

FINANCIAL STATEMENTS

SOUTH CAROLINA
RETIREMENT SYSTEMS

Administered By the Retirement Division of the
South Carolina Public Employee Benefit Authority

Columbia, South Carolina

Year Ended June 30, 2014

State of South Carolina



Office of the State Auditor

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November 21, 2014

The Honorable Nikki R. Haley, Governor
and
Members of the South Carolina Public Employee
Benefit Authority
State of South Carolina
Columbia, South Carolina

This report on the audit of the financial statements of the South Carolina Retirement Systems for the fiscal year ended June 30, 2014 was issued by CliftonLarsonAllen, LLP, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Richard H. Gilbert Jr.", written in a cursive style.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

RHGjr/cwc

South Carolina Retirement Systems

Table of Contents

June 30, 2014

INDEPENDENT AUDITORS' REPORT	1-2	
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	3-11	
FINANCIAL STATEMENTS:		
Statement of Fiduciary Net Position	12	
Statement of Changes in Fiduciary Net Position.....	13	
Notes to Financial Statements	14-44	
REQUIRED SUPPLEMENTARY INFORMATION:		
Schedule of Changes in the Employers' Net Pension Liability	45	
Schedule of Employers' Net Pension Liability.....	45	
Schedule of Employers' Contributions	46	
Schedule of Investment Returns	47	
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION:		
Summary of Actuarial Methods and Significant Assumptions	47	
OTHER SUPPLEMENTARY INFORMATION:		
Schedule of Changes in Fiduciary Net Position - By System	48-52	
Schedule of Administrative Expenses	53	
Schedule of Professional and Consultant Fees.....	53	
Schedule of Investment Fees and Expenses.....	54	
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS		55-56



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Independent Auditors' Report

The Honorable Nikki Haley, Governor,
Board of Directors of the South Carolina
Public Employee Benefit Authority, and
Richard H. Gilbert, Jr., Deputy State Auditor
South Carolina Retirement Systems
Columbia, South Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the South Carolina Retirement Systems (the Systems) as administered by the South Carolina Public Employee Benefit Authority, which comprise the statement of fiduciary net position as of June 30, 2014, and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Systems as of June 30, 2014, and the respective changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Systems' 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 15, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.



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Emphasis of Matter

The financial statements include alternative investments valued at \$9.3 billion (31% percent of total net position). As explained in Note 1, their fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of changes in the employers' net pension liability, employers' net pension liability, employers' contributions and investment returns, as listed in the table of contents, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the Systems' financial statements. The other supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements.

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2014 on our consideration of the Systems' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Systems' internal control over financial reporting and compliance.



Baltimore, Maryland
November 21, 2014

Management's Discussion and Analysis

This section presents management's discussion and analysis of the financial position and performance for the year ended June 30, 2014, for the South Carolina Retirement System pension trust funds (Systems), and is offered as an introduction and analytical overview. This narrative is intended as a supplement and should be read in conjunction with the financial statements and other information presented in the *Comprehensive Annual Financial Report*.

The Systems' financial statements provide information about the activities of the five defined benefit pension plans administered, which are 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 multiple-employer plan covering teachers, as well as state and municipal employees;
- *Police Officers Retirement System (PORS)* - A member contributory multiple-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, Solicitors and Public Defenders; and
- *South Carolina National Guard Supplemental Retirement Plan (SCNG)* - A non-contributory supplemental benefit plan for members of the South Carolina National Guard.

Overview of the Financial Statements

The Systems represents the collective retirement funds that are held in a group trust for the plans and are protected by the state's constitution. PEBA, which was created July 1, 2012, administers the various retirement systems and retirement programs managed by its Retirement Division. PEBA has an 11-member Board of Directors, appointed by the Governor and General Assembly leadership, which serves as co-trustee and co-fiduciary of the systems and the trust funds. By law, the Budget and Control Board, which consists of five elected officials, also reviews certain PEBA Board decisions regarding the funding of the Systems and serves as a co-trustee of the Systems in conducting that review. PEBA is considered a division of the primary government of the state of South Carolina and therefore, retirement trust fund financial information is also included in the comprehensive annual financial report of the state. Financial statements prepared on behalf of the Systems, include the following information, for the fiscal year ended June 30, 2014, with combined total comparative information for the fiscal year ended June 30, 2013:

- Statement of Fiduciary Net Position
- Statement of Changes in Fiduciary Net Position
- Notes to the Financial Statements
- Required Supplementary Information
- Other Supplementary Information

The Statement of Fiduciary Net Position presents the Systems' assets and liabilities and the resulting net position restricted for pensions. This statement reflects a year-end snapshot of the Systems' investments, at fair value, along with cash and short-term investments, receivables and other assets and liabilities.

The Statement of Changes in Fiduciary Net Position presents information showing how the Systems' net position restricted for pensions changed during the year. This statement includes additions for con-

tributions by members and employers and investment earnings and deductions for annuity payments, refunded contributions, death benefit payments and administrative expenses.

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

Required Supplementary Information presents schedules pertaining to employers' net pension liability, changes in employers' net pension liability, employers' contributions, and the money-weighted rate of return on investments. These schedules are intended to provide additional information useful in evaluating the condition of the systems.

Other Supplementary Information includes Schedules of Changes in Fiduciary Net Position by system, as well as schedules of administrative expenses, professional and consultant fees and investment expenses.

Financial Highlights

- PEBA is still a relatively new entity having been created July 1, 2012, as the governing body responsible for administration of the state's retirement plans and employee insurance programs. The PEBA Board assumed responsibility for the SC Deferred Compensation Program effective January 1, 2014. The Deferred Compensation Program offers 401k and 457 plans and is administered by a third party record keeper. These assets are outside the group trust fund of the Systems. With PEBA's creation, transition and consolidation of offices, management continues to analyze human resources and priorities which resulted in a decrease of almost 14 percent in administrative expenses from the prior year. PEBA's Board of Directors and executive leadership are committed to an organized, robust strategic planning process that will formalize the direction and goals of the agency in meeting its mission.
- For the fiscal year ended June 30, 2014, the net of fee investment performance return provided by the custodial bank, BNY Mellon was 15.29 percent. This return reflects performance of the Systems, at the aggregate for the pooled investments of the consolidated pension trust funds, after the deduction of manager fees and/or expenses. This fiscal year's performance was again significantly above the prior year's return of 9.99 percent and will also be recognized as an actuarial gain as it was well above the 7.5 percent actuarial investment rate of return assumed for the plans. For the actuarial valuation prepared for funding purposes, gains and losses from investment performance are recognized using smoothing methods which help mitigate sharply fluctuating market returns over a long-term period. The smoothing methodology offsets both deferred investment gains and losses against each other and is intended to produce an actuarial asset value that is fairly consistent with market value during periods of ordinary investment returns. Smoothing avoids overreaction to inherently volatile conditions that would otherwise overweight the effects of a single year of performance that would most likely be reversed in subsequent years. Actuarial smoothing is intended to result in more stable contribution rates and a more level funded status, and is also a valuable methodology for governmental entities because it permits budgetary planning over more than one fiscal year.
- The Retirement System Investment Commission (Commission as the governing body, RSIC as the agency), created by the General Assembly in 2005 as co-fiduciary for the Systems, has exclusive

authority to invest and manage the retirement trust funds' assets. The Commission operates pursuant to statutory provisions and under governance policies that allow for a diverse asset allocation and which afford the RSIC and its chief investment officer discretion and flexibility to quickly react to changes in market conditions. The investment portfolio is structured to focus on ensuring the long-term stability of the plans, seeking superior returns at acceptable levels of risk. Hewitt EnnisKnupp (HEK), the investment consultant for the Commission, reported that as of the fiscal year ended June 30, 2014, the plan's investment portfolio outperformed the policy benchmark, on a net-of-fee basis, for the trailing one- two- three- and five-year time periods.

- The Commission is responsible for establishing and maintaining a target asset allocation that manages risk, ensures liquidity, and affords flexibility to quickly react to changes in market conditions. Variances from the target among asset classes are the result of over or underweights reflected in the Commission's asset allocation strategies as well as volatility experienced in the financial markets. During the fiscal year, several new real estate and private equity managers were added in addition to the funding of global equity, emerging market debt and private debt managers. As a result of an asset liability modeling (ALM) study conducted by the Commission's consultant, HEK, which reviewed the liabilities of the plans and compared them against projected capital market expectations in order to produce a recommended asset allocation, in April 2013 a new asset allocation was adopted by the Commission for fiscal year 2014. The adopted asset allocation policy for fiscal year 2014 reflected an increase in return-seeking assets and a change in the allocation of hedge funds. Hedge fund strategies that persistently exhibit beta are now placed in the asset class in which that beta resides and up to 7 percent of the total fund can be placed in these investments. The hedge fund (low beta) asset class was created for hedge fund strategies with multiple betas or no market beta and an 8 percent target allocation was set for this asset class. A total fund limit to hedge fund strategies was set at 15 percent.
- All investment manager fees, whether directly invoiced or deducted from the fund on a net basis, are classified and reported as investment expense. While some investment managers submit invoices for their investment management fees, a significant number of investment managers provide account valuations on a net of fee basis. Those management fees are often netted against investment income and are not readily separable. For greater transparency, the RSIC makes a good faith attempt to disaggregate netted fee amounts that are not necessarily readily separable. The RSIC collects and aggregates the netted investment fees and checks for reasonableness in order to disclose fees that would not otherwise be disclosed. The RSIC provides the netted fee information to the Retirement Division of PEBA on an annual basis so that amounts can be reclassified and reported in the financial statements on the investment expense line of the Statement of Changes in Fiduciary Net Position. The collection process is not standard practice for many plan sponsors. The netted investment expenses include amounts for investment management fees, performance fees (including carried interest allocations), and other expenses such as organizational expenses in limited partnership structures. The total netted fee amounts reported also reflect the impact of any offsets which have the effect of reducing this total. Therefore, in order to compare investment expense as reported by the Systems with investment management costs reported by other public pension plans, an understanding of the actual fees and expenses included in any comparative reports is necessary. Additionally, investment plan composition directly influences the fee structure of a plan and adjustments for differences in plan asset allocation is necessary before conclusions can be reached from such comparisons.

- The Systems' investment portfolio continues to participate in a securities lending program, managed by BNY Mellon (Securities Lending Program), whereby securities are loaned for the purpose of generating additional income. BNY Mellon is responsible for making loans of securities on a collateralized basis from the Systems' investment portfolio to various third party broker-dealers and financial institutions. The gross securities lending revenue for the fiscal year was \$1.7 million, a decrease from \$2.5 million in the prior year. As reported by BNY Mellon, at June 30, 2014, the fair value of securities on loan was \$118.70 million, the fair value of the invested cash collateral was \$72.64 million, and the securities lending obligations were \$121.31 million. The reported difference in the value of the invested cash collateral and the securities lending obligations in the securities lending program is reflected within "Other Liabilities" on the Retirement Systems' Statement of Fiduciary Net Position, consistent with information reported on accounting statements provided by BNY Mellon as the custodial bank.
- Total fiduciary net position for all five defined benefit plans of the Systems combined, increased by \$3.0 billion or just over 11 percent during fiscal year 2014. The net position of the plans is impacted by contributions to the plans, investment returns, and benefit payments out of the system. It is important to note that growth in fiduciary net position depends on both investment performance and contributions from employers and employees. The plans are in a net cash outflow position with benefit payments exceeding contributions, therefore, investment performance must first make up this gap before fiduciary net position can grow. The increase in net position from \$26.9 billion to \$29.9 billion was attributable to both superior investment performance and increased contribution levels.
- An increase in the amount of employer contributions collected from the prior fiscal year is attributable to higher contribution rates imposed by retirement reform legislation which was enacted in 2012. Although the employee contribution rate increased proportionately, the dollar amount of employee contributions collected during fiscal year 2014 decreased because the prior year's employee contributions were inflated due to an influx of members purchasing service credit that year as a result of legislative reform.
- The Teacher and Employee Retention Incentive (TERI) program is a deferred retirement option program under SCRS that initially allowed retired members to accumulate annuity benefits on a deferred basis for up to 60 months while continuing employment. Retirement reform legislation will close the TERI program to all participants effective June 30, 2018, so SCRS members who enter the TERI program after July 1, 2013, will not be eligible to participate in TERI for the full 60 months. Current TERI participants are required to pay the same pre-tax member contribution rate on compensation earned, in the same manner as active members. TERI participants do not earn additional service credit or interest on their TERI account but are eligible to receive benefit increases in the same manner as other annuitant payees. At the end of the member's TERI participation and upon termination from employment, funds are distributed from the accumulated TERI account. The number of members actively participating in TERI decreased slightly from 9,792 at fiscal year-end 2013 to 9,644 at fiscal year-end 2014.

- The total number of retired members and beneficiaries receiving monthly annuity benefits from the Systems' increased from slightly over 149,000 to approximately 153,000 annuitants during the year. Additionally, eligible annuitant payees received an annual benefit adjustment equal to the lesser of 1 percent or \$500 on July 1, 2013. The increase in the number of new annuitants added to the payroll during the year coupled with the retiree benefit adjustment resulted in an overall increase of 4.10 percent in the dollar amount of annuity benefits paid to annuitants compared to the prior the year.
- In addition to the deferred retirement options available in SCRS and JSRS, all of the plans (excluding SCNG) include certain provisions that allow retired members to continue covered employment while also receiving a monthly retirement benefit. South Carolina's public employee defined benefit plans have historically provided extremely lenient return-to-work provisions for retired members of SCRS and PORS who return to work for a covered employer after retirement, or after ending their TERI participation (SCRS only). For members who return to work for a covered employer after retirement, the employer must pay the corresponding employer contribution for that particular plan, and under SCRS, PORS and JSRS, retired members are also required to pay the same employee contribution as an active member in the same position. TERI participants receive the full monthly retirement benefit, with no limit on the amount of wages they may earn from employment. Collectively among the plans, the most recent actuarial valuation study reported that over 30,000 retirees continue covered employment while receiving monthly retirement benefits either directly or as a TERI participant, thereby making up approximately 11 percent of the total public workforce covered by the Systems. Because historically lenient return-to-work provisions, coupled with demographic changes of the membership, caused concern over the long-term stability of the plans, retirement reform legislation also addressed retiree return-to-work provisions. Generally, SCRS and PORS members who retired after January 1, 2013, and had not yet reached age 62 (SCRS) or age 57 (PORS) at retirement are subject to an annual earnings limit of \$10,000 on wages earned from covered employment.
- Qualified Excess Benefit Arrangement (QEBA) trust funds are maintained for each of the plans administered by the Retirement Division of PEBA. A QEBA is intended to be a qualified governmental excess benefit arrangement within the meaning of Section 415(m)(3) of the Internal Revenue Code and provides the part of a participant's retirement benefit that would have been paid by the Systems had there been no limitations under Code Section 415(b). The QEBA plans are separate and apart from the funds comprising the retirement funds and are not commingled with assets of those funds. The QEBA is not prefunded; therefore, no assets or income are accumulated to pay future benefits. The amount of required contributions necessary to pay benefits under the plans is determined and deposited to the trust funds on an as-needed basis. Employer contributions to fund the excess benefits are not credited or commingled with contributions paid into and accumulated in the retirement funds.
- The firm of Gabriel Roeder Smith & Company (GRS) is on retainer as the Systems' consulting actuary for the defined benefit retirement plans. South Carolina state statute requires that the actuary complete a valuation of the Systems annually and conduct an experience investigation at least once in each five-year period. GRS completed an actuarial experience study on the Systems as of July 1, 2010, and the most recent annual valuation reports were issued as of June 30, 2013.

While Act 278 amended the law to provide for a schedule of employer and employee contributions going forward, the 2013 valuation results required additional increases to employee and employer contribution rates for both SCRS and PORS effective July 1, 2015, in order to maintain a 30-year funding period. Statutory provisions require any necessary increase in the scheduled contributions rates to be shared equally between employers and employees. The PEBA Board adopted the recommended rate changes, which were subsequently approved by the Budget and Control Board. State statute now requires that the General Assembly establish the assumed annual rate of return on the investments of the Retirement Systems, and the state's legislative body set the rate at 7.5 percent effective July 1, 2012.

- The GARS was closed to persons first elected to the South Carolina General Assembly at or after the general election in November 2012. Members so elected to the Senate or House of Representatives have the option to join SCRS, the State Optional Retirement Program (State ORP), which is a defined contribution plan, or opt out all together.
- The Systems implemented the requirements of GASB 67 as approved by the Governmental Accounting Standards Board in June 2012 in the financial statements for the fiscal year ended June 30, 2014. The financial statements, notes to the financial statements, and required supplementary information reflect changes as required by this statement.

Condensed Financial Information

The Systems' financial stability and long-term ability to sufficiently fund retirement benefits payable to members in future years is viable because funds are accumulated and invested on a regular and systematic basis. The five defined benefit funds provide lifetime annuity benefits to vested eligible members who serve as employees of state, public school, higher education institution, local and municipal government, state legislative, judicial, and South Carolina National Guard employers.

