

**SOUTH CAROLINA LONG-TERM DISABILITY
INSURANCE TRUST FUND**

AUDITED FINANCIAL STATEMENTS

**YEAR ENDED JUNE 30, 2014
WITH
INDEPENDENT AUDITORS' REPORT**

State of South Carolina



Office of the State Auditor

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DEPUTY STATE AUDITOR

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December 22, 2014

The Honorable Nikki R. Haley, Governor
and
Members of the South Carolina Public Employee
Benefit Authority
Columbia, South Carolina

This report on the audit of the financial statements of the South Carolina Long-Term Disability Insurance Trust Fund for the fiscal year ended June 30, 2014, was issued by CliftonLarsonAllen, 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,

A handwritten signature in black ink, appearing to read "Richard H. Gilbert, Jr."

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

RHGjr/cwc

SOUTH CAROLINA LONG-TERM DISABILITY
INSURANCE TRUST FUND

AUDITED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

WITH
INDEPENDENT AUDITORS' REPORT

TABLE OF CONTENTS

Independent Auditors' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Statement of Plan Net Position	6
Statement of Changes in Plan Net Position	7
Notes to Financial Statements.....	8
Other Required Supplementary Information	
Schedule of Funding Progress	16
Schedule of Employer Contributions.....	17
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with <i>Government Auditing Standards</i> 18	

INDEPENDENT AUDITORS' REPORT

Office of the State Auditor
South Carolina Long-Term Disability Insurance Trust Fund
Columbia, South Carolina

Report on the Financial Statements

We have audited the accompanying Statement of Plan Net Position of the South Carolina Long-Term Disability Insurance Trust Fund (the Trust), as of and for the year ended June 30, 2014, and the Statement of Changes in Plan Net Position for the year then ended and the related notes to the financial statements, which collectively comprise the Trust'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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Trust as of June 30, 2014, and the respective changes in financial position and, where

applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the South Carolina Long-Term Disability Insurance Trust Fund and do not purport to, and do not, present fairly the financial position of the State of South Carolina, as of June 30, 2014, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3-5, the schedule of funding progress on page 16, and schedule of employer contributions on page 17 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2014, on our consideration of the Trust'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 result 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 Trust's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Baltimore, Maryland
December 22, 2014

SOUTH CAROLINA LONG-TERM DISABILITY INSURANCE TRUST FUND MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2014

This Management's Discussion and Analysis (MD&A) of the financial activities of the South Carolina Long-Term Disability Insurance Trust Fund (the Trust) is an overview of its fiscal operations for the year ended June 30, 2014. Readers are encouraged to consider the information presented in conjunction with the Financial Statements.

Overview of the Trust

The Trust was established by the State of South Carolina through Act 195 on May 1, 2008. In accordance with Act 195, the Trust was created to fund and account for the employer costs of the State's Basic Long-Term Disability Income Benefit Plan. As of June 30, 2013 (the latest plan actuarial valuation date), there were 681 participating employers and 196,555 eligible plan participants (195,506 active and 1,049 retired). The South Carolina Public Employee Benefit Authority (PEBA) administers the Trust and the PEBA Board has been designated as the Trustee. The State Treasurer is the custodian of the funds held in the Trust and invests those funds in accordance with the statutes of the State.

Financial Highlights

- Net position held in trust for other post employment benefits (OPEB), as reported in the Statement of Plan Net Position, totaled \$36.447 million, a change of \$1.021 million from the prior year.
- Total additions as reflected in the Statement of Changes in Plan Net Position of \$8.220 million represent contributions revenue, investment income and securities lending activities income.
- Total deductions as reflected in the Statement of Changes in Plan Net Position of \$7.199 million represent benefit and administrative expenses.
- The actuarial valuation completed by Gabriel, Roeder, Smith and Company, the Trust's independent actuary, as of June 30, 2013, determined annual required contribution (ARC) for the year ended June 30, 2014 to be \$7.251 million, of which 95.77% was contributed in the current period.

Overview of Financial Statements

This MD&A serves as an introduction to the basic financial statements. The Trust has two basic financial statements, the notes to the financial statements, and the two required supplementary schedules. The basic financial statements and the required disclosures comply with the accounting principles and reporting guidelines as set forth by the Governmental Accounting Standards Board, utilizing the accrual basis of accounting.

