

Report on Audit of Financial Statements

South Carolina State Accident Fund

for the year ended June 30, 2014

State of South Carolina



Office of the State Auditor

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October 29, 2014

The Honorable Nikki R. Haley, Governor
and
Mr. Harry B. Gregory, Jr., 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, 2014 was issued by Scott and Company, L.L.C., 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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Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the South Carolina State Accident Fund (the "Fund") as of and for the year ended June 30, 2014, and the related notes to the basic 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

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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and the major fund of the Fund, as of June 30, 2014, and the respective changes in financial position and where applicable, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the financial statements, the financial statements of the Fund are intended to present the financial position and changes in financial position of only that portion of the governmental activities, business-type activities and each major fund of the State of South Carolina that is attributable to the transactions of the Fund. They do not purport to and do not present fairly the financial position of the State of South Carolina as of June 30, 2014, and changes in its financial position for the year then ended in conformity 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 and budgetary comparison information on pages 3-9 and 35-37 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 October XX, 2014, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions, laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

Scott and Company LLC

Columbia, South Carolina
October 29, 2014

STATE ACCIDENT FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

The South Carolina State Accident Fund presents a management's discussion and analysis of its financial statements for fiscal year 2014. The discussion includes an overview of the financial activity for the year. This report is prepared in accordance with Governmental Accounting Standards Board Statement 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. This discussion should be read in conjunction with the Fund's financial statements and accompanying notes.

Overview of the Financial Statements and Financial Analysis

The State Accident Fund was established by Section 42-7-10 of the Code of Laws of South Carolina, as amended, to provide workers' compensation insurance to government entities. The South Carolina Workers' Compensation Uninsured Fund was established by Section 42-7-200 to ensure payment of workers' compensation benefits to injured employees whose employers have failed to acquire necessary coverage for employees. The South Carolina Legislature, by the enactment of Section 42-7-200 of the South Carolina Code of Laws, transferred the operations of the South Carolina Workers' Compensation Uninsured Fund (UEF) to the South Carolina State Accident Fund (SAF) effective July 1, 2013.

The financial statements which follow are the Statement of Net Position and Statement of Activities which are combined statement for both the State Accident Fund (SAF) and the Workers' Compensation Uninsured Employers' Fund (UEF). Thereafter, the following individual statements are presented: Balance Sheet – Governmental Funds and Statement of Revenue, Expenditures, and Changes in Fund Balances – Governmental Funds for UEF; Statement of Fund Net Position – Enterprise Fund; Statement of Revenues, Expenses and Changes in Fund Net Position – Enterprise Fund; and the Statement of Cash Flows – Enterprise Fund for SAF. For this discussion, we will focus on the individual statements instead of the combined statements.

Individual Statements

The Statement of Net Position presents information reflecting the Fund's assets, liabilities, and net position. This statement provides the reader with a snapshot view at a point in time. Net position represents the amount of total assets less liabilities. Assets and liabilities are shown as current and noncurrent. Current assets and liabilities are those with immediate liquidity or which are collectible or due within twelve months of the statement date. The Statement of Net Position indicates the funds available for the Fund's operation along with the liabilities that will come due during the next fiscal year. Total assets on SAF's Statement of Fund Net Position – Enterprise Fund increased by \$16 million over the prior fiscal year. As shown on the Balance Sheet – Governmental Funds, UEF has \$3 million in total assets which is an increase from the prior year balance of \$0.4 million total assets.

State Accident Fund
Condensed Statements of Net Position
June 30,

	<u>2014</u>	<u>2013</u>
	<u>Business-Type</u>	<u>Business-Type</u>
	<u>Activities</u>	<u>Activities</u>
ASSETS		
Current assets	\$ 297,695,777	\$ 281,504,972
Capital assets, net of accumulated depreciation	106,484	120,780
Other noncurrent assets	331,210	368,829
Total assets	298,133,471	281,994,581
LIABILITIES		
Current liabilities	161,900,894	153,867,584
Noncurrent liabilities	160,625,992	157,521,083
Total liabilities	322,526,886	311,388,667
NET POSITION		
Net investment in capital assets	106,484	120,780
Unrestricted	(24,499,899)	(29,514,866)
Total net position	\$ (24,393,415)	\$ (29,394,086)

State Accident Fund
Uninsured Employers' Fund
Condensed Statements of Net Position
June 30,

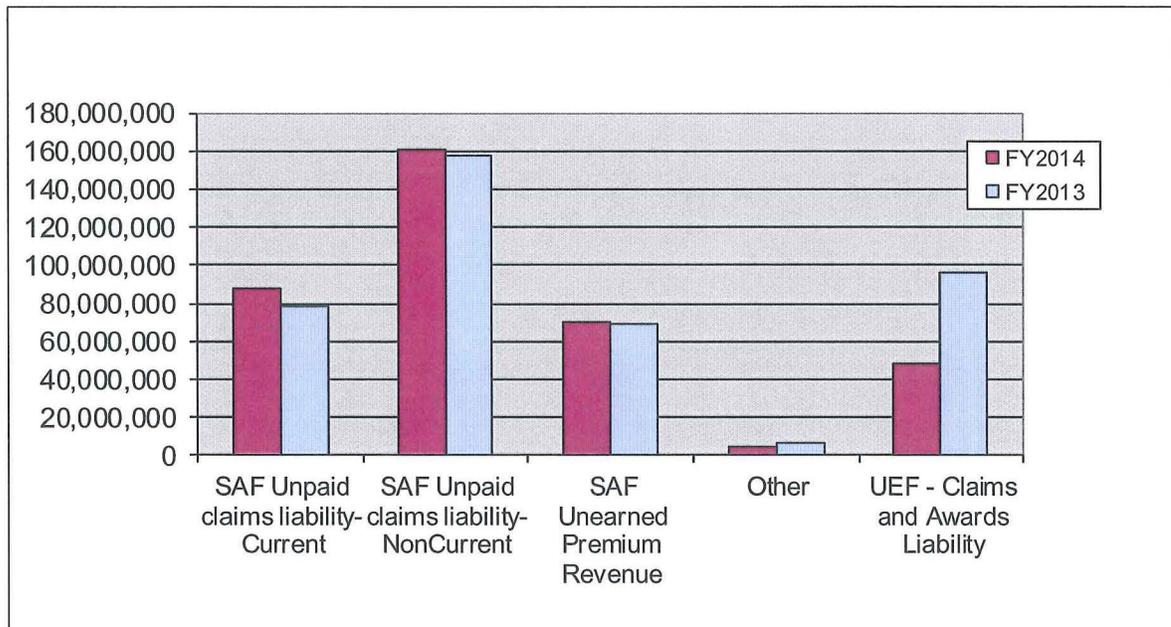
	<u>2014</u>	<u>2013</u>
	<u>Governmental</u>	<u>Governmental</u>
	<u>Activities</u>	<u>Activities*</u>
ASSETS		
Current assets	\$ 3,211,922	\$ 400,245
Capital assets, net of accumulated depreciation	14,506	-
Other noncurrent assets	-	-
Total assets	3,226,428	400,245
LIABILITIES		
Current liabilities	12,050,096	9,000,000
Noncurrent liabilities	36,011,469	86,885,000
Total liabilities	48,061,565	95,885,000
NET POSITION		
Net investment in capital assets	14,506	-
Unrestricted	(44,849,643)	(95,484,755)
Total net position	\$ (44,835,137)	\$ (95,484,755)

* FY2013 data for the above chart was obtained from FY2013 Audited Financial Statement for the Second Injury Fund.

Unpaid claims liabilities are a large part of the Fund's liabilities and have been separated into current (to be paid within one year) and noncurrent (to be paid after one year). SAF's current unpaid claim liabilities increased \$9 million and non-current increased \$3 million compared to the prior year. The change in the current and noncurrent was due to the actuarial assessment of reserves. (See Change in Liabilities chart below.) Total liabilities increased by \$11 million due mostly to the change in reserves. (See Statement of Net Position chart below.) Deferred premium revenue represents the amount of premium billed, but not yet earned, for the future period and had little change compared to the prior year. Rates effective January 1, 2014 remain stable.

UEF's current and noncurrent liabilities decreased to \$48 million in 2014 from \$95.9 million in fiscal year 2013. This decrease was due to the actuarial assessment of reserves. (See Change in Liabilities chart below).

Change in Liabilities



The chart above shows the breakdown of liabilities and the change compared to the previous fiscal year.