The Systems' principal sources of revenue are employee contributions, employer contributions and investment earnings. Required annual contributions for the SCNG are funded through an annual state appropriation. Expenses of the Systems consist primarily of payments of monthly annuities to retired members or their beneficiaries, and refunds of member contributions and interest that are paid subsequent to termination of employment. The defined benefit plans include an incidental death benefit for both active and retired members and an accidental death plan for members of the PORS.

PEBA sponsors the State ORP, which is a defined contribution alternative plan that is administered by four different vendors. The State ORP is available to newly hired employees of state agencies, institutions of higher education and public school districts. Membership in either SCRS or State ORP is also available to individuals first elected to the General Assembly at or after the general election in November 2012. In addition, PEBA is responsible for an optional Deferred Compensation Program (401k and 457 plans) administered by a third party record keeper. Both State ORP and Deferred Compensation assets are outside the group trust fund of the Systems and are not invested or managed by the RSIC.

The following summary comparative financial statements of the pension trust funds are presented.

Fiduciary Net Position
June 30
(Amounts expressed in thousands)

Assets	2014	2013 Restated¹	Increase/ (Decrease)	% Increase/ (Decrease)
Cash and cash equivalents, receivables and prepaid expenses	\$ 4,063,173	\$ 4,023,274	\$ 39,899	0.99%
Investments, at fair value	26,754,819	24,587,950	2,166,869	8.81%
Securities lending cash collateral invested	72,645	106,633	(33,988)	(31.87%)
Capital Assets, net of accumulated depreciation	2,912	3,083	(171)	(5.55%)
Total Assets	<u>30,893,549</u>	<u>28,720,940</u>	<u>2,172,609</u>	<u>7.56%</u>
Liabilities				
Deferred retirement benefits	56,901	68,344	(11,443)	(16.74%)
Obligations under securities lending	72,645	106,633	(33,988)	(31.87%)
Other accounts payable	836,292	1,645,150	(808,858)	(49.17%)
Total Liabilities	<u>965,838</u>	<u>1,820,127</u>	<u>(854,289)</u>	<u>(46.94%)</u>
Total Fiduciary Net Position Restricted for Pensions	<u>\$ 29,927,711</u>	<u>\$ 26,900,813</u>	<u>\$ 3,026,898</u>	<u>11.25%</u>

Changes in Fiduciary Net Position
Year Ended June 30
(Amounts expressed in thousands)

Additions	2014	2013 Restated¹	Increase/ (Decrease)	% Increase/ (Decrease)
Employee contributions	\$ 751,467	\$ 775,634	\$ (24,167)	(3.12%)
Employer contributions	1,132,128	1,103,044	29,084	2.64%
State-appropriated contributions	4,586	4,539	47	1.04%
Net Investment income	4,083,023	2,542,502	1,540,521	60.59%
Other income	3,083	4,083	(1,000)	(24.49%)
Total Additions	<u>5,974,287</u>	<u>4,429,802</u>	<u>1,544,485</u>	<u>34.87%</u>
Deductions				
Annuity benefits	2,803,084	2,692,799	110,285	4.10%
Refunds	106,475	102,255	4,220	4.13%
Death benefits	21,680	21,268	412	1.94%
Administrative & other expenses	16,150	18,741	(2,591)	(13.83%)
Total Deductions	<u>2,947,389</u>	<u>2,835,063</u>	<u>112,326</u>	<u>3.96%</u>
Increase in Fiduciary Net Position	<u>3,026,898</u>	<u>1,594,739</u>	<u>1,432,159</u>	<u>89.81%</u>
Beginning Fiduciary Net Position, Restated ¹	26,900,813	25,306,074	1,594,739	6.30%
Ending Fiduciary Net Position Restricted for Pensions	<u>\$ 29,927,711</u>	<u>\$ 26,900,813</u>	<u>\$ 3,026,898</u>	<u>11.25%</u>

¹See accompanying notes to the financial statements.

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

On a combined basis, the defined benefit plans' fiduciary net position was valued at \$29.9 billion at June 30, 2014, representing just over an 11 percent increase in net position from the previous fiscal year-end. Positive investment earnings and increased contributions were the primary drivers of the change in fiduciary net position for the fiscal year.

During fiscal year 2014, the total dollar amount of contributions added to the plans remained relatively flat although contribution rates increased slightly. Monthly retirement benefits paid to annuitants increased 4.10 percent compared with the previous fiscal year. As previously referenced, the increase was attributable to a benefit adjustment granted to eligible SCRS and PORS annuity recipients effective July 1, 2013, along with a significant increase in the number of new annuitants added to the payroll during the year.

Investment income had a positive impact on the trust fund. The plan's net-of-fee return for the fiscal year 2014 was 15.29 percent, exceeding the actuarial assumed rate of return of 7.50 percent by 779 basis points. The fund experienced positive returns for the fifth consecutive year led by several strategies that substantially exceeded their benchmarks. Private Debt returned 15.07 percent for the fiscal year significantly outpacing the benchmark of 5.85 percent. Real Estate also outperformed its benchmark with a 20.10 percent return versus a Real Estate Index return of 14.52 percent. Other strategies that significantly outperformed their benchmarks included: Hedge Funds (Low Beta) with a 13.27 percent return versus a 9.06 percent benchmark return, Mixed Credit with a 9.99 percent return versus a 7.30 percent benchmark return, and Global Fixed Income with a 8.61 percent return versus a 5.17 percent benchmark return.

Strong equity, long-term bond, and real estate markets provided the basis for all asset classes having positive returns on an absolute basis. Relative to the benchmark, the greatest underperforming asset class was Private Equity returning 21.69 percent while its benchmark generated a return of 24.64 percent.

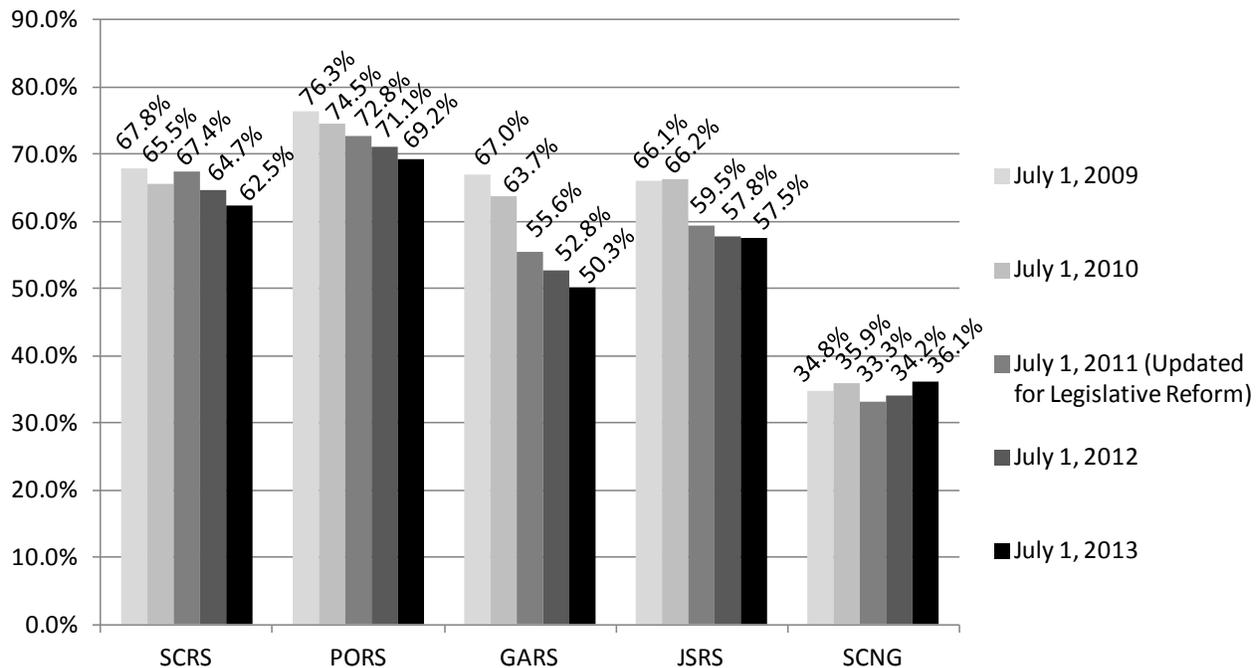
Actuarial Valuations and Funding Progress

An actuarial valuation of each defined benefit plan is performed annually. An overall objective in the funding of a defined benefit retirement plan is to accumulate sufficient funds to meet long-term benefit obligations. The primary sources of revenue to fund benefits include investment income, member contributions and employer contributions. The investment performance for purposes of developing the actuarially determined contribution rate is recognized using a five-year smoothing period. Under this method, each year the plan recognizes 20 percent of the difference between the market value of assets and the expected actuarial value of assets, based upon the assumed valuation rate of return. This asset valuation method mitigates the short term impact of market volatility and allows changes in market conditions to be recognized (smoothed) over a longer period of time. In contrast, for purposes of providing accounting information under GASB Statement No. 67, the fiduciary net position is determined on a market value basis.

For the actuarial valuations prepared for funding purposes, 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 assets to liabilities. Since the percentage of plan fiduciary net position to the total pension liability for accounting purposes uses the market value

of assets rather than the actuarial value of assets, there can be significant short-term volatility in the proportion. The funding progress of a retirement system should be reviewed over a several year period, such as five to ten years, to identify the trend in the plan's funding status. The most recent actuarial valuations prepared as of July 1, 2013 showed a general decline in funded status; however, the funding status of all plans is expected to increase over time once the deferred investment losses from prior years are fully recognized. The expected increases in funded status are primarily the result of retirement reform legislation. As of July 1, 2013, valuations, funding levels of all the plans are such that annual expected contributions are sufficient for the valuations to find that the plans are actuarially sound. The changes in the levels of funding do not affect the availability of funds or resources for future use and actuarial projections indicate that unfunded liabilities should be amortized and funded within acceptable funding guidelines. The actuarial funded ratios of the five plans are presented in the following graph. Percentages for GASB 67 reporting purposes can be found in the schedule of employers' net pension liability on page 45.

Actuarial Funded Ratios
(Actuarial assets as a percentage of actuarial accrued liabilities)



Requests for Information

This financial report is designed to provide a general overview of the 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:

Retirement Systems Finance
 South Carolina Public Employee Benefit Authority
 PO Box 11960
 Columbia, SC 29211-1960
 (803) 737-6800
www.retirement.sc.gov

South Carolina Retirement Systems

Statement of Fiduciary Net Position

June 30, 2014

With comparative totals for June 30, 2013
(Amounts expressed in thousands)

	SCRS	PORS	GARS	JSRS	SCNG	TOTAL	TOTAL 2013 Restated
ASSETS							
Cash and cash equivalents	\$ 2,552,961	\$ 396,203	\$ 4,873	\$ 16,219	\$ 3,761	\$ 2,974,017	\$ 3,013,555
Receivables:							
Due from other systems	269	949				1,218	492
Employee and employer contributions	174,015	20,548	172	751	16	195,502	225,494
Accrued investment income	32,286	4,983	40	182	26	37,517	67,184
Unsettled investment sales	732,115	112,991	918	4,132	595	850,751	712,485
Other investment receivables	1,567	242	2	9	1	1,821	2,798
Total receivables	<u>940,252</u>	<u>139,713</u>	<u>1,132</u>	<u>5,074</u>	<u>638</u>	<u>1,086,809</u>	<u>1,008,453</u>
Investments, at fair value:							
Short-term securities	719,307	111,015	901	4,060	584	835,867	476,652
Debt							
Domestic Fixed Income	4,926,250	760,296	6,174	27,804	4,002	5,724,526	6,749,245
Global Fixed Income	2,133,683	329,303	2,675	12,043	1,733	2,479,437	1,951,503
Public Equity							
Domestic Equity	2,176,128	335,854	2,727	12,283	1,768	2,528,760	1,735,940
Global Equity	3,279,266	506,108	4,110	18,508	2,664	3,810,656	1,717,633
Global Tactical Asset Allocation	1,823,709	281,463	2,286	10,293	1,482	2,119,233	1,759,777
Alternatives	7,965,558	1,229,369	9,983	44,958	6,472	9,256,340	10,197,200
Total investments	<u>23,023,901</u>	<u>3,553,408</u>	<u>28,856</u>	<u>129,949</u>	<u>18,705</u>	<u>26,754,819</u>	<u>24,587,950</u>
Securities lending cash collateral invested	62,515	9,648	78	353	51	72,645	106,633
Prepaid expenses	2,018	313	3	11	2	2,347	1,266
Capital Assets, net of accumulated depreciation	2,617	274	7	13	1	2,912	3,083
Total assets	<u>26,584,264</u>	<u>4,099,559</u>	<u>34,949</u>	<u>151,619</u>	<u>23,158</u>	<u>30,893,549</u>	<u>28,720,940</u>
LIABILITIES							
Due to other systems	949	269				1,218	492
Accounts payable-unsettled investment purchases	612,416	94,518	768	3,457	497	711,656	1,361,171
Investment fees payable	8,003	1,235	10	45	7	9,300	9,333
Obligations under securities lending	62,515	9,648	78	353	51	72,645	106,633
Deferred retirement benefits	56,901					56,901	68,344
Due to Employee Insurance Program	53,220	1,011				54,231	54,135
Benefits payable	3,519	330			6	3,855	3,679
Other liabilities	48,220	7,446	59	268	39	56,032	216,340
Total liabilities	<u>845,743</u>	<u>114,457</u>	<u>915</u>	<u>4,123</u>	<u>600</u>	<u>965,838</u>	<u>1,820,127</u>
Net Position Restricted for Pensions	<u>\$ 25,738,521</u>	<u>\$ 3,985,102</u>	<u>\$ 34,034</u>	<u>\$ 147,496</u>	<u>\$ 22,558</u>	<u>\$ 29,927,711</u>	<u>\$26,900,813</u>

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

South Carolina Retirement Systems

Statement of Changes in Fiduciary Net Position

Year Ended June 30, 2014

With comparative totals for the year ended June 30, 2013
(Amounts expressed in thousands)

	SCRS	PORS	GARS	JSRS	SCNG	TOTAL	TOTAL 2013 Restated
Additions							
Contributions							
Employee	\$ 652,631	\$ 96,004	\$ 384	\$ 2,448	\$ -	\$ 751,467	\$ 775,634
Employer	962,798	155,608	4,063	9,659		1,132,128	1,103,044
State appropriated					4,586	4,586	4,539
Total contributions	<u>1,615,429</u>	<u>251,612</u>	<u>4,447</u>	<u>12,107</u>	<u>4,586</u>	<u>1,888,181</u>	<u>1,883,217</u>
Investment Income							
Net appreciation in fair value of investments	3,618,445	554,222	4,654	20,491	2,893	4,200,705	2,667,000
Interest and dividend income	300,260	46,097	397	1,739	240	348,733	299,712
Investment expense	(402,871)	(62,162)	(508)	(2,276)	(328)	(468,145)	(426,723)
Net income from investing activities	<u>3,515,834</u>	<u>538,157</u>	<u>4,543</u>	<u>19,954</u>	<u>2,805</u>	<u>4,081,293</u>	<u>2,539,989</u>
From securities lending activities:							
Securities lending income	54	9				63	272
Securities lending borrower rebates	1,436	220	2	8	1	1,667	2,241
Net income from securities lending activities	<u>1,490</u>	<u>229</u>	<u>2</u>	<u>8</u>	<u>1</u>	<u>1,730</u>	<u>2,513</u>
Total net investment income	<u>3,517,324</u>	<u>538,386</u>	<u>4,545</u>	<u>19,962</u>	<u>2,806</u>	<u>4,083,023</u>	<u>2,542,502</u>
Supplemental retirement benefits funded by the State	587	26				613	687
Transfers of contributions from other Systems		2,260	15	195		2,470	3,396
Total additions	<u>5,133,340</u>	<u>792,284</u>	<u>9,007</u>	<u>32,264</u>	<u>7,392</u>	<u>5,974,287</u>	<u>4,429,802</u>
Deductions							
Refunds of contributions to members	90,250	16,184	41			106,475	102,255
Transfers of contributions to other Systems	2,470					2,470	3,396
Regular retirement benefits	2,293,335	311,593	6,799	15,897	4,248	2,631,872	2,518,327
Deferred retirement benefits	168,221			778		168,999	172,249
Supplemental retirement benefits	590	26				616	666
Death benefits	19,240	2,410	20	10		21,680	21,268
Accidental death benefits		1,597				1,597	1,557
Depreciation	200	25	1	1		227	211
Administrative expenses	11,565	1,795	16	67	10	13,453	15,134
Total deductions	<u>2,585,871</u>	<u>333,630</u>	<u>6,877</u>	<u>16,753</u>	<u>4,258</u>	<u>2,947,389</u>	<u>2,835,063</u>
Net increase in Net Position	2,547,469	458,654	2,130	15,511	3,134	3,026,898	1,594,739
Net Position Restricted for Pensions							
Beginning of year, Restated	<u>23,191,052</u>	<u>3,526,448</u>	<u>31,904</u>	<u>131,985</u>	<u>19,424</u>	<u>26,900,813</u>	<u>25,306,074</u>
End of year	<u>\$25,738,521</u>	<u>\$ 3,985,102</u>	<u>\$ 34,034</u>	<u>\$ 147,496</u>	<u>\$ 22,558</u>	<u>\$ 29,927,711</u>	<u>\$ 26,900,813</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 South Carolina Public Employee Benefit Authority (PEBA) was created by the S.C. General Assembly effective July 1, 2012. PEBA is a state agency responsible for the administration and management of the state's employee insurance programs and retirement systems.

