

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

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**AUDITED FINANCIAL STATEMENTS**

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**YEAR ENDED JUNE 30, 2013**

**WITH**

**INDEPENDENT AUDITORS REPORT**

SOUTH CAROLINA LONG-TERM DISABILITY  
INSURANCE TRUST FUND

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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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COLUMBIA, SOUTH CAROLINA 29201

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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 Long-Term Disability 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 Long-Term Disability 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 Long-Term Disability Insurance Trust Fund and do not purport to, and do not, present fairly the financial position of the State of South Carolina, as of June 30, 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 15) and the schedule of employer contributions (page 16) 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 LONG-TERM DISABILITY 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 Long-Term Disability Insurance Trust Fund (the Trust) is an overview of its fiscal operations for the 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 fund and account for the employer costs of the State's Basic Long-Term Disability Income Benefit Plan. As of June 30, 2012 (the latest plan actuarial valuation date), there were 681 participating employers and 193,890 eligible plan participants (192,861 active and 1,029 retired). The South Carolina Public Employee Benefit Authority (PEBA) administers the Trust and the PEBA Board has been designated as the Trustee. The State Treasurer is the custodian of the funds held in the Trust and invests those funds in accordance with the statutes of the State.

## **Financial Highlights**

- Net position held in trust for other post employment benefits (OPEB), as reported in the Statement of Plan Net Position, total \$35.426 million.
- Total additions as reflected in the Statement of Changes in Plan Net Position of \$7,209,456 represent contributions revenue, investment income and securities lending activities income.
- Total deductions as reflected in the Statement of Changes in Plan Net Position of \$7,359,822 represent benefits expense.
- 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 \$9.410 million, of which 72.23% 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 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**

	<u>2013</u>	<u>2012</u>
Total assets	\$ 35,822,505	\$ 35,841,267
Total liabilities	396,744	265,140
Net position held in trust for other postemployment benefits	<u>\$ 35,425,761</u>	<u>\$ 35,576,127</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**

	<u>2013</u>	<u>2012</u>
Total additions	\$ 7,209,456	\$ 9,373,214
Total deductions	7,359,822	7,080,219
Net increase (decrease) in net position held in trust for other postemployment benefits (OPEB)	(150,366)	2,292,995
Net position held in trust for OPEB, beginning of year	35,576,127	33,283,132
Net position held in trust for OPEB, end of year	<u>\$ 35,425,761</u>	<u>\$ 35,576,127</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 has \$35,425,761 in net position. The net position represents funds available for future payments.

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

The Trust's independent actuary, Gabriel, Roeder, Smith and Company, performed an actuarial valuation as of June 30, 2012 and determined the actuarial accrued liability to be \$23,586,000. The funded ratio was 151% as of the valuation.

**Additions and Deductions to Plan Net Position**

The primary sources which finance the long-term disability benefits the Trust provides are investment income and the collection of employer contributions. For the period ended June 30, 2013, total additions amounted to \$7,209,456. Employer contributions to the Trust were \$6,796,468 for premiums that are billed and transferred by PEBA – Insurance Benefits on a monthly basis. At June 30, 2013, there was a net gain in investment income of \$412,988 that is composed of interest earnings of \$1,318,637, premium amortization of (\$22,396), and unrealized losses of (\$883,253).

For the period ending June 30, 2013, total deductions amounted to \$7,359,822 as a result of benefits expense (claims expense and administrative expenses).

**Future Funding of the Trust**

The Actuarial Accrued Liability is over 100% funded and going forward into 2014, the premium charged to employers will remain static.

**Request for Additional Information**

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

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

SOUTH CAROLINA LONG-TERM DISABILITY INSURANCE TRUST FUND

STATEMENT OF PLAN NET POSITION

JUNE 30, 2013

**Assets :**

Cash and cash equivalents	\$	4,291,158
Accrued interest receivable		326,710
Investments		31,204,637

Total assets 35,822,505

**Liabilities :**

Due to PEBA Insurance Benefits		31,200
Claims payable		281,185
Due to South Carolina Retiree Health Insurance Trust Fund		84,359

Total liabilities 396,744

Net position held in trust for other postemployment benefits (OPEB) \$ 35,425,761

*See accompanying notes.*

SOUTH CAROLINA LONG-TERM DISABILITY INSURANCE TRUST FUND

STATEMENT OF CHANGES IN PLAN NET POSITION

FOR THE YEAR ENDED JUNE 30, 2013

<b>Additions:</b>	
Contributions	\$ 6,796,468
Investment income ( <i>Note 3</i> )	412,988
Total additions	7,209,456
<b>Deductions:</b>	
Benefits expense	7,354,822
Administrative expenses	5,000
Total deductions	7,359,822
Net decrease in net position held in trust for OPEB	(150,366)
Net position held in trust for OPEB, beginning of year	35,576,127
Net position held in trust for OPEB, end of year	\$ 35,425,761

*See accompanying notes.*

SOUTH CAROLINA LONG-TERM DISABILITY INSURANCE TRUST FUND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

**1. Trust Description**

General

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

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

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

Plan Description and Contribution Information

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

The Trust receives employer contributions only. For the period ended June 30, 2013, Employers contributed \$6,796,468 to the Trust.

