Report on Audit of Financial Statements

South Carolina State Accident Fund

for the year ended June 30, 2016

South Carolina
Office of the State Auditor

George L. Kennedy, III, CPA
State Auditor

October 21, 2016

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, 2016 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,

George L. Kennedy, III, CPA
State Auditor

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SCOTT COMPANY

Independent Auditor's Report

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

Report on the Financial Statements

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, 2016, 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.

Auditor's 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.

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CERTIFIED PUBLIC ACCOUNTANTS

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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 each major fund of the Fund, as of June 30, 2016, 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, 2016, 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, budgetary comparison information, and pension information on pages 3-9, 40-42, and 43 to 44, respectively, 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 21, 2016, 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.

Columbia, South Carolina
October 21, 2016

STATE ACCIDENT FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

The South Carolina State Accident Fund (the "Fund") presents a management's discussion and analysis of its financial statements for fiscal year 2016. 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 42-7-200 of the South Carolina Code of Laws, as amended, to provide workers' compensation insurance to government entities. The South Carolina Workers' Compensation Uninsured Employers' 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 Employers' Fund (UEF) to the South Carolina State Accident Fund (SAF) effective July 1, 2013.

The Government-Wide financial statements which follow are the Statement of Net Position and Statement of Activities which include both SAF and 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 Government-Wide 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 Net Position – Business-Type Activities increased by $23.0 million over the prior fiscal year. As shown on the Balance Sheet – Governmental Funds, UEF has $10.5 million in total assets compared to $7.3 million in the prior year.

State Accident Fund
Condensed Statements of Net Position
June 30,

	2016 Business-Type Activities	2015 Business-Type Activities
ASSETS		
Current assets	$ 337,754,753	$ 314,649,506
Capital assets, net of accumulated depreciation	89,513	130,884
Other noncurrent assets	255,969	293,590
Deferred outflows of resources	393,795	415,194
Total assets and defered outflows	338,494,030	315,489,174
LIABILITIES		
Current liabilities	168,669,805	160,681,156
Noncurrent liabilities	159,631,357	156,346,256
Deferred inflows of resources	32,262	386,405
Total liabilities and deferred inflows	328,333,424	317,413,817
Net Position		
Net investment in capital assets	89,513	130,884
Unrestricted	10,071,093	(2,055,527)
Total net position	$ 10,160,606	$ (1,924,643)

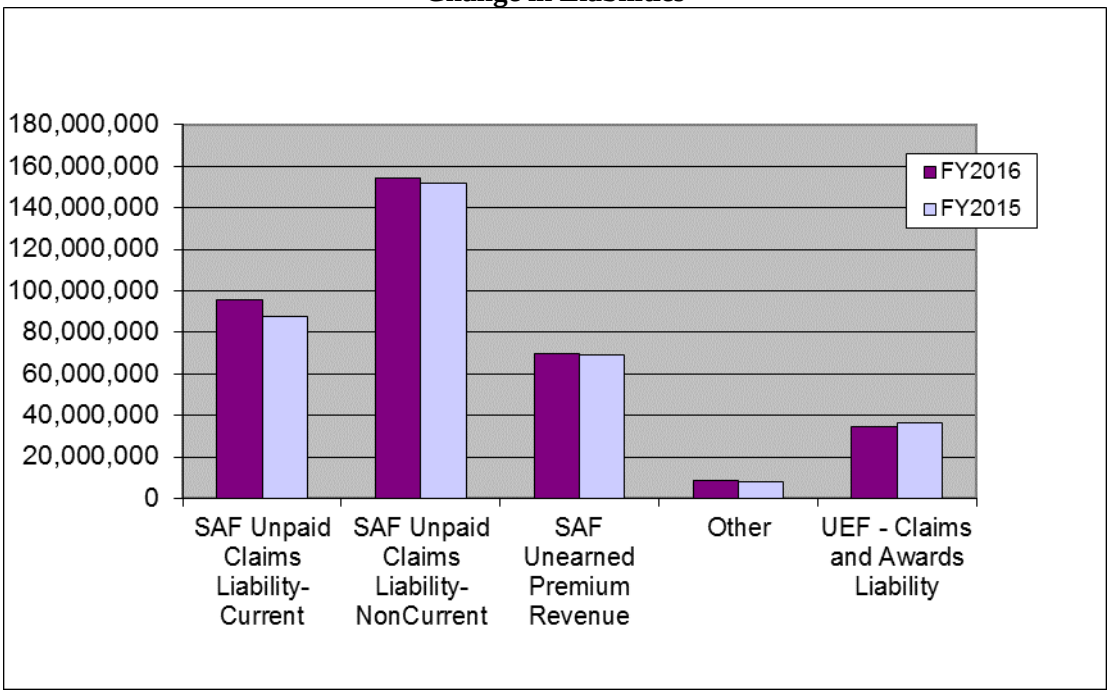
State Accident Fund
Uninsured Employers' Fund
Condensed Statements of Net Position
June 30,

	2016 Governmental Activities	2015 Governmental Activities
ASSETS		
Current assets	$ 10,478,065	$ 7,280,525
Capital assets, net of accumulated depreciation	15,114	19,047
Deferred outflows of resources	57,186	54,428
Total assets and deferred outflows	10,550,365	7,354,000
LIABILITIES		
Current liabilities	10,393,906	10,939,330
Noncurrent liabilities	24,786,333	25,953,712
Deferred inflows of resources	4,684	50,654
Total liabilities and deferred inflows	35,184,923	36,943,696
Net Position		
Net investment in capital assets	15,114	19,047
Unrestricted	(24,649,672)	(29,608,743)
Total net position	$ (24,634,558)	$ (29,589,696)

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 about $8 million and non-current increased by $2.9 million compared to the prior year. The change in the current and noncurrent was due to an increase in the actuarial assessment of reserves. (See Change in Liabilities chart below.) Total liabilities increased by $11.3 million due mostly to the change in reserves. Deferred premium revenue represents the amount of premium billed, but not yet earned, for the future period which increased slightly compared to the prior year. Rates effective January 1, 2016 remain stable.

