

September 30, 1998

The Honorable David M. Beasley, Governor  
and  
Mr. Ivin D. Parker, Director  
South Carolina State Accident Fund  
Columbia, South Carolina

This report on the audit of the financial statements of the South Carolina State Accident Fund for the fiscal year ended June 30, 1998, was issued by J.W. Hunt & Company, 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,

Thomas L. Wagner, Jr., CPA  
State Auditor

TLW/cwc

SOUTH CAROLINA STATE ACCIDENT FUND  
COLUMBIA, SOUTH CAROLINA

FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 1998 AND 1997  
AND  
INDEPENDENT AUDITORS' REPORT

SOUTH CAROLINA STATE ACCIDENT FUND

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## INDEPENDENT AUDITORS' REPORT

Thomas L. Wagner, Jr., CPA  
State Auditor  
Columbia, South Carolina

We have audited the accompanying balance sheets of the South Carolina State Accident Fund as of June 30, 1998 and 1997, and the related statements of revenues, expenses, and changes in retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the South Carolina State Accident Fund, an internal service fund, and are not intended to present fairly the financial position of the State of South Carolina primary government or financial reporting entity and the results of its operations and cash flows of its proprietary fund types in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the South Carolina State Accident Fund as of June 30, 1998 and 1997, and the results of its operations and cash flows for the years then ended, in conformity with generally accepted accounting principles.

Columbia, South Carolina  
September 11, 1998

SOUTH CAROLINA STATE ACCIDENT FUNDBALANCE SHEETS, JUNE 30, 1998 AND 1997

<u>ASSETS</u>		
	<u>1998</u>	<u>1997</u>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$50,349,109	\$56,179,377
Premiums receivable, net of allowance for uncollectible accounts of \$379,945 - 1998 and \$231,955 - 1997	20,277,766	36,450,901
Claims recoveries and reimbursement receivables	206,978	1,162,589
Accrued interest receivable	458,743	692,472
Total current assets	<u>71,292,596</u>	<u>94,485,339</u>
<b>FIXED ASSETS:</b>		
Computer and technical equipment	9,259,191	4,788,416
Office furniture and equipment	347,400	346,815
Total	<u>9,606,591</u>	<u>5,135,231</u>
Less: Accumulated depreciation	<u>1,176,467</u>	<u>562,786</u>
Fixed assets net of accumulated depreciation	<u>8,430,124</u>	<u>4,572,445</u>
Total assets	<u>\$79,722,720</u>	<u>\$99,057,784</u>
<u>LIABILITIES AND FUND EQUITY</u>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 1,678,953	\$ 1,608,900
Accrued compensated absences and related benefits	305,496	265,873
Accrued payroll and related liabilities	277,530	254,654
Accrued premium adjustments	125,109	1,298,941
Deferred premium revenue	17,761,533	34,340,124
Funds held in escrow	545,015	229,326
Unpaid claims liability and claims adjustment expenses - payable within 1 year	25,178,000	24,065,000
Less: Amounts recoverable from the State of South Carolina	<u>(399,000)</u>	<u>(826,000)</u>
Total current liabilities	<u>45,472,636</u>	<u>61,236,818</u>
<b>NONCURRENT LIABILITIES:</b>		
Unpaid claims liability and claims adjustment expenses - payable beyond 1 year	26,148,000	34,378,000
Less: Amounts recoverable from the State of South Carolina	<u>(18,000)</u>	<u>(74,000)</u>
Total noncurrent liabilities	<u>26,130,000</u>	<u>34,304,000</u>
Total liabilities	<u>\$71,602,636</u>	<u>\$95,540,818</u>
<b>FUND EQUITY:</b>		
Retained earnings	<u>8,120,084</u>	<u>3,516,966</u>
Total liabilities and fund equity	<u>\$79,722,720</u>	<u>\$99,057,784</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