Administrative costs of the Plan are paid from Plan assets.

-CONTINUED-

SOUTH CAROLINA LONG-TERM DISABILITY INSURANCE TRUST FUND

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

**1. Trust Description (Continued)**

Eligible participants of the Plan consisted of the following at June 30, 2012, the date of the latest actuarial valuation:

Active participants	192,861
Retired participants	<u>1,029</u>
Total participants	<u>193,890</u>
Number of participating employers	<u>681</u>

Risks and Uncertainties

The Trust invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such 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 LONG-TERM DISABILITY INSURANCE TRUST FUND

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

**3. Investments, Deposits and Securities Lending Transactions**

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

Investments

In accordance with State Law, the Trust may invest in a variety of instruments including obligations of the United States and its agencies and securities fully guaranteed by the United States, certain corporate obligations, certain shares of Federal savings and loan associations and State chartered savings and loan associations, and collateralized repurchase agreements. All investments are required to be insured or registered, or held by the State or its agent in the name of the State Treasurer as custodian.

With respect to investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agents in the State's name. Information pertaining to the reported amounts, fair values, and credit risk of the State Treasurer's investments is disclosed in the *Comprehensive Annual Financial Report* of the State of South Carolina.

The following table presents the fair values of the investments (including invested securities lending collateral) of the Trust at June 30, 2013:

	<b>Fair Value</b>
Collateralized mortgage-backed obligations	\$ 1,919,207
Other Governmental guaranteed investments	7,243,716
Repurchase agreement	4,290,000
Corporate bonds	15,510,764
Financial paper	6,530,950
Total	<u>\$ 35,494,637</u>

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

SOUTH CAROLINA LONG-TERM DISABILITY INSURANCE TRUST FUND

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

For all investment classifications reported above, the balances therein fluctuated minimally in excess of the year-end balances throughout the year ended June 30, 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 \$5,275,000.

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, 2013, the Fund had no deposits with financial institutions. The Fund had \$1,158 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	\$ 1,318,637
Premium amortization	(22,396)
Gains and (losses) on investments	(883,253)
Investment earnings	<u>\$ 412,988</u>

SOUTH CAROLINA LONG-TERM DISABILITY INSURANCE TRUST FUND

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

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

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

	Statements	Note Disclosure
Held by State Treasurer:		
Cash and cash equivalents	\$ 4,291,158	\$ -
Pooled investments	31,204,637	-
Deposits	-	1,158
Specifically identified investments	-	35,494,637
Total	\$ 35,495,795	\$ 35,495,795

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 Trust did not have any securities on loan.

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.

SOUTH CAROLINA LONG-TERM DISABILITY INSURANCE TRUST FUND

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

**4. 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):

<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, 2012	\$ 35,576	\$ 23,586	\$ (11,990)	151%	\$ 7,871,635	0%

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

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

SOUTH CAROLINA LONG-TERM DISABILITY INSURANCE TRUST FUND

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

**4. Funded Status and Funding Progress (Continued)**

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

Valuation date	June 30, 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	6.00%
Payroll growth rate	3.50%

**5. 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 LONG-TERM DISABILITY INSURANCE TRUST FUND

SCHEDULE OF FUNDING PROGRESS

AS OF JUNE 30, 2013

(\$ 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	\$ 27,468	\$ 26,341	\$ (1,127)	104%	\$ 8,307,740	0%
June 30, 2009	\$ 29,440	\$ 23,610	\$ (5,830)	125%	\$ 8,418,750	0%
June 30, 2010	\$ 32,690	\$ 25,855	\$ (6,835)	126%	\$ 8,295,065	0%
June 30, 2011	\$ 33,283	\$ 24,957	\$ (8,326)	133%	\$ 7,837,796	0%
June 30, 2012	\$ 35,576	\$ 23,586	\$ (11,990)	151%	\$ 7,871,635	0%

SOUTH CAROLINA LONG-TERM DISABILITY INSURANCE TRUST FUND

SCHEDULE OF EMPLOYER CONTRIBUTIONS

AS OF JUNE 30, 2013

(\$ IN '000S)

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

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CERTIFIED PUBLIC ACCOUNTANTS  
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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 Long-Term Disability 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 "P. Leach & Williamson, L.L.P." The signature is written in a cursive, flowing style.

Columbia, South Carolina

October 1, 2013