State Accident Fund
Condensed Statements of Activities
June 30,

	<u>2014</u> Business-Type Activities	<u>2013</u> Business-Type Activities
Program revenues		
Charges for services	\$ 73,075,609	\$ 72,051,265
Total program revenues	<u>73,075,609</u>	<u>72,051,265</u>
General revenues		
Interest earnings	2,490,531	1,818,005
Total general revenues	<u>2,490,531</u>	<u>1,818,005</u>
Total revenues	75,566,140	73,869,270
Program expenses		
Workers compensation claims	70,565,469	63,525,677
Total expenses	<u>70,565,469</u>	<u>63,525,677</u>
Excess of revenues over expenses	<u>5,000,671</u>	<u>10,343,593</u>
Change in net position	5,000,671	10,343,593
Net position, beginning of Year	(29,394,086)	(39,737,679)
Net position, end of Year	<u>\$ (24,393,415)</u>	<u>\$ (29,394,086)</u>

State Accident Fund
Uninsured Employers' Fund
Condensed Statements of Activities
June 30,

	<u>2014</u> Governmental Activities	<u>2013</u> Governmental Activities*
Program revenues		
Charges for services	\$ -	\$ -
Total program revenues	<u>-</u>	<u>-</u>
General revenues		
Reduction in claims and awards liability	47,885,000	-
Payments from State agencies	9,660,045	7,800,000
Total general revenues	<u>57,545,045</u>	<u>7,800,000</u>
Total revenues	57,545,045	7,800,000
Program expenses		
Workers compensation claims	6,895,427	8,055,293
Increase in claims and awards liability	-	52,661,000
Total expenses	<u>6,895,427</u>	<u>60,716,293</u>
Excess of revenues over expenses	<u>50,649,618</u>	<u>(52,916,293)</u>
Change in net position	50,649,618	(52,916,293)
Net position, beginning of Year	(95,484,755)	(42,568,462)
Net position, end of Year	<u>\$ (44,835,137)</u>	<u>\$ (95,484,755)</u>

* FY2013 data for the above chart was obtained from FY2013 Audited Financial Statement for the Second Injury Fund

Statements of Revenues, Expenses, and Changes in Net Position and Statements of Revenues, Expenditures, and Changes in Fund Balance

This statement represents operating revenues and expenses, as well as the non-operating revenues and expenses during the operating year. The purpose of this statement is to present the reader with information relating to monies received and expenses paid during the year.

SAF is a proprietary fund entity; therefore, the Statement of Revenues, Expenses, and Changes in Net Position has been prepared on the accrual basis. Statements prepared using the accrual basis recognizes revenues when earned and expenses when incurred. SAF's revenue comes primarily from premium income for workers' compensation insurance coverage provided to state agencies and political subdivisions. The major expenses are from incurred claim liabilities, which include medical costs and lost wages paid to injured workers, and the change in anticipated future payments. SAF is a quasi-governmental organization whose normal operation is similar to that of other property and casualty insurance companies. The SAF receives no general funds appropriations.

The operating revenue in SAF's statement includes primarily premium billed based on policyholder payroll but also effected by their experience modifier. The experience modifier can either increase or decrease the policyholder's premium. As a result of new policies electing to purchase their coverage from the Fund, operating revenue increased by \$1 million in fiscal year 2014. The non-operating revenue is dependent on the interest rates received on investments with the State Treasurer's Office.

The operating expenses include administrative expenses, claims paid, and claims incurred during the year. Fiscal year 2014 had a change in reserves of \$11 million (which increased the claims incurred). This change in reserves resulted in approximately a \$7 million increase in operating expenses when compared to the prior fiscal year. The administrative cost ratio, the amount of premium dollars used to operate the Fund, during fiscal year 2014 remained below 7.9%. The South Carolina State Accident Fund continues to have one of the lowest administrative cost ratios in the workers' compensation industry.

UEF is a governmental fund entity; therefore, the Statement of Revenues, Expenditures and Changes in Fund Balance has been prepared on the modified accrual basis. Statements prepared using the modified accrual basis recognizes revenues when available and measurable while expenses are recognized in the period they are incurred. Funds to support UEF come from taxes collected by the Department of Insurance and the Workers' Compensation Commission. The expenses are primarily payment of claims. The charts below show that during the past two fiscal years 80-82% of expenses have been paid directly to injured workers or to medical providers on behalf of the injured worker.

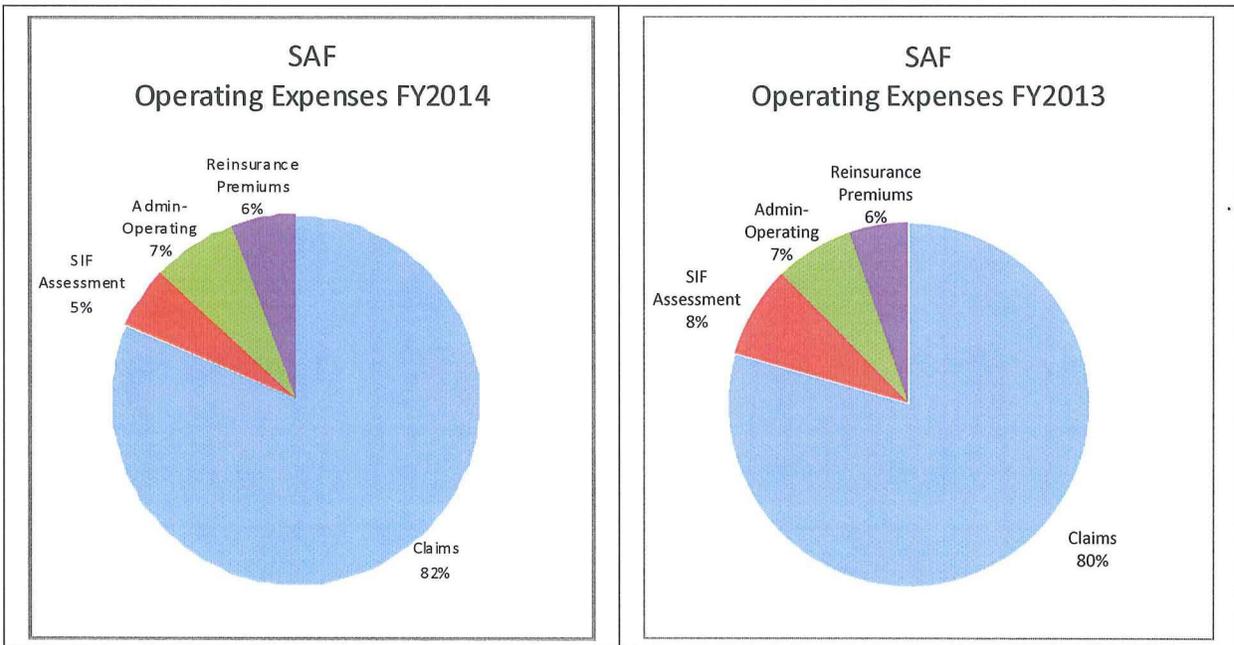
**State Accident Fund
Condensed Statements of Revenues, Expenses, and Changes in Net Position
Enterprise Fund
June 30,**

	2014	2013
Operating revenues	\$ 73,075,609	\$ 72,051,265
Operating expenses	70,565,469	63,525,677
Operating gain (loss)	2,510,140	8,525,588
Nonoperating revenues	2,490,531	1,818,005
Change in net position	5,000,671	10,343,593
Net position, beginning of Year	(29,394,086)	(39,737,679)
Net position, end of Year	\$ (24,393,415)	\$ (29,394,086)

**State Accident Fund
Uninsured Employers' Fund
Condensed Statements of Revenues, Expenditures, and Changes in Fund Balance
Governmental Fund
June 30,**

	2014	2013*
Payments from State agencies	\$ 9,660,045	\$ 7,800,000
Operating expenditures	6,886,994	8,055,293
Revenues over/(under) expenditures	2,773,051	(255,293)
Fund balance, beginning of year	400,245	655,538
Fund balance, end of year	\$ 3,173,296	\$ 400,245

* FY2013 data for the above chart was obtained from FY2013 Audited Financial Statement for the Second Injury Fund



Capital Asset and Debt Activity

Capital assets increased by \$31,821 for the purchase of cubicle workstations and a network server which supports the claims management system. There were no other significant additions to capital assets and no capital asset retirements during the fiscal year. The Fund had no changes in credit rating or debt limitations that may affect future financing.

Economic Outlook

The past several years have been a challenging financial period for South Carolina and the nation as businesses and government adjusted to a historic economic downturn resulting in job reductions, stagnant or declining payroll, reduced capital, and an overall tentative business environment. In no way was the South Carolina State Accident Fund immune to the effects of the Great Recession. The overall reduction in payroll among policyholders severely and adversely impacted the premium revenue that provides the operational income for the Fund. Nevertheless, as a result of management initiatives implemented in 2005, years before the current economic crisis, the Fund has positioned itself to meet financial challenges through focused efforts to promote operational efficiency, quality case management, and effective premium pricing. Those efforts have paid off as Fiscal Year 2014 marks the ninth consecutive year of performance success for the South Carolina State Accident Fund which concluded the year with a net operating income of \$5,000,671.