UEF's current and noncurrent unpaid claims liabilities decreased to $34.5 million in 2016 from $36.3 million in fiscal year 2015. This increase 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.

State Accident Fund
Condensed Statements of Activities
June 30,

	2016 Business-Type Activities	2015 Business-Type Activities
Program revenues		
Charges for services	$ 74,801,148	$ 73,195,812
Total program revenues	74,801,148	73,195,812
General revenues		
Interest earnings	3,423,777	1,472,841
Total general revenues	3,423,777	1,472,841
Total revenues	78,224,925	74,668,653
Program expenses		
Workers compensation claims	66,139,676	47,681,178
Total expenses	66,139,676	47,681,178
Excess of revenues over expenses	12,085,249	26,987,475
Change in net position	12,085,249	26,987,475
Net position, beginning of year	(1,924,643)	(28,912,118)
Net position, end of year	$ 10,160,606	$ (1,924,643)

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

	2016 **Governmental Activities**	2015 **Governmental Activities**
General revenues		
Reduction in claims and awards liability	1,757,964	11,786,920
Payments from State agencies	10,400,000	10,600,000
Total general revenues	12,157,964	22,386,920
Total revenues	12,157,964	22,386,920
Program expenses		
Workers' compensation claims	7,202,826	6,549,118
Total expenses	7,202,826	6,549,118
Excess of revenues over expenses	4,955,138	15,837,802
Change in net position	4,955,138	15,837,802
Net position, beginning of year	(29,589,696)	(45,427,498)
Net position, end of year	$ (24,634,558)	$ (29,589,696)

Statements of Revenues, Expenses, and Changes in Net Position and Statement 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 Fund 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 state general fund 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, operating revenue increased $1.6 million in fiscal year 2016. The non-operating revenue is dependent on the interest rates received on deposits with the State Treasurer's Office.

The operating expenses include administrative expenses, claims paid, and claims incurred during the year. Fiscal year 2016 had an increase in reserves of $11 million (which increased the claims incurred). This increase in reserves compared to an $8.5 million decrease last fiscal year resulted in approximately $18.7 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 2016 remained below 6%. 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 expenditures 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 expenditures are primarily payment of claims.

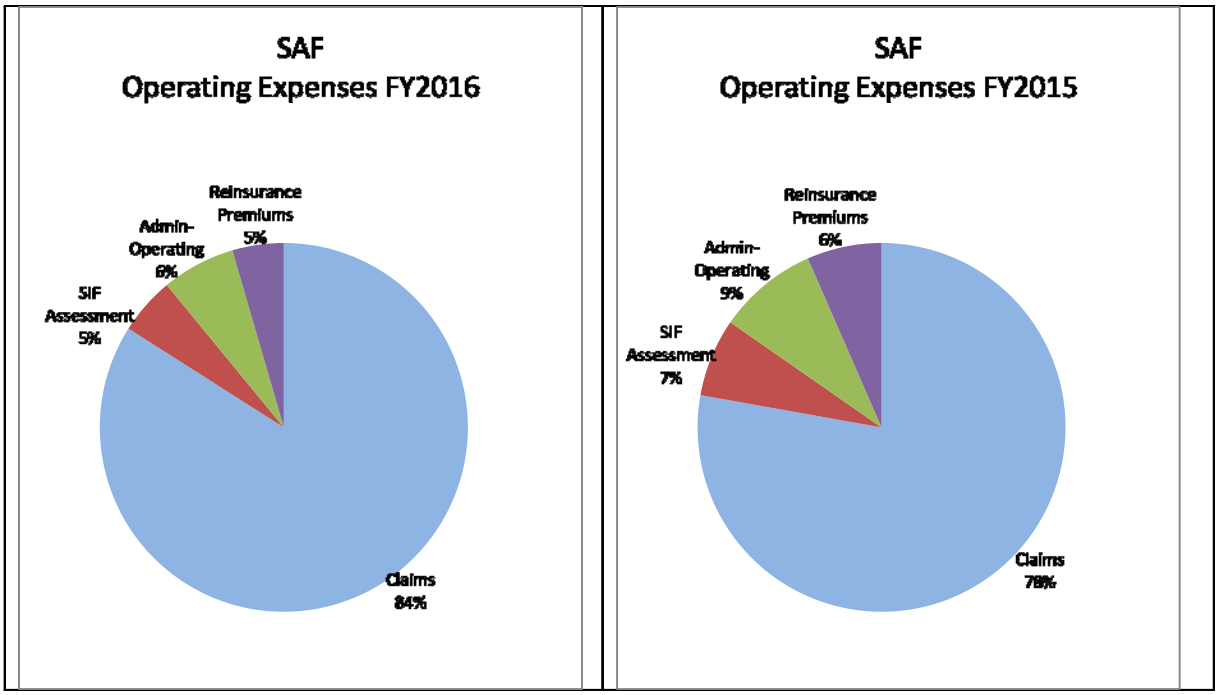
The charts below show that during the past two fiscal years 78-84% of expenses have been paid directly to injured workers or medical providers on behalf of the injured worker.

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

	2016	2015
Operating revenues	$ 74,801,148	$ 73,195,812
Operating expenses	66,139,676	47,681,178
Operating income	8,661,472	25,514,634
Nonoperating revenues	3,423,777	1,472,841
Change in net position	12,085,249	26,987,475
Net position, beginning of year	(1,924,643)	(28,912,118)
Net position, end of year	$ 10,160,606	$ (1,924,643)

State Accident Fund
Uninsured Employers' Fund
Condensed Statements of Revenues, Expenses, and Changes in Fund Balances
Governmental Funds
June 30,

	2016	2015
Payments from State Agencies	$ 10,400,000	$ 10,600,000
Expenditures	7,186,072	6,545,385
Net change in fund balance	3,213,928	4,054,615
Fund balance, beginning of year	7,227,911	3,173,296
Fund balance, end of year	$ 10,441,839	$ 7,227,911



Capital Asset and Debt Activity

Capital assets decreased by $45,304, due to depreciation. There were no additions or retirement of capital assets during the fiscal year. The Fund had no changes in credit rating or debt limitations that may affect future financing.

