

FINANCIAL STATEMENTS

SOUTH CAROLINA  
RETIREMENT SYSTEMS

Columbia, South Carolina

Year Ended June 30, 2006

# South Carolina Retirement Systems

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June 30, 2006

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## Independent Auditor's Report

Mr. Richard H. Gilbert, Jr., CPA,  
Deputy 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, 2006, 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, 2006, 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, 2006, 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.



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As discussed in Note VIII to the financial statements, the Systems is a party to legal actions claiming amounts due for legal fees and for certain retirement contributions that had been collected inappropriately. The ultimate outcomes 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 8 and the required supplementary information on pages 28 and 29 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. 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 30 to 36 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.

*Rogers & Lalan, PA*

September 26, 2006

# 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, 2006. This narrative is intended as a supplement and should be read in conjunction with the financial statements.

The Retirement Systems' financial statements provide information about the activities of the five defined benefit pension plans administered (listed below), in addition to comparative summary information about the activities of the Retirement Systems as a whole:

- South Carolina Retirement System (SCRS) – A member contributory multi-employer plan covering teachers, as well as state and municipal employees;
- Police Officers Retirement System (PORS) – A member contributory multi-employer plan covering state and local law enforcement personnel and firefighters;
- The Retirement System for Members of the General Assembly (GARS) – A member contributory plan providing benefits to the members of the South Carolina General Assembly;
- The Retirement System for Judges and Solicitors (JSRS) – A member contributory plan covering Judges and Solicitors; and
- National Guard Retirement System (NGRS) – A non-contributory supplemental benefit plan for members of the South Carolina National Guard.

## Overview of the Financial Statements

The Retirement Systems is a part of the primary government of the State of South Carolina and is included in the comprehensive annual financial report of the state. 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 five pension trust funds administered by the South Carolina Retirement Systems, our combined investment portfolios generated a 5.13 percent aggregate return for fiscal year 2006. This return can be compared to a combined return of 7.02 percent for the prior fiscal year. Our actuarial assumed rate of return for investment purposes is 7.25 percent.
- The State Budget and Control Board increased the employer contribution rate for local government employers effective July 1, 2005, to make it consistent with the rate for other employers.
- Effective January 1, 2006, the South Carolina Retirement Systems assumed administrative responsibilities for the National Guard Retirement System (NGRS), which is a defined benefit pension plan providing supplemental benefits to National Guard members who served in South Carolina. Since January 1, 2006, the NGRS portfolio alone generated an annual return of 0.59 percent. Historically, NGRS funds have been invested strictly in the fixed income market; however, in fiscal year 2007, the NGRS pension trust fund will be reallocated, pooled together, and invested in the same manner as the funds of the other four pension trust funds administered by the Retirement Systems. The actuarial assumed rate of return for NGRS for investment purposes is also 7.25 percent.
- Net assets are held in trust to meet future benefit payments. Total plan net assets of all five pension trust funds administered by the South Carolina Retirement Systems increased from \$24.8 billion to \$25.4 billion during fiscal year 2006, primarily as a result of positive investment returns, increased contributions, and the addition of \$14 million in net assets transferred for the NGRS.
- The Teacher and Employee Retention Incentive (TERI) program continued to remain attractive to our membership. The program, which was implemented in January 2001, allows retired members to accumulate deferred annuity benefits for up to five years while continuing employment. December 2005 marked the end of the five-year deferral period for participants who joined the plan at its inception; therefore, the plan experienced a significant increase in the amount of accumulated benefits distributed this fiscal year. As a result of the distributions, the amount of assets held in trust for future payment of accrued benefits decreased by 24 percent to \$671 million during fiscal year 2006.
- The number of retired members and beneficiaries receiving monthly benefits under the Retirement Systems plans increased to slightly more than 110,000 annuitants during the year. The increase included the addition of approximately 3,000 NGRS annuitants. Accordingly, the amount of benefit payments increased more than 8 percent over the prior year from \$1.7 billion to \$1.8 billion.
- The South Carolina Supreme Court ruled that a part of legislative Act 153, which was enacted by the South Carolina General Assembly in 2005, and required certain retirees, including participants in the TERI program, to remit employee contributions to the Retirement Systems, violated the contract rights of existing TERI participants. The Court ordered that for TERI participants who retired prior to July 1, 2005, all retired member contributions collected since July 1, 2005, had to be refunded with interest, and that no future contributions from the TERI participants be collected. The Retirement Systems issued refund checks totaling approximately \$38 million to 13,975 TERI participants, and these distributions account for the significant increase in refund payments reported during fiscal year 2006. It is important to note that the estimated present value of the revenue lost by the Court's decision is approximately \$110 million. The Budget and Control Board subsequently approved an employer contribution increase effective July 1, 2007, to offset the loss.
- Act 153 also made TERI participants and retired contributing members eligible for an increased group life insurance benefit payment equal to their annual salary in lieu of the standard \$2,000, \$4,000 or \$6,000 retired member benefit.

## Condensed Financial Information

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

The principal sources from which the Systems derives revenues are employee contributions, employer contributions, and earnings on investments. In addition, required annual contributions for NGRS are funded through an annual State appropriation. Expenses of the Systems consist primarily of payments of monthly annuities to retired members and their beneficiaries, and refunds of member contributions and interest 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:

| <b>Plan Net Assets</b>   |                      |                      |                                   |
|--|----------------------|----------------------|-----------------------------------|
| <b>June 30</b>   |                      |                      |                                   |
| (Amounts expressed in thousands)                               |                      |                      |                                   |
|  | <u>2006</u>          | <u>2005</u>          | <u>% Increase/<br/>(Decrease)</u> |
| <b>Assets</b>  |                      |                      |                                   |
| Cash and Cash Equivalents, Receivables<br>and Prepaid Expenses | \$ 2,078,394         | \$ 3,137,913         | (33.77%)                          |
| Total Investments, at fair value                               | 24,114,946           | 22,652,248           | 6.46%                             |
| Securities lending cash collateral invested                    | 4,372,175            | 4,110,377            | 6.37%                             |
| Property, net of accumulated depreciation                      | 3,696                | 3,814                | (3.09%)                           |
| <b>Total Assets</b>  | <u>30,569,211</u>    | <u>29,904,352</u>    | 2.22%                             |
| <b>Liabilities</b>   |                      |                      |                                   |
| Deferred retirement benefits                                   | 670,527              | 884,776              | (24.22%)                          |
| Obligations under securities lending                           | 4,372,175            | 4,110,377            | 6.37%                             |
| Other liabilities  | 144,561              | 100,752              | 43.48%                            |
| <b>Total Liabilities</b>                                       | <u>5,187,263</u>     | <u>5,095,905</u>     | 1.79%                             |
| <b>Total Net Assets</b>  | <u>\$ 25,381,948</u> | <u>\$ 24,808,447</u> | 2.31%                             |

**Changes in Plan Net Assets**  
**Year Ended June 30**  
(Amounts expressed in thousands)

|   | <u>2006</u>          | <u>2005</u>                 | <u>% Increase/<br/>(Decrease)</u> |
|---|----------------------|-----------------------------|-----------------------------------|
| Additions   |                      |                             |                                   |
| Employee Contributions                            | \$ 567,908           | \$ 495,012                  | 14.73%                            |
| Employer Contributions                            | 686,431              | 638,487                     | 7.51%                             |
| Investment Income                                 | 1,282,360            | 1,684,122                   | (23.86%)                          |
| Other Income                                      | 5,399                | 4,188                       | 28.92%                            |
| Total Additions                                   | <u>2,542,098</u>     | <u>2,821,809</u>            | (9.91%)                           |
| Deductions  |                      |                             |                                   |
| Total Annuities                                   | 1,823,085            | 1,681,582                   | 8.41%                             |
| Refunds   | 121,841              | 80,906                      | 50.60%                            |
| Group Life  | 16,837               | 15,195                      | 10.81%                            |
| Administrative & other expenses                   | 20,898               | 18,418                      | 13.47%                            |
| Total Deductions                                  | <u>1,982,661</u>     | <u>1,796,101</u>            | 10.39%                            |
| Increase (Decrease) in Net Assets before Transfer | 559,437              | 1,025,708                   | (45.46%)                          |
| Transfer from State Adjutant General's Office     | <u>14,064</u>        | <u>                    </u> | 100.00%                           |
| Total Increase in Net Assets                      | 573,501              | 1,025,708                   | (44.09%)                          |
| Beginning Net Assets                              | <u>24,808,447</u>    | <u>23,782,739</u>           | 4.31%                             |
| Ending Net Assets                                 | <u>\$ 25,381,948</u> | <u>\$ 24,808,447</u>        | 2.31%                             |

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

On a combined basis, plan net assets were \$25.4 billion at June 30, 2006, representing a 2.31 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 due primarily to our positive investment performance during fiscal year 2006 and increased contributions. Our combined investment return for fiscal year 2006 was 5.13 percent, which lagged behind our assumed actuarial investment return of 7.25 percent. During the current fiscal year 2006, the Systems completed the process of investing up to the 50 percent funding target in the U.S. equity market, producing a 10.34 percent total return on the equity segment of the portfolio, and a return of 0.69 percent on the fixed income segment of our investment portfolio. In comparison, the prior fiscal year 2005 produced a combined total investment return of 7.02 percent, with 7.24 percent and 6.87 percent returns for the equity and fixed income segments respectively.

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 which established the Retirement System Investment Commission effective October 1, 2005, and set an investment target allocation under which equity investments cannot exceed 70 percent of the portfolio.

During fiscal year 2006, the total dollar amount of retirement annuities paid increased more than 8 percent when compared with the previous fiscal year. This was due primarily to the continued growth of TERI and the continued effects of 28-year retirement in SCRS. A 3.40 percent cost-of-living adjustment (COLA) granted to SCRS and PORS annuitants effective July 1, 2005, 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 retiree income; therefore, the General Assembly enacted legislation effective July 1, 2005, which, for SCRS retirees, guaranteed up to a 1 percent COLA and further allowed for additional COLAs that are conditional. Ad hoc COLAs 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, 2005, the UAAL amortization period for SCRS was 30 years; therefore, any additional ad hoc COLAs in the future may require either additional funding or increased investment returns.

In addition to establishing the Investment Commission and guaranteeing up to a 1 percent COLA as stated above, the State Retirement System Preservation and Investment Reform Act (Act 153) passed by the General Assembly in 2005 also made other changes to SCRS. The legislation required retired members who either participate in TERI or who return to work for a covered employer to make employee contributions. The Act also increased the rate at which both employees and employers contribute to SCRS.