The Statement of Plan Net Position is the first basic financial report. This is a snapshot of account balances at fiscal year end. This statement reflects assets available for future payments to beneficiaries and any current liabilities owed as of fiscal year end.

This schedule is a condensed version of the Trust's assets, liabilities, and net position and is prepared from the Statement of Plan Net Position:

Condensed Statements of Plan Net Position

	2014	2013
Total assets	\$ 37,101,743	\$ 35,822,505
Total liabilities	654,853	396,744
Net position held in trust for other postemployment benefits	\$ 36,446,890	\$ 35,425,761

The Statement of Changes in Plan Net Position is the second financial report. This report reflects all the activities that occurred during the fiscal year and shows the impact of those activities as additions or deductions to the plan. The trend of additions versus deductions to the plan will indicate the condition of the Trust's financial position over time.

This schedule is a condensed version of the Trust's additions, deductions and changes in changes in plan net position and is prepared from the Statement of Changes in Plan Net Position:

Condensed Statements of Changes in Plan Net Position

	2014	2013
Total additions	\$ 8,219,603	\$ 7,209,456
Total deductions	7,198,474	7,359,822
Net increase (decrease) in net position held in trust for other postemployment benefits (OPEB)	1,021,129	(150,366)
Net position held in trust for OPEB, beginning of year	35,425,761	35,576,127
Net position held in trust for OPEB, end of year	\$ 36,446,890	\$ 35,425,761

The Notes to the Financial Statements (Notes) are an integral part of the financial reports. The Notes provide detailed discussion of key policies, programs, and activities that occurred during the period.

The Schedule of Funding Progress, a required supplementary schedule, includes historical trend information about the actuarially funded status of the plan and the progress made in accumulating sufficient assets to pay benefits when due. The other required supplementary schedule, the Schedule of Employer Contributions, presents historical trend information about the annual required contributions of the employer and the actual contributions made. These schedules provide information to help promote understanding of the changes in the funded status of the plan over time.

Plan Assets and Funding Ratio

As of June 30, 2014, the Trust has \$36,446,890 in net position. The net position represents funds available for future payments.

In order to determine whether total plan net position will be sufficient to meet future obligations, the actuarial funding status needs to be calculated. On the valuation date, the assets available for the payment of disability benefits are appraised. These assets are compared with the actuarial liabilities, which are the actuarial present value of all future benefits expected to be paid for each member. The purpose of the valuation is to determine what future contributions by the participating employers are needed to pay all expected future benefits.

The Trust's independent actuary, Gabriel, Roeder, Smith and Company, performed an actuarial valuation as of June 30, 2013 and determined the actuarial accrued liability to be \$28,248,000. The funded ratio was 125% at the valuation date.

Additions and Deductions to Plan Net Position

The primary sources which finance the long-term disability benefits the Trust provides are investment income and the collection of employer contributions. For the period ended June 30, 2014, total additions amounted to \$8,219,603. Employer contributions to the Trust were \$6,943,569 for premiums that are billed and transferred by PEBA – Insurance Benefits on a monthly basis. At June 30, 2014, there was a net gain in investment income of \$1,276,034. It is composed of interest earnings and securities lending activities of \$1,196,409, premium amortization of \$25,278, net unrealized gains of \$280,125 and net unrealized losses from value in securities lending of \$175,222.

For the period ending June 30, 2014, total deductions amounted to \$7,195,274 resulting from benefits expense (claims expense and administrative expenses).

Future Funding of the Trust

The Actuarial Accrued Liability is over 100% funded and going forward into 2015, the premium charged to employers will remain static.

Request for Additional Information

Questions about this report, or requests for additional financial information should be addressed as follows:

Phyllis Buie, Finance Officer
PEBA – Insurance Benefits
202 Arbor Lake Drive
Columbia, SC 29223

SOUTH CAROLINA LONG-TERM DISABILITY INSURANCE TRUST FUND

STATEMENT OF PLAN NET POSITION

JUNE 30, 2014

Assets :

Cash and cash equivalents	\$ 3,209,521
Invested securities lending collateral	89,778
Accrued interest receivable	295,263
Investments	<u>33,507,181</u>
Total assets	<u>37,101,743</u>

Liabilities :

Collateral for loaned securities	265,000
Due to PEBA Insurance Benefits	34,400
Claims payable	271,094
Due to South Carolina Retiree Health Insurance Trust Fund	<u>84,359</u>
Total liabilities	<u>654,853</u>
Net position held in trust for other postemployment benefits (OPEB)	<u>\$ 36,446,890</u>

