

**SOUTH CAROLINA RETIREE HEALTH
INSURANCE TRUST FUND**

AUDITED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2013

WITH

INDEPENDENT AUDITORS REPORT

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DELOACH & WILLIAMSON, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS REPORT

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

We have audited the accompanying Statement of Plan Net Position of the South Carolina Retiree Health Insurance Trust Fund (the "Trust") as of June 30, 2013, 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.

Auditor's 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the South Carolina Retiree Health Insurance Trust Fund, as of June 30, 2013, and the respective changes in financial position 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 Retiree Health 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, 2013, 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 (pages 3-5), the schedule of funding progress (page 17) and the schedule of employer contributions (page 18) 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 October 1, 2013, 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 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 Trust's internal control over financial reporting and compliance.



Columbia, South Carolina
October 1, 2013

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

FOR THE YEAR ENDED JUNE 30, 2013

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, 2013. 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, 2012 (the latest plan actuarial evaluation date), there were 222 participating employers and 245,932 eligible plan participants (171,043 active, 74,362 retired, and 527 vested terminated). 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 \$668.972 million at June 30, 2013.
- Total additions as reflected in the Statement of Changes in Plan Net Position total \$421.798 million are a result of contributions and investment income.
- Total deductions as reflected in the Statement of Changes in Plan Net Position total \$345.163 million and are a result of benefits and administrative expenses.
- The actuarial valuation completed by Gabriel, Roeder, Smith and Company, the Trust's independent actuary, as of June 30, 2012, determined the annual required contribution (ARC) for the year ended June 30, 2013 to be \$818.861 million, of which 50.02% 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 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 retirees and their 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

	2013	2012
Total assets	\$ 674,392,519	\$ 604,322,618
Total liabilities	5,420,526	11,985,866
Net position held in trust for other postemployment benefits	<u>\$ 668,971,993</u>	<u>\$ 592,336,752</u>

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

	2013	2012
Total additions	\$ 421,798,349	\$ 434,305,165
Total deductions	345,163,108	319,091,975
Net increase (decrease) in net position held in trust for other postemployment benefits (OPEB)	76,635,241	115,213,190
Net position held in trust for OPEB, beginning of year	<u>592,336,752</u>	<u>477,123,562</u>
Net position held in trust for OPEB, end of year	<u>\$ 668,971,993</u>	<u>\$ 592,336,752</u>

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, 2013, the Trust had \$668.972 million in net position (total assets of \$674.393 million exceeding total liabilities of \$5.421 million). 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 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, 2012 and determined the actuarial accrued liability to be \$10.328 billion (and a funded ratio of 6%).

Additions and Deductions to Plan Net Position

The primary sources which finance the health and dental benefits the Trust provides are the collection of employer contributions, additional State appropriations, accumulated PEBA – Insurance Benefits reserve balances, and income generated from investments. For the period ending June 30, 2013, total additions amounted to \$421,798,349. Employer contributions accounted for \$342,590,261 that is a result of a surcharge of 4.55% 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 \$2,375,300, a transfer of \$64,626,715 based on the amount of PEBA – Insurance Benefits cash reserves available over 140% of the actuarial determined IBNR at December 31, 2012, and \$12,193,961 in investment income. Investment income is comprised of \$20,239,108 of interest earnings, premium amortization of \$586,893, unrealized losses of (\$13,265,246) and changes in unrealized gains and (losses) from value in securities lending of \$4,633,206.

For the period ending June 30, 2013, total deductions amounted to \$345,163,108, which was a result of claims and administrative expenses.

Future Funding

Going forward into 2014, the actuarial accrued liability and the annual required contribution will be funded primarily through the surcharge on employer's payroll. Effective July 1, 2013, the surcharge will be 4.92%. Other funding sources will include excess PEBA – Insurance Benefits reserves, additional State appropriations (which in this year's budget totaled \$2,375,300) 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
PEBA – Insurance Benefits
202 Arbor Lake Drive
Columbia, SC 29223

SOUTH CAROLINA RETIREE HEALTH INSURANCE TRUST FUND

STATEMENT OF PLAN NET POSITION

JUNE 30, 2013

Assets :

Cash and cash equivalents	\$	58,524,896
Invested securities lending collateral		1,516,733
Due from South Carolina Retirement Systems		54,135,259
Accrued interest receivable		4,818,058
Investments		555,313,214
Due from South Carolina Long-Term Disability Insurance Trust Fund		84,359

Total assets 674,392,519

Liabilities :

Collateral for loaned securities		5,246,480
Due to PEBA Insurance Benefits		174,046

Total liabilities 5,420,526

Net position held in trust for other postemployment benefits (OPEB) \$ 668,971,993

See accompanying notes.

