SOUTH CAROLINA STATE BUDGET AND CONTROL BOARD
INSURANCE RESERVE FUND

_____________________________________

AUDITED FINANCIAL STATEMENTS

_____________________________________

YEAR ENDED JUNE 30, 2012

WITH

REPORT OF INDEPENDENT AUDITORS
October 12, 2012

The Honorable Nikki R. Haley, Governor
and
Members of the South Carolina State Budget and Control Board
Columbia, South Carolina

This report on the audit of the financial statements of the South Carolina State Budget and Control Board – Insurance Reserve Fund for the fiscal year ended June 30, 2012, was issued by DeLoach & Williamson, L.L.P., 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,

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

RHGjr/trb
SOUTH CAROLINA STATE BUDGET AND CONTROL BOARD
INSURANCE RESERVE FUND

AUDITED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

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REPORT OF INDEPENDENT AUDITORS
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INSURANCE RESERVE FUND

AUDITED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2012

WITH

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying basic financial statements of the governmental activities of the South Carolina State Budget and Control Board, Insurance Reserve Fund (the “Fund”) as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the management of the South Carolina State Budget and Control Board, Insurance Reserve Fund. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the accompanying financial statements of the South Carolina State Budget and Control Board, Insurance Reserve Fund are intended to present the financial position and results of operations and cash flows of its proprietary fund type of only that portion of the funds of the State of South Carolina that is attributable to the transactions of the Insurance Reserve Fund of the South Carolina State Budget and Control Board. They do not purport to, and do not, present fairly the financial position of the State of South Carolina as of June 30, 2012 and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.
In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities of the South Carolina State Budget and Control Board, Insurance Reserve Fund, as of June 30, 2012, and the results of operations and cash flows of its proprietary fund type for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2012, on our consideration of the Fund’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in accessing the results of our audit.

Accounting Principles Generally Accepted in the United States of America requires that the Management’s Discussion and Analysis on pages 3 through 6 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.

October 1, 2012

[Signature]

October 1, 2012
This section of the South Carolina State Budget and Control Board, Insurance Reserve Fund (IRF) Audited Financial Statements and Other Financial Information presents management’s discussion and analysis of IRF’s financial performance during the fiscal year ended June 30, 2012. This discussion should be read in conjunction with the financial statements and the notes, which follow this section.

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

**Overview of IRF**

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

**Financial Highlights:**

- The assets of IRF exceeded its liabilities at June 30, 2012 by $211,133,057;
- IRF’s net assets increased by $14,120,666 or 7.17 percent;
- IRF experienced an operating loss of $10,509,031.

**Overview of Financial Statements:**

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

The Statement of Net Assets presents the financial position of IRF at the end of the fiscal year and requires classification of assets and liabilities into current and non-current categories. The difference between total assets and total liabilities is reflected in the net assets section, which displays net assets in three broad categories: invested capital assets, restricted and unrestricted. Net assets are one indicator of the current financial condition of IRF, while the change in net assets is an indicator of whether the overall financial condition has improved or worsened during the year.
The Statement of Revenues, Expenses, and Changes in Net Assets categorizes revenues as operating and non-operating revenues and expenses as operating and non-operating expenses.

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

**Financial Analysis of IRF**

This schedule is a condensed version of IRF’s assets, liabilities, and net assets and is prepared from the Statement of Net Assets as of June 30, 2012 and 2011.

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

<table>
<thead>
<tr>
<th></th>
<th>June 30, 2012</th>
<th>June 30, 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets</td>
<td>$ 62.2</td>
<td>$ 63.7</td>
</tr>
<tr>
<td>Noncurrent assets</td>
<td>459.6</td>
<td>432.4</td>
</tr>
<tr>
<td>Total assets</td>
<td>521.8</td>
<td>496.1</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current liabilities</td>
<td>310.5</td>
<td>298.9</td>
</tr>
<tr>
<td>Noncurrent liabilities</td>
<td>0.2</td>
<td>0.2</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>310.7</td>
<td>299.1</td>
</tr>
<tr>
<td><strong>Net assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment in capital assets</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Restricted for loans</td>
<td>20.0</td>
<td>20.0</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>191.1</td>
<td>177.0</td>
</tr>
<tr>
<td>Total net assets</td>
<td>$ 211.1</td>
<td>$ 197.0</td>
</tr>
</tbody>
</table>

Included in noncurrent assets are investments which increased approximately $29,000,000 from June 30, 2011 to $455,214,362 at June 30, 2012. Current liabilities increased to $310,459,783 at June 30, 2012 primarily due to increases of approximately $5,000,000 for both deferred premium income and claims payable.

Net assets may serve over time as a useful indicator of an entity’s financial position. Assets exceeded liabilities by $197,012,391 at the close of the fiscal year ended June 30, 2011 and assets exceeded liabilities by $211,133,057 at the close of fiscal year ended June 30, 2012.
The following schedule is a summary of the IRF’s operating results for the fiscal years ended June 30, 2012 and 2011.

### Condensed Statements of Revenue, Expenses and Changes in Net Assets

(All figures in millions)

<table>
<thead>
<tr>
<th>Year Ended June 30,</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating revenue:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurance premiums</td>
<td>$115.0</td>
<td>$101.2</td>
</tr>
<tr>
<td>Operating expenses:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Claims</td>
<td>58.6</td>
<td>49.4</td>
</tr>
<tr>
<td>Reinsurance and other premiums</td>
<td>36.3</td>
<td>36.1</td>
</tr>
<tr>
<td>Administrative</td>
<td>30.6</td>
<td>27.0</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>125.5</td>
<td>112.5</td>
</tr>
<tr>
<td>Net operating income (loss)</td>
<td>(10.5)</td>
<td>(11.3)</td>
</tr>
<tr>
<td>Non operating revenue:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income from deposits and investments</td>
<td>24.3</td>
<td>14.3</td>
</tr>
<tr>
<td>Other non-operating revenues</td>
<td>0.3</td>
<td>0.3</td>
</tr>
<tr>
<td>Total non operating revenue</td>
<td>24.6</td>
<td>14.6</td>
</tr>
<tr>
<td>Net assets, beginning of the year</td>
<td>197.0</td>
<td>193.7</td>
</tr>
<tr>
<td>Net assets, end of the year</td>
<td>$211.1</td>
<td>$197.0</td>
</tr>
</tbody>
</table>

The ratio of claims to premiums was relatively stable at 51% in 2012 and 49% for 2011. The most significant change was in income from deposits and investments which increased approximately $10,000,000 or 70%. The overall change in net assets was an increase of $14,120,166 which brought net assets to $211,133,057 at June 30, 2012.

