



FIRST STATE INDEPENDENCE FUND I, LLC

Financial Statements

December 31, 2011 and 2010

(With Independent Auditors' Report Thereon)

FIRST STATE INDEPENDENCE FUND I, LLC

Table of Contents

	Page
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Statements of Fund Net Assets	6
Statements of Changes in Fund Net Assets	7
Notes to Financial Statements	8
Supplemental Schedules	
Schedule of Investments, December 31, 2011	12
Schedule of Investments, December 31, 2010	13
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	14



KPMG LLP
Suite 1000
30 North Third Street
PO Box 1190
Harrisburg, PA 17108-1190

Independent Auditors' Report

The Members of the Board of Pension Trustees
First State Independence Fund I, LLC:

We have audited the accompanying statements of fund net assets and the related statements of changes in fund net assets of the First State Independence Fund I, LLC (the Fund) as of and for the years ended December 31, 2011 and 2010. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate under the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the fund net assets and changes in fund net assets of the First State Independence Fund I, LLC as of and for the years ended December 31, 2011 and 2010, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 10 to the financial statements, in April 2012 the Board of Pension Trustees approved the liquidation of the Fund. All underlying fund managers received notices on or before July 1, 2012 to liquidate their assets.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2012 on our consideration of the Fund'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 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3–5 is 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Fund's financial statements. The supplementary information included in the schedule of investments is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information included in the schedule of investments is fairly stated in all material respects in relation to the financial statements as a whole.

KPMG LLP

September 26, 2012

FIRST STATE INDEPENDENCE FUND I, LLC

Management's Discussion and Analysis

December 31, 2011 and 2010

(Unaudited)

Introduction

This section of the financial statements of the First State Independence Fund I, LLC (the Fund) presents our discussion and analysis of the Fund's financial performance during the periods ended December 31, 2011 and 2010. As this discussion and analysis is designed to focus on current activities, it should be read in conjunction with the Fund's basic financial statements, which follow this section.

Financial Statements

The Fund's basic financial statements include the Statement of Fund Net Assets and Statement of Changes in Fund Net Assets, which have been presented in accordance with U.S. generally accepted accounting principles as applicable to governmental entities.

The Statement of Fund Net Assets provides information on the financial position of the Fund at period-end. The Statement of Changes in Fund Net Assets presents the results of the investing activities during the period. The notes to the financial statements offer additional disclosure that is essential to the full understanding of the data presented in the financial statements. The notes give more detail about accounting policies, significant account balances and activities, material risks, obligations, contingencies and subsequent events, if any. The financial statements and related notes are prepared in accordance with Governmental Accounting Standards Board principles as applicable to governmental entities.

Statement of Fund Net Assets

The Statement of Fund Net Assets presents the assets, liabilities, and net assets (assets minus liabilities) of the Fund as of the end of the fiscal year and is a point in time financial statement. The Statement of Fund Net Assets comprises the following major components:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
	(Dollar values expressed in thousands)		
Cash and equivalents	\$ 5,321	21,296	541
Receivables	2,649	11,527	3,581
Investments	144,588	173,127	190,479
Accrued expenses	<u>(360)</u>	<u>(442)</u>	<u>(488)</u>
Net assets	<u>\$ 152,198</u>	<u>205,508</u>	<u>194,113</u>

FIRST STATE INDEPENDENCE FUND I, LLC

Management's Discussion and Analysis

December 31, 2011 and 2010

(Unaudited)

Statement of Changes in Fund Net Assets

Changes in Fund Net Assets from the commencement of operations to period-end are presented in the Statement of Changes in Fund Net Assets. The purpose of this statement is to present the net investment income (loss) of the Fund as well as contributions from members and distributions to members or service providers. A summary follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
	(Dollars values expressed in thousands)		
Net investment (loss) gain	\$ (6,114)	9,691	29,739
Net capital (distribution) contribution from investor	<u>(47,196)</u>	<u>1,704</u>	<u>(4,102)</u>
Change in net assets	<u>\$ (53,310)</u>	<u>11,395</u>	<u>25,637</u>

The change in net assets between the periods ended December 31, 2011 and 2010 was (\$53,310) thousand and the change in net assets between the periods ended December 31, 2010 and 2009 was \$11,395 thousand. The change in net assets between the period ended December 31, 2010 to 2011 was primarily attributed to the \$48,800 thousand distributed to the investor. The distributions to the investor during the period ended December 31, 2011 were a result of redemptions as the Board approved partial liquidation of the Fund. The change in net assets between the period ended December 31, 2009 to 2010 was primarily attributed to the \$18,124 thousand in net unrealized gains from investments. The unrealized gains during the period ended December 31, 2010 were attributable to increases in domestic and global equity markets across all sectors and styles, however, were generally offset by manager short positions.

