

AUDITED FINANCIAL STATEMENTS  
AND  
REQUIRED SUPPLEMENTAL INFORMATION

*SOUTH CAROLINA STATE BUDGET AND CONTROL BOARD  
INSURANCE RESERVE FUND*

June 30, 2015

*State of South Carolina*



*Office of the State Auditor*

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September 28, 2015

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

This report on the audit of the financial statements of the South Carolina State Budget and Control Board – Insurance Reserve Fund for the fiscal year ended June 30, 2015, 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 black ink, appearing to read "Richard H. Gilbert, Jr.", written in a cursive style.

Richard H. Gilbert, Jr., CPA  
Deputy State Auditor

RHGjr/sag

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June 30, 2015

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## INDEPENDENT AUDITORS' REPORT

Mr. Richard H. Gilbert, Jr., CPA  
Deputy State Auditor  
Office of the State Auditor  
Columbia, South Carolina

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the South Carolina State Budget and Control Board Insurance Reserve Fund (the "*Fund*"), a fund of the South Carolina State Budget and Control Board, as of and for the year ended June 30, 2015, 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 South Carolina State Budget and Control Board Insurance Reserve Fund as of June 30, 2015, 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.

## CHANGE IN ACCOUNTING PRINCIPLE

As discussed in Note A, in 2015 the Fund adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

## EMPHASIS OF MATTER

As discussed in Note A, the financial statements present only the South Carolina State Budget and Control Board Insurance Reserve Fund and do not purport to, and do not, present fairly the financial position of the State of South Carolina Budget and Control Board, which is a part of the State of South Carolina primary government, as of June 30, 2015, 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 4 through 7 and pages 36 through 37 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, 2015 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.

Columbia, South Carolina  
September 28, 2015

*The Hall Group, P.A.*

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of the South Carolina State Budget and Control Board, 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, 2015. 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:**

- Restatement of IRF net position at June 30, 2014 from \$205,476,495 to \$201,400,808 due to implementation of GASB Statement No. 68 and GASB Statement No. 71 impacting financial reporting for the pension liability.
- IRF's net position increased by \$5,312,195 or 2.64 percent;
- The assets and deferred outflows of resources of IRF exceeded its liabilities and deferred inflows of resources at June 30, 2015 by \$206,713,003
- IRF experienced an operating loss of \$1,126,558 which is an improvement over 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, 2014 and 2015.

### **Condensed Statements of Net Position (In millions)**

	<b>June 30, 2015</b>	<b>June 30, 2014</b>
		<b>As Restated</b>
<b>Assets</b>		
Current assets	\$ 106.0	\$ 63.5
Noncurrent assets	439.3	456.8
Total assets	<u>545.3</u>	<u>520.3</u>
 <b>Deferred Outflows of Resources</b>		
Deferred pension charges	0.4	0.2
 <b>Liabilities</b>		
Current liabilities	334.5	314.7
Noncurrent liabilities	4.2	4.4
Total liabilities	<u>338.7</u>	<u>319.1</u>
 <b>Deferred Inflows of Resources</b>		
Deferred pension credits	<u>0.3</u>	<u>-</u>
 <b>Net Position</b>		
Restricted for loans	19.0	17.9
Unrestricted	187.7	183.5
Total net position	<u>\$ 206.7</u>	<u>\$ 201.4</u>

Net position may serve over time as a useful indicator of an entity's financial position. Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$201,400,808 and \$206,713,003 as of June 30, 2014, and 2015, respectively. The FY14 financial information has been restated to reflect the implementation of GASB Statement No. 68 and GASB Statement No. 71 (See Note A – "Change in Accounting Principle").

The following schedule is a summary of the IRF's operating results for the fiscal years ended June 30, 2014 and 2015.

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

	Year Ended June 30,	
	2015	2014
<b>Operating</b>		
Operating revenue:		
Insurance premiums	\$ 124.8	\$ 114.1
Operating expenses:		
Claims	54.4	49.8
Reinsurance and other premiums	40.2	46.8
Administrative	31.3	28.8
Total operating expenses	<u>125.9</u>	<u>125.4</u>
Net operating income (loss)	(1.1)	(11.3)
Non operating revenue:		
Income from deposits and investments	6.3	15.5
Notes receivable interest and other	0.1	0.5
Total non operating revenue	<u>6.4</u>	<u>16.0</u>
Change in net position	5.3	4.7
Net position, beginning of the year	201.4	200.8
Restatement of net position - GASB 68/71 *	-	(4.1)
Net position, end of the year	<u>\$ 206.7</u>	<u>\$ 201.4</u>

\* See Financial Highlights on Page 4

A condensed version of the Statement of Cash Flows is presented as follows for the years ended June 30, 2014 and 2015:

**Condensed Statements of Cash Flows**  
(In millions)

	Year Ended June 30,	
	2015	2014
Net cash (used in) operating activities	\$ (0.1)	\$ (8.7)
Net cash provided by investing activities	24.6	24.9
Net increase in cash and cash equivalents	24.5	16.2
Cash and cash equivalents, beginning of year	21.3	5.1
Cash and cash equivalents, end of year	<u>\$ 45.8</u>	<u>\$ 21.3</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. The South Carolina Restructuring Act of 2014 abolished the South Carolina Budget and Control Board. Effective July 1, 2015, the Insurance Reserve Fund is transferred to the State Fiscal Accountability Authority. There is no impact to the daily operations of the IRF.