Economic Outlook

A decade ago, the Fund faced challenges related to operating losses, an increasing deficit, and dwindling assets which were insufficient to meet current and long-term obligations. Thereafter, an economic downturn and the effects of the Great Recession severely and adversely impacted the premium revenue that provides the operational income for the Fund. Fortunately, in 2005 management initiatives had been implemented to better position the Fund to meet these financial challenges through focused efforts to promote operational efficiency, quality case management, and effective premium pricing. Those efforts have paid off as fiscal year 2016 marks the eleventh consecutive year of performance and financial success for the South Carolina State Accident Fund which concluded the year with a net increase in net position of $12.1 million. Importantly, this year's success has also allowed the Fund to eliminate a deficit that had existed since 1999.

As indicators from job creation and unemployment rates to consumer confidence and business investment reflect a healthier and improving business climate, SAF stands prepared for the new challenges of a growing economy. 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. We are also keenly aware of the diversity of our policyholders. It is our goal to understand the challenges and needs of all our policyholders – small and large - and assist them in meaningful ways to reduce their overall workers' compensation costs while promoting a safe work environment. By maximizing efficiency without sacrificing quality customer service, we believe we have achieved this goal with resulting rate and premium stabilization.

Through good or challenging economic times, 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 remains the key to our ongoing success. Expertise, responsive service, and long-term value – all ensure that the State Accident Fund is well-positioned to fulfill its commitments to our policyholders and their employees long into the future, and that is good news for South Carolina.

SOUTH CAROLINA STATE ACCIDENT FUND

STATEMENT OF NET POSITION

JUNE 30, 2016

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets and deferred outflows of resources			
Current assets:			
Cash and cash equivalents	$ 10,476,673	$ 271,957,179	$ 282,433,852
Premiums receivable	772	63,876,663	63,877,435
Accrued interest receivable	-	553,946	553,946
Claims recoveries and reimbursement receivables, net	-	1,355,588	1,355,588
Prepaid expenses	620	11,377	11,997
Total current assets	10,478,065	337,754,753	348,232,818
Non-current Assets:			
Investment in reinsurance annuity contract, net	-	255,969	255,969
Capital assets, net	15,114	89,513	104,627
Total non-current assets	15,114	345,482	360,596
Total assets	**10,493,179**	**338,100,235**	**348,593,414**
Deferred outflows of resources			
Contributions to retirement plan after measurement date	39,588	272,609	312,197
Difference between projected and actual investment experience	4,815	33,163	37,978
Difference between expected and actual retirement plan experience	12,783	88,023	100,806
Total deferred outflows of resources	57,186	393,795	450,981
Total assets and deferred outflows of resources	**$ 10,550,365**	**$ 338,494,030**	**$ 349,044,395**
Liabilities			
Current Liabilities:			
Accounts payable	$ -	$ 154,573	$ 154,573
Accrued compensated absences and related benefits, current	21,480	187,565	209,045
Accrued payroll and related liabilities	36,226	260,312	296,538
Accrued refundable premiums	-	2,581,425	2,581,425
Advanced under reinsurance annuity contract	-	72,414	72,414
Unearned premium revenue	-	69,555,089	69,555,089
Unpaid claims liability and claims adjustment, current	10,336,200	95,858,427	106,194,627
Total current liabilities	10,393,906	168,669,805	179,063,711
Noncurrent liabilities:			
Net pension liability	662,934	5,010,969	5,673,903
Accrued compensated absences and related benefits, net	5,599	65,815	71,414
Unpaid claims liability and claims adjustment, net	24,117,800	154,554,573	178,672,373
Total non-current liabilities	24,786,333	159,631,357	184,417,690
Total liabilities	**35,180,239**	**328,301,162**	**363,481,401**
Deferred inflows of resources			
Difference between expected and actual retirement plan experience	1,287	8,860	10,147
Change in proportionate share of net pension liability	3,397	23,402	26,799
Total deferred inflows of resources	4,684	32,262	36,946
Total liabilities and deferred inflows of resources	**35,184,923**	**328,333,424**	**363,518,347**
Net position			
Net investment in capital assets	15,114	89,513	104,627
Unrestricted	(24,649,672)	10,071,093	(14,578,579)
Total net position	**$ (24,634,558)**	**$ 10,160,606**	**$ (14,473,952)**

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

SOUTH CAROLINA STATE ACCIDENT FUND

STATEMENT OF ACTIVITIES

Year ended June 30, 2016

Functions/Programs	Expenses	Program Revenues: Charges for Services	Net Revenue (Expense) and Change in Net Position: Primary Government: Governmental Activities	Business-Type Activities	Totals
Primary Government					
Governmental Activities:					
Workers compensation	$ 7,202,826	$ -	$ (7,202,826)	$ -	$ (7,202,826)
Total Governmental Activities	7,202,826	-	(7,202,826)	-	(7,202,826)
Business-Type Activities:					
State Accident Fund	66,139,676	74,801,148	-	8,661,472	8,661,472
Total Business-Type Activities	66,139,676	74,801,148	-	8,661,472	8,661,472
Total Primary Government	$ 73,342,502	$ 74,801,148	(7,202,826)	8,661,472	1,458,646
		General revenues:			
		Reduction in claims and awards liability	1,757,964	-	1,757,964
		Interest earnings	-	3,423,777	3,423,777
		Payments from State agencies	10,400,000	-	10,400,000
		Total general revenues	12,157,964	3,423,777	15,581,741
		Change in net position	**4,955,138**	**12,085,249**	**17,040,387**
		Net position beginning of year	(29,589,696)	(1,924,643)	(31,514,339)
		Net position end of year	**$ (24,634,558)**	**$ 10,160,606**	**$ (14,473,952)**