FIRST STATE INDEPENDENCE FUND I, LLC

Management's Discussion and Analysis

December 31, 2011 and 2010

(Unaudited)

Investment Performance

The investment objective of the Fund is to realize an annual total investment return exceeding the S&P 500 Index over a full market cycle, net of fees. The First State Independence Fund's strategy is to invest in long/short equity hedge funds (underlying funds). The investment performance for the First State Independence Fund lagged major indexes significantly for the periods ended December 31, 2009, 2010 and 2011. The 2009, 2010 and 2011 under-performance was attributed to the investment managers' hedges and short positions, which detracted from returns during a rising equity market. It is the fund's short positions and defensive posture that generally cause the fund to under-perform in rising markets and over-perform in falling markets. In 2011, the Fund failed to meet the S&P 500 benchmark return due to volatile and highly correlated equity market behavior, which was driven mainly by global macro-economic concerns, as opposed to individual company fundamentals, which is the focus of the underlying managers. The rate of return for the Fund is calculated as the net increase/(decrease) in net assets, excluding capital transactions of the investor, divided by net assets at the beginning of the year. The Fund's rate of return and various market indices are as follows:

	<u>2011</u> <u>1 year</u>	<u>2010</u> <u>1 year</u>	<u>2009</u> <u>1 year</u>
Total rate of return	(3.0)%	5.0%	18.4%
Returns of various market indices (%):			
S&P 500	2.1%	15.1%	26.5%
MSCI world	(5.0)	12.4	27.0

FIRST STATE INDEPENDENCE FUND I, LLC

Statements of Fund Net Assets

December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Assets:		
Cash and cash equivalents	\$ 5,321,416	21,296,271
Receivables:		
Accrued interest income	5	707
Pending trade sales	2,288,650	11,083,353
Receivable from DPERS	360,427	442,506
Total receivables	<u>2,649,082</u>	<u>11,526,566</u>
Investments at fair value:		
Alternative investments	144,587,692	173,127,420
Liabilities:		
Accrued investment expenses	<u>(360,427)</u>	<u>(442,506)</u>
Net assets	<u>\$ 152,197,763</u>	<u>205,507,751</u>

See accompanying notes to financial statements.

FIRST STATE INDEPENDENCE FUND I, LLC

Statements of Changes in Fund Net Assets

Years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Investment income	\$ 16,847	9,727
Net appreciation (depreciation) in fair value of investments	(4,526,835)	11,385,474
Less investment manager fees	<u>(1,603,780)</u>	<u>(1,704,331)</u>
Net investment (loss) gain	(6,113,768)	9,690,870
Capital contributions from investor	1,603,780	1,704,331
Distributions to investor	<u>(48,800,000)</u>	<u>—</u>
Net (decrease) increase	(53,309,988)	11,395,201
Balance at beginning of year	<u>205,507,751</u>	<u>194,112,550</u>
Balance at end of year	<u>\$ 152,197,763</u>	<u>205,507,751</u>

See accompanying notes to financial statements.

FIRST STATE INDEPENDENCE FUND I, LLC

Notes to Financial Statements

December 31, 2011 and 2010

(1) Organization

The Board of Pension Trustees (the Board) of the Delaware Public Employees' Retirement System (DPERS or the System) manages the First State Independence Fund I, LLC (the Fund), which was formed on June 25, 2008 and commenced operations on July 1, 2008. The System is the sole member of the Fund. The operations of the Fund are governed by the Board, including the determination of authorized investments for the Fund. Daily operation of the Fund is the responsibility of the State of Delaware Office of Pensions. The Fund is not registered with the Securities and Exchange Commission (SEC) as an investment company.