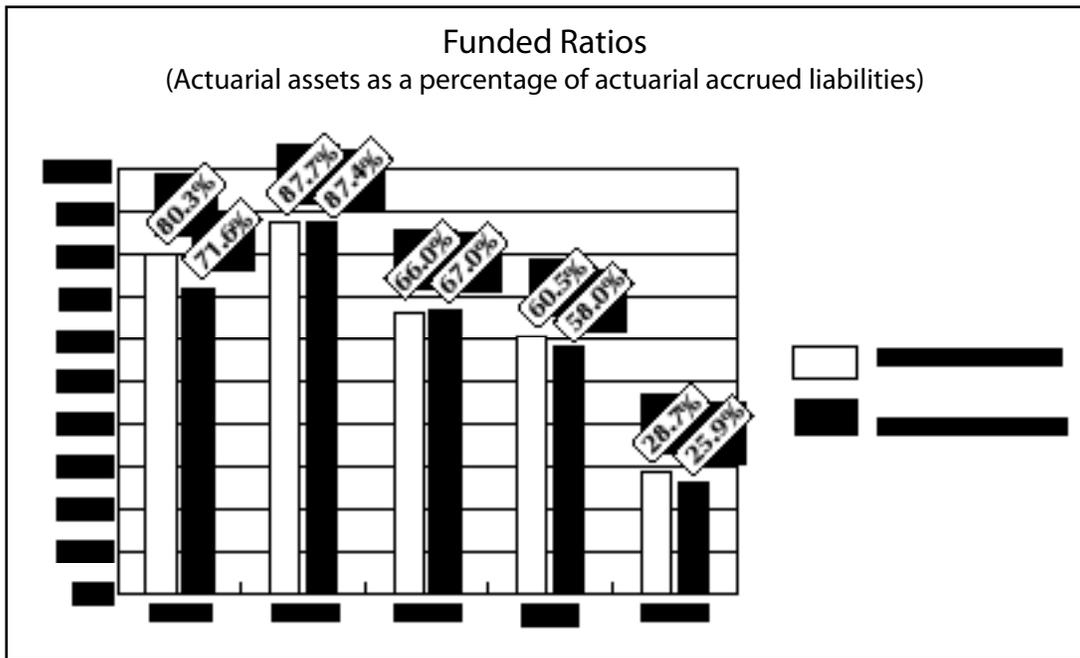
In summary, the legislation attempted to secure funding of SCRS and provide additional funding for retiree COLAs to help ensure that retiree income is not eroded by inflation. In May 2006, however, the South Carolina Supreme Court ruled that Act 153 violated the contract rights of the TERI participants who began their participation in the TERI program before July 1, 2005. All contributions that had been collected since July 1, 2005, from this group of TERI participants were required to be refunded and no future contributions are to be collected from this group of TERI participants. It is estimated that this decision will result in lost revenue to the Retirement Systems of approximately \$110 million. This loss, coupled with approval of an additional 2.5 percent ad hoc COLA effective July 1, 2006, will be offset by a further increase of .51 percent in the SCRS employer contribution rate. For further information, please refer to Note IX.

## 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 and adopted by the Budget and Control Board, indicate that the funded ratios of four of the five individual plans declined slightly from the previous valuation. Specifically in SCRS, the significant increase in actuarial liabilities due to the plan changes caused a decrease in the funded ratio and in addition, all of the plans continued to recognize losses in market value of investments that occurred in fiscal years 2000 through 2002. The most recent valuation determined that 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 five plans are presented in the following graph.



### 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](http://www.retirement.sc.gov)

**South Carolina Retirement Systems**  
**Statement of Plan Net Assets**  
**June 30, 2006**  
**With comparative totals for June 30, 2005**  
**(Amounts expressed in thousands)**

|   | SCRS                 | PORS                | GARS             | JSRS              | NGRS             | TOTAL                | TOTAL<br>2005        |
|---|----------------------|---------------------|------------------|-------------------|------------------|----------------------|----------------------|
| <b>ASSETS</b>   |                      |                     |                  |                   |                  |                      |                      |
| Cash and cash equivalents   | \$ 1,365,730         | \$ 351,035          | \$ 1,145         | \$ 6,123          | \$ 5,150         | \$ 1,729,183         | \$ 2,834,188         |
| Receivables   |                      |                     |                  |                   |                  |                      |                      |
| Due from other Systems  | 160                  | 700                 | 7                | 11                |                  | 878                  | 1,736                |
| Employee and employer contributions   | 134,099              | 17,479              | 123              | 664               |                  | 152,365              | 136,045              |
| Employer contributions long-term  | 1,435                | 26                  |                  |                   |                  | 1,461                | 1,785                |
| Accrued investment income   | 126,442              | 14,834              | 277              | 787               | 97               | 142,437              | 114,544              |
| Unsettled investment sales  | 46,008               | 5,514               | 99               | 236               |                  | 51,857               | 49,450               |
| Total receivables   | <u>308,144</u>       | <u>38,553</u>       | <u>506</u>       | <u>1,698</u>      | <u>97</u>        | <u>348,998</u>       | <u>303,560</u>       |
| Investments, at fair value  |                      |                     |                  |                   |                  |                      |                      |
| Short-term securities   | 49,643               | 4,990               |                  |                   |                  | 54,633               | 295,572              |
| United States Government securities   | 626,753              | 75,022              | 1,096            | 10,654            |                  | 713,525              | 3,122,504            |
| United States Government agencies and<br>government-insured   | 3,424,241            | 356,937             | 6,583            | 15,021            | 2,816            | 3,805,598            | 1,694,627            |
| Corporate bonds   | 3,759,322            | 499,010             | 8,317            | 21,121            | 2,207            | 4,289,977            | 4,443,116            |
| Convertible bonds   | 143                  | 17                  | 1                | 1                 |                  | 162                  | 120                  |
| Financial and other   | 1,515,666            | 193,402             | 3,036            | 7,339             | 2,519            | 1,721,962            | 2,067,841            |
| Common trust funds  | 6,495,654            | 774,683             | 13,575           | 33,471            |                  | 7,317,383            | 5,909,052            |
| Common stock  | 5,509,162            | 662,613             | 11,531           | 28,400            |                  | 6,211,706            | 5,119,416            |
| Total investments   | <u>21,380,584</u>    | <u>2,566,674</u>    | <u>44,139</u>    | <u>116,007</u>    | <u>7,542</u>     | <u>24,114,946</u>    | <u>22,652,248</u>    |
| Prepaid administrative expenses   | 103                  | 13                  |                  | 1                 | 96               | 213                  | 165                  |
| Securities lending cash collateral invested   | 3,961,439            | 383,340             | 4,354            | 22,955            | 87               | 4,372,175            | 4,110,377            |
| Capital assets, net of accumulated depreciation   | <u>3,330</u>         | <u>340</u>          | <u>10</u>        | <u>16</u>         |                  | <u>3,696</u>         | <u>3,814</u>         |
| Total assets  | <u>27,019,330</u>    | <u>3,339,955</u>    | <u>50,154</u>    | <u>146,800</u>    | <u>12,972</u>    | <u>30,569,211</u>    | <u>29,904,352</u>    |
| <b>LIABILITIES</b>  |                      |                     |                  |                   |                  |                      |                      |
| Due to other Systems  | 708                  | 160                 | 5                | 5                 |                  | 878                  | 1,736                |
| Accounts payable - unsettled investment purchases   | 39,198               | 4,679               | 84               | 201               |                  | 44,162               | 62,196               |
| Investment fees payable   | 6,453                | 775                 | 13               | 33                |                  | 7,274                | 5,661                |
| Obligations under securities lending  | 3,961,439            | 383,340             | 4,354            | 22,955            | 87               | 4,372,175            | 4,110,377            |
| Deferred retirement benefits  | 670,527              |                     |                  |                   |                  | 670,527              | 884,776              |
| Due to Employee Insurance Program   | 29,348               | 563                 |                  |                   |                  | 29,911               | 27,620               |
| Benefits payable  | 9,123                | 231                 |                  |                   | 5                | 9,359                | 2,037                |
| Negative cash balances  | 32,639               | 90                  | 1                | 4                 |                  | 32,734               |                      |
| Other accrued liabilities   | 18,333               | 1,793               | 18               | 97                | 2                | 20,243               | 1,502                |
| Total liabilities   | <u>4,767,768</u>     | <u>391,631</u>      | <u>4,475</u>     | <u>23,295</u>     | <u>94</u>        | <u>5,187,263</u>     | <u>5,095,905</u>     |
| Net assets held in trust for Pension Benefits (a schedule<br>of funding progress for each plan is presented on Page 28) | <u>\$ 22,251,562</u> | <u>\$ 2,948,324</u> | <u>\$ 45,679</u> | <u>\$ 123,505</u> | <u>\$ 12,878</u> | <u>\$ 25,381,948</u> | <u>\$ 24,808,447</u> |

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, 2006**  
**With comparative totals for the year ended June 30, 2005**  
**(Amounts expressed in thousands)**