## **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.

Due to market conditions, IRF investments decreased \$7,721,114 in fair market value for the fiscal year ended June 30, 2015.

## **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  
 SOUTH CAROLINA STATE BUDGET AND CONTROL BOARD  
 INSURANCE RESERVE FUND  
 JUNE 30, 2015

ASSETS

Current Assets

Cash and cash equivalents	\$	45,809,582
Premiums receivable		37,822,992
Accrued interest		3,020,832
Prepaid insurance		19,435,704
		<u>106,089,110</u>
	Total Current Assets	

Noncurrent Assets

Investments		438,346,532
Long-term note receivable		939,618
		<u>439,286,150</u>
	Total Noncurrent Assets	

Total Assets 545,375,260

DEFERRED OUTFLOWS OF RESOURCES

Deferred pension charges		368,260
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LIABILITIES

Current Liabilities

Accounts payable		188,266
Accrued payroll		292,505
Accrued compensated absences - current		179,749
Deferred premium revenue		69,476,687
Claims payable		167,820,232
Claims incurred but not reported		96,519,152
		<u>334,476,591</u>
	Total Current Liabilities	

Noncurrent Liabilities

Net pension liability		4,133,937
Accrued compensated absences - noncurrent		71,468
		<u>338,681,996</u>
	Total Liabilities	

DEFERRED INFLOWS OF RESOURCES

Deferred pension credits		<u>348,521</u>
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NET POSITION

Restricted - Savannah Valley Development Program		19,060,382
Unrestricted		187,652,621
		<u>206,713,003</u>
	TOTAL NET POSITION	<u>\$ 206,713,003</u>

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
 SOUTH CAROLINA STATE BUDGET AND CONTROL BOARD  
 INSURANCE RESERVE FUND  
 FOR THE YEAR ENDED JUNE 30, 2015

Operating Revenues		
Insurance premiums	\$	124,814,390
Operating Expenses		
Claims		54,350,429
Claims related expenses		25,580,616
Reinsurance premiums		40,204,609
Professional services		1,856,817
Salaries and benefits		3,052,793
Other services		772,973
Other expenses		122,711
	Total Operating Expenses	<u>125,940,948</u>
	Operating Loss	(1,126,558)
Nonoperating Revenues		
Income from deposits and investments		6,384,270
Interest from note receivables		48,953
Other nonoperating revenue		5,530
	Total Nonoperating Revenues	<u>6,438,753</u>
	CHANGE IN NET POSITION	5,312,195
Net position at beginning of year, as restated		<u>201,400,808</u>
	NET POSITION AT END OF YEAR	<u>\$ 206,713,003</u>

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

STATEMENT OF CASH FLOWS  
 SOUTH CAROLINA STATE BUDGET AND CONTROL BOARD  
 INSURANCE RESERVE FUND  
 FOR THE YEAR ENDED JUNE 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received for insurance premiums	\$ 117,172,662
Cash payments for salaries and benefits	(2,997,891)
Cash payments for claims and claims related expenses	(73,111,255)
Cash payments for reinsurance premiums	(38,390,417)
Cash payments for professional services	(1,856,817)
Cash payments for suppliers	(895,684)
NET CASH USED IN OPERATING ACTIVITIES	<u>(79,402)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Principal payments received on note receivable	1,213,662
Purchase of investments	(78,332,451)
Proceeds from sale and maturity of investments	86,728,940
Interest received - deposits and investments	14,699,755
Interest received - notes receivable	266,892
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>24,576,798</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS 24,497,396

Cash and cash equivalents at beginning of year 21,312,186

CASH AND CASH EQUIVALENTS AT END OF YEAR \$ 45,809,582

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

Operating Loss	\$ (1,126,558)
Adjustments to reconcile operating loss to net cash used in operating activities	
Change in assets and liabilities:	
Increase in premiums receivable	(21,244,082)
Decrease in prepaid insurance	1,658,262
Decrease in other receivable	878,517
Increase in deferred pension charges	(137,190)
Increase in accounts payable	155,930
Increase in accrued payroll	46,510
Decrease in compensated absences	(30,119)
Increase in deferred premium revenue	13,602,354
Increase in deferred pension credits	348,521
Decrease in net pension liability	(172,820)
Increase in claims payable and claims incurred but not reported	5,941,273
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (79,402)</u>

Non-Cash Investing Activities:

Net change in investments for accretion and amortization	\$ 144,622
Net decrease in fair value of investments	\$ (7,721,114)

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

NOTES TO THE BASIC FINANCIAL STATEMENTS

*SOUTH CAROLINA STATE BUDGET AND CONTROL BOARD INSURANCE RESERVE FUND*

June 30, 2015

NOTE A -- SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the South Carolina State Budget and Control Board 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 South Carolina State Budget and Control Board Insurance Reserve Fund is a fund of the South Carolina State Budget and Control Board, 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 South Carolina State Budget and Control Board 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 South Carolina State Budget and Control Board (the "Board").

