

FINANCIAL STATEMENTS

SOUTH CAROLINA RETIREMENT SYSTEMS

Columbia, South Carolina

Year Ended June 30, 2005

South Carolina Retirement Systems

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June 30, 2005

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ROGERS & LABAN, PA

CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

Independent Auditor's Report

Mr. Thomas L. Wagner, Jr., CPA, State Auditor
State of South Carolina
Columbia, South Carolina

We have audited the financial statements of the South Carolina Retirement Systems (the "Systems") as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the South Carolina Retirement Systems' management. 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 I to the financial statements, the Systems' financial statements are intended to present the financial position and results of operations and cash flows of only that portion of the financial reporting entity of the State of South Carolina that is attributable to the transactions of the System. They do not purport to and do not present the financial position of the State of South Carolina as of June 30, 2004, 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 plan net assets of the South Carolina Retirement Systems, as of June 30, 2004, and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note VIII to the financial statements, the Systems is a party to a legal action claiming substantial amounts as a result of the computation of retirement benefits for certain retired members and the collection of excess contributions. The ultimate outcome of the litigation cannot be presently determined. Accordingly, no provision for any liability has been made in the accompanying financial statements.

Management's Discussion and Analysis on pages 3 to 7 and the required supplementary information on pages 25 and 26 are not a required part of the financial statements but are supplementary information required by the Governmental Accounting Standards Board. 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.



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Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The schedule of changes in plan net assets – by system, schedule of administrative expenses, schedule of professional consultant fees, and schedule of investment expenses on pages 27 to 32 are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

As discussed in Note IX to the financial statements, management discovered a misclassification of certain deposits for the year ended June 30, 2003.

Rogers & Lalan, PA

October 5, 2004

Management's Discussion and Analysis

Management offers the following discussion and analysis to provide a narrative introduction to the basic financial statements and an analytical overview of the South Carolina Retirement Systems' financial activities for the fiscal year ended June 30, 2005. This narrative is intended as a supplement and should be read in conjunction with the financial statements.

Overview of the Financial Statements

The Retirement Systems are a part of the primary government of the state of South Carolina and the financial statements of such are included in the comprehensive annual financial report of the state. The Retirement Systems' financial statements provide information about the activities of the four defined benefit pension plans administered, in addition to comparative summary information about the activities of the Retirement Systems as a whole. The Plan's financial statements include the following components:

- Statement of Plan Net Assets
- Statement of Changes in Plan Net Assets
- Notes to the Financial Statements
- Required Supplementary Information

The *Statement of Plan Net Assets* presents the Plan's assets and liabilities and the resulting net assets, which are held in trust for pension benefits. This statement reflects a year-end snapshot of the Plan's investments, at fair value, along with cash and short-term investments, receivables and other assets and liabilities.

The *Statement of Changes in Plan Net Assets* presents information showing how the Plan's net assets held in trust for pension benefits changed during the year. This statement includes additions for contributions by members and employers and investment earnings and deductions for annuity payments, refunded contributions, group life insurance payments and administrative expenses.

Notes to the Financial Statements are an integral part of the financial statements and provide additional information that is necessary in order to gain a comprehensive understanding of data reported in the financial statements.

Required Supplementary Information presents information concerning the Retirement Systems' funding progress and its obligations to provide pension benefits to members. A schedule of required employer contributions and a summary of actuarial assumptions and methods are also presented and are useful in evaluating the condition of the plans.

Financial Highlights

- For the four pension trust funds administered by the South Carolina Retirement Systems, our combined investment portfolios generated a 7.02 percent aggregate return for fiscal year 2005. This return can be compared to a combined return of 8.76 percent for the prior fiscal year. Our actuarial assumed rate of return for investment purposes is 7.25 percent.
- Net assets are held in trust to meet future benefit payments. Total plan net assets of the four pension trust funds administered by the South Carolina Retirement Systems increased from \$23.8 billion to \$24.8 billion during fiscal year 2005, primarily as a result of positive investment returns.
- Deferred retirement benefits accumulated under the Teacher and Employee Retention Incentive (TERI) program continued to experience growth from our membership. The amount of assets held in trust for future payments of accrued benefit expense increased 36 percent to \$885 million during fiscal year 2005. This increase is a result of both the growth of over 1,400 new participants in the program and the continued accumulation of benefits deferred on a monthly basis for all participants.
- The number of retired members and beneficiaries receiving monthly benefits under the Retirement Systems' plans exceeded 100,000 annuitants during the year. As a result, benefit payments increased 7.7 percent over the prior year from \$1.6 billion to \$1.7 billion.

Condensed Financial Information

It is necessary to accumulate funds on a regular and systematic basis in order to ensure the Retirement Systems' ability to properly fund the payments of retirement benefits to members in future years. The four defined benefit plans provide benefits to eligible employees of State, public school, local and municipal government, state legislative and judicial employers.

The principal sources from which the Systems derive revenues are employee contributions, employer contributions and earnings on investments. Expenses of the Systems consist primarily of payments of monthly annuities to retired members and their beneficiaries and refunds of member contributions paid upon termination. Other programs administered by the Systems include a group life insurance plan for both active and retired members and an accidental death plan for police officers.

Summary comparative financial statements of the pension trust funds are presented as follows:

Plan Net Assets

June 30

(Amounts expressed in thousands)

	2005	2004	% Increase/ (Decrease)
Assets			
Cash and Cash Equivalents, Receivables and Prepaid Expenses	\$ 3,137,913	\$ 3,087,343	1.64%
Total Investments, at fair value	22,652,248	21,427,345	5.72%
Securities lending cash collateral invested	4,110,377	3,698,749	11.13%
Property, net of accumulated depreciation	3,814	3,933	(3.03%)
Total Assets	<u>29,904,352</u>	<u>28,217,370</u>	5.98%
Liabilities			
Deferred retirement benefits	884,776	649,385	36.25%
Obligations under securities lending	4,110,377	3,698,749	11.13%
Other liabilities	100,752	86,497	16.48%
Total Liabilities	<u>5,095,905</u>	<u>4,434,631</u>	14.91%
Total Net Assets	<u>\$ 24,808,447</u>	<u>\$ 23,782,739</u>	4.31%

Changes in Plan Net Assets

Year Ended June 30

(Amounts expressed in thousands)

	2005	2004	% Increase/ (Decrease)
Additions			
Employee Contributions	\$ 495,012	\$ 473,688	4.50%
Employer Contributions	638,487	612,727	4.20%
Investment Income	1,684,122	1,985,109	(15.16%)
Other Income	4,188	5,232	(19.95%)
Total Additions	<u>2,821,809</u>	<u>3,076,756</u>	(8.29%)
Deductions			
Total Annuities	1,681,582	1,561,371	7.70%
Refunds	80,906	78,423	3.17%
Group Life	15,195	15,202	(0.05%)
Administrative & other expenses	18,418	18,391	0.15%
Total Deductions	<u>1,796,101</u>	<u>1,673,387</u>	7.33%
Increase (Decrease) in Net Assets	<u>1,025,708</u>	<u>1,403,369</u>	(26.91%)
Beginning Net Assets	23,782,739	22,379,370	6.27%
Ending Net Assets	<u>\$ 24,808,447</u>	<u>\$ 23,782,739</u>	4.31%

Analysis of the Plan's Financial Position and Results of Operations

On a combined basis, plan net assets were \$24.8 billion at June 30, 2005, representing a 4.3 percent increase in net assets from the previous year-end. Investment income is a major revenue source; therefore, the increase in plan net assets is primarily due to our positive investment performance during fiscal year 2005. Our combined investment return for fiscal year 2005 was 7.02 percent, which lagged behind our assumed actuarial investment return of 7.25 percent. During the prior fiscal year 2004, the Systems achieved five full years of investment in the US equity market and completed the process of investing up to the 40 percent equity funding target. During the current fiscal year 2005, the Systems maintained the maximum allowable 40 percent equity funding target, producing a 7.24 percent return on the equity segment of the portfolio, and a return of 6.87 percent on the fixed income segment of our investment portfolio. In comparison, the prior fiscal year 2004 produced a combined total investment return of 8.76 percent, with 20.88 percent and 1.49 percent returns for the equity and fixed income segments respectively. Effective July 1, 2004, the State Treasurer, as custodian, segregated into a liquidity pool of short duration investments, a 2 percent (approximately) portion of the aggregate fixed income portfolio. The intent of this pool is to more efficiently manage the cash flows into and out of the fund. This segment of the investment portfolio earned a return of 2.30 percent for the fiscal year.

While the fluctuations in returns between market segments exemplify the need for an optimally diversified investment portfolio, the Retirement Systems' investment performance has been limited in the past by our state constitution and state statute. The General Assembly enacted legislation effective July 1, 2005, which establishes the Retirement System Investment Commission and sets an investment target allocation under which future equity investments cannot exceed 70 percent of the portfolio. For an extensive discussion of our investments, please refer to the investment section of the Comprehensive Annual Financial Report.

During fiscal year 2005, the total dollar amount of retirement annuities paid increased by 7.70 percent when compared with the previous fiscal year. This was primarily due to the continued growth of the deferred retirement option (also known as TERI – Teacher and Employee Retention Incentive). The TERI program allows a member to accumulate monthly retirement benefits on a tax-deferred basis, while continuing to earn a salary from full-time employment. The SCRS retains the accumulated TERI retirement benefits in trust for the member, thus creating a liability for benefits to be disbursed by SCRS upon the member's termination from employment.

