FINANCIAL STATEMENTS

SOUTH CAROLINA RETIREMENT SYSTEMS

Columbia, South Carolina

Year Ended June 30, 2006

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State of South Carolina

Office of the State Auditor

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October 12, 2006

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, 2006 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,

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

RHGjr/trb

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South Carolina Retirement Systems

Table of Contents
June 30, 2006

INDEPENDENT AUDITOR'S REPORT 1-2

MANAGEMENT'S DISCUSSION AND ANALYSIS 3-8

FINANCIAL STATEMENTS:
Statement of Plan Net Assets 9
Statement of Changes in Plan Net Assets 10
Notes to Financial Statements 11-27

REQUIRED SUPPLEMENTARY INFORMATION 28-29

SCHEDULE OF CHANGES IN PLAN NET ASSETS – BY SYSTEM 30-34
SCHEDULE OF ADMINISTRATIVE EXPENSES AND
PROFESSIONAL CONSULTANT FEES 35
SCHEDULE OF INVESTMENT EXPENSES 36

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ROGERS & LABAN, PA

CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL ADVISORS

Independent Auditor's Report

Mr. Richard H. Gilbert, Jr., CPA,
Deputy State Auditor
State of South Carolina
Columbia, South Carolina

We have audited the financial statements of the South Carolina Retirement Systems (the "Systems") as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the South Carolina Retirement Systems' management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As described in Note I to the financial statements, the Systems' financial statements are intended to present the financial position and results of operations and cash flows of only that portion of the financial reporting entity of the State of South Carolina that is attributable to the transactions of the System. They do not purport to and do not present the financial position of the State of South Carolina as of June 30, 2006, and changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America, and do not include other agencies, divisions, or component units of the State of South Carolina.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the South Carolina Retirement Systems, as of June 30, 2006, and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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As discussed in Note VIII to the financial statements, the Systems is a party to legal actions claiming amounts due for legal fees and for certain retirement contributions that had been collected inappropriately. The ultimate outcomes of the litigation cannot be presently determined. Accordingly, no provision for any liability has been made in the accompanying financial statements.

Management's Discussion and Analysis on pages 3 to 8 and the required supplementary information on pages 28 and 29 are not a required part of the financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information.

However, we did not audit the information and express no opinion on it. Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The schedule of changes in plan net assets – by system, schedule of administrative expenses, schedule of professional consultant fees, and schedule of investment expenses on pages 30 to 36 are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Rogers & Lalan, PA

September 26, 2006

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Management's Discussion and Analysis

Management offers the following discussion and analysis to provide a narrative introduction to the basic financial statements and an analytical overview of the South Carolina Retirement Systems' financial activities for the fiscal year ended June 30, 2006. This narrative is intended as a supplement and should be read in conjunction with the financial statements.

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

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

Overview of the Financial Statements

The Retirement Systems is a part of the primary government of the State of South Carolina and is included in the comprehensive annual financial report of the state. The Plan's financial statements include the following components:

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

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

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

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

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

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Financial Highlights

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

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Condensed Financial Information

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

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

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

Plan Net Assets
June 30
(Amounts expressed in thousands)

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

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

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

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

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

While the fluctuations in returns between market segments exemplify the need for an optimally diversified investment portfolio, the Retirement Systems' investment performance has been limited in the past by our State constitution and State statute. The General Assembly enacted legislation which established the Retirement System Investment Commission effective October 1, 2005, and set an investment target allocation under which equity investments cannot exceed 70 percent of the portfolio.

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During fiscal year 2006, the total dollar amount of retirement annuities paid increased more than 8 percent when compared with the previous fiscal year. This was due primarily to the continued growth of TERI and the continued effects of 28-year retirement in SCRS. A 3.40 percent cost-of-living adjustment (COLA) granted to SCRS and PORS annuitants effective July 1, 2005, also contributed to the increase in the total annuity expense. The annual COLA is a very important benefit to our retirees and is critical to retiree income; therefore, the General Assembly enacted legislation effective July 1, 2005, which, for SCRS retirees, guaranteed up to a 1 percent COLA and further allowed for additional COLAs that are conditional. Ad hoc COLAs have historically been granted and funded with either unanticipated actuarial gains or an extension of the system's unfunded actuarial accrued liability (UAAL) amortization period. As of the most recent actuarial valuation dated July 1, 2005, the UAAL amortization period for SCRS was 30 years; therefore, any additional ad hoc COLAs in the future may require either additional funding or increased investment returns.