All of the divisions of the Board reporting entity are under the control of the Executive Director of the State Budget and Control Board. The Board 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.

NOTES TO THE BASIC FINANCIAL STATEMENTS

*SOUTH CAROLINA STATE BUDGET AND CONTROL BOARD INSURANCE RESERVE FUND*

NOTE A -- SIGNIFICANT ACCOUNTING POLICIES – Continued

The Board, formerly the Budget Commission, was established and created by Reorganization Plan No. 2 adopted by the General Assembly in 1950 pursuant to the terms and provisions of Act 621, Acts of 1948. Under the Act, ten state agencies were abolished as separate entities and their functions and duties were brought under the supervision of the Board. The funds of the Board are included in the Comprehensive Annual Financial Report of the State of South Carolina.

The Fund operates as a unit under the Board and its Executive Director. The laws of the State and the policies and procedures specified by the State for state agencies are applicable to the Fund's activities. The accompanying financial statements present the financial position and results of operations solely of the Fund and do not include any other agencies or any component units of the State of South Carolina.

The Fund was created by the Board on June 5, 1989 to manage insurance programs provided by the State for its agencies, institutions, and political subdivisions. The Fund was formed as a section from the Office of General Services.

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 South Carolina State Budget and Control Board 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

NOTES TO THE BASIC FINANCIAL STATEMENTS

*SOUTH CAROLINA STATE BUDGET AND CONTROL BOARD INSURANCE RESERVE FUND*

NOTE A -- SIGNIFICANT ACCOUNTING POLICIES – Continued

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.

Financial Statements: The Fund is an internal service fund within the South Carolina Budget and Control Board 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 measureable; 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.

NOTES TO THE BASIC FINANCIAL STATEMENTS  
*SOUTH CAROLINA STATE BUDGET AND CONTROL BOARD INSURANCE RESERVE FUND*

NOTE A -- SIGNIFICANT ACCOUNTING POLICIES – Continued

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.

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.

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.

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 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 30<sup>th</sup>. 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.

NOTES TO THE BASIC FINANCIAL STATEMENTS  
SOUTH CAROLINA STATE BUDGET AND CONTROL BOARD INSURANCE RESERVE FUND

NOTE A -- SIGNIFICANT ACCOUNTING POLICIES – Continued

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.

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.

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.

NOTES TO THE BASIC FINANCIAL STATEMENTS  
 SOUTH CAROLINA STATE BUDGET AND CONTROL BOARD INSURANCE RESERVE FUND

NOTE A -- SIGNIFICANT ACCOUNTING POLICIES – Continued

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.

Change in Accounting Principle: The Fund implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, for the year ended June 30, 2015. The primary objective of these Statements is to improve accounting and financial reporting by state and local governments for pensions. In addition, state and local governments who participate in a cost-sharing multiple employer plan are now required to recognize a liability for their proportionate share of the net pension liability of that plan. It is GASB’s intention that these Statement will provide citizens and other users of the financial statements with a clearer picture of the size and nature of the Fund’s financial obligations to current and former employees for past services rendered. In particular, these Statements require the Fund to recognize a net pension liability, deferred outflows of resources, and deferred inflows of resources for its participation in the South Carolina Retirement System cost-sharing multiple employer defined benefit pension plan (the “Plan”) for financial statements prepared on the economic resources measurement focus and accrual basis of accounting and present more extensive note disclosures.

The adoption of these Statements has resulted in the restatement of the Fund’s net position as of July 1, 2014 to reflect the reporting of net pension liabilities and deferred outflows of resources for its Plan in accordance with the provisions of these Statements. The Fund’s net position as of June 30, 2014 was restated by \$4,075,687 as follows:

Net position at June 30, 2014, as originally reported	\$ 205,476,495
Fund’s share of net pension liability	(4,306,757)
Deferred outflow for pension contributions made after the measurement date	231,070
NET POSITION AT JUNE 30, 2014, AS RESTATED	<u>\$ 201,400,808</u>

NOTE B -- DEPOSITS AND INVESTMENTS

As prescribed by Statute, the State Treasurer is the custodian and investment manager of all investments and deposits of the Fund.

Investments: 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.