EXHIBIT B

SOUTH CAROLINA STATE ACCIDENT FUND

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN RETAINED  
EARNINGS, FOR THE YEARS ENDED JUNE 30, 1998 AND 1997

	<u>1998</u>	<u>1997</u>
OPERATING REVENUES:		
Premiums	\$39,282,056	\$31,171,890
Registration fees	920	6,280
	<hr/>	<hr/>
Total operating revenues	39,282,976	31,178,170
	<hr/>	<hr/>
OPERATING EXPENSES:		
Claims expense	26,061,651	25,676,432
	<hr/>	<hr/>
Administrative expenses:		
Second Injury Fund assessment	5,794,617	5,544,878
Personal services and employee benefits	3,310,715	3,262,315
Contractual services	1,082,175	1,252,881
Rent and insurance	366,305	363,313
Supplies and materials	180,477	230,600
Bad debts	366,578	40,961
Depreciation	638,156	229,395
Other	136,505	123,897
	<hr/>	<hr/>
Total administrative expenses	11,875,528	11,048,240
	<hr/>	<hr/>
Total operating expenses	37,937,179	36,724,672
	<hr/>	<hr/>
OPERATING INCOME (LOSS)	1,345,797	(5,546,502)
INTEREST INCOME	3,257,321	3,654,928
	<hr/>	<hr/>
NET INCOME (LOSS)	4,603,118	(1,891,574)
RETAINED EARNINGS AT BEGINNING OF YEAR	3,516,966	5,408,540
	<hr/>	<hr/>
RETAINED EARNINGS AT END OF YEAR	\$ 8,120,084	\$ 3,516,966
	<hr/> <hr/>	<hr/> <hr/>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

SOUTH CAROLINA STATE ACCIDENT FUNDSTATEMENTS OF CASH FLOWS,  
FOR THE YEARS ENDED JUNE 30, 1998 AND 1997

	<u>1998</u>	<u>1997</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Operating income (loss)	\$ 1,345,797	\$ (5,546,502)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation expense	638,156	229,395
Bad debt expense	366,578	40,961
Loss on disposal of capital assets	20,466	-
Changes in assets and liabilities:		
(Increase) decrease in premiums receivable	15,806,557	(19,912,678)
(Increase) decrease in claims recoveries and reimbursement receivable	955,611	(828,565)
Increase in accounts payable	70,053	1,167,233
Increase in accrued compensated absences and related benefits	39,623	37,489
Increase in accrued payroll and related benefits	22,876	9,934
Increase (decrease) in accrued premium adjustments	(1,173,832)	276,447
Increase (decrease) in deferred premium revenue	(16,578,591)	26,440,468
Increase in funds held in escrow	315,689	142,789
(Decrease) in estimate of unpaid claims liability, net of amounts recoverable from the State of South Carolina	(6,634,000)	(1,160,000)
Total adjustments	(6,150,814)	6,443,473
Net cash provided (used) by operating activities	(4,805,017)	896,971
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Proceeds from sale of fixed assets	3,225	-
Acquisition of capital assets	(4,519,526)	(3,839,407)
Net cash used by capital and related financing activities	(4,516,301)	(3,839,407)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest received on deposits	3,491,050	3,573,919
Net increase (decrease) in cash and cash equivalents	(5,830,268)	631,483
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>56,179,377</u>	<u>55,547,894</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$50,349,109</u>	<u>\$56,179,377</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS

## SOUTH CAROLINA STATE ACCIDENT FUND

### NOTES TO FINANCIAL STATEMENTS, JUNE 30, 1998 AND 1997

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#### NOTE 1 - REPORTING ENTITY:

The South Carolina State Accident Fund (the Fund), a primary entity, is part of the primary government of the State of South Carolina and is included in the Comprehensive Annual Financial Report of the State of South Carolina. The Fund was established by Section 42-7-10 of the Code of Laws of South Carolina, as amended, to provide worker's compensation insurance coverage to State entities. Although the State is the Fund's predominant participant, counties, municipalities, and other political subdivisions of the State may also elect to participate. The State assumes the full risk for covered claims. The Fund is responsible for investigating, adjusting and paying workers' compensation claims as awarded by the Workers' Compensation Commission for job-related accidental injury, disease, or death to employees of participants.

The Fund is administered by a director appointed by the Governor with the advice and consent of the Senate for a term of six years. The accompanying financial statements present the financial position, results of operations, and cash flows solely of the Fund and do not include any other departments, institutions, component units, etc., of the State of South Carolina.

The core of the financial reporting entity is the primary government which has a separately elected governing body. As required by generally accepted accounting principles, 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 budget, personnel, procurement, and other laws of the State and the policies and procedures for State agencies are applicable to the activities of the Fund.

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

##### FUND ACCOUNTING:

The South Carolina state government uses funds and account groups to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with related liabilities and residual entities or balances and changes therein which are segregated to carry on specific activities or attain certain objectives in accordance with applicable regulations, restrictions, or limitations.





## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

### FUND ACCOUNTING (CONTINUED):

The South Carolina State Accident Fund is an internal service fund of the proprietary fund types of the State of South Carolina. Such funds account for the financing of goods and services by one department or agency of a governmental unit to others on a cost reimbursement basis.

### BASIS OF ACCOUNTING:

The accounting policies of the Fund conform to generally accepted accounting principles (GAAP) applicable to proprietary activities as prescribed by the Governmental Accounting Standards Board (GASB), the recognized standard-setting body for GAAP for all state governmental entities. Proprietary fund entities use the accrual basis of accounting. If measurable, revenues are recognized when earned and expenses when incurred. In accordance with GASB Statement 20, the Fund has elected to apply all applicable GASB pronouncements as well as all applicable FASB pronouncements issued on or before November 30, 1989, not in conflict with GASB standards.

### CASH AND CASH EQUIVALENTS:

The amount shown in the financial statements as “cash and cash equivalents” represents cash on hand with the State Treasurer and cash invested in various instruments by the State Treasurer as part of the State’s cash management pool.

Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. 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.

The State’s 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. Investments in the pool are recorded at cost. Amortization of premiums and discounts is allocated and reported as interest income. Interest earned by the agency’s special deposit account 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 undistributed interest received by the pool. Amortization of premiums and discounts is allocated and reported as interest income. The Fund has a general deposit account and two special deposit accounts.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

CASH AND CASH EQUIVALENTS (CONTINUED):

Although the cash management pool includes some long-term investments, it operates as a demand deposit account; therefore, for credit risk information pertaining to the cash management pool, see the deposits disclosures in Note 4.

ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS:

The allowance for uncollectible accounts is estimated by management as 2% of year-end premiums receivable from municipalities and counties as well as specific identification of certain accounts. No allowance is recorded for billed premiums for future years not yet earned.

PROPERTY AND EQUIPMENT:

Property and equipment are recorded at cost. As a rule, items with an individual cost of \$400 or more and a useful life of at least two years are capitalized. Cost of assets acquired under long-term contracts are capitalized as incurred. Depreciation is provided using the straight-line method over the useful lives of the related assets and begins at the time the asset is placed in service.

Major classifications of property and equipment and related useful lives are summarized below:

	ESTIMATED USEFUL <u>LIFE YEARS</u>
Computer and technical equipment	2-10
Office furniture and equipment	2-20

UNPAID CLAIMS LIABILITY:

The Fund establishes unpaid claims liabilities based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. The amount accrued includes estimated specific incremental claims adjustment expenses but not administrative expenses. Estimated amounts of salvage and subrogation and reinsurance recoverable, if any, on both settled and unsettled claims have been deducted from the liability for unpaid claims to the extent reasonably estimable. In addition, to the extent reasonably estimable, the liability for unpaid claims has been adjusted for amounts to be recovered or reimbursed from participants who retain the risk of loss for specific periods. This includes amounts recoverable from the State of South Carolina for state agency claims prior to July 1, 1986. See Note 8 for further explanation. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates

that

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

### UNPAID CLAIMS LIABILITY (CONTINUED):

reflect recent settlements, claim frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because

reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

The Fund acts as a claims servicer with respect to claims incurred by the Department of Transportation prior to January 1, 1994 and the Department of Public Safety prior to August 1, 1993. All risks of loss for those periods are retained by those agencies. The Fund receives full reimbursement of claims paid, including an amount for administrative costs. Amounts due for reimbursement are reported as a receivable and reduction of claims expense. The receivable due from the agency is reduced by amounts, if any, which may be due from third parties or the Second Injury Fund. See Note 14 for additional information.

### REINSURANCE:

The Fund has obtained a reinsurance agreement to reduce its exposure to catastrophic losses on insured events. Losses from an insured event are covered up to \$45 million, with the Fund retaining the risk for the first \$5 million of loss. Coverage is limited to \$2 million per individual. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Fund as direct insurer of the risks reinsured. The Fund does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers. There were no amounts estimated to be recoverable from reinsurers at June 30, 1998 and 1997.

### FUNDS HELD IN ESCROW:

The Fund has established an escrow account to maintain accountability for funds received in settlement of third party reimbursable claims until final disposition of the case has been determined. The funds are deposited in this account upon receipt and recorded as a liability. Upon disposition of the case, the funds are transferred to the trust deposit account and recorded as a reduction of claims expense.