A condensed version of the Statement of Cash Flows is presented as follows for the years ended June 30, 2012 and 2011:

### Condensed Statements of Cash Flows

(All figures in millions)

<table>
<thead>
<tr>
<th>Year Ended June 30,</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flows from operating activities</td>
<td>$ (14.8)</td>
<td>$ 3.0</td>
</tr>
<tr>
<td>Cash flows from noncapital financing activities</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Cash flows from investing activities</td>
<td>(2.8)</td>
<td>(36.1)</td>
</tr>
<tr>
<td>Net change in cash</td>
<td>(17.6)</td>
<td>(33.1)</td>
</tr>
<tr>
<td>Cash and cash equivalents, beginning of year</td>
<td>29.1</td>
<td>62.2</td>
</tr>
<tr>
<td>Cash and cash equivalents, end of year</td>
<td>$11.5</td>
<td>$29.1</td>
</tr>
</tbody>
</table>
Economic Factors:

By statute, IRF assets are invested by the State Treasurer in repurchase agreements, bonds (US Treasury, US Government Agency, Governmental guaranteed mortgage backed, and Corporate), and financial paper. IRF has maintained adequate reinsurance; however, there have been substantial increases in reinsurance premiums over the years. In fiscal year 07-08, IRF increased its reinsurance program from $300 million per occurrence to $400 million per occurrence. The program is now $400 million subject to a maximum self-insured retention of $10 million per occurrence and $15 million in the annual aggregate with a $1 million trailing per occurrence for subsequent claims.

During fiscal year 2009-2010 Winthrop University suffered $8 million in fire damage and Proviso 90.19 (C) required IRF to suspend payment of annual premiums by State agencies for all lines of business up to an amount of $36,920,921.

IRF experienced an unusual number of property claims caused by violent weather. The largest of these was a lightning strike on the Anderson County 911 system resulting in a claim in excess of $3 million. During fiscal year 2011-2012 a sinkhole in Georgetown County created property losses for IRF insureds and potential tort losses which combine to be estimated as greater than $1 million. IRF changed its standard property deductible from $250 to $1,000 which should reduce small claims frequency in the future. IRF also expanded its rating definition of “coastal” property to correspond within industry standards. These changes took effect beginning in July 2011.

Contact Information

Questions related to the Management Discussion and Analysis and the accompanying financial statements should be directed to Stephen Waterhouse, Chief Financial Officer, at (803) 737-3827.
SOUTH CAROLINA STATE BUDGET AND CONTROL BOARD
INSURANCE RESERVE FUND

STATEMENT OF NET ASSETS

JUNE 30, 2012

<table>
<thead>
<tr>
<th>Assets</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$11,526,927</td>
<td></td>
</tr>
<tr>
<td>Premiums receivable</td>
<td>24,780,865</td>
<td></td>
</tr>
<tr>
<td>Accrued interest</td>
<td>4,320,834</td>
<td></td>
</tr>
<tr>
<td>Prepaid insurance</td>
<td>21,579,850</td>
<td></td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td><strong>62,208,476</strong></td>
<td></td>
</tr>
<tr>
<td>Non-current assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments</td>
<td>455,214,362</td>
<td></td>
</tr>
<tr>
<td>Long-term note receivable</td>
<td>4,381,804</td>
<td></td>
</tr>
<tr>
<td>Capital assets, net of accumulated depreciation</td>
<td>24,640</td>
<td></td>
</tr>
<tr>
<td><strong>Total non-current assets</strong></td>
<td><strong>459,620,806</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>521,829,282</strong></td>
<td></td>
</tr>
</tbody>
</table>

| Liabilities |            |          |
| Current liabilities: |            |          |
| Accounts payable and accrued payroll | 642,557     |          |
| Accrued compensated absences-current portion | 159,028     |          |
| Deferred premium revenue | 65,137,593  |          |
| Claims payable | 140,023,218 |          |
| Claims incurred but not reported | 104,497,387 |          |
| **Total current liabilities** | **310,459,783** |          |
| Long term liabilities: |            |          |
| Accrued compensated absences - long term portion | 236,442     |          |
| **Total long-term liabilities** | **236,442** |          |
| **Total liabilities** | **310,696,225** |          |

| Net assets |            |          |
| Investment in capital assets | 24,640     |          |
| Restricted for: |            |          |
| Savannah Valley Development Program | 20,000,000 |          |
| Unrestricted | 191,108,417 |          |
| **Total net assets** | **$211,133,057** |          |

*See accompanying notes.*
SOUTH CAROLINA STATE BUDGET AND CONTROL BOARD
INSURANCE RESERVE FUND

STATEMENT OF REVENUE, EXPENSES,
AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2012

Operating Revenues

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance premiums</td>
<td>$114,955,721</td>
</tr>
<tr>
<td>Total operating revenues</td>
<td>$114,955,721</td>
</tr>
</tbody>
</table>

Operating Expenses

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Claims</td>
<td>$58,639,160</td>
</tr>
<tr>
<td>Reinsurance premiums</td>
<td>$36,277,204</td>
</tr>
<tr>
<td>Professional services</td>
<td>$25,496,858</td>
</tr>
<tr>
<td>Salaries and benefits</td>
<td>$3,412,595</td>
</tr>
<tr>
<td>Other services</td>
<td>$1,394,785</td>
</tr>
<tr>
<td>Other expenses</td>
<td>$244,150</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>$125,464,752</td>
</tr>
</tbody>
</table>

Operating loss

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating loss</td>
<td>$(10,509,031)</td>
</tr>
</tbody>
</table>

Non-operating revenue

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from deposits and investments</td>
<td>$24,259,724</td>
</tr>
<tr>
<td>Interest from note receivable</td>
<td>$198,233</td>
</tr>
<tr>
<td>Other non-operating revenue</td>
<td>$171,740</td>
</tr>
<tr>
<td>Total non-operating revenue</td>
<td>$24,629,697</td>
</tr>
</tbody>
</table>

Change in net assets

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in net assets</td>
<td>$14,120,666</td>
</tr>
<tr>
<td>Net assets, beginning of year</td>
<td>$197,012,391</td>
</tr>
<tr>
<td>Net assets, end of year</td>
<td>$211,133,057</td>
</tr>
</tbody>
</table>

See accompanying notes.
SOUTH CAROLINA STATE BUDGET AND CONTROL BOARD
INSURANCE RESERVE FUND

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2012

<table>
<thead>
<tr>
<th>Cash Flows from Operating Activities</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance premiums from customers</td>
<td>$ 106,946,517</td>
</tr>
<tr>
<td>Payments to employees</td>
<td>(3,313,887)</td>
</tr>
<tr>
<td>Payments to suppliers/claimants</td>
<td>(118,478,525)</td>
</tr>
<tr>
<td>Net cash flows used in operating activities</td>
<td>(14,845,895)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash Flows from Financing Activities</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase of fixed assets</td>
<td>(14,107)</td>
</tr>
<tr>
<td>Net cash used in financing activities</td>
<td>(14,107)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash Flows from Investing Activities</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principal payments received on note receivable</td>
<td>1,407,918</td>
</tr>
<tr>
<td>Purchases of investments</td>
<td>(101,830,890)</td>
</tr>
<tr>
<td>Proceeds from sales and maturity of investments</td>
<td>66,433,559</td>
</tr>
<tr>
<td>Interest received-deposits and investments</td>
<td>31,022,350</td>
</tr>
<tr>
<td>Interest received-note receivable</td>
<td>231,589</td>
</tr>
<tr>
<td>Net cash used in investing activities</td>
<td>(2,735,474)</td>
</tr>
</tbody>
</table>

