

SOUTH CAROLINA MEDICAL MALPRACTICE
PATIENTS' COMPENSATION FUND

AUDITED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

WITH

INDEPENDENT AUDITORS' REPORT



September 15, 2020

Members of the Board of Governors
South Carolina Medical Malpractice Patients' Compensation Fund
Columbia, South Carolina

This report on the audit of the financial statements of the South Carolina Medical Malpractice Patients' Compensation Fund for the fiscal year ended June 30, 2020, was issued by The Brittingham Group, 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,

George L. Kennedy, III, CPA
State Auditor

GLKIII/cmw

SOUTH CAROLINA MEDICAL MALPRACTICE
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AUDITED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

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INDEPENDENT AUDITORS' REPORT

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INDEPENDENT AUDITORS' REPORT

Mr. George L. Kennedy, III, CPA
State Auditor
Office of the State Auditor
1401 Main Street, Suite 1200
Columbia, South Carolina 29201

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the South Carolina Medical Malpractice Patients' Compensation Fund (the "Fund" or "PCF"), a non-major enterprise fund of the State of South Carolina as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the South Carolina Medical Malpractice Patients' Compensation Fund, as of June 30, 2020, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Other Matter

As discussed in *Note 1*, the financial statements present only the South Carolina Medical Malpractice Patients' Compensation Fund and do not purport to, and do not, present fairly the financial position of the State of South Carolina, as of June 30, 2020, and the changes in its financial position, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

As discussed in *Note 4*, South Carolina Medical Malpractice Patients' Compensation Fund merged with the Joint Underwriting Association ("JUA") to form a new entity called South Carolina Medical Malpractice Association ("SCMMA") as of the close of business on December 31, 2019, with the exception of the winding down of its affairs, which ended June 30, 2020.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2020 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

The Brittingham Group LLP

West Columbia, South Carolina
September 15, 2020

SOUTH CAROLINA MEDICAL MALPRACTICE PATIENTS' COMPENSATION FUND

STATEMENT OF NET POSITION

YEAR ENDED JUNE 30, 2020

Assets and Deferred Outflows of Resources:

Current assets:	
Cash and cash equivalents	\$ -
Investments	-
Prepaid expenses	-
Interest receivable	-
Total current assets	-
Non-current assets:	
Capital assets, net of accumulated amortization	-
Total non-current assets	-
Deferred outflows:	
Deferred outflows of resources - pension	-
Deferred outflows of resources - OPEB	-
Total deferred outflows	-
Total assets and deferred outflows of resources	-

Liabilities and Deferred Inflows of Resources:

Current liabilities:	
Accrued liabilities	-
Unearned member fees	-
Current portion of claims payable	-
Total current liabilities	-
Other liabilities:	
Claims payable	-
OPEB liability	-
Pension liability	-
Total long-term liabilities	-
Deferred inflows:	
Deferred inflows of resources - pension	-
Deferred inflows of resources - OPEB	-
Total deferred inflows	-
Total liabilities and deferred inflows of resources	-

Net Position (Deficit):

Net investment in capital assets	-
Unrestricted deficit	-
Total net position (deficit)	\$ -

See accompanying notes.

SOUTH CAROLINA MEDICAL MALPRACTICE PATIENTS' COMPENSATION FUND

STATEMENT OF REVENUE, EXPENSES,
AND CHANGES IN NET POSITION

YEAR ENDED JUNE 30, 2020

Operating Revenues:

Membership fees, net of refunds (\$184,415)	\$ 4,715,838
Administrative fees	28,706
Miscellaneous income	1,025
Total operating revenues	4,745,569

Operating Expenses:

Claims paid	5,279,209
Change in claims reserves	(1,211,000)
Commissions	369,968
Personnel services	227,555
Operating and contractual services	269,668
Supplies and materials	8,656
Loss on disposal of software	725,931
Amortization	63,726
Total operating expenses	5,733,713

Operating loss	(988,144)
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Non-Operating Revenue (Expenses):

Interest income	108,421
Investment account fees	(15,028)
Realized gain on investment	23,035
Total net non-operating revenue	116,428

Loss before transfers	(871,716)
Transfers, net to SCMMA	48,803,605

Change in net position	47,931,889
Net position (deficit), beginning of year	(47,931,889)
Net position (deficit), end of year	\$ -

See accompanying notes.