The governing board of the authority is a board of directors consisting of 11 members. The membership composition is as follows:

- three non-representative members appointed by the Governor;
- two members appointed by the President Pro Tempore of the Senate, one a non-representative member and one a representative member who is either an active or retired member of the South Carolina Police Officers Retirement System (PORS);
- two members appointed by the Chairman of the Senate Finance Committee, one a non-representative member and one a representative member who is a retired member of the South Carolina Retirement System (SCRS);
- two members appointed by the Speaker of the House of Representatives, one a non-representative member and one a representative member who must be a state employee who is an active contributing member of SCRS;
- two members appointed by the Chairman of the House Ways and Means Committee, one a non-representative member and one a representative member who is an active contributing member of SCRS employed by a public school district.

Non-representative members of the PEBA board may not belong to the classes of employees and retirees from which representative members must be appointed. Individuals appointed to the PEBA board must possess certain qualifications.

Members of the PEBA board serve for terms of two years and until their successors are appointed and qualify. Vacancies on the PEBA Board must be filled within 60 days in the manner of the original appointment for the unexpired portion of the term. Terms commence on July first of even numbered years.

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)
- South Carolina National Guard Supplemental Retirement Plan (SCNG)

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 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 (SCRS), 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 public school districts and employees of the state and political subdivisions thereof.

The South Carolina Police Officers Retirement System (PORS), 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 (GARS), 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. Retirement reform legislation closed the plan to individuals newly elected to the Senate or House of Representatives after the general election of 2012.

The Retirement System for Judges and Solicitors of the State of South Carolina (JSRS), 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, solicitors, and circuit public defenders of the state.

The South Carolina National Guard Supplemental Retirement Plan (SCNG), a single-employer defined benefit pension plan, was created effective July 1, 1975, and is governed by the provisions of Section 9-10-30 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.

A summary of information related to participating employers and members for the fiscal year ended June 30, 2014, follows (dollars amounts expressed in thousands):

	<u>State¹</u>	<u>School</u>	<u>Other</u>	<u>Total</u>
SCRS				
Number of Employers	35	116	577	728
Annual Covered Payroll for Active Members	\$ 2,178,457	\$ 3,218,185	\$ 2,029,949	\$ 7,426,591
Average Number of:				
Active Contributing Members	49,293	82,775	53,287	185,355
Retirees and beneficiaries currently receiving benefits	47,573	61,466	22,534	131,573
Terminated members entitled to but not yet receiving benefits ²				156,792
Total SCRS Membership				<u>473,720</u>
PORS				
Number of Employers	31	57	323	411
Annual Covered Payroll for Active Members	\$ 366,570	\$ 207	\$ 705,426	\$ 1,072,203
Average Number of:				
Active Contributing Members	9,650	1	17,057	26,708
Retirees and beneficiaries currently receiving benefits	7,824	20	8,373	16,217
Terminated members entitled to but not yet receiving benefits ²				11,987
Total PORS Membership				<u>54,912</u>
GARS				
Number of Employers	1			1
Annual Covered Payroll for Active Members	\$ 2,646			\$ 2,646
Average Number of:				
Active Members (170 positions)	116			116
Retirees and beneficiaries currently receiving benefits	355			355
Terminated members entitled to but not yet receiving benefits	56			56
Total GARS Membership	<u>527</u>			<u>527</u>
JSRS				
Number of Employers	1			1
Annual Covered Payroll for Active Members	\$ 17,837			\$ 17,837
Average Number of:				
Active Members (153 positions)	133			133
Retirees and beneficiaries currently receiving benefits	204			204
Terminated members entitled to but not yet receiving benefits	2			2
Total JSRS Membership	<u>339</u>			<u>339</u>
SCNG				
Number of Employers	1			1
Annual Covered Payroll for Active Members ³	N/A			N/A
Average Number of:				
Active Members	12,222			12,222
Retirees and beneficiaries currently receiving benefits	4,629			4,629
Terminated members entitled to but not yet receiving benefits	2,137			2,137
Total SCNG Membership	<u>18,988</u>			<u>18,988</u>

¹Although each state agency reports separately, the State is considered the primary government and therefore, all state agencies are included as a single employer. Quasi-State Agencies and Institutions of Higher Education are counted as separate employers and included within the "State" category.

²Employee Class not determinable from data.

³Annual covered payroll is not applicable for SCNG because it is a non-contributory plan.

Membership

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

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 and individuals newly elected to the South Carolina General Assembly beginning with the November 2012 general election. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class Three member.

State ORP

As an alternative to membership in SCRS, newly hired state, public school, and higher education employees and individuals newly elected to the S.C. General Assembly beginning with the November 2012 general election 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 Retirement Systems assumes no liability for State ORP benefits. Rather, the benefits are the liability of the investment providers. For this reason, State ORP programs are not considered part of the Systems 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 (7.5 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 (5.45 percent) and a death benefit contribution (.15 percent), which is retained by the SCRS. The activity for the State ORP is as follows:

State ORP Activity Year Ended June 30, 2014 (Dollar amounts expressed in thousands)

Active Contributing Participants	24,604
Annual Covered Payroll	\$ 1,171,274
Employer Contributions Retained by SCRS	63,834
Death Benefit Contributions Retained by SCRS	1,757
Employee Contributions to Investment Providers	87,846
Employer Contributions to Investment Providers	58,564

PORS

To be eligible for PORS membership, an employee must be required by the terms of his employment, by election or appointment, to preserve public order, protect life and property, and detect crimes in the state; to prevent and control property destruction by fire; be a coroner in a full-time permanent position; or be a peace officer employed by the Department of Corrections, the Department of Juvenile Justice, or the Department of Mental Health. Probate judges and coroners may elect membership in PORS. Magistrates are required to participate in PORS for service as a magistrate. PORS members, other than magistrates and probate judges, must also earn at least \$2,000 per year and devote at least 1,600 hours per year to this work, unless exempted by statute. An employee member of the system with an effective date of membership prior to July 1, 2012, is a Class Two member. An employee member of the system with an effective date of membership on or after July 1, 2012, is a Class Three member.

GARS

Members of the Senate and the House of Representatives who were first elected to office prior to November 2012 are required to participate in and contribute to the system upon taking office as a member of the S.C. General Assembly; however, the GARS plan is closed to individuals newly elected to the Senate or the House of Representatives after the general election of 2012.

JSRS

All solicitors, circuit public defenders, 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.

SCNG

Membership consists of individuals who serve in the South Carolina National Guard.

Pension Benefits

Benefit terms are prescribed in Title 9 of the South Carolina Code of Laws. PEBA does not have the authority to establish or amend benefit terms without a change in the code of laws. Key elements of the benefit calculation include the benefit multiplier, years of service, and average final compensation/current annual salary. A brief summary of benefit terms for each system is presented below.

SCRS

A Class II member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 65 or with 28 years credited service regardless of age. A member may elect early retirement with reduced pension benefits payable at age 55 with 25 years of service credit. A Class III member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension subject to the Rule of 90 requirement that the total of the member's age and the member's creditable service equals at least 90 years. Both Class II and Class III members are eligible to receive a reduced deferred annuity at age 60 if they satisfy the five- or eight-year earned service requirement, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program.

The annual retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase. Members who retire under the early retirement provisions at age 55 with 25 years of service are not eligible for the benefit adjustment until the second July 1 after reaching age 60 or the second July 1 after the date they would have had 28 years of service credit had they not retired.

PORS

A Class II member who has separated from service with at least five or more years of earned service is eligible for a monthly pension at age 55 or with 25 years of service regardless of age. A Class III member who has separated from service with at least eight or more years of earned service is eligible for a monthly pension at age 55 or with 27 years of service regardless of age. Both Class II and Class III members are eligible to receive a deferred annuity at age 55 with five or eight years earned service, respectively. An incidental death benefit is also available to beneficiaries of active and retired members of employers who participate in the death benefit program. Accidental death benefits are also provided upon the death of an active member working for a covered employer whose death was a natural and proximate result of an injury incurred while in the performance of duty.

The retirement allowance of eligible retirees or their surviving annuitants is increased by the lesser of one percent or five hundred dollars every July 1. Only those annuitants in receipt of a benefit on July 1 of the preceding year are eligible to receive the increase.

GARS

A member is eligible for a monthly pension at age 60 or with 30 years credited service. A member who has attained age 70 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. An incidental death benefit is also provided to members. Retirees receive increases in benefits based upon increases in the current salary of their respective active positions. GARS is closed to new members and persons newly elected to the General Assembly must elect membership in SCRS or State ORP or may elect non-membership.

JSRS

A pension benefit is payable at age 70 with 15 years service, age 65 with 20 years service, 25

years service regardless of age for a judge or 24 years of service for a solicitor or a circuit public defender 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 or a circuit public defender is vested in the system after attaining eight years of earned service. A member who has reached maximum eligibility is eligible to retire and draw an annuity while continuing to serve. An incidental death benefit is also provided to members. Retirees receive increases in benefits based upon increases in the current salary of their respective active positions.

SCNG

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 final 10 years of military service must have been served in the South Carolina National Guard. No cost-of-living increases are provided to SCNG 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 PEBA.

Adoption of New Accounting Standards and Restatement

Governmental Accounting Standards Board (GASB) Statement No. 67, Financial Reporting

for Pension Plans, is effective for fiscal years beginning after June 15, 2013, and has been implemented in the financial statements prepared by PEBA's Retirement Division for the fiscal year ended June 30, 2014. This statement addresses accounting and financial reporting requirements for pension plans that are administered through trusts. GASB 67 requires a change in the actuarial calculation of the total and net pension liability in addition to changes in the presentation of plan financial statements, expanded note disclosures and additional required supplementary information. In accordance with U.S. GAAP and paragraph 49 of GASB 67, certain changes in accounting principle were retrospectively applied, and therefore, comparative financial statements include a restatement of all prior periods presented for the following changes made to comply with the requirements of GASB 67.

PEBA administers a deferred retirement option program (DROP) under both the SCRS and JSRS plans. The DROP under SCRS is commonly referred to as the Teacher and Employee Retention Incentive (TERI) program. During the DROP participation period, each member's monthly retirement benefit accrues and the balance accumulates within the trust account. Upon termination of employment at the end of the DROP period, each retired member's funds are immediately due and payable. Monthly accruals were previously expensed and accordingly recorded as a deduction on the Statement of Changes in Plan Net Position. Similarly, the total amount of deferred retirement benefits that had accumulated but not yet been distributed at fiscal year-end were previously classified as a liability on the Statement of Plan Net position. According to paragraph 98 of GASB 67, "DROP balances, similar to other benefit payments, should be recognized as a pension plan liability only when ultimately due to the plan member". Further clarification is provided by question 37 in the GASB 67 implementation guide which states that "benefits generally would be considered due and payable only when

they are required to be distributed to the plan member from the DROP account.”

As a result of the preceeding, financial statements have been restated to report a liability only for benefits due but not yet distributed to members who had ended their participation in the DROP program at June 30. Likewise, deductions have been restated to include only DROP amounts actually distributed to participants as well as amounts due but not yet distributed. The cumulative effect of the restatement is as follows (amounts expressed in thousands). Fiscal year 2013 beginning of year net position restricted for pensions increased from \$24,979,105 to \$25,306,074, a difference of \$326,969. The fiscal year 2013 deferred retirement liability was reduced from \$468,781 to \$68,344, a decrease of \$400,437 and fiscal year 2013 deferred retirement expense was reduced from \$245,717 to \$172,249 a decrease of \$73,468. Fiscal year 2013 end of year net position restricted for pensions increased from \$26,500,376 to \$26,900,813 an increase of \$400,437.

GASB Statement No. 68, Accounting & Financial Reporting for Pensions, will be effective for fiscal years beginning after June 15, 2014, and will impact accounting and financial reporting requirements for employers participating in the pension plans administered by PEBA. GASB Statement No. 68 requires participating employers to report their proportionate share of the plan’s net pension liability, pension expense, and deferred inflows and outflows of resources as well as additional note disclosures and required supplementary information. PEBA is working with the retirement plan’s external actuaries and auditors to ensure that participating employers are provided with accurate and timely information in response to the requirements.

GASB 67 and 68 represent a break in the relationship between the accounting for and reporting of pensions and the funding of pensions. While

the changes impact accounting and reporting requirements, they do not have an impact on the actuarial methods and assumptions being utilized by PEBA’s Retirement Division and its external actuary in the determination of employer contribution rates required to fund the plan.

Reclassifications

Certain 2013 amounts have been reclassified in conformity with the 2014 presentation. These reclassifications had no effect on net position or changes therein.

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

Administrative expenses are the responsibility of the PEBA and all accounting and corresponding disclosures relating to administrative expenses of the pension trust funds are included in the financial statements of the Systems.

Administrative expenses for the Retirement Division of PEBA are funded by investment earnings and are allocated to each of the pension trust funds based on its respective portion of total assets in order to pay for actual expenses incurred during the year. Administrative expenses of the Systems include the Retirement Division’s portion of PEBA employee salaries and associated employee benefits, disability evaluations, fiduciary liability insurance and other professional service fees.

Cash and Cash Equivalents

The Systems classifies 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 classifies certain

short-term highly liquid securities as cash equivalents if the date of maturity is three months or less from the date of acquisition. Forward contracts, foreign currencies, and cash held in the strategic partnership accounts are also classified as cash and cash equivalents.

Contributions

Employee, employer, and state-appropriated contributions are recognized 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

The Retirement System Investment Commission (Commission as the governing body, RSIC as the agency), created by the General Assembly in 2005 as co-fiduciary for the Retirement Systems, has exclusive authority for investing and managing all assets held in trust for the South Carolina Retirement Systems. Funds of the Systems are invested subject to the terms, conditions, limitations, and restrictions imposed by Section 16, Article X of the South Carolina Constitution and Section 9-1-1310 (B) and Title 9 Chapter 16 of the South Carolina Code of Laws. The funds and assets of the various state retirement systems are not funds of the State, but are instead held in trust as provided in Section 9-16-20.

The RSIC is structured as a separate state agency reporting to a body of appointed Commissioners. The Commission is a seven-member board that includes the State Treasurer, the Executive Director of PEBA, and a retired member of the Systems. The Commission employs an Executive Director (ED) who serves as the agency head of the RSIC, reporting directly to the Commission, with functions and duties assigned by the Commission. The ED is the central source of authority and accountability for administrative decisions. In addition, the Commission employs a chief investment officer (CIO) who reports to

the ED for day to day oversight and strategic planning objectives and who serves as the central source of authority and accountability for all investment decisions delegated to him or her by the Commission and state law. The Commission also engages an external investment consultant, who is accountable to the Commission to work collaboratively with RSIC staff to fulfill the duties of investing the Systems' portfolio.

Administrative costs of the RSIC are paid from the earnings of the Systems, and its budget is funded entirely from the trust fund. Costs include Commissioner, investment and administrative staff compensation, as well as other contractual services and other operating expenses. The allocation of those administrative costs is based upon a proration of such costs in proportion to the assets that each system bears to the total assets of all of the systems for the most recently completed fiscal year.

The Commission has adopted a Statement of Investment Objectives and Policies (SIOP) in order to establish investment and performance objectives, policies and guidelines, roles, responsibilities, and delegation of authority for the investment and management of assets of the Systems. The SIOP is reviewed by the Commission at least annually to determine its continued applicability. The SIOP provides the framework pursuant to which the CIO and staff develop the Annual Investment Plan (AIP), which provides a formal plan for investing the Systems' assets to achieve the Commission's investment objectives and mission. As required by Section 9-16-320, the AIP must be submitted to the Commission no later than April 1 of each year, and the Commission must meet no later than May 1 of each year to adopt the proposed AIP for the following fiscal year. The Commission may amend the SIOP and AIP during the fiscal year as it deems appropriate.

The Commission manages Systems' assets with a long-term horizon and seeks to earn the most appropriate risk-adjusted return in consideration of the specific goals, needs and circumstances of the Systems and in the exclusive interest of members of the Systems. Among the decisions the Commission can make, asset allocation has the most significant impact on the portfolio's return and risk profile and is reviewed annually as part of the development of the AIP. Based on the Commission's determination of the appropriate risk tolerance for the portfolio and its long-term return expectation, it authorized the following Policy Asset Allocation effective July 1, 2013, which includes target allocations and ranges for each asset class.

