

**SOUTH CAROLINA RETIREE HEALTH
INSURANCE TRUST FUND**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2009

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

RICHARD H. GILBERT, JR., CPA
DEPUTY STATE AUDITOR

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October 15, 2009

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 Retiree Health Insurance Trust Fund for the fiscal year ended June 30, 2009, 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

SOUTH CAROLINA RETIREE HEALTH
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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 basic financial statements of the South Carolina Retiree Health Insurance Trust Fund (the "Trust") as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the management of the South Carolina Retiree Health Insurance Trust 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. 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 described in *Note 1* to the financial statements, the Trust's financial statements are intended to present the financial position and results of operations of only that portion of the financial reporting entity of the State of South Carolina that is attributable to the transactions of the Trust. They do not purport to and do not present the financial position of the State of South Carolina as of June 30, 2009, and 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, and do not include other agencies, divisions, or component units of the State of South Carolina.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the South Carolina Retiree Health Insurance Trust Fund, as of June 30, 2009, and the changes in its financial status 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 18, 2009 on our consideration of the Trust's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's discussion and analysis and the other required supplementary information as listed in the table of contents 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 18, 2009

SOUTH CAROLINA RETIREE HEALTH INSURANCE TRUST FUND MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE PERIOD ENDED JUNE 30, 2009

This Management's Discussion and Analysis (MD&A) of the financial activities of the South Carolina Retiree Health Insurance Trust Fund (the Trust) is an overview of its fiscal operations for the fiscal year ended June 30, 2009. 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 provide for the employer costs of retiree post-employment health and dental insurance benefits for retired state employees and retired employees of public school districts. As of the Trust valuation date of June 30, 2008 (the latest plan actuarial evaluation date), there were 222 participating employers and 251,714 eligible plan participants (181,157 active, 69,954 retired, and 603 vested terminated). The Employee Insurance Program administers the Trust and the State Budget and Control Board is 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 assets held in trust for other post employment benefits (OPEB), as reported in the Statement of Plan Net Assets, total \$439.903 million.
- Total additions as reflected in the Statement of Changes in Plan Net Assets total \$402.579 million are a result of contributions and investment income.
- Total deductions as reflected in the Statement of Changes in Plan Net Assets total \$269.966 million and are a result of benefits expense.
- The actuarial valuation completed by Gabriel, Roeder, Smith and Company, the Trust's independent actuary, as of June 30, 2007, determined the annual required contribution (ARC) for the year ended June 30, 2009 to be \$727.079 million, of which 50.87% 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 are in compliance 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 Assets 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 retirees and their beneficiaries and any current liabilities owed as of fiscal year end.

The Statement of Changes in Plan Net Assets 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.

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, 2009, the Trust has \$439,903,433 in net assets (total assets of \$483,018,417 exceeding total liabilities of \$43,114,984). Net assets represent funds available for future payments.

In order to determine whether total plan net assets 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 health and dental 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, 2008 and determined the actuarial accrued liability to be \$9,279,578,000 (and a funded ratio of 3%).

Additions and Deductions to Plan Net Assets

The primary sources which finance the health and dental benefits the Trust provides are the collection of employer contributions, additional State appropriations, accumulated EIP reserve balances, and income generated from investments. For the period ending June 30, 2009, total additions amounted to \$402,578,745. Employer contributions accounted for \$262,859,635 that is a result of a surcharge of 3.5% on each employer's payroll. The surcharge is an estimated amount to cover the employer portion of the "pay go" costs of retiree claims and is collected by and transferred from the South Carolina Retirement System to the Trust. Other additions were state appropriations of \$5,400,000, a transfer of \$101,584,443 based on the amount of EIP cash reserves available over 140% of the actuarial determined IBNR at December 31, 2008, and \$32,638,533 in investment income. Investment income is comprised of \$32,638,533 that is composed of interest earnings of \$15,363,810, premium amortization of \$135,127, and unrealized gains and losses of \$17,409,850.

This was also the first year of the implicit subsidy calculation for the Trust and \$13,914,546 was estimated as subsidized premiums and recorded as a payable to EIP from the Trust at June 30, 2009.

For the period ending June 30, 2009, total deductions amounted to \$269,966,075, which was a result of claims expense and administrative expenses.

Future Funding

Going forward into 2010, the actuarial accrued liability and the annual required contribution will be funded primarily through the surcharge on employer's payroll (the surcharge will remain at 3.50%). Other funding sources will include excess Employee Insurance Program reserves, additional State appropriations (which in this year's budget totaled \$5,845,659) and investment earnings.