The continued effects of 28-year retirement in the SCRS and the impact of the number of eligible employees electing retirement contributed to the increase in expenses. A 1.60 percent cost-of-living adjustment (COLA) granted to SCRS and PORS annuitants effective July 1, 2004, also contributed to the increase in the total annuity expense. The annual COLA is a very important benefit to our retirees and is critical to income. The General Assembly enacted legislation effective July 1, 2005 which guarantees a 1 percent COLA and further allows for additional COLA's that are conditional. Ad hoc COLA's have historically been granted and funded with either unanticipated actuarial gains or an extension of the system's unfunded actuarial accrued liability (UAAL) amortization period. As of the most recent actuarial valuation dated July 1, 2004, the UAAL amortization period for SCRS was 27 years; thus, the system's ability to fund additional ad hoc COLA's without additional contributions or increased investment returns is uncertain.

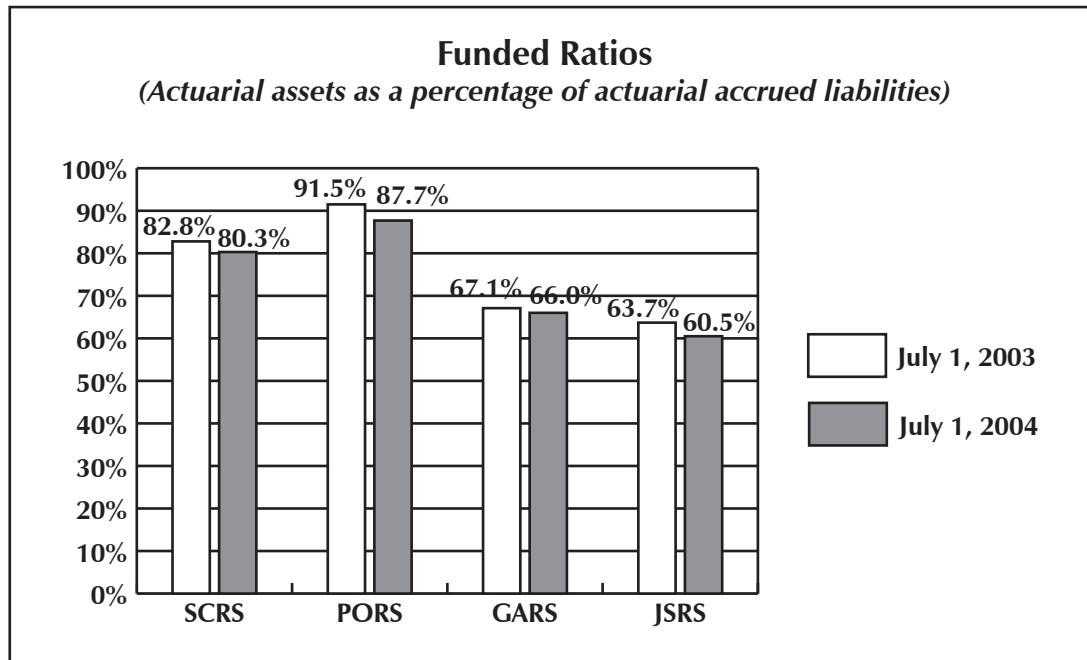
In addition to establishing the Investment Commission and guaranteeing a 1 percent COLA as stated above, the State Retirement System Preservation and Investment Reform Act passed by the General Assembly also made other changes to SCRS. The legislation requires retired members who either participate in TERI or who work for a covered employer to make employee contributions to the system. The Act also increased the SCRS employee contribution from 6 percent to 6.25 percent effective July 1, 2005 and to 6.50 percent as of July 1, 2006. Employer contributions will increase as well from 7.55 percent to 8.05 percent effective July 1, 2006 and to 8.55 percent as of July 1, 2007. In summary, this legislation secured funding of SCRS and provided funding for retiree COLA's to help ensure that retiree income is not eroded by inflation.

Funding Status

An overall objective in the funding of a defined benefit retirement system is to accumulate sufficient funds to meet long-term obligations to pay benefits to participants when due. The primary sources of assets to fund benefits include investment income, member contributions and employer contributions. A five-year smoothing method is used in actuarially valuing assets to mitigate the impact of market volatility and allow changes in market conditions to be recognized (smoothed) over several years.

The ratio of actuarial assets to actuarial liabilities provides an indication as to whether sufficient assets are accumulated to pay benefits when due. The greater the level of funding, the larger the ratio of actuarial assets to

actuarial accrued liabilities. The most recent actuarial valuations prepared as of July 1, 2004, and adopted by the Budget and Control Board, indicate that the funded ratios of each of the four individual plans declined slightly from the previous valuation, which was completed as of July 1, 2003. The funded ratios decreased as a result of the recognition of losses in market value of investments that occurred in fiscal years 2000 through 2002 and a change in the actuarial valuation method; however, as of July 1, 2004 funding levels of all the plans are such that annual contributions are sufficient for the valuation to find the plans in good actuarial condition. The changes in the levels of funding do not affect the availability of fund resources for future use and actuarial projections indicate that unfunded liabilities will be amortized and funded within acceptable funding guidelines. The funded ratios of the four plans are presented in the graph below.



Requests for Information

This financial report is designed to provide a general overview of the Retirement Systems' finances for all interested parties. Questions concerning any of the information provided in this report or requests for additional financial information should be directed as follows:

Financial Services
South Carolina Retirement Systems
PO Box 11960
Columbia, SC 29211-1960
(803) 737-6800
www.retirement.sc.gov

South Carolina Retirement Systems

Statement of Plan Net Assets

June 30, 2005

With comparative totals for June 30, 2004

(Amounts expressed in thousands)

	SCRS	PORS	GARS	JSRS	TOTAL	TOTAL 2004
ASSETS						
Cash and cash equivalents	\$ 2,532,141	\$ 280,238	\$ 8,035	\$ 13,774	\$ 2,834,188	\$ 2,789,406
Receivables						
Due from other Systems	320	1,300	74	42	1,736	698
Employee and employer contributions	120,426	14,814	123	682	136,045	123,524
Employer contributions long-term	1,755	30			1,785	2,017
Accrued investment income	102,115	11,670	216	543	114,544	122,213
Unsettled investment sales	43,894	5,234	97	225	49,450	48,874
Total receivables	268,510	33,048	510	1,492	303,560	297,326
Investments, at fair value						
Short-term securities	230,054	65,518			295,572	680,084
United States Government securities	2,718,706	385,895	1,707	16,196	3,122,504	1,711,502
United States Government agencies and government-insured	1,454,693	225,216	4,247	10,471	1,694,627	2,006,362
Corporate bonds	3,979,140	432,351	9,305	22,320	4,443,116	4,441,928
Convertible bonds	105	13	1	1	120	3,227
Financial and other	1,821,262	238,882	2,558	5,139	2,067,841	2,322,343
Common trust funds	5,246,165	624,901	10,948	27,038	5,909,052	5,293,944
Common stock	4,542,619	543,924	9,505	23,368	5,119,416	4,967,547
Convertible preferred stock						408
Total investments	19,992,744	2,516,700	38,271	104,533	22,652,248	21,427,345
Prepaid administrative expenses	145	19		1	165	611
Securities lending cash collateral invested	3,530,026	547,147	5,900	27,304	4,110,377	3,698,749
Capital assets, net of accumulated depreciation	3,437	351	10	16	3,814	3,933
Total assets	26,327,003	3,377,503	52,726	147,120	29,904,352	28,217,370
LIABILITIES						
Due to other Systems	1,346	263	15	112	1,736	698
Accounts payable - unsettled investment purchases	55,156	6,634	121	285	62,196	50,203
Investment fees payable	5,026	598	11	26	5,661	5,002
Obligations under securities lending	3,530,026	547,147	5,900	27,304	4,110,377	3,698,749
Deferred retirement benefits	884,776				884,776	649,385
Due to Employee Insurance Program	27,126	494			27,620	26,245
Benefits payable	1,743	294			2,037	2,089
Other accrued liabilities	1,321	181			1,502	2,260
Total liabilities	4,506,520	555,611	6,047	27,727	5,095,905	4,434,631
Net assets held in trust for Pension Benefits (a schedule of funding progress for each plan is presented on Page 22)	\$21,820,483	\$2,821,892	\$ 46,679	\$ 119,393	\$24,808,447	\$23,782,739

The accompanying notes are an integral part of these financial statements.