Asset Class	Target Asset		
	Allocation	Minimum	Maximum
Short Term	5.0%		
Cash	2.0%	0.0%	5.0%
Short Duration	3.0%	0.0%	6.0%
Domestic Fixed Income	13.0%		
Core Fixed Income	7.0%	4.0%	10.0%
Mixed Credit	6.0%*	3.0%	9.0%
Global Fixed Income	9.0%		
Global Fixed Income	3.0%	0.0%	6.0%
Emerging Markets Debt	6.0%*	3.0%	9.0%
Global Public Equity	31.0%*	25.0%	37.0%
Global Tactical Asset Allocation	10.0%*	7.0%	13.0%
Alternatives	32.0%		
Hedge Funds (Low Beta)	8.0%*	5.0%	11.0%
Private Debt	7.0%*	4.0%	10.0%
Private Equity	9.0%	6.0%	12.0%
Real Estate (Broad Market)	5.0%	2.0%	8.0%
Commodities	3.0%*	0.0%	6.0%

*Asset classes in which hedge funds can be used, up to a maximum of 15% across the entire portfolio.

At June 30, 2014, the Systems held no investments (other than those issued or explicitly guaranteed by the U.S. government) in any one organization that represent 5 percent or more of the plans' fiduciary net position.

For the year ended June 30, 2014, the annual money weighted rate of return on plan investments was 15.30 percent. The money weighted rate of return expresses investment performance, net of investment expenses, adjusted for the changing amounts actually invested.

As a fiduciary acting on behalf of the Systems, the Commission enters into individual agreements with various investment managers to invest plan assets seeking superior long-term results at an acceptable level of risk. As of June 30, 2014, legal agreements were in place with 105 investment managers.

The Office of the State Treasurer has a contract with BNY Mellon to serve as custodian of the funds of the Retirement Systems. Assets also include investments not custodied in the bank such as funds held in partnerships, commingled accounts or private market asset classes. Additionally, as an accommodation under the global custody agreement between the South Carolina State Treasurer and BNY Mellon, the custodial bank provides consolidated record-keeping services which are reflected on account statements for securities not held in the custodian's vault or for which the custodian or its nominee is not the registered owner (non-custody securities).

For financial statement purposes, investments of the pension trust funds are reported at fair value in the Statement of Fiduciary Net Position. Short term securities categorized as cash or cash equivalents are reported at fair value. The Systems hold domestic and global equity securities which are traded on organized exchanges. Equity securities which are held by the custodian are valued by the custodian using the last reported price on a trade-date basis. The Systems hold domestic and global fixed income securities. The custodian values those fixed income assets which are held in custody based upon prices received from external pricing sources and in accordance with the custodian's pricing policy. Commingled funds, which may contain equity and/or fixed income securities are priced based upon the manager's pricing policy and a Net Asset Value (NAV) value is provided to the custodian. Private market investments typically utilize a limited partnership structure and private equity funds normally invest in companies that are not publicly traded on a stock exchange. The fair values of limited partnership investments are based on periodic valuations of the underlying companies of the limited partnerships. The fair values of alterna-

tive investments including private equity, private debt, hedge funds, real estate and commodities, for which daily market values are not readily ascertainable, are valued in good faith based on the most recent financial information available for the underlying companies and reported by the investment managers at the measurement date, adjusted for subsequent cash flow activities through June 30, 2014. The issue of valuation of investments is a joint responsibility of PEBA and RSIC. Staff from both offices serve on a joint valuation committee which oversees and reviews the valuations provided by the custodian and/or the external investment managers. The estimated fair value of these investments may differ from values that would have been used had a liquid public market existed.

Investments are combined in a commingled investment pool, with each system owning a percentage of the pool and receiving proportionate investment income in accordance with their respective ownership percentage. Investment income includes realized and unrealized appreciation (depreciation) in the fair value of investments, interest income earned, dividend income earned, less investment expense, plus income from securities lending activities, less deductions for securities lending expenses.

While some investment managers submit invoices for their investment management fees, a significant number of investment managers provide account valuations on a net of fee basis. Those management fees are often netted against investment income and are not readily separable. The management fees reported on a net basis were historically included within "Net appreciation (depreciation) in fair value of investments" and were not included with invoiced fees as a separate investment expense in the financial statements until fiscal year 2013. The RSIC now collects, aggregates, and checks for reasonableness the netted investment fees in order to disclose fees that would not otherwise be readily separable. The RSIC provides the netted fee information to the Retirement

Division of PEBA on an annual basis which is then reclassified and reported in the financial statements on the Investment expense line of the Statement of Changes in Fiduciary Net Position. This collection process is not standard practice for many plan sponsors but it does provide additional transparency into investment costs. The investment expense line item includes both investment manager invoiced fees and netted fee amounts that are not necessarily readily separable. The RSIC made a good faith attempt to disaggregate amounts, as well as other miscellaneous investment fees, commissions on futures, bank fees, and RSIC administrative costs. Total investment fees include: management fees (less any reductions for offsets/rebates), performance fees (including carried interest allocations), and other expenses such as organizational expenses in limited partnership structures.

Capital Assets

Capital Assets are valued at historical cost or at estimated historical cost if actual historical cost data is not available. The costs of normal maintenance and repairs that do not significantly add to the value of an asset or materially extend the asset's useful life are not capitalized. An individual asset is capitalized and reported if it has an estimated useful life of at least two years and a historical cost as follows: more than \$5 thousand for machinery and equipment; more than \$100 thousand for buildings. All land and non-depreciable land improvements are capitalized and reported, regardless of cost. Depreciation is recorded using the straight line method over the useful life of 40 years for the building and a useful life of 2 to 25 years for equipment. Land is not depreciated.

II. Contributions and Reserves

Contributions to each of the Plans are prescribed in Title 9 of the South Carolina Code of Laws. The board may increase the percentage rate in SCRS and PORS employer and employee contributions on the basis of the actuarial valuations, but any such increase may not result in a differential between

the employee and employer contribution rate that exceeds 2.9 percent of earnable compensation for SCRS and 5 percent for PORS. An increase in the contribution rates adopted by the board may not provide for an increase of more than one-half of one percent in any one year. If the scheduled employee and employer contributions provided in statute or the rates last adopted by the board are insufficient to maintain a thirty year amortization schedule of the unfunded liabilities of the plans, the board shall increase the contribution rates in equal percentage amounts for the employer and employee as necessary to maintain the thirty-year amortization period; this increase is not limited to one-half of one percent per year.

After June 30, 2015, if the most recent annual actuarial valuation of the Systems for funding purposes shows a ratio of the actuarial value of system assets to the actuarial accrued liability of the system (the funded ratio) that is equal to or greater than ninety percent, then the board, effective on the following July first, may decrease the then current contribution rates upon making a finding that the decrease will not result in a funded ratio of less than ninety percent. Any decrease in contribution rates must maintain the 2.9 and 5 percent differentials between the SCRS and PORS employer and employee contribution rates respectively. If contribution rates are decreased pursuant to this provision, and the most recent annual actuarial valuation of the system shows a funded ratio of less than ninety percent, then effective on the following July first, and annually thereafter as necessary, the board shall increase the then current contribution rates until a subsequent annual actuarial valuation of the system shows a funded ratio that is equal to or greater than 90 percent.

Following are the employee and employer contribution rates applicable for fiscal year 2014:

System	Member Rate	Employer Rate
SCRS	7.5%	10.60%
PORS	7.84%	12.84%
GARS⁴	11%	\$4,063,000
JSRS	10%	47.97%
SCNG	Non-contributory	\$4,585,560

⁴Employer contributions are actuarially determined and include incidental death benefits.

Employer contributions for the SCNG are provided by state appropriations based on the annual required contribution determined by the Systems' actuary on an annual basis.

In accordance with South Carolina State Statute, an additional employer contribution surcharge of 4.92 percent of covered payroll was added to the contribution rate applicable to state and local governments, and public school entities covered by the state's retiree health and dental insurance benefits. 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) \$357,756 and \$19,389 respectively in retiree insurance surcharges (\$57,384 of which was applicable to the State ORP) and remitted these funds to the South Carolina Retiree Health Insurance Trust Fund.

The Fiduciary Net Position of each plan is 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 SCNG are also credited to the Employer Fund to provide funding for the payment of annuities and administrative expenses.

The **Employee Fund** is credited with all contributions made by active members of the Systems. Interest is credited to each active 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 **Death Benefit Fund**, an incidental death program within SCRS and PORS, is the fund to which participating employers contribute for the purpose of providing a death benefit to active and retired members of the Systems. Employer contributions and investment earnings are credited to this fund. Death benefit payments and administrative expenses are paid from this fund. The assets in the Death

Benefits Fund are not held separately in a dedicated trust for the sole purpose of paying death benefits to beneficiaries of deceased members. These benefits are considered allowable within the defined benefit plans and are held within the pension trust funds.

The **Accidental Death Fund** (PORS only) is the fund to which participating employers contribute for the purpose of providing annuity benefits to beneficiaries of members of PORS 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.

The **Qualified Excess Benefit Arrangement (QEBA) Fund** is the fund from which annuity benefits are paid when a benefit recipient exceeds IRC Section 415(b) limits on the amount an individual may receive annually from a qualified defined benefit pension plan. Employer contributions are credited to this fund on an as-needed basis in an amount equivalent to the amount of funds necessary to pay benefits out of the QEBA fund due to IRC Section 415(b) limitations.

Balances in the respective reserves at June 30, 2014, were as follows (amounts expressed in thousands):

	<u>SCRS</u>	<u>PORS</u>	<u>GARS</u>	<u>JSRS</u>	<u>SCNG</u>	<u>Total</u>
Employee Fund	\$ 6,717,327	\$ 850,383	\$ 7,358	\$ 22,926	\$ -	\$ 7,597,994
Employer Fund	18,892,695	3,048,748	26,676	124,570	22,558	22,115,247
Death Benefit Fund	128,499	36,995				165,494
Accidental Death Fund		48,976				48,976
QEBA Fund	-	-		-		
	<u>\$ 25,738,521</u>	<u>\$ 3,985,102</u>	<u>\$ 34,034</u>	<u>\$ 147,496</u>	<u>\$ 22,558</u>	<u>\$ 29,927,711</u>

III. Deposits and Investments

Deposit and Investment Risk Disclosures

The tables presented on Pages 27-30 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 agree to the Statement of Fiduciary Net Position.

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 South Carolina state statute, the State Treasurer is the custodian of all deposits and is responsible for securing all deposits held by banks. These deposits are 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. Deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 or collateralized with securities held by the state or its agent in the South Carolina State Treasurer's name as custodian.

The total amount of the Systems' deposits at June 30, 2014, was as follows (amounts expressed in thousands):

	Carrying Amount
SCRS	\$ 36,214
PORS	3,089
GARS	58
JSRS	73
SCNG	49
Total	<u>\$ 39,483</u>

Actual bank balances at June 30, 2014, totaled \$40,524 (expressed in thousands).

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 16, Article X of the South Carolina Constitution and Section 9-1-1310(B) and Title 9 Section 16 of the South Carolina Code of Laws. Funds held in trust for the Retirement Systems may be invested and re-invested in a variety of instruments including, but not limited to, fixed income instruments of the United States, foreign fixed income obligations, swaps, forward contracts, futures and options, domestic and international equity securities, private equity, real estate, and fund of funds.

The table on the following page presents the fair value of investments as of June 30, 2014:

Statement of Invested Assets
June 30, 2014
(Amounts expressed in thousands)

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Type</u>	<u>Fair Value</u>
Short Term Investments		Fixed Income Allocation	
Short Term Investment Funds (U.S. Regulated)	\$ 630,452	Domestic Fixed Income	
Repurchase Agreements	595,564	U.S. Government:	
Commercial Paper	515,444	U.S. Government Treasuries ¹	\$ 1,689,245
U.S. Treasury Bills	100	U.S. Government Agencies	910,693
Strategic Partnership Short Duration	707,944	Mortgage Backed:	
Options - Cash	(35)	Government National Mortgage Association	123,671
Total Short Term Investments	<u>\$ 2,449,469</u>	Federal National Mortgage Association	195,006
Equity Allocation		Federal Home Loan Mortgage Association	26,589
Domestic Equity		Federal Home Loan Mortgage Association (Multiclass)	1,613
Common Stocks	\$ 2,467,244	Collateralized Mortgage Obligations	3,696
Real Estate Investment Trusts	22,115	Municipals	50,180
Preferred	26,268	Corporate:	
Convertible Preferred	3,121	Corporate Bonds	1,630,666
Options - Domestic Equity	(1)	Mixed Credit	496,748
Futures - Domestic Equity	17,593	Convertible Bonds	3,492
Swaps - Domestic Equity	(7,580)	Asset Backed Securities	51,625
Global Equity	3,811,477	Private Placements	512,277
Futures - Global Equity	(821)	Yankee Bonds	23,989
Total Equity	<u>\$ 6,339,416</u>	Options - Domestic Fixed Income	(35)
Global Tactical Asset Allocation ²		Futures - Domestic Fixed Income	3
Commingled Funds Balanced	\$ 2,119,233	Swaps - Domestic Fixed Income	5,068
	<u>\$ 2,119,233</u>	Global Fixed Income:	
Alternatives ³		International Asset Backed	3,099
Commodities - Futures Contracts	\$ 1,923	International Commingled Funds	1,103,526
Hedge Funds	3,754,026	International Corporate Bonds	2,276
Private Debt/Oppportunistic Credit	1,686,839	International Emerging Debt	955,968
Private Equity Limited Partnerships	2,706,847	International Government Bonds	408,846
Real Estate	1,106,705	International Private Placements	3,846
Total Alternative Investments	<u>\$ 9,256,340</u>	Options - Global Fixed Income	(27)
		Futures - Global Fixed Income	499
		Swaps - Global Fixed Income	1,404
		Total Fixed Income	<u>\$ 8,203,963</u>
Total Invested Assets			<u>\$ 28,368,421</u>
Invested Securities Lending Collateral			\$ 72,645

Reconciliation of Statement of Invested Assets (listed above) to the Statement of Fiduciary Net Position:

Total Invested Assets	\$ 28,368,421
Short Term Investments classified as Cash & Cash Equivalents on Statement of Fiduciary Net Position:	
Short Term Investment Funds (U.S. Regulated)	(630,452)
Repurchase Agreements	(595,564)
Commercial Paper	(387,609)
U.S. Treasury Bills	(12)
Options - Cash	35
Total Investments on Statement of Fiduciary Net Position	<u>\$ 26,754,819</u>

¹U.S. Government Treasuries includes Notes, Bonds, and Treasury Inflation Protected Securities (TIPS).

²Global Tactical Asset Allocation has been moved from Alternatives category for FY 2014.

³Derivative investments such as options, futures and swaps have been moved from Alternatives to the category to which they pertain for FY 2014.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. While the RSIC has no formal interest rate risk policy, interest rate risk is observed within the portfolio using effective duration (option adjusted duration), which is a measure of the price sensitivity of a bond or a portfolio of bonds to interest rate movements given a 100 basis point change in interest rates. Effective duration 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. Investment guidelines may specify the degree of interest rate risk taken versus the benchmark within each fixed income portfolio.