|   | SCRS                 | PORS                | GARS             | JSRS              | NGRS             | TOTAL                | TOTAL<br>2005        |
|---|----------------------|---------------------|------------------|-------------------|------------------|----------------------|----------------------|
| <b>Additions</b>  |                      |                     |                  |                   |                  |                      |                      |
| <b>Contributions</b>  |                      |                     |                  |                   |                  |                      |                      |
| Employee  | \$ 498,445           | \$ 67,394           | \$ 543           | \$ 1,526          | \$ -             | \$ 567,908           | \$ 495,012           |
| Employer  | 577,468              | 100,281             | 2,171            | 6,511             |                  | 686,431              | 638,487              |
| <b>Total contributions</b>  | <u>1,075,913</u>     | <u>167,675</u>      | <u>2,714</u>     | <u>8,037</u>      |                  | <u>1,254,339</u>     | <u>1,133,499</u>     |
| <b>Investment Income</b>  |                      |                     |                  |                   |                  |                      |                      |
| Net appreciation (depreciation) in<br>fair value of investments     | 519,348              | 61,997              | 657              | 2,139             | (253)            | 583,888              | 1,027,721            |
| Interest and dividend income  | 632,106              | 79,680              | 1,472            | 3,711             | 342              | 717,311              | 668,818              |
| Investment expense  | (26,458)             | (3,190)             | (54)             | (135)             |                  | (29,837)             | (22,406)             |
| <b>Net income from investing activities</b>                         | <u>1,124,996</u>     | <u>138,487</u>      | <u>2,075</u>     | <u>5,715</u>      | <u>89</u>        | <u>1,271,362</u>     | <u>1,674,133</u>     |
| <b>From securities lending activities:</b>                          |                      |                     |                  |                   |                  |                      |                      |
| Securities lending income   | 171,278              | 22,411              | 217              | 910               | 7                | 194,823              | 86,006               |
| Securities lending expense  | (161,635)            | (21,113)            | (206)            | (864)             | (7)              | (183,825)            | (76,017)             |
| <b>Net income from securities lending activities</b>                | <u>9,643</u>         | <u>1,298</u>        | <u>11</u>        | <u>46</u>         |                  | <u>10,998</u>        | <u>9,989</u>         |
| <b>Total net investment income</b>                                  | <u>1,134,639</u>     | <u>139,785</u>      | <u>2,086</u>     | <u>5,761</u>      | <u>89</u>        | <u>1,282,360</u>     | <u>1,684,122</u>     |
| <b>Supplemental retirement benefits funded by the<br/>    State</b> | <u>1,741</u>         | <u>60</u>           |                  |                   |                  | <u>1,801</u>         | <u>2,046</u>         |
| <b>State appropriations for administrative expenses</b>             |                      |                     |                  |                   | 300              | 300                  |                      |
| <b>Transfers of contributions from other Systems</b>                | <u>13</u>            | <u>3,026</u>        | <u>41</u>        | <u>218</u>        |                  | <u>3,298</u>         | <u>2,142</u>         |
| <b>Total additions</b>  | <u>2,212,306</u>     | <u>310,546</u>      | <u>4,841</u>     | <u>14,016</u>     | <u>389</u>       | <u>2,542,098</u>     | <u>2,821,809</u>     |
| <b>Deductions</b>   |                      |                     |                  |                   |                  |                      |                      |
| Refunds of contributions to members                                 | 108,569              | 13,252              |                  | 20                |                  | 121,841              | 80,906               |
| Transfers of contributions to other Systems                         | 3,233                |                     | 65               |                   |                  | 3,298                | 2,142                |
| Regular retirement benefits   | 1,316,123            | 165,830             | 5,726            | 9,677             | 1,371            | 1,498,727            | 1,339,711            |
| Deferred retirement benefits  | 321,374              |                     |                  |                   |                  | 321,374              | 338,778              |
| Supplemental retirement benefits                                    | 1,741                | 60                  |                  |                   |                  | 1,801                | 2,046                |
| Group life insurance claims   | 14,875               | 1,821               | 17               | 124               |                  | 16,837               | 15,195               |
| Accidental death benefits   |                      | 1,183               |                  |                   |                  | 1,183                | 1,047                |
| Depreciation  | 107                  | 11                  |                  |                   |                  | 118                  | 119                  |
| Administrative expenses   | 15,205               | 1,957               | 33               | 83                | 204              | 17,482               | 16,157               |
| <b>Total deductions</b>   | <u>1,781,227</u>     | <u>184,114</u>      | <u>5,841</u>     | <u>9,904</u>      | <u>1,575</u>     | <u>1,982,661</u>     | <u>1,796,101</u>     |
| <b>Net increase (decrease) before transfer</b>                      | <u>431,079</u>       | <u>126,432</u>      | <u>(1,000)</u>   | <u>4,112</u>      | <u>(1,186)</u>   | <u>559,437</u>       | <u>1,025,708</u>     |
| <b>Transfer from the State Adjutant General's Office</b>            |                      |                     |                  |                   | 14,064           | 14,064               |                      |
| <b>Net increase (decrease)</b>                                      | <u>431,079</u>       | <u>126,432</u>      | <u>(1,000)</u>   | <u>4,112</u>      | <u>12,878</u>    | <u>573,501</u>       | <u>1,025,708</u>     |
| <b>Net assets held in trust for Pension Benefits</b>                |                      |                     |                  |                   |                  |                      |                      |
| Beginning of year   | 21,820,483           | 2,821,892           | 46,679           | 119,393           |                  | 24,808,447           | 23,782,739           |
| End of year   | <u>\$ 22,251,562</u> | <u>\$ 2,948,324</u> | <u>\$ 45,679</u> | <u>\$ 123,505</u> | <u>\$ 12,878</u> | <u>\$ 25,381,948</u> | <u>\$ 24,808,447</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)
- National Guard Retirement System (NGRS)

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.

The National Guard Retirement System, a single-employer defined benefit pension plan, was created effective July 1, 1975, pursuant to the provisions of Section 25-1-3210 of the South Carolina Code of Laws for the purpose of providing supplemental retirement benefits to certain members who served in the South Carolina National Guard. Effective January 1, 2006, Section 25-1-3210 was repealed and replaced by Section 9-10-30. This legislation transferred administrative responsibility of the plan from the Adjutant General's Office to the South Carolina Retirement Systems.

A summary of information related to participating employers and active members as of June 30, 2006, follows (dollar amounts expressed in thousands):

|  | <u>State<sup>1</sup></u> | <u>School</u> | <u>Other</u> | <u>Total</u> |
|--|--------------------------|---------------|--------------|--------------|
| <b>SCRS</b>                                      |                          |               |              |              |
| Number of Employers                              | 110                      | 100           | 577          | 787          |
| Annual Covered Payroll                           | \$ 2,025,086             | \$ 2,773,999  | \$ 1,577,417 | \$ 6,376,502 |
| Average Number of Members Earning Service Credit | 55,498                   | 85,315        | 52,813       | 193,626      |
| <b>PORS</b>                                      |                          |               |              |              |
| Number of Employers                              | 49                       | 4             | 268          | 321          |
| Annual Covered Payroll                           | \$ 325,118               | \$ 154        | \$ 548,528   | \$ 873,800   |
| Average Number of Members Earning Service Credit | 10,131                   | 6             | 15,680       | 25,817       |
| <b>GARS</b>                                      |                          |               |              |              |
| Number of Employers                              | 2                        |               |              | 2            |
| Annual Covered Payroll                           | \$ 3,090                 |               |              | \$ 3,090     |
| Number of Elected Positions                      | 170                      |               |              | 170          |
| <b>JSRS</b>                                      |                          |               |              |              |
| Number of Employers                              | 2                        |               |              | 2            |
| Annual Covered Payroll                           | \$ 15,369                |               |              | \$ 15,369    |
| Average Number of Members Earning Service Credit | 128                      |               |              | 128          |
| <b>NGRS</b>                                      |                          |               |              |              |
| Number of Employers                              | 1                        |               |              | 1            |
| Annual Covered Payroll <sup>2</sup>              | N/A                      |               |              | N/A          |
| Average Number of Members Earning Service Credit | 2,891                    |               |              | 2,891        |

<sup>1</sup>Each state agency is considered a separate employer for reporting purposes. Institutions of Higher Education are reported in this category.

<sup>2</sup>Annual covered payroll is not applicable for NGRS because it is a non-contributory plan.

Based upon the most recent actuarial valuations adopted by the Budget and Control Board, membership in the Systems was as follows:

|   | <u>SCRS</u>           | <u>PORS</u>          | <u>GARS</u>       | <u>JSRS</u>       | <u>NGRS</u>         |
|---|-----------------------|----------------------|-------------------|-------------------|---------------------|
| Retirees and beneficiaries currently receiving benefits                 | 94,667                | 9,661                | 312               | 141               | 2,690               |
| Terminated members entitled to but not yet receiving benefits           | 148,888               | 10,207               | 65                | 7                 | 2,974               |
| Total active, elected positions, and other special contributing members | <u>181,022</u>        | <u>23,795</u>        | <u>203</u>        | <u>128</u>        | <u>2,864</u>        |
| Total membership  | <u><u>424,577</u></u> | <u><u>43,663</u></u> | <u><u>580</u></u> | <u><u>276</u></u> | <u><u>8,528</u></u> |

Membership and benefit requirements are prescribed in Title 9 of the South Carolina Code of Laws. A brief summary of each is presented below.

## 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, newly hired state, public school, and higher education employees have the option to participate in the State Optional Retirement Program (State ORP), which is a defined contribution plan. 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 (6.25 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:

### 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

#### State ORP Activity

Year Ended June 30, 2006

(Dollar amounts expressed in thousands)

|  |            |
|--|------------|
| Average Number of Contributing Participants    | 13,511     |
| Annual Covered Payroll                         | \$ 593,231 |
| Employer Contributions Retained by SCRS        | 15,127     |
| Group Life Contributions Retained by SCRS      | 890        |
| Employee Contributions to Investment Providers | 37,077     |
| Employer Contributions to Investment Providers | 29,662     |

tion 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.

### NGRS

The NGRS has been closed to new entrants since July 1, 1993. Membership consists of individuals who began service in the South Carolina National Guard prior to July 1, 1993.

## 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. Group life insurance benefits are also available to active and retired members with at least one year of service, provided their employer participates in the program.

Eligible retirees receive an automatic cost-of-living adjustment of up to 1 percent and may also receive an additional ad hoc cost-of-living adjustment of up to 3 percent annually based on increases in the Consumer Price Index. The State Budget and Control Board grants ad hoc increases in accordance with its funding policies and state statute.

### 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. Group life insurance benefits are also available to members with at least one year of service provided their employer participates in the program. An additional accidental death benefit is also offered to officers killed in the line of duty.

Eligible 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 ad hoc 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. 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.

Retirees receive increases in benefits based upon increases in the current salary of their respective active positions.

#### **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.

Retirees receive increases in benefits based

upon increases in the current salary of their respective active positions.

#### **NGRS**

A monthly pension is payable at age 60 provided the member was honorably discharged from active duty with at least 20 years of total creditable military service. Of the 20 years total creditable military service, at least 15 must have been served in the South Carolina National Guard. Additionally, the last 10 years of service must have been served in the South Carolina National Guard. No cost-of-living increases are provided to NGRS retirees.

## **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 five 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. Administrative charges of the Retirement Systems include funds transferred to the Investment Commission to fund investment related obligations for the trust funds. Administrative expenses are funded by both employer contributions and investment income and charges are assessed to each of the pension trust funds based on its respective portion of total assets in order to pay for actual expense incurred during the year. For fiscal year 2006, administrative expenses were separately funded by state appropriations to transfer and implement administrative responsibility of the NGRS.

### 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 2006 follow:

|      |                                |
|------|--------------------------------|
| SCRS | 6.25% of earnable compensation |
| PORS | 6.5% of earnable compensation  |
| GARS | 10% of earnable compensation   |
| JSRS | 9% of earnable compensation    |
| NGRS | Non-contributory               |

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

Contributions for the NGRS are to be provided by annual state appropriations based on the annual required contribution determined annually by the actuary. The required contribution for the fiscal year ended June 30, 2006, was received timely and appropriately recognized prior to the date that the Systems assumed responsibility for administration of the plan.

In accordance with provisions of the 2005-2006 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 for retirement funding purposes. Functioning as a collecting agent, SCRS and PORS collected (amounts expressed in thousands) \$198,082 and \$11,178 respectively in retiree insurance surcharges (\$19,227 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. Upon retirement, all member account balances and contributions are transferred to the Employer Fund as all annuities and administrative expenses of the Systems are paid from this fund. Annual state appropriations to the NGRS are also credited to the Employer fund to provide funding of the annual required contribution, payment of annuity benefits and administrative expenses.