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

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

Funding Status

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

The ratio of actuarial assets to actuarial liabilities provides an indication as to whether sufficient assets are accumulated to pay benefits when due. The greater the level of funding, the larger the ratio of actuarial assets to actuarial accrued liabilities. The most recent actuarial valuations prepared and adopted by the Budget and Control Board, indicate that the funded ratios of four of the five individual plans declined slightly from the previous valuation. Specifically in SCRS, the significant increase in actuarial liabilities due to the plan changes caused a decrease in the funded ratio and in addition, all of the plans continued to recognize losses in market value of investments that occurred in fiscal years 2000 through 2002. The most recent valuation determined that funding levels of all the plans are such that annual contributions are sufficient for the valuation to find the plans in good actuarial condition. The changes in the levels of funding do not affect the availability of fund resources for future use and actuarial projections indicate

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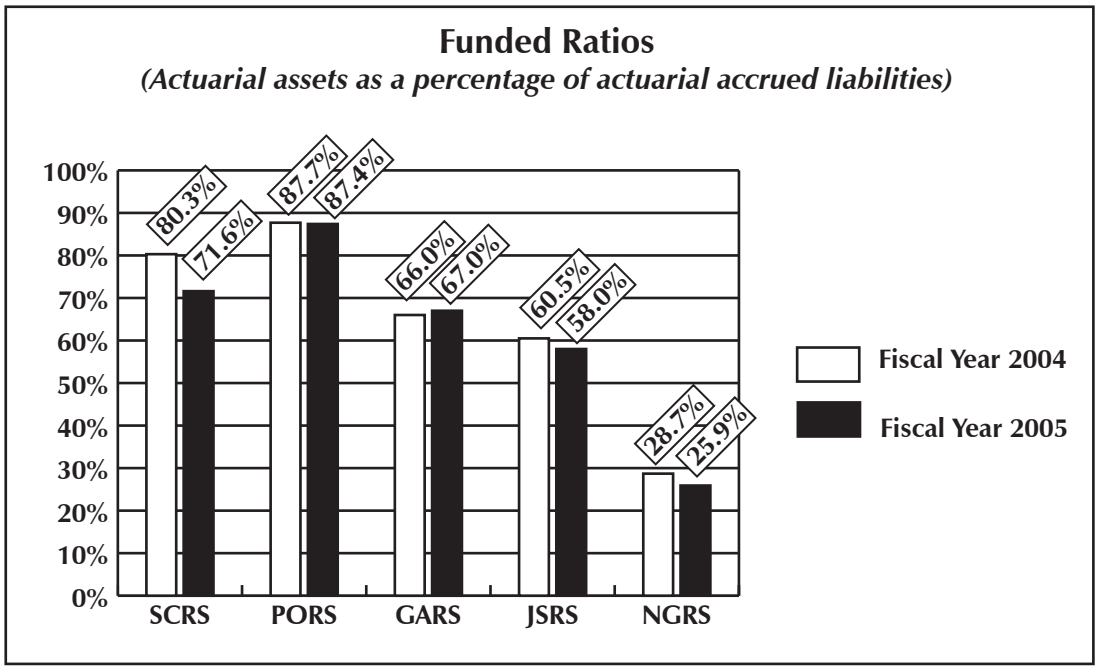
that unfunded liabilities will be amortized and funded within acceptable funding guidelines. The funded ratios of the five plans are presented in the following graph.



Requests for Information

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

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

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

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

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

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

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

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

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South Carolina Retirement Systems
Notes to Financial Statements

I. Basis of Presentation and Summary of Significant Accounting Policies

Description of the Entity

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

Pension Trust Funds

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

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

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

Plan Descriptions

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

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

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

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

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

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

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

[1]Each state agency is considered a separate employer for reporting purposes. Institutions of Higher Education are reported in this category.