South Carolina Retirement Systems
Statement of Changes in Plan Net Assets
Year Ended June 30, 2005
With comparative totals for the year ended June 30, 2004
(Amounts expressed in thousands)

	SCRS	PORS	GARS	JSRS	TOTAL	TOTAL 2004
Additions						
Contributions						
Employee	\$ 433,252	\$ 58,802	\$ 924	\$ 2,034	\$ 495,012	\$ 473,688
Employer	538,809	90,528	2,890	6,260	638,487	612,727
Total contributions	972,061	149,330	3,814	8,294	1,133,499	1,086,415
Investment Income						
Net appreciation (depreciation) in fair value of investments	915,907	105,259	1,819	4,736	1,027,721	1,283,558
Interest and dividend income	592,013	71,885	1,446	3,474	668,818	708,119
Investment expense	(19,878)	(2,386)	(41)	(101)	(22,406)	(23,199)
Net income from investing activities	1,488,042	174,758	3,224	8,109	1,674,133	1,968,478
From securities lending activities:						
Securities lending income	75,142	10,315	121	428	86,006	57,141
Securities lending expense	(66,297)	(9,224)	(107)	(389)	(76,017)	(40,510)
Net income from securities lending activities	8,845	1,091	14	39	9,989	16,631
Total net investment income	1,496,887	175,849	3,238	8,148	1,684,122	1,985,109
Supplemental retirement benefits funded by the State	1,982	64			2,046	2,400
Transfers of contributions from other Systems	2	2,071	11	58	2,142	2,832
Total additions	2,470,932	327,314	7,063	16,500	2,821,809	3,076,756
Deductions						
Refunds of contributions to members	67,434	13,441	31		80,906	78,423
Transfers of contributions to other Systems	2,136	4	2		2,142	2,832
Regular retirement benefits	1,173,459	151,477	5,560	9,215	1,339,711	1,257,605
Deferred retirement benefits	338,778				338,778	300,294
Supplemental retirement benefits	1,982	64			2,046	2,400
Group life insurance claims	13,710	1,468	16	1	15,195	15,202
Accidental death benefits		1,047			1,047	1,072
Depreciation	107	11		1	119	119
Administrative charges	14,242	1,808	31	76	16,157	15,440
Total deductions	1,611,848	169,320	5,640	9,293	1,796,101	1,673,387
Net increase (decrease)	859,084	157,994	1,423	7,207	1,025,708	1,403,369
Net assets held in trust for Pension Benefits						
Beginning of year	20,961,399	2,663,898	45,256	112,186	23,782,739	22,379,370
End of year	<u>\$21,820,483</u>	<u>\$ 2,821,892</u>	<u>\$ 46,679</u>	<u>\$ 119,393</u>	<u>\$24,808,447</u>	<u>\$23,782,739</u>

The accompanying notes are an integral part of these financial statements.

South Carolina Retirement Systems

Notes to Financial Statements

I. Basis of Presentation and Summary of Significant Accounting Policies

Description of the Entity

The financial statements of the South Carolina Retirement Systems (Systems) presented herein contain the following funds:

Pension Trust Funds

- South Carolina Retirement System (SCRS)
- South Carolina Police Officers Retirement System (PORS)
- Retirement System for Members of the General Assembly of the State of South Carolina (GARS)
- Retirement System for Judges and Solicitors of the State of South Carolina (JSRS)

Each pension trust fund operates on an autonomous basis; funds may not be utilized for any purpose other than for the benefit of each plan's participants.

The Retirement Systems are part of the State of South Carolina's primary government and are 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.

Plan Descriptions

The South Carolina Retirement System, a cost-sharing multiple-employer defined benefit pension plan, was established effective July 1, 1945, pursuant to the provisions of Section 9-1-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for teachers and employees of the State and political subdivisions thereof.

The South Carolina Police Officers Retirement System, a cost-sharing multiple-employer defined benefit pension plan, was established effective July 1, 1962, pursuant to the provisions of Section 9-11-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for police officers and firemen of the state and its political subdivisions.

The Retirement System for Members of the General Assembly of the State of South Carolina, a single-employer defined benefit pension plan, was created effective January 1, 1966, pursuant to the provisions of Section 9-9-20 of the South Carolina Code of Laws to provide retirement allowances and other benefits for members of the General Assembly.

The Retirement System for Judges and Solicitors of the State of South Carolina, a single-employer defined benefit pension plan, was created effective July 1, 1979, pursuant to the provisions of Section 9-8-20 of the South Carolina Code of Laws for the purpose of providing retirement allowances and other benefits for judges and solicitors of the state.

A summary of information related to participating employers and active members as of June 30, 2005, follows (dollar amounts expressed in thousands):

	<u>State*</u>	<u>School</u>	<u>Other</u>	<u>Total</u>
SCRS				
Number of Employers	109	99	560	768
Annual Covered Payroll	\$ 1,958,766	\$ 2,760,033	\$ 1,497,701	\$ 6,216,500
Average Number of Contributing Members	55,815	84,533	50,515	190,863
PORS				
Number of Employers	49	4	263	316
Annual Covered Payroll	\$ 294,899	\$ 150	\$ 508,021	\$ 803,070
Average Number of Contributing Members	9,812	6	14,619	24,437
GARS				
Number of Employers	2			2
Annual Covered Payroll	\$ 3,084			\$ 3,084
Number of Elected Positions	170			170
JSRS				
Number of Employers	2			2
Annual Covered Payroll	\$ 14,643			\$ 14,643
Average Number of Contributing Members	128			128

*Note: Each state agency is considered a separate employer for reporting purposes. Institutions of Higher Education are reported in this category.

Based upon the most recent, complete actuarial valuation (July 1, 2004), membership in the Systems was as follows:

	<u>SCRS</u>	<u>PORS</u>	<u>GARS</u>	<u>JSRS</u>
Retirees and beneficiaries currently receiving benefits	89,607	9,056	297	139
Terminated members entitled to but not yet receiving benefits	146,718	9,597	59	3
Total active, elected positions, and other special contributing members	181,827	23,734	209	128
Total	<u>418,152</u>	<u>42,387</u>	<u>565</u>	<u>270</u>

A brief summary of benefit provisions and eligibility criteria is presented.

Membership

SCRS

Generally, all employees of covered employers are required to participate in and contribute to the System as a condition of employment. This plan covers general employees and teachers.

State ORP

As an alternative to membership in SCRS, certain state, public school, and higher education employees have the option to participate in the State Optional Retirement Program (State ORP). State ORP participants direct the investment of their funds into a plan administered by one of four investment providers. The SCRS assumes no liability for State ORP benefits. Rather, the benefits are the liability of the investment providers and are governed by the terms of the contracts issued by them. For this reason, State ORP programs are not considered part of the SCRS for financial statement purposes.

Contributions to the State ORP are at the same rates as SCRS. A direct remittance is required from the employers to the investment providers for the employee contribution (6 percent) and a portion of the employer contribution (5 percent). A direct remittance is also required to the SCRS for a portion of the employer contribution (2.55 percent) and a group life contribution (.15 percent), which is retained by the SCRS. The activity for the State ORP is as follows:

State ORP Activity
Year Ended June 30, 2005
(Dollar amounts expressed in thousands)

Covered Payroll	\$ 477,166
Employer Contributions Retained by SCRS	12,168
Group Life Contributions Retained by SCRS	716
Employee Contributions to Investment Providers	28,630
Employer Contributions to Investment Providers	23,858
Average Number of Contributing Participants	11,069

PORS

To be eligible for PORS membership, an employee must be required by the terms of his employment, by election or appointment, to preserve public order, protect life and property, and detect crimes in the state; to prevent and control property destruction by fire; be a coroner in a full-time permanent position; or be a peace officer employed by the Department of Corrections, the Department of Juvenile Justice, or the Department of Mental Health. Probate judges and coroners may elect membership in PORS. Magistrates are required to participate in PORS for service as a magistrate. PORS members, other than magistrates and probate judges, must also earn at least \$2,000 per year and devote at least 1,600 hours per year to this work, unless exempted by statute.

GARS

All persons are required to participate in and contribute to the System upon taking office as a member of the General Assembly.

JSRS

All solicitors, judges of a Circuit or Family Court and justices of the Court of Appeals and Supreme Court are required to participate in and contribute to the System upon taking office.

Pension Benefits

SCRS

A monthly pension is payable at age 65 or with 28 years credited service regardless of age. Reduced pension benefits are payable at age 55 with 25 years of service credit. A member is eligible to receive a deferred annuity at age 60 with five years earned service. A group life insurance benefit is also provided to members with at least one year of service.

PORS

A monthly pension is payable at age 55 with a minimum of five years earned service or with 25 years of service regardless of age. A member is eligible to receive a deferred annuity at age 55 with five years earned service. A group life insurance benefit is also provided to members with at least one year of service. An additional accidental death benefit is provided to officers killed in the line of duty.

SCRS and PORS retirees may receive ad hoc cost-of-living adjustments of up to 4 percent annually based on increases in the Consumer Price Index. The State Budget and Control Board grants increases in accordance with its funding policies and state statute.

GARS

A member is eligible for a monthly pension at age 60 or with 30 years credited service. Effective January 1, 2003, a member who has attained the age of 70 years or has 30 years of service is eligible to retire and draw an annuity while continuing to serve in the General Assembly. A member is eligible to receive a deferred annuity with eight years of service. A group life insurance benefit is also provided to members with at least one year of service.

JSRS

A pension benefit is payable at age 70 with 15 years service, age 65 with 20 years service, age 65 with four years in a JSRS position and 25 years other service with the state, 25 years service regardless of age for a judge or 24 years of service for a solicitor regardless of age. A judge is vested in the system after attaining 10 years of earned service in the position of judge, and a solicitor is vested in the system after attaining eight years of earned service as a solicitor. A group life insurance benefit is also provided to members with at least one year of service.