Disclosures for interest rate risk at June 30, 2014, are noted below (amounts expressed in thousands):

Investment Type	Fair Value Total	Fair Value Duration Not Available	Fair Value Duration Available	Effective Duration (option adjusted duration)
Short Term Investments				
Short Term Investment Funds (U.S. Regulated)	\$ 630,452	\$ -	\$ 630,452	0.08
Repurchase Agreements	668,209	72,645	595,564	0.08
Commercial Paper	515,444		515,444	0.07
U. S. Treasury Bills	100		100	0.31
Strategic Partnership Short Duration	707,944		707,944	1.21
Options - Cash	(35)	30	(65)	0.28
Total Short Term Investments	2,522,114	72,675	2,449,439	
Equity Allocation				
Preferred	26,268	361	25,907	7.04
Convertible Preferred	3,121	3,121		
Futures - Domestic Equity	17,593	17,593		
Futures - Global Equity	(821)	(821)		
Total Equity Investments	46,161	20,254	25,907	
Fixed Income Allocation				
U. S. Government:				
U.S. Government Treasuries	1,689,245		1,689,245	5.13
U. S. Government Agencies	910,693	1,421	909,272	1.42
Mortgage Backed:				
Government National Mortgage Association	123,671		123,671	3.42
Federal National Mortgage Association	195,006		195,006	4.01
Federal Home Loan Mortgage Association	26,589		26,589	4.70
Federal Home Loan Mortgage Association (FHLMC Multiclass)	1,613		1,613	0.98
Collateralized Mortgage Obligations	3,696		3,696	4.41
Municipals	50,180		50,180	9.83
Corporate:				
Corporate Bonds	1,630,666	112,462	1,518,204	3.50
Mixed Credit	496,748	2,625	494,123	3.05
Convertible Bonds	3,492		3,492	4.41
Asset Backed Securities	51,625	3,291	48,334	1.08
Private Placements	512,277	10,526	501,751	2.82
Yankee Bonds	23,989		23,989	2.70
Options - Domestic Fixed Income	(35)		(35)	(721.48)
Futures - Domestic Fixed Income	3	(113)	116	16.40
Swaps - Domestic Fixed Income	5,068	(247)	5,315	1.37
Global Fixed Income:				
International Asset Backed Securities	3,099		3,099	0.38
International Commingled Funds	1,103,526		1,103,526	5.49
International Corporate Bonds	2,276		2,276	0.05
International Emerging Debt	955,968	426,949	529,019	4.32
International Government Bonds	408,846	20,932	387,914	6.56
International Private Placements	3,846		3,846	0.30
Options - Global Fixed Income	(27)	(27)		
Futures - Global Fixed Income	499		499	7.32
Swaps - Global Fixed Income	1,404		1,404	(17.87)
Total Fixed Income	8,203,963	577,819	7,626,144	
Alternatives				
Commodity Futures	1,923	1,923		
Total Alternatives	1,923	1,923		
Totals	\$ 10,774,161	\$ 672,671	\$ 10,101,490	

Total Portfolio Effective Duration (option adjusted duration)

3.17

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. As a matter of practice, there are no overarching limitations for credit risk exposures within the overall fixed income portfolio. Each individual portfolio within fixed income is managed in accordance with investment guidelines that are specific as to permissible credit quality ranges, exposure levels within individual quality tiers, and average credit quality. Within high yield portfolios, a quality rating of lower than C is not permissible in any of the fixed income guidelines except in those circumstances of downgrades subsequent to purchase, in which case the investment manager is responsible for communicating the downgrade to the Commission's consultant and staff. The Systems' fixed income investments were rated by Moody's and are presented below:

South Carolina Retirement Systems Credit Risk - Moody's Quality Ratings June 30, 2014 (Amounts expressed in thousands)

Investment Type and Fair Value	AAA	AA	A	BAA	BA	B	CAA	CA	NR ¹
Short Term Investments									
Short Term Investment Funds (U. S. Regulated)	\$ 630,452	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Repurchase Agreements									668,209
Commercial Paper		44,969		324,808					145,667
Strategic Partnership Short Duration									707,944
Options - Cash									(35)
Equity Investments									
Preferred				5,455	897	2,081			17,835
Convertible Preferred				1,270					1,851
Futures - Domestic Equity									17,593
Futures - Global Equity									(821)
Fixed Income Allocation²									
Mortgage Backed:									
Federal National Mortgage Association	195,006								
Federal Home Loan Mortgage Association (Multiclass)	1,613								
Federal Home Loan Mortgage Association	26,589								
Collateralized Mortgage Association	3,696								
Municipals		32,262	12,509						5,409
Corporate:									
Corporate Bonds	27,105	78,311	322,003	506,283	266,027	205,820	63,508		161,609
Mixed Credit									496,748
Convertible Bonds									3,492
Asset Backed Securities	23,554	3,420	2,710	3,291	15				18,635
Private Placements	127,090	16,871	58,236	38,294	53,697	80,222	46,615	188	91,064
Yankee Bonds			18,925	1,916	3,148				
Options - Domestic Fixed Income									(35)
Futures - Domestic Fixed Income									3
Swaps - Domestic Fixed Income									5,068
Global Fixed Income:									
International Asset Backed	1,865								1,234
International Commingled Funds									1,103,526
International Corporate Bonds		2,276							
International Emerging Debt					138,324				817,644
International Government Bonds	17,792	5,867	35,565	268,326	29,429		38,358		13,509
International Private Placements	1,851			1,995					
Options - Global Fixed Income									(27)
Futures - Global Fixed Income									499
Swaps - Global Fixed Income									1,404
Alternatives									
Futures Contracts									1,923
	<u>\$1,056,613</u>	<u>\$ 183,976</u>	<u>\$449,948</u>	<u>\$1,151,638</u>	<u>\$491,537</u>	<u>\$288,123</u>	<u>\$148,481</u>	<u>\$ 188</u>	<u>\$4,279,948</u>

¹NR represents securities that were either not rated or had a withdrawn rating.

²U. S. Government guaranteed securities with a fair value of \$2.72 billion are not included in the above table because they are not subject to credit risk.

Concentration of Credit Risk – Investments

Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. The Systems' policy for reducing this risk is to comply with the Statement of Investment Objectives and Policies as amended and adopted by the Commission which states that "except that no limitations on issues and issuers shall apply to obligations of the U.S. Government and Federal Agencies, the domestic fixed income portfolio shall contain no more than 6 percent exposure to any single issuer." As of June 30, 2014, there is no single issuer exposure within the portfolio that comprises 5 percent or more of the overall portfolio. Therefore, there is no concentration of credit risk.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The Systems participates in foreign markets to diversify assets, reduce risk and enhance returns. Exposure to foreign investments has, to date, been achieved synthetically using financial futures, forwards and swaps. Currency forwards are used to manage currency fluctuations and are permitted by investment policy. Policy, however, forbids speculating in forwards and other derivatives.

The table below presents the Systems' exposure to foreign currency risk in U.S. dollars at June 30, 2014, (amounts expressed in thousands):

Currency	Cash & Cash Equivalents	Forward Contracts	Futures Contracts	Private Equity	Private Debt	Fixed Income	Equity
Australian Dollar	\$ (4,158)	\$ 129,744	\$ (1,353)	\$ -	\$ -	\$ 17,516	\$ -
Brazil Real		(38,253)				47,549	
British Pound Sterling	(3,041)	439,311	(856)				26,132
Canadian Dollar	8,465	187,867	2,006				2,043
Euro Currency	17,380	701,405	(9,102)	203,344	3,185	36,769	48,648
Hong Kong Dollar	468	63,280	648				19,098
Japanese Yen	17,487	525,650	8,647			(783)	52,918
New Mexico Peso	54	(85)				155	
South Korean Won		10,619					
Swedish Krona	(11)	60,431	(377)				
Swiss Franc							35,416
Totals	<u>\$ 36,644</u>	<u>\$ 2,079,969</u>	<u>\$ (387)</u>	<u>\$ 203,344</u>	<u>\$ 3,185</u>	<u>\$ 101,206</u>	<u>\$ 184,255</u>

Derivatives

Derivatives are financial instruments for which the value is derived from underlying assets or data. All of the Systems' derivatives are considered investments. Excluding futures, derivatives generally take the form of contracts in which two parties agree to make payments at a later date based on the value of specific assets or indices. Through certain collective trust funds, the Systems may invest in various derivative financial instruments such as futures and options thereon; forward foreign currency contracts; options; interest rate, currency, equity, index, credit default, and total return swaps; interest-only strips; and CMOs to enhance the performance and reduce

volatility. The Systems' derivatives, consisting of futures, options, forward contracts and swaps are presented in the tables on Pages 31-35. Investments in limited partnerships and commingled funds may include derivatives that are not shown in the derivative totals.

Derivatives directly managed by the Investment Commission are used primarily to facilitate changes to the asset allocation of the total plan and for their low cost of implementation. The Commission uses derivatives for several reasons:

- Asset Allocation: In many cases, synthetic expo-

ures (using derivatives) are placeholders until managers are hired and funded. In time, the Commission may substitute traditional managers for much of the synthetic exposure currently in the portfolio. Efficient Market Theory dictates that in some asset classes, synthetics are the best way to achieve exposure.

- **Risk Management:** Derivatives allow investors the ability to swiftly and efficiently increase or decrease exposures in order to manage portfolio risk.
- **Cost:** A synthetic (derivative) solution is often the least expensive way to gain exposure to an asset class or to manage portfolio risk. Derivatives are more beneficial in each of the three major measures of cost: commission costs, market impact of trading, and opportunity costs.

Futures

Futures are contractual obligations that require the buyer (seller) to buy (sell) assets at a predetermined date at a predetermined price. These contracts are standardized and trade on an organized exchange with gains and losses settled daily thereby significantly reducing credit and default risk. Gains and losses are included in the net appreciation/(depreciation) in the fair value of investments total of the Statement of Changes in Fiduciary Net Position. To comply with the requirements of multiple exchanges, cash and securities in the amount of \$154.922 and \$48.383 million respectively were held in trust by the clearing brokers on June 30, 2014, to satisfy the required margin to trade in exchange traded derivatives and the over the counter market.

The tables below presents classification information on the Systems' derivatives at June 30, 2014, (amounts expressed in thousands):

Changes in Fair Value		
Classification		Gain/(Loss)
Futures Contracts	Net appreciation/(depreciation)	\$ 67,818
Forward Contracts	Net appreciation/(depreciation)	82,131
Swaps	Net appreciation/(depreciation)	68,998
Options	Net appreciation/(depreciation)	1,050

	Fair Value			
	Forward Contracts	Futures	Options	Swaps
Cash & Cash Equivalents	\$ 23,276	\$ -	\$ (35)	\$ -
Domestic Fixed Income		3	(35)	5,068
Global Fixed Income		499	(27)	1,404
Domestic Equity		17,593	(1)	(7,580)
Global Equity		(821)		
Alternatives		1,923		
	\$ 23,276	\$ 19,197	\$ (98)	\$ (1,108)

At June 30, 2014, the Systems had the following exposure via futures contracts (dollar amounts expressed in thousands):

Futures Contracts	Expiration	Long/Short	Quantity	Notional Value¹
Amsterdam Index Future	July	Long	542	\$ 61,333
CAC 40 Euro Index Future	July	Long	3,376	204,396
DAX Index Future	September	Long	581	196,075
DJ EURO STOXX Index 50 Future	September	Long	4,868	215,414
FTSE 100 Index Future	September	Long	3,550	407,356
FTSE/MIB Index Future	September	Long	339	49,438
Hang Seng Index Future	July	Long	449	66,924
IBEX 35 Index Future	July	Long	473	70,301
OMXS 30 Index Future	July	Long	2,948	60,831
S&P/TSE 60 Index Future	September	Long	1,236	200,447
SPI 200 Index Future	September	Long	1,163	146,927
TOPIX Index Future	September	Long	3,190	397,549
Total Global Equity				<u>2,076,991</u>
S&P 500 EMINI Future	September	Long	15,388	<u>1,502,177</u>
Total Large Cap Equity				<u>1,502,177</u>
US Treasury Bond Future	September	Short	(18)	(2,469)
US Treasury Bond Future	September	Long	294	40,333
US Treasury Note 10 Year Future	September	Long	208	26,036
US Treasury Note 2 Year Future	September	Short	(141)	(30,963)
US Treasury Note 2 Year Future	September	Long	242	53,142
US Treasury Note 5 Year Future	September	Long	316	37,749
US Treasury Note Future	September	Long	245	30,667
US Ultra Bond Future	September	Long	34	5,098
USD IRS 10 Year PRIM Future	September	Short	(121)	(12,707)
Total Domestic Fixed Income				<u>146,886</u>
Australian 10 Year Bond Future	September	Short	(578)	(65,723)
EURO-BOBL Future	September	Long	191	33,507
EURO-BUND Future	September	Long	693	139,486
EURO-OAT Future	September	Short	(238)	(45,793)
EURO-SCHATZ Future	September	Long	83	12,575
Japan 10 Year Bond Future	September	Long	98	140,898
UK Long GILT Future	September	Long	159	29,884
Total Global Fixed Income				<u>244,834</u>
Gold 100 OZ Future	August	Long	309	<u>40,850</u>
Total Commodities				<u>40,850</u>
Total				<u><u>\$ 4,011,738</u></u>

¹Notional value is the nominal or face amount that is used to calculate payments made on derivative instruments (futures, forwards, swaps, and options). This amount generally does not change hands and is thus referred to as notional. The notional amount represents the economic equivalent to an investment in the physical securities represented by the derivative contract.

Forwards

Forwards are contractual obligations that require the delivery of assets at a fixed price on a pre-determined date. These contracts are “over-the-counter” (OTC) instruments, meaning they are not traded on an organized exchange. Currency forwards gains and losses are included in the net

appreciation/(depreciation) in the fair value of investments total of the Statement of Changes in Fiduciary Net Position.

At June 30, 2014, the Systems had the following forward exposures, listed by counterparty (amounts expressed in thousands):

Broker	Notional Value	Fair Value	Counterparty Exposure
Bank of America	\$ 30,024	\$ (12)	0.71%
Barclays London	617,336	6,987	14.50%
BNP Paribas	209,539	(3,149)	4.92%
BNY Mellon	604,344	7,039	14.19%
Chase Manhattan NA	5,122	(1)	0.12%
Citibank NA	316,554	(1,579)	7.44%
Credit Suisse International London	623,331	6,896	14.64%
Deutsche Bank London	6,198	(4)	0.15%
Goldman Sachs	542,731	(6,487)	12.75%
HSBC Bank USA	607,864	7,053	14.28%
JP Morgan Chase Bank	2,494	(5)	0.05%
Royal Bank of Canada	14,832	(47)	0.35%
Societe Generale	13,618	(301)	0.32%
State Street Capital	605	(6)	0.01%
UBS AG	61,813	(146)	1.45%
Westpac Banking Corporation	601,106	7,038	14.12%
Totals	\$ 4,257,511	\$ 23,276	100.00%

Swaps

The Systems has entered into various swap agreements to manage plan exposure. Swaps are OTC agreements to exchange a series of cash flows according to specified terms. The underlying asset can be an interest rate, an exchange rate, a commodity price or any other index.

Total return swaps are primarily used to efficiently achieve a target asset allocation. Exposures to an asset class are typically gained by paying a reference rate such as LIBOR, plus or minus a spread, in exchange for the risk and returns of a desired market index. Similarly, exposures can be reduced by receiving a reference rate in exchange for the economic risks and returns of an index.

Counterparty risk, or default risk, is the risk that a party will not honor its contractual obligations. The Systems seeks to actively manage its counterparty risk by thorough analysis and evaluation of all potential counterparties by investment staff and the independent overlay manager. Risk is further minimized through diversification among counterparties with high credit ratings and collateralizing unrealized gains and losses. The Systems currently does not participate in a master netting agreement. Unrealized gains and losses are not netted across instrument types and are included in the net appreciation/(depreciation) in the fair value of investments total of the Statement of Changes in Fiduciary Net Position.

The table below reflects the counterparty credit ratings at June 30, 2014, for currency forwards, swap agreements, and options (amounts expressed in thousands):

<u>Quality Rating</u>	<u>Forwards</u>	<u>Swaps</u>	<u>Options</u>	<u>Total</u>
Aaa	\$ -	\$ -	\$ 83	\$ 83
Aa1	13,881	3,057		16,938
Aa3	7,533	239		7,772
A1	2,325	1,625	(76)	3,874
A2	(463)	(10,294)	(1)	(10,758)
Baa1		5	(39)	(34)
NR		490		490
Total subject to credit risk	<u>\$ 23,276</u>	<u>\$ (4,878)</u>	<u>\$ (33)</u>	<u>\$ 18,365</u>
Centrally cleared:				
Chicago Mercantile Exchange Inc		3,770		3,770
London International Futures and Options Exchange			(65)	(65)
Total not subject to credit risk	<u>\$</u>	<u>\$ 3,770</u>	<u>\$ (65)</u>	<u>\$ 3,705</u>
Totals	<u>\$ 23,276</u>	<u>\$ (1,108)</u>	<u>\$ (98)</u>	<u>\$ 22,070</u>

At June 30, 2014, the Systems held swaps as shown in the tables below (amounts expressed in thousands):

<u>Counterparty</u>	<u>Total Return Swaps</u>	<u>SCRS Pays</u>	<u>SCRS Receives</u>	<u>Maturity Date</u>	<u>Current Notional</u>	<u>Gain (Loss) Since Trade</u>
Societe Generale	DJ-UBS Roll Select TR Index Pr	3 Month T-Bill + 12 bps	DJ-UBS Commodities TR	8/29/2014	\$ 241,956	\$ 9,783
JP Morgan	JPM Enhanced Beta DJUBS Proxy	3 Month T-Bill + 16.9 bps	DJ-UBS Commodities TR	2/27/2015	255,481	5,481
Societe Generale	DJUBS Pre-Roll Excess Return	13 bps	DJ-UBS Commodities TR	3/31/2015	100,742	742
Goldman Sachs	Russell 2000 Proxy (Short)	Russell 2000 Total Index Return	3 Month US LIBOR - 49 bps	10/8/2014	(313,790)	(13,974)
			Total		<u>\$ 284,389</u>	<u>\$ 2,032</u>

<u>Counterparty</u>	<u>Fixed Income Swaps</u>	<u>SCRS Pays</u>	<u>SCRS Receives</u>	<u>Maturity Date</u>	<u>Current Notional</u>	<u>Fair Value¹</u>
Bank of America NA	Credit Default Swaps	Variable Rate	Fixed Rate	Various	\$ 4,799	\$ 68
Barclays Bank PLC	Credit Default Swaps	Fixed / Variable Rate	Fixed / Variable Rate	Various	3,062	246
BNP Paribas Securities Corp	Credit Default Swaps	Fixed Rate	Variable Rate	Various	2,500	(17)
Citibank NA	Credit Default Swaps	Fixed / Variable Rate	Fixed / Variable Rate	Various	8,048	1,568
Deutsche Bank AG/London	Credit Default Swaps	Variable Rate	Fixed Rate	Various	1,599	47
Goldman Sachs Bank USA	Credit Default Swaps	Fixed Rate	Variable Rate	Various	4,000	(7)
Goldman Sachs International	Credit Default Swaps	Variable Rate	Fixed Rate	Various	4,993	190
HSBC Securities Inc	Credit Default Swaps	Variable Rate	Fixed Rate	Various	1,400	3
JP Morgan Chase Bank NA	Credit Default Swaps	Variable Rate	Fixed Rate	Various	1,676	131
Morgan Stanley Capital Services LLC	Credit Default Swaps	Variable Rate	Fixed Rate	Various	5,900	490
Royal Bank of Scotland PLC	Credit Default Swaps	Variable Rate	Fixed Rate	Various	1,700	5
Citibank NA	Interest Rate Swaps	Variable Rate	Fixed Rate	Various	2,076	70
Chicago Mercantile Exchange Inc	Interest Rate Swaps	Fixed / Variable Rate	Fixed / Variable Rate	Various	385,913	3,770
Deutsche Bank AG/London	Interest Rate Swaps	Variable Rate	Fixed Rate	Various	5,427	154
			Totals		<u>\$ 433,093</u>	<u>\$ 6,718</u>

¹Fair value is the amount reasonably expected to be received if the underlying positions were liquidated on the following business day.