While the economic climate remains precarious, indicators from job creation and unemployment rates to consumer confidence and business investment continue to improve. Through a combination of disciplined risk selection, unrivaled claim and medical cost management, and careful use of our professional resources, SAF will continue to explore and develop new and innovative methods of decreasing operating expenses while maintaining low claim costs, stable premium pricing, and high customer satisfaction. Working with our actuaries and reinsurers, we will continue the ongoing efforts to improve our overall financial standing while at the same time establishing and maintaining adequate reserves to ensure the long-term financial viability of the Fund. Mindful that the effects of the recession still linger in many areas, we are also keenly aware that the recovery has been painfully slow for many of our policyholders. It is our goal to understand the challenges and needs of our policyholders and assist them in meaningful ways to reduce their overall workers' compensation costs. By maximizing efficiency without sacrificing quality customer service, we believe we accomplished this goal with resulting rate stabilization and reductions to base premiums.

As the economic recovery continues for South Carolina and the nation, the State Accident Fund remains committed to providing stable, long-term workers' compensation coverage to state, county, and local governments as cost-effectively as possible. At SAF, all we do is workers' compensation and our emphasis on higher efficiencies, lower costs, and improved delivery of services will enable us to fulfill our commitments to our policyholders and their employees long into the future. Expertise, responsive service, and long-term value – all keep the State Accident Fund well-positioned for continued success, and that is good news for South Carolina employers and workers.

SOUTH CAROLINA STATE ACCIDENT FUND

STATEMENT OF NET POSITION

JUNE 30, 2014

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 3,211,466	\$ 230,907,884	\$ 234,119,350
Premiums receivable	178	64,832,290	64,832,468
Claims recoveries and reimbursement receivables, net	-	1,539,772	1,539,772
Recoverable under reinsurance annuity contract	-	573	573
Accrued interest receivable	-	402,244	402,244
Prepaid expenses	278	13,014	13,292
Total current assets	3,211,922	297,695,777	300,907,699
Non-current Assets:			
Investment in reinsurance annuity contract, net	-	331,210	331,210
Capital assets (net)	14,506	106,484	120,990
Total non-current assets	14,506	437,694	452,200
Total assets	3,226,428	298,133,471	301,359,899
Liabilities			
Current Liabilities:			
Accounts payable	-	322,870	322,870
Accrued compensated absences and related benefits, current	11,470	231,637	243,107
Accrued payroll and related liabilities	34,431	264,338	298,769
Accrued refundable premiums	-	3,688,899	3,688,899
Unearned premium revenue	-	69,843,901	69,843,901
Claims and awards	12,000,000	-	12,000,000
Unpaid claims liability and claims adjustment, current	4,195	87,549,249	87,553,444
Total current liabilities	12,050,096	161,900,894	173,950,990
Non-current liabilities:			
Accrued compensated absences and related benefits	11,469	75,241	86,710
Claims and awards	36,000,000	-	36,000,000
Unpaid claims liability and claims adjustment	-	160,550,751	160,550,751
Total non-current liabilities	36,011,469	160,625,992	196,637,461
Total liabilities	48,061,565	322,526,886	370,588,451
Net position			
Net investment in capital assets	14,506	106,484	120,990
Unrestricted	(44,849,643)	(24,499,899)	(69,349,542)
Total net position	\$ (44,835,137)	\$ (24,393,415)	\$ (69,228,552)

The accompanying notes to the financial statements are an integral part of this statement.

SOUTH CAROLINA STATE ACCIDENT FUND

STATEMENT OF ACTIVITIES

June 30, 2014

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Functions/Programs	Program Revenues		Net Revenue (Expense) and Change in Net Position		
	Expenses	Charges for Services	Primary Government		
			Governmental Activities	Business-Type Activities	Totals
Primary Government					
Governmental Activities:					
Workers compensation claims, net	\$ 6,895,427	\$ -	\$ (6,895,427)	\$ -	\$ (6,895,427)
Total Governmental Activities	6,895,427	-	(6,895,427)	-	(6,895,427)
Business-Type Activities:					
State Accident Fund	70,565,469	73,075,609	-	2,510,140	2,510,140
Total Business-Type Activities	70,565,469	73,075,609	-	2,510,140	2,510,140
Total Primary Government	\$ 77,460,896	\$ 73,075,609	(6,895,427)	2,510,140	(4,385,287)
General revenues:					
Reduction in claims and awards liability			47,885,000	-	47,885,000
Interest earnings			-	2,490,531	2,490,531
Payments from State agencies			9,660,045	-	9,660,045
Total general revenues			57,545,045	2,490,531	60,035,576
Change in net position			50,649,618	5,000,671	55,650,289
Net position beginning of year			(95,484,755)	(29,394,086)	(124,878,841)
Net position end of year			\$ (44,835,137)	\$ (24,393,415)	\$ (69,228,552)

The accompanying notes to the financial statements are an integral part of this statement.

SOUTH CAROLINA STATE ACCIDENT FUND
BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2014

	Uninsured Employers Fund
Assets	
Cash and Cash Equivalents	\$ 3,211,466
Claims accounts receivable	178
Prepaid items	278
Total assets	3,211,922
 Liabilities	
Accrued payroll related liabilities	34,431
Unpaid claims	4,195
Total liabilities	38,626
 Fund balances	
Fund Balances:	
Restricted for workers' compensation claims	3,173,296
Total fund balances	\$ 3,173,296

**Reconciliation of the Governmental Fund Balance Sheet
To the Statement of Net Position**

Governmental fund balance	\$ 3,173,296
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	
Gross Fixed Assets	15,682
Accumulated Depreciation	1,176
	14,506
Long-term liabilities, including compensated absences and claims and awards are not due and payable in the current period and, therefore, are not reported in the funds.	
Compensated Absences	22,939
Claims and Awards	48,000,000
	(48,022,939)
Net position of governmental activities	\$ (44,835,137)

The accompanying notes to the financial statements are an integral part of this statement.

SOUTH CAROLINA STATE ACCIDENT FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
June 30, 2014

	Uninsured Employers Fund	
Expenditures		
Workers' Compensation Uninsured Employers' Fund claims	\$	6,359,813
Personnel services		405,041
Contractual services		84,726
Rent and insurance		26,412
Supplies and materials		5,921
Other expenditures		5,081
Total expenditures		6,886,994
Other financing sources (uses)		
Payments from Workers' Compensation Commission		1,092,551
Payments from South Carolina Department of Insurance		8,567,494
Total other financing sources (uses)		9,660,045
Net Change in fund balance		2,773,051
Fund balance, beginning of year		400,245
Fund balance, end of year	\$	3,173,296

**Reconciliation of the Governmental Fund Statement of Revenues, Expenditures, and
Changes in Fund Balance to Statement of Activities**

Net Change in governmental fund balance	\$	2,773,051
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Expenditures for capital assets	15,682	
Less current year depreciation	(1,176)	14,506
Adjustment to compensated absences and claims and awards reported in the statement of activities does not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Compensated absences	(22,939)	
Claims and awards	47,885,000	47,862,061
		50,649,618
	\$	50,649,618

The accompanying notes to the financial statements are an integral part of this statement.

SOUTH CAROLINA STATE ACCIDENT FUND
STATEMENT OF FUND NET POSITION
ENTERPRISE FUND

June 30, 2014

	Business-Type Activities Enterprise Fund
Assets	
Current Assets:	
Cash and cash equivalents	\$ 230,907,884
Premiums receivable	64,832,290
Claims recoveries and reimbursement receivables, net	1,539,772
Recoverable under reinsurance annuity contract	573
Accrued interest receivable	402,244
Prepaid expenses	13,014
Total current assets	297,695,777
Noncurrent Assets:	
Investment in reinsurance annuity contract, net	331,210
Capital assets, net	106,484
Total noncurrent assets	437,694
Total assets	298,133,471
Liabilities	
Current liabilities:	
Accounts payable	322,870
Accrued compensated absences and related benefits	231,637
Accrued payroll and related liabilities	264,338
Accrued refundable premiums	3,688,899
Unearned premium revenue	69,843,901
Unpaid claims liability and claims adjustment expenses payable within one year- net	87,549,249
Total current liabilities	161,900,894
Noncurrent liabilities:	
Accrued compensated absences and related benefits	75,241
Unpaid claims liability and claims adjustment expenses payable within one year	160,550,751
Total noncurrent liabilities	160,625,992
Total liabilities	322,526,886
Net position	
Net investment in capital assets	106,484
Unrestricted	(24,499,899)
Total net position	\$ (24,393,415)

The accompanying notes to the financial statements are an integral part of this statement.