NOTES TO THE BASIC FINANCIAL STATEMENTS  
 SOUTH CAROLINA STATE BUDGET AND CONTROL BOARD INSURANCE RESERVE FUND

NOTE B -- DEPOSITS AND INVESTMENTS – Continued

The following table presents the amortized cost and fair values of the investments of the Fund at June 30, 2015:

	Amortized	Unrealized		Fair
	Cost	Gains	Losses	Value
Federal agency bonds	\$ 13,999,872		\$ (1,222)	\$ 13,998,650
Collateralized mortgage-backed obligations	8,038,289	\$ 974,917		9,013,206
Other governmental guaranteed investments	4,560,811		(5,591)	4,555,220
Political subdivision bonds	62,030,050	4,493,808		66,523,858
Corporate bonds	316,287,744	6,494,879		322,782,623
Financial paper	19,791,800	1,681,175		21,472,975
<b>TOTAL</b>	<b>\$ 424,708,566</b>	<b>\$ 13,644,779</b>	<b>\$ (6,813)</b>	<b>\$ 438,346,532</b>

At June 30, 2015, the amortized cost of the above investments was comprised of the following:

	Par Value	Unamortized Premiums	Unaccreted Discounts	Amortized Cost
	Federal agency bonds	\$ 14,000,000		\$ (128)
Collateralized mortgage-backed obligations	8,077,931		(39,642)	8,038,289
Other governmental guaranteed investments	4,568,873		(8,062)	4,560,811
Political subdivision bonds	62,200,603		(170,553)	62,030,050
Corporate bonds	316,876,220		(588,476)	316,287,744
Financial paper	20,000,000		(208,200)	19,791,800
<b>TOTAL</b>	<b>\$ 425,723,627</b>	<b>\$ 0</b>	<b>\$ (1,015,061)</b>	<b>\$ 424,708,566</b>

Deposits: 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, 2015:

Deposits held by Third Party Administrators	\$ 176,799
Cash held at the South Carolina Treasurer’s Office	45,632,783
	<b>\$ 45,809,582</b>

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, 2015, \$164,582 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.

NOTES TO THE BASIC FINANCIAL STATEMENTS  
 SOUTH CAROLINA STATE BUDGET AND CONTROL BOARD INSURANCE RESERVE FUND

NOTE B -- DEPOSITS AND INVESTMENTS – Continued

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.

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

	<u>Note Disclosure</u>	<u>Statement of Net Position</u>
Cash and cash equivalents		\$ 45,809,582
Deposits held by Third Party Administrators	\$ 176,799	
Cash held at the State Treasurer's Office	45,632,783	
Investments	438,346,532	438,346,532
TOTAL	<u>\$ 484,156,114</u>	<u>\$ 484,156,114</u>

During the year, the following amounts (which apply to all investments) were included in investment earnings:

Interest earned	\$ 14,250,006
Accretion of discount	(144,622)
Change in unrealized gains (losses)	(7,721,114)
	<u>\$ 6,384,270</u>

NOTE C -- PREMIUMS RECEIVABLE

Premiums receivable at June 30, 2015 consist of the following:

Local government	\$ 12,142,434
State government	21,839,610
Other	3,840,948
	<u>\$ 37,822,992</u>

Premiums receivable and deferred premium revenue include \$33,149,332 attributable to premiums billed in advance of coverage at June 30, 2015.

As of June 30, 2015, 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, 2015.

NOTES TO THE BASIC FINANCIAL STATEMENTS  
 SOUTH CAROLINA STATE BUDGET AND CONTROL BOARD INSURANCE RESERVE FUND

NOTE D -- NOTE RECEIVABLE

Note receivable at June 30, 2015 consist of the following:

*Due from Savannah Valley Development Division of the  
 Department of Commerce:*

Note in the original principal amount of \$14,983,215 with interest at 3.18%; maturity date is January 31, 2031. Entire balance is noncurrent as no principal payments are due until January 31, 2030. \$ 939,618

Future principal payments receivable are as follows:

Year Ended June 30,	Principal
2030	\$ 333,101
2031	606,517
	\$ 939,618

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, 2015 was \$227,004.

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

2016	\$ 246,119
2017	246,119
2018	246,119
2019	246,119
2020	246,119
2021-2025	1,274,989
	\$ 2,505,584

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, 2015, expenses under this lease were \$6,935.

NOTES TO THE BASIC FINANCIAL STATEMENTS

*SOUTH CAROLINA STATE BUDGET AND CONTROL BOARD INSURANCE RESERVE FUND*

NOTE F -- RESTRICTED NET POSITION – SAVANNAH VALLEY DEVELOPMENT PROGRAM

At June 30, 2015, \$19,060,382 of the Fund's net position is restricted for loans to the Savannah Valley Development Division of the Department of Commerce, as authorized under South Carolina State Code 13-9-10, formerly the Clark's Hill-Russell Authority (a Joint Resolution; R-22, H2516; of the State, approved March 12, 1987, and R-755, H2680; of the State, approved June 20, 1988). The Fund is authorized to acquire up to \$20,000,000 of revenue notes in the aggregate, or \$3,500,000 in any calendar year. As of June 30, 2015, \$939,618 was outstanding on loans made under this program.

NOTE G -- 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. By law, the Budget and Control Board, 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](http://www.peba.sc.gov), or a copy may be obtained by submitting a request to PEBA, PO Box 11960, Columbia, SC 29211-1960. PEBA is considered a division of the primary government of the state of South Carolina and therefore, the 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.