### RECOGNITION OF PREMIUM REVENUE:

Premiums are recognized as revenue on a pro rata basis over the policy term. Policies are billed and issued on both the fiscal-year and calendar-year basis. Premiums are based on an actuarial method and are currently adjusted so that over a reasonable period of time expected revenues, including investment income, and anticipated expenses will be approximately equal.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

### RECOGNITION OF PREMIUM REVENUE (CONTINUED):

A receivable is recorded at the time a premium is billed. Deferred revenue is recognized to the extent that the premiums billed and not yet received are for future periods. In addition, deferred revenue is recognized for unearned premiums received.

### BUDGET POLICY:

The Fund is granted an annual appropriation for operating purposes by the General Assembly (to be funded by workers' compensation premiums and interest earned thereon). The appropriation as enacted becomes the legal operating budget for the Fund. The General Assembly enacts the budget through passage of specific line-item appropriations by program within budgetary unit within budgetary fund category, State General Fund or other budgeted funds. Budgetary control is maintained at the line-item level of the entity. Agencies may process disbursement vouchers in the State's budgetary accounting system only if enough cash and appropriation authorization exist.

Transfers of funds may be approved by the State Budget and Control Board under its authority or by the agency as set forth in the 1998 Appropriation Act proviso 72.9 as follows: Agencies are authorized to transfer appropriations within programs and within the agency with notification to the Division of Budget and Analyses and the State Comptroller General. No such transfer may exceed twenty percent of the program budget. Transfers from personal services accounts or from other operating accounts may be restricted to any level set by the Board.

Agencies may charge vendor, interagency, and interfund payments for fiscal year 1998 to 1998 appropriations in July. Any unexpended appropriations as of June 30 automatically lapse on July 31 unless authorization is received from the General Assembly to carry over the funds to the ensuing fiscal year. State law does not require the use of encumbrance accounting.

State law does not precisely define the budgetary basis of accounting. For each fiscal year, the level of legal control for each agency is reported in a publication by the State Comptroller General. The current Appropriation Act states that the General Assembly intends to appropriate all monies to operate State government for the current fiscal year. The State's annual budget is prepared primarily on the modified accrual basis of accounting with several exceptions, principally the cash basis for payroll expenses and certain non-State appropriations revenues. The Fund's budget includes administrative expenses and specifically excludes claims expense and the Second Injury Fund assessment. Amounts to be expended for capital assets are also budgeted. Expenses prepared on the accrual basis do not vary significantly from the budgetary basis. In accordance with generally accepted accounting principles applicable to proprietary fund types, a comparison of actual revenue and expenses to the budgeted amounts has not been presented.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

STATEMENT OF CASH FLOWS:

For purposes of the statement of cash flows, the Fund considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Due to the fact that the State's cash management pool functions as a demand deposit account, it is included in this definition of cash equivalents.

USE OF ESTIMATES:

The preparation of financial statements in conformity with generally accepted accounting principles 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. Such estimates include the unpaid claims liability.

NOTE 3 - RISK MANAGEMENT:

INSURANCE COVERAGE:

The Fund, an administrative agency, is exposed to various risks of loss and maintains State or commercial insurance coverage for each of those risks. 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 costs of settled claims and claims losses have not exceeded this coverage in any of the past three years. The Fund pays insurance premiums to itself and certain other State agencies to cover risks that may occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accordance with insurance policy and benefit program limits.

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 (Employment Security Commission);
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 (Office of Insurance Services); and
4. Claims of covered public employees for long-term disability and group-life insurance benefits (Retirement Systems).

NOTE 3 - RISK MANAGEMENT (CONTINUED):

INSURANCE COVERAGE (CONTINUED):

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

The Fund and other entities pay premiums to the State's Insurance Reserve Fund (IRF) which issues policies, accumulates assets to cover the risks of loss, and pays claims incurred for covered losses related to the following assets, activities, and/or events:

1. Theft of, damage to, or destruction of assets - building contents; and
2. General tort claims.

The IRF is a self-insurer and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of property insurance. Also, the IRF purchases reinsurance for catastrophic property insurance. Reinsurance permits partial recovery of losses from reinsurers, but the IRF remains primarily liable. The IRF's rates are determined actuarially.

