SOUTH CAROLINA LONG-TERM DISABILITY INSURANCE TRUST FUND

AUDITED FINANCIAL STATEMENTS

FOR THE PERIOD FROM INCEPTION (MAY 1, 2008) TO JUNE 30, 2008
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 Long-Term Disability Insurance Trust Fund for the fiscal year ended June 30, 2008, 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,  

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 basic financial statements of the South Carolina Long-Term Disability Insurance Trust Fund (the “Trust”) as of and for the period from inception (May 1, 2008) to June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the management of the South Carolina Long-Term Disability 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, 2008, 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 Long-Term Disability Insurance Trust Fund, as of June 30, 2008, and the changes in its financial status for the period from inception (May 1, 2008) to June 30, 2008 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, 2008 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.

September 15, 2008
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 period from inception (May 1, 2008) to June 30, 2008. 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, 2008, there were 584 participating employers and 198,227 eligible plan participants (196,933 active and 1,294 retired). 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 $27.03 million.
- Total additions as reflected in the Statement of Changes in Plan Net Assets of $28.28 million are primarily a result of a transfer of reserve investments from the Employee Insurance Program of $27.47 million.
- Total deductions as reflected in the Statement of Changes in Plan Net Assets total $1.25 million is a result of benefits expense.
- The latest actuarial valuation completed by Gabriel, Roeder, Smith and Company, the Trust’s independent actuary, was as of June 30, 2007 and determined the annual required contribution (ARC) to be $10.04 million, which was funded by 285% 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 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, 2008, the Trust has $27,030,995 in net assets. The net assets represent funds available for future payments.

In order to determine whether total 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 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, 2007 and determined the actuarial accrued liability to be $28,048,000. Because the Trust was not established until May of 2008, the funding ratio as of the valuation date is 0%.
**Additions and Deductions to Plan Net Assets**
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, 2008, total additions amounted to $28,639,044, achieved primarily due to the initial transfer of investment reserves of $27,466,014 that was held by the Employee Insurance Program until the Trust was formed. Employer contributions to the Trust were $1,173,030 for premiums (May and June 2008) that are billed and transferred by the Employee Insurance Program on a monthly basis. Since the transfer of these investments, there was a net loss in investment income of $363,397 that is composed of interest earnings of $31,835, premium amortization of $3,396, and unrealized losses of $391,836.

For the period ending June 30, 2008, total deductions amounted to $1,244,652 as a result of benefits expense. This was a result of $1,069,014 in claims expense (May and June 2008) and $175,638 in administrative expenses (May and June 2008).

**Future Funding of the Trust**
The Actuarial Accrued Liability is nearly 100% funded and going forward into 2009, 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  
Employee Insurance Program  
1201 Main Street, Suite 360  
Columbia, SC 29201
# SOUTH CAROLINA LONG-TERM DISABILITY INSURANCE TRUST FUND

## STATEMENT OF PLAN NET ASSETS

**JUNE 30, 2008**

### Assets :

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$4,772,539</td>
</tr>
<tr>
<td>Accrued interest receivable</td>
<td>$99,182</td>
</tr>
<tr>
<td>Investments</td>
<td>$22,201,512</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>$27,073,233</strong></td>
</tr>
</tbody>
</table>

### Liabilities :

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>$42,238</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>$42,238</strong></td>
</tr>
</tbody>
</table>

### Net assets held in trust for other postemployment benefits (OPEB)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net assets held in trust for other postemployment benefits (OPEB)</td>
<td><strong>$27,030,995</strong></td>
</tr>
</tbody>
</table>

*See accompanying notes.*
SOUTH CAROLINA LONG-TERM DISABILITY INSURANCE TRUST FUND

STATEMENT OF CHANGES IN PLAN NET ASSETS

FOR THE PERIOD FROM INCEPTION (MAY 1, 2008) TO JUNE 30, 2008

Additions:
Contributions $ 28,639,044
Investment income, net of unrealized losses (363,397)
Total additions 28,275,647

Deductions:
Benefits expense 1,244,652
Total deductions 1,244,652

Net increase in net assets held in trust for OPEB 27,030,995

Net assets held in trust for OPEB, beginning of period -

Net assets held in trust for OPEB, end of period $ 27,030,995

See accompanying notes.
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 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 Programs, 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 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, 2008, Employers contributed the following amounts to the Trust:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial transfer to the Trust from Plan reserves</td>
<td>$27,466,014</td>
</tr>
<tr>
<td>Monthly employer contributions</td>
<td>1,173,030</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$28,639,044</strong></td>
</tr>
</tbody>
</table>
1. Trust Description (Continued)

Plan Description and Contribution Information (Continued)
Prior to the formation of the Trust, the Plan reserves were held by the Employee Insurance Programs. Once the Trust was formed, these were transferred to the Trust. Additionally, the monthly employer contributions consist of contributions for May and June based on actuarially estimated claims.

Administrative costs of the Plan are paid from Plan assets.

Eligible participants of the Plan consisted of the following at June 30, 2007, the date of the latest actuarial valuation:

<table>
<thead>
<tr>
<th>Eligible Participants</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Active participants</td>
<td>196,933</td>
</tr>
<tr>
<td>Retired participants</td>
<td>1,294</td>
</tr>
<tr>
<td>Vested terminated participants</td>
<td>-</td>
</tr>
<tr>
<td>Total participants</td>
<td>198,227</td>
</tr>
<tr>
<td>Number of participating employers</td>
<td>584</td>
</tr>
</tbody>
</table>

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.
2. **Summary of Significant Accounting Policies (Continued)**

**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.

3. **Investments and Deposits**

As prescribed by Statute, the State Treasurer is the custodian and investment manager of all investments and deposits 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.
3. Investments and Deposits (Continued)

The following table presents the fair values of the investments of the Trust at June 30, 2008:

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>Market Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgage backed securities</td>
<td>$ 4,321,235</td>
</tr>
<tr>
<td>Collateralized mortgage-backed obligations</td>
<td>503,395</td>
</tr>
<tr>
<td>Other Governmental guaranteed investments</td>
<td>5,853,126</td>
</tr>
<tr>
<td>Repurchase agreement</td>
<td>4,770,000</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>9,237,901</td>
</tr>
<tr>
<td>Financial paper</td>
<td>2,285,855</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 26,971,512</strong></td>
</tr>
</tbody>
</table>

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.