NOTES TO THE BASIC FINANCIAL STATEMENTS  
*SOUTH CAROLINA STATE BUDGET AND CONTROL BOARD INSURANCE RESERVE FUND*

NOTE G -- PENSION PLANS – Continued

- 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 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 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 years 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 the 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.

NOTES TO THE BASIC FINANCIAL STATEMENTS  
 SOUTH CAROLINA STATE BUDGET AND CONTROL BOARD INSURANCE RESERVE FUND

NOTE G -- PENSION PLANS – Continued

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 2014-2015 are as follows:

SCRS	
Employee Class Two	8.00% of earnable compensation
Employee Class Three	8.00% of earnable compensation
State ORP Employee	8.00% of earnable compensation

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

SCRS	
Employee Class Two	10.75% of earnable compensation
Employee Class Three	10.75% of earnable compensation
Employer Incidental Death Benefit	0.15% of earnable compensation
State ORP	
Employer Contribution	10.75% of earnable compensation*
Employer Incidental Death Benefit	0.15% of earnable compensation

\* Of this employer contribution of 10.75% 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, 2015, 2014, and 2013 were \$218,856, \$207,039, and \$269,228, respectively, and equaled the base required retirement contribution rate, excluding retiree insurance surcharge, of 10.75% for 2015, 10.45% for 2014, and 10.45% for 2013. Also, the Fund paid employer incidental death benefit program contributions of \$3,054, \$2,972, and \$3,864, at the rate of .15% of compensation for the current fiscal years ended June 30, 2015, 2014, and 2013 respectively. For fiscal year 2015, total contribution requirements to the ORP were \$29,212 from the Fund as employer and \$21,738 from its employees as plan members.

Net Pension Liability

The most recent annual actuarial valuation reports adopted by the PEBA Board and Budget and Control Board are as of July 1, 2013. The net pension liability of each defined benefit pension plan was therefore determined based on the July 1, 2013 actuarial valuations, using membership data as of July 1, 2013, projected forward to the end of the fiscal year, and financial information of the pension trust funds as of June 30, 2014, using generally accepted actuarial procedures. Information included in the following schedules is based on the certification provided by PEBA’s consulting actuary, Gabriel, Roeder, Smith and Company.

NOTES TO THE BASIC FINANCIAL STATEMENTS  
 SOUTH CAROLINA STATE BUDGET AND CONTROL BOARD INSURANCE RESERVE FUND

NOTE G -- PENSION PLANS – Continued

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, 2014, 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	\$ 42,955,205,796	\$ 25,738,521,026	\$ 17,216,684,770	59.92%

At June 30, 2015, the Fund reported a net pension liability of \$4,133,937 for its proportionate share of the net pension liability for the SCRS. The net pension liability was measured as of June 30, 2014, 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, 2013 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, 2014, the Fund’s SCRS proportion was .024011%, which was equal to its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the Fund recognized pension expense of \$289,633 for the SCRS. At June 30, 2015, 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	\$ 117,138	
Net difference between projected and actual earnings		\$ 348,521
Fund’s contributions subsequent to the measurement date	251,122	
	<u>\$ 368,260</u>	<u>\$ 348,521</u>

The Fund reported \$251,122 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, 2016. 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
2016	\$ (50,898)
2017	(50,898)
2018	(50,898)
2019	(78,689)
	<u>\$ (231,383)</u>

NOTES TO THE BASIC FINANCIAL STATEMENTS  
 SOUTH CAROLINA STATE BUDGET AND CONTROL BOARD INSURANCE RESERVE FUND

NOTE G -- PENSION PLANS – Continued

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 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, 2013, valuations for SCRS.

	SCRS
Actuarial cost method	Entry Age
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases	Levels off at 3.50%
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.

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, Firefighters and members of the South Carolina National Guard	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 for actuarial purposes is based upon the 30 year capital market outlook at the end of the third quarter 2012. The actuarial long-term expected rates of return represent best estimates of arithmetic real rates of return for each major asset class and were developed in coordination with the investment consultant for the Retirement System Investment Commission (RSIC) using a building block approach, reflecting observable inflation and interest rate information available in the fixed income markets as well as Consensus Economic forecasts. The actuarial long-term assumptions for other asset classes are based on historical results, current market characteristics and professional judgment.