State agencies and other entities are the primary participants in the State's Health and Disability Insurance Fund and in the IRF.

The Fund obtains coverage through a commercial insurer for employee fidelity bond insurance for all employees for losses arising from theft or misappropriation.

The Fund has not transferred the portion of the risk of loss related to insurance policy deductibles for its property contents, general torts, and fidelity bond coverage's to a State or commercial insurer. There were no expenses incurred for the year ended June 30, 1998 and 1997, for actual claims payments related to such retained risk of loss. The Fund has not reported an estimated claims loss expense and the related liability at June 30, 1998, based on the requirements of GASB Statements No. 10 and No. 30, which state 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 30, 1998, and the amount of the loss is reasonably estimable.

In management's opinion, claims losses in excess of insurance coverage, if any, are unlikely and, if incurred, would be insignificant to the Fund's financial position. Furthermore, there is no evidence of asset impairment or other information to indicate that a loss should be recorded. Therefore, no loss accrual has been recorded.

NOTE 4 - CASH AND CASH EQUIVALENTS:

Cash and cash equivalents consist of deposits under the control of the State Treasurer, who, by law, has sole authority for investing State funds.

State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days. At June 30, 1998, all State Treasurer bank balances were fully insured or collateralized with securities held by the State or by its agents in the State's name.

With respect to investments in the State's 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 agent in the State's name. Information pertaining to the carrying amounts, market values, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

NOTE 5 - PREMIUMS RECEIVABLE:

Premiums receivable consist of amounts receivable from/for the following:

	<u>1998</u>	<u>1997</u>
County governments and agencies	\$ 1,251,838	\$ 1,783,272
Municipal governments and agencies	410,681	346,813
Total	<u>1,662,519</u>	<u>2,130,085</u>
Less, allowance for uncollectible accounts	(379,945)	(231,955)
Total	<u>1,282,574</u>	<u>1,898,130</u>
State agencies	2,812,644	2,672,582
Billed premium for future periods not yet earned	<u>16,182,548</u>	<u>31,880,189</u>
Total	<u>\$ 20,277,766</u>	<u>\$ 36,450,901</u>

Included in premiums receivable and premium revenue is \$844,694 and \$1,306,250 receivable from policyholders for premium adjustments at June 30, 1998 and 1997, respectively (see Note 7). Of these amounts, \$402,741 and \$419,651 was due from state agencies at June 30, 1998 and 1997, respectively.



#### NOTE 6 - ACCRUED COMPENSATED ABSENCES:

Generally, all permanent full time State employees and certain part time employees scheduled to work at least one-half of the Fund's workweek are entitled to accrue and carry forward at calendar year-end a maximum 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 which is therefore not accrued. In addition, employees are entitled to compensatory time off for approved overtime and unused holiday leave. Such time must be used within 90 days of the date earned. The entire amount which the Fund expects to compensate employees through time off or cash payments at termination of State employment, based on recorded balances of unused leave at the salary rates in effect at June 30, 1998 and 1997, and the cost of the salary-related benefit payments at June 30, 1998 and 1997, is \$305,496 and \$265,873, respectively.

#### NOTE 7 - ACCRUED PREMIUM ADJUSTMENTS:

Policyholders are billed annually for estimated premiums based on the policyholders' estimated payroll. After the policy period ends, policyholders submit the details of the actual salaries paid and the Fund adjusts the premium based on the actual payroll and a rating modifier based on claims experience. The amount the Fund owes policyholders for estimated premium in excess of actual adjusted premium at June 30, 1998 and 1997, is \$125,109 and \$1,298,941, respectively. Of these amounts, \$43,060 and \$980,677 were due to state agencies at June 30, 1998 and 1997, respectively. Each county and municipal policyholder chooses to either receive a check from the Fund for the amount owed or to have that amount reduce their next premium bill. For the current year, for amounts due to policyholders who elect to reduce premiums, such amounts were applied against those respective premiums receivable. Amounts due to policyholders at year end represent policyholders with net credit balances or those who elect to receive a refund. Adjustments payable to state agencies are used to reduce future premiums.