Request for Additional Information

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

Phyllis Buie, Finance Officer
Employee Insurance Program
1201 Main Street, Suite 360
Columbia, SC 29201

SOUTH CAROLINA RETIREE HEALTH INSURANCE TRUST FUND

STATEMENT OF PLAN NET ASSETS

JUNE 30, 2009

Assets :

Cash and cash equivalents	\$	68,558,122
Invested securities lending collateral		27,462,629
Due from South Carolina Retirement Systems		38,293,928
Accrued interest receivable		4,828,367
Investments		<u>343,875,371</u>

Total assets 483,018,417

Liabilities :

Accounts payable		49,698
Collateral for loaned securities		29,150,740
Due to Employee Insurance Program		<u>13,914,546</u>

Total liabilities 43,114,984

Net assets held in trust for other postemployment benefits (OPEB) \$ 439,903,433

See accompanying notes.

SOUTH CAROLINA RETIREE HEALTH INSURANCE TRUST FUND

STATEMENT OF CHANGES IN PLAN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2009

Additions:	
Contributions	\$ 369,844,078
Investment income (<i>Note 5</i>)	32,638,533
Securities lending activities income:	
Gross earnings from interest and fees	223,476
Gross borrower rebates	(110,412)
Bank fees	(28,265)
Earnings adjustments	11,335
Net earnings from securities lending activities	96,134
Total additions	402,578,745
Deductions:	
Benefits expense	269,871,057
Administrative expenses	95,018
Total deductions	269,966,075
Net increase in net assets held in trust for OPEB	132,612,670
Net assets held in trust for OPEB, beginning of period	307,290,763
Net assets held in trust for OPEB, end of period	\$ 439,903,433

See accompanying notes.

SOUTH CAROLINA RETIREE HEALTH INSURANCE TRUST FUND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

1. Trust Description

General

The South Carolina Retiree Health 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 retiree health and dental plans (the "Plan") in compliance with Governmental Accounting Standards Board statements No. 43, *Financial Reporting for Post Employment Benefit Plans Other Than Pension Plans*, and No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions*.

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 Employee Insurance Program (EIP), the State Treasurer is the custodian of the funds held in the Trust, and the State Budget and Control Board 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 healthcare plan that covers retired employees of the State including all agencies and public school districts (the Employers). The Plan provides health and dental insurance benefits to eligible retirees as defined in Article 5 of the State Code of Laws (the Code). 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, State appropriations, and mandatory transfers. For the year ended June 30, 2009, contributions were as follows:

Transfer to the Trust from IBNR reserves	\$ 101,584,443
State appropriations	5,400,000
Monthly employer contributions	262,859,635
	<u>\$ 369,844,078</u>

The monthly Employer contributions are based on a surcharge of 3.50% of the employer's annual covered payroll.

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SOUTH CAROLINA RETIREE HEALTH INSURANCE TRUST FUND

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

1. Trust Description (Continued)

Administrative costs of the Plan are paid from Plan assets.

Eligible participants of the Plan consisted of the following at June 30, 2008, the date of the latest actuarial valuation:

Active participants	181,157
Retired participants	69,954
Vested terminated participants	603
Total participants	<u>251,714</u>
Number of participating employers	<u>222</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 changes could materially affect the amounts reported in the statement of plan net assets available for benefits.

2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Trust are prepared using 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 as determined by the custodian from quoted market prices. Net unrealized appreciation or depreciation for the year is reflected in the statement of changes in plan net assets 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 RETIREE HEALTH INSURANCE TRUST FUND

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

3. Due from the South Carolina Retirement System (SCRS)

SCRS had collected \$38,293,928 in monthly employer contributions attributable to May and June that had not been remitted to the Trust as of June 30, 2009.

4. Due to Employee Insurance Program

Periodically, the Trust calculates an implicit subsidy which is reimbursed by the Trust to the EIP. At June 30, 2009, the total due to EIP from the Trust was \$13,914,546.

5. 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.

SOUTH CAROLINA RETIREE HEALTH INSURANCE TRUST FUND

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

The following table presents the fair values of the investments of the Trust at June 30, 2009:

	Fair Value
Collateralized mortgage-backed obligations	\$ 40,564,313
Other Governmental guaranteed investments	83,430,399
Repurchase agreement	68,555,000
Corporate bonds	212,399,558
Asset backed notes	930,161
Financial paper	6,550,940
Total	<u>\$ 412,430,371</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.

For all investment classifications reported above, the balances therein fluctuated minimally in excess of the year-end balances throughout the year ended June 30, 2009. 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, 2009.

The investment types listed above include all investment types in which monies were held throughout the year ended June 30, 2009. Due to higher cash flows at certain times during the year, the Fund's investment in repurchase agreements fluctuated significantly. The maximum amounts held in this classification during the year ended June 30, 2009, was \$145,230,000.

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. At June 30, 2009, the Fund had no deposits with financial institutions. The Fund had cash of \$3,122 held by the State Treasurer as of June 30, 2009.