SOUTH CAROLINA STATE ACCIDENT FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
ENTERPRISE FUND

Year ended June 30, 2014

Operating Revenues	
Premiums	\$ 73,075,609
Operating Expenses	
Claims	62,387,117
Second Injury Fund assessment	3,367,617
Administrative:	
Personnel services and employee benefits	3,521,947
Contract services	444,617
Rent and insurance	317,907
Supplies and materials	69,759
Depreciation	46,117
Amortization expense - reinsurance annuity contract premium	37,620
Other expenses	372,768
Total administrative expenses	4,810,735
Total operating expenses	70,565,469
Operating income	2,510,140
Nonoperating Revenues	
Interest/investment income	2,490,531
Change in Net Position	5,000,671
Net Position at Beginning of Year	(29,394,086)
Net Position at End of Year	\$ (24,393,415)

The accompanying notes to the financial statements are an integral part of this statement.

SOUTH CAROLINA STATE ACCIDENT FUND
STATEMENT OF CASH FLOWS
ENTERPRISE FUND

YEAR ENDED JUNE 30, 2014

	Enterprise Fund
	State Accident Fund
Cash Flows from Operating Activities	
Cash Received From State Agencies	\$ 51,983,296
Cash Received From Other Entities	22,296,892
Payments for Claims	(50,287,117)
Payments for Salaries and Related Benefits	(3,510,708)
Payment of Second Injury Fund Assessment to Other State Agency	(5,023,083)
Payments for Administrative Expenses	(1,291,669)
Net Cash Provided by Operating Activities	14,167,611
Cash Flows from Capital and Related Financing Activities	
Purchases of Capital Assets	(31,821)
Net Cash Used in Capital and Related Financing Activities	(31,821)
Cash Flows from Investing Activities	
Interest/investment Income Received	2,573,147
Net cash provided by investing activities	2,573,147
Net Change in Cash and Cash Equivalents	16,708,937
Cash and Cash Equivalents, Beginning of Year	214,198,947
Cash and Cash Equivalents, End of Year	\$ 230,907,884
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating income	\$ 2,510,140
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation and Amortization	83,737
(Increase) decrease in premiums receivable	48,721
(Increase) decrease in claims recoveries and reimbursement receivables	350,588
(Increase) decrease in prepaid expenses	(30)
(Increase) decrease in recoverable under reinsurance annuity contract	36,236
Increase (decrease) in accounts payable	(1,742,054)
Increase (decrease) in accrued compensated absences and related benefits	9,760
Increase (decrease) in accrued payroll and related liabilities	1,479
Increase (decrease) in accrued refundable premiums	140,729
Increase (decrease) in unearned premium revenue	628,305
Increase (decrease) in estimate of unpaid claim liability	12,100,000
Net Cash Provided by Operating Activities	\$ 14,167,611

The accompanying notes to the financial statements are an integral part of this statement.

South Carolina State Accident Fund

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

Reporting Entity – The South Carolina State Accident Fund (the “Fund”), is part of the State of South Carolina (the “State”) and is included in the State’s Comprehensive Annual Financial Report. The Fund is made up of the State Accident Fund (the “SAF”) and the Uninsured Employers Fund (the “UEF”).

The SAF was established by Section 42-7-10 of the Code of Laws of South Carolina, as amended, to provide workers’ compensation insurance coverage to State entities. Although the State is the SAF’s predominant participant; counties, municipalities, and other political subdivisions of the State may elect to participate. The State assumes the full risk for the covered claims. The SAF 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 UEF was established by Section 42-7-200, which, effective July 1, 2013 the powers, duties, obligations and responsibilities of the Second Injury Fund that relate to the South Carolina Workers’ Compensation Uninsured Employers’ Fund are devolved upon the South Carolina Workers’ Compensation Uninsured Employers’ Fund within the State Accident Fund.

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.

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 (“GAAP”), 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.

An organization can also be a component unit of another entity if the exclusion of that organization would be misleading to the users of the primary entity’s financial statements. The organization is fiscally independent if it holds all three of those powers. Based on the criteria, the Fund has determined it is not a component of another entity and it has no component units.

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.

Fund Accounting – The Fund uses funds 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 equities 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.

South Carolina State Accident Fund

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

Fund Accounting (continued) - The SAF is an internal service fund of the proprietary fund type of the State. Such funds account for the financing of goods and services that are used primarily by the State. The UEF is a special revenue fund of the State.

Basis of Accounting

Government-wide Financial Statements - In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

The Statement of Net Position discloses the financial position of the Fund and the Statement of Activities demonstrates the degree to which the direct expenses by function of the Fund's programs are offset by program revenues.

Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - The UEF, a special revenue fund, uses the modified accrual basis of accounting. The UEF is supported by payments from the South Carolina Insurance Commission and the South Carolina Workers' Compensation Commission. The revenues are recognized when they become available and measurable. Available means those amounts that will be received within one year of the date of the financial statements. The payments from the South Carolina Insurance Commission and the South Carolina Workers' Compensation Commission are recorded when received in cash because they are not considered available until the Fund requests the payment. The request from the Fund is the event that is considered necessary to trigger the recognition of the payment.

The accounting policies of the SAF 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.

The SAF individual financial statements are prepared on the same basis of accounting as the government-wide financial statements; therefore, there is no reconciliation between the fund and government-wide statements.

Cash and Cash Equivalents – Cash and cash equivalents represent cash on deposit with the State's Treasurer, cash in banks, and cash invested in various instruments by the State Treasurer as part of the State's internal cash management pool (the "Pool") and short-term investments not held by the State Treasurer's Office, and having a maturity at purchase of three months or less.

Because the 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 and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, and certain corporate bonds.

South Carolina State Accident Fund

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents (continued) – The 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 held by the Pool are carried at fair value. Interest earned on 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. The Fund records and reports its deposits in the general deposit account at cost. The Fund reports its deposits in the special deposit accounts at fair value. Interest earnings are allocated based on the percentage of the Fund's accumulated daily income receivable to the total interest receivable of the Pool. Reported investment income includes interest earnings, realized gains/losses and unrealized gains/losses on investments in the Pool arising from changes in fair value. Realized gains and losses are allocated daily and are included in the accumulated income receivable. Unrealized gains and losses are allocated at year-end based on the percentage ownership in the Pool.

Information pertaining to carrying amounts, fair value, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report ("CAFR") of the State.

Capital Assets – Capital assets are recorded at cost at the date of acquisition. The Fund follows capitalization guidelines established by the State. All land is capitalized, regardless of cost. The Fund capitalizes movable personal property with a unit value in excess of \$5,000 and a useful life in excess of two years and intangible assets including software costing in excess of \$100,000. Routine repairs and maintenance are charged to operating expenses in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 3 to 10 years.

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. 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. Claims liabilities for claims of the South Carolina Department of Transportation ("DOT") prior to January 1, 1994, are not included in the State Accident Fund's claims liability. See below and Note 4 for further information. Because actual claims costs depend on such complex factors as inflation, changes in doctrine 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 annually as of fiscal year end using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. While management believes that the amount is adequate, the ultimate liability may be in excess of or less than the amounts provided.

Claims liabilities are recomputed annually as of fiscal year end using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. While management believes that the amount is adequate, the ultimate liability may be in excess of or less than the amounts provided.

South Carolina State Accident Fund

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

Unpaid Claims Liability (continued) - The methods for making such estimates and for establishing the resulting liability are continually reviewed, and any adjustments are reflected in current earnings. 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.

DOT and the South Carolina Department of Public Safety (“DPS”) managed their own workers’ compensation claims prior to the State’s restructuring in 1993. When they became policyholders, the Fund agreed to provide claim services for their claims with a date of injury prior to January 1, 1994 for DOT and August 1, 1993 for DPS. Because the Fund was not the insurer and had not collected premiums to cover these losses, the agencies reimbursed the Fund for the cost of these claims. In the 1998-1999 Appropriations Bill 700, Proviso 44.4 stated, “(SAF: Workers’ Compensation Claims) from the funds in the Workers’ Compensation Trust Fund, the Fund shall purchase an annuity for the purpose of funding the future obligation for workers’ compensation claims filed prior to restructuring by South Carolina Department of Highways and Public Transportation employees.”

After June 30, 1998, the Fund was no longer reimbursed, as originally agreed upon. Instead, it used the funds received from the annuity purchased under the proviso to pay these claims. This annuity is being amortized over the life of the contract in proportion to annuity proceeds received. See Note 4 for further discussion.