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 4 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 participat-

ing employers contribute for the purpose of providing a life insurance benefit to active and retired members of the Systems. Employer contributions and investment 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, 2006, were as follows (amounts expressed in thousands):

|                           | <u>SCRS</u>          | <u>PORS</u>         | <u>GARS</u>      | <u>JSRS</u>       | <u>NGRS</u>      |
|---------------------------|----------------------|---------------------|------------------|-------------------|------------------|
| Employee Fund             | \$ 5,229,175         | \$ 622,008          | \$ 8,094         | \$ 21,857         |                  |
| Employer Fund             | 16,903,463           | 2,275,010           | 37,585           | 101,648           | \$ 12,878        |
| Group Life Insurance Fund | 118,924              | 23,156              |                  |                   |                  |
| Accidental Death Fund     |                      | 28,150              |                  |                   |                  |
|                           | <u>\$ 22,251,562</u> | <u>\$ 2,948,324</u> | <u>\$ 45,679</u> | <u>\$ 123,505</u> | <u>\$ 12,878</u> |

### III. Deposits and Investments

#### Deposit and Investment Risk Disclosures

The tables presented on Pages 18-20 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.

#### 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.

The total amount of the Systems' deposits at June 30, 2006, was as follows (amounts expressed in thousands):

|       | Carrying<br>Amount | Bank<br>Balance  |
|-------|--------------------|------------------|
| SCRS  | (\$ 27,373)        | \$ 21,732        |
| PORS  | 151                | 2,238            |
| GARS  | 1                  | 83               |
| JSRS  | (2)                | 38               |
| NGRS  | 2                  | 93               |
| Total | <u>(\$ 27,221)</u> | <u>\$ 24,184</u> |

The primary reason for the negative carrying amounts relates to timing differences for refund checks issued to TERI participants at year-end. Additional details related to these refund checks can be found in Note IX.

##### 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 Section 11-9-660 of the South Carolina Code of Laws 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, 2006, all of the Systems' investments were insured or collateralized.

The following table presents the fair value of investments as of June 30, 2006:

**Statement of Invested Assets**  
**June 30, 2006**  
(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 | \$ 720,034           |
| U.S. Government Agencies                 | 739,502              |
| Other U.S. Government                    | 4,120                |
| Mortgage Backed:                         |                      |
| Government Pass-Through                  | 3,109,500            |
| Collateralized Mortgage Obligations:     |                      |
| Government CMOs                          | 290,726              |
| Corporate:                               |                      |
| Corporate Bonds                          | 4,262,336            |
| Corporate Asset Backed                   | 165,481              |
| Private Placements                       | 1,224,002            |
| Dollar Denominated Bonds                 | 160,008              |
| Total Fixed Income Investments           | <u>10,675,709</u>    |
| <u>Short Term Investments</u>            |                      |
| Commercial Paper                         | 29,685               |
| Repurchase Agreements                    | 1,722,131            |
| Total Short Term Investments             | <u>1,751,816</u>     |
| <u>Equity</u>                            |                      |
| Domestic                                 | 5,964,178            |
| American Depository Receipts             | 252,519              |
| Total Equity Investments                 | <u>6,216,697</u>     |
| <u>Commingled Funds</u>                  |                      |
| Common Trust Funds                       | 7,317,384            |
| Money Market Funds                       | 2,241                |
| Total Commingled Funds                   | <u>7,319,625</u>     |
| Total Invested Assets                    | <u>\$ 25,963,847</u> |

## 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 percent of the benchmark index averages.

**South Carolina Retirement Systems**  
**Interest Rate Sensitivity - Effective Duration**  
**June 30, 2006**  
 (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 | \$ 720,034        | 4.51                      |
| U.S. Government Agencies                 | 739,502           | 0.75                      |
| Other U.S. Government                    | 4,120             | 8.05                      |
| Total U.S. Government                    | 1,463,656         | 2.62                      |
| Mortgage Backed:                         |                   |                           |
| Government Pass-Through                  | 3,109,500         | 4.81                      |
| Collateralized Mortgage Obligations:     |                   |                           |
| Government CMOs                          | 290,726           | 4.30                      |
| Corporate:                               |                   |                           |
| Corporate Bonds                          | 4,262,336         | 8.07                      |
| Corporate Asset Backed                   | 165,481           | 6.58                      |
| Private Placements                       | 1,224,002         | 9.86                      |
| Total Corporate                          | 5,651,819         | 8.41                      |
| Dollar Denominated Bonds                 | 160,008           | 8.42                      |
| Total Fixed Income Investments           | 10,675,709        | 6.46                      |
| <u>Short Term Investments</u>            |                   |                           |
| Commercial Paper                         | 29,685            | 0.02                      |
| Repurchase Agreements                    | 1,722,131         | 0.00                      |
| Total Short Term Investments             | 1,751,816         | 0.00                      |
| Total Invested Assets                    | \$ 12,427,525     |                           |
| Total Portfolio Effective Duration       |                   | 5.55                      |

## 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, 2006, 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, 2006 (Amounts expressed in thousands)

| Investment Type and Fair Value  | AAA        | AA         | A            | BBB          | BB         | B        | CCC & Below | A-1          | NR        |
|---------------------------------|------------|------------|--------------|--------------|------------|----------|-------------|--------------|-----------|
| <u>Fixed Income Investments</u> |            |            |              |              |            |          |             |              |           |
| U.S. Government:                |            |            |              |              |            |          |             |              |           |
| U.S. Government Agencies        | \$ 226,391 | \$ -       | \$ -         | \$ -         | \$ -       | \$ -     | \$ -        | \$ -         | \$ -      |
| Other U.S. Government           | 4,120      |            |              |              |            |          |             |              |           |
| Mortgage Backed:                |            |            |              |              |            |          |             |              |           |
| Government Pass-Through         | 23,682     |            |              |              |            |          |             |              |           |
| Corporate:                      |            |            |              |              |            |          |             |              |           |
| Corporate Bonds                 | 73,929     | 184,394    | 1,796,287    | 1,867,704    | 318,793    | 3,717    | 162         |              | 17,350    |
| Corporate Asset Backed          | 120,286    |            |              | 39,804       |            |          |             | 5,391        |           |
| Private Placements              | 100,032    | 252,833    | 487,624      | 302,362      |            |          |             |              | 81,151    |
| Dollar Denominated Bonds        |            |            | 160,008      |              |            |          |             |              |           |
| <u>Short Term Investments</u>   |            |            |              |              |            |          |             |              |           |
| Commercial Paper                |            | 29,685     |              |              |            |          |             |              |           |
| Repurchase Agreements           |            |            |              |              |            |          |             | 1,722,131    |           |
|                                 | \$ 548,440 | \$ 466,912 | \$ 2,443,919 | \$ 2,209,870 | \$ 318,793 | \$ 3,717 | \$ 162      | \$ 1,727,522 | \$ 98,501 |

## 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, 2006, the Systems had approximately 5.63 percent of its investments in an overnight repurchase agreement with the Bank of America that was fully collateralized by United States Treasury and Agency obligations.

## 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, 2006, the Systems did 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, JSRS, and NGRS 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, 2006, 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 24 days. The average weighted maturity of investments made with cash collateral ranged from 3 to 27 days. At June 30, 2006, 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, 2006.

|   | June 30, 2006       |                   |                 |                  |              |                     | June 30, 2005       |
|---|---------------------|-------------------|-----------------|------------------|--------------|---------------------|---------------------|
|   | SCRS                | PORS              | GARS            | JSRS             | NGRS         | TOTAL               | TOTAL               |
| Securities lent for cash collateral:      |                     |                   |                 |                  |              |                     |                     |
| U.S. Government securities                | \$ 337,040          | \$ 25,974         | \$ 1,097        | \$ 10,653        |              | \$ 374,764          | \$ 2,237,344        |
| U.S. Government agencies                  | 2,323,444           | 198,740           | 606             | 5,581            |              | 2,528,371           | 642,787             |
| Corporate bonds                           | 40,768              | 7,827             |                 |                  | \$ 84        | 48,679              | 118,782             |
| Common Stock                              | 1,154,743           | 140,455           | 2,542           | 6,005            |              | 1,303,745           | 1,013,784           |
| Total securities lent for cash collateral | 3,855,995           | 372,996           | 4,245           | 22,239           | 84           | 4,255,559           | 4,012,697           |
| Securities lent for noncash collateral:   |                     |                   |                 |                  |              |                     |                     |
| Equities                                  |                     |                   |                 |                  |              |                     | 515                 |
| U.S. Government securities                |                     |                   |                 |                  |              |                     | 29,820              |
| Total for securities lent                 | <u>\$ 3,855,995</u> | <u>\$ 372,996</u> | <u>\$ 4,245</u> | <u>\$ 22,239</u> | <u>\$ 84</u> | <u>\$ 4,255,559</u> | <u>\$ 4,043,032</u> |
| Cash collateral invested as follows:      |                     |                   |                 |                  |              |                     |                     |
| Repurchase agreements                     | \$ 444,341          | \$ 66,529         | \$ 2,186        | \$ 8,971         | \$ 87        | \$ 522,114          | \$ 904,633          |
| Corporate bonds                           | 1,630,151           | 182,746           | 992             | 7,381            |              | 1,821,270           | 2,434,514           |
| Asset Backed Securities                   | 1,366,349           | 103,391           | 803             | 4,717            |              | 1,475,260           | 489,767             |
| Bank Notes                                | 520,598             | 30,674            | 373             | 1,886            |              | 553,531             | 281,463             |
| Total for cash collateral invested        | 3,961,439           | 383,340           | 4,354           | 22,955           | 87           | 4,372,175           | 4,110,377           |
| Securities received as collateral:        |                     |                   |                 |                  |              |                     |                     |
| U.S. Government securities                |                     |                   |                 |                  |              |                     | 32,171              |
| Total for securities collateral invested  | <u>\$ 3,961,439</u> | <u>\$ 383,340</u> | <u>\$ 4,354</u> | <u>\$ 22,955</u> | <u>\$ 87</u> | <u>\$ 4,372,175</u> | <u>\$ 4,142,548</u> |

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, 2006, were composed of the following (amounts expressed in thousands):

#### Cash Equivalents

|                   | Repurchase Agreements | Money Market Funds | Total 2006          | Total 2005          |
|-------------------|-----------------------|--------------------|---------------------|---------------------|
| SCRS              | \$ 1,358,482          | \$ 1,982           | \$ 1,360,464        | \$ 2,525,166        |
| PORS              | 350,557               | 237                | 350,794             | 280,172             |
| GARS              | 1,139                 | 4                  | 1,143               | 8,029               |
| JSRS              | 6,111                 | 10                 | 6,121               | 13,766              |
| NGRS <sup>1</sup> | 5,148                 |                    | 5,148               | -                   |
| Totals            | <u>\$ 1,721,437</u>   | <u>\$ 2,233</u>    | <u>\$ 1,723,670</u> | <u>\$ 2,827,133</u> |

<sup>1</sup>The South Carolina Retirement Systems assumed administration of the National Guard Retirement System January 1, 2006; therefore, comparative totals for fiscal year 2005 are not presented.