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

SOUTH CAROLINA RETIREE HEALTH INSURANCE TRUST FUND

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

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

Interest earned	\$ 15,363,810
Premium amortization	(135,127)
Change in unrealized gains (losses)	19,097,961
Unrealized loss from value of securities lending collateral	(1,688,111)
Investment earnings	\$ 32,638,533

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

	Statements	Note Disclosure
Held by State Treasurer:		
Cash and cash equivalents	\$ 68,558,122	\$ -
Invested securities lending collateral	\$ 27,462,629	27,462,629
Pooled investments	343,875,371	-
Deposits	-	3,122
Specifically identified investments	-	412,430,371
Total	\$ 439,896,122	\$ 439,896,122

SOUTH CAROLINA RETIREE HEALTH INSURANCE TRUST FUND

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

Securities Lending

Through its custodial agent, the Trust participates in a securities lending program whereby securities are loaned for 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.

There are no restrictions on the amount of securities that may be loaned. The types of securities available for loan during the year ended June 30, 2009, included U.S. Government securities, U.S. Government agencies, corporate bonds, and convertible bonds. The contractual agreement with the Trusts' 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, 2009, the fair value of securities on loan was \$28,436,466. The fair value of the invested cash collateral was \$27,462,629. Securities lending obligations at June 30, 2009 were \$29,150,740, with the unrealized loss in invested cash collateral recorded in the Statement of Changes in Plan Net Assets under investment income.

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 twelve days. The average weighted maturity of investments made with cash collateral was twenty-four days. At June 30, 2009, 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.

SOUTH CAROLINA RETIREE HEALTH INSURANCE TRUST FUND

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

The following table presents the fair value of the underlying securities and the total collateral received for securities on loan at June 30, 2009:

	<u>June 30, 2009</u>
Securities lent for cash collateral:	
U.S. Government securities	\$ 13,432,576
Corporate bonds	<u>15,003,890</u>
Total securities lent for cash collateral	<u>\$ 28,436,466</u>
Cash collateral invested as follows:	
Repurchase agreements	\$ 4,982,021
Asset backed securities	2,822,311
Floating rate notes	<u>19,658,297</u>
Total for cash collateral invested	<u>\$ 27,462,629</u>

SOUTH CAROLINA RETIREE HEALTH INSURANCE TRUST FUND

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

6. Funded Status and Funding Progress

The latest actuarial valuation was performed as of June 30, 2008 by the Trust’s independent consulting actuary, Gabriel, Roeder, Smith and Company.

The funded status of the Plan as of the most recent actuarial valuation date is as follows (\$ in 000s):

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (b)</u>	<u>Unfunded Actuarial Accrued Liability (b-a)</u>	<u>Funded Ratio (a / b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of covered Payroll (b - a) / c</u>
June 30, 2008	\$ 270,153	\$ 9,279,578	\$ 9,009,425	3%	\$ 7,596,053	119%

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 in accordance with the parameters of GASB Statement 43. 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 RETIREE HEALTH INSURANCE TRUST FUND

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

6. 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 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, 2008
Actuarial cost method	Individual entry age
Amortization method	Level percent closed
Remaining amortization periods	30 years
Asset valuation method	Market
Actuarial assumptions:	
Investment rate of return	5.50%
Payroll growth rate	4.00%
Healthcare cost trend rate	8.5% - 5% ultimate

OTHER REQUIRED SUPPLEMENTARY INFORMATION

SOUTH CAROLINA RETIREE HEALTH INSURANCE TRUST FUND

SCHEDULE OF FUNDING PROGRESS

AS OF JUNE 30, 2009

(\$ IN '000S)

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, 2007	\$ -	\$ 8,581,073	\$ 8,581,073	0%	\$ 7,112,053	121%
June 30, 2008	\$ 270,153	\$ 9,279,578	\$ 9,009,425	3%	\$ 7,596,053	119%

SOUTH CAROLINA RETIREE HEALTH INSURANCE TRUST FUND

SCHEDULE OF EMPLOYER CONTRIBUTIONS

FOR THE YEAR ENDED JUNE 30, 2009

(\$ IN '000S)

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2009	\$ 727,079	50.87%

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CERTIFIED PUBLIC ACCOUNTANTS
1401 MAIN STREET, SUITE 660
COLUMBIA, SOUTH CAROLINA 29201

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**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 basic financial statements of the South Carolina Retiree Health Insurance Trust Fund (the "Trust") as of and for the year ended June 30, 2009, and have issued our report thereon dated September 18, 2009. 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

In planning and performing our audit, we considered the Trust'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 Trust's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Trust's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Trust's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Trust'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 State Auditor and management of the Trust and is not intended to be and should not be used by anyone other than those specified parties.

Rebeck & Williamson, L.L.P.

September 18, 2009