The accompanying notes are an integral part of the Financial Statements

SOUTH CAROLINA LONG-TERM DISABILITY INSURANCE TRUST FUND

STATEMENT OF CHANGES IN PLAN NET POSITION

FOR THE YEAR ENDED JUNE 30, 2014

Additions:

Contributions	\$ 6,943,569
Investment income (<i>Note 3</i>)	<u>1,275,608</u>
Securities lending activities income:	
Gross earnings from interest and fees	254
Gross borrower rebates	237
Bank fees	(65)
Net earnings from securities lending activities	<u>426</u>
Total additions	<u>8,219,603</u>

Deductions:

Benefits expense	7,195,274
Administrative expenses	<u>3,200</u>
Total deductions	<u>7,198,474</u>

Net increase in net position held in trust for OPEB	1,021,129
Net position held in trust for OPEB, beginning of year	<u>35,425,761</u>
Net position held in trust for OPEB, end of year	<u>\$ 36,446,890</u>

The accompanying notes are an integral part of the Financial Statements

SOUTH CAROLINA LONG-TERM DISABILITY INSURANCE TRUST FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

1. Trust Description

General

The South Carolina Long-Term Disability Insurance Trust Fund (the “Trust”) was established by the State of South Carolina (the “State”) as Act 195 (the Act) which became effective on May 1, 2008. The Trust was created to fund and account for the employer costs of the State’s Basic Long-Term Disability Income Benefit Plan (the “Plan”) in compliance with Governmental Accounting Standards.

The Trust is a part of the State of South Carolina’s primary government and is included in the *Comprehensive Annual Financial Report of the State of South Carolina*. In making this determination, factors of financial accountability, governance and fiduciary responsibility of the State were considered.

In accordance with the Act, the Trust is administered by the South Carolina Public Employee Benefit Authority (PEBA) Insurance Benefits division and the State Treasurer is the custodian of the funds held in the Trust. The Board of Directors of PEBA has been designated as the Trustee.

Plan Description and Contribution Information

The Trustee has determined that the Plan is a cost-sharing multiple-employer defined benefit long-term disability plan that covers employees of the State including all agencies and public school districts and all participating local governmental entities (the “Employers”). The Plan provides disability payments to eligible employees as defined in Article 5 of the State Code of Laws (the “Code”) that become disabled. Article 5 of the Code authorizes the Trustee to at any time adjust the Plan, including its benefits and contributions, as necessary to insure the fiscal stability of the Plan.

The Trust receives employer contributions only. For the period ended June 30, 2014, Employers contributed \$6,943,569 to the Trust.

Administrative costs of the Plan are paid from Plan assets.

SOUTH CAROLINA LONG-TERM DISABILITY INSURANCE TRUST FUND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

1. Trust Description (Continued)

Eligible participants of the Plan consisted of the following at June 30, 2013, the date of the latest actuarial valuation:

Active participants	195,506
Retired participants	1,049
Total participants	<u>196,555</u>
Number of participating employers	<u>681</u>

Risks and Uncertainties

The Trust invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statement of plan net position available for benefits.

2. Summary of Significant Accounting Policies

Basis of Accounting

These financial statements have been prepared in accordance with the standards issued by the Governmental Accounting Standards Board (GASB). Additionally, the Trust has adopted the provisions of GASB 65, *Items Previously Reported as Assets and Liabilities* for the year ended June 30, 2014. This Statement did not have an effect on the Trust's financial statements.

As required under these standards, the financial statements of the Trust are prepared using the economic resources measurement focus and the accrual basis of accounting. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of the Plan.

Method Used to Value Investments

Investments are stated at fair value determined by the custodian from the last reported sales price as provided by BNY Mellon. Net unrealized appreciation or depreciation for the year is reflected in the statement of changes in plan net position and is included as a component of investment income.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Administrator of the Trust to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

SOUTH CAROLINA LONG-TERM DISABILITY INSURANCE TRUST FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

3. Investments, Deposits and Securities Lending Transactions

As prescribed by Statute, the State Treasurer is the custodian and investment manager of all investments, deposits and securities lending transactions of the Trust.

Investments

In accordance with State Law, the Trust 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. All investments are required to be insured or registered, or held by the State or its agent in the name of the State Treasurer as custodian.

