

FINANCIAL STATEMENTS

SOUTH CAROLINA
RETIREMENT SYSTEMS

Columbia, South Carolina

Year Ended June 30, 2004

South Carolina Retirement Systems

Table of Contents

June 30, 2004

INDEPENDENT AUDITOR'S REPORT.....	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS:	
Statement of Plan Net Assets.....	8
Statement of Changes in Plan Net Assets.....	9
Notes to Financial Statements	10-24
REQUIRED SUPPLEMENTARY INFORMATION	25-26
SCHEDULE OF CHANGES IN PLAN NET ASSETS – BY SYSTEM.....	27-30
SCHEDULE OF ADMINISTRATIVE EXPENSES AND PROFESSIONAL CONSULTANT FEES	31
SCHEDULE OF INVESTMENT EXPENSES.....	32

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

MAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

October 13, 2004

The Honorable Mark Sanford, Governor
and
Members of the State Budget and Control Board
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, 2004 was issued by Rogers & Laban, PA, 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 "Tom Wagner".

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/trb



CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

Independent Auditor's Report

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

We have audited the financial statements of the South Carolina Retirement Systems (the "Systems") as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the South Carolina Retirement Systems' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note I to the financial statements, the Systems' financial statements are intended to present the financial position and results of operations and cash flows of only that portion of the financial reporting entity of the State of South Carolina that is attributable to the transactions of the System. They do not purport to and do not present the financial position of the State of South Carolina as of June 30, 2004, and changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America, and do not include other agencies, divisions, or component units of the State of South Carolina.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the South Carolina Retirement Systems, as of June 30, 2004, and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Management's Discussion and Analysis on pages 3 to 7 and the required supplementary information on pages 25 and 26 are not a required part of the financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



1919 BULL STREET • COLUMBIA, SC 29201 • (803) 779-5870 • FAX (803) 765-0072 • Email: cpa@rogerslaban.com

*Investment Advisory Services Offered
Through 1st Global Advisors, Inc.*

*Securities Offered Through 1st Global
Capital Corp Member NASD, SIPC*

*Insurance Services Offered Through
1st Global Insurance Service, Inc.*

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

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

Rogers & Lalan, PA

October 5, 2004

Management's Discussion and Analysis

The following discussion and analysis provides a narrative introduction to the basic financial statements and an analytical overview of the South Carolina Retirement Systems' financial activities for the fiscal year ended June 30, 2004.

Financial Highlights

- Our combined investment return net of fees for the four pension trust funds administered by the South Carolina Retirement Systems for fiscal year 2004 was 8.76 percent, compared to a combined return of 8.9 percent for fiscal year 2003. Our investment return exceeded our assumed actuarial investment return of 7.25 percent and this specific aspect of the experience results will again have a positive affect on the actuarial valuation of the systems.
- Plan net assets of the four pension trust funds administered by the South Carolina Retirement Systems increased by \$1.4 billion during fiscal year 2004. This increase was due primarily to this year's positive equity market environment, which contributed to our combined investment return of 8.76 percent for the total portfolio of our pension plans.
- The deferred retirement option program (also known as TERI, Teacher and Employee Retention Incentive), which was initiated January 1, 2001, continued to experience great popularity among our membership during fiscal year 2004. The amount of assets held in trust for future payments of accrued benefit expense increased to \$649 million during the fiscal year. This increase is a result of both a growth of over 4,000 new participants in the program during the fiscal year and the continued accumulation of benefits deferred on a monthly basis for all participants. For the past two fiscal years, legislative bills have been proposed in the SC General Assembly to repeal the TERI program; however, no action was taken on the bills. TERI has been a very controversial issue so the threat of possible repeal contributed to the large number of new participants taking advantage of TERI.
- The State Optional Retirement Program (ORP) is a defined contribution plan that is administered by the South Carolina Retirement Systems. State ORP serves as an alternative to membership in the traditional South Carolina Retirement System (SCRS), which is a defined benefit plan. Employees hired into positions with state agencies, institutions of higher education, and public school districts may elect within 30 days of their date of hire to participate in State ORP. The program was expanded this fiscal year to include eligibility for both full and part-time employees. Also, during a special open enrollment period, all existing ORP participants were offered a one-time irrevocable option to convert their membership from ORP to SCRS. Upon joining SCRS, members also have an opportunity to purchase service credit in SCRS for their period of participation in ORP. ORP service may be purchased at the rate of 16 percent of current or career highest salary for each year purchased and is considered "earned" service for purposes of meeting the 5 year earned service requirement for retirement eligibility.
- Although the number of active members contributing to the South Carolina Retirement Systems decreased in fiscal year 2004 when compared with the prior year, the actual workforce of covered employers throughout the state grew slightly. This resulted from increased State ORP participation and an increased number of working retirees who are either participating in the TERI program or who have terminated employment and returned to work under the earnings limitation. Under current state statute, a retired member of SCRS who has been retired for at least 60 days may return to employment covered under the system and earn up to \$50,000 a fiscal year without affecting the monthly retirement benefit. Under PORS, a member who has been retired for at least 15 consecutive calendar days may return to covered employment without affecting the monthly retirement benefit.
- The State Legislature approved the Claims Procedures Act creating a more efficient and fair procedure for administrative and disability retirement claim disputes. The act sets forth a one-year statute of limitations, limits retroactive relief to one year and prohibits class action lawsuits.
- An indemnification bill was also approved by the Legislature. This bill provides for state defense against claims or suits for members of the SC Budget and Control Board, officers, management, legislative employees, and SC Retirement System investment panel members.
- In an effort to improve fraud risk management, the Retirement System implemented positive pay banking services. On a nationwide basis, losses from check fraud and other illegal activities have increased at

an alarming rate; therefore, we worked with our bank to implement processes to help monitor checks clearing our accounts and to identify potentially fraudulent items.

Overview of the Financial Statements

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

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

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

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

Notes to the Financial Statements provide additional information and detail and are necessary in order to gain a full understanding of the financial statements.

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

Condensed Financial Information

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

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

Condensed financial statements are presented on the following page.

Plan Net Assets

June 30

(Amounts expressed in thousands)

Assets	2004	2003	% Increase/ (Decrease)
Cash and Cash Equivalents, Receivables and Prepaid Expenses	\$ 3,087,343	\$ 3,173,518	(2.74%)
Total Investments, at fair value	21,427,345	19,694,444	8.80%
Securities lending cash collateral invested	3,698,749	3,912,893	(5.47%)
Property, net of accumulated depreciation	3,933	4,052	(2.94%)
Total Assets	28,217,370	26,784,907	5.35%
Liabilities			
Deferred retirement benefits	649,385	424,906	52.83%
Obligations under securities lending	3,698,749	3,912,893	(5.47%)
Other accounts payable	86,497	67,738	26.71%
Total Liabilities	4,434,631	4,405,537	0.65%
Total Net Assets	\$ 23,782,739	\$ 22,379,370	6.27%

Changes in Plan Net Assets

Year Ended June 30

(Amounts expressed in thousands)

Additions	2004	2003	% Increase/ (Decrease)
Employee Contributions	\$ 473,688	\$ 465,709	1.71%
Employer Contributions	612,727	607,499	0.86%
Investment Income	1,985,109	1,859,758	6.74%
Other Income	5,232	4,350	20.28%
Total Additions	3,076,756	2,937,316	4.75%
Deductions			
Total Annuities	1,561,371	1,405,309	11.11%
Refunds	78,423	71,657	9.44%
Group Life	15,202	16,366	(7.11%)
Administrative & other expenses	18,391	16,170	13.74%
Total Deductions	1,673,387	1,509,502	10.86%
Increase (Decrease) in Net Assets	1,403,369	1,427,814	(1.71%)
Beginning Net Assets	22,379,370	20,951,556	6.81%
Ending Net Assets	\$ 23,782,739	\$ 22,379,370	6.27%

Analysis of Plan's Financial Position and Results of Operations

On a combined basis, plan net assets were \$23.8 billion at June 30, 2004, representing a 6.27 percent increase in net assets from the previous year-end. Because investment income is a major revenue source, the increase in plan net assets is due in large part to our positive investment performance during fiscal year 2004. We have now completed five full years of investment in the US equity market and those returns are slightly ahead of the benchmark. Our actual combined investment return for fiscal year 2004 was 8.76 percent, which exceeded our assumed actuarial investment return by 1.51 percent and will have a positive actuarial impact. During fiscal year 2004, the Systems completed the process of investing up to the 40 percent equity funding target, producing a 20.88 percent return on the equity segment of the portfolio. Similarly, fiscal year 2003 produced a combined positive investment return of 8.9 percent; however, this was during a time when world equity markets experienced high volatility. During fiscal year 2003, an essentially zero return was realized on the equity segment of our portfolio, whereas the plans realized returns in excess of 10 percent on the