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, 2006, the Systems held the following short-term investments with maturities of less than one year (amounts expressed in thousands):

### Short-term Securities

|        | U.S.<br>Government Agency<br>Discount Notes | Commercial<br>Paper | Total<br>2006    | Total<br>2005     |
|--------|---|---------------------|------------------|-------------------|
| SCRS   | \$ 19,958                                   | \$ 29,685           | \$ 49,643        | \$ 230,054        |
| PORS   | 4,990                                       |                     | 4,990            | 65,518            |
| Totals | <u>\$ 24,948</u>                            | <u>\$ 29,685</u>    | <u>\$ 54,633</u> | <u>\$ 295,572</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 equity investments to be purchased. The Act also specified that a maximum of 40 percent of assets may be invested in equities.

During fiscal year 2005, the South Carolina General Assembly passed Act 153, the State Retirement System Preservation and Investment Reform Act, which became effective July 1, 2005. This Act established a six-member Investment Commission made up of financial experts, the State Treasurer, and a nonvoting retired member. Fiduciary responsibility for all investments was moved to the Commission. Act 153 also created the position of chief investment officer and stated that equity investments cannot exceed 70 percent of the total portfolio.

As of June 30, 2006, the Retirement Systems' assets were invested in equities as follows (amounts expressed in thousands):

### Equity Investments

|        | Common Trust Funds    |                            |                              | Common<br>Stock     | Total<br>2006        | Total<br>2005        |
|--------|-----------------------|----------------------------|------------------------------|---------------------|----------------------|----------------------|
|        | S&P 500<br>Index Fund | Russell 2000<br>Index Fund | Barclays Global<br>Investors |                     |                      |                      |
| SCRS   | \$ 5,718,900          | \$ 348,345                 | \$ 428,409                   | \$ 5,509,162        | \$ 12,004,816        | \$ 9,788,784         |
| PORS   | 682,329               | 41,223                     | 51,131                       | 662,613             | 1,437,296            | 1,168,825            |
| GARS   | 11,952                | 729                        | 894                          | 11,531              | 25,106               | 20,453               |
| JSRS   | 29,482                | 1,780                      | 2,209                        | 28,400              | 61,871               | 50,406               |
| NGRS   | -                     | -                          | -                            | -                   | -                    | -                    |
| Totals | <u>\$ 6,442,663</u>   | <u>\$ 392,077</u>          | <u>\$ 482,643</u>            | <u>\$ 6,211,706</u> | <u>\$ 13,529,089</u> | <u>\$ 11,028,468</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, 2006, individual agreements were in place between the Systems and 20 equity investment managers.

On June 30, 2006, 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, 2006     | June 30, 2005     |
|--------|-------------------|-------------------|
|        | <u>Fair Value</u> | <u>Fair Value</u> |
| SCRS   | \$ 265,678        | \$ 292,359        |
| PORS   | 23,194            | 13,782            |
| GARS   | 134               | 183               |
| JSRS   | 106               | 145               |
| NGRS   | -                 | -                 |
| Totals | <u>\$ 289,112</u> | <u>\$ 306,469</u> |

On June 30, 2006, 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. 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 Reve-

nue 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, 2006     | June 30, 2005     |
|--------|-------------------|-------------------|
|        | <u>Fair Value</u> | <u>Fair Value</u> |
| SCRS   | \$ 137,609        | \$ 561,790        |
| PORS   | 24,299            | 123,544           |
| GARS   | 621               | 958               |
| JSRS   | 1,764             | 2,682             |
| NGRS   | 495               | -                 |
| Totals | <u>\$ 164,788</u> | <u>\$ 688,974</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, 2006       | June 30, 2005       |
|--------|---------------------|---------------------|
|        | <u>Fair Value</u>   | <u>Fair Value</u>   |
| SCRS   | \$ 1,112,379        | \$ 967,113          |
| PORS   | 145,909             | 101,556             |
| GARS   | 2,281               | 1,417               |
| JSRS   | 5,469               | 2,312               |
| NGRS   | 2,024               | -                   |
| Totals | <u>\$ 1,268,062</u> | <u>\$ 1,072,398</u> |

## IV. Capital Assets

Capital assets at June 30, 2006, consist of the following amounts (expressed in thousands). There were no additions or dispositions of capital assets during the year.

|                                   | SCRS     | PORS   | GARS  | JSRS  | TOTAL    | TOTAL<br>2005 |
|-----------------------------------|----------|--------|-------|-------|----------|---------------|
| 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<br>Depreciation | 1,473    | 151    | 4     | 7     | 1,635    | 1,517         |
| Net Capital Assets                | \$ 3,330 | \$ 340 | \$ 10 | \$ 16 | \$ 3,696 | \$ 3,814      |

## 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, 2006, were as follows (amounts expressed in thousands):

| Transfers from | Transfers to |          |       |        |          |
|----------------|--------------|----------|-------|--------|----------|
|                | SCRS         | PORS     | GARS  | JSRS   | Totals   |
| SCRS           | \$ -         | \$ 3,026 | \$ 41 | \$ 166 | \$ 3,233 |
| PORS           |              |          |       |        | -        |
| GARS           | 13           |          |       | 52     | 65       |
| JSRS           |              |          |       |        | -        |
| Total          | \$ 13        | \$ 3,026 | \$ 41 | \$ 218 | \$ 3,298 |

The following schedule reflects amounts due to or from other systems as of June 30, 2006, (amounts expressed in thousands):

| Due from | Due to |        |      |       |        |
|----------|--------|--------|------|-------|--------|
|          | SCRS   | PORS   | GARS | JSRS  | Totals |
| SCRS     | \$ -   | \$ 690 | \$ 7 | \$ 11 | \$ 708 |
| PORS     | 160    |        |      |       | 160    |
| GARS     |        | 5      |      |       | 5      |
| JSRS     |        | 5      |      |       | 5      |
| Total    | \$ 160 | \$ 700 | \$ 7 | \$ 11 | \$ 878 |

## 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, 2006, liabilities of approximately \$29.9 million were due to other State departments and agencies, and contributions receivable of approximately \$27.6 million were due from other State departments and agencies.

As a result of the Retirement Systems assuming administrative responsibility for the NGRS, the State appropriated funds in the amount of \$300,000 to the Systems in order to perform the functions necessary to assume administration. Additionally, the State Adjutant General's Office transferred approximately \$14.1 million to the Systems, which represented the net assets of the National Guard Pension System at December 31, 2005.

As discussed in Note III, the Retirement System Investment Commission was established by Act 153 with an effective date of October 1, 2005. The Investment Commission is considered a separate State agency; however, the

expenses of the Commission are funded by transfers from the Systems. Transfers in the amount of approximately \$1.5 million were made to the Commission during the fiscal year.

## 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. TERI participants who entered the program after June 30, 2005, must continue to contribute at the same rate as active members. Those who entered prior to July 1, 2005, make no employee contributions while participating in TERI. 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 10,025 members were actively participating in the TERI program at June 30, 2006. The activity for this program is reflected in the following schedule:

### Schedule of TERI Activity Year Ended June 30, 2006 (Amounts expressed in thousands)

|                             |                   |
|-----------------------------|-------------------|
| Beginning Liability Balance | \$ 884,776        |
| Additions                   | 321,374           |
| TERI Distributions          | (535,623)         |
| Ending Liability Balance    | <u>\$ 670,527</u> |

## VIII. Litigation

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

In May, 2006, the Supreme Court ruled that Act 153, which had been enacted by the General Assembly in 2005, and which required certain retirees, including participants in the Teacher and Employee Retention Incentive program (TERI), to remit employee contributions to the Retirement System, violated the contract rights of the TERI participants who began their participation in the TERI program before July 1, 2005 (old TERI participants). The Supreme Court ordered that all contributions from the old TERI participants that had been collected since July 1, 2005, should be refunded, with interest, and that no future contributions from the old TERI participants be collected. The estimated present value of the revenue to the Retirement Systems lost by this decision is estimated at \$110,000,000. This loss will be offset by increases in the employer contributions to the system. The Supreme Court also remanded the question whether the Retirement System is liable for Plaintiffs' attorneys' fees. That issue is pending in the trial court at this time. Plaintiffs have not yet informed the Retirement System what amount of attorneys' fees they are seeking, so no estimate of the amount of any such award can presently be made. The Supreme Court also remanded the claims of persons who have retired but have returned to covered employment prior to July 1, 2005, for determination by the trial court, although the Supreme Court found that the statute governing retirees who have returned to work did not create a contract between the State and these members. If the retirees who have returned to covered employment were to prevail, the Retirement System estimates its potential loss at approximately \$12.5 million for fiscal year 2006. Discovery regarding these issues is underway, and it is premature to estimate any potential loss associated with them. The Retirement

System believes its defense is meritorious and intends to vigorously contest these claims.

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 retirees who have returned to covered employment in the Police Officers Retirement System and the South Carolina Retirement System to make employee contributions are unconstitutional and illegal. Specifically, the plaintiffs allege that the provisions of Act 153 requiring retirees who have returned to covered employment 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 and returned to covered employment 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 attorneys' 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. (To the extent this case covers the South Carolina Retirement System, the class for Arnold and the potential class of retirees who have returned to covered employment in Layman [described above] would be the same. To the extent these cases cover the same class members in the South Carolina Retirement System, the defendants would only be liable for approximately \$12.5 million in both

cases. The defendants believe their defense is meritorious and will vigorously contest the case.

## IX. Refund of TERI Contributions

As described in Note VIII above, based on the Supreme Court's ruling that all TERI participants whose participation began prior to July 1, 2005, were entitled to a refund of member contributions, the Retirement Systems issued refund checks totaling \$37.8 million to 13,975 TERI participants. Retired member contributions that were deducted from this group of TERI participants' payroll checks and reported to the Retirement Systems from July 1, 2005, through June 30, 2006, have been refunded.

Upon learning of the Court's decision, the Retirement Systems wanted to make every effort to refund all appropriate contributions received from TERI participants in a timely manner. The Retirement Systems was ordered to refund contributions to members in the class with interest at the rate of 4 percent, payable within 30 days of the court order. The post-judgment interest accrued at 11.25 percent for refunds issued after the 30-day period.