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.

The following table presents the fair values of the investments (including invested securities lending collateral) of the Trust at June 30, 2014:

	Fair Value
Collateralized mortgage-backed obligations	\$ 1,462,670
Other Governmental guaranteed investments	6,100,037
Repurchase agreement	3,290,000
Corporate bonds	23,343,218
Financial paper	2,601,256
Total	<u><u>\$ 36,797,181</u></u>

The accounts classified as investments in the financial statements comprise investments held for the Trust and the State of South Carolina, which are legally restricted and earnings thereon become revenue of the specific fund from which the investment was made. These investments are specific, identifiable investment securities, some of which may be included in one of the State Treasurer's investment pools.

SOUTH CAROLINA LONG-TERM DISABILITY INSURANCE TRUST FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

3. Investments, Deposits and Securities Lending Transactions (Continued)

For all investment classifications reported above, the balances therein fluctuated minimally in excess of the year-end balances throughout the year ended June 30, 2014. As discussed in *Note 2*, investments are reported at fair value. Therefore, gains and losses recognized due to market fluctuations are recognized as investment income. The Fund held no short-term investments at June 30, 2014.

The investment types listed above include all investment types in which monies were held throughout the year ended June 30, 2014. Due to higher cash flows at certain times during the year, the Fund's investment in repurchase agreements fluctuated significantly. The maximum amounts that were held in this classification during the year ended June 30, 2014, was \$5,450,000.

Deposits

All deposits with financial institutions are required to be insured or collateralized with securities held by the State or its agent in the State Treasurer's name as custodian. As of June 30, 2014, the Fund had no deposits with financial institutions. All cash reported was held in the cash management pool by the State Treasurer's Office. The Fund had (\$80,479) held by the State Treasurer at June 30, 2014.

Fair value for cash and cash equivalents reported approximates the carrying value.

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

Interest earned	\$1,195,983
Premium amortization	(25,278)
Net unrealized gain on investments	280,125
Net unrealized loss from change in value of securities lending collateral	(175,222)
Investment earnings	<u><u>\$1,275,608</u></u>

SOUTH CAROLINA LONG-TERM DISABILITY INSURANCE TRUST FUND

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

3. Investments, Deposits and Securities Lending Transactions (Continued)

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

	Statements	Note Disclosure
Held by State Treasurer:		
Cash and cash equivalents	\$ 3,209,521	\$ -
Invested securities lending collateral	\$ 89,778	\$ 89,778
Pooled investments	33,507,181	-
Deposits	-	(80,479)
Specifically identified investments	-	36,797,181
Total	\$ 36,806,480	\$ 36,806,480

Securities Lending

Through its custodial agent, the Trust participates in a securities lending program whereby securities are loaned with the purpose of generating additional income. The Trust lends securities from its investment portfolio on a collateralized basis to third parties, primarily financial institutions. The market value of the required collateral must initially meet or exceed 102 percent of the market value of the securities, loaned, providing a margin against a decline in the market value of the collateral, and requires additional collateral if the collateral value falls below 100 percent.

No restrictions are placed on the amount of securities that may be loaned. The types of securities available for loan during the year ended June 30, 2014, included U.S. Government securities, U.S. Government agencies, corporate bonds, and convertible bonds. The contractual agreement with the Trust's custodial bank provides indemnification in the event the borrower fails to pay the Trust income distribution by the securities' issuers while the securities are on loan. Cash and U.S. Government securities were received as collateral for these loans. The Trust cannot pledge or sell collateral securities without a borrower default. The trust invests cash collateral received; accordingly, investments made with cash collateral appear as an asset. A corresponding liability is recorded as the Trust must return the cash collateral to the borrower upon the expiration of the loan.

At June 30, 2014, the fair value of securities on loan was \$516,895. The fair value of the invested cash collateral was \$89,778. Securities lending obligations at June 30, 2014 were \$265,000, with the unrealized loss in invested cash collateral recorded in the Statement of Changes in Plan Net Position under investment income.

SOUTH CAROLINA LONG-TERM DISABILITY INSURANCE TRUST FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

3. Investments, Deposits and Securities Lending Transactions (Continued)

With regard to custodial credit risk, the Trusts' cash collateral invested is held by the counterparty and is uninsured. All securities loaned can be terminated on demand by either the Trust or the borrower. At year-end the average number of days the loans were outstanding was one day. The average weighted maturity of investments made with cash collateral was nine days. At June 30, 2014, there had been no losses resulting from borrower defaults and the Trust had no credit risk exposure to borrowers because the amounts the Trust owed the borrowers exceeded the amounts the borrowers owed the Trust.