Net decrease in cash and cash equivalents                | (17,595,476)   |
Cash and cash equivalents, beginning of year             | 29,122,403     |
Cash and cash equivalents, end of year                   | $ 11,526,927   |

(CONTINUED)
Reconciliation of operating loss to net cash used in operating activities

Operating loss $ (10,509,031)

Adjustments to reconcile operating loss to net cash flows used in operating activities:

Depreciation expense 5,405

Change in assets:

Premiums receivable (13,225,787)
Reinsurance recovery receivable 1,104,851
Prepaid insurance (3,839,354)

Change in liabilities:

Accounts payable, accrued payroll and compensated absences (245,062)
Deferred premium revenue 5,216,583
Claims payable and claims incurred but not reported 6,646,500

Net cash used in operating activities $ (14,845,895)

Supplemental Information

Net changes in investments for amortization and accretion $ 15,438

Net loss on investments $ (6,955,884)

See accompanying notes.
1. Basis of Presentation and Summary of Significant Accounting Policies

The financial statements of all funds of the South Carolina State Budget and Control Board, Insurance Reserve Fund (the “Fund”) were prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Fund’s accounting policies are described below.

Reporting Entity

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

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

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

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

-CONTINUED-
1. **Basis of Presentation and Summary of Significant Accounting Policies (Continued)**

   **Reporting Entity (Continued)**

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

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

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

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

   The Fund operates as a unit under the Budget and Control Board and its Executive Director. The laws of the State and the policies and procedures specified by the State for State agencies are applicable to the Fund’s activities. The accompanying financial statements present the financial position and results of operations solely of the Fund and do not include any other agencies or any component units of the State of South Carolina.
The Insurance Reserve Fund was created by the Budget and Control Board on June 5, 1989 to manage insurance programs provided by the State for its agencies, institutions, and political subdivisions. The Fund was formed as a section from the Office of General Services.

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

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

Basis of Presentation
The financial statements present the funds of the South Carolina State Budget and Control Board, Insurance Reserve Fund.

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

Financial Statements
Insurance Reserve Fund is an internal service fund within the South Carolina Budget and Control Board as the State’s managers have determined that the State is the predominant participant in the Fund.

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

The Fund uses the accrual basis of accounting. Revenue is recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred, if measurable. The Fund reports claims liabilities when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.
1. **Basis of Presentation and Summary of Significant Accounting Policies (Continued)**

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

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, the Fund considers all highly liquid securities with a maturity of three months or less at the time of purchase to be cash equivalents. Most State agencies including the Fund participate in the State’s internal cash management pool; however, some agency accounts are not included in the pool because of restrictions on the use of funds. Because the State’s internal cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The State Treasurer administers the cash management pool. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, and certain corporate bonds. For credit risk information pertaining to the internal cash management pool, see the deposits disclosures in *Note 2*.

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

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

**Investments**
Investments, in accordance with Governmental Accounting Standards Board (GASB) Statement Number 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price.

Investment income consists of interest earned during the year, amortization of premiums and accretion of discounts, realized gains/losses on securities, and unrealized gains/losses resulting from changes in fair value. Earnings are posted to the agency’s account at the end of each month. Securities and securities transactions are reflected in the financial statements on a trade-date basis. Realized gains/losses are calculated independent of the change in fair value therefore amounts reported as realized gain/loss in the current year may have been included as unrealized gains/losses in prior years.

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

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

**Reinsurance Recovery Receivable**
Reinsurance Recovery Receivable represents claims that have been paid which are recoverable from reinsurers. Reinsurance permits partial recovery of losses from reinsurance; however, the Fund, as direct insurer remains primarily liable. Amounts deemed recoverable from reinsurance are deducted from claims expenses.
1. Basis of Presentation and Summary of Significant Accounting Policies (Continued)

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

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

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

Claims Payable
Claims payable represents claims resulting from losses that have been incurred and not paid at June 30. The claims payable balance is based on actual losses incurred and settled and estimated losses for claims in the final stages of review and settlement.
Compensated Absences
Generally all permanent full-time State employees and certain part-time employees scheduled to work at least twenty hours per workweek are entitled to accrue and carry forward at calendar year-end maximums of 180 days sick leave and 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 earned for which the employees are entitled to paid time off or payment at termination. The leave liability also includes an estimate for unused sick leave and leave from the agency’s leave transfer pool for employees who have been approved as leave recipients under personal emergency circumstances. The Fund calculates the gross compensated absences liability based on recorded balances of unused leave. The entire unpaid liability for which the employer expects to compensate employees through paid time off or cash payments, inventoried at fiscal year-end current salary costs and the cost of the salary-related benefit payments, is recorded in the fund.

Net Assets
Net assets are reported in three categories:

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

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets which do not meet the definition of restricted net assets or investment in capital assets, net of related debt.

The Fund applies expenses that can be used for both restricted and unrestricted resources against restricted resources first.
1. **Basis of Presentation and Summary of Significant Accounting Policies (Continued)**

   **Use of Estimates**
   The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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

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

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

2. **Investments and Deposits**

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

   **Investments**
   In accordance with State Law, the Fund may invest in a variety of instruments including obligations of the United States and its agencies and securities fully guaranteed by the United States, certain corporate obligations, certain shares of Federal savings and loan associations and State chartered savings and loan associations, and collateralized repurchase agreements.

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

The following table presents the amortized cost and fair values of the investments of the Fund at June 30, 2012:

<table>
<thead>
<tr>
<th>Investments</th>
<th>Amortized Cost</th>
<th>Unrealized Gains</th>
<th>Unrealized Losses</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Municipal bonds</td>
<td>$1,000,000</td>
<td>$88,660</td>
<td>$-</td>
<td>$1,088,660</td>
</tr>
<tr>
<td>Collateralized mortgage-backed obligations</td>
<td>25,378,952</td>
<td>2,846,506</td>
<td>$-</td>
<td>28,225,458</td>
</tr>
<tr>
<td>Other Governmental guaranteed investments</td>
<td>26,070,710</td>
<td>335,396</td>
<td>(2,850)</td>
<td>26,403,256</td>
</tr>
<tr>
<td>SC State political subdivision bonds</td>
<td>102,830,514</td>
<td>11,322,010</td>
<td>$-</td>
<td>114,152,524</td>
</tr>
<tr>
<td>Repurchase agreement</td>
<td>10,345,000</td>
<td>$-</td>
<td>$-</td>
<td>10,345,000</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>240,782,305</td>
<td>17,632,398</td>
<td>(42,241)</td>
<td>258,372,462</td>
</tr>
<tr>
<td>Financial paper</td>
<td>25,037,417</td>
<td>1,934,583</td>
<td>$-</td>
<td>26,972,000</td>
</tr>
</tbody>
</table>

Total | $431,444,898 | $34,159,553 | (45,091) | $465,559,360 |

At June 30, 2012, the amortized cost of the above investments was comprised of the following:

<table>
<thead>
<tr>
<th>Investments</th>
<th>Par Value</th>
<th>Unamortized Premiums</th>
<th>Unaccreted Discounts</th>
<th>Amortized Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Municipal bonds</td>
<td>$1,000,000</td>
<td>$-</td>
<td>$-</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>Collateralized mortgage-backed obligations</td>
<td>25,513,733</td>
<td>$-</td>
<td>(134,781)</td>
<td>25,378,952</td>
</tr>
<tr>
<td>Other Governmental guaranteed investments</td>
<td>26,094,463</td>
<td>11,908</td>
<td>(35,661)</td>
<td>26,070,710</td>
</tr>
<tr>
<td>SC State political subdivision bonds</td>
<td>103,154,838</td>
<td>$-</td>
<td>(324,324)</td>
<td>102,830,514</td>
</tr>
<tr>
<td>Repurchase agreement</td>
<td>10,345,000</td>
<td>$-</td>
<td>$-</td>
<td>10,345,000</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>241,502,231</td>
<td>87,512</td>
<td>(807,438)</td>
<td>240,782,305</td>
</tr>
<tr>
<td>Financial paper</td>
<td>25,250,000</td>
<td>$-</td>
<td>(212,583)</td>
<td>25,037,417</td>
</tr>
</tbody>
</table>

Total | $432,860,265 | $99,420             | (1,514,787)         | $431,444,898  |
2. **Investments and Deposits (Continued)**

**Deposits**
For cash and cash equivalents, the fair values are equal to the bank balances, which approximate the carrying amount. The cash and cash equivalents reported consist of the following as of June 30, 2012:

- Deposits held by Third Party Administrators: $100,115
- Cash held at the South Carolina Treasurer's Office: $1,081,814

$1,181,929

Balances held by the third party administrator are exposed to custodial credit risk. In the case of deposits, this is the risk that in the event of a bank failure, the Fund’s deposits may not be returned. The Fund does not have a deposit policy for custodial credit risk. As of June 30, 2012, $1,181,929 of the Fund’s bank balance was uninsured or collateralized with securities held by the pledging financial institution’s trust department or agent, but not in the Fund’s name.

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

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

<table>
<thead>
<tr>
<th></th>
<th>Statements</th>
<th>Note Disclosure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$11,526,927</td>
<td>$100,115</td>
</tr>
<tr>
<td>Deposits held by Third Party Administrators</td>
<td>-</td>
<td>1,181,929</td>
</tr>
<tr>
<td>Held by the State Treasurer:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Specifically identified investments</td>
<td>-</td>
<td>465,559,360</td>
</tr>
<tr>
<td>Investments</td>
<td>455,214,362</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$466,741,289</td>
<td>$466,741,289</td>
</tr>
</tbody>
</table>
2. Investments and Deposits (Continued)

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

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest earned</td>
<td>$35,056,334</td>
</tr>
<tr>
<td>Accretion of discount</td>
<td>(129,229)</td>
</tr>
<tr>
<td>Amortization of premium</td>
<td>526,727</td>
</tr>
<tr>
<td>Change in unrealized gains (losses)</td>
<td>(11,194,108)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$24,259,724</strong></td>
</tr>
</tbody>
</table>

3. Premiums Receivable

Premiums receivable at June 30, 2012, consist of the following:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local government</td>
<td>$9,237,619</td>
</tr>
<tr>
<td>State government <em>(Note 11)</em></td>
<td>13,063,130</td>
</tr>
<tr>
<td>Other</td>
<td>2,480,116</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$24,780,865</strong></td>
</tr>
</tbody>
</table>

Premiums receivable and deferred premium revenue include approximately $18,985,966 attributable to premiums billed in advance of coverage as of June 30, 2012.

As of June 30, 2012, all of the receivables are deemed by management to be collectible. Therefore, no allowance for doubtful accounts has been recognized. In addition, the Fund has applied no discounts to its receivables as of June 30, 2012.
4. Note Receivable

Amounts due from the note receivable in the Insurance Reserve Fund at June 30, 2012, is as follows:

Due from Savannah Valley Development Division of the Department of Commerce

One note in the original principal amount of $14,983,215 with interest at 4.41%, maturity date is January 31, 2031. Current portion is prepaid at June 30, 2012. $4,381,804

Long-term note receivable $4,381,804

5. Capital Assets

The following summarizes the changes in capital assets for the year.

Depreciation expense for the year ended June 30, 2012, was $5,405.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Furniture and equipment</td>
<td>$293,682</td>
<td>$14,107</td>
<td>$</td>
<td>$307,789</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>(277,744)</td>
<td>(5,405)</td>
<td>$</td>
<td>(283,149)</td>
</tr>
<tr>
<td>Capital assets, net</td>
<td>$15,938</td>
<td>$8,702</td>
<td>$</td>
<td>$24,640</td>
</tr>
</tbody>
</table>
6. Lease Obligations

The Fund leases office space from a party outside of State government and this lease is accounted for as an operating lease. Rental expense under this lease for the year ended June 30, 2012 was $193,287.

The future minimum lease payments due under this lease are:

<table>
<thead>
<tr>
<th>Year Ending June 30,</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>$ 256,686</td>
</tr>
<tr>
<td>2014</td>
<td>256,686</td>
</tr>
<tr>
<td>2015</td>
<td>256,686</td>
</tr>
<tr>
<td>2016</td>
<td>276,646</td>
</tr>
<tr>
<td>2017</td>
<td>276,646</td>
</tr>
<tr>
<td>Thereafter</td>
<td>829,938</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 2,153,288</strong></td>
</tr>
</tbody>
</table>

The Fund has also entered into an operating lease from a party outside the State government for office equipment which contains a cancellation provision and is subject to annual appropriation. In the normal course of business, operating leases are generally renewed or replaced by other leases. Operating leases are generally payable on a monthly basis. For the year ended June 30, 2012, expenses under this lease were approximately $14,034.

7. Restricted Net Assets – Savannah Valley Development Program

At June 30, 2012, $20,000,000 of the Fund’s net assets is restricted for loans to the Savannah Valley Development Division of the Department of Commerce, as authorized under South Carolina State Code 13-9-10, formerly the Clark’s Hill-Russell Authority (a Joint Resolution; R-22, H2516; of the State, approved March 12, 1987, and R-755, H2680; of the State, approved June 20, 1988). As of June 30, 2012, $4,381,804 was outstanding on loans made under this program.
8. Pension Plans

The Retirement Division (the “Division”) maintains four independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy is publicly available on the South Carolina Retirement Systems website at www.retirement.sc.gov. Furthermore, the Division and the four pension plans are included in the CAFR of the State of South Carolina. The South Carolina Retirement System also administers the State Optional Retirement Program (ORP) which is a defined contribution plan.

The majority of employees of the Fund are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division of the State Budget and Control Board, a public employee retirement system. Generally all State employees are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws. This plan provides retirement annuity benefits as well as disability, cost of living adjustment, death, and group-life insurance benefits to eligible employees and retirees. The State Optional Retirement Program (ORP) is a defined contribution plan that is offered as an alternative to certain 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 SCRS assumes no liability for State ORP benefits, as they are the liability of the investment providers. New employees have the option of choosing the State Optional Retirement Program.