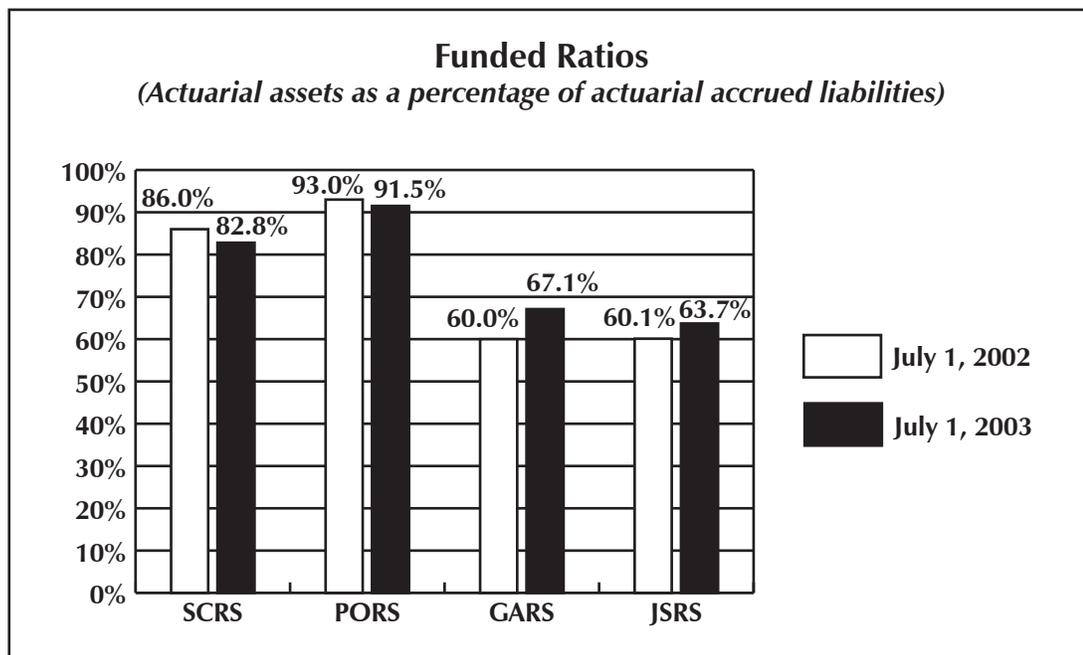
fixed income segment. While the fluctuations in returns between market segments exemplify the need for an optimally diversified investment portfolio, the Retirement Systems' investment performance is limited by our state constitution and state statute. For an extensive discussion of our investments, please see the investment section of this report.

During fiscal year 2004, the total dollar amount of retirement annuities paid increased by 11.11 percent when compared with the previous fiscal year. This was due primarily to the continued popularity of the deferred retirement option (also known as TERI – Teacher and Employee Retention Incentive). The TERI program allows a member to accumulate monthly retirement benefits on a tax-deferred basis, while continuing to earn a salary from full-time employment. The SCRS retains the accumulated TERI retirement benefits in trust for the member, thus creating a liability for benefits to be disbursed by SCRS upon members' termination from employment.

The continued effects of 28-year retirement in the SCRS system and the impact of the number of eligible employees electing retirement contributed to the increase in expenses. A 2.4 percent cost-of-living adjustment (COLA) granted to SCRS and PORS annuitants effective July 1, 2003 also contributed to the increase in the total annuity expense. The annual COLA is arguably the most important benefit to our retirees and is critical to ensuring that retiree income is not eroded by inflation. The COLA is not guaranteed; it is conditional. Ad hoc COLAs have historically been granted and funded with either unanticipated actuarial gains or an extension of the system's unfunded actuarial accrued liability (UAAL) amortization period. With a 25 year UAAL amortization period for SCRS, it is questionable whether the system can continue to fund the COLA without additional contributions or increased investment returns.

Funding Status

An overall objective in the funding of a defined benefit retirement system is to accumulate sufficient funds to pay benefits to participants when due. The greater the level of funding, the larger the ratio of actuarial assets to actuarial accrued liabilities. The most recent actuarial valuations as of July 1, 2003, pending formal approval by the Budget and Control Board for GARS, indicate that the funded ratio of the two larger plans, SCRS and PORS, declined slightly from the previous valuation completed July 1, 2002. The funded ratio in the two smaller plans, GARS and JSRS, increased slightly from the previous valuation. Funding levels of all the plans are such that annual contributions are sufficient for the valuation to find the plans in good actuarial condition as of July 1, 2003. The changes in the levels of funding do not affect the availability of fund resources for future use. The funded ratios of the four plans are presented in the following graph.



In addition to the annual actuarial valuations, an experience analysis was conducted separately on each of the four plans during the fiscal year. Recommended actuarial assumptions and methods used in connection with the actuarial valuation reflect a more accurate portrayal of the actuarial condition of the systems.

Requests for Information

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

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

South Carolina Retirement Systems
Statement of Plan Net Assets
June 30, 2004
With comparative totals for June 30, 2003
(Amounts expressed in thousands)

	<u>SCRS</u>	<u>PORS</u>	<u>GARS</u>	<u>JSRS</u>	<u>TOTAL</u>	<u>TOTAL 2003</u>
ASSETS						
Cash and cash equivalents	\$ 2,516,500	\$ 251,741	\$ 4,661	\$ 16,504	\$ 2,789,406	\$ 2,865,141
Receivables						
Due from other Systems		608	2	88	698	599
Employee and employer contributions	109,990	13,204	45	285	123,524	123,792
Employer contributions long-term	2,007	10			2,017	1,567
Accrued investment income	108,379	12,853	281	700	122,213	161,613
Unsettled investment sales	43,356	5,195	99	224	48,874	20,210
Total receivables	<u>263,732</u>	<u>31,870</u>	<u>427</u>	<u>1,297</u>	<u>297,326</u>	<u>307,781</u>
Investments, at fair value						
Short-term securities	569,987	110,097			680,084	
United States Government securities	1,543,220	164,834	1,928	1,520	1,711,502	2,198,688
United States Government agencies and government-insured	1,692,165	299,038	3,747	11,412	2,006,362	1,792,774
Corporate bonds	3,941,559	464,919	9,803	25,647	4,441,928	5,178,951
Convertible bonds	2,858	348	6	15	3,227	5,330
Financial and other	2,046,082	263,246	3,865	9,150	2,322,343	2,599,272
Common trust funds	4,702,841	556,138	10,832	24,133	5,293,944	3,967,751
Common stock	4,406,512	528,133	10,164	22,738	4,967,547	3,951,288
Convertible preferred stock	361	44	1	2	408	390
Total investments	<u>18,905,585</u>	<u>2,386,797</u>	<u>40,346</u>	<u>94,617</u>	<u>21,427,345</u>	<u>19,694,444</u>
Prepaid administrative expenses	540	67	1	3	611	596
Securities lending cash collateral invested	3,272,155	407,560	5,979	13,055	3,698,749	3,912,893
Capital assets, net of accumulated depreciation	3,544	362	10	17	3,933	4,052
Total assets	<u>24,962,056</u>	<u>3,078,397</u>	<u>51,424</u>	<u>125,493</u>	<u>28,217,370</u>	<u>26,784,907</u>
LIABILITIES						
Due to other Systems	622		76		698	599
Accounts payable - unsettled investment purchases	44,569	5,303	102	229	50,203	31,070
Investment fees payable	4,438	531	10	23	5,002	4,198
Obligations under securities lending	3,272,155	407,560	5,979	13,055	3,698,749	3,912,893
Deferred retirement benefits	649,385				649,385	424,906
Due to Employee Insurance Program	25,746	499			26,245	28,164
Benefits payable	1,734	355			2,089	2,633
Other accrued liabilities	2,008	251	1		2,260	1,074
Total liabilities	<u>4,000,657</u>	<u>414,499</u>	<u>6,168</u>	<u>13,307</u>	<u>4,434,631</u>	<u>4,405,537</u>
Net assets held in trust for Pension Benefits (a schedule of funding progress for each plan is presented on Page 25)	<u>\$20,961,399</u>	<u>\$2,663,898</u>	<u>\$ 45,256</u>	<u>\$ 112,186</u>	<u>\$23,782,739</u>	<u>\$22,379,370</u>

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

South Carolina Retirement Systems
Statement of Changes in Plan Net Assets
Year Ended June 30, 2004
With comparative totals for the year ended June 30, 2003
(Amounts expressed in thousands)