The contributions were refunded, with interest, and no future contributions will be collected from this group of TERI participants. The \$37.8 million refunded includes approximately \$900,000 in interest and is reported as refunds of contributions to members. Of the \$37.8 million on the Statement of Plan Net Assets, \$6.9 million was issued after the end of the fiscal year and is included as benefits payable.

# South Carolina Retirement Systems Required Supplementary Information

## Schedule of Funding Progress (Amounts expressed in thousands)

| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial Accrued<br>Liability (AAL)<br>-Entry Age<br>(b) | Unfunded AAL<br>(UAAL)<br>(b - a) | Funded<br>Ratio<br>(a/b) | Covered<br>Payroll<br>(c) | UAAL as a<br>Percentage of<br>Covered Payroll<br>((b - a)/c) |
|--------------------------------|--|---|-----------------------------------|--------------------------|---------------------------|--|
| SCRS                           |  |   |                                   |                          |                           |  |
| 7/01/05                        | \$ 21,625,510                          | \$ 30,217,471   | \$ 8,591,961                      | 71.6%                    | \$ 6,356,489              | 135.2%   |
| 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%  |
| PORS                           |  |   |                                   |                          |                           |  |
| 7/01/05                        | 2,774,606                              | 3,173,930   | 399,324                           | 87.4%                    | 850,610                   | 46.9%  |
| 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%  |
| GARS                           |  |   |                                   |                          |                           |  |
| 7/01/05                        | 46,316                                 | 69,161  | 22,845                            | 67.0%                    | 3,853                     | 592.9%   |
| 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%   |
| JSRS                           |  |   |                                   |                          |                           |  |
| 7/01/05                        | 118,888                                | 204,847   | 85,959                            | 58.0%                    | 15,465                    | 555.8%   |
| 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%   |
| NGRS                           |  |   |                                   |                          |                           |  |
| 6/30/05                        | 12,151                                 | 46,985  | 34,835                            | 25.9%                    | N/A                       | N/A  |
| 6/30/04                        | 13,567                                 | 47,281  | 33,714                            | 28.7%                    | N/A                       | N/A  |
| 6/30/02                        | 12,608                                 | 44,678  | 32,069                            | 28.2%                    | N/A                       | N/A  |
| 6/30/00*                       | 11,089                                 | 43,427  | 32,338                            | 25.5%                    | N/A                       | N/A  |
| 6/30/98                        | 8,640                                  | 41,478  | 32,839                            | 20.8%                    | N/A                       | N/A  |
| 6/30/96                        | 6,259                                  | 36,756  | 30,497                            | 17.0%                    | N/A                       | N/A  |

\*As of April 30, 2000

# South Carolina Retirement Systems Required Supplementary Information (continued)

## Schedule of Employer Contributions (Amounts expressed in thousands)

| Year Ended<br>June 30, | SCRS                               |                           | PORS                               |                           | GARS                               |                           | JSRS                               |                           | NGRS                                   |                           |
|------------------------|------------------------------------|---------------------------|------------------------------------|---------------------------|------------------------------------|---------------------------|------------------------------------|---------------------------|--|---------------------------|
|                        | Annual<br>Required<br>Contribution | Percentage<br>Contributed | Annual<br>Required<br>Contribution | Percentage<br>Contributed | Annual<br>Required<br>Contribution | Percentage<br>Contributed | Annual<br>Required<br>Contribution | Percentage<br>Contributed | Annual<br>Pension<br>Cost <sup>1</sup> | Percentage<br>Contributed |
| 2006                   | \$ 577,468                         | 100%                      | \$ 100,281                         | 100%                      | \$ 2,171                           | 100%                      | \$ 6,511                           | 100%                      | \$ 2,969                               | 132.8%                    |
| 2005                   | 538,809                            | 100%                      | 90,528                             | 100%                      | 2,890                              | 100%                      | 6,260                              | 100%                      | 2,887                                  | 69.2%                     |
| 2004                   | 515,996                            | 100%                      | 87,922                             | 100%                      | 2,731                              | 100%                      | 6,078                              | 100%                      | 2,796                                  | 71.4%                     |
| 2003                   | 512,345                            | 100%                      | 86,563                             | 100%                      | 2,577                              | 100%                      | 6,014                              | 100%                      | 2,804                                  | 71.2%                     |
| 2002                   | 509,044                            | 100%                      | 88,608                             | 100%                      | 2,627                              | 100%                      | 5,993                              | 100%                      | 2,938                                  | 72.6%                     |
| 2001                   | 491,329                            | 100%                      | 93,584                             | 100%                      | 2,510                              | 100%                      | 5,875                              | 100%                      | 2,947                                  | 71.7%                     |

<sup>1</sup>The Annual Pension Cost (APC) for the National Guard Retirement System includes both the Annual Required Contribution (ARC) and the discounted present value of the balance of the net pension obligation.

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                      | NGRS                      |
|-------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Valuation date                | 07/01/05                  | 07/01/05                  | 07/01/05                  | 07/01/05                  | 06/30/05                  |
| Actuarial cost method         | Entry age                 |
| Amortization period           | Level percent<br>open     | Level percent<br>open     | Level percent<br>closed   | Level percent<br>open     | Level dollar<br>open      |
| Remaining amortization period | 30 years                  | 15 years                  | 20 years                  | 36 years                  | 30 years                  |
| Asset valuation method        | 5-year smoothed<br>market |
| Actuarial assumptions:        |                           |                           |                           |                           |                           |
| Investment rate of return     | 7.25%                     | 7.25%                     | 7.25%                     | 7.25%                     | 7.25%                     |
| Projected salary increases    | 4.00% - 8.00%             | 4.50% - 11.50%            | None                      | 3.25%                     | None                      |
| Includes inflation at         | 3.00%                     | 3.00%                     | 3.00%                     | 3.00%                     | 4.25%                     |
| Cost-of-living adjustments    | Automatic 1% <sup>2</sup> | None                      | None                      | 3.25%                     | None                      |

<sup>2</sup>Beginning the July 1st following one year of receiving benefits, the monthly benefit amount will increase by the calendar year change in CPI but not to exceed 1 percent. Additional ad hoc COLAs may be paid as approved by the State Budget and Control Board and based upon the financial condition of the System.

**South Carolina Retirement Systems**  
**Schedule of Changes in Plan Net Assets**  
**SCRS Pension Trust Fund**  
**Year Ended June 30, 2006**  
**With comparative totals for the year ended June 30, 2005**  
**(Amounts expressed in thousands)**

|  | EMPLOYEE<br>FUND    | EMPLOYER<br>FUND     | GROUP<br>LIFE<br>FUND | TOTAL                | TOTAL<br>2005        |
|--|---------------------|----------------------|-----------------------|----------------------|----------------------|
| <b>Additions</b>   |                     |                      |                       |                      |                      |
| Employee contributions                                       |                     |                      |                       |                      |                      |
| State department employees                                   | \$ 149,602          | \$ 20,268            |                       | \$ 169,870           | \$ 151,980           |
| Public school employees                                      | 192,245             | 26,848               |                       | 219,093              | 183,427              |
| Other political subdivision employees                        | 104,314             | 5,168                |                       | 109,482              | 97,845               |
| Employer contributions                                       |                     |                      |                       |                      |                      |
| State department employees                                   |                     | 190,435              | \$ 4,191              | 194,626              | 187,365              |
| Public school employees                                      |                     | 249,742              | 5,136                 | 254,878              | 243,542              |
| Other political subdivision employees                        |                     | 125,804              | 2,160                 | 127,964              | 107,902              |
| Total contributions  | <u>446,161</u>      | <u>618,265</u>       | <u>11,487</u>         | <u>1,075,913</u>     | <u>972,061</u>       |
| Investment Income  |                     |                      |                       |                      |                      |
| Net appreciation (depreciation) in fair value of investments |                     | 516,579              | 2,769                 | 519,348              | 915,907              |
| Interest and dividend income                                 |                     | 628,742              | 3,364                 | 632,106              | 592,013              |
| Investment expense   |                     | (26,317)             | (141)                 | (26,458)             | (19,878)             |
| Net income from investing activities                         |                     | <u>1,119,004</u>     | <u>5,992</u>          | <u>1,124,996</u>     | <u>1,488,042</u>     |
| From securities lending activities:                          |                     |                      |                       |                      |                      |
| Securities lending income                                    |                     | 170,365              | 913                   | 171,278              | 75,142               |
| Securities lending expense                                   |                     | (160,773)            | (862)                 | (161,635)            | (66,297)             |
| Net income from securities lending activities                |                     | <u>9,592</u>         | <u>51</u>             | <u>9,643</u>         | <u>8,845</u>         |
| Total net investment income                                  |                     | <u>1,128,596</u>     | <u>6,043</u>          | <u>1,134,639</u>     | <u>1,496,887</u>     |
| Supplemental retirement benefits funded by the State         |                     | 1,741                |                       | 1,741                | 1,982                |
| Transfers of contributions from other Systems                | 13                  |                      |                       | 13                   | 2                    |
| Total additions  | <u>446,174</u>      | <u>1,748,602</u>     | <u>17,530</u>         | <u>2,212,306</u>     | <u>2,470,932</u>     |
| <b>Deductions</b>  |                     |                      |                       |                      |                      |
| Refunds of contributions to members                          | 108,569             |                      |                       | 108,569              | 67,434               |
| Transfers of contributions to other Systems                  | 2,067               | 1,166                |                       | 3,233                | 2,136                |
| Regular retirement benefits                                  |                     | 1,316,123            |                       | 1,316,123            | 1,173,459            |
| Deferred retirement benefits                                 |                     | 321,374              |                       | 321,374              | 338,778              |
| Supplemental retirement benefits                             |                     | 1,741                |                       | 1,741                | 1,982                |
| Group life insurance claims                                  |                     |                      | 14,875                | 14,875               | 13,710               |
| Depreciation   |                     | 107                  |                       | 107                  | 107                  |
| Administrative expense                                       |                     | 15,124               | 81                    | 15,205               | 14,242               |
| Total deductions   | <u>110,636</u>      | <u>1,655,635</u>     | <u>14,956</u>         | <u>1,781,227</u>     | <u>1,611,848</u>     |
| Interfund transfers according to statutory requirements      |                     |                      |                       |                      |                      |
| Contributions by members at retirement                       | (218,861)           | 218,861              |                       |                      |                      |
| Interest credited to members' accounts                       | 197,075             | (197,075)            |                       |                      |                      |
| Net interfund transfers                                      | <u>(21,786)</u>     | <u>21,786</u>        |                       |                      |                      |
| Net increase   | 313,752             | 114,753              | 2,574                 | 431,079              | 859,084              |
| <b>Net assets held in trust for Pension Benefits</b>         |                     |                      |                       |                      |                      |
| Beginning of year  | <u>4,915,423</u>    | <u>16,788,710</u>    | <u>116,350</u>        | <u>21,820,483</u>    | <u>20,961,399</u>    |
| End of year  | <u>\$ 5,229,175</u> | <u>\$ 16,903,463</u> | <u>\$ 118,924</u>     | <u>\$ 22,251,562</u> | <u>\$ 21,820,483</u> |