GARS and JSRS retirees receive increases in benefits based upon increases in current salary of the respective active positions.

Membership, benefits and employee and employer contribution requirements are prescribed in Title 9 of the South Carolina Code of Laws.

Summary of Significant Accounting Policies

Fund Structure

The Systems' accounts are maintained in accordance with the principles of fund accounting. This is the procedure whereby resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with specified activities or objectives. Separate pension trust funds (fiduciary fund type) are used to account for the activities of the four public employee retirement systems administered by the Systems.

Basis of Accounting

All funds are accounted for using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. Benefit and refund expenses are recognized when due and payable in accordance with the terms of the plan.

Administrative Expenses

The State Budget and Control Board's Office of Internal Operations maintains an internal service fund to account for the administrative costs of operating the Systems. All accounting and corresponding disclosures related to administrative expense, which include employee salaries and associated employee benefits, are the responsibility of the internal service fund administered by the Board. This fund assesses administrative charges to each of the pension trust funds based on its respective portion of total assets in order to pay for actual expenses incurred during the year.

Cash and Cash Equivalents

The Systems classify cash on deposit in financial institutions and cash on deposit in the State's internal cash management pool as cash and cash equivalents. The Systems also classify certain short-term highly liquid securities with an original maturity of three months or less as cash equivalents.

Contributions

Employee and Employer contributions are reported in the period in which they are due, pursuant to formal commitments as well as statutory requirements. Substantially all contributions receivable are collected within 30 days of year-end.

Investments

Investments are reported at fair value. Short term securities categorized as cash or cash equivalents are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price. Investment income consists of realized and unrealized appreciation (depreciation) in the fair value of investments, interest income earned, dividend income earned, less investments expense, plus income from securities lending activities, less deductions for security lending expenses. Securities and securities transactions are reflected in the financial statements on a trade-date basis.

Capital Assets

Capital assets are capitalized at cost and depreciated on a straight-line basis over an estimated useful life of forty years.

II. Contributions and Reserves

Contributions to each of the Plans are prescribed in Title 9 of the South Carolina Code of Laws.

Plan members are required to contribute at statutorily established rates. The rates applicable for fiscal year 2005 follow:

SCRS	6% of earnable compensation
PORS	6.5% of earnable compensation
GARS	10% of earnable compensation
JSRS	8% of earnable compensation

Employer contributions are established by the State Budget and Control Board at the actuarially determined rates recommended by the Systems' actuary.

In accordance with provisions of the 2004-2005 State Appropriations Act, an additional employer contribution surcharge of 3.25 percent of covered payroll was added to the contribution rate applicable to State and local governments, and Public School entities covered by the Employee Insurance Program. This assessment is for the purpose of providing retiree health and dental insurance coverage and is not a part of the actuarially established contribution rates. Functioning as a collecting agent, SCRS and PORS collected (amounts expressed in thousands) \$187,653 and \$9,927 respectively in retiree insurance surcharges (\$15,454 of which was applicable to the State ORP) and remitted these funds to the Employee Insurance Program.

Net Assets of each plan are required to be reserved in the following accounts:

The Employer Fund is credited with all employer retirement contributions and investment earnings of the Employee and Employer Funds. It is also the fund from which all annuities and administrative expenses of the Systems are paid.

The Employee Fund is credited with all contributions made by active members of the Systems. Interest is credited to each member's individual account at an annual rate of 6 percent by transferring funds from the Employer Fund to the Employee Fund. At termination of employment prior to retirement, employee contributions and accumulated interest may be refunded from this fund to the member. At retirement, employee contributions and interest are transferred from the Employee Fund to the Employer Fund for subsequent payment of benefits.

The Group Life Insurance Fund (SCRS and PORS only) is the fund to which participating employers contribute for the purpose of providing a life insurance benefit to active and retired members of the Systems. Employer contributions and earnings are credited to this fund. Group life insurance benefit payments and administrative expenses are paid from this fund.

The Accidental Death Fund (PORS only) is the fund to which participating employers contribute for the purpose of providing annuity benefits to beneficiaries of police officers and firemen killed in the actual performance of their duties. This fund and its benefits are independent of any other retirement benefit available to the beneficiary. Employer contributions and investment earnings are credited to this fund. Monthly survivor annuities and administrative expenses are paid from this fund.

Balances in the respective reserves at June 30, 2005, were as follows (amounts expressed in thousands):

	SCRS	PORS	GARS	JSRS
Employee Fund	\$ 4,915,423	\$ 585,701	\$ 8,024	\$ 20,005
Employer Fund	16,788,710	2,187,814	38,655	99,388
Group Life Insurance Fund	116,350	22,079		
Accidental Death Fund		26,298		
	<u>\$ 21,820,483</u>	<u>\$ 2,821,892</u>	<u>\$ 46,679</u>	<u>\$ 119,393</u>

III. Deposits and Investments

Deposit and Investment Risk Disclosures

The tables presented on Pages 14-16 include disclosures of credit and interest rate risk in accordance with Governmental Accounting Standards Board Statement 40 and are designed to inform financial statement users about investment risks which could affect the Systems' ability to meet its obligations. These tables classify investments by risk type, while the financial statements disclose investments by asset class. The table amounts were provided by the custodian bank and may vary from the Statement of Plan Net Assets primarily because the amounts reported include accrued interest receivable.

The carrying amount of the Systems' deposits at June 30, 2005, was as follows (amounts expressed in thousands):

SCRS	\$ 6,975
PORS	66
GARS	6
JSRS	<u>8</u>
Total	<u>\$ 7,055</u>

At June 30, 2005, approximately \$685 thousand of the above total was exposed to custodial credit risk as uninsured and uncollateralized with the exception of amounts covered by FDIC.

Custodial Credit Risk

Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Systems' deposits may not be recovered. As prescribed by statute, the State Treasurer is the custodian of all deposits and is responsible for securing all deposits held by banks or savings and loan associations. These deposits must be secured by deposit insurance, surety bonds, collateral securities, or letters of credit to protect the state against loss in the event of insolvency or liquidation of the institution or for any other cause. All deposits are required to be insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000 or collateralized with securities held by the state or its agent in the State Treasurer's name as custodian.

Investments

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the Systems will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. Investing for the Systems is governed by the South Carolina Code of Laws Title 11 Chapter 9 Section 11-9-660 and states that investments may be made 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, collateralized repurchase agreements, and equity securities.

Corporate obligations must bear an investment grade rating by at least two nationally recognized rating services. Collateral held for certificates of deposit or repurchase agreements must be obligations of the United States or investment grade corporate obligations and held by a third party as escrow agent or custodian and of a market value not less than the amount of either the certificate

of deposit so secured, including interest, or the amount of the repurchase agreement so collateralized, including interest. At June 30, 2005, all of the Systems' investments were insured and registered.

The following table presents the fair value of investments as of June 30, 2005:

Statement of Invested Assets
June 30, 2005
(Amounts expressed in thousands)

<u>Investment Type</u>	<u>Fair Value</u>
<u>Fixed Income Investments</u>	
U.S. Government:	
U.S. Government Treasury Notes and Bonds	\$ 3,138,994
U.S. Government Agencies	905,059
Other U.S. Government	4,517
Mortgage Backed:	
Government Pass-Through	918,084
Collateralized Mortgage Obligations:	
Government CMOs	308,181
Corporate:	
Corporate Bonds	4,497,556
Corporate Asset Backed	551,098
Private Placements	1,153,580
Municipals	44,364
Dollar Denominated Fixed Income - Developed Corporate Markets	85,298
Total Fixed Income Investments	<u>11,606,731</u>
<u>Short Term Investments</u>	
Commercial Paper	138,625
Repurchase Agreements	2,608,547
U.S. Government Agencies	209,590
Total Short Term Investments	<u>2,956,762</u>
<u>Equity</u>	
Domestic	10,839,618
American Depository Receipts	193,037
Total Equity Investments	<u>11,032,655</u>
Derivatives*	149
Total Invested Assets	<u><u>\$ 25,596,297</u></u>

*Derivatives acquired as part of a corporate action.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. This risk is managed within the portfolio using effective duration. Effective duration is a measure of the price sensitivity of a bond or a portfolio of bonds to interest rate movements given a 50 basis point change in interest rates. It takes into account that expected cash flows will fluctuate as interest rates change and provides a measure of risk that changes proportionately with market rates. The Systems' investment policy requires that the weighted average maturity and weighted average duration of the actively managed fixed income portfolio should not exceed 175% of the benchmark index averages.