	SCRS	PORS	GARS	JSRS	TOTAL	TOTAL 2003
Additions						
Contributions						
Employee	\$ 414,898	\$ 56,602	\$ 513	\$ 1,675	\$ 473,688	\$ 465,709
Employer	515,996	87,922	2,731	6,078	612,727	607,499
Total contributions	<u>930,894</u>	<u>144,524</u>	<u>3,244</u>	<u>7,753</u>	<u>1,086,415</u>	<u>1,073,208</u>
Investment Income						
Net appreciation (depreciation) in fair value of investments	1,137,034	138,628	2,401	5,495	1,283,558	1,030,254
Interest and dividend income	628,290	74,450	1,643	3,736	708,119	829,701
Investment expense	(20,620)	(2,428)	(47)	(104)	(23,199)	(18,881)
Net income from investing activities	<u>1,744,704</u>	<u>210,650</u>	<u>3,997</u>	<u>9,127</u>	<u>1,968,478</u>	<u>1,841,074</u>
From securities lending activities:						
Securities lending income	50,989	5,818	110	224	57,141	66,037
Securities lending expense	(36,007)	(4,267)	(76)	(160)	(40,510)	(47,353)
Net income from securities lending activities	<u>14,982</u>	<u>1,551</u>	<u>34</u>	<u>64</u>	<u>16,631</u>	<u>18,684</u>
Total net investment income	<u>1,759,686</u>	<u>212,201</u>	<u>4,031</u>	<u>9,191</u>	<u>1,985,109</u>	<u>1,859,758</u>
Supplemental retirement benefits funded by the State	2,328	72			2,400	2,770
Transfers of contributions from other Systems	69	2,545		218	2,832	1,580
Total additions	<u>2,692,977</u>	<u>359,342</u>	<u>7,275</u>	<u>17,162</u>	<u>3,076,756</u>	<u>2,937,316</u>
Deductions						
Refunds of contributions to members	66,505	11,918			78,423	71,657
Transfers of contributions to other Systems	2,677	24	131		2,832	1,580
Regular retirement benefits	1,103,336	140,317	5,347	8,605	1,257,605	1,160,917
Deferred retirement benefits	300,294				300,294	240,667
Supplemental retirement benefits	2,328	72			2,400	2,770
Group life insurance claims	13,515	1,555	8	124	15,202	16,366
Accidental death benefits		1,072			1,072	955
Depreciation	107	11	1		119	119
Administrative charges	13,641	1,697	30	72	15,440	14,471
Total deductions	<u>1,502,403</u>	<u>156,666</u>	<u>5,517</u>	<u>8,801</u>	<u>1,673,387</u>	<u>1,509,502</u>
Net increase (decrease)	1,190,574	202,676	1,758	8,361	1,403,369	1,427,814
Net assets held in trust for Pension Benefits						
Beginning of year	19,770,825	2,461,222	43,498	103,825	22,379,370	20,951,556
End of year	<u>\$20,961,399</u>	<u>\$ 2,663,898</u>	<u>\$ 45,256</u>	<u>\$ 112,186</u>	<u>\$23,782,739</u>	<u>\$22,379,370</u>

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

South Carolina Retirement Systems

Notes to Financial Statements

I. Basis of Presentation and Summary of Significant Accounting Policies

Description of the Entity

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

Pension Trust Funds

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

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

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

Plan Descriptions

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

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

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

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

A summary of information related to participating employers and active members as of June 30, 2004, follows (dollar amounts expressed in thousands):

	<u>State*</u>	<u>School</u>	<u>Other</u>	<u>Total</u>
SCRS				
Number of Employers	109	97	557	763
Annual Covered Payroll	\$ 1,927,286	\$ 2,634,687	\$ 1,423,356	\$ 5,985,329
Average Number of Contributing Members	57,566	83,421	49,784	190,771
PORS				
Number of Employers	46	4	264	314
Annual Covered Payroll	\$ 293,329	\$ 147	\$ 485,007	\$ 778,483
Average Number of Contributing Members	10,032	6	14,390	24,428
GARS				
Number of Employers	2			2
Annual Covered Payroll	\$ 3,179			\$ 3,179
Number of Elected Positions	170			170
JSRS				
Number of Employers	2			2
Annual Covered Payroll	\$ 14,190			\$ 14,190
Average Number of Contributing Members	128			128

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

Based upon the most recent, complete actuarial valuation (July 1, 2003), membership in the Systems was as follows:

	SCRS	PORS	GARS*	JSRS
Retirees and beneficiaries currently receiving benefits	84,420	8,427	294	130
Terminated members entitled to but not yet receiving benefits	142,245	8,965	68	4
Total active, elected positions, and other special contributing members	<u>185,538</u>	<u>23,871</u>	<u>212</u>	<u>128</u>
Total	<u><u>412,203</u></u>	<u><u>41,263</u></u>	<u><u>574</u></u>	<u><u>262</u></u>

*State Budget and Control Board approval of the July 1, 2003, GARS actuarial valuation is pending.

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

Membership

SCRS

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

State ORP

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

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

State ORP Activity
Year Ended June 30, 2004
(Amounts expressed in thousands)

Covered Payroll	\$ 386,470
Employer Contributions Retained by SCRS	9,855
Group Life Contributions Retained by SCRS	580
Employee Contributions to Investment Providers	23,188
Employer Contributions to Investment Providers	19,323

PORS

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

GARS

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

JSRS

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

Pension Benefits

SCRS

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

PORS

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

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

GARS

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

JSRS

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

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

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

Summary of Significant Accounting Policies

Fund Structure

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

Basis of Accounting

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

Administrative Expenses

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

Cash and Cash Equivalents

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

Contributions

Employee and employer contributions are reported in the period in which the contributions are due. Substantially all contributions receivable are collected within 30 days of year-end. Under certain conditions new employers entering the System are allowed up to 10 years to remit matching employer contributions resulting from their employee's purchase of prior service credits. Interest is assessed annually on the unpaid balance of these accounts.

Investments

Investments are reported at fair value. Short term securities categorized as cash or cash equivalents are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price. Investment income consists of realized and unrealized appreciation (depreciation) in the fair value of investments, interest

income earned, dividend income earned, less investments expense, plus income from securities lending activities, less deductions for security lending expenses. Securities and securities transactions are reflected in the financial statements on a trade-date basis.

Capital Assets

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

II. Contributions and Reserves

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

Plan members are required to contribute at the following statutorily established rates:

SCRS	6% of earnable compensation
PORS	6.5% of earnable compensation
GARS	10% of earnable compensation
JSRS	7% of earnable compensation

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

In accordance with provisions of the 2003-2004 State Appropriations Act, an additional employer contribution surcharge of 3.30 percent of covered payroll was added to the contribution rate applicable to State and local governments, and Public School entities covered by the Employee Insurance Program. This assessment is for the purpose of providing retiree health and dental insurance coverage and is not a part of the actuarially established contribution rates. Functioning as a collecting agent, SCRS and PORS collected (amounts expressed in thousands) \$180,423 and \$9,957 respectively in retiree insurance surcharges (\$12,739 of which was applicable to the State ORP) and remitted these funds to the Employee Insurance Program.

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

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

The Employer Fund is the fund to which all employer retirement contributions and investment earnings of the Employee and Employer Funds are credited.

Interest earnings allocated to individual member accounts in the Employee Fund are transferred from the Employer Fund. At retirement, accumulated employee contributions and interest are transferred from the Employee Fund to the Employer Fund. All annuities of the Systems are paid from the Employer Fund. Administrative expenses are paid from this fund.

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

this fund. Administrative expenses are paid from this fund.

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

Balances in the respective reserves at June 30, 2004, were as follows (amounts expressed in thousands):

	SCRS	PORS	GARS	JSRS
Employee Fund	\$ 4,750,077	\$ 548,699	\$ 8,485	\$ 17,640
Employer Fund	16,100,052	2,070,470	36,771	94,546
Group Life Insurance Fund	111,270	20,550		
Accidental Death Fund		24,179		
	<u>\$ 20,961,399</u>	<u>\$ 2,663,898</u>	<u>\$ 45,256</u>	<u>\$ 112,186</u>

III. Deposits and Investments

Deposits

As prescribed by statute, the State Treasurer is the custodian of all deposits and is the investment manager of all fixed income investments of the Systems. As custodian, the State Treasurer is responsible for securing all deposits held by banks or savings and loan associations. These deposits must be secured by deposit insurance, surety bonds, collateral securities, or letters of credit to protect the State against loss in the event of insolvency or liquidation of the institution or for any other cause. All deposits are required to be insured or collateralized with securities held by the State or its agent in the State Treasurer's name as custodian. Category 1 deposits are insured or collateralized with securities held by the Systems or by its agent in the Systems' name. Category 2 deposits are collateralized with securities held by the pledging financial institution's trust department or agent in the Systems' name. Category 3 deposits are uncollateralized. The carrying amount of the Systems' deposits at June 30, 2004, by credit risk was as follows (amounts expressed in thousands):

	Risk Category 1	Risk Category 2	Risk Category 3	Total Deposits
SCRS	\$ 15,786	None	\$ 100,836	\$ 116,622
PORS	770		12,058	12,828
GARS	4		232	236
JSRS	5		519	524
Totals	<u>\$ 16,565</u>		<u>\$ 113,645</u>	<u>\$ 130,210</u>

During fiscal year 2004, the Systems' highest balance under category 3 was approximately \$159,260,000.