**South Carolina Retirement Systems**  
**Schedule of Changes in Plan Net Assets**  
**PORS Pension Trust Fund**  
**Year Ended June 30, 2006**  
With comparative totals for the year ended June 30, 2005  
(Amounts expressed in thousands)

|  | EMPLOYEE<br>FUND | EMPLOYER<br>FUND | GROUP<br>LIFE<br>FUND | ACCIDENTAL<br>DEATH<br>FUND | TOTAL        | TOTAL<br>2005 |
|--|------------------|------------------|-----------------------|-----------------------------|--------------|---------------|
| <b>Additions</b>   |                  |                  |                       |                             |              |               |
| Employee contributions   |                  |                  |                       |                             |              |               |
| State department employees                                     | \$ 23,785        | \$ 1,113         |                       |                             | \$ 24,898    | \$ 22,320     |
| Public school employees  | 73               | 93               |                       |                             | 166          | 27            |
| Other political subdivision employees                          | 39,967           | 2,363            |                       |                             | 42,330       | 36,455        |
| Employer contributions   |                  |                  |                       |                             |              |               |
| State department employees                                     |                  | 35,938           | \$ 686                | \$ 686                      | 37,310       | 32,864        |
| Public school employees  |                  | 168              | 3                     | 3                           | 174          | 16            |
| Other political subdivision employees                          |                  | 60,600           | 1,133                 | 1,064                       | 62,797       | 57,648        |
| Total contributions  | 63,825           | 100,275          | 1,822                 | 1,753                       | 167,675      | 149,330       |
| <b>Investment Income</b>                                       |                  |                  |                       |                             |              |               |
| Net appreciation (depreciation) in fair value of investments   |                  | 60,934           | 485                   | 578                         | 61,997       | 105,259       |
| Interest and dividend income                                   |                  | 78,319           | 621                   | 740                         | 79,680       | 71,885        |
| Investment expense   |                  | (3,135)          | (25)                  | (30)                        | (3,190)      | (2,386)       |
| Net income from investing activities                           |                  | 136,118          | 1,081                 | 1,288                       | 138,487      | 174,758       |
| From securities lending activities:                            |                  |                  |                       |                             |              |               |
| Securities lending income                                      |                  | 22,027           | 175                   | 209                         | 22,411       | 10,315        |
| Securities lending expense                                     |                  | (20,751)         | (165)                 | (197)                       | (21,113)     | (9,224)       |
| Net income from securities lending activities                  |                  | 1,276            | 10                    | 12                          | 1,298        | 1,091         |
| Total net investment income                                    |                  | 137,394          | 1,091                 | 1,300                       | 139,785      | 175,849       |
| Supplemental retirement benefits funded by the State           |                  | 60               |                       |                             | 60           | 64            |
| Transfers of contributions from other Systems                  | 1,860            | 1,166            |                       |                             | 3,026        | 2,071         |
| Total additions  | 65,685           | 238,895          | 2,913                 | 3,053                       | 310,546      | 327,314       |
| <b>Deductions</b>  |                  |                  |                       |                             |              |               |
| Refunds of contributions to members                            | 13,248           |                  |                       |                             | 13,248       | 13,441        |
| Transfers of contributions to other Systems                    |                  |                  |                       |                             |              | 4             |
| Regular retirement benefits                                    |                  | 165,834          |                       |                             | 165,834      | 151,477       |
| Supplemental retirement benefits                               |                  | 60               |                       |                             | 60           | 64            |
| Group life insurance claims                                    |                  |                  | 1,821                 |                             | 1,821        | 1,468         |
| Accidental death benefits                                      |                  |                  |                       | 1,183                       | 1,183        | 1,047         |
| Depreciation   |                  | 11               |                       |                             | 11           | 11            |
| Administrative expense   |                  | 1,924            | 15                    | 18                          | 1,957        | 1,808         |
| Total deductions   | 13,248           | 167,829          | 1,836                 | 1,201                       | 184,114      | 169,320       |
| <b>Interfund transfers according to statutory requirements</b> |                  |                  |                       |                             |              |               |
| Contributions by members at retirement                         | (38,708)         | 38,708           |                       |                             |              |               |
| Interest credited to members' accounts                         | 22,578           | (22,578)         |                       |                             |              |               |
| Net interfund transfers  | (16,130)         | 16,130           |                       |                             |              |               |
| Net increase   | 36,307           | 87,196           | 1,077                 | 1,852                       | 126,432      | 157,994       |
| <b>Net assets held in trust for Pension Benefits</b>           |                  |                  |                       |                             |              |               |
| Beginning of year  | 585,701          | 2,187,814        | 22,079                | 26,298                      | 2,821,892    | 2,663,898     |
| End of year  | \$ 622,008       | \$ 2,275,010     | \$ 23,156             | \$ 28,150                   | \$ 2,948,324 | \$ 2,821,892  |

**South Carolina Retirement Systems**  
**Schedule of Changes in Plan Net Assets**  
**GARS Pension Trust Fund**  
**Year Ended June 30, 2006**  
 With comparative totals for the year ended June 30, 2005  
 (Amounts expressed in thousands)

|  | EMPLOYEE<br>FUND | EMPLOYER<br>FUND | TOTAL            | TOTAL<br>2005    |
|--|------------------|------------------|------------------|------------------|
| <b>Additions</b>   |                  |                  |                  |                  |
| Contributions  |                  |                  |                  |                  |
| Employee contributions - State departments                     | \$ 543           |                  | \$ 543           | \$ 924           |
| Employer contributions - State departments                     |                  | \$ 2,171         | 2,171            | 2,890            |
| Total contributions  | <u>543</u>       | <u>2,171</u>     | <u>2,714</u>     | <u>3,814</u>     |
| Investment Income  |                  |                  |                  |                  |
| Net appreciation (depreciation) in fair value of investments   |                  | 657              | 657              | 1,819            |
| Interest and dividend income                                   |                  | 1,472            | 1,472            | 1,446            |
| Investment expense   |                  | (54)             | (54)             | (41)             |
| Net income from investing activities                           |                  | <u>2,075</u>     | <u>2,075</u>     | <u>3,224</u>     |
| From securities lending activities:                            |                  |                  |                  |                  |
| Securities lending income                                      |                  | 217              | 217              | 121              |
| Securities lending expense                                     |                  | (206)            | (206)            | (107)            |
| Net income from securities lending activities                  |                  | <u>11</u>        | <u>11</u>        | <u>14</u>        |
| Total net investment income                                    |                  | <u>2,086</u>     | <u>2,086</u>     | <u>3,238</u>     |
| Transfers of contributions from other Systems                  | 41               |                  | 41               | 11               |
| Total additions  | <u>584</u>       | <u>4,257</u>     | <u>4,841</u>     | <u>7,063</u>     |
| <b>Deductions</b>  |                  |                  |                  |                  |
| Refunds of contributions to members                            |                  |                  |                  | 31               |
| Transfers of contributions to other Systems                    | 65               |                  | 65               | 2                |
| Regular retirement benefits                                    |                  | 5,726            | 5,726            | 5,560            |
| Group life insurance claims                                    |                  | 17               | 17               | 16               |
| Depreciation   |                  |                  |                  |                  |
| Administrative expense   |                  | 33               | 33               | 31               |
| Total deductions   | <u>65</u>        | <u>5,776</u>     | <u>5,841</u>     | <u>5,640</u>     |
| <b>Interfund transfers according to statutory requirements</b> |                  |                  |                  |                  |
| Contributions by members at retirement                         | (759)            | 759              |                  |                  |
| Interest credited to members' accounts                         | 310              | (310)            |                  |                  |
| Net interfund transfers  | <u>(449)</u>     | <u>449</u>       |                  |                  |
| Net increase (decrease)  | 70               | (1,070)          | (1,000)          | 1,423            |
| <b>Net assets held in trust for Pension Benefits</b>           |                  |                  |                  |                  |
| Beginning of year  | 8,024            | 38,655           | 46,679           | 45,256           |
| End of year  | <u>\$ 8,094</u>  | <u>\$ 37,585</u> | <u>\$ 45,679</u> | <u>\$ 46,679</u> |

**South Carolina Retirement Systems**  
**Schedule of Changes in Plan Net Assets**  
**JSRS Pension Trust Fund**  
**Year Ended June 30, 2006**  
 With comparative totals for the year ended June 30, 2005  
 (Amounts expressed in thousands)

|  | EMPLOYEE<br>FUND | EMPLOYER<br>FUND  | TOTAL             | TOTAL<br>2005     |
|--|------------------|-------------------|-------------------|-------------------|
| <b>Additions</b>   |                  |                   |                   |                   |
| Contributions  |                  |                   |                   |                   |
| Employee contributions - State departments                     | \$ 1,526         |                   | \$ 1,526          | \$ 2,034          |
| Employer contributions - State departments                     |                  | \$ 6,511          | 6,511             | 6,260             |
| Total contributions  | <u>1,526</u>     | <u>6,511</u>      | <u>8,037</u>      | <u>8,294</u>      |
| Investment Income  |                  |                   |                   |                   |
| Net appreciation (depreciation) in fair value of investments   |                  | 2,139             | 2,139             | 4,736             |
| Interest and dividend income                                   |                  | 3,711             | 3,711             | 3,474             |
| Investment expense   |                  | (135)             | (135)             | (101)             |
| Net income from investing activities                           |                  | <u>5,715</u>      | <u>5,715</u>      | <u>8,109</u>      |
| From securities lending activities:                            |                  |                   |                   |                   |
| Securities lending income                                      |                  | 910               | 910               | 428               |
| Securities lending expense                                     |                  | (864)             | (864)             | (389)             |
| Net income from securities lending activities                  |                  | <u>46</u>         | <u>46</u>         | <u>39</u>         |
| Total net investment income                                    |                  | <u>5,761</u>      | <u>5,761</u>      | <u>8,148</u>      |
| Transfers of contributions from other Systems                  | 218              |                   | 218               | 58                |
| Total additions  | <u>1,744</u>     | <u>12,272</u>     | <u>14,016</u>     | <u>16,500</u>     |
| <b>Deductions</b>  |                  |                   |                   |                   |
| Refunds of contributions to members                            | 20               |                   | 20                |                   |
| Regular retirement benefits                                    |                  | 9,677             | 9,677             | 9,215             |
| Group life insurance claims                                    |                  | 124               | 124               | 1                 |
| Depreciation   |                  |                   |                   | 1                 |
| Administrative expense   |                  | 83                | 83                | 76                |
| Total deductions   | <u>20</u>        | <u>9,884</u>      | <u>9,904</u>      | <u>9,293</u>      |
| <b>Interfund transfers according to statutory requirements</b> |                  |                   |                   |                   |
| Contributions by members at retirement                         | (656)            | 656               |                   |                   |
| Interest credited to members' accounts                         | 784              | (784)             |                   |                   |
| Net interfund transfers  | <u>128</u>       | <u>(128)</u>      |                   |                   |
| Net increase   | 1,852            | 2,260             | 4,112             | 7,207             |
| <b>Net assets held in trust for Pension Benefits</b>           |                  |                   |                   |                   |
| Beginning of year  | 20,005           | 99,388            | 119,393           | 112,186           |
| End of year  | <u>\$ 21,857</u> | <u>\$ 101,648</u> | <u>\$ 123,505</u> | <u>\$ 119,393</u> |