Options

Options are exchange traded agreements between two parties for a future transaction on an underlying asset at a reference or strike price. The buyer of an option has the right, but not the obligation, to transact. The seller of an option has the obligation to transact if forced by the buyer. The price of an option is derived by taking the difference in the underlying asset and the strike price plus a premium for the remaining time until expiration. At June 30, 2014, the Systems had the following option positions (amounts expressed in thousands):

<u>Option Contracts</u>	<u>Underlying Security</u>	<u>Expiration</u>	<u>Quantity</u>	<u>Fair Value</u>
Put Sep 14 097.750 ED 09/12/14	EURO\$ 2YR MID-CRV FUT SEP 16	September	696	\$ 30
Call Dec 14 099.500 ED 12/15/14	3MO EURO EURIBOR FUTURE (LIF)	December	(1,116)	(64)
Put Dec 14 099.500 ED 12/15/14	3MO EURO EURIBOR FUTURE (LIF)	December	558	(1)
Total Cash & Cash Equivalents				(35)
Put Oct 20 000.980 ED 10/13/20	INF FLR CPURNSA 218.011	October	558	(1)
Total Domestic Equity				(1)
Put Aug 14 123.000 ED 07/25/14	US 10YR TREAS NTS FUT SEP 14	July	(55)	(52)
Put Aug 14 124.000 ED 07/25/14	US 10YR TREAS NTS FUT SEP 14	July	(55)	96
Put Aug 14 122.000 ED 07/25/14	US 10YR TREAS NTS FUT SEP 14	July	(2,100,000)	9
Put Sep 15 002.500 ED 09/21/15	IRS R US0003M P 2.5% 9/23/20	September	(35,600,000)	(536)
Put Sep 15 002.500 ED 09/21/15	IRS P US0003M R 3ML 2.5% CBK	September	(35,000,000)	(310)
Put Sep 15 003.450 ED 09/21/15	IRS R US0003M P 3.45% 09/23/45	September	(20,200,000)	498
Put Sep 15 003.450 ED 09/21/15	IRS R US0003M P 3.45% CBK	September	8,400,000	260
Total Domestic Fixed Income				(35)
Put Sep 14 000.950 ED 09/17/14	CDS SP UL ITRAXX MAIN21 V1 5YR	September	4,400,000	(27)
Total Global Fixed Income				(27)
Total				\$ (98)

Alternative Investments

The Alternative Investment category includes the following asset classes: private equity, hedge funds, private debt, real estate, and commodities.

Private equity, private debt, and real estate investments are normally structured as limited partnerships. In this structure, the Systems is one of several limited partners, while the investment manager serves as the general partner. Investing in such limited partnerships legally obligates the Systems to invest the committed amount until the investment is fully funded or the contractual investment period has expired. Hedge fund and commodities investments are typically on subscription basis with a single, initial investment with no further commitment.

The Systems established several strategic partnerships to gain access to the best ideas of the investment manager, to receive favorable economics, and to efficiently take advantage of market opportunities. Investments within the strategic partnership accounts may include allocations to any asset class including those considered alternative investments. Assets of Strategic Partnerships are reported within their respective asset class totals.

The Commission's intent is to access superior risk-adjusted returns through investing in alternative investment asset classes. Due to their low correlation to traditional asset classes, alternative investments diversify the portfolio and help reduce the risk associated with volatility of returns.

Commitments

The Commission, on behalf of the Systems, has entered into contractual agreements with numerous alternative investment managers and is committed for future funding of private equity, private debt/opportunistic credit and real estate investments. At June 30, 2014, the Systems' commitments, including commitments within Strategic Partnerships, are shown in the following table (amounts expressed in thousands):

	Total Commitment	Amount Funded To Date	Remaining Unfunded Commitment
Limited Partnerships USD			
Private Equity	\$ 3,946,641	\$ 2,994,971	\$ 951,670
Private Debt/Opportunistic Credit	3,388,016	2,726,569	661,447
Real Estate	1,705,890	1,264,237	441,653
Real Assets	30,000	24,439	5,561
Totals	\$ 9,070,547	\$ 7,010,216	\$ 2,060,331
Limited Partnerships Euros			
Private Equity	€ 200,750	€ 154,916	€ 45,834
Private Debt/Opportunistic Credit	75,917	75,917	
Totals	€ 276,667	€ 230,833	€ 45,834

Securities Lending

The Systems' investment portfolio currently participates in a securities lending program, managed by BNY Mellon ("Securities Lending Program"), whereby securities are loaned for the purpose of generating additional income. BNY Mellon is responsible for making loans of securities on a

collateralized basis from the Systems' investment portfolio to various third party broker-dealers and financial institutions. The market value of the required cash collateral must initially meet or exceed 102.0 percent of the market value of the securities loaned, providing a margin against a decline in the market value of collateral. If the collateral value

falls below 100.0 percent, the borrower must post additional collateral. In conjunction with generating revenue, the collateral pool seeks to maintain a net asset value (NAV) of \$1.00, which is determined by dividing the market value of the assets by the cost of those assets.

There are no restrictions on the amount of securities that may be loaned and conservative investment guidelines continue to be maintained within the Securities Lending Program. The re-investment of the cash collateral is restricted to short duration, very low risk securities and is monitored by RSIC on an ongoing basis. The types of securities available for loan during the year ended June 30, 2014 included U.S. Government securities, U.S. Government agencies, corporate bonds and equities. The contractual agreement between the State Treasurer as custodian and BNY Mellon 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 are received as collateral for these loans. Collateral securities cannot be pledged or sold without a borrower default. Cash collateral received is invested, and accordingly, investments made with cash collateral are reported 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.

At June 30, 2014, the fair value of securities on loan was \$118.70 million. The fair value of the invested cash collateral was \$72.64 million, securities lending obligations were \$121.31 million with the difference reported within "Other Liabilities" on the Statement of Fiduciary Net Position. The gross securities lending revenue for the fiscal year was \$1.7 million, a decrease from \$2.5 million in the prior year. Since November 2008, gains and losses from the Securities Lending Program have been excluded from the Total Plan performance calculations.

With regard to counterparty 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 was one day. The average weighted maturity of investments made with cash collateral was one day. At June 30, 2014, 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, 2014:

	SCRS	PORS	GARS	JSRS	SCNG	6/30/14 TOTALS	6/30/13 TOTALS
Securities lent for cash collateral:							
U.S. Government securities	\$ 4,109	\$ 634	\$ 5	\$ 23	\$ 4	\$ 4,775	\$ 44,127
Corporate bonds	47,772	7,373	60	270	38	55,513	51,195
Common stock	50,264	7,758	63	283	41	58,409	77,107
Total	<u>\$ 102,145</u>	<u>\$ 15,765</u>	<u>\$ 128</u>	<u>\$ 576</u>	<u>\$ 83</u>	<u>\$ 118,697</u>	<u>\$ 172,429</u>
Securities lent for non-cash collateral:							
Corporate bonds	\$ 12,613	\$ 1,947	\$ 16	\$ 71	\$ 10	\$ 14,657	\$ 47
Common stock	3,482	537	4	20	3	4,046	2,834
Total	<u>\$ 16,095</u>	<u>\$ 2,484</u>	<u>\$ 20</u>	<u>\$ 91</u>	<u>\$ 13</u>	<u>\$ 18,703</u>	<u>\$ 2,881</u>
Cash collateral invested as follows:							
Repurchase agreements	\$ 62,515	\$ 9,648	\$ 78	\$ 353	\$ 51	\$ 72,645	\$ 106,633
Total	<u>\$ 62,515</u>	<u>\$ 9,648</u>	<u>\$ 78</u>	<u>\$ 353</u>	<u>\$ 51</u>	<u>\$ 72,645</u>	<u>\$ 106,633</u>
Securities received as collateral:							
U.S. Government securities	\$ 16,617	\$ 2,565	\$ 21	\$ 94	\$ 14	\$ 19,311	\$ 3,141
Total	<u>\$ 16,617</u>	<u>\$ 2,565</u>	<u>\$ 21</u>	<u>\$ 94</u>	<u>\$ 14</u>	<u>\$ 19,311</u>	<u>\$ 3,141</u>

IV. Capital Assets

Capital assets at June 30, 2014, consist of the following amounts (expressed in thousands).

Asset Class (at Cost)	Beginning Balances			Ending Balances	
	7/1/2013	Additions	Deletions	6/30/2014	
Land	\$ 582	\$ -	\$ -	\$ 582	
Building	4,749			4,749	
Equipment	1,704	56	(54)	1,706	
Total Capital Assets	<u>7,035</u>	<u>56</u>	<u>(54)</u>	<u>7,037</u>	
Accumulated Depreciation					
Building	2,466	119		2,585	
Equipment	1,486	108	(54)	1,540	
Total Accumulated Depreciation	<u>3,952</u>	<u>227</u>	<u>(54)</u>	<u>4,125</u>	
Capital Assets, Net	<u>\$ 3,083</u>	<u>\$ (171)</u>	<u>\$ -</u>	<u>\$ 2,912</u>	

V. Transfers Between Systems

Transfers between systems are statutorily authorized internal 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 within the Systems administered by PEBA during the fiscal year ended June 30, 2014, were as follows (amounts expressed in thousands):

Transfers from	Transfers to					Totals
	SCRS	PORS	GARS	JSRS	SCNG	
SCRS	\$ -	\$ 2,260	\$ 15	\$ 195	\$ -	\$ 2,470
PORS						
GARS						
JSRS						
SCNG						
Totals	<u>\$ -</u>	<u>\$ 2,260</u>	<u>\$ 15</u>	<u>\$ 195</u>	<u>\$ -</u>	<u>\$ 2,470</u>

The following schedule reflects amounts due to or due from other systems as of June 30, 2014, (amounts expressed in thousands):

Due from	Due to					Totals
	SCRS	PORS	GARS	JSRS	SCNG	
SCRS	\$ -	\$ 949	\$ -	\$ -	\$ -	\$ 949
PORS	269					269
GARS						
JSRS						
SCNG						
Totals	<u>\$ 269</u>	<u>\$ 949</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,218</u>

VI. Related Party Transactions

The pension plans provide pension and other 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 32 percent of combined contribution revenues. In addition, the Systems receives custodial and related services from the Office of South Carolina State Treasurer.

At June 30, 2014, liabilities of approximately \$54.2 million were due to other state departments and agencies, and contributions receivable of approximately \$40 million were due from other state departments and agencies.

The SCNG Supplemental Retirement Plan received state-appropriated contributions in the amount of \$4.6 million during the fiscal year.

The Retirement System Investment Commission is a separate state agency; however, the administrative costs of the Commission are funded by transfers from the Systems' trust funds. Transfers in the amount of approximately \$11 million were made to the Commission during the fiscal year.

VII. Deferred Retirement Option Plans

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 continue to contribute at the same rate as active members. 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 accumulated in the trust account. Upon termination of employment at the end of the TERI period, funds are distributed and the retiree may elect a payment

method to either roll over his funds into a qualified 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. Retirement reform legislation closes the TERI program to all members effective June 30, 2018.

A total of 9,644 members were actively participating in the TERI program at June 30, 2014. The activity for this program is reflected in the following schedule:

TERI Benefits Held in Trust Year Ended June 30, 2014 (Amounts expressed in thousands)

July 1 Benefits Held in Trust	\$ 468,074
Additions	281,756
TERI Distributions	(179,663)
June 30 Benefits Held in Trust	<u>\$ 570,167</u>

A deferred retirement option plan also exists under the Retirement System for Judges and Solicitors (JSRS). A member who has not yet reached the age of 60 years, but who is eligible to retire and receive the maximum monthly benefit, may retire and continue to serve as a judge, a solicitor, or a circuit public defender. The member's normal monthly retirement benefit is deferred and placed in the system's trust fund on behalf of the member. Upon reaching the age of 60 years, the balance of the member's deferred retirement benefit is distributed to the member. As of June 30, 2014, there were no benefits held in trust in JSRS.

VIII. Net Pension Liability

The total pension liability of each defined benefit pension plan summarized below was determined based on the most recent actuarial valuation, which was conducted using membership data as of July 1, 2013, projected forward to the end of the fiscal year, and financial information as of June 30, 2014, using generally accepted actuarial procedures. Information included in the following schedule is based on the certification provided by our consulting actuary, Gabriel, Roeder, Smith and Company. A Schedule of the Employers' Net Pension Liability is intended to provide information about whether the plan fiduciary net positions are increasing or decreasing over time relative to the total pension liability. This schedule as well as a Schedule of Changes in Employers' Net Pension Liability is presented in the Required Supplementary Information (RSI) section.

The net pension liability (i.e. the Systems' total pension liability determined in accordance with GASB No. 67 less the fiduciary net position) as of June 30, 2014, is as follows (amounts expressed in thousands):

System	(1) Total Pension Liability	(2) Plan Fiduciary Net Position	(3) Employers' Net Pension Liability (1)-(2)	(4) Plan Fiduciary Net Position as a % of the Total Pension Liability (2)/(1)
SCRS	\$ 42,955,206	\$ 25,738,521	\$ 17,216,685	59.9%
PORS	5,899,529	3,985,102	1,914,427	67.5%
GARS	74,787	34,034	40,753	45.5%
JSRS	264,732	147,496	117,236	55.7%
SCNG	61,530	22,558	38,972	36.7%

Actuarial valuations of the ongoing plan involve estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. South Carolina state statute requires that an actuarial experience study be completed at least once in each five-year period. The last experience study was performed in 2011, and the next experience study is scheduled to be conducted in 2016.

The following table provides a summary of the actuarial assumptions and methods used in the July 1, 2013, valuations for each of the individual plans administered by PEBA.

	SCRS	PORS	GARS	JSRS	SCNG
Actuarial cost method	Entry age	Entry age	Entry age	Entry age	Entry age
Actuarial assumptions:					
Investment rate of return	7.5%	7.5%	7.5%	7.5%	7.5%
Projected salary increases	levels off at 3.5%	levels off at 4.0%	None	3%	None
Includes inflation at	2.75%	2.75%	2.75%	2.75%	2.75%
Benefit adjustments	lesser of 1% or \$500	lesser of 1% or \$500	None	3%	None

The post-retiree mortality assumption is dependent upon the member's job category and gender. These base rates are adjusted for future improvement in mortality using published Scale AA projected from the year 2000.

Former Job Class	Males	Females
Educators and Judges	RP-2000 Males (with White Collar adjustment) multiplied by 110%	RP-2000 Females (with White Collar adjustment) multiplied by 95%
General Employees and Members of the General Assembly	RP-2000 Males multiplied by 100%	RP-2000 Females multiplied by 90%
Public Safety, Firefighters and members of the South Carolina National Guard	RP-2000 Males (with Blue Collar adjustment) multiplied by 115%	RP-2000 Females (with Blue Collar adjustment) multiplied by 115%

The long-term expected rate of return on pension plan investments is based upon the 30 year capital market outlook at the end of the third quarter 2012. The long-term expected rate of returns represent best estimates of arithmetic real rates of return for each major asset class and were developed using a building block approach, reflecting observable inflation and interest rate information available in the fixed income markets as well as Consensus Economic forecasts. The long-term assumptions for other asset classes are based on historical results, current market characteristics and professional judgment. The expected returns, along with the expected inflation rate, form the basis for the target asset allocation adopted for fiscal year 2014. The long-term expected rate of return is produced by weighting the expected future real rates of return by the target allocation percentage and by adding expected inflation and is summarized in the table on Page 42. For actuarial purposes, the 7.50 percent assumed annual investment rate of return used in the calculation of the total pension liability includes a 4.75 percent real rate of return and a 2.75 percent inflation component.