Investments

The Systems may invest in a variety of instruments including obligations of the United States and its agencies and securities fully guaranteed by the United States, certain corporate obligations, certain shares of Federal savings and loan associations and State Chartered savings and loan associations, collateralized repurchase agreements, and equity securities. Governmental accounting standards require that the investments reported as of the balance sheet date be categorized according to the level of credit risk associated with the Systems' custodial arrangements at that time. The level of credit risk is defined as follows: Category 1 – insured and registered, or securities held by the Systems or in the Systems' name; Category 2 – uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Systems' name; and Category 3 – uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Systems' name.

The tables on pages 15-18 present the credit risk and fair value of investments (amounts expressed in thousands) by system and type at June 30, 2004. For purposes of classification in these tables, a security is a transferable financial instrument that evidences ownership or creditorship. Investments included in the "Equities - S&P 500 Index," "Equities - Russell 2000 Index," and "Equities - Barclays Global Investors Alpha Tilts Fund" are common trust funds and are not considered securities for purposes of credit risk classification.

South Carolina Retirement System

<u>INVESTMENTS</u>	<u>INVESTMENT RISK CATEGORY</u>			<u>June 30, 2004</u> <u>Fair Value</u>	<u>June 30, 2003</u> <u>Fair Value</u>
	1	2	3		
Investments - categorized:					
Short term securities	\$ 569,987	None	None	\$ 569,987	
U.S. Government securities:					
Unloaned securities	1,036,463			1,036,463	\$ 1,207,220
On securities loan-noncash collateral	6,272			6,272	32,908
U.S. Government agencies:					
Unloaned securities	295,988			295,988	251,362
On securities loan-noncash collateral	71,299			71,299	
Corporate bonds:					
Unloaned securities	3,820,484			3,820,484	4,431,183
Financial & other	2,046,082			2,046,082	2,331,371
Convertible bonds:					
Unloaned securities	2,858			2,858	2,628
Common stock:					
Unloaned securities	3,160,423			3,160,423	2,359,930
On securities loan-noncash collateral	9			9	
Convertible Preferred stock	361			361	345
Total - categorized	<u>\$ 11,010,226</u>			<u>11,010,226</u>	<u>10,616,947</u>
 Investments - not categorized:					
Common trust funds:					
Equities - S&P 500 Index Fund				4,139,819	3,467,855
Equities - Russell 2000 Index Fund				263,161	57,624
Equities - Barclays Global Investors Alpha Tilts Fund				299,860	
Investments held by broker-dealers under securities loans with cash collateral:					
U.S. Government securities				500,485	754,569
U.S. Government agencies				1,324,878	1,329,159
Corporate bonds				121,075	180,597
Convertible bonds					2,092
Common stock				1,246,081	1,148,354
Total - not categorized				<u>7,895,359</u>	<u>6,940,250</u>
 Total investments				 18,905,585	 17,557,197
 Securities lending cash collateral invested			 \$ 3,272,155	 <u>3,272,155</u>	 <u>3,535,984</u>
 Total			 \$ 3,272,155	 <u>\$ 22,177,740</u>	 <u>\$ 21,093,181</u>

Police Officers Retirement System

<u>INVESTMENTS</u>	<u>INVESTMENT RISK CATEGORY</u>			<u>June 30, 2004</u> <u>Fair Value</u>	<u>June 30, 2003</u> <u>Fair Value</u>
	1	2	3		
Investments - categorized:					
Short term securities	\$ 110,097	None	None	\$ 110,097	
U.S. Government securities:					
Unloaned securities	104,439			104,439	\$ 103,580
On securities loan-noncash collateral	25,585			25,585	433
U.S. Government agencies:					
Unloaned securities	90,249			90,249	115,456
On securities loan-noncash collateral	2,954			2,954	
Corporate bonds:					
Unloaned securities	458,517			458,517	500,915
Financial & other	263,246			263,246	254,065
Convertible bonds:					
Unloaned securities	348			348	320
Common stock:					
Unloaned securities	376,567			376,567	277,138
On securities loan-noncash collateral	1			1	
Convertible Preferred stock	44			44	42
Total - categorized	\$ 1,432,047			1,432,047	1,251,949
 Investments - not categorized:					
Common trust funds:					
Equities - S&P 500 Index Fund				490,120	409,717
Equities - Russell 2000 Index Fund				30,517	6,333
Equities - Barclays Global Investors Alpha Tilts Fund				35,501	
Investments held by broker-dealers under securities loans with cash collateral:					
U.S. Government securities				34,810	92,783
U.S. Government agencies				205,835	81,073
Corporate bonds				6,402	24,878
Convertible bonds					255
Common stock				151,565	139,938
Total - not categorized				954,750	754,977
 Total investments				2,386,797	2,006,926
 Securities lending cash collateral invested			\$ 407,560	407,560	352,687
 Total			\$ 407,560	\$ 2,794,357	\$ 2,359,613

General Assembly Retirement System

<u>INVESTMENTS</u>	<u>INVESTMENT RISK CATEGORY</u>			<u>June 30, 2004</u>	<u>June 30, 2003</u>
	1	2	3	<u>Fair Value</u>	<u>Fair Value</u>
Investments - categorized:					
U.S. Government securities:					
Unloaned securities	\$ 601	None	None	\$ 601	\$ 1,202
On securities loan-noncash collateral	530			530	
U.S. Government agencies:					
Unloaned securities	2,665			2,665	2,331
Corporate bonds:					
Unloaned securities	8,633			8,633	10,449
Financial & other	3,865			3,865	4,215
Convertible bonds:					
Unloaned securities	6			6	5
Common stock:					
Unloaned securities	7,420			7,420	5,411
Convertible Preferred stock	1			1	1
Total - categorized	<u>\$ 23,721</u>			<u>\$ 23,721</u>	<u>\$ 23,614</u>
Investments - not categorized:					
Common trust funds:					
Equities - S&P 500 Index Fund				9,510	7,991
Equities - Russell 2000 Index Fund				633	154
Equities - Barclays Global Investors Alpha Tilts Fund				689	
Investments held by broker-dealers under securities loans with cash collateral:					
U.S. Government securities				797	2,814
U.S. Government agencies				1,082	1,437
Corporate bonds				1,170	1,459
Convertible bonds					5
Common stock				2,744	2,573
Total - not categorized				<u>16,625</u>	<u>16,433</u>
Total investments				40,346	40,047
Securities lending cash collateral invested			\$ 5,979	<u>5,979</u>	<u>8,633</u>
Total			<u>\$ 5,979</u>	<u>\$ 46,325</u>	<u>\$ 48,680</u>

Judges and Solicitors Retirement System

<u>INVESTMENTS</u>	<u>INVESTMENT RISK CATEGORY</u>			<u>June 30, 2004</u>	<u>June 30, 2003</u>
	1	2	3	<u>Fair Value</u>	<u>Fair Value</u>
Investments - categorized:					
U.S. Government securities:					
Unloaned securities	\$	42	None	\$	42
On securities loan-noncash collateral		318		318	\$
U.S. Government agencies:					
Unloaned securities		6,834		6,834	6,265
On securities loan-noncash collateral		97		97	
Corporate bonds:					
Unloaned securities		25,107		25,107	28,381
Financial & other		9,150		9,150	9,621
Convertible bonds:					
Unloaned securities		15		15	14
Common stock:					
Unloaned securities		16,258		16,258	11,867
Convertible Preferred stock		2		2	2
Total - categorized	\$	57,823		57,823	57,319
Investments - not categorized:					
Common trust funds:					
Equities - S&P 500 Index Fund				21,278	17,809
Equities - Russell 2000 Index Fund				1,314	268
Equities - Barclays Global Investors Alpha Tilts Fund				1,541	
Investments held by broker-dealers under securities loans with cash collateral:					
U.S. Government securities				1,160	2,010
U.S. Government agencies				4,481	5,691
Corporate bonds				540	1,089
Convertible bonds					11
Common stock				6,480	6,077
Total - not categorized				36,794	32,955
Total investments				94,617	90,274
Securities lending cash collateral invested			\$	13,055	15,589
Total			\$	107,672	\$
				105,863	