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, 2016

	Uninsured Employers Fund
Assets	
Current assets:	
Cash and Cash Equivalents	$ 10,476,673
Claims accounts receivable	772
Prepaid items	620
Total assets	**10,478,065**
Liabilities	
Accrued payroll related liabilities	36,226
Total liabilities	**36,226**
Fund balances	
Fund Balances:	
Restricted for workers' compensation claims	10,441,219
Non-spendable	620
Total fund balances	10,441,219
Total liabilities and fund balances	**$ 10,477,445**

Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position

Governmental fund balance		$ 10,441,219
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Gross capital assets	22,776	
Accumulated depreciation	(7,662)	15,114
The net pension liability and related deferred inflows and outflows of resources are not due and payable in the current year and are not included in the fund financial statements, but are included in the governmental activities of the Statement of Net Position.		
Net pension liability		(662,934)
Deferred inflows of resources for contributions after the retirement plan's measurement date		39,588
Deferred outflows of resources for differences between projected and actual investment earnings		4,815
Deferred outflows of resources for differences between expected and actual retirement plan experience		12,783
Deferred inflows of resources for differences between expected and actual retirement plan experience		(1,287)
Deferred inflows of resources for differences between changes in proportionate share		(3,397)
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	27,079	
Claims and awards	34,454,000	(34,481,079)
Net position of governmental activities		**$ (24,635,178)**

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
Year ended June 30, 2016

		Uninsured Employers Fund
Expenditures		
Workers' Compensation Uninsured Employers' Fund claims		$ 6,599,654
Personnel services		470,629
Contractual services		59,693
Rent and insurance		31,428
Supplies and materials		6,155
Other expenditures		18,513
Total expenditures		7,186,072
Other financing sources		
Payments from Workers' Compensation Commission		1,176,240
Payments from South Carolina Department of Insurance		9,223,760
Total other financing sources		10,400,000
Net Change in fund balance		**3,213,928**
Fund balance, beginning of year		7,227,911
Fund balance, end of year		**$ 10,441,839**

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

Net change in governmental fund balance		$ 3,213,928
Governmental funds report capital outlays as exepnditures. 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	-	
Depreciation expense	(3,933)	(3,933)
Amortization of pension expense is reported as expenses in the statement of activitues		(13,379)
Adjustment to compensated absenses 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	(558)	
Claims and awards	1,759,080	1,758,522
Change in net position		**$ 4,955,138**

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

STATEMENT OF FUND NET POSITION
ENTERPRISE FUND

June 30, 2016

	Business-Type Activities Enterprise Fund
Assets and deferred outflows of resources	
Current Assets:	
Cash and cash equivalents	$ 271,957,179
Premiums receivable	63,876,663
Accrued interest receivable	553,946
Claims recoveries and reimbursement receivables, net	1,355,588
Prepaid expenses	11,377
Total current assets	337,754,753
Noncurrent Assets:	
Investment in reinsurance annuity contract, net	255,969
Capital assets, net	89,513
Total noncurrent assets	345,482
Total assets	338,100,235
Deferred outflows of resources	
Contributions to retirement plan after measurement date	272,609
Difference between projected and actual investment experience	33,163
Difference between expected and actual retirement plan experience	88,023
Total deferred outflows of resources	393,795
Total assets and deferred outflows of resources	338,494,030
Liabilities and deferred inflows of resources	
Current liabilities:	
Accounts payable	154,573
Accrued compensated absences and related benefits	187,565
Accrued payroll and related liabilities	260,312
Accrued refundable premiums	2,581,425
Advanced under reinsurance annuity contract	72,414
Unearned premium revenue	69,555,089
Unpaid claims liability and claims adjustment expenses payable within one year	95,858,427
Total current liabilities	168,669,805
Noncurrent liabilities:	
Net pension liability	5,010,969
Accrued compensated absences and related benefits, net	65,815
Unpaid claims liability and claims adjustment expenses, net	154,554,573
Total noncurrent liabilities	159,631,357
Total liabilities	328,301,162
Deferred inflows of resources	
Difference between expected and actual retirement plan experience	8,860
Change in proportionate share of net pension liability	23,402
Total deferred inflows of resources	32,262
Total liabilities and deferred inflows of resources	328,333,424
Net position	
Net investment in capital assets	89,513
Unrestricted	10,071,093
Total net position	$ 10,160,606

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, 2016

Operating Revenues		
Premiums, net of reinsurance	$	74,801,148
Operating Expenses		
Claims		58,391,968
Second Injury Fund assessment		3,500,021
Administrative:		
Personnel services and employee benefits		3,452,175
Contract services		294,265
Rent and insurance		319,682
Supplies and materials		54,801
Depreciation		41,371
Amortization expense - reinsurance annuity contract premium		37,620
Other expenses		47,773
Total administrative expenses		4,247,687
Total operating expenses		66,139,676
Operating income		8,661,472
Nonoperating Revenues		
Interest/investment income		3,423,777
Change in Net Position		12,085,249
Net Position at Beginning of Year		(1,924,643)
Net Position at End of Year	$	10,160,606

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, 2016

	Enterprise Fund State Accident Fund
Cash Flows from Operating Activities	
Cash received from State agencies	$ 58,878,177
Cash received from other entities	12,879,834
Payments for claims	(47,428,968)
Payments for salaries and related benefits	(3,419,204)
Payment of Second Injury Fund Assessment to other State agency	(3,505,731)
Payments for administrative expenses	(715,281)
Net cash provided by operating activities	16,688,827
Cash Flows from Capital and Related Financing Activities	
Purchases of capital assets	-
Net cash used in capital and related financing activities	-
Cash Flows from Investing Activities	
Interest/investment income received	3,177,594
Net cash provided by investing activities	3,177,594
Net change in cash and cash equivalents	19,866,421
Cash and cash equivalents, beginning of year	252,090,758
Cash and cash equivalents, end of year	$ 271,957,179
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating income	$ 8,661,472
Adjustments to reconcile operating income to net cash provided by Operating Activities:	
Depreciation and amortization	78,992
(Increase) in premiums receivable	(2,977,330)
(Increase) in claims recoveries and reimbursement receivables	(16,552)
Decrease in prepaid expenses	1,239
Decrease in recoverable under reinsurance annuity contract	31,350
Decrease in deferred outflows of resources	21,399
(Decrease) in accounts payable	(5,710)
(Decrease) in accrued compensated absences and related benefits	(57,992)
(Decrease) in accrued payroll and related liabilities	(3,973)
(Decrease) in accrued refundable premiums	(249,080)
Increasein unearned premium revenue	168,475
(Decrease) in deferred inflows of resources	(354,143)
Increase in net pension liability	427,680
Increase in estimate of unpaid claim liability	10,963,000
Net cash provided by operating activities	$ 16,688,827

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

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, however, the current director has been in the position for more than 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 including 1) determine its budget without another government having the authority to approve and modify that budget, 2) levy taxes or set rates or charges without approval by another government, and 3) issue bonded debt without approval by another government. 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.