South Carolina Retirement Systems Interest Rate Sensitivity - Effective Duration June 30, 2005 (Amounts expressed in thousands)

<u>Investment Type</u>	<u>Fair Value</u>	<u>Effective Duration</u>
<u>Fixed Income Investments</u>		
U.S. Government:		
U.S. Government Treasury Notes and Bonds	\$ 3,138,994	0.88
U.S. Government Agencies	905,059	0.74
Other U.S. Government	4,517	6.29
Total U.S. Government	<u>4,048,570</u>	0.85
Mortgage Backed:		
Government Pass-Through	918,084	2.73
Collateralized Mortgage Obligations:		
Government CMOs	308,181	3.12
Corporate:		
Corporate Bonds	4,497,556	6.49
Corporate Asset Backed	551,098	0.37
Private Placements	1,153,580	9.58
Total Corporate	<u>6,202,234</u>	6.53
Municipals	44,364	3.50
Dollar Denominated Fixed Income - Developed Corporate Markets	85,298	3.24
Total Fixed Income Investments	<u>11,606,731</u>	4.12
<u>Short Term Investments</u>		
Commercial Paper	138,625	0.05
Repurchase Agreements	2,608,547	0.00
U.S. Government Agencies	209,590	0.27
Total Short Term Investments	<u>2,956,762</u>	0.02
Total Invested Assets	<u>\$ 14,563,493</u>	3.28

Credit Risk of Debt Securities

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the Systems. The investment policy for credit quality of debt securities states that securities must bear an investment grade rating from at least two of the national rating agencies. Obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk and disclosure is not required. Credit quality of cash reserves must carry a rating of A1/P1/F1 or D1 from at least two nationally recognized rating services. In the event that the rating of a security falls below investment grade, that security may continue to be held contingent upon an evaluation of the longer term investment merits of the security. As of June 30, 2005, the Systems' rated debt investments were rated by Standard & Poor's and are presented below:

South Carolina Retirement Systems

Credit Risk - S&P Quality Ratings

June 30, 2005

(Amounts expressed in thousands)

Investment Type and Fair Value	AAA	AA	A	BBB	BB	B	CCC & Below	A-1	NR
Fixed Income Investments									
U.S. Government:									
U.S. Government Agencies	\$ 730,766	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other U.S. Government	4,517								
Mortgage Backed:									
Government Pass-Through	25,357								
Corporate:									
Corporate Bonds	185,309	185,128	2,122,821	1,634,259	292,556	49,310	120		28,053
Corporate Asset Backed	551,098								
Private Placements	145,918	249,153	427,623	282,800					48,086
Municipals				44,364					
Dollar Denominated Fixed Income - Developed Corporate Markets			85,298						
Short Term Investments									
Commercial Paper								138,625	
Repurchase Agreements								2,608,547	
	\$ 1,642,965	\$ 434,281	\$ 2,635,742	\$ 1,961,423	\$ 292,556	\$ 49,310	\$ 120	\$ 2,747,172	\$ 76,139

Concentration of Credit Risk – Investments

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Systems' policy for reducing this risk is to comply with the statute which states that "Except for United States Treasury and Agency obligations, the fixed income portfolio shall contain no more than 5 percent exposure to any single issuer." At June 30, 2005, the Systems had no investment, fixed income or equity, in any single organization which represented 5 percent or more of the Systems' assets.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. At June 30, 2005, the Systems do not have any deposits or investments denominated in foreign currencies so this risk does not apply.

Securities Lending

Through a custodial agent, SCRS, PORS, GARS and JSRS participate in a securities lending program whereby securities are loaned for the purpose of generating additional income to the Systems. The Systems lends securities from its investment portfolios 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, 2005, included U. S. Government securities, U. S. Government agencies, corporate bonds, convertible bonds, and equities. The contractual agreement with the Systems' custodian provides indemnification in the event the borrower fails to return the securities lent or fails to pay the Systems 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 Systems cannot pledge or sell collateral securities without a borrower default. The Systems invest cash collateral received; accordingly, investments made with cash collateral appear as an asset. A corresponding liability is recorded as the Systems must return the cash collateral to the borrower upon the expiration of the loan.

With regard to custodial credit risk, the Systems' cash collateral invested is held by the counterparty and is uninsured. All securities loaned can be terminated on demand by either the Systems or the borrower. At year end the average number of days the loans were outstanding ranged from 1 to 31 days. The average weighted maturity of investments made with cash collateral ranged from 7 to 31 days. At June 30, 2005, there had been no losses resulting from borrower defaults and the Systems had no credit risk exposure to borrowers because the amounts the Systems owed the borrowers exceeded the amounts the borrowers owed the Systems.

The following table presents the fair value (amounts expressed in thousands) of the underlying securities and the total collateral received for securities on loan at June 30, 2005.

	June 30, 2005					June 30, 2004
	SCRS	PORS	GARS	JSRS	TOTAL	TOTAL
Securities lent for cash collateral:						
U.S. Government securities	\$ 1,927,395	\$ 292,047	\$ 1,706	\$ 16,196	\$ 2,237,344	\$ 537,252
U.S. Government agencies	508,165	127,743	1,749	5,130	642,787	1,536,276
Corporate bonds	105,078	12,858	282	564	118,782	129,187
Common Stock	897,921	109,217	1,977	4,669	1,013,784	1,406,870
Total securities lent for cash collateral	3,438,559	541,865	5,714	26,559	4,012,697	3,609,585
Securities lent for noncash collateral:						
Equities	456	56	1	2	515	10
U.S. Government securities	18,462	11,282		76	29,820	107,055
Total for securities lent	\$ 3,457,477	\$ 553,203	\$ 5,715	\$ 26,637	\$ 4,043,032	\$ 3,716,650
Cash collateral invested as follows:						
Repurchase agreements	\$ 692,214	\$ 195,719	\$ 3,251	\$ 13,449	\$ 904,633	\$ 320,615
Corporate bonds	2,137,522	283,627	1,968	11,397	2,434,514	2,637,119
Funding Agreements						49,999
Asset Backed Securities	444,314	43,398	292	1,763	489,767	107,836
Bank Notes	255,976	24,403	389	695	281,463	583,180
Total for cash collateral invested	3,530,026	547,147	5,900	27,304	4,110,377	3,698,749
Securities received as collateral:						
U.S. Government securities	20,177	11,911		83	32,171	127,029
Total for securities collateral invested	\$ 3,550,203	\$ 559,058	\$ 5,900	\$ 27,387	\$ 4,142,548	\$ 3,825,778

Certain short-term, highly liquid securities, which were insured or registered by the Systems or in the Systems' name with an original maturity of three months or less are considered cash equivalents in accordance with Governmental Accounting Standards Board Statement 9. These investments at June 30, 2005, were composed of the following (amounts expressed in thousands):

Cash Equivalents

	<u>Repurchase Agreements</u>	<u>Commercial Paper</u>	<u>Discount Notes</u>	<u>Federal Agencies</u>	<u>Corporates</u>	<u>Total 2005</u>	<u>Total 2004</u>
SCRS	\$ 2,325,557	\$ 133,626	\$ 39,804	\$ -	\$ 26,179	\$ 2,525,166	\$ 2,399,878
PORS	261,462	4,999	4,975		8,736	280,172	238,913
GARS	8,029					8,029	4,425
JSRS	13,265			501		13,766	15,980
Totals	<u>\$ 2,608,313</u>	<u>\$ 138,625</u>	<u>\$ 44,779</u>	<u>\$ 501</u>	<u>\$ 34,915</u>	<u>\$ 2,827,133</u>	<u>\$ 2,659,196</u>

The Systems maintains a portfolio of short-term securities in order to actively manage all funds waiting to be placed in a more permanent investment. As of June 30, 2005, the Systems held the following short-term investments with maturities of less than one year (amounts expressed in thousands):

Short-term Securities

	<u>U.S. Government Agency Discount Notes</u>	<u>Total 2005</u>	<u>Total 2004</u>
SCRS	\$ 230,054	\$ 230,054	\$ 569,987
PORS	65,518	65,518	110,097
Totals	<u>\$ 295,572</u>	<u>\$ 295,572</u>	<u>\$ 680,084</u>

Effective May 26, 1998, legislation was passed implementing the 1996 public vote amending the State Constitution to allow the Retirement Systems to invest in equity securities. This legislation established a five-member investment panel responsible for defining and developing the investment objectives and the types of investments to be purchased. The Act also specified that a maximum of 40 percent of assets may be invested in equities. As of June 30, 2005, the Retirement Systems' assets were invested in equities as follows (amounts expressed in thousands):

Equity Investments

	<u>Common Trust Funds</u>				<u>Total 2005</u>	<u>Total 2004</u>
	<u>S&P 500 Index Fund</u>	<u>Russell 2000 Index Fund</u>	<u>Barclays Global Investors</u>	<u>Common Stock</u>		
SCRS	\$ 4,894,227	\$ -	\$ 351,938	\$ 4,542,619	\$ 9,788,784	\$ 9,109,714
PORS	583,053		41,848	543,924	1,168,825	1,084,315
GARS	10,214		734	9,505	20,453	20,997
JSRS	25,228		1,810	23,368	50,406	46,873
Totals	<u>\$ 5,512,722</u>	<u>\$ -</u>	<u>\$ 396,330</u>	<u>\$ 5,119,416</u>	<u>\$ 11,028,468</u>	<u>\$ 10,261,899</u>

The Systems retains a consultant to provide investment consulting services necessary to fulfill the duties for investing in equity securities. As of June 30, 2005, 18 individual agreements were in place between the Systems and equity investment managers.