Reinsurance – The SAF has obtained reinsurance coverage to reduce its exposure to losses on insured events. Losses in excess of \$1,000,000 from an insured event are covered up to limits based on the type of injury as set by the worker’s compensation statutes of the South Carolina Code of Laws, with the SAF retaining the risk for the first \$1,000,000 of loss. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the SAF as direct insurer of the risks reinsured. The SAF does not report reinsured risks as liabilities, unless it is probable that those risks will not be covered by reinsurers. The prior policy covered losses in excess of \$600,000. The reinsurance coverage also reduces its exposure to losses on insured events related to State owned aircrafts in excess of \$1,000,000 per occurrence up to the limit of \$9,000,000.

Recognition of Premium Revenue, Receivables, and Unearned 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. In addition, premium revenue includes accrued premium adjustments for additional premiums owed by policyholders as determined based on actual payrolls for the policy period which are in excess of estimated premiums billed. This premium revenue was based on estimated payroll costs. Revenue is reduced for refunds payable. Estimated premiums receivable and refunds payable are recorded as of year-end for future anticipated premium adjustments for the policy years which end within the Fund’s fiscal year. A receivable is recorded at the time the annual estimated premium is billed, even though some/all of the amounts may not be currently due. Unearned revenue is recognized to the extent that the premiums billed and not yet received are for future periods. In addition, unearned revenue is recognized for unearned premiums received.

Budget Policy – The Fund is granted an annual appropriation for operating purposes by the South Carolina General Assembly (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 Appropriations Act authorizes expenditures from the General Fund of the State and authorizes expenditures of total funds. The General Assembly enacts the budget through passage of specific line-item appropriations by program within budgetary unit, within budgetary fund category, the General Fund or other budgeted funds.

South Carolina State Accident Fund

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

Budget Policy (continued) - 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 Fund or by the agency as set forth in the 2014 Appropriations Act proviso 117.9 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.

Current legislation states that the General Assembly intends to appropriate all monies to operate State government for the current fiscal year. 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 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 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 revenue.

The SAF'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 GAAP applicable to business-type activities, a comparison of actual revenues and expenses to the budgeted amounts has not been presented.

Statement of Cash Flows – For purposes of cash flows, the Fund considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

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 maximums of 180 days sick leave and of 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 and compensatory holiday and overtime leave earned for which the employees are entitled to paid time off or payment at termination. The Fund calculates the compensated absences liability based on recorded balances of unused leave for which the employer expects to compensate employees through paid time off or cash payments at termination. That liability is determined by using fiscal year-end current salary costs and the cost of the salary-related benefit payments. The net change in the liability is recorded in the current year in the personal services and employee benefits expense category.

Operating and Nonoperating Revenues and Expenses – The Fund distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with a proprietary fund's principal ongoing operations. The Fund's primary operating revenues are from premium revenues. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. Nonoperating revenues include interest/investment income and other revenues.

South Carolina State Accident Fund

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

Net Position – The Fund reports the following classifications of net position in accordance with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*:

Net Investment in capital assets: This represents the Fund’s total investment in capital assets, net of outstanding debt obligations, if any, related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted net position: Restricted net position consists of assets with constraints placed on the use of those assets either by external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or law through constitutional provisions or enabling legislation. As of June 30, 2014, the Fund did not have any restricted net position.

Unrestricted net position: Unrestricted net position represent the remainder of the Fund’s liabilities in excess of assets excluding net position reported in other categories.

Fund Balance – The UEF reports the following classifications of fund balance in accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

Nonspendable fund balance - The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts. It also includes the long-term amount of loans and notes receivable, as well as other assets. The UEF did not have any significant nonspendable fund balance at June 30, 2014.

Restricted fund balance - The restricted fund balance classification includes amounts that are either restricted externally by creditors, grantors, contributors, or laws or regulations of other governments or restricted by law through constitutional provisions or enabling legislation. All of the UEF’s fund balance is presented as restricted as all fund balance is required to be used for worker’s compensation claims.

Committed fund balance - The committed fund balance classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the UEF’s highest level of decision-making authority, which is the General Assembly. The General Assembly would have to pass a formal resolution to commit fund balance. Those committed amounts cannot be used for any other purpose unless the UEF removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. Committed fund balances also incorporate contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. The UEF recognizes committed fund balances that have been approved for specific purposes by the UEF’s General Assembly before the fiscal year end. As of June 30, 2014, the UEF did not have any committed fund balance.

South Carolina State Accident Fund

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (continued)

Fund Balance (continued) –

Assigned fund balance - The assigned fund balance classification includes amounts that are constrained by the UEF's intent to be used for specific purposes but are not restricted or committed. The authority for making an assignment is not required to be the UEF's highest level of decision-making authority and as such, the nature of the actions necessary to remove or modify an assignment does not require the UEF's highest level of authority. The UEF's Director can choose to assign fund balance for a specific purpose. Assigned fund balance amounts in the Fund's financial statements represent amounts approved by the General Assembly to be transferred and spent after year end. In the special revenue fund, assigned fund balances represent amounts to be spent for specific purposes. As of June 30, 2014, the UEF did not have any assigned fund balance.

Unassigned fund balance - The unassigned fund balance classification includes amounts that have not been assigned to other funds and has not been restricted, committed, or assigned for specific purposes within the general fund. As of June 30, 2014, the UEF did not have any unassigned fund balance.

Based on the UEF's policies regarding fund balance classifications as noted above, the UEF considers amounts that are restricted, committed, or assigned to be spent when the corresponding expenditure that has been designated by the General Assembly or donors has been made. After these fund balances have been depleted, unassigned fund balance will be considered to have been spent.

Use of Estimates – The preparation of financial statements in conformity with GAAP 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 2. 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 prior years except for the increase in the base before reinsurance is received as discussed in Note 1. The cost of settled claims and claim losses has 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.

South Carolina State Accident Fund

Notes to Financial Statements

Note 2. Risk Management (continued)

Insurance Coverage (continued) – State management believes it is more economical to manage certain risks internally and set aside assets for claim settlement. Several State funds accumulate assets and the State itself assumes substantially all risks for the following type of claims:

1. Claims of State employees for unemployment compensation benefits. This type of claim is handled through the South Carolina Department of Employment and Workforce;
2. Claims of covered employees for workers' compensation benefits for job-related illnesses or injuries. This type of claim is handled by the Fund;
3. Claims of covered public employees for health and dental insurance benefits. This type of claim is handled by PEBA-Insurance Benefits; and
4. Claims of covered public employees for long-term disability and group-life insurance benefits. This type of claim is handled through PEBA-Insurance Benefits. 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 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;
2. General tort claims; and
3. Data processing equipment.

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 has not reported an estimated claims loss expense and the related liability at June 30, 2014, based on the requirements of GASB Statements No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, and No. 30, *Risk Financing Omnibus – An Amendment of GASB Statement No. 10*, 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, 2014, and the amount of 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 3. Deposits and Investments

Cash and cash equivalents consist of deposits under the control of the State Treasurer, who by law, has sole authority for investing State funds and deposits under the control of the Fund. However, as authorized by the State Treasurer's Office, certain funds used to pay claims are deposited with financial institutions.

South Carolina State Accident Fund

Notes to Financial Statements

Note 3. Deposits and Investments (continued)

Deposits – State law requires full collateralization of all State Treasurer’s bank balances. The State Treasurer must correct any deficiencies in collateral within seven days. With respect to investments in the State’s 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 carrying amounts, market values, credit and other risks as required by GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, of the State Treasurer’s investments is disclosed in the CAFR of the State. Copies of this report may be obtained from the South Carolina Office of the Comptroller General, 1200 Senate Street, 305 Wade Hampton Office Building, Columbia, South Carolina 29201 or by visiting the Comptroller General’s website at <http://www.cg.state.sc.us/>.

At June 30, 2014, cash and cash equivalents for the UEF and SAF were \$3,211,466 and \$230,907,884, respectively. At June 30, 2014, the bank balance in financial institutions and in the Pool was \$3,279,476 and \$231,864,265, respectively. The entire bank balance was covered by insurance and collateralized with securities held by the Fund, or by its agent in the Fund’s name.

Investments – Investments meet the State’s investment guidelines and consists of overnight repurchase agreements which are fully collateralized by U.S. Treasury securities. Because of the relatively small amount of the investments in overnight repurchase agreements, management does not believe that there is any concentration of credit risk associated with its investments. Fair value of investments approximates cost because of the short maturity of these investments.

All of the Fund’s investments are stated at fair value except those meeting certain specific requirements. Purchases and sales are accounted for on the trade date. Unrealized gains, losses, and earnings on investments have been recorded on the accrual basis. The Fund had investment in reinsurance annuity contract of \$331,210 at June 30, 2014. Further details of this investment are found in Note 4.

