

SOUTH CAROLINA STATE BUDGET AND CONTROL BOARD
EMPLOYEE INSURANCE PROGRAMS

AUDITED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2006

WITH
REPORT OF INDEPENDENT AUDITORS

State of South Carolina



Office of the State Auditor

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September 27, 2006

The Honorable Mark Sanford, 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 Office – Employee Insurance Programs for the fiscal year ended June 30, 2006, 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,

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

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

RHGjr/cwc

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REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying financial statements of the governmental activities of the South Carolina State Budget and Control Board, Employee Insurance Programs (the "Fund") as of and for the year ended June 30, 2006, 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, Employee Insurance Programs. 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 *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, Employee Insurance Programs are intended to present the financial position and results of operations of its governmental and proprietary fund types 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 funds of the South Carolina State Budget and Control Board, Employee Insurance Programs. They do not purport to, and do not, present fairly the financial position of the State of South Carolina as of June 30, 2006 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 above present fairly, in all material respects, the financial position of the governmental activities of the South Carolina State Budget and Control Board, Employee Insurance Programs, as of June 30, 2006, 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 September 15, 2006, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's discussion and analysis is not a part of the basic financial statements, but is supplementary information required by the *Governmental Accounting Standards Board (GASB)*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Releach & Williamson, L.L.P.

September 15, 2006

Management Discussion and Analysis

The financial statement presentation required by GASB Statement 34 provides a comprehensive perspective of EIP's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows. This section of the South Carolina State Budget and Control Board, Employee Insurance Program (EIP) Audited Financial Statements and Other Financial Information presents management's discussion and analysis of EIP's financial performance during the fiscal year ended June 30, 2006. This discussion should be read in conjunction with the financial statements and the notes, which follow this section.

Financial Highlights:

Business Type activities report a change in net assets of positive \$141,428,545 and total net assets at year end of positive \$159,004,362 for the year ended June 30, 2006. In comparison, a change in net assets of positive \$93,082,423 was reported for the year ended June 30, 2005 with total positive net asset balance of \$ 17,575,817 at the 2005 year end.

Overview of Financial Statements:

The Employee Insurance Program is an internal service fund proprietary type engaged in Governmental Activities. Following is a condensed Statement of Net Assets, a condensed Statement of Activities and a condensed Statement of Cash Flows.

The Statement of Net Assets presents the financial position of EIP at the end of the fiscal year and requires classification of assets and liabilities into current and noncurrent categories. The difference between total assets and total liabilities is reflected in the net assets section, which displays unrestricted net assets. Net assets are one indicator of the current financial condition of EIP, while the change in net assets is an indicator of whether the overall financial condition has improved or worsened during the year. The improvement seen in the net asset balance for the last two fiscal years is the result of 2004 plan design changes, rate increases, alleviation of growth in health care spending, and management actions undertaken by the Employee Insurance Program to address plan spending.

The Statement of Revenues, Expenses, and Changes in Net Assets present revenues and expenses as operating and are detailed by classification. 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 investing activities.

Financial Analysis of EIP:

This schedule is a condensed version of EIP's assets, liabilities, and net assets and is prepared from the Statement of Net Assets.

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Current Assets	\$349.8	\$192.2
Non-Current Assets	13.8	15.8
Total Assets	<u>363.6</u>	<u>208.0</u>
Current Liabilities	204.1	189.9
Non-Current Liabilities	0.5	0.5
Total Liabilities	<u>204.6</u>	<u>190.4</u>
Net Assets:		
Investment in Capital Assets	0.1	0.2
Unrestricted	<u>158.9</u>	<u>17.4</u>
Total Net Assets	<u>\$159.0</u>	<u>\$17.6</u>

Overview of the Employee Insurance Program:

The Employee Insurance Program (EIP) manages group health, dental, life, accidental death and dismemberment, and disability programs as authorized in § 1-11-710 and § 1-11-720 of the South Carolina Code of Laws, as well as the long-term care program authorized in § 1-11-740, and the Employee Adoption Assistance Program, pursuant to Proviso 63.27 of the 2006-2007 General Appropriations Act.

Following is a list of benefits offered by EIP differentiated according to self-insured versus insured status.

Self-Insured Programs

- State Health Plan:
 - Standard Plan (PPO)
 - Medicare Supplement
 - Savings Plan (HDHP)
- MUSC Options (POS)
- BlueChoice (HMO)
- CIGNA (HMO)
- State Dental Plan
- Basic Long Term Disability
- Adoption Assistance Program

Insured Programs

- Dental Plus
- State Life
- Optional Life
- Dependent Life
- Long Term Care
- Supplemental Long Term Disability
- TRICARE Supplement

Benefits are offered to eligible employees and retirees of all State agencies and public school districts, and many local governments. Currently over 560 employers participate in the Employee Insurance Program. The State Health Plan, which encompasses medical, prescription drug, and behavioral health coverage, is the significant driver of EIP's financial activity, accounting for approximately 81% of all medical revenue.

Overview of State Health Plan:

The State Health Plan (Plan) consists of the Standard Plan, the Medicare Supplement Plan, and the Savings Plan. The majority of Plan subscribers (83%) are enrolled in the Standard Plan, a PPO option available to non-Medicare and Medicare enrollees. Of the remaining subscribers, 15% are enrolled in the Medicare Supplement, a retiree option for those enrolled in Medicare, and 2% are enrolled in the Savings Plan. The Savings Plan is a qualified high deductible health plan (HDHP) available to non-Medicare enrollees.

The State Health Plan remains competitive with other southern state health plans in terms of plan deductibles, coinsurance, and prescription drug coverage. Following is a look at total enrollment in the State’s medical insurance programs and enrollment in the State Health Plan (as of June 2006).

	<u>Program</u>	<u>State Health Plan</u>
Total Insured Persons:	411,469	342,349
Subscribers:	237,040	193,812
Spouses:	66,140	58,046
Children:	108,289	90,491
Total Subscribers:	237,040	193,812
Employees:	174,608	133,977
Retirees:	58,473	56,095
Survivors:	2,718	2,675
COBRA:	1,241	1,065
Active Employees:	174,608	133,977
State Agencies:	61,718	45,594
School Districts:	80,108	65,458
Local Government:	32,782	22,925

State Health Plan Premiums:

The State Health Plan operates under a 4-tier premium structure, varying contribution levels according to level of coverage. The coverage levels include Employee Only, Employee/Spouse, Employee/Child, and Full Family. As of June 30, 2006, 56% of subscribers had Employee Only coverage, and the remaining 46% covered at least one dependent.

Premiums range from \$325.30 for Employee Only coverage to \$823.58 for Full Family coverage. Following are the 2006 State Health Plan employee and employer rates.

**2006 State Health Plan
(Standard Plan)
Premiums**

	<u>Employee</u>	<u>Employer</u>	<u>Total</u>
Employee Only	\$ 93.46	\$ 231.84	\$ 325.30
Employee/Spouse	\$ 237.50	\$ 453.02	\$ 690.52
Employee/Child	\$ 142.46	\$ 327.18	\$ 469.64
Full Family	\$ 294.58	\$ 529.00	\$ 823.58
Composite Rate	<u>\$ 147.71</u>	<u>\$ 316.64</u>	<u>\$ 464.35</u>

Premium revenue is shared between the employer and the employee (or retiree). For 2006, the employer absorbed the entire required rate increase. For 2006, the employee share represents 32% of the total premium, compared to 33% for 2005.