On June 30, 2005, the Systems held collateralized mortgage obligations (CMOs) in its portfolios. The CMOs in these portfolios consist of the planned amortizations class-1 (PAC-1) and the very accurately defined maturity (VADM) tranches of these issues. The PAC-1 and VADM tranche CMO structure securities were entered into for several reasons: (1) to protect the Retirement Systems' portfolios from principal prepayment risk during an environment of declining interest rates, (2) to provide incremental yield above that available on corporate securities with similar terms, (3) to provide diversification in the portfolios, (4) to maintain the high quality of government-sponsored credits in the portfolios, and (5) to utilize the estimated future term cash flows provided by these securities to match the term of the liabilities of the Retirement Systems. These securities are all rated AAA by the major rating agencies. The PAC-1 and VADM structures are highly marketable securities.

The Systems held the following CMOs included in the financial and other category (amounts expressed in thousands):

Collateral Mortgage Obligations (CMOs)

	June 30, 2005	June 30, 2004
	<u>Fair Value</u>	<u>Fair Value</u>
SCRS	\$ 292,359	\$ 361,563
PORS	13,782	14,857
GARS	183	281
JSRS	145	222
Totals	<u>\$ 306,469</u>	<u>\$ 376,923</u>

On June 30, 2005, the Systems also held asset-backed securities in its portfolios. These securities had an average life of one to three years with a legal final maturity of two to five years. These securities represent an undivided ownership interest in a trust consisting of auto loan receivables. During fiscal year 2005, additional holdings were added to this category as an alternative to cash investments with an average life of one year. These securities are rated AAA by the major rating agencies. In addition, under the asset-backed securities category, the Systems held bonds issued by the South Carolina Tobacco Settlement Revenue Management Authority. These securities are rated Baa2/BBB and have an average life of 4.12 years with a legal maturity of 2016.

The Systems held the following asset-backed securities included in the financial and other investments category (amounts expressed in thousands):

Asset Backed Securities

	June 30, 2005	June 30, 2004
	<u>Fair Value</u>	<u>Fair Value</u>
SCRS	\$ 561,790	\$ 617,100
PORS	123,544	119,316
GARS	958	1,531
JSRS	2,682	4,161
Totals	<u>\$ 688,974</u>	<u>\$ 742,108</u>

In addition to CMOs and asset-backed securities, the financial and other investments category primarily consisted of corporate financial paper as follows (amounts expressed in thousands):

Corporate Financial Paper

	June 30, 2005	June 30, 2004
	<u>Fair Value</u>	<u>Fair Value</u>
SCRS	\$ 967,113	\$ 1,067,419
PORS	101,556	129,073
GARS	1,417	2,053
JSRS	2,312	4,767
Totals	<u>\$ 1,072,398</u>	<u>\$ 1,203,312</u>

IV. Capital Assets

Capital assets at June 30, 2005, consist of the following amounts (expressed in thousands). There were no additions or dispositions of capital assets during the year.

	<u>SCRS</u>	<u>PORS</u>	<u>GARS</u>	<u>JSRS</u>	<u>TOTAL</u>	<u>TOTAL 2004</u>
Land	\$ 524	\$ 54	\$ 1	\$ 3	\$ 582	\$ 582
Building	4,279	437	13	20	4,749	4,749
Total Capital Assets	4,803	491	14	23	5,331	5,331
Less: Accumulated Depreciation	1,366	140	4	7	1,517	1,398
Net Capital Assets	\$ 3,437	\$ 351	\$ 10	\$ 16	\$ 3,814	\$ 3,933

V. Transfers Between Systems

Transfers between systems are statutorily authorized transfers of contributions and service credit from one retirement system to another retirement system that result from members voluntarily initiating the transfer when certain conditions are met.

Transfers made during the fiscal year ended June 30, 2005, were as follows (amounts expressed in thousands):

	<u>Transfers to</u>				
	<u>SCRS</u>	<u>PORS</u>	<u>GARS</u>	<u>JSRS</u>	<u>Totals</u>
<u>Transfers from</u>					
SCRS	\$ -	\$ 2,071	\$ 11	\$ 54	\$ 2,136
PORS				4	4
GARS	2				2
JSRS					-
Total	\$ 2	\$ 2,071	\$ 11	\$ 58	\$ 2,142

The following schedule reflects amounts due to or from other systems as of June 30, 2005, as a result of transfers between systems (amounts expressed in thousands):

	<u>Due to</u>				
	<u>SCRS</u>	<u>PORS</u>	<u>GARS</u>	<u>JSRS</u>	<u>Totals</u>
<u>Due from</u>					
SCRS	\$ -	\$ 1,300	\$ 6	\$ 40	\$ 1,346
PORS	199		62	2	263
GARS	15				15
JSRS	106		6		112
Total	\$ 320	\$ 1,300	\$ 74	\$ 42	\$ 1,736

VI. Related Party Transactions

The pension plans provide pension and other fringe benefits to employees of all State agencies. Revenues attributed to these agencies are recorded in the financial statements as employee and employer contributions and constitute approximately 35 percent of combined contribution revenues. In addition, the Systems receives custodial, investment and related services from the State Treasurer.

At June 30, 2005, liabilities of approximately \$27.6 million were due to other State departments and agencies and contributions receivable of approximately \$24.8 million were due from other State departments and agencies.

VII. Teacher and Employee Retention Incentive Program

The Teacher and Employee Retention Incentive (TERI) program, implemented effective January 1, 2001, is a deferred retirement option plan available to active SCRS members eligible for service retirement on or after January 1, 2001. When a member enters TERI, the member's status changes from an active member to a retiree even though the employee continues to work at his regular job and earn his regular salary for a period of up to five years. No additional service credit is earned during this period and participants are ineligible for disability retirement benefits. During the TERI participation period, the retiree's monthly benefits are accrued and accumulate in the trust account. Upon the termination of employment or at the end of the TERI period (whichever is earlier), the retiree may elect to roll over his funds into a qualified, tax-sheltered, retirement plan or to receive a single-sum distribution (or a combination thereof). No interest is paid on the participant funds accumulated in the TERI account.

A total of 14,016 members were actively participating in the TERI program at June 30, 2005. The activity for this program is reflected in the following schedule:

Schedule of TERI Activity Year Ended June 30, 2005 (Amounts expressed in thousands)

Beginning Liability Balance	\$ 649,385
Additions	338,778
TERI Distributions	(103,387)
Ending Liability Balance	\$ 884,776

VIII. Subsequent Events

Nancy Layman et al. v. South Carolina Retirement System and the State of South Carolina, Case Number 200532860.

Effective July 1, 2005, the General Assembly enacted a statute requiring retirees, including participants in the Teacher and Employee Retention Incentive program (TERI), to remit employee contributions to the Retirement Systems. Despite a Retirement Systems Claims Procedures Act that prohibits class action lawsuits against the Retirement Systems and provides an exclusive remedy for claims against the Retirement Systems, on June 13, 2005, four state employees filed a putative class action in the court of common pleas seeking a declaratory judgment, injunctive relief and damages. Plaintiffs allege that requiring contributions would, among other things, constitute a breach of contract, an impairment of contractual rights, an unlawful taking of property and is precluded by promissory estoppel. The plaintiffs filed a motion for the case to be heard by the Supreme Court of South Carolina in its original jurisdiction. On August 11, 2005, the Supreme Court took the case in its original jurisdiction. On August 26, 2005, the Supreme Court certified a class in the case comprised of all TERI participants and working retirees of the South Carolina Retirement System (SCRS) who returned to work prior to July 1, 2005.

Furthermore, the Court ordered the Retirement Systems to maintain an escrow account for employee contributions remitted by members of the class. The Court then set a briefing schedule on the issue of whether the statutes governing TERI participants and working retirees create contractual rights and whether there has been an impairment or breach of such contract rights, an unlawful taking or whether promissory estoppel would apply. If the Court determines that the statutes do not create contractual rights, then the Court would decide whether individual contracts were created with class members when they elected to participate in TERI or become working retirees. If the plaintiffs were to prevail in the case, the Retirement Systems estimates its potential loss as \$55.4 million for fiscal year 2006. If the Supreme Court were to issue an adverse decision prior to July 1, 2006, the estimate would be prorated from July 1, 2005, until the date of the decision. The Retirement Systems and the state believe their defense is meritorious and will vigorously contest the case.

Arnold et al. v. the South Carolina Police Officers Retirement System, the South Carolina Retirement System and the State of South Carolina, Civil Action Number 2005-CP-22-756.

This is a putative class action case filed on August 9, 2005, alleging that provisions in Act 153 requiring working retirees in the Police Officers Retirement System (PORS) and the South Carolina Retirement System (SCRS) to make employee contributions are unconstitutional and illegal. Specifically, the plaintiffs allege that the provisions of Act 153 requiring working retirees to make contributions impairs contractual rights, constitutes an unlawful taking of property, and violates due process. Plaintiffs seek a declaration that provisions in Act 153 affecting members who retired prior to July 1, 2005, are unconstitutional, an injunction enjoining the defendants from collecting employee contributions from plaintiffs, and a refund of all contributions paid by working retirees under Act 153, including attorney's fees.

If the plaintiffs were to prevail, the South Carolina Police Officers Retirement System estimates its potential loss to be \$2.15 million for fiscal year 2006. If the plaintiffs were to prevail, the South Carolina Retirement System estimates its potential loss at \$55.4 million for fiscal year 2006. With respect to the South Carolina Retirement System, the class for Arnold and the class for Layman is the same, and the cases are based on similar causes of actions and facts. Thus, should plaintiffs in either Arnold or Layman prevail, the defendants would not be liable for another \$55.4 million in the other case. The defendants believe their defense is meritorious and will vigorously contest the case.