SOUTH CAROLINA RETIREE HEALTH INSURANCE TRUST FUND

STATEMENT OF CHANGES IN PLAN NET POSITION

FOR THE YEAR ENDED JUNE 30, 2013

Additions:

Contributions	\$	409,592,276
		12,193,961
Investment income (<i>Note 5</i>)		12,193,961
Securities lending activities income:		
Gross earnings from interest and fees		8,474
Gross borrower rebates		5,435
Bank fees		(1,797)
Net earnings from securities lending activities		12,112
Total additions		421,798,349

Deductions:

Benefits expense		345,079,908
Administrative expenses		83,200
Total deductions		345,163,108

Net increase in net position held in trust for OPEB		76,635,241
Net position held in trust for OPEB, beginning of year		592,336,752
Net position held in trust for OPEB, end of year	\$	668,971,993

See accompanying notes.

SOUTH CAROLINA RETIREE HEALTH INSURANCE TRUST FUND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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.

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 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, 2013, contributions were as follows:

Transfer to the Trust from IBNR reserves	\$ 64,626,715
State appropriations	2,375,300
Monthly employer contributions	342,590,261
	<hr/>
	\$ 409,592,276
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The monthly Employer contributions are based on a surcharge of 4.55% 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, 2012, the date of the latest actuarial valuation:

Active participants	171,043
Retired participants	74,362
Vested terminated participants	527
Total participants	<u>245,932</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 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 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The Trust has determined that no amounts were required to be reclassified or otherwise recognized as deferred inflows or outflows resources for the year ended June 30, 2013.

As required under these standards, 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 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 RETIREE HEALTH INSURANCE TRUST FUND

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

3. Due from Other State Agencies

The South Carolina Retirement System had collected \$54,135,259 in monthly employer contributions attributable to May and June that had not been remitted to the Trust as of June 30, 2013.

4. Due to PEBA – Insurance Benefits

At June 30, 2013, the total due to PEBA Insurance Benefits from the Trust was \$174,046 for various administrative expenses.

PEBA Insurance Benefits develops blended group health premiums by coverage tier each year. These premiums are derived by blending the expected cost of coverage among both active and retired participants. The blended premium is generally lower than the actual cost of retiree coverage and higher than the actual cost of active coverage.

By applying the blended premiums to active coverage the State is essentially financing a portion of the total retiree cost. The portion of the retiree cost funded by active coverage is known as the implicit subsidy.

Based on legislation, PEBA Insurance Benefits has historically performed the implicit subsidy calculation at fiscal year-end and transferred this amount from the Trust to PEBA Insurance Benefits. Recently, it has been determined that while the calculation is necessary for reporting purposes, the amount should not be transferred from the Trust. Because PEBA Insurance Benefits is receiving the total blended premium for active employees, as well as the total blended premium for retirees (through transfer from the OPEB Trust for the employer contribution), PEBA Insurance Benefits is receiving the total expected cost for both active and retired participants. PEBA Insurance Benefits will therefore, discontinue the practice of transferring the implicit subsidy from the Trust to PEBA Insurance Benefits. By discontinuing this practice, the Trust did not have to transfer the calculated implicit subsidy of \$23,791,970 for the year ended June 30, 2013.

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.

SOUTH CAROLINA RETIREE HEALTH INSURANCE TRUST FUND

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

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 of the Trust at June 30, 2013:

	Fair Value
Collateralized mortgage-backed obligations	\$ 33,720,152
Other Governmental guaranteed investments	72,837,906
Federal agencies	5,003,300
Repurchase agreement	56,465,000
Sovereign bonds	4,247,200
State bonds	2,066,740
Corporate bonds	353,541,843
Financial paper	83,896,073
Total	<u>\$ 611,778,214</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, 2013. 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, 2013.