The Fund was formed for the object and purpose of increasing the investment return on assets of the pension plans of DPERS. The investment objective of the Fund is to realize an annual total investment return exceeding the S&P 500 Index over a full market cycle, net of fees. The investment strategy is to invest in long/short equity hedge funds (underlying funds).

The Fund is a blended component unit of the DPERS and the assets of the Fund are included in the financial statements of the System.

The accompanying financial statements present only the Fund and do not purport to, and do not, present fairly the financial position of the System as of December 31, 2011 and 2010, and changes in its financial position for the periods then ended in conformity with U.S. generally accepted accounting principles.

(2) Summary of Significant Accounting Policies

(a) *Basis of Accounting*

The financial statements use the economic resources measurement focus and the accrual basis of accounting, in conformity with U.S. generally accepted accounting principles. Under this method, revenues (additions) are recorded when earned and expenses (deductions) are recorded at the time liabilities are incurred, regardless of when the related cash flows takes place.

(b) *Cash and Cash Equivalents*

Cash and cash equivalents include all cash balances and highly liquid investments with original maturities of less than three months.

(c) *Investment Valuation*

Investments in underlying funds are stated at estimated fair value in accordance with procedures established by management, based on information provided by the Investment Adviser, Barlow Partners Inc. (Barlow), and/or valuation information received directly from the underlying fund managers and third-party administrators.

The fair value of the Fund's interest in an underlying fund will represent the amount that the Fund could reasonably expect to receive from an underlying Fund or from a third party if the Fund's interest were redeemed or sold at the time of valuation, based on information reasonably available at the time the valuation is made and that the Fund's management believes to be reliable. Management generally uses net asset value as reported by investment managers as a practical expedient to fair value for its investments in underlying funds. Net asset values provided by underlying funds

FIRST STATE INDEPENDENCE FUND I, LLC

Notes to Financial Statements

December 31, 2011 and 2010

managers are based on quoted prices for the funds' underlying securities, as well as estimates, appraisals, assumptions, and methods that are established by valuation committees and reviewed by management. Net asset value may differ from fair value, and under some circumstances, management may determine, based on other information available, that an underlying investment's reported valuation does not represent fair value.

These investments are redeemable with the underlying funds at net asset values under the original terms of the partnership agreements and/or subscription agreements and operations of the underlying funds. However, it is possible that these redemption rights may be restricted or eliminated by the underlying funds in the future in accordance with the underlying funds agreements. Due to the nature of the investments, their estimated value is subject to uncertainty and, therefore, may differ significantly from the value that would be used if a ready market for such investments existed. Accordingly, the realized value upon sale of the asset may differ from the fair value. Furthermore, changes to the liquidity provisions of the underlying funds may significantly impact the fair value of the Fund's interests.

(d) Investment Transactions

Investment transactions are accounted for on a trade or investment date basis. Gains or losses from investment transactions are determined by the average cost method. Net appreciation or depreciation in fair value of investments includes net realized gains or losses and the change in net unrealized gains and losses on investments for the fiscal period then ended. The net realized gain/(loss) from investment transactions amounted to (\$1,902,397) and (\$6,738,193) and the net increase/(decrease) in unrealized gains/(losses) was (\$2,624,438) and \$18,123,667, resulting in total net appreciation/(depreciation) in fair value of (\$4,526,835) and \$11,385,474, for the years ended December 31, 2011 and 2010, respectively.

(3) Related-Party Transactions

The sole member and manager of the Fund is the System, which resulted in inter-party transfers. \$1,603,780 and \$1,704,331 was transferred in from the System and \$48,800,000 and \$0 was transferred back to the System during the years ended December 31, 2011 and 2010, respectively.

(4) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures of assets and liabilities at the date of the financial statements and the reported amount of income and expenses during the reporting period. Actual results could differ from those estimates.

(5) Commitments

The Fund has purchase commitments totaling \$5.2 million and \$17 million as of December 31, 2011 and 2010, respectively.