South Carolina Retirement Systems
Required Supplementary Information
Schedule of Funding Progress
(Amounts expressed in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
SCRS						
7/01/04	\$ 20,862,659	\$ 25,977,852	\$ 5,115,193	80.3%	\$ 6,180,599	82.8%
7/01/03	20,197,936	24,398,931	4,200,995	82.8%	6,240,768	67.3%
7/01/02	19,298,174	22,446,574	3,148,400	86.0%	6,147,712	51.2%
7/01/01	18,486,773	21,162,147	2,675,374	87.4%	6,017,537	44.5%
7/01/00	17,286,108	19,414,972	2,128,864	89.0%	5,881,847	36.2%
7/01/99	16,120,513	16,298,438	177,925	98.9%	5,473,759	3.3%
PORS						
7/01/04	2,616,835	2,984,584	367,749	87.7%	822,448	44.7%
7/01/03	2,511,369	2,744,849	233,480	91.5%	800,394	29.2%
7/01/02	2,351,100	2,527,876	176,776	93.0%	757,393	23.3%
7/01/01	2,197,982	2,324,257	126,275	94.6%	757,335	16.7%
7/01/00	2,008,554	2,095,991	87,437	95.8%	716,749	12.2%
7/01/99	1,844,517	1,898,237	53,720	97.2%	638,086	8.4%
GARS						
7/01/04	45,087	68,332	23,245	66.0%	3,839	605.5%
7/01/03	44,682	66,619	21,937	67.1%	3,844	570.8%
7/01/02	43,841	73,046	29,205	60.0%	4,515	646.9%
7/01/01	42,788	68,291	25,503	62.7%	4,761	535.6%
7/01/00	40,730	64,616	23,886	63.0%	4,858	491.7%
7/01/99	38,685	63,501	24,816	60.9%	4,979	498.4%
JSRS						
7/01/04	112,016	185,052	73,036	60.5%	14,870	491.2%
7/01/03	106,114	166,655	60,541	63.7%	14,437	419.3%
7/01/02	100,074	166,440	66,366	60.1%	14,211	467.0%
7/01/01	94,795	159,246	64,451	59.5%	14,109	456.8%
7/01/00	87,536	144,631	57,095	60.5%	13,214	432.1%
7/01/99	81,780	134,272	52,492	60.9%	12,748	411.8%

Schedule of Employer Contributions
(Amounts expressed in thousands)

Year Ended June 30,	SCRS		PORS		GARS		JSRS	
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
2005	\$ 538,809	100%	\$ 90,528	100%	\$ 2,890	100%	\$ 6,260	100%
2004	515,996	100%	87,922	100%	2,731	100%	6,078	100%
2003	512,345	100%	86,563	100%	2,577	100%	6,014	100%
2002	509,044	100%	88,608	100%	2,627	100%	5,993	100%
2001	491,329	100%	93,584	100%	2,510	100%	5,875	100%
2000	455,914	100%	76,267	100%	2,636	100%	5,659	100%

South Carolina Retirement Systems

Required Supplementary Information (continued)

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

Actuarial Assumptions and Methods

	SCRS	PORS	GARS	JSRS
Valuation date	07/01/04	07/01/04	07/01/04	07/01/04
Actuarial cost method	Entry age	Entry age	Entry age	Entry age
Amortization period	Level percent open	Level percent open	Level percent closed	Level percent open
Remaining amortization period	27 years	16 years	23 years	28 years
Asset valuation method	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market
Actuarial assumptions:				
Investment rate of return	7.25%	7.25%	7.25%	7.25%
Projected salary increases	4.00% - 8.00%	4.50% - 11.50%	None	3.25%
Includes inflation at	3.00%	3.00%	3.00%	3.00%
Cost-of-living adjustments	None	None	None	3.25%

South Carolina Retirement Systems
Schedule of Changes in Plan Net Assets
SCRS Pension Trust Fund
Year Ended June 30, 2005
With comparative totals for the year ended June 30, 2004
(Amounts expressed in thousands)

	EMPLOYEE FUND	EMPLOYER FUND	GROUP LIFE FUND	TOTAL	TOTAL 2004
Additions					
Employee contributions					
State department employees	\$ 151,980			\$ 151,980	\$ 140,377
Public school employees	183,427			183,427	181,066
Other political subdivision employees	97,845			97,845	93,455
Employer contributions					
State department employees		\$ 183,397	\$ 3,968	187,365	182,110
Public school employees		238,669	4,873	243,542	231,142
Other political subdivision employees		105,854	2,048	107,902	102,744
Total contributions	433,252	527,920	10,889	972,061	930,894
Investment Income					
Net appreciation (depreciation) in fair value of investments		911,045	4,862	915,907	1,137,034
Interest and dividend income		588,840	3,173	592,013	628,290
Investment expense		(19,773)	(105)	(19,878)	(20,620)
Net income from investing activities		1,480,112	7,930	1,488,042	1,744,704
From securities lending activities:					
Securities lending income		74,743	399	75,142	50,989
Securities lending expense		(65,945)	(352)	(66,297)	(36,007)
Net income from securities lending activities		8,798	47	8,845	14,982
Total net investment income		1,488,910	7,977	1,496,887	1,759,686
Supplemental retirement benefits funded by the State		1,982		1,982	2,328
Transfers of contributions from other Systems	2			2	69
Total additions	433,254	2,018,812	18,866	2,470,932	2,692,977
Deductions					
Refunds of contributions to members	67,434			67,434	66,505
Transfers of contributions to other Systems	1,373	763		2,136	2,677
Regular retirement benefits		1,173,459		1,173,459	1,103,336
Deferred retirement benefits		338,778		338,778	300,294
Supplemental retirement benefits		1,982		1,982	2,328
Group life insurance claims			13,710	13,710	13,515
Depreciation		107		107	107
Administrative expense		14,166	76	14,242	13,641
Total deductions	68,807	1,529,255	13,786	1,611,848	1,502,403
Interfund transfers according to statutory requirements					
Contributions by members at retirement	(465,434)	465,434			
Interest credited to members' accounts	266,333	(266,333)			
Net interfund transfers	(199,101)	199,101			
Net increase (decrease)	165,346	688,658	5,080	859,084	1,190,574
Net assets held in trust for Pension Benefits					
Beginning of year	4,750,077	16,100,052	111,270	20,961,399	19,770,825
End of year	\$ 4,915,423	\$ 16,788,710	\$ 116,350	\$ 21,820,483	\$ 20,961,399

South Carolina Retirement Systems
Schedule of Changes in Plan Net Assets
PORS Pension Trust Fund
Year Ended June 30, 2005
With comparative totals for the year ended June 30, 2004
(Amounts expressed in thousands)

	EMPLOYEE FUND	EMPLOYER FUND	GROUP LIFE FUND	ACCIDENTAL DEATH FUND	TOTAL	TOTAL 2004
Additions						
Employee contributions						
State department employees	\$ 22,320				\$ 22,320	\$ 22,434
Public school employees	27				27	33
Other political subdivision employees	36,455				36,455	34,135
Employer contributions						
State department employees		\$ 31,642	\$ 611	\$ 611	32,864	33,260
Public school employees		16			16	16
Other political subdivision employees		55,625	1,044	979	57,648	54,646
Total contributions	58,802	87,283	1,655	1,590	149,330	144,524
Investment Income						
Net appreciation (depreciation) in fair value of investments		103,492	812	955	105,259	138,628
Interest and dividend income		70,682	553	650	71,885	74,450
Investment expense		(2,346)	(18)	(22)	(2,386)	(2,428)
Net income from investing activities		171,828	1,347	1,583	174,758	210,650
From securities lending activities:						
Securities lending income		10,141	80	94	10,315	5,818
Securities lending expense		(9,069)	(71)	(84)	(9,224)	(4,267)
Net income from securities lending activities		1,072	9	10	1,091	1,551
Total net investment income		172,900	1,356	1,593	175,849	212,201
Supplemental retirement benefits funded by the State		64			64	72
Transfers of contributions from other Systems	1,308	763			2,071	2,545
Total additions	60,110	261,010	3,011	3,183	327,314	359,342
Deductions						
Refunds of contributions to members	13,441				13,441	11,918
Transfers of contributions to other Systems	4				4	24
Regular retirement benefits		151,477			151,477	140,317
Supplemental retirement benefits		64			64	72
Group life insurance claims			1,468		1,468	1,555
Accidental death benefits				1,047	1,047	1,072
Depreciation		11			11	11
Administrative expense		1,777	14	17	1,808	1,697
Total deductions	13,445	153,329	1,482	1,064	169,320	156,666
Interfund transfers according to statutory requirements						
Contributions by members at retirement	(40,884)	40,884				
Interest credited to members' accounts	31,221	(31,221)				
Net interfund transfers	(9,663)	9,663				
Net increase (decrease)	37,002	117,344	1,529	2,119	157,994	202,676
Net assets held in trust for Pension Benefits						
Beginning of year	548,699	2,070,470	20,550	24,179	2,663,898	2,461,222
End of year	\$ 585,701	\$ 2,187,814	\$ 22,079	\$ 26,298	\$ 2,821,892	\$ 2,663,898