Under the SCRS, employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 28 years credited service regardless of age. The benefit formula for full benefits effective since July 1, 1989, for the SCRS is 1.82 percent of an employee’s average final compensation multiplied by the number of years of credited service. Early retirement options with reduced benefits are available as early as age 55. Employees are vested for a deferred annuity after five years service and qualify for a survivor’s benefit upon completion of five years credited service. Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of five years credited service (this requirement does not apply if the disability is the result of a job-related injury). A group-life insurance benefit equal to an employee’s annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service.
8. Pension Plans (Continued)

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any cost of living adjustments granted during the TERI period. TERI participants with an effective TERI date prior to July 1, 2005 do not make employee contributions to SCRS. TERI participants with an effective TERI date on or after July 1, 2005 make employee contributions to SCRS. All TERI participants do not earn service credit and are ineligible to receive group life insurance benefits and are not eligible for disability retirement benefits.

Beginning July 1, 2006, employees participating in the SCRS have been required to contribute 6.50 percent of all compensation. For the year ended June 30, 2012, the employer contribution rate was 9.385 percent (before a surcharge to fund retiree health and dental insurance coverage). For the years ended June 30, 2011 and 2010, the rate was 9.24 percent. The Fund’s actual contributions to the SCRS for the years ended June 30, 2012, 2011 and 2010 were approximately $352,183, $362,716, and $354,893 respectively and equaled the required contributions (excluding the surcharge) in the percentages outlined above. Also, the Fund paid employer group-life insurance contributions at the rate of 0.15 percent of compensation.

The amounts paid by the Fund for pension and group-life benefits are reported as employer contribution expenditures within the applicable administrative expenditure categories to which the related salaries are charged.

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

The Systems do not make separate measurements of assets and pension benefit obligations for individual employers. Under Title 9 of the South Carolina Code of Laws, the Fund’s liability under the plans is limited to the amount of contributions (stated as a percentage of covered payroll) established by the State Budget and Control Board. Therefore, the Fund’s liability under the pension plans is limited to the amounts appropriated therefore in the South Carolina Appropriation Act and amounts from other applicable revenue sources. Accordingly, the Fund recognizes no contingent liability for unfunded costs associated with participation in the plans.

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

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

9. Post-Employment and Other Employee Benefits

Post Employment Benefits
The State provides post employment health and dental benefits to retired employees and their covered dependents through a plan which has been determined to be a cost-sharing multiple-employer defined benefit post employment healthcare plan by the Comptroller General’s Office of the State of South Carolina. The State Budget and Control Board (SBCB) is the Trustee and the plan is administered by the Employee Insurance Program (EIP), a part of the State Budget and Control Board. A retiree’s eligibility for the health and dental benefits is based on his hire date and years of earned retirement service credit. Generally, ten years of service credit with the SC Retirement System is required for full funding of employees enrolled in the system prior to May 2, 2008. For all others who may become enrolled, eligibility requires fifteen years of service for partial funding and twenty-five years for full funding.
9. Post-Employment and Other Employee Benefits (Continued)

In addition, the State provides long-term disability benefits to active employees through the Long-Term Disability Plan, which has been determined to be a cost-sharing multiple-employer plan by the Comptroller General’s Office of the State of South Carolina. The State Budget and Control Board is the Trustee and the plan is administered by the Employee Insurance Program (EIP), a part of the State Budget and Control Board (SBCB). Benefits under this plan are provided to the employee upon approval of the disability by the South Carolina Retirement System.

Section 1-11-710 and 1-11-720 of the South Carolina Code of Laws of 1976, as amended, requires the post-employment benefits to be funded through annually established employer’s contribution rates, also known as the pension surcharge. Funding for the employer’s payment of the surcharge is provided through General Appropriations from the State and other sources. Effective May 1, 2008 through Act 195, the State established the South Carolina Retiree Health Insurance Trust Fund and the Long-Term Disability Insurance Trust Fund for the purpose of funding and accounting for the employer costs of retiree health and dental insurance benefits and employee long-term disability benefits. The Retiree Health Insurance Trust Fund is primarily funded through the payroll surcharge. Other sources of funding may include additional State appropriated dollars, accumulated EIP reserves, and income generated from investments. The Fund’s actual contribution to this trust fund for the fiscal years ended June 30, 2012, 2011 and 2010 were $110,363, $95,494 and $91,679, which equaled the required contribution rates of 4.30%, 3.90% and 3.50%, respectively. The Long-Term Disability Insurance Trust Fund is funded through a per person premium charged to State agencies, public school districts, and other participating local governments. The monthly premium per active employee contributed to the trust was $3.22, $3.22 and $3.23 for the fiscal years ended June 30, 2012, 2011 and 2010, respectively.

By state law, the State is liable for the employer share of retiree premiums. Accordingly, an annual required contribution and related liability for the Fund, as employer, is not included in the accompanying financial statements.

Audited financial statements of the trust funds may be obtained by written request to Employee Insurance Program, SC Budget and Control Board, 1201 Main Street, Suite 360, Columbia, South Carolina 29201.
9. Post-Employment and Other Employee Benefits (Continued)

Other Employee Benefits
In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to all permanent full-time and certain permanent part-time employees of the Fund. These benefits are provided on a reimbursement basis by the employer agency based on rates established at the beginning of the service period by the Employee Insurance Program within the SC Budget and Control Board.

The Fund recorded benefit expenses for these insurance benefits for active employees in the amount of $237,774, $228,759 and $214,487 for the years ended June 30, 2012, 2011 and 2010, respectively.

10. 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 Comprehensive Annual Financial Report of the State of South Carolina. Compensation deferred under the plans is placed in trust for the contributing employee. 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.

This Fund made no contributions for the fiscal year ending June 30, 2012.
11. Transactions with State Entities

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

The property and liability coverage is provided for a fee to various State agencies and within the South Carolina State Budget and Control Board. The fees are recorded as revenues in the financial statements for the Fund.