The investment types listed above include all investment types in which monies were held throughout the year ended June 30, 2013. 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, 2013, was \$97,870,000.

SOUTH CAROLINA RETIREE HEALTH INSURANCE TRUST FUND

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

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, 2013, the Fund had no deposits with financial institutions. The Fund had \$2,059,896 held by the State Treasurer as of June 30, 2013.

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 from investments of the Trust	\$ 20,239,108
Premium amortization	586,893
Gains and (losses) on investments	(13,265,246)
Gains (losses) from change in value of securities lending collateral	4,633,206
Investment earnings	\$ 12,193,961

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	\$ 58,524,896	\$ -
Invested securities lending collateral	1,516,733	1,516,733
Pooled investments	555,313,214	-
Deposits	-	2,059,896
Specifically identified investments	-	611,778,214
Total	\$ 615,354,843	\$ 615,354,843

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, 2013, 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, 2013, the fair value of securities on loan was \$1,516,733. The fair value of the invested cash collateral was \$5,120,104. Securities lending obligations at June 30, 2013 were \$5,246,480, with the unrealized loss in invested cash collateral recorded in the Statement of Changes in Plan Net Position 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 one day. The average weighted maturity of investments made with cash collateral was nine days. At June 30, 2013, 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, 2013:

	June 30, 2013
Securities lent for cash collateral:	
U.S. Corporate-fixed income	\$ 5,120,104
Total securities lent for cash collateral	\$ 5,120,104
Cash collateral invested as follows:	
Repurchase agreements	\$ 408,052
Asset backed securities	1,108,681
Total for cash collateral invested	\$ 1,516,733

6. Funded Status and Funding Progress

The latest actuarial valuation was performed as of June 30, 2012 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):

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, 2012	\$ 592,337	\$ 10,328,465	\$ 9,736,128	6%	\$ 7,161,059	136%

SOUTH CAROLINA RETIREE HEALTH INSURANCE TRUST FUND

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

6. Funded Status and Funding Progress (Continued)

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.

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, 2012
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	5.50%
Payroll growth rate	3.50%
Healthcare cost trend rate	
Medical	7.25% - 4.50% Ultimate
RX	7.75% - 4.50% Ultimate

SOUTH CAROLINA RETIREE HEALTH INSURANCE TRUST FUND

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

7. Subsequent events

Subsequent events were evaluated through October 1, 2013, 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.

OTHER REQUIRED SUPPLEMENTARY INFORMATION

SOUTH CAROLINA RETIREE HEALTH INSURANCE TRUST FUND

SCHEDULE OF FUNDING PROGRESS

AS OF JUNE 30, 2013

(\$ 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, 2008	\$ 270,153	\$ 9,279,578	\$ 9,009,425	3%	\$ 7,596,053	119%
June 30, 2009	\$ 439,903	\$ 9,643,577	\$ 9,203,674	5%	\$ 7,736,161	119%
June 30, 2010	\$ 487,496	\$ 9,632,092	\$ 9,144,596	5%	\$ 7,570,126	121%
June 30, 2011	\$ 477,124	\$ 10,625,914	\$ 10,148,790	4%	\$ 7,127,657	142%
June 30, 2012	\$ 592,337	\$ 10,328,465	\$ 9,736,128	6%	\$ 7,161,059	136%

SOUTH CAROLINA RETIREE HEALTH INSURANCE TRUST FUND

SCHEDULE OF EMPLOYER CONTRIBUTIONS

AS OF JUNE 30, 2013

(\$ IN '000S)

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2009	\$ 727,079	50.87%
2010	\$ 785,250	37.76%
2011	\$ 815,825	37.11%
2012	\$ 787,293	53.22%
2013	\$ 818,861	50.02%

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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, 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 South Carolina Retiree Health Insurance Trust Fund (the "Trust"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Trust's financial statements, and have issued our report thereon dated October 1, 2013.

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.

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 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.

A handwritten signature in black ink that reads "DeLoach & Williamson, L.L.P." The signature is written in a cursive, flowing style.

Columbia, South Carolina

October 1, 2013