Note 4. Investment in Reinsurance Annuity Contract

Under the 1993 Restructuring Act, the DOT and the DPS were created and were charged with responsibilities of the former Department of Highways and Public Transportation effective July 1, 1993. Proviso 44.4 of the 1998-1999 Appropriation Act passed by the General Assembly required the Fund to purchase an annuity for the purpose of funding the future obligation for workers’ compensation claims filed prior to restructuring by the Department of Highways and Public Transportation employees using funds from the Workers’ Compensation Trust Fund. While the State believes the annuity will provide funding adequate to cover this liability, the Fund has ultimate responsibility to pay these claims should the annuity funding be inadequate. On March 11, 1999 the Fund purchased a Type One annuity that will pay a fixed amount quarterly for a period of forty years. The annuity was effective as of January 1, 1999. The SAF received its first quarterly annuity payment on April 5, 1999. For the year ended June 30, 2014 the SAF paid approximately \$23,800 of the DOT claims covered by this annuity.

For the year ended June 30, 2014, the amount of approximately \$332,000 is shown on the statement of net position, current and noncurrent, as recoverable under reinsurance annuity contract, represents amounts due under the annuity that will be collected in the future for cumulative claims payments in excess of cumulative annuity receipts. The estimated future claims for DOT are \$320,000 which are not included in the unpaid claims liability and claims adjustment expenses payable on the statement of net position.

Under the terms of the annuity the SAF will receive 160 quarterly payments. For the first forty payments the SAF will receive \$30,091 per quarter, the next forty payments will be for \$15,022, the next forty payments will be for \$3,726, and the last forty payments will be for \$2,364. Total amount to be received under the annuity will be approximately \$2,048,000.

South Carolina State Accident Fund

Notes to Financial Statements

Note 4. Investment in Reinsurance Annuity Contract (continued)

The total price of the annuity was \$1,282,294 and was paid in a single premium. The amount of the annuity to purchase was determined actuarially. The amount remaining to be received by the Fund at June 30, 2014 was \$378,798.

The liability for these claims is not reported by either the Fund or the DOT because the State estimates that the proceeds from the annuity contract will provide adequate funding to pay these claims and the risk of loss is remote. The annuity is being amortized over the life of the annuity in proportion to annuity proceeds received. The amount of amortization charged for the year ended June 30, 2014 was \$37,620, and is included as amortization expense in the Statement of Revenues, Expenses and Changes in Fund Net Position.

Note 5. Premiums Receivable

Premiums receivable at June 30, 2014 consist of amounts receivable from the following:

County and municipal governments and agencies	\$	5,491,497	
State agencies		59,340,793	
		64,832,290	
	\$	64,832,290	

The majority of premiums receivable represent billings for future periods which have not been earned as of year-end.

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2014 was as follows:

	Beginning Balance <u>July 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	Ending Balance <u>June 30, 2014</u>
<i>Governmental Activities:</i>				
Capital assets, being depreciated:				
Office furniture & equipment	\$ -	\$ 15,682	\$ -	\$ 15,682
Total capital assets being depreciated	-	15,682	-	15,682
Less accumulated depreciation for:				
Office furniture & equipment	-	(1,176)	-	(1,176)
Total accumulated depreciation	-	(1,176)	-	(1,176)
Governmental activities capital assets, net	\$ -	\$ 14,506	\$ -	\$ 14,506

South Carolina State Accident Fund

Notes to Financial Statements

Note 6. Capital Assets (continued)

	Beginning Balance <u>July 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	Ending Balance <u>June 30, 2014</u>
<i>Business-type Activities</i>				
Capital assets, being depreciated:				
Computer & technical equipment	\$ 981,537	\$ 8,161	\$ -	\$ 989,698
Office furniture & equipment	93,456	23,660	-	117,116
Total capital assets being depreciated	1,074,993	31,821	-	1,106,814
Less accumulated depreciation for:				
Computer & technical equipment	(901,767)	(38,812)	-	(940,579)
Office furniture & equipment	(52,446)	(7,305)	-	(59,751)
Total accumulated depreciation	(954,213)	(46,117)	-	(1,000,330)
Business-type activities capital assets, net	<u>\$ 120,780</u>	<u>\$ (14,296)</u>	<u>\$ -</u>	<u>\$ 106,484</u>

Depreciation expense was approximately \$46,000 and \$1,200 for SAF and UEF respectively for the year ended June 30, 2014.

Note 7. Accrued Refundable Premiums

Policyholders are billed annually for estimated premiums based on the policyholder's 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 owed policyholders for estimated premiums in excess of actual adjusted premiums at June 30, 2014 was \$643,824 for those county and municipal policyholders. An additional \$3,045,075 was due to State agencies.

Note 8. Unpaid Claims Liability and Claims Adjustment Expenses

State Accident Fund

The amount accrued for unpaid claims liability and claims adjustment expenses is an actuarially determined amount, based on the SAF'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 when the claims are paid. Estimated amounts recoverable from subrogation have been deducted from the claims liability.

The estimated reimbursement due from the State for claims prior to July 1, 1986, which is included in unpaid claims liability and claims liability adjustment expense, is as follows:

Due within one year	\$ 115,000
Due after one year	510,000
Total	<u>\$ 625,000</u>

The amounts accrued for unpaid claims liability and claims adjustment expenses, net of amounts recoverable from the State, for the past two years are as follows:

South Carolina State Accident Fund

Notes to Financial Statements

Note 8. Unpaid Claims Liability and Claims Adjustment Expenses (continued)

	2014	2013
Unpaid claims liability and claim adjustment expenses payable at beginning of year	\$ 236,000,000	\$ 235,450,000
Current year claims and changes in estimates	62,387,117	53,271,226
Claims payments	(50,287,117)	(52,721,226)
 Total unpaid claims liability and claim adjustment expenses payable at the end of year	 \$ 248,100,000	 \$ 236,000,000
 This claims liability is further categorized as follows:		
State Agencies	\$ 185,554,000	\$ 181,249,000
Counties and Municipalities	62,546,000	54,751,000
Total	\$ 248,100,000	\$ 236,000,000

Uninsured Employers Fund

The amount accrued for unpaid claims liability and claims adjustment expenses is an actuarially determined amount, based on the UEF'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.

The amounts accrued for unpaid claims liability and claims adjustment expenses for the past two years are as follows:

	2014	2013
Unpaid claims liability and claim adjustment expenses payable at beginning of year	\$ 95,885,000	\$ 43,224,000
Current year claims and changes in estimates	(41,525,187)	60,716,293
Claims payments	(6,359,813)	(8,055,293)
 Total unpaid claims liability and claim adjustment expenses payable at the end of year	 \$ 48,000,000	 \$ 95,885,000

Note 9. Second Injury Fund Assessment

The Fund is required to pay an annual assessment to the Second Injury Fund ("SIF") of the State. 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 SIF for pro rata claims paid prior to all years prior to June 30, 2013. The SIF handles claims for workers who have permanent physical impairments and incur subsequent disability from injury by accidents arising out of and in the course of employment. The assessment for fiscal year 2014 was \$3,367,617. The SAF receives reimbursements of claims expense from the SIF as well. The total amount recovered during fiscal year 2014 was \$4,233,876, which is reported as a reduction of claims expense.

As of June 30, 2013, the SIF is no longer taking new claims into consideration for payment. Balances for future assessments will solely be based on claims incurred prior to June 30, 2013.

South Carolina State Accident Fund

Notes to Financial Statements

Note 10. Pension Plan

All employees of the Fund are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Benefits Division of the South Carolina Public Employee Benefit Authority (PEBA). Generally, all full-time or part-time equivalent State employees in a permanent position are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws, as amended, or are eligible and elect to participate in the State Optional Retirement Program (ORP). The SCRS plan provides a life-time monthly retirement annuity benefits to eligible members as well as disability, survivor options, annual benefit adjustments, and incidental death benefits to eligible employees and retired members.

The Retirement Division maintains five 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 South Carolina Public Employee Benefit Authority, P.O. Box 11960, Columbia, South Carolina 29211-1960. Furthermore, the Division and the five pension plans are included in the State of South Carolina's CAFR.

Under the SCRS, Class II members are eligible for a full service retirement annuity upon reaching age 65 or completion of 28 years of credited service regardless of age. Employees who first became members of the System after June 30, 2012 are considered Class III members and are eligible for a full service retirement annuity upon reaching age 65 or upon meeting the rule of 90 requirement (i.e., the members age plus the years of service add up to a total of at least 90). The benefit formula for full benefits effective since July 1, 1989 for the SCRS is 1.82 percent of an employee's average final compensation (AFC) multiplied by the number of years of credited service. For Class II members, AFC is the average annual earnable compensation during 12 consecutive quarters and includes an amount for up to 45 days termination pay at retirement for unused annual leave. For Class III members, AFC is the average annual earnable compensation during 20 consecutive quarters and termination pay for unused annual leave at retirement is not included. Early retirement options with reduced benefits are available as early as age 55 for Class II members and age 60 for Class III members. Class II members are vested for a deferred annuity after five years of earned service. Class III members are vested for a deferred annuity after eight years of earned service. Members qualify for a survivor's benefit upon completion of 15 years of credited service (five years effective January 1, 2002).