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 Department of Insurance 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 Department of Insurance 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").

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.

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.

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 $1,000,000. 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. Reinsurance expense was $3,143,069 and $3,350,781 as of June 30, 2016 and 2015, respectively, and is netted against premiums revenue in the accompanying financial statements.

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's budget is included in annual appropriations approval process by the South Carolina General Assembly (the "General Assembly"). However, there are no funds from the General Fund provided to UEF. The Fund is supported through taxes collected by the Department of Insurance and the Workers' Compensation Commission. 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.

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 Fiscal Accountability Authority as succeeding agency, under its Fund or by the agency as set forth in the 2016 Appropriations Act proviso 117.9 as follows: Agencies are authorized to transfer appropriations within programs and within the agency with notification to the Executive Budget Office 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 month 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.

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 depreciation and 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 and depreciation.

***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, 2016, the Fund did not have any restricted net position.

***Unrestricted net position*:** Unrestricted net position represents the remainder of the Fund's liabilities in excess of assets excluding net position reported in other categories.

The Fund's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Fund Balance – The UEF reports the following classifications of fund balance, as applicable, 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 had a nonspendable fund balance of $620 at June 30, 2016.

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, 2016, the UEF did not have any committed fund balance.

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, 2016, 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, 2016, 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. The most significant estimate affecting these financial statements is 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.

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 South Carolina Public Employee Benefit Authority ("PEBA") Insurance Benefits; and

Note 2. Risk Management (continued)

Insurance Coverage (continued)

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, 2016, 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, 2016, 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.

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.sc.gov.

At June 30, 2016, cash and cash equivalents for the UEF and SAF were $10,476,673 and $271,957,179, respectively. At June 30, 2016, the bank balance in financial institutions and in the Pool were $10,880,686 and $273,763,750 respectively. The entire bank balances were covered by insurance and collateralized with securities held by the Fund, or by its agent in the Fund's name.

Note 3. Deposits and Investments (continued)

Investments – All of the Fund's investments are stated at amortized cost as described below. Therefore, GASB statement No. 72, *Fair Value Measurement and Application,* is not applicable to the Fund. The Fund had an investment in reinsurance annuity contract of $255,969 at June 30, 2016. 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, 2016 the SAF paid approximately $28,700 of the DOT claims covered by this annuity.

For the year ended June 30, 2016, the amount of approximately $256,000 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 $378,000 which is 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.

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, 2016 was $258,622.

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, 2016 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, 2016 consist of amounts receivable from the following:

County and municipal governments and agencies	$	5,772,024
State agencies		58,104,639
	$	63,876,663

The majority of premiums receivable represent billings for future periods which have not been collected as of year-end. The unearned portion of the premium is presented as a liability.

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2016 was as follows:

	Beginning Balance July 1, 2015	Increases	Decreases	Ending Balance June 30, 2016
Governmental Activities:				
Capital assets, being depreciated:				
Computer & technical equipment	$ 7,094	$ -	$ -	$ 7,094
Office furniture & equipment	15,682	-	-	15,682
Total capital assets being depreciated	22,776	-	-	22,776
Less accumulated depreciation for:				
Computer & technical equipment	(985)	(2,365)	-	(3,350)
Office furniture & equipment	(2,744)	(1,568)	-	(4,312)
Total accumulated depreciation	(3,729)	(3,933)	-	(7,662)
Governmental activities capital assets, net	$ 19,047	$ (3,933)	$ -	$ 15,114

	Beginning Balance July 1, 2015	Increases	Decreases	Ending Balance June 30, 2016
Business-type Activities:				
Capital assets, being depreciated:				
Computer & technical equipment	$ 1,066,595	$ -	$ -	$ 1,066,595
Office furniture & equipment	117,116	-	-	117,116
Total capital assets being depreciated	1,183,711	-	-	1,183,711
Less accumulated depreciation for:				
Computer & technical equipment	(984,004)	(32,569)	-	(1,016,842)
Office furniture & equipment	(68,553)	(8,802)	-	(77,356)
Total accumulated depreciation	(1,052,827)	(41,371)	-	(1,094,198)
Business-type activities capital assets, net	$ 130,884	$ (41,371)	$ -	$ 89,513

Depreciation expense was $41,371 and $3,933 for SAF and UEF respectively for the year ended June 30, 2016.

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, 2016 was $660,042 for county and municipal policyholders. An additional $1,921,383 was due to State agencies, for a total of $2,581,425.

Note 8. Unpaid Claims Liability and Claims Adjustment Expenses

Business-Type Activities

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	$ 625,000

The amounts accrued for unpaid claims liability and claims adjustment expenses, net of amounts recoverable from the State, for the years ended June 30, are as follows:

	2016
Unpaid claims liability and claim adjustment expenses payable at beginning of year	$239,450,000
Current year claims and changes in estimates	58,391,968
Claims payments	(47,428,968)
Total unpaid claims liability and claim adjustment expenses payable at the end of year	$250,413,000
This claims liability is further categorized as follows:	
State Agencies	$192,818,000
Counties and Municipalities	57,595,000
Total	$250,413,000

Governmental Activities

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.