Summary for South Carolina Retirement Systems

<u>INVESTMENTS</u>	<u>INVESTMENT RISK CATEGORY</u>			<u>June 30, 2004</u> <u>Fair Value</u>	<u>June 30, 2003</u> <u>Fair Value</u>
	1	2	3		
Investments - categorized:					
Short term securities	\$ 680,084	None	None	\$ 680,084	
U.S. Government securities:					
Unloaned securities	1,141,545			1,141,545	\$ 1,313,171
On securities loan-noncash collateral	32,705			32,705	33,341
U.S. Government agencies:					
Unloaned securities	395,736			395,736	375,414
On securities loan-noncash collateral	74,350			74,350	
Corporate bonds:					
Unloaned securities	4,312,741			4,312,741	4,970,928
Financial & other	2,322,343			2,322,343	2,599,272
Convertible bonds:					
Unloaned securities	3,227			3,227	2,967
Common stock:					
Unloaned securities	3,560,668			3,560,668	2,654,346
On securities loan-noncash collateral	10			10	
Convertible Preferred stock	408			408	390
Total - categorized	<u>\$ 12,523,817</u>			<u>\$ 12,523,817</u>	<u>\$ 11,949,829</u>
Investments - not categorized:					
Common trust funds:					
Equities - S&P 500 Index Fund				4,660,727	3,903,372
Equities - Russell 2000 Index Fund				295,625	64,379
Equities - Barclays Global Investors Alpha Tilts Fund				337,591	
Investments held by broker-dealers under securities loans with cash collateral:					
U.S. Government securities				537,252	852,176
U.S. Government agencies				1,536,276	1,417,360
Corporate bonds				129,187	208,023
Convertible bonds					2,363
Common stock				1,406,870	1,296,942
Total - not categorized				<u>8,903,528</u>	<u>7,744,615</u>
Total investments				21,427,345	19,694,444
Securities lending cash collateral invested			\$ 3,698,749	<u>3,698,749</u>	<u>3,912,893</u>
Total			<u>\$ 3,698,749</u>	<u>\$ 25,126,094</u>	<u>\$ 23,607,337</u>

Certain short-term, highly liquid securities, which were insured or registered by the Systems or in the Systems' name (investment credit risk category 1), with an original maturity of three months or less are considered cash equivalents in accordance with Governmental Accounting Standards Board Statement 9. These investments (amounts expressed in thousands) at June 30, 2004, were composed of the following:

Cash Equivalents

	Repurchase Agreements	Commercial Paper	U.S. Government Agency Discount Notes	Total	Total 2003
SCRS	\$ 2,139,800	\$ 260,078		\$ 2,399,878	\$ 2,412,238
PORS	174,380	54,564	\$ 9,969	238,913	426,470
GARS	4,425			4,425	3,031
JSRS	15,980			15,980	12,383
Totals	<u>\$ 2,334,585</u>	<u>\$ 314,642</u>	<u>\$ 9,969</u>	<u>\$ 2,659,196</u>	<u>\$ 2,854,122</u>

The Systems maintains a portfolio of short-term securities in order to actively manage all funds waiting to be placed in a more permanent investment. As of June 30, 2003, all short-term securities had an original maturity of three months or less and were classified as cash equivalents. As of June 30, 2004, the Systems held the following short-term investments with maturities of less than one year (amounts expressed in thousands):

Short-term Securities

	U.S. Government Agency Discount Notes	Commercial Paper	Total	Total 2003
SCRS	\$ 525,076	\$ 44,911	\$ 569,987	\$ -
PORS	95,383	14,714	110,097	-
Totals	<u>\$ 620,459</u>	<u>\$ 59,625</u>	<u>\$ 680,084</u>	<u>\$ -</u>

Effective May 26, 1998, legislation was passed implementing the 1996 public vote amending the State Constitution to allow the Retirement Systems to invest in equity securities. This legislation established a five-member investment panel responsible for defining and developing the investment objectives and the types of investments to be purchased. The Act also specified that a maximum of 10 percent of the assets for each system may be invested in equities annually until a maximum of 40 percent of assets are invested in equities. As of June 30, 2004, the Retirement Systems' assets were invested in equities as follows (amounts expressed in thousands):

Equity Investments

	<u>Common Trust Funds</u>			Common Stock	Convertible Preferred Stock	Total Equities	Total 2003
	S&P 500 Index Fund	Russell 2000 Index Fund	Barclays Global Investors Alpha Tilts Fund				
SCRS	\$ 4,139,819	\$ 263,162	\$ 299,860	\$ 4,406,512	\$ 361	\$ 9,109,714	\$ 7,034,108
PORS	490,120	30,517	35,501	528,133	44	1,084,315	833,168
GARS	9,510	633	689	10,164	1	20,997	16,130
JSRS	21,278	1,314	1,541	22,738	2	46,873	36,023
Totals	<u>\$ 4,660,727</u>	<u>\$ 295,626</u>	<u>\$ 337,591</u>	<u>\$ 4,967,547</u>	<u>\$ 408</u>	<u>\$ 10,261,899</u>	<u>\$ 7,919,429</u>

The Systems retains a consultant to provide investment consulting services necessary to fulfill the duties for investing in equity securities. As of June 30, 2004, 14 individual agreements were in place between the Systems and equity investment managers.

On June 30, 2004, the Systems held collateralized mortgage obligations (CMOs) in its portfolios. The CMOs in these portfolios consist of the planned amortizations class-1 (PAC-1) tranche of these issues. The PAC-1 tranche CMO structure securities were entered into for several reasons: (1) to protect the Retirement Systems' portfolios from principal prepayment risk during an environment of declining interest rates, (2) to provide incremental yield above that available on corporate securities with similar terms, (3) to provide diversification in the portfolios, (4) to maintain the high quality of government-sponsored credits in the portfolios, and (5) to utilize the estimated future term cash flows provided by these securities to match the term of the liabilities of the Retirement Systems. These securities are all rated AAA by the major rating agencies and the PAC-1 structure is a highly marketable security.

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

Collateral Mortgage Obligations (CMOs)

	June 30, 2004	June 30, 2003
	<u>Fair Value</u>	<u>Fair Value</u>
SCRS	\$ 361,563	\$ 428,718
PORS	14,857	15,219
GARS	281	511
JSRS	222	404
Totals	<u>\$ 376,923</u>	<u>\$ 444,852</u>

On June 30, 2004, the Systems also held asset-backed securities in its portfolios. These securities had an average life of one to three years with a legal final maturity of two to five years. These securities represent an undivided ownership interest in a trust consisting of auto loan receivables. During fiscal year 2004, additional holdings were added to this category as an alternative to cash investments with an average life of one year. These securities are rated AAA by the major rating agencies. In addition, under the asset-backed securities category, the Systems held bonds issued by the South Carolina Tobacco Settlement Revenue Management Authority. These securities are rated Baa2/BBB and have an average life of 4.12 years with a legal maturity of 2016.

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

Asset Backed Securities

	June 30, 2004	June 30, 2003
	<u>Fair Value</u>	<u>Fair Value</u>
SCRS	\$ 617,100	\$ 153,144
PORS	119,316	22,596
GARS	1,531	250
JSRS	4,161	1,609
Totals	<u>\$ 742,108</u>	<u>\$ 177,599</u>

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

Corporate Financial Paper

	June 30, 2004	June 30, 2003
	<u>Fair Value</u>	<u>Fair Value</u>
SCRS	\$ 1,067,419	\$ 1,749,509
PORS	129,073	216,250
GARS	2,053	3,454
JSRS	4,767	7,608
Totals	<u>\$ 1,203,312</u>	<u>\$ 1,976,821</u>

Securities Lending

Through a custodial agent, SCRS, PORS, GARS, and JSRS participate in a securities lending program whereby securities are loaned for the purpose of generating additional income to the Systems. The Systems lends securities from its investment portfolios on a collateralized basis to third parties, primarily financial institutions. The market value of the required collateral must initially meet or exceed 102 percent of the market value of the securities loaned, providing a margin against a decline in the market value of the collateral, and requires additional collateral if the collateral value falls below 100 percent. There are no restrictions on the amount of securities that may be loaned. The types of securities available for loan during the year ended June 30, 2004, included U.S. Government securities, U.S. Government agencies, corporate bonds, convertible bonds, and equities. The contractual agreement with the Systems' custodian provides indemnification in the event the borrower fails to return the securities lent or fails to pay the Systems income distribution by the securities' issuers while the securities are on loan. Cash and U.S. Government securities were received as collateral for these loans. The Systems cannot pledge or sell collateral securities without a borrower default. The Systems invest cash collateral received; accordingly, investments made with cash collateral appear as an asset. A corresponding liability is recorded as the Systems must return the cash collateral to the borrower upon the expiration of the loan. All securities loaned can be terminated on demand by either the Systems or the borrower. At year end the average number of days the loans were outstanding ranged from 1 to 43 days. The average weighted maturity of investments made with cash collateral ranged from 18 to 32 days. At June 30, 2004, 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, 2004.