The following details the insurance premiums received by the Fund from other state agencies and divisions of the South Carolina State Budget and Control Board during the year ended June 30, 2012:

| Agency                                      | Premiums
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>The Senate</td>
<td>$71,684</td>
</tr>
<tr>
<td>House of Representatives</td>
<td>126,411</td>
</tr>
<tr>
<td>Codification of Laws and Legislative Council</td>
<td>2,249</td>
</tr>
<tr>
<td>Legislative Printing, Information and Technology Systems</td>
<td>12,418</td>
</tr>
<tr>
<td>Legislative Audit Council</td>
<td>4,415</td>
</tr>
<tr>
<td>Education Oversight Committee</td>
<td>5,229</td>
</tr>
<tr>
<td>Judicial Department</td>
<td>73,257</td>
</tr>
<tr>
<td>Administrative Law Court</td>
<td>1,933</td>
</tr>
<tr>
<td>Governor's Office - SLED</td>
<td>361,497</td>
</tr>
<tr>
<td>Governor's Office - Office of Executive Policy and Programs</td>
<td>4,975</td>
</tr>
<tr>
<td>Governor's Office - Mansion and Grounds</td>
<td>78,776</td>
</tr>
<tr>
<td>Lieutenant Governor's Office</td>
<td>9,373</td>
</tr>
<tr>
<td>Secretary of State's Office</td>
<td>6,259</td>
</tr>
<tr>
<td>Comptroller General's Office</td>
<td>10,148</td>
</tr>
<tr>
<td>State Treasurer's Office</td>
<td>16,380</td>
</tr>
<tr>
<td>Tobacco Settlement Revenue Management Authority</td>
<td>2,490</td>
</tr>
<tr>
<td>Retirement System Investment Commission</td>
<td>7,752</td>
</tr>
<tr>
<td>Attorney General's Office</td>
<td>27,047</td>
</tr>
<tr>
<td>South Carolina Commission on Prosecution Coordination</td>
<td>10,934</td>
</tr>
<tr>
<td>Commission on Indigent Defense</td>
<td>10,826</td>
</tr>
<tr>
<td>Adjutant General's Office</td>
<td>220,325</td>
</tr>
<tr>
<td>State Election Commission</td>
<td>8,076</td>
</tr>
</tbody>
</table>
11. Transactions with State Entities (Continued)

<table>
<thead>
<tr>
<th>Institution Name</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget and Control Board</td>
<td>1,820,928</td>
</tr>
<tr>
<td>State Auditor's Office</td>
<td>5,024</td>
</tr>
<tr>
<td>Higher Education Commission</td>
<td>10,340</td>
</tr>
<tr>
<td>Higher Education Tuition Grant Commission</td>
<td>1,311</td>
</tr>
<tr>
<td>The Citadel</td>
<td>622,483</td>
</tr>
<tr>
<td>Clemson University</td>
<td>2,592,984</td>
</tr>
<tr>
<td>College of Charleston</td>
<td>1,315,660</td>
</tr>
<tr>
<td>Coastal Carolina University</td>
<td>663,341</td>
</tr>
<tr>
<td>Francis Marion University</td>
<td>389,590</td>
</tr>
<tr>
<td>Lander University</td>
<td>265,553</td>
</tr>
<tr>
<td>South Carolina State University</td>
<td>395,074</td>
</tr>
<tr>
<td>University of South Carolina - Columbia Campus</td>
<td>3,205,034</td>
</tr>
<tr>
<td>University of South Carolina - School of Medicine</td>
<td>1,185,433</td>
</tr>
<tr>
<td>University of South Carolina - Upstate Campus</td>
<td>201,364</td>
</tr>
<tr>
<td>University of South Carolina - Aiken Campus</td>
<td>114,825</td>
</tr>
<tr>
<td>University of South Carolina - Lancaster Campus</td>
<td>32,897</td>
</tr>
<tr>
<td>University of South Carolina - Salkehatchie Campus</td>
<td>49,426</td>
</tr>
<tr>
<td>University of South Carolina - Sumter Campus</td>
<td>38,826</td>
</tr>
<tr>
<td>University of South Carolina - Beaufort Campus</td>
<td>56</td>
</tr>
<tr>
<td>Winthrop University</td>
<td>592,510</td>
</tr>
<tr>
<td>Medical University of South Carolina</td>
<td>8,227,820</td>
</tr>
<tr>
<td>MUSC Hospital Authority</td>
<td>2,437,711</td>
</tr>
<tr>
<td>Technical and Comprehensive Education Board</td>
<td>35,537</td>
</tr>
<tr>
<td>Department of Education</td>
<td>4,161,215</td>
</tr>
<tr>
<td>Educational Television Commission</td>
<td>256,075</td>
</tr>
<tr>
<td>Wil Lou Gray Opportunity School</td>
<td>35,363</td>
</tr>
<tr>
<td>Department of Vocational Rehabilitation</td>
<td>379,931</td>
</tr>
<tr>
<td>South Carolina School for the Deaf and Blind</td>
<td>189,404</td>
</tr>
</tbody>
</table>
11. Transactions with State Entities (Continued)

<table>
<thead>
<tr>
<th>State Entity</th>
<th>Transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Archives and History Department</td>
<td>8,084</td>
</tr>
<tr>
<td>State Library</td>
<td>14,196</td>
</tr>
<tr>
<td>Arts Commission</td>
<td>10,976</td>
</tr>
<tr>
<td>State Museum Commission</td>
<td>26,564</td>
</tr>
<tr>
<td>Department of Health and Human Services</td>
<td>149,553</td>
</tr>
<tr>
<td>Department of Health and Environmental Control</td>
<td>1,032,907</td>
</tr>
<tr>
<td>Department of Mental Health</td>
<td>1,905,152</td>
</tr>
<tr>
<td>Department of Disabilities and Special Needs</td>
<td>460,957</td>
</tr>
<tr>
<td>Department of Alcohol and Other Drug Abuse Services</td>
<td>7,827</td>
</tr>
<tr>
<td>Department of Public Safety</td>
<td>681,983</td>
</tr>
<tr>
<td>Department of Social Services</td>
<td>369,711</td>
</tr>
<tr>
<td>John De La Howe School</td>
<td>73,218</td>
</tr>
<tr>
<td>South Carolina Commission for the Blind</td>
<td>18,634</td>
</tr>
<tr>
<td>Housing, Finance and Development Authority</td>
<td>28,042</td>
</tr>
<tr>
<td>Human Affairs Commission</td>
<td>8,106</td>
</tr>
<tr>
<td>State Commission for Minority Affairs</td>
<td>4,214</td>
</tr>
<tr>
<td>Department of Corrections</td>
<td>1,805,644</td>
</tr>
<tr>
<td>Department of Probation, Parole, and Pardon Services</td>
<td>193,946</td>
</tr>
<tr>
<td>Department of Juvenile Justice</td>
<td>413,714</td>
</tr>
<tr>
<td>Law Enforcement Training Council</td>
<td>91,969</td>
</tr>
<tr>
<td>Forestry Commission</td>
<td>225,673</td>
</tr>
<tr>
<td>Department of Agriculture</td>
<td>70,964</td>
</tr>
<tr>
<td>Department of Natural Resources</td>
<td>755,149</td>
</tr>
<tr>
<td>Sea Grant Consortium</td>
<td>3,720</td>
</tr>
<tr>
<td>Department of Parks, Recreation and Tourism</td>
<td>587,210</td>
</tr>
<tr>
<td>Patriot's Point Development Authority</td>
<td>105,379</td>
</tr>
<tr>
<td>Department of Commerce</td>
<td>18,059</td>
</tr>
<tr>
<td>South Carolina Conservation Bank</td>
<td>5,063</td>
</tr>
<tr>
<td>Public Service Commission</td>
<td>11,865</td>
</tr>
<tr>
<td>Office of Regulatory Staff</td>
<td>15,058</td>
</tr>
<tr>
<td>South Carolina Workers' Compensation Commission</td>
<td>17,291</td>
</tr>
</tbody>
</table>
### 11. Transactions with State Entities (Continued)