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

The amounts accrued for unpaid claims liability and claims adjustment expenses for the years ended June 30, are as follows:

	2016
Unpaid claims liability and claim adjustment expenses payable at beginning of year	**$ 36,228,000**
Current year claims and changes in estimates	**4,921,107**
Claims payments	**(6,695,107)**
Total unpaid claims liability and claim adjustment expenses payable at the end of year	**$ 34,454,000**

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 2016 was $3,500,021. The SAF receives reimbursements of claims expense from the SIF as well. The total amount recovered during fiscal year 2016 was $2,836,041, 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.

Note 10. Pension Plan

The South Carolina Public Employee Benefit Authority ("PEBA"), which was created July 1, 2012, administers the various retirement systems and retirement programs managed by its Retirement Division. PEBA has an 11-member Board of Directors, appointed by the Governor and General Assembly leadership, which serves as co-trustee and co-fiduciary of the systems and the trust funds. By law, the Budget and Control Board (State Fiscal Accountability Authority effective July 1, 2015), which consists of five elected officials, also reviews certain PEBA Board decisions regarding the funding of the South Carolina Retirement Systems ("Systems") and serves as a co-trustee of the Systems in conducting that review.

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

PEBA issues a Comprehensive Annual Financial Report ("CAFR") containing financial statements and required supplementary information for the Systems' Pension Trust Funds. The CAFR is publicly available through the Retirement Benefits' link on PEBA's website at www.peba.sc.gov, or a copy may be obtained by submitting a request to PEBA, PO Box 11960, Columbia, SC 29211-1960. PEBA is considered a division of the primary government of the State of South Carolina and therefore, retirement trust fund financial information is also included in the comprehensive annual financial report of the state.

Note 10. Pension Plan (continued)

Plan Descriptions

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

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

• The Fund does not have employees that participate in the Police Officers Retirement System ("PORS").

Membership

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

• SCRS - Generally, all employees of covered employers are required to participate in and contribute to the system as a condition of employment. This plan covers general employees and teachers and individuals newly elected to the South Carolina General Assembly beginning with the November 2012 general election. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class Three member.

• State ORP - As an alternative to membership in SCRS, newly hired state, public school, and higher education employees and individuals newly elected to the S.C. General Assembly beginning with the November 2012 general election have the option to participate in the State Optional Retirement Program (State ORP), which is a defined contribution plan. State ORP participants direct the investment of their funds into a plan administered by one of four investment providers. PEBA assumes no liability for State ORP benefits. Rather, the benefits are the liability of the investment providers. For this reason, State ORP programs are not considered part of the retirement systems for financial statement purposes. Employee and Employer contributions to the State ORP are at the same rates as SCRS. A direct remittance is required from the employers to the member's account with investment providers for the employee contribution (8 percent) and a portion of the employer contribution (5 percent). A direct remittance is also required to SCRS for the remaining portion of the employer contribution (5.91 percent) and an incidental death benefit contribution (.15 percent), if applicable, which is retained by SCRS.

Benefits

Benefit terms are prescribed in Title 9 of the South Carolina Code of Laws. PEBA does not have the authority to establish or amend benefit terms without a legislative change in the code of laws. Key elements of the benefit calculation include the benefit multiplier, years of service, and average final compensation. A brief summary of the benefit terms for each system is presented below.

Note 10. Pension Plan (continued)

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

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

The retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase.

Contributions

Contributions are prescribed in Title 9 of the South Carolina Code of Laws. Upon recommendation by the actuary in the annual actuarial valuation, the PEBA Board may adopt and present to the State Fiscal Accountability Authority for approval an increase in the SCRS employer and employee contribution rates, but any such increase may not result in a differential between the employee and total employer contribution rate that exceeds 2.9 percent of earnable compensation for SCRS. An increase in the contribution rates adopted by the Authority may not provide for an increase of more than one-half of one percent in any one year. If the scheduled employee and employer contributions provided in statute or the rates last adopted by the Authority are insufficient to maintain a thirty year amortization schedule of the unfunded liabilities of the plans, the Authority shall increase the contribution rates in equal percentage amounts for the employer and employee as necessary to maintain the thirty-year amortization period; and, this increase is not limited to one-half of one percent per year.

Note 10. Pension Plan (continued)

Contributions (continued)

Required employee contribution rates are as follows:

	Fiscal Year 2016	Fiscal Year 2015
SCRS		
Employee Class Two	**8.16%**	8.00%
Employee Class Three	**8.16%**	8.00%
State ORP Employee	**8.16%**	8.00%

Required employer contribution rates[1] are as follows:

SCRS		
Employer Class Two	**10.91%**	10.75%
Employer Class Three	**10.91%**	10.75%
Employer Incidental Death Benefit	**0.15%**	0.15%
State ORP Employee		
Employer Contribution[2]	**10.91%**	10.75%
Employer Incidental Death Benefit	**0.15%**	0.15%

[1] Calculated on earnable compensation as defined in Title 9 of the South Carolina Code of Laws
[2] Of this employer contribution of 10.91% of earnable compensation, 5% of earnable compensation must be remitted by the employer directly to the ORP vendor to be allocated to the member's account with the remainder of the employer contribution remitted to SCRS.

Actuarial Assumptions and Methods

Actuarial valuations involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Amounts determined during the valuation process are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. The last experience study was performed on data through June 30, 2010, and the next experience study, performed on data through the June 30, 2015, is currently underway.

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

Note 10. Pension Plan (continued)

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

	SCRS
Actuarial cost method	Entry age
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	3.5% to 12.5% (varies by service)
Includes inflation at	2.75%
Benefit adjustments	lesser of 1% or $500 annually

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

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

Net Pension Liability

The net pension liability (“NPL”) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB No. 67 less that System's fiduciary net position. The Fund’s proportional share of the NPL amounts for SCRS is presented below as of June 30,:

System	Total Pension Liability	Plan Fiduciary Net Position	Fund’s Net Pension Liability	Plan Fiduciary Net Position as a Percentage of Total Pension Liability
SCRS	$ 44,097,310	$ 25,131,828	$ 5,673,903	57.0%

The total pension liability is calculated by the Systems' actuary, and each plan's fiduciary net position is reported in the Systems' financial statements. The net pension liability is disclosed in accordance with the requirements of GASB 67 in the Systems’ notes to the financial statements and required supplementary information. Liability calculations performed by the Systems’ actuary for the purpose of satisfying the requirements of GASB Nos. 67 and 68 are not applicable for other purposes, such as determining the plans’ funding requirements.