NOTES TO THE BASIC FINANCIAL STATEMENTS  
 SOUTH CAROLINA STATE BUDGET AND CONTROL BOARD INSURANCE RESERVE FUND

NOTE G -- PENSION PLANS – Continued

The RSIC has exclusive authority to invest and manage the retirement trust funds’ assets. As co-fiduciary of the systems, statutory provision and governance policies allow the RSIC to operate in a manner consistent with long-term investment time horizon. The expected real rates of investment return, along with the expected inflation rate, form the basis for the target asset allocation adopted annually by the RSIC. For actuarial purposes, the long-term expected rate of return is calculated by weighting the expected future real rates of return by the target allocation percentage and then adding the actuarial expected inflation which is summarized in the table on the following page. For actuarial purposes, the 7.50 percent assumed annual investment rate of return 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%	0.3	0.01
Short Duration	3.0%	0.6	0.02
Domestic Fixed Income			
Core Fixed Income	7.0%	1.1	0.08
High Yield	2.0%	3.5	0.07
Bank Loans	4.0%	2.8	0.11
Global Fixed Income			
Global Fixed Income	3.0%	.8	0.02
Emerging Markets Debt	6.0%	4.1	0.25
Global Public Equity	31.0%	7.8	2.42
Global Tactical Asset Allocation	10.0%	5.1	0.51
Alternatives			
Hedge Funds (Low Beta)	8.0%	4	0.32
Private Debt	7.0%	10.2	0.71
Private Equity	9.0%	10.2	0.92
Real Estate (Broad Market)	5.0%	5.9	0.29
Commodities	3.0%	5.1	0.15
Total Expected Real Return	100%		5.88
Inflation for Actuarial Purposes			2.75
Total Expected Nominal Return			8.63

NOTES TO THE BASIC FINANCIAL STATEMENTS  
 SOUTH CAROLINA STATE BUDGET AND CONTROL BOARD INSURANCE RESERVE FUND

NOTE G -- PENSION PLANS – Continued

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.

<u>System</u>	<u>1.00% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1.00% Increase (8.50%)</u>
SCRS	\$ 5,349,570	\$ 4,133,937	\$ 3,119,750

Pension Plan Fiduciary Net Position

Detailed information regarding the fiduciary net position of the plans administered by PEBA is available in the separately issued CAFR containing financial statements and required supplementary information for SCRS. The CAFR of the Pension Trust Funds is publicly available on PEBA’s Retirement Benefits’ website at [www.retirement.sc.gov](http://www.retirement.sc.gov), or a copy may be obtained by submitting a request to PEBA, PO Box 11960, Columbia, SC 29211-1960.

NOTE H -- 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 South Carolina State Budget and Control Board. 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 South Carolina State Budget and Control Board during the year ended June 30, 2015:

Adjutant General's Office	\$ 237,789
Administrative Law Court	2,170
Aeronautics Division	56,975
Agriculture Department of South Carolina	82,128
Aiken County Mental Health	4,625
Anderson -Oconee Pickens	9,107
Appellate Defense Commission	20,842
Archives and History Department	17,118

NOTES TO THE BASIC FINANCIAL STATEMENTS  
*SOUTH CAROLINA STATE BUDGET AND CONTROL BOARD INSURANCE RESERVE FUND*

NOTE H -- TRANSACTIONS WITH STATE ENTITIES – Continued

Arts Commission	11,409
Attorney General's Office	35,240
Beckman Center for Mental Health	4,275
Berkeley County Mental Health	4,253
Budget and Control Board	1,136,176
Catawba Center for Growth and Development	3,177
Charleston Dorchester Community	3,602
Citadel	666,715
Clemson University	3,276,730
Coastal Carolina University	1,090,895
Coastal Empire-M H Center	5,993
Codification of Laws and Legislative Council	2,734
College of Charleston	1,383,564
Columbia Area Mental Health Center	16,098
Commission on Prosecution Coordination	10,756
Comptroller General's Office	11,102
Court of Appeals	73,169
Department of Alcohol and Other Drug Abuse Services	8,857
Department of Commerce	17,501
Department of Corrections	1,970,178
Department of Disabilities and Special Needs	441,740
Department of Education	4,296,356
Department of Health and Human Services	144,626
Department of Health and Environmental Control	990,479
Department of Juvenile Justice	405,926
Department of Mental Health	1,572,542
Department of Motor Vehicles	175,578
Department of Natural Resources	903,025
Department of Probation, Parole and Pardon Services	203,909
Department of Public Safety	820,772
Department of Social Services	500,310
Department of Transportation	7,713,544
Department of Vocational Rehabilitation	357,745
Education Oversight Committee	7,677
ETV/SDN	298,460
Financial Institutions Board	13,989

NOTES TO THE BASIC FINANCIAL STATEMENTS  
*SOUTH CAROLINA STATE BUDGET AND CONTROL BOARD INSURANCE RESERVE FUND*

NOTE H -- TRANSACTIONS WITH STATE ENTITIES – Continued

Forestry Commission	245,256
Francis Marion University	414,229
Governor's Office	57,764
Governor's Office - SLED	454,911
Governor's School for Science	59,552
Higher Education Commission	14,298
Higher Education Tuition Grant Commission	1,523
Horry County Higher Education Commission	8,160
House of Representatives	127,677
Housing, Finance and Development Authority	28,539
Human Affairs Commission	6,466
John De La Howe School	97,639
Lander University	318,055
Legislative Audit Council	4,913
Legislative Services Agency	16,757
Lexington County Community Mental Health	7,615
Lieutenant Governor's Office	15,546
LLR-Architectural Exam Board	182,312
Medical University of SC	8,827,670
MUSC Hospital Authority	2,672,242
Office of Regulatory Staff	12,229
Orangeburg Area Mental Health	8,853
Parks Recreation and Tourism	649,381
Patients' Compensation Fund	7,589
Patriots Point Development Authority	105,606
Pee Dee Mental Health	8,216
Piedmont Mental Health Center	13,608
Procurement Review Panel	3,173
Public Service Authority SC	461,912
Public Service Commission	11,674
Retirement System Investment Commission	16,196
Revenue Department	201,488
Santee Wateree Mental Health	2,313
SC Commission for the Blind	20,828
SC Conservation Bank	6,059
SC Criminal Justice Academy	87,405