<table>
<thead>
<tr>
<th>State Entity</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Accident Fund</td>
<td>8,962</td>
</tr>
<tr>
<td>Patients' Compensation Fund</td>
<td>8,045</td>
</tr>
<tr>
<td>Second Injury Fund</td>
<td>4,810</td>
</tr>
<tr>
<td>Department of Insurance</td>
<td>18,180</td>
</tr>
<tr>
<td>Board of Financial Institutions</td>
<td>13,126</td>
</tr>
<tr>
<td>Department of Consumer Affairs</td>
<td>7,434</td>
</tr>
<tr>
<td>Department of Labor, Licensing, and Regulation</td>
<td>140,038</td>
</tr>
<tr>
<td>Department of Motor Vehicles</td>
<td>131,432</td>
</tr>
<tr>
<td>Department of Revenue</td>
<td>93,126</td>
</tr>
<tr>
<td>State Ethics Commission</td>
<td>5,186</td>
</tr>
<tr>
<td>Department of Employment and Workforce</td>
<td>121,909</td>
</tr>
<tr>
<td>Procurement Review Panel</td>
<td>2,095</td>
</tr>
<tr>
<td>Department of Transportation</td>
<td>3,422,799</td>
</tr>
<tr>
<td>South Carolina Transportation Infrastructure Bank Board</td>
<td>3,866</td>
</tr>
<tr>
<td>Aeronautics Division</td>
<td>54,782</td>
</tr>
<tr>
<td>South Carolina Public Service Authority (Santee Cooper)</td>
<td>420,268</td>
</tr>
<tr>
<td>Aiken Technical College</td>
<td>64,778</td>
</tr>
<tr>
<td>Technical College of the Lowcountry</td>
<td>63,761</td>
</tr>
<tr>
<td>Northeastern Technical College</td>
<td>64,398</td>
</tr>
<tr>
<td>Denmark Technical College</td>
<td>47,720</td>
</tr>
<tr>
<td>Florence-Darlington Technical College</td>
<td>192,536</td>
</tr>
<tr>
<td>Greenville Technical College</td>
<td>356,414</td>
</tr>
<tr>
<td>Horry-Georgetown Technical College</td>
<td>156,811</td>
</tr>
<tr>
<td>Midlands Technical College</td>
<td>306,592</td>
</tr>
<tr>
<td>Orangeburg-Calhoun Technical College</td>
<td>73,948</td>
</tr>
<tr>
<td>Piedmont Technical College</td>
<td>223,764</td>
</tr>
<tr>
<td>Spartanburg Community College</td>
<td>188,933</td>
</tr>
<tr>
<td>Central Carolina Technical College</td>
<td>84,168</td>
</tr>
<tr>
<td>Tri-County Technical College</td>
<td>155,449</td>
</tr>
<tr>
<td>Trident Technical College</td>
<td>388,867</td>
</tr>
<tr>
<td>Williamsburg Technical College</td>
<td>29,584</td>
</tr>
<tr>
<td>York Technical College</td>
<td>141,959</td>
</tr>
</tbody>
</table>

$  46,414,737
11. Transactions with State Entities (Continued)

Premiums owed from these entities at June 30, 2012 were:

<table>
<thead>
<tr>
<th>Entity</th>
<th>Premiums Owed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arts Commission</td>
<td>$11,559</td>
</tr>
<tr>
<td>South Carolina Budget and Control Board</td>
<td>112,353</td>
</tr>
<tr>
<td>Central Carolina Technical College</td>
<td>91,760</td>
</tr>
<tr>
<td>Clemson University</td>
<td>1,290</td>
</tr>
<tr>
<td>Coastal Carolina University</td>
<td>722,214</td>
</tr>
<tr>
<td>Department of Corrections</td>
<td>97,466</td>
</tr>
<tr>
<td>Department of Disabilities and Special Needs</td>
<td>43,605</td>
</tr>
<tr>
<td>Department of Health and Human Services</td>
<td>154,652</td>
</tr>
<tr>
<td>Department of Juvenile Justice</td>
<td>412,217</td>
</tr>
<tr>
<td>Department of Mental Health</td>
<td>1,614,576</td>
</tr>
<tr>
<td>Department of Motor Vehicles</td>
<td>133,736</td>
</tr>
<tr>
<td>Department of Revenue</td>
<td>89,587</td>
</tr>
<tr>
<td>Department of Transportation</td>
<td>53</td>
</tr>
<tr>
<td>Educational Television Commission</td>
<td>253,832</td>
</tr>
<tr>
<td>Florence Darlington Technical College</td>
<td>201,157</td>
</tr>
<tr>
<td>Francis Marion University</td>
<td>1,067</td>
</tr>
<tr>
<td>Department of Health and Environmental Control</td>
<td>847</td>
</tr>
<tr>
<td>Horry-Georgetown Technical College</td>
<td>161,566</td>
</tr>
<tr>
<td>Law Enforcement Training Council</td>
<td>88,517</td>
</tr>
<tr>
<td>South Carolina Museum Commission</td>
<td>25,297</td>
</tr>
<tr>
<td>Office of Regulatory Staff</td>
<td>15,049</td>
</tr>
<tr>
<td>Patient's Compensation Fund</td>
<td>8,010</td>
</tr>
<tr>
<td>Patriot's Point Development Authority</td>
<td>105,484</td>
</tr>
<tr>
<td>Piedmont Technical College</td>
<td>116</td>
</tr>
<tr>
<td>South Carolina Education Lottery</td>
<td>31,146</td>
</tr>
<tr>
<td>South Carolina First Steps</td>
<td>16,335</td>
</tr>
<tr>
<td>Department of Social Services</td>
<td>10</td>
</tr>
<tr>
<td>South Carolina State University</td>
<td>951</td>
</tr>
<tr>
<td>Spartanburg Community College</td>
<td>17</td>
</tr>
<tr>
<td>State Ethics Commission</td>
<td>5,186</td>
</tr>
<tr>
<td>State Library</td>
<td>13,483</td>
</tr>
<tr>
<td>Technical College of the Low Country</td>
<td>63,067</td>
</tr>
</tbody>
</table>
The Fund had financial transactions with various State agencies during the fiscal year. Significant payments were made to Divisions (Offices) of the State Budget and Control Board for retirement and insurance plans contributions, vehicle rental, printing, and telephone, interagency mail, data processing services, purchasing, record maintenance, internal audit and personnel services. Significant payments were also made for unemployment and workers’ compensation coverage for employees to other agencies. The amounts of 2012 expenses applicable to related party transactions not disclosed elsewhere are approximately:

<table>
<thead>
<tr>
<th>State Agency</th>
<th>Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Carolina Department of Employment and Workforce</td>
<td>$3,032</td>
</tr>
<tr>
<td>South Carolina State Accident Fund</td>
<td>$10,113</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$13,145</strong></td>
</tr>
</tbody>
</table>
12. **Contingencies**

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

As a result of the 2004-2005 Appropriations Act Proviso 63.47, the Fund is to provide funds to cover legal defense costs of the State associated with the Abbeville School Funding litigation case. During the year ended June 30, 2012, the Fund incurred no legal defense costs associated with the case. However, the ultimate amount of this liability is not known as of the date of our report.