#### NOTE 8 - UNPAID CLAIMS LIABILITY AND CLAIMS ADJUSTMENT EXPENSES:

The amount accrued for unpaid claims liability and claims adjustment expenses is an actuarially determined amount, based on the Fund's historical claims expenses adjusted for current factors, for the estimated ultimate cost of settling claims for events which occurred on or before year-end but were unpaid at the end of the year. To the extent claims were incurred on behalf of state agencies prior to July 1, 1986, reimbursement will be due from the State of South Carolina when the claims are paid. Estimated amounts recoverable from subrogation have been deducted from the claims liability. The amount accrued for unpaid claims liability and claims adjustment expenses is as follows:

NOTE 8 - UNPAID CLAIMS LIABILITY AND CLAIMS ADJUSTMENT EXPENSES  
(CONTINUED):

	<u>1998</u>	<u>1997</u>
Unpaid claims liability and claim adjustment expenses at beginning of year	<u>\$ 57,543,000</u>	<u>\$ 58,703,000</u>
Incurred claims and claim adjustment expense:		
Provision for insured events of the current year	32,278,651	30,452,000
Changes in provision for insured events of prior years	<u>(6,634,000)</u>	<u>(4,775,568)</u>
Total incurred claims and claims adjustment expenses	<u>25,644,651</u>	<u>25,676,432</u>
Claims paid or payable:		
Claims and claims adjustment expenses attributable to insured events of the current year	(9,294,000)	(6,929,000)
Claims and claims adjustment expenses attributable to insured events of prior year	<u>(22,984,651)</u>	<u>(19,907,432)</u>
Total claims paid or payable	<u>(32,278,651)</u>	<u>(26,836,432)</u>
Total unpaid claims liability and claim adjustment expenses at end of year	50,909,000	57,543,000
Less: Short-term portion	<u>(24,779,000)</u>	<u>(23,239,000)</u>
Long-term portion	<u>\$ 26,130,000</u>	<u>\$ 34,304,000</u>
This claim liability is further categorized as follows:		
	<u>1998</u>	<u>1997</u>
Claims reported and/or payable:		
State agencies	\$ 15,669,000	\$ 14,010,000
Counties and municipalities	5,178,000	5,233,000
Total	<u>20,847,000</u>	<u>19,243,000</u>
Claims incurred but not reported:		
State agencies	23,332,000	29,046,000
Counties and municipalities	6,730,000	9,254,000
Total	<u>30,062,000</u>	<u>38,300,000</u>
Total claims liability	<u>\$ 50,909,000</u>	<u>\$ 57,543,000</u>

NOTE 8 - UNPAID CLAIMS LIABILITY AND CLAIMS ADJUSTMENT EXPENSES  
(CONTINUED):

	<u>1998</u>	<u>1997</u>
Claims reported and/or payable:		
Short-term	\$ 10,147,000	\$ 7,771,000
Long-term	10,700,000	11,472,000
Total	<u>20,847,000</u>	<u>19,243,000</u>
Claims incurred but not reported:		
Short-term	14,632,000	15,468,000
Long-term	15,430,000	22,832,000
Total	<u>30,062,000</u>	<u>38,300,000</u>
 Total unpaid claims liability and claims adjustment expense	 <u>\$ 50,909,000</u>	 <u>\$ 57,543,000</u>

NOTE 9 - SECOND INJURY FUND ASSESSMENT:

The Fund is required to pay an annual assessment to the Second Injury Fund of the State of South Carolina. The assessment is usually billed in the first quarter of the fiscal year and is based on a specified percentage of total claims paid by the Fund during the previous calendar year. The Second Injury Fund handles claims for workers who have permanent physical impairments and incur subsequent disability from injury by accident arising out of and in the course of employment. Assessment for fiscal years 1998 and 1997 was \$5,794,617 and \$5,544,878, respectively.

NOTE 10 - PENSION PLAN:

The Retirement Division maintains four independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the Retirement Division, 202 Arbor Lake Drive, Columbia, South Carolina, 29223. Furthermore, the Division and the four pension plans are included in the CAFR of the State of South Carolina.

Substantially all employees of the Fund are covered by a pension plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division of the State Budget and Control Board, a public employee retirement system (PERS). Generally all State employees are required to participate in and contribute to the System as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws. This plan provides annuity benefits as well as disability, cost of living adjustment, death and group-life insurance benefits to eligible employees and retirees.

NOTE 10 - PENSION PLAN (CONTINUED):

Under the SCRS, employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 30 years credited service regardless of age. The benefit formula for full benefits effective since July 1, 1989, for the System is 1.82% of an employee's average final compensation multiplied by the number of years of credited service. Early retirement options with reduced benefits are available as early as age 55. Employees are vested for a deferred annuity after 5 years service and qualify for a survivor's benefit upon completion of 15 years credited service. Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of 5 years credited service. A group-life insurance benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service.