Note 10. Pension Plan (continued)

The Fund's proportionate share of the net pension liability for SCRS is as follows for the years ended June 30, 2016 and 2015:

System	June 30, 2016	June 30, 2015	Change
SCRS	0.029917%	0.030110%	(0.000193%)

The Fund's change in proportionate share of the net pension liability and related deferred inflows and outflows of the resources will be amortized into pension expense over the respective average remaining service lives the system.

Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments, as used in the July 1, 2014 actuarial valuations, is based upon the 30 year capital market outlook at the end of the third quarter 2013. The actuarial long-term expected rates of return represent best estimates of arithmetic real rates of return for each major asset class and were developed in coordination with the investment consultant for the Retirement System Investment Commission ("RSIC") using a building block approach, reflecting observable inflation and interest rate information available in the fixed income markets as well as Consensus Economic forecasts. The actuarial long-term assumptions for other asset classes are based on historical results, current market characteristics and professional judgment.

The RSIC has exclusive authority to invest and manage the retirement trust funds' assets. As co-fiduciary of the Systems, statutory provisions and governance policies allow the RSIC to operate in a manner consistent with a long-term investment time horizon. The expected real rates of investment return, along with the expected inflation rate, form the basis for the target asset allocation adopted annually by the RSIC. For actuarial purposes, the long-term expected rate of return is calculated by weighting the expected future real rates of return by the target allocation percentage and then adding the actuarial expected inflation which is summarized in the table on the following page. For actuarial purposes, the 7.50 percent assumed annual investment rate of return used in the calculation of the total pension liability includes a 4.75 percent real rate of return and a 2.75 percent inflation component.

Note 10. Pension Plan (continued)

Asset Class	Target Asset Allocation	Expected Arithmetic Real Rate of Return	Long Term Expected Portfolio Real Rate of Return
Short Term	**5.0%**		
Cash	2.0	1.90%	0.04%
Short Duration	3.0	2.00	0.06
Domestic Fixed Income	**13.0**		
Core Fixed Income	7.0	2.70	0.19
Mixed Credit	6.0	3.80	0.23
Global Fixed Income	**9.0**		
Global Fixed Income	3.0	2.80	0.08
Emerging Markets Debt	6.0	5.10	0.31
Global Public Equity	**31.0**	**7.10**	**2.20**
Global Tactical Asset Allocation	**10.0**	**4.90**	**0.49**
Alternatives	**32.0**		
Hedge Funds (Low Beta)	8.0	4.30	0.34
Private Debt	7.0	9.90	0.69
Private Equity	9.0	9.90	0.89
Real Estate (Broad Market)	5.0	6.00	0.30
Commodities	3.0	5.90	0.18
Total Expected Real Return	100.0%		6.00
Inflation for Actuarial Purposes			2.75
Total Expected Nominal Return			8.75%

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in SCRS will be made based on the actuarially determined rates based on provisions in the South Carolina State Code of Laws. Based on those assumptions, each System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity Analysis

The following table presents the collective net pension liability of the participating employers calculated using the discount rate of 7.50 percent, as well as what the employers' net pension liability would be if it were calculated using a discount rate that is 1.00 percent lower (6.50 percent) or 1.00 percent higher (8.50 percent) than the current rate.

Sensitivity of the Proportional Share of Net Pension Liability to Changes in the Discount Rate			
System	**1.00% Decrease (6.50%)**	**Current Discount Rate (7.50%)**	**1.00% Increase (8.50%)**
SCRS	$ 7,153,171	$ 5,673,903	$ 4,434,089

Note 10. Pension Plan (continued)

Deferred Outflows (Inflows) of Resources

For the year ended June 30, 2016, the Fund recognized pension expense of $108,315 which is included in personnel services and employee benefits in the accompanying SAF financial statements and personnel services in the accompanying UEF financial statements. At June 30, 2016, the Fund reported deferred outflows (inflows) of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 312,197	$ -
Differences in actual and expected retirement plan experience	100,806	(10,147)
Net differences between projected and actual earnings on plan investments	37,978	-
Change in proportionate share of net pension liability	-	(26,799)
	$ 450,981	$ (36,946)

The Fund reported $312,197 as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows (inflows) of resources will be recognized in pension expense in future years. The following schedule reflects the amortization of the Fund's proportional share of the net balance of remaining deferred outflows (inflows) of resources at June 30, 2016. Average remaining services lives of all employees provided with pensions through the pension plans at June 30, 2016 was 4.164 years for SCRS.

Measurement Period Ending June 30,	Fiscal Year Ending June 30,	SCRS
2016	2017	$ 24,291
2017	2018	24,291
2018	2019	(10,335)
2019	2020	90,390
		$ 128,637

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 post-employment healthcare, and long-term disability plans administered by the Insurance Benefits Division ("IB"), a part of the 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.

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

Funding Policies

Section 1-11-710 of the South Carolina Code of Laws of 1976, as amended, requires these post-employment 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 statue to contribute at a rate assessed each year by the Office of the State Budget, 5.00% of annual covered payroll for 2016 and 5.00% of annual covered payroll for 2015. The IB sets the employer contribution rate based on a pay-as-you-go basis. The Fund paid approximately $150,000 and $148,000 applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal years ended June 30, 2016 and 2015, 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, 2016 and 2015.

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.

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 $21,488 per month. Leases for computers expire in April 2017, and the rental rate is $2,560 per month. The Fund 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 for computer lease are as follows:

Fiscal year ended June 30,:	
2017	23,038
$	23,038

Operating lease expenses for the fiscal year ended June 30, 2016, were approximately $258,000 for office space and were approximately $23,000 for office equipment.