As a result of the 2006-2007 Appropriations Act Proviso 63.33, the Fund is to provide funds to cover legal defense costs of the State associated with the Prison Mental Health Care litigation case. During the year ended June 30, 2012, the Fund did not incur any legal defense costs associated with the case. However, the ultimate amount of this liability is not known as of the date of our report.

As a result of the 2007-2008 Appropriations Act Proviso 63.51, the Fund is to provide funds to cover legal defense costs of the State associated with the State Ethics Commission Litigation case. During the year ended June 30, 2012, the Fund incurred $228,579 in legal defense costs associated with the case. However, the ultimate amount of this liability is not known as of the date of our report.
13. **Risk Management/Reinsurance**

The Fund is exposed to various risks of loss and maintains State or commercial insurance coverage for each of those risks except for certain types of risks for which it is self-insured (these risks are further described herein). Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. There were no significant reductions in insurance coverage from coverage in the prior year other than the Fund did not renew reinsurance for Medical Professional Liability. Settled claims have not exceeded this coverage in any of the past three years.

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

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

1. Claims of State employees for unemployment compensation benefits (Department of Employment and Workforce);
2. Claims of covered employees for workers’ compensation benefits for job-related illnesses or injuries (State Accident Fund);
3. Claims of covered public employees for health and dental insurance benefits (Employee Insurance Program); and

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.
13. **Risk Management/Reinsurance (Continued)**

The Fund issues policies, accumulates assets to cover the risks of loss, and pays claims incurred for covered losses related to the following Fund assets, activities, and/or events:

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

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

The Fund has recorded insurance premium expense regarding its internal operations in the applicable administrative expense categories.

The Fund has not transferred the portion of the risk of loss related to insurance policy deductibles and limits. The Fund has not reported an estimated claims loss expense and the related liability at June 30, 2012, based on the requirements of GASB 10 because information at June 30, 2011 did not indicate that an asset had been impaired or a liability had been incurred. GASB 10 states that a liability for claims must be reported only if information prior to issuance of the financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred on or before June 30 and the amount of loss is reasonably estimable.

The Insurance Reserve Fund purchases insurance and reinsurance and separately reports the related reinsurance premium and premium expenses. Insurance is purchased to cover risks where the Insurance Reserve Fund has limited expertise (aircraft insurance and ocean marine insurance). Reinsurance is purchased to limit the Insurance Reserve Fund’s liability for catastrophic loss (property reinsurance), to obtain specialized engineering services (boiler and machinery reinsurance), or to obtain services for which the Insurance Reserve Fund is not adequately staffed (automobile liability reinsurance).

The Insurance Reserve Fund self insures Tort Liability Insurance, Automobile Physical Damage Insurance, Medical Professional Liability and the self insured retention for Property, and Boiler and Machinery Insurance.

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

Property - $10,000,000 per occurrence, $15,000,000 in the aggregate, $1,000,000 trailing after both occurrence and aggregate.
14. Reconciliation of Claims Liabilities by Fund

The schedule below presents the changes in claims liabilities for the past two years for the Fund.

<table>
<thead>
<tr>
<th></th>
<th>2012 (in thousands)</th>
<th>2011 (in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unpaid claims and claim adjustment expenses at beginning of the fiscal year</td>
<td>$237,873</td>
<td>$230,011</td>
</tr>
<tr>
<td>Incurred claims and claim adjustment expenses:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provision for insured events of the current fiscal year</td>
<td>43,061</td>
<td>42,565</td>
</tr>
<tr>
<td>Increases (decreases) in provision for insured events of prior fiscal years</td>
<td>15,578</td>
<td>6,870</td>
</tr>
<tr>
<td>Total incurred claims and claim adjustment expenses</td>
<td>58,639</td>
<td>49,435</td>
</tr>
<tr>
<td>Payments:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Claims and claim adjustment expenses attributable to insured events of the current fiscal year</td>
<td>7,000</td>
<td>8,875</td>
</tr>
<tr>
<td>Claims and claim adjustment expenses attributable to insured events of prior fiscal years</td>
<td>44,992</td>
<td>32,698</td>
</tr>
<tr>
<td>Total payments</td>
<td>51,992</td>
<td>41,573</td>
</tr>
<tr>
<td>Total unpaid claims and claim adjustment expenses at end of the fiscal year</td>
<td>$244,520</td>
<td>$237,873</td>
</tr>
</tbody>
</table>

The above totals are comprised of the following:

<table>
<thead>
<tr>
<th></th>
<th>2012 (in thousands)</th>
<th>2011 (in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Claims payable</td>
<td>$140,023</td>
<td>$135,152</td>
</tr>
<tr>
<td>Claims incurred but not reported</td>
<td>104,497</td>
<td>102,721</td>
</tr>
<tr>
<td>Total</td>
<td>$244,520</td>
<td>$237,873</td>
</tr>
</tbody>
</table>
15. Changes in Long-Term Liabilities

Changes in long-term obligations for the year ended June 30, 2012 were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Beginning Balance July 1, 2011</th>
<th>Increases</th>
<th>Decreases</th>
<th>Ending Balance June 30, 2012</th>
<th>Due Within 1 Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compensated absences payable</td>
<td>$ 297,560</td>
<td>$ 123,202</td>
<td>$ (25,292)</td>
<td>$ 395,470</td>
<td>$ 159,028</td>
</tr>
</tbody>
</table>

16. Insurance Premiums and Claims Expense

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

<table>
<thead>
<tr>
<th></th>
<th>Insurance Premiums</th>
<th>Claims Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tort liability</td>
<td>$ 36,008,975</td>
<td>$ 21,667,100</td>
</tr>
<tr>
<td>Auto, school bus, and inland marine</td>
<td>31,319,688</td>
<td>8,950,738</td>
</tr>
<tr>
<td>Professional liability</td>
<td>17,753,415</td>
<td>15,949,181</td>
</tr>
<tr>
<td>Fire</td>
<td>16,436,681</td>
<td>8,274,045</td>
</tr>
<tr>
<td>Extended coverage</td>
<td>13,436,962</td>
<td>3,798,096</td>
</tr>
<tr>
<td></td>
<td>$ 114,955,721</td>
<td>$ 58,639,160</td>
</tr>
</tbody>
</table>

17. Subsequent Events

Subsequent events were evaluated through October 1, 2012, which is the date the financial statements were available for issue. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

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

Dear Mr. Gilbert:

We have audited the financial statements of the South Carolina State Budget and Control Board, Insurance Reserve Fund (the “Fund”) as of and for the year ended June 30, 2012, and have issued our report thereon dated October 1, 2012. 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.

Internal Control Over Financial Reporting
Management of the Fund is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Fund’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund’s internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.
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.

* * * * *

This report is intended solely for the information and use of the audit committee, management and the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

October 1, 2012