(6) Investment Advisory Agreement

The Adviser, Barlow, is registered with the SEC as an investment adviser under the Investment Advisers Act of 1940, as amended (Advisers Act). The Adviser acts as a fiduciary to DPERS and has investment

FIRST STATE INDEPENDENCE FUND I, LLC

Notes to Financial Statements

December 31, 2011 and 2010

discretion over the investments made in the Fund. The Adviser is responsible for identifying what it considers to be attractive investment opportunities and for analysis of investment performance of the underlying funds. Investment advisory services are provided to the Fund by Barlow pursuant to an investment advisory agreement dated June 25, 2008 (the Advisory Agreement). As compensation for services and facilities provided by the Adviser under the Advisory Agreement, the Fund pays the Adviser each quarter a management fee equal to 0.25% (1.0% annually) of the net asset value of the Fund as of the end of each fiscal quarter. The Fund paid Barlow \$1,603,780 and \$1,704,331 in management fees for the years ended December 31, 2011 and 2010, respectively.

The Fund indirectly bears fees and expenses as an investor in the underlying funds.

(7) Administrative Expense

DPERS pays for the administrative expenses for the fund from its resources. These expenses related primarily to professional fees of approximately \$44,400 and \$51,400 in 2011 and 2010, respectively, as well as certain other administrative expenses that are immaterial to the Fund.

(8) Investments

The following table categorizes the Fund's investments in underlying funds by investment focus (all of which are invested principally in marketable equity securities) as of December 31, 2011 and 2010, none of which was a SEC-registered investment.

Investment focus	Fair value		Percent allocation	
	2011	2010	2011	2010
Global equity	\$ 33,308,464	43,016,459	23.0%	24.8%
Value	20,440,123	51,284,413	14.1	29.6
Global value	14,973,295	14,621,328	10.4	8.4
U.S. equity	14,248,226	—	9.9	—
Global technology	12,634,124	11,468,669	8.7	6.6
Industrials/technology	9,691,915	—	6.7	—
Large cap growth	9,372,186	9,398,759	6.5	5.4
Consumer	9,135,609	—	6.3	—
Small/mid cap value	9,086,555	14,663,236	6.3	8.5
Small cap growth	6,342,580	—	4.4	—
European equity	5,354,615	5,674,362	3.7	3.3
Global financial services	—	14,090,817	—	8.2
Global healthcare	—	5,822,022	—	3.4
Asian equity	—	3,087,355	—	1.8
	\$ 144,587,692	173,127,420	100.0%	100.0%

FIRST STATE INDEPENDENCE FUND I, LLC

Notes to Financial Statements

December 31, 2011 and 2010

There are no state statutes limiting allowable investments for the Fund. The investment decisions are dictated by the prudent person rule and internal investment guidelines established by the Board, in furtherance of the Fund's investment objectives. For the fiscal years ended December 31, 2011 and 2010, management of the Fund believes that it has operated in all material respects in accordance with Board guidelines.

Investments are typically subject to various risks. Among these risks are credit risk, concentration of credit risk, custodial credit risk, interest rate risk, and foreign currency risk. Each one of these risks is discussed in more detail below.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit risk of a debt instrument is evaluated by nationally recognized statistical rating agencies such as Moody's Investors Service, Inc., Standard & Poor's, and Fitch Ratings. Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. Interest rate risk is that risk that changes in interest rates will adversely affect the fair value of an investment. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment.

The Fund's investments in underlying funds are not represented by debt instruments and are not denominated in foreign currencies. As such, none of the above risks apply directly to Fund investments. However, the Fund's investments in underlying funds may contain elements of credit, currency, and market risk. Such risks include, but are not limited to, limited liquidity, absence of regulatory oversight, dependence on key individuals, use of leverage, emphasis on speculative investments, and nondisclosure of portfolio composition. Information about the investments held by the underlying funds is not readily available, so it is unknown whether the Fund holds any single investment whereby the Fund's proportionate share exceeds 5% of the Fund's net assets at December 31, 2011 and 2010.

Custodial Credit Risk: The Fund's \$82,312 and \$4,099,709 bank balance represents deposits in short-term investments held by The Northern Trust Co., the custodian bank as of December 31, 2011 and 2010, respectively. Of the Fund's bank balance, \$250,000 is insured by the Federal Deposit Insurance Corporation (FDIC). The carrying value (book value) of the Fund's deposit reflects the bank balance above in addition to \$5,239,104, which was transferred to the custody of various underlying fund managers pending investment.

(9) Taxes

The fund is exempt from taxation under Section 115 of the Internal Revenue Code.