Disability annuity benefits are available to Class II members if they have permanent incapacity to perform regular duties of the member's job and they have at least 5 years of earned service (this requirement does not apply if the disability is a result of a job related injury). Class III members can apply for disability annuity benefits provided they have a permanent incapacity to perform the regular duties of the member's job and they have a minimum of eight years of credited service. For disability applications received after December 31, 2013, a member of SCRS will have to be approved for disability benefits from the Social Security Administration in order to be available for SCRS disability retirement benefits. An incidental death 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 or to a working retired contributing member. There is no service requirement for death resulting from actual performance of duties for an active member. For eligible retired members, a lump-sum payment is made to the retiree's beneficiary of up to \$6,000 based on years of service at retirement. TERI participants and retired contributing members are eligible for the increased death benefit equal to their annual salary in lieu of the standard retired member benefit.

South Carolina State Accident Fund

Notes to Financial Statements

Note 10. Pension Plan (continued)

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any benefit adjustments granted during the TERI period. Because participants are considered retired during the TERI period, they do not earn service credit, and are ineligible for disability retirement benefits. The TERI program will end effective June 30, 2018 and a member's participation may not continue after this date.

Effective July 1, 2013, employees participating in the SCRS were required to contribute 7.50% of all earnable compensation. The employer contribution rate for SCRS was 15.52%. Included in the total SCRS employer contribution rate is a base retirement contribution of 10.45%, .15% for the incidental death benefit program and a 4.92% surcharge that will fund retiree health and dental insurance coverage. The Fund's actual contributions to the SCRS for the years ended June 30, 2014, 2013, and 2012 were approximately \$398,000, \$257,000, and \$237,000, respectively, and equaled the base required retirement contribution rate, excluding surcharge, of 10.45% for 2014, 10.45% for 2013 and 9.385% for 2012. The increase for the year ended June 30, 2014 is due to the addition of the UEF to the Fund's reporting entity. Also, the Fund paid employer incidental death benefit program contributions of approximately \$5,300, \$3,700, and \$3,800, at the rate of .15% of compensation for the current fiscal years ended June 30, 2014, 2013, and 2012 respectively.

As an alternative to membership in the SCRS, newly hired State and school district employees may elect to participate in the State Optional Retirement Program (ORP), a defined contribution benefit plan. The ORP was established in 1987 under Title 9, Chapter 20, of the South Carolina Code of Laws. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers. The State assumes no liability for the State ORP plan other than for the employer's payment of contributions to designated companies. To elect participation in the ORP, eligible employees must elect membership within their first 30 days of employment. Under State law, contributions to the ORP are required at the same rates as for the SCRS, 10.60% plus the retiree surcharge of 4.92% from the employer in fiscal year 2014. Of the 10.60% employer retirement contribution rate, the employer remits 5.00% directly to the participant's ORP account and the remaining 5.45% retirement contribution and .15% incidental death benefit program contribution amounts are remitted to SCRS. For fiscal year 2014, total contributions requirements to the ORP were approximately \$44,000 (excluding the surcharge) from the Fund as employer and approximately \$18,000 from its employees as plan members.

The amounts paid by the Fund for pension, incidental death program, and accidental death program contributions are reported as employer contribution expenditures within the applicable functional expenditure categories to which the related salaries are charged.

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, benefit, and employee/employer contributions for each retirement system. 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.

South Carolina State Accident Fund

Notes to Financial Statements

Note 10. Pension Plan (continued)

While the surcharge to fund retiree health and dental insurance benefits is collected by the Retirement Benefits Division of PEBA, it is remitted to the Insurance Benefits Division of PEBA, which is responsible for administration of retiree health and dental insurance benefits and establishment of the applicable retiree insurance surcharge rates.

For the current fiscal year, SCRS does not make separate measurements of assets and pension benefit obligations for individual employers within the cost-sharing plan. Under Title 9 of the South Carolina Code of Laws, the Fund's liability under the plans is limited to the amount of required employer contributions (stated as a percentage of covered payroll) as established by the South Carolina Public Employee Benefit Authority and as appropriated in the South Carolina Appropriation Act and from other applicable revenue sources. Accordingly, the Fund recognizes no contingent liability for unfunded costs associated with participation in the plan.

Note 11. Post-Employment Benefits Other than Pensions

Plan Description

In accordance with the South Carolina Code of Laws and the annual Appropriations Act, the State provides post-employment health and dental and long-term disability benefits to retired State and school district employees and their covered dependents. The Fund contributes to the South Carolina Retiree Health Insurance Trust Fund (SCRHITF) and the South Carolina Long-Term Disability Insurance Trust Fund (SCLTDITF), cost-sharing multiple employer defined benefit postemployment healthcare, and long-term disability plans administered by the Insurance Benefits Division (IB), a part of the South Carolina Public Employee Benefit Authority (PEBA). Generally, retirees are eligible for the health and dental benefits if they have established at least ten years of retirement service credit. For new hires beginning employment May 2, 2008 and after, retirees are eligible for benefits if they have established 25 years of service for 100% employer funding and 15 through 24 years of service for 50% employer funding. Benefits become effective when the former employee retires under a State retirement system. Basic Long-Term Disability (BLTD) benefits are provided to active state, public school district, and participating local government employees approved for disability.

Funding Policies

Section 1-11-710 of the South Carolina Code of Laws of 1976, as amended, requires these postemployment and long-term disability benefits be funded through annual appropriations by the General Assembly for active employees to the IB and participating retirees to the PEBA, except for the portion funded through the pension surcharge and provided from the other applicable sources of the IB, for its active employees who are not funded by State General Fund appropriations. Employers participating in the RMP are mandated by State statute to contribute at a rate assessed each year by the Office of the State Budget, 4.92% of annual covered payroll for 2014 and 4.55% of annual covered payroll for 2013. The IB sets the employer contribution rate based on a pay-as-you-go basis. The Fund paid approximately \$141,000 and \$124,000 applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal years ended June 30, 2014 and 2013, respectively. BLTD benefits are funded through a person's premium charged to State agencies, public school districts, and other participating local governments. The monthly premium per active employee paid to IB was \$3.22 for the fiscal year ended June 30, 2014 and 2013.

Effective May 1, 2008 the State established two trust funds through Act 195 for the purpose of funding and accounting for the employer costs of retiree health and dental insurance benefits and long-term disability insurance benefits. The SCRHITF is primarily funded through the payroll surcharge. Other sources of funding include additional State appropriated dollars, accumulated IB reserves, and income generated from investments. The SCLTDITF is primarily funded through investment income and employer contributions.

South Carolina State Accident Fund

Notes to Financial Statements

Note 11. Post-Employment Benefits Other than Pensions (continued)

A copy of the separately issued financial statements for the benefit plans and the trust funds may be obtained by writing to PEBA Insurance Benefits Division, P.O. Box 11960, Columbia, SC 29211-1960.

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 administered by third parties and are not included in the CAFR of the State. Compensation deferred under the plans is placed in trust for the contributing employees. The State has no liability for losses under the plans. 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 13. Operating Leases

The Fund leases its office space and computers from an external party. The lease for the rental of office space is month to month and the rental rate is \$23,876 per month. Leases for computers expire in April 2017, and the rental rate is \$2,560 per month. It also leases office equipment and vehicles under short-term and/or cancelable operating leases. 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. Future minimum rental payments are as follows:

Fiscal year ended June 30,:	
2015	\$ 30,718
2016	30,718
2017	23,038
	\$ 84,474

Operating lease expenses for the fiscal year ended June 30, 2014, were approximately \$287,000 for office space and were approximately \$33,180 for office equipment.

Note 14. Long-term Liabilities

Changes in long-term liabilities for the year ended June 30, 2014 are as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due within one year</u>
	<u>July 1, 2013</u>			<u>June 30, 2014</u>	
<i>Governmental Activities:</i>					
Accrued compensated absences and related benefits	\$ -	\$ 22,939	\$ -	\$ 22,939	\$ 11,470
Unpaid claims liability and claims adjustment expenses payable	95,885,000	-	(47,885,000)	48,000,000	12,000,000
Total long-term liabilities	\$ 95,885,000	\$ 22,939	\$ (47,885,000)	\$ 48,022,939	\$ 12,011,470
<i>Business-type Activities:</i>					
Accrued compensated absences and related benefits	\$ 297,118	\$ 240,263	\$ (230,503)	\$ 306,878	\$ 231,637
Unpaid claims liability and claims adjustment expenses payable	236,000,000	62,034,923	(49,934,923)	248,100,000	87,549,249
Total long-term liabilities	\$ 236,297,118	\$ 62,275,186	\$ (50,165,426)	\$ 248,406,878	\$ 87,780,886

South Carolina State Accident Fund

Notes to Financial Statements

Note 15. 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's Office; check preparation, banking, and investment functions from the State Treasurer; legal services from the Attorney General's Office; and record storage from the Department of Archives and History. Other services received at no cost include pension plan administration, insurance plans administration provided by PEBA; audit services provided by the Office of the State Auditor; and 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 provided by the State Budget and Control Board.