	June 30, 2004					June 30, 2003
	SCRS	PORS	GARS	JSRS	TOTAL	TOTAL
Securities lent for cash collateral:						
U.S. Government securities	\$ 500,485	\$ 34,810	\$ 797	\$ 1,160	\$ 537,252	\$ 852,176
U.S. Government agencies	1,324,878	205,835	1,082	4,481	1,536,276	1,417,360
Corporate bonds	121,075	6,402	1,170	540	129,187	208,023
Convertible bonds						2,363
Common Stock	1,246,081	151,565	2,744	6,480	1,406,870	1,296,942
Total securities lent for cash collateral	3,192,519	398,612	5,793	12,661	3,609,585	3,776,864
Securities lent for noncash collateral:						
Common Stock	9	1			10	
U.S. Government securities	77,571	28,539	530	415	107,055	33,341
Total for securities lent	\$ 3,270,099	\$ 427,152	\$ 6,323	\$ 13,076	\$ 3,716,650	\$ 3,810,205
Cash collateral invested as follows:						
Repurchase agreements	\$ 275,538	\$ 41,951	\$ 1,290	\$ 1,836	\$ 320,615	\$ 656,479
Corporate bonds	2,324,621	298,535	4,044	9,919	2,637,119	3,205,732
Funding Agreements	47,711	2,157	39	92	49,999	
Asset Backed Securities	103,260	4,313	78	185	107,836	
Bank Notes	521,025	60,604	528	1,023	583,180	
Commercial Paper						50,682
Total for cash collateral invested	3,272,155	407,560	5,979	13,055	3,698,749	3,912,893
Securities received as collateral:						
U.S. Government securities	95,531	30,484	563	451	127,029	35,213
Total for securities collateral invested	\$ 3,367,686	\$ 438,044	\$ 6,542	\$ 13,506	\$ 3,825,778	\$ 3,948,106

IV. Capital Assets

Capital assets at June 30, 2004, consist of the following amounts (expressed in thousands). There were no additions or dispositions of capital assets during the year.

	<u>SCRS</u>	<u>PORS</u>	<u>GARS</u>	<u>JSRS</u>	<u>TOTAL</u>	<u>TOTAL 2003</u>
Land	\$ 524	\$ 54	\$ 1	\$ 3	\$ 582	\$ 582
Building	4,279	437	13	20	4,749	4,749
Total Capital Assets	4,803	491	14	23	5,331	5,331
Less: Accumulated Depreciation	1,259	129	4	6	1,398	1,279
Net Capital Assets	\$ 3,544	\$ 362	\$ 10	\$ 17	\$ 3,933	\$ 4,052

V. Transfers Between Systems

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

Transfers made during the fiscal year ended June 30, 2004, were as follows (amounts expressed in thousands):

	<u>Transfers to</u>				
	<u>SCRS</u>	<u>PORS</u>	<u>GARS</u>	<u>JSRS</u>	<u>Totals</u>
<u>Transfers from</u>					
SCRS	\$ -	\$ 2,544	\$ -	\$ 133	\$ 2,677
PORS				24	24
GARS	69	1		61	131
JSRS					
Total	\$ 69	\$ 2,545	\$ -	\$ 218	\$ 2,832

The following schedule reflects amounts due to or from other systems as of June 30, 2004, as a result of transfers between systems (amounts expressed in thousands):

	<u>Due to</u>				
	<u>SCRS</u>	<u>PORS</u>	<u>GARS</u>	<u>JSRS</u>	<u>Totals</u>
<u>Due from</u>					
SCRS	\$ -	\$ 608	\$ 2	\$ 12	\$ 622
PORS					
GARS				76	76
JSRS					
Total	\$ -	\$ 608	\$ 2	\$ 88	\$ 698

VI. Related Party Transactions

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

At June 30, 2004, liabilities of approximately \$26.2 million were due to other State departments and agencies and contributions receivable of approximately \$25.5 million were due from other State departments and agencies.

VII. Teacher and Employee Retention Incentive Program

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

A total of 12,593 members were actively participating in the TERI program at June 30, 2004. The activity for this program is reflected in the following schedule:

Schedule of TERI Activity Year Ended June 30, 2004 (Amounts expressed in thousands)

Beginning Liability Balance	\$ 424,906
Additions	300,294
TERI Distributions	(75,815)
Ending Liability Balance	\$ 649,385

VIII. Litigation

Richard Wehle, Jerry Miller, and the Town of Wellford, on behalf of themselves and all others similarly situated v. South Carolina Retirement Systems and South Carolina Budget and Control Board, CA No. 01CP15648.

On September 21, 2001, two employees and an employer filed a putative class action lawsuit against the South Carolina Retirement Systems and the South Carolina Budget and Control Board alleging that the Retirement Systems wrongfully denied benefits to members of the South Carolina Retirement System (SCRS) and the Police Officers Retirement System (PORS) due to alleged misinterpretation of the definition of average final compensation. The plaintiffs further allege that the Retirement Systems are overfunded and have collected excess contributions. The plaintiffs allege that SCRS and PORS collected over \$2 billion and \$500 million respectively, in excess contributions. Plaintiffs seek a declaratory judgment that a benefit was wrongfully denied and/or that excess contributions were collected and request that contributions be reduced in the future. Plaintiffs further seek a refund of over \$2 billion to members and employers. Finally, plaintiffs seek to impose a constructive trust on monies overpaid by plaintiffs and/or wrongfully withheld by the Systems. The Retirement Systems believes that the Systems are providing retirement benefits to members and collecting contributions from employers and members in accordance with current State laws. The case is pending under the original jurisdiction of the Supreme Court of South Carolina. The Supreme Court appointed the Honorable John Kittredge to serve as special referee to find facts and make recommendations to the Court. A trial was held before Judge Kittredge in March 2003. On February 24, 2004, Judge Kittredge issued proposed findings and a recommendation that the plaintiffs' claims be dismissed. The plaintiffs filed exceptions to the recommendation. Briefs have been submitted to the South Carolina Supreme Court. The Retirement Systems anticipates a favorable result. The Systems believes its position is meritorious and will vigorously defend it.

Glenn E. Kennedy v. The South Carolina Retirement System and the South Carolina Budget and Control Board, C.A. No.: 02-CP-36-459.

On October 23, 2002, four members of the Retirement Systems filed an action in the Court of Common Pleas in Newberry County against the South Carolina Retirement Systems and the State Budget and Control Board alleging fraud on the court in an earlier case in which the Supreme Court of South Carolina ruled against these plaintiffs. In the earlier litigation, the plaintiffs argued that the defendants had misinterpreted the definition of average final compensation. In the newly filed case, the plaintiffs ask the Court to set aside the earlier judgment against them as well as for unspecified special and punitive damages. If the plaintiffs successfully re-open the earlier litigation against the Retirement Systems,

plaintiffs will seek to certify a class and will seek damages of approximately \$2 billion. Generally, the \$2 billion sought by the *Kennedy* plaintiffs is based on the same facts under which the plaintiffs in *Wehle* seek \$2 billion and the classes, if certified in these cases, would roughly encompass the same individuals. Accordingly, should the plaintiffs in either *Kennedy* or *Wehle* prevail, the Retirement Systems would not be liable for an additional \$2 billion in the other case. This case will likely be determined based upon the judgment in the *Wehle* case, addressed at left. The Retirement Systems vigorously denies any impropriety and will defend the claims in this case.

IX. Reclassification of Deposit Funds

The deposit schedule reflected in the Deposit section of Note III includes cash reserve funds for the equity portfolio that were held in money market accounts by the custodian; however, in prior years these amounts were classified as repurchase agreements in the cash equivalents schedule located under the Investment section of Note III.

The carrying amounts of these deposits as of June 30, 2004, and June 30, 2003, were as follows (amounts expressed in thousands):

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
SCRS	\$ 100,836	\$ 90,202
PORS	12,058	10,685
GARS	232	206
JSRS	519	453
Totals	<u>\$ 113,645</u>	<u>\$ 101,546</u>

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
SCRS						
7/01/03	\$ 20,197,936	\$ 24,398,931	\$ 4,200,995	82.8%	\$ 6,240,768	67.3%
7/01/02	19,298,174	22,446,574	3,148,400	86.0%	6,147,712	51.2%
7/01/01	18,486,773	21,162,147	2,675,374	87.4%	6,017,537	44.5%
7/01/00	17,286,108	19,414,972	2,128,864	89.0%	5,881,847	36.2%
7/01/99	16,120,513	16,298,438	177,925	98.9%	5,473,759	3.3%
7/01/98	14,946,070	15,952,345	1,006,275	93.7%	5,191,048	19.4%
PORS						
7/01/03	2,511,369	2,744,849	233,480	91.5%	800,394	29.2%
7/01/02	2,351,100	2,527,876	176,776	93.0%	757,393	23.3%
7/01/01	2,197,982	2,324,257	126,275	94.6%	757,335	16.7%
7/01/00	2,008,554	2,095,991	87,437	95.8%	716,749	12.2%
7/01/99	1,844,517	1,898,237	53,720	97.2%	638,086	8.4%
7/01/98	1,684,641	1,733,578	48,937	97.2%	606,426	8.1%
GARS*						
7/01/03	44,682	66,619	21,937	67.1%	3,844	570.8%
7/01/02	43,841	73,046	29,205	60.0%	4,515	646.9%
7/01/01	42,788	68,291	25,503	62.7%	4,761	535.6%
7/01/00	40,730	64,616	23,886	63.0%	4,858	491.7%
7/01/99	38,685	63,501	24,816	60.9%	4,979	498.4%
7/01/98	36,260	60,330	24,070	60.1%	4,810	500.4%
JSRS						
7/01/03	106,114	166,655	60,541	63.7%	14,437	419.3%
7/01/02	100,074	166,440	66,366	60.1%	14,211	467.0%
7/01/01	94,795	159,246	64,451	59.5%	14,109	456.8%
7/01/00	87,536	144,631	57,095	60.5%	13,214	432.1%
7/01/99	81,780	134,272	52,492	60.9%	12,748	411.8%
7/01/98	75,699	124,756	49,057	60.7%	11,564	424.2%