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6% of all compensation. Effective July 1, 1996, the employer contribution rate became 9.535% which included a 1.985% surcharge to fund retiree health and dental insurance coverage. Effective July 1, 1997, the employer contribution rate became 9.466% which includes a 1.916% surcharge to fund retiree and dental insurance coverage. The Fund's actual contributions to the SCRS for the years ending June 30, 1998, 1997, and 1996, were \$193,619, \$193,447, and \$178,147, respectively, and equaled the required contributions of 7.55% (excluding the surcharge) for each year. Also, the Fund paid employer group life insurance contributions of \$3,847 and \$3,843 for the years ended June 30, 1998 and 1997, respectively, at the rate of .15% of compensation.

The amounts paid by the Fund for pension, group-life, and post-retirement benefits are included as personal services expenses.

Article X, Section 16, of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefits, and employee/employer contributions for each pension plan. Employee and employer contribution rates to SCRS are actuarially determined. The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates. Annual benefits, payable monthly for life, are based on length of service and on average final compensation (an annualized average of the employee's highest 12 consecutive quarters of compensation).

The System does not make separate measurements of assets and pension benefit obligations for individual employers. Under Title 9 of the South Carolina Code of Laws, the Fund's liability under the plan is limited to the amount of contributions (stated as a percentage of covered payroll) established by the State Budget and Control Board. Therefore, the Fund's liability under the pension plan is limited to the contribution requirements for the applicable year from amounts appropriated therefor in the South Carolina Appropriation Act and amounts from other applicable revenue sources. Accordingly, the Fund recognizes no contingent liability for unfunded costs associated with participation in the plan. All required contributions due to the plan were met.

At retirement, employees participating in the SCRS receive additional service credit (at a rate of 20 days equals one month of service) for up to 90 days for accumulated unused sick leave.

**NOTE 11 - POST-EMPLOYMENT AND OTHER EMPLOYEE BENEFITS:**

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to active and certain retired State employees and certain surviving dependents of retirees. All permanent full-time and certain permanent part-time employees of the Fund are eligible to receive these benefits. The State provides postemployment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who meet one or more of the eligibility requirements, such as age, length of service, and hire date. Generally those who retire must have at least 10 years of retirement service credit to qualify for State-funded benefits.

These benefits are provided through annual appropriations by the General Assembly to the Fund for its active employees and to the State Budget and Control Board for all participating State retirees except the portions funded through the pension surcharge and provided from other applicable revenue sources of the Fund for its active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis. Currently, approximately 18,000 State retirees meet these eligibility requirements.

The Fund recorded employer contributions expenses applicable to these benefits for active employees in the amount of \$172,107 and \$194,504 for the years ended June 30, 1998 and 1997, respectively. As discussed in Note 10, the Fund paid \$49,135 and \$50,860 during the years ended June 30, 1998 and 1997, respectively, applicable to the 1.916% and 1.985% surcharge, respectively, included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Division of Insurance Services for retiree health and dental insurance benefits.

Information regarding the cost of insurance benefits applicable to Fund retirees is not available. By State law, the Fund has no liability for retirement benefits. Accordingly, the cost of providing these benefits for retirees is not included in the accompanying financial statements.

In addition, the State General Assembly periodically directs the Retirement Systems to pay supplemental (cost of living) increases to retirees. Such increases are primarily funded from the System's earnings; however, a portion of the required amount is appropriated from the State General Fund annually.

**NOTE 12 - DEFERRED COMPENSATION PLANS:**

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Certain employees of the Fund have elected to participate. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401(k), and 403(b) are accounted for as agency funds of the State and included in the Comprehensive Annual Financial Report of the State of South Carolina. Employees may withdraw the current value of

their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

NOTE 12 - DEFERRED COMPENSATION PLANS (CONTINUED):

Compensation deferred under the Section 401(k) and 403(b) plans is placed in trust for the contributing employee. The State has no liability for losses under the plan. Under the Section 457 plan, all deferred compensation plan amounts and earnings remain assets of the employer (the State) subject to the claims of the employer's general creditors, one of whom is the employee participant. It is unlikely, however, that the State would ever use plan assets to satisfy claims of the State's general creditors. The portion of assets of the Section 457 plan to which the State has access is disclosed in its financial report.