**South Carolina Retirement Systems**  
**Schedule of Changes in Plan Net Assets**  
**NGRS Pension Trust Fund**  
**Year Ended June 30, 2006<sup>1</sup>**  
 (Amounts expressed in thousands)

|  | EMPLOYER<br>FUND<br>TOTAL |
|--|---------------------------|
|  | TOTAL                     |
| Additions  |                           |
| Contributions <sup>2</sup>                                   |                           |
| State appropriated contributions                             | \$ -                      |
| Total contributions  | -                         |
| Investment Income  |                           |
| Net appreciation (depreciation) in fair value of investments | (253)                     |
| Interest and dividend income                                 | 342                       |
| Net income from investing activities                         | 89                        |
| From securities lending activities:                          |                           |
| Securities lending income                                    | 7                         |
| Securities lending expense                                   | (7)                       |
| Net income from securities lending activities                | -                         |
| Total net investment income                                  | 89                        |
| State Appropriation for Administrative Expenses              | 300                       |
| Total additions  | 389                       |
| Deductions   |                           |
| Regular retirement benefits                                  | 1,371                     |
| Administrative expense                                       | 204                       |
| Total deductions   | 1,575                     |
| Net increase (decrease) before transfer                      | (1,186)                   |
| Transfer from the State Adjutant General's Office            | 14,064                    |
| Net increase   | 12,878                    |
| Net assets held in trust for Pension Benefits                |                           |
| Beginning of year  | -                         |
| End of year  | \$ 12,878                 |

<sup>1</sup>The South Carolina Retirement Systems assumed administration of the National Guard Retirement System January 1, 2006; therefore, comparative totals for fiscal year 2005 are not presented.

<sup>2</sup>Contributions for fiscal year 2006 were received prior to January 1, 2006, when the Retirement Systems assumed administration of the NGRS.

## Schedule of Administrative Expenses

For the Year Ended June 30, 2006

(Amounts expressed in thousands)

|                                    | SCRS             | PORS            | GARS         | JSRS         | NGRS          | TOTAL            |
|------------------------------------|------------------|-----------------|--------------|--------------|---------------|------------------|
| Personal Services                  |                  |                 |              |              |               |                  |
| Salaries and Wages                 | \$ 7,040         | \$ 906          | \$ 15        | \$ 38        | \$ 179        | \$ 8,178         |
| Employee Benefits                  | 1,852            | 238             | 4            | 10           |               | 2,104            |
| Contractual Services               |                  |                 |              |              |               |                  |
| Data Processing Services           | 1,424            | 183             | 3            | 8            |               | 1,618            |
| Medical & Health Services          | 452              | 58              | 1            | 2            |               | 513              |
| Financial Audit                    | 26               | 3               |              |              |               | 29               |
| Actuarial Services                 | 230              | 30              | 1            | 1            | 25            | 287              |
| Other Professional Services        | 196              | 25              |              | 1            |               | 222              |
| Legal Services                     | 185              | 24              |              | 1            |               | 210              |
| Operating Expenses                 |                  |                 |              |              |               |                  |
| Facilities Management              | 452              | 58              | 1            | 3            |               | 514              |
| Intergovernmental Services         | 797              | 103             | 2            | 4            |               | 906              |
| Transfers to Investment Commission | 1,294            | 167             | 3            | 7            |               | 1,471            |
| Telephone                          | 85               | 11              |              | 1            |               | 97               |
| Insurance                          | 372              | 48              | 1            | 2            |               | 423              |
| Postage                            | 332              | 43              | 1            | 2            |               | 378              |
| Supplies                           | 136              | 17              |              | 1            |               | 154              |
| Other Miscellaneous Expenses       | 332              | 43              | 1            | 2            |               | 378              |
| Total Administrative Expenses      | <u>\$ 15,205</u> | <u>\$ 1,957</u> | <u>\$ 33</u> | <u>\$ 83</u> | <u>\$ 204</u> | <u>\$ 17,482</u> |

## Schedule of Professional Consultant Fees

For the Year Ended June 30, 2006

(Amounts expressed in thousands)

|                             | Professional/Consultant           | Nature of Service                    | Amount Paid     |
|-----------------------------|-----------------------------------|--------------------------------------|-----------------|
| Medical & Health Services   | SC Vocational Rehabilitation      | Disability Applications              | \$ 513          |
| Auditing and Accounting     | Rogers & Laban, PA                | Financial audit                      | 29              |
| Management Consulting       | Milliman USA                      | Actuarial services                   | 287             |
| Other Professional Services | Cost Effectiveness Measurements   | Benchmarking services                | 30              |
|                             | Summit Strategies                 | Optional Retirement Plan consultants | 116             |
|                             | Psychological & Training Services | Case Evaluations                     | 33              |
|                             | Leonard & Associates              | Case Evaluations                     | 21              |
|                             | Hollenbeck & Associates           | Case Evaluations                     | 22              |
| Legal Services              | Sowell Gray Stepp & Laffitte      | Attorney services                    | 189             |
|                             | Gergel Nickles & Solomon          | Attorney services                    | 21              |
|                             |                                   |                                      | <u>\$ 1,261</u> |

Information on investment management and consulting fees can be found in the Schedule of Investment Expenses on page 36.

**South Carolina Retirement Systems**  
**Schedule of Investment Expenses**  
**Year Ended June 30, 2006**  
(Amounts expressed in thousands)

|   | SCRS       | PORS      | GARS   | JSRS   | NGRS | TOTAL      |
|---|------------|-----------|--------|--------|------|------------|
| <b>Equity Investment Managers Fees:</b>                 |            |           |        |        |      |            |
| AllianceBernstein, LP (Large Cap Value)                 | \$ 898     | \$ 106    | \$ 2   | \$ 4   |      | \$ 1,010   |
| AllianceBernstein, LP (Large Cap Growth)                | 503        | 60        | 1      | 3      |      | 567        |
| Barclays Global Investors, N.A.                         | 1,080      | 129       | 2      | 6      |      | 1,217      |
| Batterymarch Financial Management, Inc.                 | 1,105      | 129       | 2      | 6      |      | 1,242      |
| Wells Capital Management, Inc. (Benson Value Team)      | 1,789      | 218       | 4      | 10     |      | 2,021      |
| ClariVest Asset Management, LLC <sup>1</sup>            | 48         | 6         |        |        |      | 54         |
| Fidelity Management Trust Company                       | 1,940      | 231       | 4      | 10     |      | 2,185      |
| Flippin, Bruce & Porter, Inc.                           | 764        | 91        | 2      | 4      |      | 861        |
| Integrity Asset Management, LLC                         | 771        | 90        | 1      | 4      |      | 866        |
| J.L. Kaplan Associates, LLC <sup>2</sup>                | 1,334      | 157       | 3      | 6      |      | 1,500      |
| Legg Mason Capital Management, Inc. <sup>3</sup>        | 1,070      | 131       | 2      | 6      |      | 1,209      |
| Montag & Caldwell, Inc. <sup>4</sup>                    | 190        | 24        | 1      | 1      |      | 216        |
| Nicholas-Applegate Capital Management, LLC <sup>5</sup> | 1,590      | 187       | 3      | 8      |      | 1,788      |
| Pzena Investment Management, LLC <sup>6</sup>           | 1,197      | 147       | 3      | 6      |      | 1,353      |
| Sands Capital Management, LP <sup>7</sup>               | 1,266      | 155       | 3      | 6      |      | 1,430      |
| State Street Global Advisors Russell 2000 Index Fund    | 87         | 10        |        | 1      |      | 98         |
| State Street Global Advisors S&P 500 Index Fund         | 154        | 18        |        | 1      |      | 173        |
| The Boston Company Asset Management, LLC <sup>8</sup>   | 283        | 33        | 1      | 1      |      | 318        |
| TimesSquare Capital Management, LLC                     | 2,048      | 250       | 4      | 10     |      | 2,312      |
| Thompson, Siegel & Walmsley, Inc.                       | 1,188      | 139       | 2      | 6      |      | 1,335      |
| Turner Investment Partners, Inc.                        | 1,361      | 159       | 3      | 6      |      | 1,529      |
| WCM Investment Management <sup>9</sup>                  | 1,931      | 237       | 4      | 10     |      | 2,182      |
| Wellington Management Company, LLP                      | 2,509      | 300       | 5      | 13     |      | 2,827      |
| Total   | 25,106     | 3,007     | 52     | 128    |      | 28,293     |
| <b>Investment Service Fees:</b>                         |            |           |        |        |      |            |
| Bank Fees   | 1,352      | 183       | 2      | 7      |      | 1,544      |
| <b>Total Investment Management Fees</b>                 | \$ 26,458  | \$ 3,190  | \$ 54  | \$ 135 |      | \$ 29,837  |
| <b>Securities Lending Expenses:</b>                     |            |           |        |        |      |            |
| Borrower Rebates  | \$ 161,635 | \$ 21,113 | \$ 206 | \$ 864 | \$ 7 | \$ 183,825 |
| <b>Total Securities Lending Expenses</b>                | \$ 161,635 | \$ 21,113 | \$ 206 | \$ 864 | \$ 7 | \$ 183,825 |

<sup>1</sup>ClariVest Asset Management, LLC, was funded June 2006.

<sup>2</sup>The contract with J. L. Kaplan Associates, LLC, was terminated May 2006.

<sup>3</sup>Legg Mason Capital Management, Inc., was funded September 2005.

<sup>4</sup>The contract with Montag & Caldwell, Inc., was terminated September 2005.

<sup>5</sup>The contract with Nicholas-Applegate Capital Management, LLC, was terminated June 2006.

<sup>6</sup>Pzena Investment Management, LLC, was funded September 2005.

<sup>7</sup>Sands Capital Management, LP, was funded September 2005.

<sup>8</sup>The contract with The Boston Company Asset Management, LLC, was terminated September 2005.

<sup>9</sup>WCM Investment Management was funded September 2005.