The following table presents the fair value of the underlying securities and the total collateral received for securities on loan at June 30, 2014:

	<u>June 30, 2014</u>
Securities lent for cash collateral:	
U.S. Corporate-fixed income	\$ 259,012
Total securities lent for cash collateral	<u>\$ 259,012</u>
Cash collateral invested as follows:	
Repurchase agreements	\$ 22,755
Asset backed securities	<u>67,023</u>
Total for cash collateral invested	<u>\$ 89,778</u>

With regard to custodial credit risk, the Trusts' cash collateral invested is held by the counterparty and is uninsured. All securities loaned can be terminated on demand by either the Trust or the borrower.

4. Funded Status and Funding Progress

The latest actuarial valuation was performed as of June 30, 2013 by the Trust's independent consulting actuary, Gabriel, Roeder, Smith and Company.

SOUTH CAROLINA LONG-TERM DISABILITY INSURANCE TRUST FUND

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014

4. Funded Status and Funding Progress (Continued)

The required contributions for the Plan in dollars (amounts expressed in thousands) and the percentages of those dollars contributed for the three latest available years were as follows:

Year Ended June 30	Actuarially	
	Required Contribution	Percentage Contributed
2014	\$7,251	95.77%

The funded status of the Plan as of the most recent actuarial valuation date is as follows (amounts expressed in thousands):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of covered Payroll ({b - a} / c)
June 30, 2013	\$ 35,426	\$ 28,248	\$ (7,178)	125%	\$ 8,163,269	0%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying schedules of employer contributions present trend information about the amounts contributed to the Trust by employers in comparison to the annual required contribution (the ARC), an amount that is actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

SOUTH CAROLINA LONG-TERM DISABILITY INSURANCE TRUST FUND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

4. Funded Status and Funding Progress (Continued)

Projections of benefits for financial reporting purposes are based on the substantive plan (the Plan as understood by the employer and plan participants) and include the types of benefits provided at the time of the valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Additional information as of the latest actuarial valuation follows:

Valuation date	June 30, 2013
Actuarial cost method	Individual entry age
Amortization method	Level percent open
Remaining amortization periods	30 years
Asset valuation method	Market
Actuarial assumptions:	
Investment rate of return	6.00%
Payroll growth rate	3.50%

5. Subsequent events

Subsequent events were evaluated through December 22, 2014, 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.

SOUTH CAROLINA LONG-TERM DISABILITY INSURANCE TRUST FUND

SCHEDULE OF FUNDING PROGRESS

AS OF JUNE 30, 2014

(Amounts expressed in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b-a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of covered Payroll ({b - a} / c)
June 30, 2008	\$ 27,468	\$ 26,341	\$ (1,127)	104%	\$ 8,307,740	0%
June 30, 2009	\$ 29,440	\$ 23,610	\$ (5,830)	125%	\$ 8,418,750	0%
June 30, 2010	\$ 32,690	\$ 25,855	\$ (6,835)	126%	\$ 8,295,065	0%
June 30, 2011	\$ 33,283	\$ 24,957	\$ (8,326)	133%	\$ 7,837,796	0%
June 30, 2012	\$ 35,576	\$ 23,586	\$ (11,990)	151%	\$ 7,871,635	0%
June 30, 2013	\$ 35,426	\$ 28,248	\$ (7,178)	125%	\$ 8,163,269	0%

SOUTH CAROLINA LONG-TERM DISABILITY INSURANCE TRUST FUND

SCHEDULE OF EMPLOYER CONTRIBUTIONS

AS OF JUNE 30, 2014

(Amounts expressed in thousands)

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2008	\$ 10,038	332.33%
2009	\$ 9,469	73.57%
2010	\$ 9,590	71.43%
2011	\$ 9,456	71.25%
2012	\$ 9,231	73.11%
2013	\$ 9,410	72.23%

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

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

We have audited, in accordance with 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 Statement of Plan Net Position of the South Carolina Long-Term Disability Insurance Trust Fund (the Trust), as of and for the year ended June 30, 2014, and the Statement of Changes in Plan Net Position for the year then ended and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements, and have issued our report thereon dated December 22, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Trust'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 the Trust's internal control. Accordingly, we do not express an opinion on the effectiveness of the Trust'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. We did identify a certain deficiency in internal control described below that we consider to be a significant deficiency.