NOTES TO THE BASIC FINANCIAL STATEMENTS  
*SOUTH CAROLINA STATE BUDGET AND CONTROL BOARD INSURANCE RESERVE FUND*

NOTE H -- TRANSACTIONS WITH STATE ENTITIES – Continued

SC Department of Insurance	16,303
SC Department of Consumer Affairs	10,137
SC Department of Employment and Workforce	137,585
SC Governor's School for Arts and Humanities	55,573
SC Rural Infrastructure Authority	12,567
SC School for the Deaf and Blind	202,144
SC State Accident Fund	9,512
SC State Senate	28,029
SC State University	391,788
SC Transportation Infrastructure Bank	4,385
Sea Grant Consortium	3,661
Secretary of State	8,012
Spartanburg Area Mental Health	17,686
State Auditor's Office	5,984
State Board of Financial Institutions	168
State Commission for Minority Affairs	4,235
State Election Commission	8,689
State Ethics Commission	10,593
State Library	12,009
State Museum Commission	31,650
State Treasurer's Office	17,228
Technical and Comprehensive Education Board	48,405
Tobacco Settlement Revenue Management	2,490
Tri-County Community Mental Health	6,996
University of South Carolina - Aiken	161,446
University of South Carolina - Beaufort	68,664
University of South Carolina - Lancaster	39,724
University of South Carolina - Salkehatchie	53,183
University of South Carolina - School of Medicine	1,092,558
University of South Carolina - Spartanburg	218,236
University of South Carolina - Sumter	39,741
University of South Carolina - Columbia Campus	3,753,135
Waccamaw Mental Health Center	11,175
Wil Lou Gray Opportunity School	36,172
Winthrop University	626,166
	<u>\$ 51,333,539</u>

NOTES TO THE BASIC FINANCIAL STATEMENTS  
*SOUTH CAROLINA STATE BUDGET AND CONTROL BOARD INSURANCE RESERVE FUND*

NOTE H -- TRANSACTIONS WITH STATE ENTITIES – Continued

Premiums owed from these entities as of June 30, 2015 were:

Adjutant General's Office	\$	539,967
Arts Commission		12,013
Berkeley County Mental Health		1,103
Budget and Control Board		518,308
Central Carolina Technical College		97,130
Clemson University		3,260,796
Coastal Carolina University		1,119,730
Court of Appeals		71,753
Denmark Technical College		58,267
Department of Corrections		1,944,578
Department of Disabilities and Special Needs		62,778
Department of Education		4,483,084
Department of Health and Human Services		164,894
Department of Juvenile Justice		476,091
Department of Mental Health		1,705,290
Department of Motor Vehicles		170,069
Department of Public Safety		816,760
ETV/SDN		282,269
Florence Darlington Technical College		203,744
Governor's Office - SLED		354,834
Greenville Technical College		36
Horry-Georgetown Technical College		173,781
Lander University		308,631
Medical University of SC		3,888
Midlands Technical College		9,855
Office of Regulatory Staff		12,782
Patients' Compensation Fund		7,589
Patriots Point Development Authority		107,193
Public Service Authority SC		59,402
SC Criminal Justice Academy		79,554
SC State University		351,582
SC Worker's Compensation Commission		14,388
Sea Grant Consortium		2,773
State Auditor's Office		5,984

NOTES TO THE BASIC FINANCIAL STATEMENTS  
 SOUTH CAROLINA STATE BUDGET AND CONTROL BOARD INSURANCE RESERVE FUND

NOTE H -- TRANSACTIONS WITH STATE ENTITIES – Continued

State Ethics Commission	6,678
State Library	12,714
State Museum Commission	26,406
Technical College of the Low Country	78,836
University of South Carolina - Aiken	162,435
University of South Carolina - Beaufort	140
University of South Carolina - Columbia Campus	3,717,010
University of South Carolina - Spartanburg	195,481
York Technical College	159,014
	<u>\$ 21,839,610</u>

The Fund has financial transactions with various State agencies during the fiscal year. Significant payments were made to Divisions (Offices) of the State Budget and Control Board 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, 2015 are as follows:

South Carolina Department of Employment and Workforce	\$	1,383
South Carolina State Accident Fund		<u>18,315</u>
	\$	<u>19,698</u>

NOTE I -- 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, 2015, 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, 2015, 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.

