands Tech College	297,096
MUSC	7,028,448
Myrtle Beach Air Base	4,980
Northeastern Technical College	66,539
Office of Regulatory Staff	12,782
Old Exchange Bldg. Commission	2,366
Orangeburg Area Mental Health	2,988
Orangeburg - Calhoun Tech College	85,390
Parks Recreation & Tourism	615,968
Patriots Point Dev Authority	107,901
Pee Dee Mental Health	3,505
Piedmont Mental Health Center	3,457
Piedmont Technical College	179,044
Probation, Parole & Pardon Services	209,139
Procurement Review Panel	3,173
Public Employee Benefits Authority	119,024
Public Safety Department	816,799
Public Service Authority SC	397,287
Public Service Commission	11,732
Retirement System Investment Commis	17,654
Revenue & Taxation Department	106,868
Revenue and Fiscal Affairs Office	36,073
SC Dept of Insurance	15,183
Santee Wateree Mental Health	2,130
SC Criminal Justice Academy	79,553
SC Dept of Consumer Affairs	10,987
SC Dept of Employment and Workforce	131,998
SC Education Lottery Comm	61,873
SC FFA Association	5,355
SC Gov. School for Arts and Human.	58,481
SC High School League	16,179
SC Malpractice Patients Comp Fund	7,589
SC Office of Inspector General	4,903

NOTES TO THE BASIC FINANCIAL STATEMENTS
STATE FISCAL ACCOUNTABILITY AUTHORITY INSURANCE RESERVE FUND

NOTE G -- TRANSACTIONS WITH STATE ENTITIES – Continued

SC Public Railways	90,038
SC Rural Infrastructure Authority	8,750
SC School for the Deaf and Blind	201,548
SC State Accident Fund	8,207
SC State Senate	28,433
SC State University	351,582
SC Transportation Infrastructure BA	4,385
SC Worker's Compensation Comm.	29,714
Sea Grant Consortium, S.C.	2,773
Secretary of State	7,452
SFAA Administration	67,569
SFAA Insurance Reserve Fund	38,473
SFAA Procurement Services Office	20,760
Sled	532,029
South Carolina Conservation Bank	6,059
South Carolina Jobs	5,001
Spartanburg Area Mental Health	2,349
Spartanburg Technical College	196,410
State Auditor's Office	5,984
State Board of Financial Institution	187
State Ethics Commission	6,678
State Housing Finance & Dev Auth	29,562
State Library	12,714
State Museum Commission	26,478
State Treasurer's Office	17,290
Tech & Comp Edy St Bd For	55,957
Technical College of the Low Country	78,836
Tobacco Settlement Revenue Management	2,490
Tri - County Community Mental Health	1,077
Tri - County Technical College	149,294
Trident Technical College	416,255
University of SC - Aiken	162,435
University of South Carolina	43,118
University of South Carolina	3,804,934
USC School of Medicine - Greenville	12,419
USC - Beaufort Campus	68,324

NOTES TO THE BASIC FINANCIAL STATEMENTS
 STATE FISCAL ACCOUNTABILITY AUTHORITY INSURANCE RESERVE FUND

NOTE G -- TRANSACTIONS WITH STATE ENTITIES – Continued

USC - Lancaster Campus	38,125
USC - Salkehatchie	53,183
USC - School of Medicine	1,158,142
USC - Spartanburg	195,816
USC - Sumter Campus	39,741
Vocational Rehabilitation Dept	397,350
Waccamaw Mental Health Center	1,594
Will Lou Gray Opportunity School	34,900
Williamsburg Technical College	28,712
Winthrop University	582,678
York Technical College	159,719
	\$ 57,112,370

Premiums due from these entities as of June 30, 2016 were:

Adjutant General of South Carolina	\$ 226,038
Admn Division of General Services	28,955
Admn GS Facilities Management	6,380
Arts Commission	12,369
Berkey County Mental Health	1,373
Central Carolina Technical College	102,198
Clemson University	3,370,113
Coastal Carolina University	1,244,385
Court of Appeal - Finance	72,033
Department of Corrections	1,880,961
Department of Education	4,719,794
Department of Education/First Steps	19,515
Department of Juvenile Justice	455,075
Dept of Mental Health	1,674,707
Dept of Motor Vehicles	162,097
Disabilities & Special Needs	49,708
ETV/SDN	339,988
Florence Darlington Technical College	219,068
Greenville Mental health	2,109
Health and Human Services Finance	162,938

NOTES TO THE BASIC FINANCIAL STATEMENTS
 STATE FISCAL ACCOUNTABILITY AUTHORITY INSURANCE RESERVE FUND

NOTE G -- TRANSACTIONS WITH STATE ENTITIES – Continued

Horry - Georgetown Technical College	\$	164,523
Lander University		314,013
Marlboro Cnty Disabilities		13,201
Medical Univ Hospital Authority		21,370
Medical Univ of SC		764
Midlands Tech College		10,674
Office of Regulatory Staff		12,298
Patritots Point		113,327
Piedmont Mental Health Center		2,947
Piedmont Technical College		45
Public Safety Department		905,488
SC Criminal Justice Academy		79,194
SC State University		333,166
Sea Grant Consortium, S.C.		3,019
Sled		395,883
State Auditor's Office		5,821
State Ethics Commission		6,902
State Library		11,641
State Museum Commission		24,870
Technical College of the Low Country		78,835
University of SC - Aiken		162,126
University of South Carolina		3,794,936
USC - Spartanburg		194,941
York Technical College		156,093
	\$	<u>21,555,881</u>

The Fund has financial transactions with various State agencies during the fiscal year. Significant payments were made to Divisions (Offices) of the State Fiscal Accountability Authority for vehicle rental, printing, telephone, interagency mail, data processing services, purchasing, record maintenance, internal audit and personnel services and to the South Carolina Public Employee Benefit Authority for retirement and insurance plan contributions. Significant payments were also made for unemployment and workers' compensation coverage for employees to other agencies. The amount of expenses applicable to related party transactions not disclosed elsewhere as of June 30, 2016 are as follows:

NOTES TO THE BASIC FINANCIAL STATEMENTS
 STATE FISCAL ACCOUNTABILITY AUTHORITY INSURANCE RESERVE FUND

NOTE G -- TRANSACTIONS WITH STATE ENTITIES – Continued

South Carolina Department of Employment and Workforce	\$	819
South Carolina State Accident Fund		13,105
	\$	<u>13,924</u>

NOTE H -- CONTINGENCIES

By the nature of its operations and responsibilities as an insurer, the Fund has been named in a number of lawsuits, many of which are pending. A provision has been made in the financial statements for the payment of routine claims. Management is not aware of any other claims that, in their opinion, would have a material effect on the financial statements and, therefore, no liability has been recorded.

As a result of the 2004-2005 Appropriations Act Proviso 63.47, the Fund is to provide funds to cover legal defense costs of the State associated with the Abbeville School Funding litigation case. During the year ended June 30, 2016, the Fund did not incur any legal defense costs associated with the case. However, the ultimate amount of this liability is not known as of the date of our report.

As a result of the 2006-2007 Appropriations Act Proviso 63.33, the Fund is to provide funds to cover legal defense costs of the State associated with the Prison Mental Health Care litigation case. During the year ended June 30, 2016, the Fund did not incur any legal defense costs associated with the case. However, the ultimate amount of this liability is not known as of the date of our report.

As a result of the 2015-2016 Appropriations Act Proviso 59.9, the Fund is to provide up to \$50,000 of opposing attorney fees and court costs as ordered by the court in those cases in which the Attorney General defends one or more public officers in their official capacities. During the year ended June 30, 2016, the Fund incurred \$189,370 in legal defense costs associated with this Proviso. The ultimate amount of this liability is not known as of the date of our report.