Total revenues from other State agencies based on the agency classification chart prepared by the South Carolina Comptroller General's Office were as follows for the SAF for the year ended June 30, 2014:

Administration of Justice	\$ 14,682,828
Education	5,244,991
Ports Authority	1,276,130
General Government	2,208,352
Health and Environment	10,199,647
Higher Education	13,264,618
Housing Authority	48,113
Resource and Economic Development	1,344,889
Social Services	2,210,793
Transportation	8,365,582
Unemployment	249,304
Other Business Types	68,238
	<u>\$ 59,163,485</u>

The Fund had financial transactions with various State Agencies during the year ended June 30, 2014. Significant payments were made to PEBA for pension and insurance plan contributions and to the State Budget and Control Board for 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 Department of Employment and Workforce. The amount of expenses applicable to these transactions is not readily determinable. The Fund provided no services free of charge to other State Agencies during the year ended June 30, 2014.

Total payments to other State agencies by the SAF were as follows for the year ended June 30, 2014:

Department of Health and Environment	\$ 2,063
Medical University of South Carolina	547,832
Public Employees Benefit Authority	1,002
South Carolina Secretary of State	24
South Carolina Department of Employment Workforce	19,432
University of South Carolina	26,500
	<u>\$ 596,853</u>

South Carolina State Accident Fund

Notes to Financial Statements

Note 16. Net Position

The SAF has a net position deficit of \$24,499,899 for the year ended June 30, 2014. The deficit includes lost interest earnings through 1995. Prior to 1990, all investment income earnings of the Fund were credited to the General Fund of the State. For fiscal years 1991 and 1992, the Fund received one-third and two-thirds of the investment income. Section 42-7-75 of the South Carolina Code of Laws require the State Treasurer to deposit in the Fund's trust account monthly sufficient funds to pay expenses and claims required by law to be paid with the amount limited to the amount of investment income which the Fund would have earned since its inception if all investment earnings had been credited to the Fund. Estimates prepared by management in 1995 estimated that limit to be approximately \$12,300,000 assuming an interest rate of 4% to approximately \$20,600,000 using an interest rate of 6%.

To reduce the deficit, the Fund purchased loss reinsurance contracts for accidents that occur on and after July 1, 2000. Claim costs in excess of \$600,000 were reinsured with the amount increasing to \$1,000,000 as of January 1, 2006. The Fund implemented a medical management cost containment program in 2001 that is expected to reduce claim costs significantly. Increases in medical costs have stabilized for those agencies utilizing this program.

The Statement of Revenues, Expenses, and Changes in Net Position shows a net increase of \$5,000,671 for the year ended June 30, 2014.

Note 17. Concentrations of Credit Risk and Other Concentrations

The Fund has reinsurance contracts with providers which share or limit the Fund's exposure to losses. However, should the reinsurance providers be unable to meet their obligations settlement of these amounts, the Fund will ultimately be responsible. The Fund provides services to South Carolina governmental entities. The limited make-up of the membership group, as well as the limited geographic region in which the Fund operates, increases the Fund's exposure to business concentrations.

Note 18. New GASB Statement

During the year ended June 30, 2014, the Fund implemented the requirements of GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities." This statement provides new guidelines on changes to the accounting treatment for certain items previously reported as assets and liabilities. This statement affects entities with reporting periods beginning after December 15, 2012. The requirements of GASB Statement No. 65 did not have an effect on the Fund's financial statements for the year ended June 30, 2014.

Note 19. Subsequent Events

The Fund has evaluated all events and transactions occurring subsequent to the balance sheet date of June 30, 2014 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through October 29, 2014, the date these financial statements were available to be issued, and there were no subsequent events that required disclosure in these financial statements.

South Carolina State Accident Fund
Budgetary Comparison Schedule (Non-GAAP Budgetary Basis, Unaudited)
Uninsured Employers Fund
For the Fiscal Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
Uninsured Employers Fund				
Classified positions	\$ 656,574	\$ 656,574	\$ 370,611	\$ 285,963
Other operating	296,675	296,675	137,366	159,309
Total Expenditures	<u>\$ 953,249</u>	<u>\$ 953,249</u>	<u>\$ 507,977</u>	<u>\$ 445,272</u>

South Carolina State Accident Fund
Notes to Required Supplementary Information
Budgetary Comparison Schedule
June 30, 2014

Note 1. Budgetary Funds

South Carolina's Annual Appropriation Act, the State's legally adopted budget, does not present budgets by GAAP fund. Instead, it presents program-level budgets for the following two funds:

General Funds. These funds are general operating funds. The resources in the funds are primarily taxes. The State expends General Funds to provide traditional State government services.

Total Funds. The Total Funds column in the Appropriations Act includes all budgeted resources. Amounts in this column include General Funds as well as most, but not all, federal and department-generated resources. Total funds include portions of certain proprietary and capital project fund activities as well as most special revenue activities but exclude the pension trust funds and some other fiduciary fund activities.

The UEF's legally adopted budget is part of the Total Funds budget for the State. It is presented for the UEF at the program level.

Note 2. Original and Final Budgeted Amounts; Basis of Presentation

The original appropriations presented in the accompanying schedule for the UEF include amounts in the Appropriations Act as well as any appropriation reductions specifically authorized by law to prevent duplicate appropriations. The terminology, classification, and format of the appropriations section of the accompanying schedule for department's governmental fund are substantively the same as for the legally enacted budget.

The State's General Assembly does not approve estimated revenue or fund balance amounts for Other Budgeted Funds which include the UEF. However, Section 87 (*Recapitulations*) of the Appropriation Act includes net *source of funds* amounts (i.e. estimated cash brought forward from the previous fiscal year plus estimated revenue for the current fiscal year minus estimated cash to be carried forward to the following fiscal year) for three categories of Other Budgeted Funds: Federal, Earmarked, and Restricted. A budget versus actual comparison for the UEF is presented as required supplementary information.

As operating conditions change, the UEF may move appropriations between programs and classifications within programs. However, limits are placed on increasing/decreasing authorizations for personal services without Budget and Control Board approval. Also, a revision of budgeted amounts over and above the total revenues appropriated requires approval of the Budget and Control Board.

Note 3. Legal Level of Budgetary Control

The UEF maintains budgetary control at the level of summary objective category of expenditure within each program of each department or agency which is the level of detail presented in the accompanying schedule.

South Carolina State Accident Fund
Notes to Required Supplementary Information
Budgetary Comparison Schedule
June 30, 2014

Note 4. Basis of Budgeting

Current legislation states that the General Assembly intends to appropriate all monies to operate State government for the current fiscal year. Unexpended appropriations lapse on July 31 unless the department or agency is given specific authorization to carry them forward to the next fiscal year. Cash-basis accounting for payroll expenditures is used, while the accrual basis is used for other expenditures.

State law does not precisely define the State's basis of budgeting. In practice, however, it is the cash basis with the following exceptions:

- Departments and agencies shall charge certain vendor and inter-fund payments against the preceding fiscal year's appropriations through July 14.
- The gasoline and motor fuel taxes are recorded on the modified accrual basis in accordance with State law.
- All other revenues are recorded only when the State receives the related cash.

Note 5. Reconciliation of Budget to GAAP Reporting Differences

Adjustments of the GAAP basis of accounting to the budgetary basis of accounting consist of primarily of reclassifications from financial statement classifications to budgetary fund categories, the accrual and reversal of accounts payable and payroll and related fringe benefits, which exceed the cut off for the UEF to charge the previous fiscal year's appropriations.



**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
State of South Carolina
Columbia, South Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, and each major fund of the South Carolina State Accident Fund (the "Fund") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements and have issued our report thereon dated October 29, 2014.

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 purposes of expressing our opinions 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 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 Fund'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 the 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 over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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 of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 purposes

Scott and Company LLC

Columbia, South Carolina
October 29, 2014

SOUTH CAROLINA STATE ACCIDENT FUND

STATUS OF PRIOR FINDINGS

JUNE 30, 2014

During our current audit, we reviewed the status of action taken on the findings the predecessor auditors reported on their report on the financial statements of the Fund dated October 7, 2013 resulting from the audit of the financial statements for the year ended June 30, 2013. The following findings were reported:

2013-1 Deficiencies Noted in Financial Records and Statements

Note that the finding listed above as 2013-1 was corrected.