(10) Subsequent Events

In April 2012, the Board approved the liquidation of the First State Independence Fund, LLC. All underlying fund managers received notices on or before July 1, 2012 to liquidate their assets. Proceeds from the asset liquidations are anticipated to be received by the spring of 2013 and will be distributed to DPERS.

FIRST STATE INDEPENDENCE FUND I, LLC

Schedule of Investments

December 31, 2011

Fund	Cost	Unrealized gain (loss)	Fair value December 31, 2011
Addison Clark Fund, LP	\$ 8,400,000	686,555	9,086,555
AKO Partners, LP	5,500,000	(145,385)	5,354,615
Bluefin Investors, LP	7,000,000	(657,420)	6,342,580
Brookside Capital Partners Fund II, LP	13,696,562	(2,161,127)	11,535,435
Brookside Capital Partners Fund, LP	6,848	559	7,407
Coatue Qualified Partners, LP	10,000,000	2,634,124	12,634,124
D. Gordon Partners, LP	9,000,000	135,609	9,135,609
Greenlight Capital Qualified, LP	10,000,000	4,973,295	14,973,295
J. Hilsabeck Partners, LP	9,500,000	191,915	9,691,915
MSG Partners, LP	15,000,000	(751,774)	14,248,226
Otter Creek Partners I, LP	8,700,000	9,890	8,709,890
Pershing Square, LP	7,585,514	4,144,719	11,730,233
Seminole Capital Partners, LP	9,000,000	372,186	9,372,186
Valinor Capital Partners, LP	4,000,000	626,399	4,626,399
Viking Global Equities, LP	13,867,863	3,271,360	17,139,223
Total	\$ 131,256,787	13,330,905	144,587,692

See accompanying independent auditors' report.

FIRST STATE INDEPENDENCE FUND I, LLC

Schedule of Investments

December 31, 2010

Fund	Cost	Unrealized gain (loss)	Fair value December 31, 2010
Addison Clark Fund, LP	\$ 6,000,000	85,010	6,085,010
AKO Partners, LP	5,500,000	174,362	5,674,362
Algebris Global Financials Fund, LP	10,000,000	202,000	10,202,000
Ayer Capital Partners Fund, LP	5,000,000	822,022	5,822,022
Brookside Capital Partners Fund, LP	6,848	682	7,530
Clovis Capital Partners Institutional, LP	8,428,488	149,738	8,578,226
Coatue Qualified Partners, LP	10,000,000	1,468,669	11,468,669
Eminence Partners	8,400,000	387,239	8,787,239
Glenview Institutional Partners, LP	7,538,973	1,090,330	8,629,303
Goshen Global Equity, LP	5,000,000	(1,111,183)	3,888,817
Greenlight Capital Qualified, LP	10,000,000	4,621,328	14,621,328
Homefield Partners, LP	8,000,000	25,426	8,025,426
Hopelite Partners	6,765,000	(183,887)	6,581,113
Otter Creek Partners I	8,700,000	118,614	8,818,614
Pennant Onshore Qualified, LP	4,247,254	914,063	5,161,317
Penta Asia Domestic Partners, LP	5,000,000	(1,912,645)	3,087,355
Pershing Square, LP	7,585,514	4,277,000	11,862,514
Seminole Capital Partners	9,000,000	398,759	9,398,759
SCP Ocean Fund, LP	14,000,000	695,654	14,695,654
Valinor Capital Partners, LP	4,000,000	1,660,988	5,660,988
Viking Global Equity, LP	14,000,000	2,071,174	16,071,174
Total	\$ 157,172,077	15,955,343	173,127,420

See accompanying independent auditors' report.



KPMG LLP
Suite 1000
30 North Third Street
PO Box 1190
Harrisburg, PA 17108-1190

Independent Auditors' 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*

The Members of the Board of Pension Trustees
First State Independence Fund I, LLC:

We have audited the financial statements of the First State Independence Fund I, LLC (the Fund) as of and for the year ended December 31, 2011, and have issued our report thereon dated September 26, 2012. 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

Management of the Fund is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

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 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.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund'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 management, the Board of Pension Trustees, Secretary of Finance, Office of the Controller General, Office of the Attorney General, Office of the



Governor, and the Office of the Management and Budget, and is not intended to be and should not be used by anyone other than these specified parties. However, under 29 Del C., Section 10002(d), this report is public and its distribution is not limited.

KPMG LLP

September 26, 2012