NOTE I -- RISK MANAGEMENT/REINSURANCE

The Fund is exposed to various risks of loss and maintains State or commercial insurance coverage for each of those risks except for certain types of risks for which it is self-insured (these risks are further described herein). Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. There were no significant reductions in insurance coverage from coverage in the prior year.

The Fund pays insurance premiums to itself, certain other State agencies and commercial insurers to cover risks that may occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered losses sustained during the policy period in accordance with insurance policy and benefit program limits.

NOTES TO THE BASIC FINANCIAL STATEMENTS
STATE FISCAL ACCOUNTABILITY AUTHORITY INSURANCE RESERVE FUND

NOTE I -- RISK MANAGEMENT/REINSURANCE - Continued

State management believes it is more economical to manage certain risks internally and set aside assets for claim settlement. Several State funds accumulate assets and the State itself assumes substantially all risks for the following:

1. Claims of State employees for unemployment compensation benefits (Department of Employment and Workforce);
2. Claims of covered employees for workers' compensation benefits for job-related illnesses or injuries (State Accident Fund);
3. Claims of covered public employees for health and dental insurance benefits (Public Employee Benefits Authority); and
4. Claims of covered public employees for long-term disability and group-life insurance benefits (Public Employee Benefits Authority).

Employees elect health coverage through either a health maintenance organization or through the State's self-insured plan. All of the other coverages listed above are through the applicable State self-insured plan except dependent and optional life premiums are remitted to commercial carriers.

The Fund acts as an insurance company in that it issues policies, accumulates assets to cover the risks of loss, and pays claims incurred for covered losses related to the following Fund assets, activities, and/or events:

1. Theft of, damage to, or destruction of assets;
2. Auto liability for state and non-state owned vehicles; and
3. General torts.

State agencies and other entities are the primary participants in the Fund.

The Fund has recorded insurance premium expense regarding its internal operations in the applicable administrative expense categories. The Fund has not transferred the portion of the risk of loss related to insurance policy deductibles and limits. The Fund has not reported an estimated claims loss expense and the related liability at June 30, 2016, based on the requirements of GASB 10 because information at June 30, 2016 did not indicate that an asset had been impaired or a liability had been incurred. GASB 10 states that a liability for claims must be reported only if information prior to issuance of the financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred on or before June 30th and the amount of loss is reasonably estimable.

The Fund purchases insurance and reinsurance and separately reports the related reinsurance premium and premium expenses. Insurance is purchased to cover risks where the Fund has limited expertise (aircraft insurance and ocean marine insurance). Reinsurance is purchased to limit the Fund's liability for catastrophic loss (property reinsurance), to obtain specialized engineering services (boiler and machinery reinsurance), or to obtain services for which the Fund is not adequately staffed (automobile liability reinsurance). The Fund self-insures Tort Liability Insurance, Automobile Physical Damage Insurance, Medical Professional Liability and the self-insured retention for Property, Inland Marine, and Boiler and Machinery Insurance.

NOTES TO THE BASIC FINANCIAL STATEMENTS
 STATE FISCAL ACCOUNTABILITY AUTHORITY INSURANCE RESERVE FUND

NOTE I -- RISK MANAGEMENT/REINSURANCE - Continued

Property Reinsurance for catastrophic losses is purchased for losses above the following loss levels:

\$10,000,000 per occurrence, \$15,000,000 in the aggregate, \$1,000,000 trailing after both occurrence and aggregate

NOTE J -- RECONCILIATION OF CLAIMS LIABILITY

The schedule below presents the changes in claims liabilities for the years ended June 30:

	<u>2016</u> <u>(in thousands)</u>	<u>2015</u> <u>(in thousands)</u>
Unpaid claims and claim adjustment expenses at beginning of the fiscal year	\$ 264,339	\$ 258,398
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current fiscal year	26,086	11,962
Increases (decreases) in provision for insured events of prior fiscal years	<u>64,257</u>	<u>67,969</u>
Total incurred claims and claim adjustment expenses	<u>90,343</u>	<u>79,931</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	26,125	11,073
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	<u>64,352</u>	<u>62,917</u>
Total payments	<u>90,477</u>	<u>73,990</u>
Total unpaid claims and claim adjustment expenses at end of the fiscal year	<u>\$ 264,205</u>	<u>\$ 264,339</u>
The above totals are comprised of the following:		
Claims payable	\$ 167,893	\$ 167,820
Claims incurred but not reported	<u>96,312</u>	<u>96,519</u>
TOTAL	<u>\$ 264,205</u>	<u>\$ 264,339</u>

NOTES TO THE BASIC FINANCIAL STATEMENTS
 STATE FISCAL ACCOUNTABILITY AUTHORITY INSURANCE RESERVE FUND

NOTE K -- COMPENSATED ABSENCES

Changes in compensated absences for the year ended June 30, 2016 were as follows:

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016	Due Within One Year
Compensated absences payable	\$ 251,217	\$ 303,421	\$ (222,190)	\$ 332,448	\$ 118,851

NOTE L -- INSURANCE PREMIUMS AND CLAIMS EXPENSE

Total insurance premium revenues and direct claims by line of insurance are as follows:

	Insurance Premiums	Claims
Tort Liability	\$ 34,990,869	\$ 31,267,282
Data Processing, Inland Marine, and Business Interruption	8,605,928	368,544
Auto	20,258,699	4,863,678
Building and Personal Property and Builders Risk	32,775,223	18,001,934
Professional Liability	18,422,983	17,847,097
School Bus	3,901,504	4,448,574
	<u>\$ 118,955,206</u>	<u>\$ 76,797,109</u>

REQUIRED SUPPLEMENTAL INFORMATION

SCHEDULE OF THE FUND'S PROPORTIONATE SHARE OF THE NET
PENSION LIABILITY - SOUTH CAROLINA RETIREMENT SYSTEM
STATE FISCAL ACCOUNTABILITY AUTHORITY
INSURANCE RESERVE FUND

	<u>2016</u>	<u>June 30, 2015</u>	<u>2014</u>
Fund's proportion of the net pension liability	0.024571%	0.024011%	0.024011%
Fund's proportionate share of the net pension liability	\$ 4,660,099	\$ 4,133,937	\$ 4,306,757
Fund's covered-employee payroll	\$ 2,035,873	\$ 1,981,230	\$ 2,576,340
Fund's proportionate share of the net pension liability as a percentage of its covered employee payroll	228.90%	208.66%	167.17%
Plan fiduciary net position as a percentage of the total pension liability	56.99%	59.92%	56.39%

Note: The amounts presented were determined as of June 30th of the previous year.

SCHEDULE OF THE FUND'S CONTRIBUTIONS - SOUTH CAROLINA RETIREMENT SYSTEM
 STATE FISCAL ACCOUNTABILITY AUTHORITY
 INSURANCE RESERVE FUND

	For the Year Ended		
	2016	June 30, 2015	2014
Contractually required contribution	\$ 241,000	221,910	\$ 210,010
Actual contributions	241,000	221,910	210,010
Contribution deficiency	\$ 0	\$ 0	\$ 0
Fund's covered-employee payroll	\$ 2,211,011	2,035,873	\$ 1,981,230
Contributions as a percentage of covered-employee payroll	10.90%	10.90%	10.60%

GOVERNMENTAL AUDITING REPORT

1704 Laurel Street
Columbia, SC 29201

PO. Box 2411
Columbia, SC 29202



Phone (803) 799-0555
Fax (803) 799-4212

www.hobbscpa.com

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

Mr. George L. Kennedy, III, CPA
South Carolina Office of the State Auditor
Columbia, South Carolina

We have audited, 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, the financial statements of the business-type activities of the State Fiscal Accountability Authority Insurance Reserve Fund (the "Fund") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated September 28, 2016.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting (internal control) 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 Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund'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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control 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 Fund'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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Columbia, South Carolina
September 28, 2016

The Holla Group, P.A.