NOTE 13 - OPERATING LEASES:

The Fund is obligated under an operating lease expiring June 30, 2002, for the rental of office space. The lease contains a renewal option for one year at the same terms and conditions, except that the rental rate shall be negotiated. Minimum future rental obligations under this non-cancelable operating lease are as follows:

<u>FISCAL YEAR</u>	<u>AMOUNT</u>
1999	\$ 256,984
2000	262,452
2001	262,452
2002	<u>262,452</u>
Total minimum obligations	<u><u>\$1,044,340</u></u>

The Fund is not obligated under any non-cancelable operating leases for the rental of office equipment that have remaining terms in excess of one year from June 30, 1998.

Operating lease expenses for the fiscal years ended June 30, 1998 and 1997, were \$277,370 and \$276,863, respectively, for office space and \$19,770 and \$24,776, respectively, for office equipment.

NOTE 14 - TRANSACTIONS WITH STATE ENTITIES:

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

Services received at no cost from State agencies include maintenance of certain accounting records and payroll and disbursement processing from the Comptroller General; check preparation, banking, and investment functions from the State Treasurer; legal services from the Attorney General; and records storage from the Department of Archives and History.

NOTE 14 - TRANSACTIONS WITH STATE ENTITIES (CONTINUED):

Other services received at no cost from the various divisions of the State Budget and Control Board include pension plan administration, insurance plans administration, audit services, personnel management, assistance in the preparation of the State Budget, property management and record keeping, review and approval of certain budget amendments, procurement services, and other centralized functions.

The Fund had financial transactions with various State agencies during the fiscal year. Significant payments were made to divisions of the State Budget and Control Board for pension and insurance plans contributions, vehicle rental, insurance coverage, office supplies, printing, telephone, interagency mail, and data processing services. Payments were also made for unemployment coverage for employees to the Employment Security Commission. The amounts of 1998 and 1997 expenditures applicable to these transactions are not readily available.

The Fund provided no services free of charge to other State agencies during the fiscal year; however, the fund provided workers' compensation coverage to all State agencies for a fee. Premium revenue from State agencies during fiscal years 1998 and 1997 was \$30,570,166 and \$21,912,710, respectively.

As discussed in Note 2, the Fund acts as a claims servicer for certain agencies prior to their participation in the Fund and receives recoveries from the State for State agency claims prior to July 1, 1986, when the claims are paid. The recoveries due from the State are recorded net of any third party or Second Injury Fund recoveries and, therefore, may result in an amount due to the State. Amounts receivable or payable at June 30 for reimbursement of and recoveries for claims paid are as follows:

	<u>1998</u>	<u>1997</u>
Due from State of South Carolina	\$ 19,033	\$ 12,562
Due from (to) Department of Transportation	\$ 38,162	\$ 775,549

Claims paid during the fiscal years 1998 and 1997 for which reimbursement or recoveries were due from various State agencies are as follows:

	<u>1998</u>	<u>1997</u>
State of South Carolina	\$ 65,187	\$ 74,557
Department of Transportation	\$ 50,672	\$ 993,239

The amounts paid or payable from the Department of Transportation include an assessment of 7.8% for the unallocated expenses.

NOTE 15 - ACCOUNTING CHANGES:

Effective July 1, 1996, the Fund adopted the provisions of GASB Statement No. 30, Risk Financing Omnibus, an amendment of GASB Statement 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues. For entities other than public entity risk pools, GASB Statement No. 30 requires the inclusion of specific, incremental claim adjustment expenses and estimated recoveries such as subrogation and reinsurance in the determination of the unpaid claims liability. The implementation of this standard had no effect on the results of operations for the years ended June 30, 1998 and 1997.

NOTE 16 - COMMITMENTS:

The Fund entered into a multi-year contract for the development and installation of a computer system. The software included in the system is year 2000 compliant. As of June 30, 1998, the contract is substantially complete. The Fund has a commitment to pay \$275,132 upon completion of a 90 day warranty period.

NOTE 17 - OTHER:

Interest revenue, which was previously reported as operating income, has been reported as other income on the current year Statement of Revenues, Expenses and Retained Earnings. Information for the prior year has been restated to conform to the current year presentation.

The change was made to provide conformity with the presentation in the Statement of Cash Flows.