South Carolina Retirement Systems
Schedule of Changes in Plan Net Assets
GARS Pension Trust Fund
Year Ended June 30, 2005
With comparative totals for the year ended June 30, 2004
(Amounts expressed in thousands)

	EMPLOYEE FUND	EMPLOYER FUND	TOTAL	TOTAL 2004
Additions				
Contributions				
Employee contributions - State departments	\$ 924		\$ 924	\$ 513
Employer contributions - State departments		\$ 2,890	2,890	2,731
Total contributions	924	2,890	3,814	3,244
Investment Income				
Net appreciation (depreciation) in fair value of investments		1,819	1,819	2,401
Interest and dividend income		1,446	1,446	1,643
Investment expense		(41)	(41)	(47)
Net income from investing activities		3,224	3,224	3,997
From securities lending activities:				
Securities lending income		121	121	110
Securities lending expense		(107)	(107)	(76)
Net income from securities lending activities		14	14	34
Total net investment income		3,238	3,238	4,031
Transfers of contributions from other Systems	11		11	
Total additions	935	6,128	7,063	7,275
Deductions				
Refunds of contributions to members	31		31	
Transfers of contributions to other Systems	2		2	131
Regular retirement benefits		5,560	5,560	5,347
Group life insurance claims		16	16	8
Depreciation				1
Administrative expense		31	31	30
Total deductions	33	5,607	5,640	5,517
Interfund transfers according to statutory requirements				
Contributions by members at retirement	(1,817)	1,817		
Interest credited to members' accounts	454	(454)		
Net interfund transfers	(1,363)	1,363		
Net increase (decrease)	(461)	1,884	1,423	1,758
Net assets held in trust for Pension Benefits				
Beginning of year	8,485	36,771	45,256	43,498
End of year	\$ 8,024	\$ 38,655	\$ 46,679	\$ 45,256

South Carolina Retirement Systems
Schedule of Changes in Plan Net Assets
JSRS Pension Trust Fund
Year Ended June 30, 2005
With comparative totals for the year ended June 30, 2004
(Amounts expressed in thousands)

	EMPLOYEE FUND	EMPLOYER FUND	TOTAL	TOTAL 2004
Additions				
Contributions				
Employee contributions - State departments	\$ 2,034		\$ 2,034	\$ 1,675
Employer contributions - State departments		\$ 6,260	6,260	6,078
Total contributions	2,034	6,260	8,294	7,753
Investment Income				
Net appreciation (depreciation) in fair value of investments		4,736	4,736	5,495
Interest and dividend income		3,474	3,474	3,736
Investment expense		(101)	(101)	(104)
Net income from investing activities		8,109	8,109	9,127
From securities lending activities:				
Securities lending income		428	428	224
Securities lending expense		(389)	(389)	(160)
Net income from securities lending activities		39	39	64
Total net investment income		8,148	8,148	9,191
Transfers of contributions from other Systems	58		58	218
Total additions	2,092	14,408	16,500	17,162
Deductions				
Refunds of contributions to members				
Regular retirement benefits		9,215	9,215	8,605
Group life insurance claims		1	1	124
Depreciation		1	1	
Administrative expense		76	76	72
Total deductions		9,293	9,293	8,801
Interfund transfers according to statutory requirements				
Contributions by members at retirement	(791)	791		
Interest credited to members' accounts	1,064	(1,064)		
Net interfund transfers	273	(273)		
Net increase (decrease)	2,365	4,842	7,207	8,361
Net assets held in trust for Pension Benefits				
Beginning of year	17,640	94,546	112,186	103,825
End of year	\$ 20,005	\$ 99,388	\$ 119,393	\$ 112,186

Schedule of Administrative Expenses

For the Year Ended June 30, 2005

(Amounts expressed in thousands)

	SCRS	PORS	GARS	JSRS	TOTAL
Personal Services					
Salaries and Wages	\$ 6,689	\$ 849	\$ 14	\$ 36	\$ 7,588
Employee Benefits	1,768	225	4	9	2,006
Contractual Services					
Data Processing Services	1,401	178	3	7	1,589
Medical & Health Services	673	85	1	4	763
Financial Audit	24	3			27
Actuarial Services	333	42	1	2	378
Other Professional Services	173	22		1	196
Legal Services	51	7			58
Operating Expenses					
Facilities Management	280	36	1	1	318
Building Repair & Maintenance	326	41	1	2	370
Intergovernmental Services	909	115	2	5	1,031
Telephone	108	14		1	123
Insurance	349	44	1	2	396
Postage	351	45	1	2	399
Supplies	224	28	1	1	254
Other Miscellaneous Expenses	583	74	1	3	661
Total Administrative Expenses	<u>\$ 14,242</u>	<u>\$ 1,808</u>	<u>\$ 31</u>	<u>\$ 76</u>	<u>\$ 16,157</u>

Schedule of Professional Consultant Fees

For the Year Ended June 30, 2005

(Amounts expressed in thousands)

	Professional/Consultant	Nature of Service	Amount Paid
Medical & Health Services	Dr. Jack Shelburg	Medical Board	\$ 6
	Dr. William E. Gause	Medical Board – Chairman	5
	Dr. James England	Medical Board	7
	SC Vocational Rehabilitation	Disability Applications	745
Auditing and Accounting	Rogers & Laban, PA	Financial audit	27
Management Consulting	Gabriel, Roder, Smith & Company	Actuarial services	56
	Ice Miller Donadio & Ryan	Actuarial services	5
	Stanley Holcombe & Associates Inc.	Actuarial services	13
	Milliman USA	Actuarial services	301
	Mellon Consultants	Actuarial services	3
Other Professional Services	Cost Effectiveness Measurements	Benchmarking services	30
	Summit Strategies	Optional Retirement Plan consultants	105
	Psychological & Training Services	Case Evaluations	30
	Leonard & Associates	Case Evaluations	30
	Hollenbeck & Associates	Case Evaluations	1
Legal Services	Nexsen Pruet Adams Kleemeir	Legal services	1
	McCutchen Blanton Johnson & Barnette	Legal services	3
	Sowell Gray Stepp & Laffitte	Legal services	16
	Gergel Nickles & Solomon	Legal services	38
			<u>\$ 1,422</u>

Information on investment management and consulting fees can be found in the *Schedule of Investment Expenses* on page 29.

South Carolina Retirement Systems

Schedule of Investment Expenses

Year Ended June 30, 2005

(Amounts expressed in thousands)

	SCRS	PORS	GARS	JSRS	TOTAL
Equity Investment Managers Fees:					
Alliance Capital Management LP (Bernstein)	\$ 870	\$ 102	\$ 2	\$ 4	\$ 978
Alliance Capital Management LP	1,105	133	2	6	1,246
Barclays Global Investors, NA	898	107	2	4	1,011
Batterymarch Financial Management, Inc. ¹	266	31	1	1	299
Wells Capital Management, Inc. (Benson Associates, LLC)	1,422	173	3	8	1,606
Fidelity Management Trust Company	1,467	174	3	7	1,651
Flippin, Bruce & Porter, Inc.	1,080	129	2	5	1,216
Institutional Capital Corporation ²	966	115	2	5	1,088
Integrity Asset Management, Inc. ³	202	23	1	1	227
J.L. Kaplan Associates, LLC	1,453	170	3	7	1,633
Montag & Caldwell, Inc.	1,038	131	2	6	1,177
Nicholas-Applegate Capital Management, Inc. ⁴	510	60	1	3	574
State Street Global Advisors Russell 2000 Index Fund	54	6			60
State Street Global Advisors S&P 500 Index Fund	137	16		1	154
The Boston Company Asset Management, LLC	1,494	176	3	8	1,681
TimesSquare Capital Management, Inc.	1,919	234	4	10	2,167
Thompson, Siegel & Walmsley, Inc. ⁵	282	33	1	1	317
Turner Investment Partners, Inc. ⁶	307	35	1	2	345
Wellington Management Company, LLP	2,092	250	4	11	2,357
Total	17,562	2,098	37	90	19,787
Investment Service Fees:					
Bank Fees	1,691	209	3	7	1,910
Consultant Fees:					
Investment Consultant Fees	625	79	1	4	709
Total Investment Management Fees	<u>\$ 19,878</u>	<u>\$ 2,386</u>	<u>\$ 41</u>	<u>\$ 101</u>	<u>\$ 22,406</u>
Securities Lending Expenses:					
Borrower Rebates	\$ 66,297	\$ 9,224	\$ 107	\$ 389	\$ 76,017
Total Securities Lending Expenses	<u>\$ 66,297</u>	<u>\$ 9,224</u>	<u>\$ 107</u>	<u>\$ 389</u>	<u>\$ 76,017</u>

¹Batterymarch Financial Management, Inc., was funded March 15, 2005.

²The contract with Institutional Capital Corporation was terminated February 2005.

³Integrity Asset Management, Inc., was funded March 15, 2005.

⁴Nicholas-Applegate Capital Management, Inc., was funded December 31, 2004.

⁵Thompson, Siegel & Walmsley, Inc., was funded March 15, 2005.

⁶Turner Investment Partners, Inc., was funded March 15, 2005.