2014-001 – Internal Control Over Financial Reporting

Criteria: The Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control Framework states that control activities are a component of internal control. Control activities are policies and procedures established to ensure that management directives are carried out, and consist of two elements, a policy that establishes what should be done and the procedure that implements the policy. COSO Framework states that control activities must be in place for there to be adequate internal control procedures over financial reporting. Internal control procedures affect the Trust's ability to ensure financial transactions are authorized and accurate and the financial statements are prepared in accordance with Generally Accepted Accounting Principles (GAAP).

Condition: The Trust relies on other agencies within the State of South Carolina to provide data and records that are used in financial reporting. Financial reporting for the Trust is ultimately the responsibility of management, and while information from others can be used, management should establish controls and processes to understand and analyze the data prior to recording transactions into the financial statements. Management of the Trust does not have a control structure in place for this process. There is a potential pervasive effect on the financial statements and disclosures with the absence of other mitigating controls.

Cause: The Trust relies on the other agencies within the State of South Carolina to be part of their control structure.

Effect: Failure to establish a proper control environment over financial data may result in the misstatement of the financial statements.

Recommendation: We recommend that management establish a system of controls to review the financial reporting records that are coming from outside the Trust and fully understand the processes and detail of that data.

Management's Response:

Under state law, the State Treasurer serves as custodian of the Trust and is responsible for all investment activities related to the Trust. As such, PEBA relies on the STO to not only perform these duties, but to supply PEBA with documentation and records used in financial reporting which includes securities lending activity. Despite repeated requests, the STO has failed to produce documentation concerning certain securities lending transactions impacting the Trust. PEBA will continue to pursue obtaining additional information regarding the securities lending program managed by the State Treasurer's Office.

Additionally, PEBA has created and successfully recruited a Chief Financial Officer (CFO) who will direct both Insurance Benefits and Retirement Systems accounting and financial statement preparation. The CFO brings an additional layer of expertise to the insurance accounting program and the new structure will facilitate the sharing of processes, systems and expertise between Insurance and Retirement functions.

Management is committed to establishing and maintaining a system of controls to review all financial reporting records related to the Trust and to fully understand the processes and detail of that data.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Trust'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

instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described below as item 2014-002.

2014-002 – Assets of the Trust

It is the responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in an entity's financial statements. During our audit procedures, we became aware that the collateral received as part of the Trust's participation in a securities lending program is reinvested and credited to a commingled account with other participating agency funds. Under prevailing State law (**SECTION 1-11-707(A)**, South Carolina Long Term Disability Insurance Trust Fund established; administration) the following is denoted:

- (A) There is established in the State Treasury separate and distinct from the general fund of the State and all other funds the South Carolina Long Term Disability Insurance Trust Fund (LTDI Trust Fund) to provide for the payment of benefits under the state's Basic Long Term Disability Income Benefit Plan. Earnings on the LTDI Trust Fund must be credited to it and unexpended funds carry forward in it to succeeding fiscal years.
- (B) The board is the trustee of the LTDI Trust Fund and the State Treasurer is the custodian of the funds of the LTDI Trust Fund.

It appears that the assets of the Trust must be "kept separate and distinct" from the general fund of the State. We recommend that management and the Board work with general counsel in chorus with the State Treasurer's office to ensure compliance with prevailing State law going forward and what if any impact potential violations of existing regulations might have on the Trust.

Management's Response:

Under state law, the State Treasurer serves as custodian of the trust funds and is responsible for holding the assets of the trust funds separate and distinct from the general fund and all other funds of the State. PEBA has reached out to the State Treasurer's Office for assistance in resolving these issues and stands ready to work collaboratively with the State Treasurer's Office and the Bank of New York Mellon (BNYM) until a resolution is reached.

South Carolina Long-Term Disability Insurance Trust Fund's Response to Findings

South Carolina Long-Term Disability Health Insurance Trust Fund's responses to the findings identified in our audit are described above. The Trust's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 result of that testing, and not to provide an opinion on the effectiveness of the Trust'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 Trust's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Baltimore, Maryland

December 22, 2014