Asset Class	Target Asset Allocation	Expected Arithmetic Real Rate of Return	Long Term Expected Portfolio Real Rate of Return
Short Term	5.0%		
Cash	2.0%	0.3	0.01
Short Duration	3.0%	0.6	0.02
Domestic Fixed Income	13.0%		
Core Fixed Income	7.0%	1.1	0.08
High Yield	2.0%	3.5	0.07
Bank Loans	4.0%	2.8	0.11
Global Fixed Income	9.0%		
Global Fixed Income	3.0%	0.8	0.02
Emerging Markets Debt	6.0%	4.1	0.25
Global Public Equity	31.0%	7.8	2.42
Global Tactical Asset Allocation	10.0%	5.1	0.51
Alternatives	32.0%		
Hedge Funds (Low Beta)	8.0%	4	0.32
Private Debt	7.0%	10.2	0.71
Private Equity	9.0%	10.2	0.92
Real Estate (Broad Market)	5.0%	5.9	0.29
Commodities	3.0%	5.1	0.15
Total Expected Real Return	<u>100.0%</u>		<u>5.88</u>
Inflation for Actuarial Purposes			<u>2.75</u>
Total Expected Nominal Return			<u>8.63</u>

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers in SCRS and PORS will be made based on the actuarially determined rates based on provisions in the South Carolina State Code of Laws. The contributions required for JSRS, GARS, and the SCNG are based on PEBA's current funding policy. Based on those assumptions, the System's fiduciary net position was projected to be available to make all the projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

In accordance with GASB 67 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the following table presents the net pension liability of the participating employers calculated using the discount rate of 7.50 percent, as well as what the employers' net pension liability would be if it were calculated using a discount rate that is 1.00 percent lower (6.50 percent) or 1.00 percent higher (8.50 percent) than the current rate.

Discount Rate Sensitivity Analysis (Amounts expressed in thousands)

System	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
SCRS	\$ 22,279,455	\$ 17,216,685	\$ 12,992,882
PORS	2,675,363	1,914,427	1,284,817
GARS	47,373	40,753	35,077
JSRS	146,229	117,236	92,716
SCNG	46,386	38,972	32,838

IX. Death Benefit Program

In addition to monthly pension benefits provided through the Systems, a death benefit program is available to employers. For participating employers, incidental death benefits are provided for both active and retired members. These benefits are funded through separate death benefit programs within SCRS and PORS on a cost-sharing, multiple-employer basis. The assets in the death benefits fund are not held separately in a dedicated trust for the sole purpose of paying death benefits to beneficiaries of deceased members. These benefits are considered allowable within the defined benefit plans and are held within the pension trust funds. Coverage is provided to eligible active and retired working members as well as non-working retirees under the governing statute. Funding for the plans is collected as a percent of covered payroll as determined by the Systems' actuary and approved by the governing board. The current employer contribution rates for the programs are 0.15 percent and 0.20 percent of payroll for SCRS and PORS respectively. These contributions fund both the active and retiree death benefits.

Active Death Benefits

Upon the death of an SCRS or PORS contributing member in service who had at least one full year of membership or who died as a result of an injury arising in the course of performing his duties regardless of length of membership, an incidental death benefit equal to the annual earn-

able compensation of the member at the time of death is payable apart and separate from the payment of pension benefits.

Retiree Death Benefits

Retired members of SCRS and PORS whose last employer prior to retirement is covered by the program, and who met applicable service credit requirements, are also protected under the state-sponsored death benefit program. Upon the death of a retired member, the beneficiary of a non-working retiree will receive a benefit payment of \$2,000, \$4,000 or \$6,000 based on the member's total creditable service at the time of retirement.

Members who work after retirement by either participating in the TERI program or by returning to covered employment as a working retiree are eligible for an increased level of death benefits. Beneficiaries of working retirees are provided with a death benefit equal to the amount of the member's annual earnable compensation in lieu of the standard \$2,000, \$4,000 or \$6,000 retired member benefit.

All benefits provided by the Systems are included in the actuarial valuation, including the incidental death benefit program for SCRS, PORS, GARS and JSRS. The July 1, 2013, actuarial valuations reflect the inclusion of the assets and liabilities of the incidental death benefit program and accidental death benefits for PORS.

X. Litigation

In addition to the litigation mentioned below, controversies or disputes between the South Carolina Retirement Systems and its members arising out of the provisions of Title 9 of the South Carolina Code of Laws (Retirement provisions) are resolved through the “South Carolina Retirement Systems Claims Procedures Act” established by S.C. Code Ann. §§9-21-10 et seq. Claims brought pursuant to the Claims Procedures Act generally involve matters pertinent to the individual member or beneficiary. Claims may not be brought on behalf of a class under the Claims Procedures Act.

Gail M. Hutto et al. v. The South Carolina Retirement System et al., C/A No. 4:10-cv-02018-JMC, is a putative class action suit that was filed in federal district court in August 2010. In this matter, Plaintiffs asserted that the provisions of Act No. 153 of 2005 of the South Carolina General Assembly requiring working retirees in the South Carolina Retirement System (SCRS) and the South Carolina Police Officers’ Retirement System (PORS) to make contributions to the systems are unconstitutional and illegal. As of June 30, 2012, the Retirement Systems had collected approximately \$121 million in the form of retirement contributions from members of those retirement systems who retired and returned to work on or after July 1, 2005. Defendants filed a motion to dismiss this matter on a number of grounds, including Eleventh Amendment immunity, abstention, and failure to state a claim upon which relief may be granted. By an Order and Decision dated September 27, 2012, the federal district court granted Defendants’ motion and dismissed Plaintiffs’ suit, finding that Defendants are immune from suit under the Eleventh Amendment. Plaintiffs filed a motion for reconsideration. The district court denied Plaintiffs’ motion, and Plaintiffs have appealed to the Fourth Circuit Court of Appeals. The appeal is currently pending, with argument scheduled for October 29, 2014.

Anderson County v. Joey Preston and the South Carolina Retirement System, Case No. 2009-CP-04-4482, is a civil action that was filed in the Tenth Judicial Circuit Court of Common Pleas. Defendant Joey

Preston (Preston) is a retired member of the South Carolina Retirement System who was employed by Plaintiff. In its complaint, Plaintiff sought to rescind a severance agreement entered into between Plaintiff and Preston, in which, among other things, Plaintiff agreed to pay, and did pay, approximately \$355,000 to the System to purchase retirement service credit on behalf of Preston. Plaintiff named the South Carolina Retirement System as a defendant in this matter as a stakeholder of a portion of the disputed severance funds and sought a return of the \$355,000 paid to the System. As a result of the service purchase, Preston was able to retire and begin drawing a retirement benefit. The South Carolina Retirement System is defending this case to ensure that, regardless of the outcome of Plaintiff’s claims related to the severance agreement, the System does not suffer any monetary loss as a result of the service purchase. By an Order dated May 3, 2013, the circuit court ruled against Plaintiff Anderson County on all claims, including claims for the return of monies paid to the South Carolina Retirement System. Plaintiff has appealed to the South Carolina Court of Appeals, and this matter is currently pending before the Court, with final briefs due in early October 2014.

Marc S. Kirschner, as Litigation Trustee for the Tribune Litigation Trust v. Dennis J. Fitzsimmons, et al., United States District Court Southern District of New York, Case No. 1:11-cv-02652. This case is a bankruptcy litigation matter filed on December 20, 2011, and has been stayed since shortly after it was filed. The Plaintiff attempted to serve a summons on the South Carolina Retirement System in August 2013. SCRS is a defendant as a result of selling Tribune Company stock in connection with a leveraged buyout of the Tribune Company in 2007. Through this lawsuit the creditors of the Tribune Company are attempting to claw-back funds received by SCRS in connection with the sale of the stock. The plaintiff has asserted a claim of approximately two million dollars against SCRS. The South Carolina Retirement System Investment Commission contests the amount the plaintiff alleges SCRS received, contends that there are persuasive arguments favoring dismissal, and has engaged counsel to represent SCRS in this matter.

South Carolina Retirement Systems Required Supplementary Information

Schedule of Changes in the Employers' Net Pension Liability¹

Year Ended June 30, 2014

(Amounts expressed in thousands)

Change in the Net Pension Liability	SCRS	PORS	GARS	JSRS	SCNG
Total Pension Liability					
Service Cost	\$ 739,021	\$ 149,606	\$ 572	\$ 5,571	\$ 697
Interest	3,021,004	417,950	5,437	18,857	4,417
Benefit Changes	0	0	0	0	0
Difference between actual and expected experience	638,745	64,336	(2,585)	(3,240)	(262)
Assumption Changes	0	0	0	0	0
Benefit Payments	(2,571,049)	(331,783)	(6,861)	(16,684)	(4,248)
Net Change in Total Pension Liability	1,827,721	300,109	(3,437)	4,504	604
Total Pension Liability - Beginning	41,127,485	5,599,420	78,224	260,228	60,926
Total Pension Liability - Ending (a)	\$42,955,206	\$ 5,899,529	\$ 74,787	\$ 264,732	\$ 61,530
Plan Fiduciary Net Position					
Contributions - Employer	\$962,798	\$ 155,608	\$ 4,063	\$ 9,659	\$ 4,586
Contributions - Member	652,631	96,004	384	2,448	0
Refunds of contributions to members	(90,250)	(16,184)	(41)	0	0
Retirement benefits	(2,461,559)	(311,593)	(6,799)	(16,675)	(4,248)
Death benefits	(19,240)	(4,007)	(20)	(10)	0
Net Investment Income	3,517,324	538,386	4,545	19,962	2,806
Administrative Expense	(11,765)	(1,820)	(17)	(68)	(10)
Net transfers to affiliated systems	(2,470)	2,260	15	195	0
Other	0	0	0	0	0
Net Change in Plan Fiduciary Net Position	2,547,469	458,654	2,130	15,511	3,134
Plan Fiduciary Net Position - Beginning	23,191,052	3,526,448	31,904	131,985	19,424
Plan Fiduciary Net Position - Ending (b)	\$25,738,521	\$ 3,985,102	\$ 34,034	\$ 147,496	\$ 22,558
Net Pension Liability - Ending (a) - (b)	\$17,216,685	\$ 1,914,427	\$ 40,753	\$ 117,236	\$ 38,972

Schedule of Employers' Net Pension Liability¹

Year Ended June 30, 2014

(Amounts expressed in thousands)

System	Total Pension Liability	Plan Fiduciary Net Position	Employers' Net Pension Liability (Asset)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	Covered Employee Payroll ²	Net Pension Liability as a Percentage of Covered Employee Payroll
SCRS	\$ 42,955,206	\$ 25,738,521	\$ 17,216,685	59.9%	\$ 7,434,820	231.6%
PORS	5,899,529	3,985,102	1,914,427	67.5%	1,033,189	185.3%
GARS	74,787	34,034	40,753	45.5%	2,688	1,516.2%
JSRS	264,732	147,496	117,236	55.7%	20,407	574.5%
SCNG	61,530	22,558	38,972	36.7%	Not Applicable ³	Not Applicable ³

¹Schedules are intended to show information for 10 years. Additional years will be displayed as they become available.

²The projected payroll for fiscal year 2014 is based on the actuarial valuation as of July 1, 2013.

³The contributions and benefits associated with the SCNG are not determined as a function of payroll.

Required Supplementary Information

Schedule of Employers' Contributions

(Amounts expressed in thousands)

	Actuarial Determined Contributions ¹ (1)	Amount of Contributions Recognized (2)	Difference Between Actuarially Determined Contributions ² and Contributions Recognized (1-2) (3)	Covered Employee Payroll ³ (4)	Percentage of Contributions to Covered Employee Payroll (2/4) (5)
SCRS					
6/30/2014	\$ 962,798	\$ 962,798	\$ -	\$ 7,434,820	12.9%
6/30/2013	948,157	948,157		7,356,231	12.9%
6/30/2012	824,652	824,652		7,687,558	10.7%
6/30/2011	808,343	808,343		7,769,820	10.4%
6/30/2010	818,523	818,523		7,761,808	10.5%
6/30/2009	827,502	827,502		7,559,172	10.9%
6/30/2008	774,269	774,269		7,093,181	10.9%
6/30/2007	644,350	644,350		6,733,379	9.6%
6/30/2006	577,468	577,468		6,356,489	9.1%
6/30/2005	538,809	538,809		6,180,599	8.7%
PORS					
6/30/2014	\$ 155,608	\$ 155,608	\$ -	\$ 1,033,189	15.1%
6/30/2013	143,389	143,389		1,019,241	14.1%
6/30/2012	134,299	134,299		1,087,587	12.3%
6/30/2011	129,314	129,314		1,076,467	12.0%
6/30/2010	123,163	123,163		1,084,154	11.4%
6/30/2009	124,148	124,148		1,060,747	11.7%
6/30/2008	114,095	114,095		992,849	11.5%
6/30/2007	106,753	106,753		931,815	11.5%
6/30/2006	100,281	100,281		850,610	11.8%
6/30/2005	90,528	90,528		822,448	11.0%
GARS⁴					
6/30/2014	\$ 4,063	\$ 4,063	\$ -	\$ 2,688	151.2%
6/30/2013	2,831	2,831		3,854	73.5%
6/30/2012	2,532	2,532		3,854	65.7%
6/30/2011	2,414	2,414		3,854	62.6%
6/30/2010	2,598	2,598		3,854	67.4%
6/30/2009	2,495	2,495		3,854	64.7%
6/30/2008	2,440	2,440		3,854	63.3%
6/30/2007	2,358	2,358		3,854	61.2%
6/30/2006	2,171	2,171		3,854	56.3%
6/30/2005	2,890	2,890		3,839	75.3%
JSRS					
6/30/2014	\$ 9,659	\$ 9,659	\$ -	\$ 20,407	47.3%
6/30/2013	8,667	8,667		19,221	45.1%
6/30/2012	8,414	8,414		18,661	45.1%
6/30/2011	8,414	8,414		18,661	45.1%
6/30/2010	8,414	8,414		18,661	45.1%
6/30/2009	8,414	8,414		18,661	45.1%
6/30/2008	7,613	7,613		16,407	46.4%
6/30/2007	6,706	6,706		15,929	42.1%
6/30/2006	6,511	6,511		15,464	42.1%
6/30/2005	6,260	6,260		14,870	42.1%
SCNG⁵					
6/30/2014	\$ 4,586	\$ 4,586	\$ -	N/A	N/A
6/30/2013	4,539	4,539		N/A	N/A
6/30/2012	3,937	3,937		N/A	N/A
6/30/2011	3,905	3,905		N/A	N/A
6/30/2010	3,945	3,945		N/A	N/A
6/30/2009	4,052	4,052		N/A	N/A
6/30/2008	3,923	3,923		N/A	N/A
6/30/2007	3,948	3,948		N/A	N/A
6/30/2006	3,942	3,942		N/A	N/A
6/30/2005	2,969	2,969		N/A	N/A

¹The actuarially determined contribution rate for SCRS and PORS is determined in accordance with the SC State Code of Laws. The contribution rate for JSRS is based on the funding policy maintained by the SC Public Employee Benefit Authority.

²The actuarially determined contributions are based on the funding policy maintained by the SC Public Employee Benefit Authority.

³Projected payroll of active members per July 1 Actuarial Valuation.

⁴GARS was closed to new members beginning with the 2012 general election.

⁵Benefits for members in the SCNG are not a function of pay. For years prior to June 30, 2010, the Annual Pension Cost (APC) for SCNG includes both the Annual Required Contribution (ARC) and the discounted present value of the balance of the Net Pension Obligation (NPO). For fiscal years ended June 30, 2010 forward, the APC was calculated as part of the actuarial valuation and includes only the ARC.

Required Supplementary Information

Schedule of Investment Returns¹

Fiscal Year Ending June 30	Annual Money Weighted Rate of Return, Net of Investment Expense
2014	15.30%

¹Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Notes to Required Supplementary Information

The following table provides a summary of the actuarial methods and assumptions used in calculations of the actuarially determined contributions for each of the individual plans administered by PEBA.