Schedule of Employer Contributions
(Amounts expressed in thousands)

Year Ended June 30,	SCRS		PORS		GARS		JSRS	
	Annual Required Contribution	Percentage Contributed						
2004	\$515,996	100%	\$87,922	100%	\$2,731	100%	\$6,078	100%
2003	512,345	100%	86,563	100%	2,577	100%	6,014	100%
2002	509,044	100%	88,608	100%	2,627	100%	5,993	100%
2001	491,329	100%	93,584	100%	2,510	100%	5,875	100%
2000	455,914	100%	76,267	100%	2,636	100%	5,659	100%
1999	419,918	100%	69,541	100%	2,768	100%	5,485	100%

*State Budget and Control Board approval of the July 1, 2003, GARS actuarial valuation is pending.

South Carolina Retirement Systems Required Supplementary Information (continued)

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

Actuarial Assumptions and Methods

	SCRS	PORS	GARS*	JSRS
Valuation date	07/01/03	07/01/03	07/01/03	07/01/03
Actuarial cost method	Entry age	Entry age	Entry age	Entry age
Amortization period	Level percent open	Level percent open	Level percent closed	Level percent open
Remaining amortization period	25 years	11 years	24 years	27 years
Asset valuation method	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market
Actuarial assumptions:				
Investment rate of return	7.25%	7.25%	7.25%	7.25%
Projected salary increases	4.00% - 8.00%	4.50% - 11.50%	None	3.25%
Includes inflation at	3.00%	3.00%	3.00%	3.00%
Cost-of-living adjustments	None	None	None	3.25%

*State Budget and Control Board approval of the July 1, 2003, GARS actuarial valuation is pending.

South Carolina Retirement Systems
Schedule of Changes in Plan Net Assets
SCRS Pension Trust Fund
Year Ended June 30, 2004
With comparative totals for the year ended June 30, 2003
(Amounts expressed in thousands)

	EMPLOYEE FUND	EMPLOYER FUND	GROUP LIFE FUND	TOTAL	TOTAL 2003
Additions					
Employee contributions					
State department employees	\$ 140,377			\$ 140,377	\$ 141,548
Public school employees	181,066			181,066	179,177
Other political subdivision employees	93,455			93,455	87,600
Employer contributions					
State department employees		\$ 178,352	\$ 3,758	182,110	185,747
Public school employees		226,579	4,563	231,142	229,415
Other political subdivision employees		100,819	1,925	102,744	97,183
Total contributions	<u>414,898</u>	<u>505,750</u>	<u>10,246</u>	<u>930,894</u>	<u>920,670</u>
Investment Income					
Net appreciation (depreciation) in fair value of investments		1,130,981	6,053	1,137,034	926,804
Interest and dividend income		624,951	3,339	628,290	735,974
Investment expense		(20,507)	(113)	(20,620)	(16,776)
Net income from investing activities		<u>1,735,425</u>	<u>9,279</u>	<u>1,744,704</u>	<u>1,646,002</u>
From securities lending activities:					
Securities lending income		50,718	271	50,989	58,898
Securities lending expense		(35,815)	(192)	(36,007)	(42,119)
Net income from securities lending activities		<u>14,903</u>	<u>79</u>	<u>14,982</u>	<u>16,779</u>
Total net investment income		<u>1,750,328</u>	<u>9,358</u>	<u>1,759,686</u>	<u>1,662,781</u>
Supplemental retirement benefits funded by the State		2,328		2,328	2,688
Transfers of contributions from other Systems	69			69	34
Total additions	<u>414,967</u>	<u>2,258,406</u>	<u>19,604</u>	<u>2,692,977</u>	<u>2,586,173</u>
Deductions					
Refunds of contributions to members	66,505			66,505	60,133
Transfers of contributions to other Systems	1,732	945		2,677	1,525
Regular retirement benefits		1,103,336		1,103,336	1,022,993
Deferred retirement benefits		300,294		300,294	240,667
Supplemental retirement benefits		2,328		2,328	2,688
Group life insurance claims			13,515	13,515	14,759
Depreciation		107		107	107
Administrative expense		13,568	73	13,641	12,815
Total deductions	<u>68,237</u>	<u>1,420,578</u>	<u>13,588</u>	<u>1,502,403</u>	<u>1,355,687</u>
Interfund transfers according to statutory requirements					
Contributions by members at retirement	(486,658)	486,658			
Interest credited to members' accounts	262,645	(262,645)			
Net interfund transfers	<u>(224,013)</u>	<u>224,013</u>			
Net increase (decrease)	122,717	1,061,841	6,016	1,190,574	1,230,486
Net assets held in trust for Pension Benefits					
Beginning of year	4,627,360	15,038,211	105,254	19,770,825	18,540,339
End of year	<u>\$ 4,750,077</u>	<u>\$ 16,100,052</u>	<u>\$ 111,270</u>	<u>\$ 20,961,399</u>	<u>\$ 19,770,825</u>

South Carolina Retirement Systems
Schedule of Changes in Plan Net Assets
PORS Pension Trust Fund
Year Ended June 30, 2004
With comparative totals for the year ended June 30, 2003
(Amounts expressed in thousands)

	EMPLOYEE FUND	EMPLOYER FUND	GROUP LIFE FUND	ACCIDENTAL DEATH FUND	TOTAL	TOTAL 2003
Additions						
Employee contributions						
State department employees	\$ 22,434				\$ 22,434	\$ 22,245
Public school employees	33				33	52
Other political subdivision employees	34,135				34,135	33,344
Employer contributions						
State department employees		\$ 32,052	\$ 604	\$ 604	33,260	34,596
Public school employees		16			16	23
Other political subdivision employees		52,733	990	923	54,646	51,944
Total contributions	56,602	84,801	1,594	1,527	144,524	142,204
Investment Income						
Net appreciation (depreciation) in fair value of investments		136,332	1,065	1,231	138,628	96,804
Interest and dividend income		73,221	570	659	74,450	87,546
Investment expense		(2,387)	(19)	(22)	(2,428)	(1,988)
Net income from investing activities		207,166	1,616	1,868	210,650	182,362
From securities lending activities:						
Securities lending income		5,721	45	52	5,818	6,733
Securities lending expense		(4,196)	(33)	(38)	(4,267)	(4,918)
Net income from securities lending activities		1,525	12	14	1,551	1,815
Total net investment income		208,691	1,628	1,882	212,201	184,177
Supplemental retirement benefits funded by the State		72			72	82
Transfers of contributions from other Systems	1,600	945			2,545	1,461
Total additions	58,202	294,509	3,222	3,409	359,342	327,924
Deductions						
Refunds of contributions to members	11,918				11,918	11,452
Transfers of contributions to other Systems	24				24	
Regular retirement benefits		140,317			140,317	124,634
Supplemental retirement benefits		72			72	82
Group life insurance claims			1,555		1,555	1,594
Accidental death benefits				1,072	1,072	955
Depreciation		11			11	11
Administrative expense		1,669	13	15	1,697	1,561
Total deductions	11,942	142,069	1,568	1,087	156,666	140,289
Interfund transfers according to statutory requirements						
Contributions by members at retirement	(43,406)	43,406				
Interest credited to members' accounts	29,532	(29,532)				
Net interfund transfers	(13,874)	13,874				
Net increase (decrease)	32,386	166,314	1,654	2,322	202,676	187,635
Net assets held in trust for Pension Benefits						
Beginning of year	516,313	1,904,156	18,896	21,857	2,461,222	2,273,587
End of year	\$ 548,699	\$ 2,070,470	\$ 20,550	\$ 24,179	\$ 2,663,898	\$ 2,461,222

South Carolina Retirement Systems
Schedule of Changes in Plan Net Assets
GARS Pension Trust Fund
Year Ended June 30, 2004
With comparative totals for the year ended June 30, 2003
(Amounts expressed in thousands)