SOUTH CAROLINA MEDICAL MALPRACTICE PATIENTS' COMPENSATION FUND

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2020

Cash Flows From Operating Activities

Cash received from members	\$ 1,989,083
Cash payments for claims	(5,279,209)
Cash payments for personnel services	(1,221,706)
Cash payments for commissions	(369,968)
Cash payments for operating and contractual services	(205,906)
Cash payments for suppliers	(8,654)
Net cash flows from operating activities	<u>(5,096,360)</u>

Cash Flows From Capital and Related Financing Activities

Transfer of assets and liabilities to SCMMA	<u>3,997,084</u>
Net cash flows from capital and related financing activities	<u>3,997,084</u>

Cash Flows From Investing Activities

Interest and investment income	<u>165,412</u>
Net cash flows from investing activities	<u>165,412</u>

Net change in cash and cash equivalents	(933,864)
Cash and cash equivalents, beginning of year	<u>933,864</u>
Cash and cash equivalents, end of year	<u>\$ -</u>

(CONTINUED)

SOUTH CAROLINA MEDICAL MALPRACTICE PATIENTS' COMPENSATION FUND

STATEMENT OF CASH FLOWS

-CONTINUED-

Reconciliation of Operating Income to Net Cash Flows

From Operating Activities

Operating income	\$ (988,144)
Adjustments to reconcile operating income to net cash flows from operating activities:	
Amortization	63,726
Loss on disposal of software	725,931
Changes in assets and liabilities	
Prepaid expenses	233,715
Deferred outflows	92,360
Deferred inflows	(120,981)
Pension liability	(548,631)
OPEB liability	(416,899)
Accrued expenses	(169,951)
Unearned member fees	(2,756,486)
Claims payable	(1,211,000)
Net cash flows from operating activities	<u>\$ (5,096,360)</u>

See accompanying notes.

SOUTH CAROLINA MEDICAL MALPRACTICE PATIENTS' COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020

1. Basis of Presentation and Summary of Significant Accounting Policies

The financial statements of the South Carolina Medical Malpractice Patients' Compensation Fund (the "*Fund*") have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to enterprise funds of governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies utilized by the Fund are described below:

Reporting Entity: The South Carolina Medical Malpractice Patients' Compensation Fund was established by Section 38-79-420 of the Code of Laws of South Carolina on July 1, 1976. The Fund was part of the primary government of the State of South Carolina and was included in the Comprehensive Annual Financial Report of the State of South Carolina.

The Board of Governors, whose members are appointed by the Governor of the State of South Carolina, was the governing body of the Fund. The Board was created to manage and operate the Fund. The Board had the authority to set annual membership fees and to make deficit assessments when insufficient money was available to pay the Fund's liabilities. The Board also had the authority to approve and pay claims liabilities and to actively defend the Fund against claims.

The coverage was available to any public or private health care provider in the State. The Fund was responsible for payment of that portion of any covered medical malpractice claim, settlement, or judgment, which was in excess of \$100,000 per incident or in excess of \$300,000 in the aggregate for one year. Effective November 26, 2000, excess coverage thresholds increased to \$200,000 and \$600,000. Beginning in 2009, the Fund began eliminating unlimited coverage from its offered limits. Although the reporting entity operates somewhat autonomously, it lacked full corporate powers. The accompanying financial statements present the financial position, results of operations, and cash flows solely of the Fund and do not include any component units or other agencies or funds of the State of South Carolina.

Measurement Focus, Basis of Accounting and Basis of Presentation: The Fund was presented as an enterprise fund of the State of South Carolina. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the liability was incurred, or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

- CONTINUED -

SOUTH CAROLINA MEDICAL MALPRACTICE PATIENTS' COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Fund was created by act of the General Assembly for the purpose of providing funds for payment of that portion of any medical malpractice claim, settlement or judgment against a health care provider in accordance with the limits previously defined. The Fund was liable only for payment of claims against "licensed health care providers", which includes physicians and surgeons, directors, officers, and trustees of hospitals; nurses; oral surgeons; dentists; pharmacists; chiropractors; hospitals; nursing homes; or any similar category of licensed health care providers. All providers licensed in South Carolina were eligible to participate in the Fund upon remitting the annual assessment fees in amounts as determined by the governing board of the Fund.

Budget Policy: The Fund was granted an annual appropriation for administrative operating purposes by the General Assembly. The appropriation as enacted becomes the legal operating budget for the Fund for its budgeted activities. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the State and expenditures of total funds. None of the funding of the Fund was provided from State General Fund appropriations. The General Assembly enacts the budget through passage of line-item appropriations by program within budgetary unit. Budgetary control was maintained at the line-item level of the budgetary 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, (the "Authority") under its authority or by the Fund as set forth in the Appropriation Act for fiscal year 2019-2020 as follows: Agencies are authorized to transfer appropriations within programs and within the agency with notification to the Revenue and Fiscal Affairs 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 Authority.

SOUTH CAROLINA MEDICAL MALPRACTICE PATIENTS' COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

State law does not precisely define the budgetary basis of accounting. The current Appropriation Act states that the General Assembly intends to appropriate all State funds and to authorize and/or appropriate the use of all other monies to operate State government for the current fiscal year. The State's annual budget was prepared primarily on the modified accrual basis of accounting with several exceptions, principally the cash disbursements basis for payroll expenditures.