Summary of Actuarial Methods and Significant Assumptions

	SCRS	PORS	GARS	JSRS	SCNG
Valuation date	07/01/13	07/01/13	07/01/13	07/01/13	07/01/13
Actuarial cost method	Entry age	Entry age	Entry age	Entry age	Entry age
Amortization method	Level percent open	Level percent open	Level dollar closed	Level percent open	Level dollar closed
Amortization period	30 years	30 years	14 years	28 years	19 years
Asset Valuation method	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market
Inflation rate	2.75%	2.75%	2.75%	2.75%	2.75%
Projected salary increases	levels off at 3.5%	levels off at 4.0%	None	3.0%	None
Investment rate of return	7.5%	7.5%	7.5%	7.5%	7.5%
Benefit adjustments	lesser of 1% or \$500 annually	lesser of 1% or \$500 annually	None	3.0%	None

South Carolina Retirement Systems
Schedule of Changes in Plan Net Position
SCRS Pension Trust Fund
Year Ended June 30, 2014
With comparative totals for the year ended June 30, 2013
(Amounts expressed in thousands)

	EMPLOYEE FUND	EMPLOYER FUND	DEATH BENEFIT FUND	QEBA FUND	TOTALS	TOTALS 2013 Restated
Additions						
Employee contributions						
State department employees	\$ 172,397	\$ 25,563	\$ -	\$ -	\$ 197,960	\$ 214,581
Public school employees	247,284	38,520			285,804	290,117
Other political subdivision employees	155,423	13,444			168,867	170,085
Employer contributions						
State department employees		307,952	5,006	451	313,409	311,271
Public school employees		409,525	6,118		415,643	408,068
Other political subdivision employees		230,913	2,833		233,746	228,818
Total contributions	<u>575,104</u>	<u>1,025,917</u>	<u>13,957</u>	<u>451</u>	<u>1,615,429</u>	<u>1,622,940</u>
Investment Income						
Net appreciation in fair value of investments		3,600,027	18,418		3,618,445	2,303,180
Interest and dividend income		298,736	1,524		300,260	258,632
Investment expense		(400,821)	(2,050)		(402,871)	(368,333)
Income from investing activities		3,497,942	17,892		3,515,834	2,193,479
From securities lending activities:						
Securities lending income		54			54	234
Securities lending borrower rebates		1,429	7		1,436	1,935
Net income from securities lending activities		<u>1,483</u>	<u>7</u>		<u>1,490</u>	<u>2,169</u>
Total net investment income		<u>3,499,425</u>	<u>17,899</u>		<u>3,517,324</u>	<u>2,195,648</u>
Supplemental retirement benefits funded by the State		587			587	657
Transfers of contributions from other Systems						
Total additions	<u>575,104</u>	<u>4,525,929</u>	<u>31,856</u>	<u>451</u>	<u>5,133,340</u>	<u>3,819,245</u>
Deductions						
Refunds of contributions to members	90,250				90,250	87,212
Transfers of contributions to other Systems	1,612	858			2,470	3,396
Regular retirement benefits		2,292,884		451	2,293,335	2,195,625
Deferred retirement benefits		168,221			168,221	172,249
Supplemental retirement benefits		590			590	636
Incidental Death benefit claims		(67)	19,307		19,240	19,133
Depreciation		200			200	186
Administrative charges		11,506	59		11,565	13,047
Total deductions	<u>91,862</u>	<u>2,474,192</u>	<u>19,366</u>	<u>451</u>	<u>2,585,871</u>	<u>2,491,484</u>
Interfund transfers according to statutory requirements						
Contributions by members at retirement	(483,008)	483,008				
Interest credited to members' accounts	225,198	(225,198)				
Net interfund transfers	<u>(257,810)</u>	<u>257,810</u>				
Net increase	225,432	2,309,547	12,490		2,547,469	1,327,761
Net position restricted for Pensions						
Beginning of year, Restated	6,491,895	16,583,148	116,009		23,191,052	21,863,291
End of year	<u>\$ 6,717,327</u>	<u>\$18,892,695</u>	<u>\$ 128,499</u>	<u>\$</u>	<u>\$25,738,521</u>	<u>\$23,191,052</u>

South Carolina Retirement Systems
Schedule of Changes in Plan Net Position
PORS Pension Trust Fund
Year Ended June 30, 2014
With comparative totals for the year ended June 30, 2013
(Amounts expressed in thousands)

	EMPLOYEE FUND	EMPLOYER FUND	DEATH BENEFIT FUND	ACCIDENTAL DEATH FUND	QEBA FUND	TOTALS	TOTALS 2013
Additions							
Employee contributions							
State department employees	\$ 29,566	\$ 1,933	\$ -	\$ -	\$ -	\$ 31,499	\$ 31,170
Public school employees	29	293				322	355
Other political subdivision employees	56,170	8,013				64,183	65,639
Employer contributions							
State department employees		48,685	782	782	2	50,251	47,494
Public school employees		494	8	8		510	455
Other political subdivision employees		101,790	1,573	1,484		104,847	95,440
Total contributions	85,765	161,208	2,363	2,274	2	251,612	240,553
Investment Income							
Net appreciation in fair value of investments		542,580	5,053	6,589		554,222	345,698
Interest and dividend income		45,134	418	545		46,097	39,015
Investment expense		(60,856)	(567)	(739)		(62,162)	(55,573)
Income from investing activities		526,858	4,904	6,395		538,157	329,140
From securities lending activities:							
Securities lending income		9				9	35
Securities lending borrower rebates		216	2	2		220	292
Net income from securities lending activities		225	2	2		229	327
Total net investment income		527,083	4,906	6,397		538,386	329,467
Supplemental retirement benefits funded by the State		26				26	30
Transfers of contributions from other Systems	1,414	846				2,260	3,013
Total additions	87,179	689,163	7,269	8,671	2	792,284	573,063
Deductions							
Refunds of contributions to members	16,184					16,184	14,983
Regular retirement benefits		311,591			2	311,593	296,044
Supplemental retirement benefits		26				26	30
Death benefits			2,410			2,410	1,985
Accidental death benefits				1,597		1,597	1,557
Depreciation		25				25	23
Administrative charges		1,757	17	21		1,795	1,983
Total deductions	16,184	313,399	2,427	1,618	2	333,630	316,605
Interfund transfers according to statutory requirements							
Contributions by members at retirement	(43,166)	43,166					
Interest credited to members' accounts	29,140	(29,140)					
Net interfund transfers	(14,026)	14,026					
Net increase	56,969	389,790	4,842	7,053		458,654	256,458
Net position restricted for Pensions							
Beginning of year	793,414	2,658,958	32,153	41,923		3,526,448	3,269,990
End of year	\$ 850,383	\$ 3,048,748	\$ 36,995	\$ 48,976	\$	\$ 3,985,102	\$ 3,526,448

South Carolina Retirement Systems Schedule of Changes in Plan Net Position

GARS Pension Trust Fund

Year Ended June 30, 2014

With comparative totals for the year ended June 30, 2013

(Amounts expressed in thousands)

	EMPLOYEE FUND	EMPLOYER FUND	TOTAL	TOTALS 2013
Additions				
Contributions				
Employee contributions - State departments	\$ 384	\$ -	\$ 384	\$ 1,091
Employer contributions - State departments		4,063	4,063	2,831
Total contributions	<u>384</u>	<u>4,063</u>	<u>4,447</u>	<u>3,922</u>
Investment Income				
Net appreciation in fair value of investments		4,654	4,654	3,224
Interest and dividend income		397	397	359
Investment expense		(508)	(508)	(475)
Net income from investing activities		<u>4,543</u>	<u>4,543</u>	<u>3,108</u>
From securities lending activities:				
Securities lending income				1
Securities lending borrower rebates		<u>2</u>	<u>2</u>	<u>2</u>
Net income from securities lending activities		<u>2</u>	<u>2</u>	<u>3</u>
Total net investment income		<u>4,545</u>	<u>4,545</u>	<u>3,111</u>
Transfers of contributions from other Systems	<u>15</u>		<u>15</u>	<u>199</u>
Total additions	<u>399</u>	<u>8,608</u>	<u>9,007</u>	<u>7,232</u>
Deductions				
Refunds of contributions to members	41		41	3
Regular retirement benefits		6,799	6,799	6,720
Death benefits		20	20	16
Depreciation		1	1	1
Administrative expenses		16	16	19
Total deductions	<u>41</u>	<u>6,836</u>	<u>6,877</u>	<u>6,759</u>
Interfund transfers according to statutory requirements				
Contributions by members at retirement	(378)	378		
Interest credited to members' accounts	<u>214</u>	<u>(214)</u>		
Net interfund transfers	<u>(164)</u>	<u>164</u>		
Net increase	194	1,936	2,130	473
Net position held in trust for Pension Benefits				
Beginning of year	\$ 7,164	\$ 24,740	\$ 31,904	\$ 31,431
End of year	<u>\$ 7,358</u>	<u>\$ 26,676</u>	<u>\$ 34,034</u>	<u>\$ 31,904</u>

South Carolina Retirement Systems Schedule of Changes in Plan Net Position

JSRS Pension Trust Fund

Year Ended June 30, 2014

With comparative totals for the year ended June 30, 2013

(Amounts expressed in thousands)

	EMPLOYEE FUND	EMPLOYER FUND	QEBA FUND	TOTALS	TOTALS 2013 Restated
Additions					
Contributions					
Employee contributions - State departments	\$ 2,218	\$ 230	\$ -	\$ 2,448	\$ 2,596
Employer contributions - State departments		9,538	121	9,659	8,667
Total contributions	<u>2,218</u>	<u>9,768</u>	<u>121</u>	<u>12,107</u>	<u>11,263</u>
Investment Income					
Net appreciation in fair value of investments		20,491		20,491	13,142
Interest and dividend income		1,739		1,739	1,508
Investment expense		(2,276)		(2,276)	(2,058)
Net income from investing activities		<u>19,954</u>		<u>19,954</u>	<u>12,592</u>
From securities lending activities:					
Securities lending income					2
Securities lending borrower rebates		8		8	11
Net income from securities lending activities		<u>8</u>		<u>8</u>	<u>13</u>
Total net investment income		<u>19,962</u>		<u>19,962</u>	<u>12,605</u>
Transfers of contributions from other Systems	184	11		195	184
Total additions	<u>2,402</u>	<u>29,741</u>	<u>121</u>	<u>32,264</u>	<u>24,052</u>
Deductions					
Refunds of contributions to members					57
Regular retirement benefits		15,776	121	15,897	15,745
Deferred retirement benefits		778		778	
Death benefits		10		10	134
Depreciation		1		1	1
Administrative expenses		67		67	75
Total deductions		<u>16,632</u>	<u>121</u>	<u>16,753</u>	<u>16,012</u>
Interfund transfers according to statutory requirements					
Contributions by members at retirement	(1,660)	1,660			
Interest credited to members' accounts	815	(815)			
Net interfund transfers	<u>(845)</u>	<u>845</u>			
Net increase	1,557	13,954		15,511	8,040
Net position held in trust for Pension Benefits					
Beginning of year, Restated	21,369	110,616		131,985	123,945
End of year	<u>\$ 22,926</u>	<u>\$ 124,570</u>	<u>\$ -</u>	<u>\$ 147,496</u>	<u>\$ 131,985</u>

South Carolina Retirement Systems
Schedule of Changes in Plan Net Position
SCNG Pension Trust Fund
Year Ended June 30, 2014

With comparative totals for the year ended June 30, 2013
(Amounts expressed in thousands)

	TOTALS 2014	TOTALS 2013
Additions		
Contributions		
State appropriated contributions	\$ 4,586	\$ 4,539
Total contributions	4,586	4,539
Investment Income		
Net appreciation in fair value of investments	2,893	1,756
Interest income	240	198
Investment expense	(328)	(284)
Income from investing activities	2,805	1,670
From securities lending activities:		
Securities lending income		
Securities lending borrower rebates	1	1
Net income from securities lending activities	1	1
Total net investment income	2,806	1,671
Total additions	7,392	6,210
Deductions		
Regular retirement benefits	4,248	4,193
Administrative expenses	10	10
Total deductions	4,258	4,203
Net increase	3,134	2,007
Net position held in trust for Pension Benefits		
Beginning of year	19,424	17,417
End of year	\$ 22,558	\$ 19,424

Schedule of Administrative Expenses

For the Year Ended June 30, 2014

(Amounts expressed in thousands)

	SCRS	PORS	GARS	JSRS	SCNG	TOTALS
Personal Services						
Salaries and Wages	\$ 6,616	\$ 1,028	\$ 9	\$ 38	\$ 6	\$ 7,697
Employee Benefits	2,204	341	3	13	2	2,563
Contractual Services						
Data Processing Services	703	109	1	4	1	818
Medical & Health Services	356	55	1	2	1	415
Financial Audit	63	10				73
Actuarial Services	151	23		1		175
Other Professional Services	355	55	1	2		413
Legal Services	62	10				72
Operating Expenses						
Facilities Management	269	42	1	2		314
Telephone	106	16		1		123
Insurance	243	38		2		283
Postage	168	26		1		195
Supplies	75	12				87
Other Miscellaneous Expenses	194	30		1		225
Total Administrative Expenses	<u>\$ 11,565</u>	<u>\$ 1,795</u>	<u>\$ 16</u>	<u>\$ 67</u>	<u>\$ 10</u>	<u>\$ 13,453</u>

Schedule of Professional and Consultant Fees

For the Year Ended June 30, 2014

(Amounts expressed in thousands)

Professional/Consultant	Nature of Service	Amounts Paid
CEM Benchmarking Inc.	Benchmarking Service	\$ 40
CliftonLarsonAllen LLP	Audit	73
Data Network Solutions	IT Maintenance & Support	73
Gabriel Roeder Smith & Company	Actuary Services	175
Hewlett Packard	IT Maintenance & Support	39
Ice Miller	IRC Consulting Services	54
Psychological & Training Services	Disability Review	13
SHI International	IT Maintenance & Support	45
Software AG Inc.	IT Enterprise License & Maintenance	169
Sowell Gray Stepp & Laffitte	Attorney Fees	18
Spartantec Inc	IT Services Software & License	17
Specialty Underwriters LLFC	IT Maintenance & Support	78
Summit Strategies Inc	Optional Retirement Plan Consultants	130
SunGard Availability Service	IT Disaster Recovery	97
Tapfin	Application Development Resources	220
TeamIA Inc	Imaging Maintenance/Auditing	158
		<u>\$ 1,399</u>

South Carolina Retirement Systems
Schedule of Investment Fees and Expenses
Year Ended June 30, 2014
(Amounts expressed in thousands)

	<u>SCRS</u>	<u>PORS</u>	<u>GARS</u>	<u>JSRS</u>	<u>SCNG</u>	<u>TOTALS¹</u>
Short Term:	\$ 2,377	\$ 366	\$ 3	\$ 13	\$ 2	\$ 2,761
Domestic Fixed Income:						
Core Fixed Income	3,490	537	4	20	3	4,054
Mixed Credit	6,157	949	8	35	5	7,154
Global Fixed Income:						
Global Fixed Income	2,663	410	4	15	2	3,094
Emerging Market Debt	2,209	340	3	13	2	2,567
Domestic Equity:	8,309	1,278	10	47	7	9,651
Global Equity:						
Global Equity	13	2				15
Developed International Equity	3,499	540	4	20	3	4,066
Emerging Markets Equity	7,134	1,099	9	41	6	8,289
Global Tactical Asset Allocation:	12,579	1,939	16	71	10	14,615
Alternatives:						
Hedge Funds (Global Public Equity, Low Beta, Mixed Credit)	129,986	20,062	163	734	105	151,050
Private Debt/Opportunistic Credit	72,270	11,153	91	408	59	83,981
Private Equity	72,822	11,239	92	411	59	84,623
Real Estate	55,817	8,613	70	315	45	64,860
Commodities	259	40		1		300
Strategic Partnerships ²	10,516	1,623	13	59	9	12,220
Beta Overlay	1,060	163	2	6	1	1,232
Total Investment Manager Fees	<u>391,160</u>	<u>60,353</u>	<u>492</u>	<u>2,209</u>	<u>318</u>	<u>454,532</u>
Bank Fees and Investment Expenses ³	<u>11,711</u>	<u>1,809</u>	<u>16</u>	<u>67</u>	<u>10</u>	<u>13,613</u>
Total Investment Management Fees and Expenses	<u>\$ 402,871</u>	<u>\$ 62,162</u>	<u>\$ 508</u>	<u>\$ 2,276</u>	<u>\$ 328</u>	<u>\$468,145</u>
Securities Lending Expenses:						
Borrower Rebates	\$ (1,436)	\$ (220)	\$ (2)	\$ (8)	\$ (1)	\$ (1,667)
Total Securities Lending Expenses	<u>\$ (1,436)</u>	<u>\$ (220)</u>	<u>\$ (2)</u>	<u>\$ (8)</u>	<u>\$ (1)</u>	<u>\$ (1,667)</u>

¹ All investment manager fees, whether directly invoiced (\$37,826,543) or deducted from the fund on a net basis (\$416,705,417) are classified and reported as Investment Expense. Investment related costs that are separable from investment income and also are related to the administration of the pension plan are reported. For greater transparency, the RSIC makes a good faith attempt to disaggregate netted fee amounts that are not necessarily readily separable. The collection process is not standard practice for many plan sponsors, therefore, direct comparison to other plans is not meaningful without first adjusting to a common reporting basis. Investment expenses include amounts for investment management fees, performance fees (including carried interest allocations), other expenses such as organizational expenses in limited partnership structures as well as offsets which may have the effect of reducing the total.

² Represents management and other fees at the Strategic Partnership level, and not fees at the underlying investment level which are included in each applicable asset class.

³ Includes miscellaneous investment expenses, commissions on futures, bank fees and RSIC administrative costs.

**Independent Auditors' Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

The Honorable Nikki Haley, Governor,
Board of Directors of the South Carolina
Public Employee Benefit Authority, and
Richard H. Gilbert, Jr., Deputy State Auditor
South Carolina Retirement Systems
Columbia, South Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the South Carolina Retirement Systems (the Systems) as administered by the South Carolina Public Employee Benefit Authority, which comprise the statement of fiduciary net position as of June 30, 2014, and the related statement of changes in fiduciary net position, and have issued our report thereon dated November 21, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Systems' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Systems' internal control. Accordingly, we do not express an opinion on the effectiveness of the Systems' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Systems' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Systems' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Systems' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

Baltimore, Maryland
November 21, 2014