Note 14. Long-term Liabilities

Changes in long-term liabilities for the year ended June 30, 2016 are as follows:

	June 30, 2015	Additions	Reductions	June 30, 2016	Due within one year
Governmental Activities					
Accrued compensated absences and related benefits	$ 26,521	$ 22,038	$ (21,480)	$ 27,079	$ 21,480
Unpaid claims liability and claims adjustment expenses payable	36,228,000	4,921,107	(6,695,107)	34,454,000	10,336,200
Total	$ 36,254,521	$ 4,943,145	$(6,716,587)	$ 34,481,079	$ 10,357,680

	June 30, 2015	Additions	Reductions	June 30, 2016	Due within one year
Business-type Activities					
Accrued compensated absences and related benefits	$ 311,372	$ 129,573	$ (187,565)	$ 253,380	$ 187,565
Unpaid claims liability and claims adjustment expenses payable	239,450,000	58,391,968	(47,428,968)	$ 250,413,000	95,858,427
Total	$ 239,761,372	$ 58,521,541	$ (47,616,533)	$ 250,666,380	$ 96,045,992

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 Fiscal Accountability Authority.

Note 15. Transactions with State Entities (continued)

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, 2016:

Higher Education	$	$14,486,892
Administration of Justice		14,325,690
Transportation		8,380,583
Health and Environment		8,278,095
Education		4,687,951
General Government		2,759,457
Social Services		2,351,389
Resource and Economic Development		2,025,390
Ports Authority		1,375,478
Unemployment		115,938
Other Business Types		56,654
Housing Authority		34,660
	$	58,878,177

The Fund had financial transactions with various State Agencies during the year ended June 30, 2016. 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, 2016. Total payments to other State agencies by the SAF were as follows for the year ended June 30, 2016:

Medical University of South Carolina	$	914,192
University of South Carolina		32,987
Workers Compensation Commission		14,175
University of South Carolina		1,753
Department of Health & Environment Control		810
PEBA Public Employees Benefit Authority		25
State Law Enforcement Division		25
South Carolina Department of Motor Vehicles		18
Secretary of State's Office		8
	$	963,993

Note 16. Net Position

The UEF has a net position deficit of $24,634,558 for the year ended June 30, 2016. In accordance with Section 42-7-200 the UEF was created to ensure payment of workers' compensation benefits to injured employees whose employers have failed to procure necessary coverage for employees in accordance with the provisions of the workers' compensation law. If the UEF is required to incur costs or expenses or to pay benefits, the UEF has a lien against the assets of the employer to the full extent of all costs. The UEF does not collect premiums, instead funds are earmarked from the collections of the tax on insurance carriers and self-insured persons. Based upon the fact that the losses are paid prior to collections from the employer, if any, and the fact that the ultimate claim liability is paid as incurred, the UEF will always have a deficit.

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. Subsequent Events

The Fund has evaluated events and transactions occurring subsequent to the balance sheet date of June 30, 2016 for items that should potentially be recognized or disclosed in the financial statements. The evaluation was conducted through October 21, 2016, the date these financial statements were available for issuance, and there were no subsequent events that required recognition or 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, 2016

	Budget Amounts		Actual Amounts (Budgetary	Variance with Final Budget Positive
	Original	Final	Basis)	(Negative)
Expenditures				
Uninsured Employers Fund				
Classified positions	$ 330,402	$ 330,402	$ 341,566	$ (11,164)
Employer contributions	198,830	198,830	129,064	69,766
Other operating	398,340	398,340	115,788	282,552
Total Expenditures	$ 927,572	$ 927,572	$ 586,418	$ 341,154

South Carolina State Accident Fund
Notes to Required Supplementary Information
Budgetary Comparison Schedule
June 30, 2016

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 115 (*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.

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, 2016.
- 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

There are no adjustments of the GAAP basis of accounting to the budgetary basis of accounting for the UEF.

South Carolina State Accident Fund
Schedule of the South Carolina State Accident Fund's
Proportionate Share of the Net Pension Liability
South Carolina Retirement System
As of June 30,
Last Two Fiscal Years

	2016	2015
SAF's proportion of the net pension liability	0.03 %	0.03 %
SAF's proportionate share of the net pension liability	$ 5,673,903	$ 5,184,116
SAF's covered employee payroll	$ 2,960,786	$ 2,873,871
SAF's proportionate share of the net pension liability as percentage of covered employee payroll	191.64 %	180.39 %
Plan fiduciary net position as a percentage of the total pension liability	56.99 %	59.92 %

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

See accompanying Independent Auditor's Report

South Carolina State Accident Fund
Schedule of the South Carolina State Accident Fund's
Contributions
South Carolina Retirement System
As of June 30,
Last Ten Fiscal Years

	2016	2015	2014	2013	2012
Contractually required contribution	$ 295,366	$ 322,726	$ 289,775	$ 349,382	$ 323,282
Contributions in relation to the contractually required contribution	295,366	322,726	289,775	349,382	323,282
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
SAF covered-employee payroll	$ 2,818,225	$ 2,960,786	$ 2,873,871	$ 2,329,213	$ 2,362,309
Contributions as a percentage of the covered employee payroll	10.91%	10.75%	10.45%	10.45%	9.39%

	2011	2010	2009	2008	2007
Contractually required contribution	$ 327,100	$ 333,835	$ 343,482	$ 343,110	$ 406,662
Contributions in relation to the contractually required contribution	327,100	333,835	343,482	343,110	406,662
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
SAF covered-employee payroll	$ 2,489,346	$ 2,641,100	$ 2,696,091	$ 2,749,279	$ 3,567,211
Contributions as a percentage of the covered employee payroll	9.24%	9.24%	9.24%	9.06%	8.05%

SCOTT COMPANY

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements performed in accordance with *Government Auditing Standards*

Mr. George L. Kennedy, III, CPA
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, 2016, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements and have issued our report thereon dated October 21, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the 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.

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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

Columbia, South Carolina
October 21, 2016