The investment types listed above include all investment types in which monies were held as long-term investments throughout the fiscal year. For all investment classifications reported above, the balances therein fluctuated minimally in excess of the year-end balances throughout the year ended June 30, 2008. As discussed in Note 2, GASB Statement Number 31 required investments 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, 2008.
3. **Investments and Deposits (Continued)**

The investment types listed above include all investment types in which monies were held throughout the year ended June 30, 2008. 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, 2008, was as follows:

| Repurchase agreements | $ 8,250,000 |

**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, 2008, the Fund had no deposits with financial institutions. The Fund had cash of $2,539, held by the State Treasurer as of June 30, 2008.

Fair market value for cash and cash equivalents reported approximate the carrying value.

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

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest earned</td>
<td>$ 31,835</td>
</tr>
<tr>
<td>Premium amortization</td>
<td>(3,396)</td>
</tr>
<tr>
<td>Change in unrealized gains (losses)</td>
<td>(391,836)</td>
</tr>
<tr>
<td><strong>Investment earnings</strong></td>
<td><strong>$ (363,397)</strong></td>
</tr>
</tbody>
</table>

The latest actuarial valuation was performed as of June 30, 2007 by the Trust’s independent consulting actuary, Gabriel, Roeder, Smith and Company.
3. Investments and Deposits (Continued)

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

<table>
<thead>
<tr>
<th>Held by State Treasurer:</th>
<th>Statements</th>
<th>Note Disclosure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$4,772,539</td>
<td>$-</td>
</tr>
<tr>
<td>Pooled investments</td>
<td>22,201,512</td>
<td>-</td>
</tr>
<tr>
<td>Deposits</td>
<td>-</td>
<td>2,539</td>
</tr>
<tr>
<td>Specifically identified investments</td>
<td>-</td>
<td>26,971,512</td>
</tr>
<tr>
<td>Total</td>
<td>$26,974,051</td>
<td>$26,974,051</td>
</tr>
</tbody>
</table>

4. Funded Status and Funding Progress

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

<table>
<thead>
<tr>
<th>Actuarial Valuation Date</th>
<th>Actuarial Value of Assets (a)</th>
<th>Actuarial Accrued Liability (b)</th>
<th>Actuarial Accrued Liability (b-a)</th>
<th>Unfunded Actuarial Accrued Liability (a / b)</th>
<th>Funded Ratio (a / b)</th>
<th>Covered Payroll (c)</th>
<th>Percentage of covered Payroll (b - a) / (c)</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 30, 2007</td>
<td>$-</td>
<td>$28,048</td>
<td>$28,048</td>
<td>0%</td>
<td>$7,781,719</td>
<td>0%</td>
<td></td>
</tr>
</tbody>
</table>

4. 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 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.

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:

<table>
<thead>
<tr>
<th>Valuation date</th>
<th>June 30, 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actuarial cost method</td>
<td>Individual entry age</td>
</tr>
<tr>
<td>Amortization method</td>
<td>Level percent closed</td>
</tr>
<tr>
<td>Remaining amortization periods</td>
<td>30 years</td>
</tr>
<tr>
<td>Asset valuation method</td>
<td>Market</td>
</tr>
<tr>
<td>Actuarial assumptions:</td>
<td></td>
</tr>
<tr>
<td>Investment rate of return</td>
<td>6.00%</td>
</tr>
<tr>
<td>Payroll growth rate</td>
<td>4.00%</td>
</tr>
</tbody>
</table>
OTHER REQUIRED SUPPLEMENTARY INFORMATION
### SOUTH CAROLINA LONG-TERM DISABILITY INSURANCE TRUST FUND

### SCHEDULE OF FUNDING PROGRESS

**AS OF JUNE 30, 2008**

($ IN '000S)

<table>
<thead>
<tr>
<th>Actuarial Valuation Date</th>
<th>Actuarial Value of Assets (a)</th>
<th>Actuarial Accrued Liability (b)</th>
<th>Unfunded Actuarial Accrued Liability (b-a)</th>
<th>Funded Ratio (a / b)</th>
<th>Covered Payroll (c)</th>
<th>UAAL as a Percentage of covered Payroll ([b - a] / c)</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 30, 2007</td>
<td>$ -</td>
<td>$ 28,048</td>
<td>$ 28,048</td>
<td>0%</td>
<td>$ 7,781,719</td>
<td>0%</td>
</tr>
</tbody>
</table>
SOUTH CAROLINA LONG-TERM DISABILITY INSURANCE TRUST FUND

SCHEDULE OF EMPLOYER CONTRIBUTIONS

FOR THE YEAR ENDED JUNE 30, 2008

<table>
<thead>
<tr>
<th>Year Ended June 30</th>
<th>Annual Required Contribution</th>
<th>Percentage Contributed</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>$10,038,000</td>
<td>285%</td>
</tr>
</tbody>
</table>
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 Long-Term Disability Insurance Trust Fund (the “Trust”) as of and for the period from inception (May 1, 2008) to June 30, 2008, and have issued our report thereon dated September 15, 2008. 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.

September 15, 2008