	EMPLOYEE FUND	EMPLOYER FUND	TOTAL	TOTAL 2003
Additions				
Contributions				
Employee contributions - State departments	\$ 513		\$ 513	\$ 612
Employer contributions - State departments		\$ 2,731	2,731	2,577
Total contributions	<u>513</u>	<u>2,731</u>	<u>3,244</u>	<u>3,189</u>
Investment Income				
Net appreciation (depreciation) in fair value of investments		2,401	2,401	2,115
Interest and dividend income		1,643	1,643	1,891
Investment expense		(47)	(47)	(37)
Net income from investing activities		<u>3,997</u>	<u>3,997</u>	<u>3,969</u>
From securities lending activities:				
Securities lending income		110	110	165
Securities lending expense		(76)	(76)	(129)
Net income from securities lending activities		<u>34</u>	<u>34</u>	<u>36</u>
Total net investment income		<u>4,031</u>	<u>4,031</u>	<u>4,005</u>
Transfers of contributions from other Systems				<u>7</u>
Total additions	<u>513</u>	<u>6,762</u>	<u>7,275</u>	<u>7,201</u>
Deductions				
Refunds of contributions to members				72
Transfers of contributions to other Systems	131		131	55
Regular retirement benefits		5,347	5,347	5,073
Group life insurance claims		8	8	5
Depreciation		1	1	
Administrative expense		30	30	29
Total deductions	<u>131</u>	<u>5,386</u>	<u>5,517</u>	<u>5,234</u>
Interfund transfers according to statutory requirements				
Contributions by members at retirement	(704)	704		
Interest credited to members' accounts	483	(483)		
Net interfund transfers	<u>(221)</u>	<u>221</u>		
Net increase (decrease)	161	1,597	1,758	1,967
Net assets held in trust for Pension Benefits				
Beginning of year	8,324	35,174	43,498	41,531
End of year	<u>\$ 8,485</u>	<u>\$ 36,771</u>	<u>\$ 45,256</u>	<u>\$ 43,498</u>

South Carolina Retirement Systems
Schedule of Changes in Plan Net Assets
JSRS Pension Trust Fund
Year Ended June 30, 2004
With comparative totals for the year ended June 30, 2003
(Amounts expressed in thousands)

	EMPLOYEE FUND	EMPLOYER FUND	TOTAL	TOTAL 2003
Additions				
Contributions				
Employee contributions - State departments	\$ 1,675		\$ 1,675	\$ 1,131
Employer contributions - State departments		\$ 6,078	6,078	6,014
Total contributions	<u>1,675</u>	<u>6,078</u>	<u>7,753</u>	<u>7,145</u>
Investment Income				
Net appreciation (depreciation) in fair value of investments		5,495	5,495	4,531
Interest and dividend income		3,736	3,736	4,290
Investment expense		(104)	(104)	(80)
Net income from investing activities		<u>9,127</u>	<u>9,127</u>	<u>8,741</u>
From securities lending activities:				
Securities lending income		224	224	241
Securities lending expense		(160)	(160)	(187)
Net income from securities lending activities		<u>64</u>	<u>64</u>	<u>54</u>
Total net investment income		<u>9,191</u>	<u>9,191</u>	<u>8,795</u>
Transfers of contributions from other Systems	218		218	78
Total additions	<u>1,893</u>	<u>15,269</u>	<u>17,162</u>	<u>16,018</u>
Deductions				
Refunds of contributions to members				
Regular retirement benefits		8,605	8,605	8,217
Group life insurance claims		124	124	8
Depreciation				1
Administrative expense		72	72	66
Total deductions		<u>8,801</u>	<u>8,801</u>	<u>8,292</u>
Interfund transfers according to statutory requirements				
Contributions by members at retirement	(1,718)	1,718		
Interest credited to members' accounts	920	(920)		
Net interfund transfers	<u>(798)</u>	<u>798</u>		
Net increase (decrease)	1,095	7,266	8,361	7,726
Net assets held in trust for Pension Benefits				
Beginning of year	16,545	87,280	103,825	96,099
End of year	<u>\$ 17,640</u>	<u>\$ 94,546</u>	<u>\$ 112,186</u>	<u>\$ 103,825</u>

Schedule of Administrative Expenses

For the Year Ended June 30, 2004

(Amounts expressed in thousands)

	SCRS	PORS	GARS	JSRS	TOTAL
Personal Services					
Salaries and Wages	\$ 6,435	\$ 801	\$ 14	\$ 34	\$ 7,284
Employee Benefits	1,736	216	4	9	1,965
Contractual Services					
Data Processing Services	1,506	187	3	8	1,704
Medical & Health Services	653	81	2	3	739
Financial Audit	24	3			27
Actuarial Services	213	27	1	1	242
Other Professional Services	151	19		1	171
Legal Services	32	4			36
Operating Expenses					
Facilities Management	401	50	1	2	454
Intergovernmental Services	1,001	125	2	5	1,133
Telephone	117	14		1	132
Insurance	345	43	1	2	391
Postage	340	42	1	2	385
Supplies	163	20		1	184
Other Miscellaneous Expenses	524	65	1	3	593
Total Administrative Expenses	<u>\$ 13,641</u>	<u>\$ 1,697</u>	<u>\$ 30</u>	<u>\$ 72</u>	<u>\$ 15,440</u>

Schedule of Professional Consultant Fees

For the Year Ended June 30, 2004

(Amounts expressed in thousands)

	Professional/Consultant	Nature of Service	Amount Paid
Medical & Health Services	Dr. Jack Shelburg	Medical Board	\$ 6
	Dr. William E. Gause	Medical Board – Chairman	7
	Dr. James England	Medical Board	6
	SC Vocational Rehabilitation	Disability Applications	720
Auditing and Accounting	Rogers & Laban, PA	Financial audit	27
Management Consulting	Gabriel, Roder, Smith & Company	Actuarial services	192
	Buck Consultants	Actuarial services	50
Other Professional Services	Cost Effectiveness Measurements	Benchmarking services	25
	Summit Strategies	Optional Retirement Plan consultants	113
	Psychological & Training Services	Case Evaluations	15
	Joel Leonard/Leonard & Associates	Case Evaluations	17
	University Specialty Clinic	Case Evaluations	1
Legal Services	Nexsen Pruet Jacobs & Pollard	Legal services	7
	Gergel Nickles & Solomon	Legal services	29
			<u>\$ 1,215</u>

Information on investment management and consulting fees can be found in the *Schedule of Investment Expenses* on page 32.

South Carolina Retirement Systems
Schedule of Investment Expenses
Year Ended June 30, 2004
(Amounts expressed in thousands)

	<u>SCRS</u>	<u>PORS</u>	<u>GARS</u>	<u>JSRS</u>	<u>TOTAL</u>
Equity Investment Managers' Fees:					
Alliance Bernstein Institutional Management, Inc.	\$ 909	\$ 108	\$ 2	\$ 5	\$ 1,024
Alliance Capital Management	1,620	195	4	9	1,828
Barclays Global Investors*	170	20		1	191
Benson Associates	1,211	147	3	6	1,367
Fidelity Management Trust Company	1,262	151	3	7	1,423
Flippin, Bruce & Porter, Inc.	991	118	2	5	1,116
Institutional Capital Corporation	1,973	236	4	10	2,223
J.L. Kaplan Associates, LLC	1,393	164	3	7	1,567
Montag & Caldwell, Inc.	985	123	3	5	1,116
State Street Global Advisors Russell 2000 Index Fund	43	5			48
State Street Global Advisors S&P 500 Index Fund	125	15		1	141
Suffolk Capital Management, Inc.**	925	110	2	5	1,042
The Boston Company Asset Management, LLC	1,309	155	3	6	1,473
TimesSquare Capital Management, Inc.	2,032	247	5	10	2,294
Wellington Management Company, LLP	2,130	255	5	11	2,401
Total	<u>17,078</u>	<u>2,049</u>	<u>39</u>	<u>88</u>	<u>19,254</u>
Investment Service Fees:					
Bank Fees	2,940	304	7	13	3,264
Consultant Fees:					
Investment Consultant Fees	<u>602</u>	<u>75</u>	<u>1</u>	<u>3</u>	<u>681</u>
Total Investment Management Fees	<u>\$ 20,620</u>	<u>\$ 2,428</u>	<u>\$ 47</u>	<u>\$ 104</u>	<u>\$ 23,199</u>
Securities Lending Expenses:					
Borrower Rebates	\$ 36,007	\$ 4,267	\$ 76	\$ 160	\$ 40,510
Total Securities Lending Expenses	<u>\$ 36,007</u>	<u>\$ 4,267</u>	<u>\$ 76</u>	<u>\$ 160</u>	<u>\$ 40,510</u>

*Barclays Global Investors was funded April 16, 2004.

**The contract with Suffolk Capital Management, Inc., was terminated April 2004.