NOTES TO THE BASIC FINANCIAL STATEMENTS  
*SOUTH CAROLINA STATE BUDGET AND CONTROL BOARD INSURANCE RESERVE FUND*

NOTE I -- CONTINGENCIES - Continued

As a result of the 2007-2008 Appropriations Act Proviso 63.51, the Fund is to provide funds to cover legal defense costs of the State associated with the State Ethics Commission litigation case. During the year ended June 30, 2015, 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.

NOTE J -- 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.

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.

NOTES TO THE BASIC FINANCIAL STATEMENTS  
*SOUTH CAROLINA STATE BUDGET AND CONTROL BOARD INSURANCE RESERVE FUND*

NOTE J -- RISK MANAGEMENT/REINSURANCE – Continued

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, 2015, based on the requirements of GASB 10 because information at June 30, 2015 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 30<sup>th</sup> 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.

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.

NOTES TO THE BASIC FINANCIAL STATEMENTS  
 SOUTH CAROLINA STATE BUDGET AND CONTROL BOARD INSURANCE RESERVE FUND

NOTE K -- RECONCILIATION OF CLAIMS LIABILITY

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

	<u>2015</u> <u>(in thousands)</u>	<u>2014</u> <u>(in thousands)</u>
Unpaid claims and claim adjustment expenses at beginning of the fiscal year	\$ 258,398	\$ 259,649
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current fiscal year	11,962	12,595
Increases (decreases) in provision for insured events of prior fiscal years	<u>67,969</u>	<u>60,326</u>
Total incurred claims and claim adjustment expenses	<u>79,931</u>	<u>72,921</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	11,073	12,811
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	<u>62,917</u>	<u>61,361</u>
Total payments	<u>73,990</u>	<u>74,172</u>
Total unpaid claims and claim adjustment expenses at end of the fiscal year	<u>\$ 264,339</u>	<u>\$ 258,398</u>
The above totals are comprised of the following:		
Claims payable	\$ 167,820	\$ 161,660
Claims incurred but not reported	<u>96,519</u>	<u>96,738</u>
TOTAL	<u>\$ 264,339</u>	<u>\$ 258,398</u>

NOTE L -- COMPENSATED ABSENCES

Changes in compensated absences for the year ended June 30, 2015 were as follows:

	<u>Balance</u> <u>July 1, 2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2015</u>	<u>Due Within</u> <u>One Year</u>
Compensated absences payable	<u>\$ 281,336</u>	<u>\$ 146,373</u>	<u>\$ (176,492)</u>	<u>\$ 251,217</u>	<u>\$ 179,749</u>

NOTES TO THE BASIC FINANCIAL STATEMENTS  
 SOUTH CAROLINA STATE BUDGET AND CONTROL BOARD INSURANCE RESERVE FUND

NOTE M -- INSURANCE PREMIUMS AND CLAIMS EXPENSE

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

	Insurance Premiums	Claims Expenses
	<u>                    </u>	<u>                    </u>
Tort Liability	\$ 35,272,430	\$ 28,299,842
Data Processing and Inland Marine	8,354,627	1,766,847
Auto	22,300,379	2,701,531
Building and Personal Property	35,580,047	6,057,982
Professional Liability	19,283,290	11,834,449
School Bus	4,023,617	3,689,778
	<u>\$ 124,814,390</u>	<u>\$ 54,350,429</u>

NOTE N -- SUBSEQUENT EVENTS

The South Carolina Restructuring Act of 2014, Act 121, abolished the Budget and Control Board. Effective July 1, 2015, the Insurance Reserve Fund has been transferred to the State Fiscal Accountability Authority.

Management of the Fund has evaluated events through September 28, 2015, which represents the date the financials were available to be issued.

REQUIRED SUPPLEMENTAL INFORMATION

SCHEDULE OF THE FUND'S PROPORTIONATE SHARE OF THE NET  
PENSION LIABILITY - SOUTH CAROLINA RETIREMENT SYSTEM  
SOUTH CAROLINA STATE BUDGET AND CONTROL BOARD  
INSURANCE RESERVE FUND

	June 30,	
	2015	2014
Fund's proportion of the net pension liability	0.024011%	0.024011%
Fund's proportionate share of the net pension liability	\$ 4,133,937	\$ 4,306,757
Fund's covered-employee payroll	\$ 1,981,230	\$ 2,576,340
Fund's proportionate share of the net pension liability as a percentage of its covered employee payroll	208.66%	167.17%
Plan fiduciary net position as a percentage of the total pension liability	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  
 SOUTH CAROLINA STATE BUDGET AND CONTROL BOARD  
 INSURANCE RESERVE FUND

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

## COMPLIANCE AND INTERNAL CONTROL

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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. Richard H. Gilbert, Jr., CPA  
Deputy State Auditor  
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 South Carolina State Budget and Control Board Insurance Reserve Fund (the "*Fund*") as of and for the year ended June 30, 2015, 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, 2015.

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, 2015

*The Hall Group, P.A.*