Capital Assets

The Fund followed capitalization guidelines established by the State of South Carolina. All land was capitalized, regardless of cost. Qualifying improvements that rest in or on the land itself were recorded as depreciable land improvements. Major additions and renovations and other improvements that add to the usable space, prepare existing buildings for new uses, or extend the useful life of an existing building were capitalized. 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 depreciable land improvements, buildings and improvements, and intangible assets costing in excess of \$100,000. Routine repairs and maintenance and library materials, except individual items costing in excess of \$5,000, were charged to operating expenses in the year in which the expense was incurred.

Depreciation was computed using the straight-line method over the estimated useful lives of the assets, generally fifteen to fifty years for buildings and improvements and land improvements, two to twenty-five years for machinery, equipment and vehicles and five years for intangible assets.

Revenue Recognition: The Fund received fees from members; the fee paid for coverage for a year. Due to the various effective anniversary dates, a provision for unearned fees at the end of every year was estimated. The fees were paid annually or quarterly. The computation of unearned fees was based upon the amount of the fees, period of payment, and the effective membership dates for participants. This was done to recognize revenue during the coverage period.

When warranted, the Fund may make deficit assessments, which were recognized as revenue on the date of the assessment. Due to the nature of the coverage of the members, refunds are often warranted. These occur because of policyholder change of personnel and/or change of information provided by the policyholders relating to employees and their ratings. Refunds were recognized in the year of the refund. These adjustments were taken into consideration in computation of the unearned fees liability.

SOUTH CAROLINA MEDICAL MALPRACTICE PATIENTS' COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

Operating Revenues and Expenses: Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, non-capital financing, or investing activities.

Estimates: The preparation of the Fund's basic financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates by management. Actual results could differ from those estimates.

2. Related Party

The South Carolina Medical Malpractice Patients' Compensation Fund had significant transactions with the State of South Carolina and various other State agencies.

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

Other services received at no cost from the various divisions of the State Fiscal Accountability Authority include retirement and health plan administration, audit services, personnel management, assistance in the preparation of the State Budget, procurement services, property management and record keeping, review and approval of certain budget amendments and other centralized functions.

The Fund also had financial transactions with various State agencies during the fiscal year for technical support, office supplies, telephone, interagency mail, and data processing services. The totals paid for these supplies and services were immaterial, individually and in the aggregate, for the years ended June 30, 2020. The Fund provided no services free of charge to other State agencies during the fiscal year.

The Fund was related to the South Carolina Medical Malpractice Liability Joint Underwriting Association as both were created by South Carolina Statute and substantially all members of the JUA are also Fund members. The JUA was responsible for payment of that portion of any covered medical malpractice claim, settlement, or judgment up to \$200,000 per incident or up to \$600,000 in the aggregate for one year.

SOUTH CAROLINA MEDICAL MALPRACTICE PATIENTS' COMPENSATION FUND

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

2. Related Party (Continued)

The Fund was responsible for payments exceeding those thresholds up to the limits established by the Board. JUA by state law was responsible for defense costs of all claims, however the Fund had the right to review and approve all awards that were ultimately made on cases. The Fund reimbursed JUA for marketing and annual meetings per an annual agreement which ended June 30, 2018. JUA was considered a discrete component unit of the State of South Carolina and was included in the State's CAFR.

See *Note 4* for additional information regarding the merging of the JUA and the Fund into South Carolina Medical Malpractice Association.

3. Operating Lease

The Fund leased office space from a party outside of State government and this lease was accounted for as an operating lease. Rental expense under this lease for the year ended June 30, 2020 was \$31,861. This lease ended in June 2020.

4. Entity Transfer

On May 13, 2019 Governor McMaster signed into law House Bill H3760. The purpose of the bill was to merge South Carolina Medical Malpractice Patients' Compensation Fund with the Joint Underwriting Association ("JUA") to form a new entity called South Carolina Medical Malpractice Association ("SCMMA") as of the close of business on December 31, 2019, with the exception of the winding down of the Fund's affairs. All assets and liabilities of the Fund will be transferred to the newly created entity SCMMA as of the open of business January 1, 2020, except for assets and liabilities associated with the winding down of the Fund's affairs. Those assets and liabilities were transferred to SCMMA on June 30, 2020. The net transfer to SCMMA of assets and liabilities was \$48,803,605 and consisted of the following:

Asset (liability) transfers to SCMMA	
Cash and investment accounts	\$ 5,885,170
Prepaid commissions	224,738
Claims related liabilities	(51,821,000)
Unearned fees	(3,092,513)
Transfers, net to SCMMA	<u>\$ (48,803,605)</u>

5. Subsequent Events

Subsequent events were evaluated through September 15, 2020, which was 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.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Mr. George L. Kennedy, III, CPA
State Auditor
Office of the State Auditor
1401 Main Street, Suite 1200
Columbia, South Carolina 29201

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 business-type activities, of South Carolina Medical Malpractice Patients' Compensation Fund (the "Fund"), a non-major enterprise fund of the State of South Carolina as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated September 15, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of Fund's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

The Brittingham Group LLP

West Columbia, South Carolina
September 15, 2020