[2]Annual covered payroll is not applicable for NGRS because it is a non-contributory plan.

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

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

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

Membership

SCRS

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

State ORP

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

Contributions to the State ORP are at the same rates as SCRS. A direct remittance is required from the employers to the investment providers for the employee contribution (6.25 percent) and a portion of the employer contribution (5 percent). A direct remittance is also required to the SCRS for a portion of the employer contribution (2.55 percent) and a group life contribution (.15 percent), which is retained by the SCRS. The activity for the State ORP is as follows:

State ORP Activity
Year Ended June 30, 2006
(Dollar amounts expressed in thousands)

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

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.

NGRS

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

Pension Benefits

SCRS

A monthly pension is payable at age 65 or with 28 years credited service regardless of age. Reduced pension benefits are payable at age 55 with 25 years of service credit. A member is eligible to receive a deferred annuity at age 60 with five years earned service. Group life insurance benefits are also available to active and retired members with

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at least one year of service, provided their employer participates in the program.

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

PORS

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

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

GARS

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

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

JSRS

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

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

NGRS

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

Summary of Significant Accounting Policies

Fund Structure

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

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Basis of Accounting

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

Administrative Expenses

The State Budget and Control Board's Office of Internal Operations maintains an internal service fund to account for the administrative costs of operating the Systems. All accounting and corresponding disclosures related to administrative expense, which include employee salaries and associated employee benefits, are the responsibility of the internal service fund administered by the Board. Administrative charges of the Retirement Systems include funds transferred to the Investment Commission to fund investment related obligations for the trust funds. Administrative expenses are funded by both employer contributions and investment income and charges are assessed to each of the pension trust funds based on its respective portion of total assets in order to pay for actual expense incurred during the year. For fiscal year 2006, administrative expenses were separately funded by state appropriations to transfer and implement administrative responsibility of the NGRS.

Cash and Cash Equivalents

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

Contributions

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

Investments

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

Capital Assets

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

II. Contributions and Reserves

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

Plan members are required to contribute at statutorily established rates. The rates applicable for fiscal year 2006 follow:

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

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

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

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In accordance with provisions of the 2005-2006 State Appropriations Act, an additional employer contribution surcharge of 3.25 percent of covered payroll was added to the contribution rate applicable to state and local governments, and public school entities covered by the Employee Insurance Program. This assessment is for the purpose of providing retiree health and dental insurance coverage and is not a part of the actuarially established contribution rates for retirement funding purposes. Functioning as a collecting agent, SCRS and PORS collected (amounts expressed in thousands) $198,082 and $11,178 respectively in retiree insurance surcharges ($19,227 of which was applicable to the State ORP) and remitted these funds to the Employee Insurance Program.

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

The **Employer Fund** is credited with all employer retirement contributions and investment earnings of the Employee and Employer Funds. Upon retirement, all member account balances and contributions are transferred to the Employer Fund as all annuities and administrative expenses of the Systems are paid from this fund. Annual state appropriations to the NGRS are also credited to the Employer fund to provide funding of the annual required contribution, payment of annuity benefits and administrative expenses.

The **Employee Fund** is credited with all contributions made by active members of the Systems. Interest is credited to each member's individual account at an annual rate of 4 percent by transferring funds from the Employer Fund to the Employee Fund. At termination of employment prior to retirement, employee contributions and accumulated interest may be refunded from this fund to the member. At retirement, employee contributions and interest are transferred from the Employee Fund to the Employer Fund for subsequent payment of benefits.

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

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

Balances in the respective reserves at June 30, 2006, were as follows (amounts expressed in thousands):

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

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III. Deposits and Investments

Deposit and Investment Risk Disclosures

The tables presented on Pages 18-20 include disclosures of credit and interest rate risk in accordance with Governmental Accounting Standards Board Statement 40 and are designed to inform financial statement users about investment risks which could affect the Systems' ability to meet its obligations. These tables classify investments by risk type, while the financial statements disclose investments by asset class. The table amounts were provided by the custodian bank and may vary from the Statement of Plan Net Assets primarily because the amounts reported include accrued interest receivable.

Custodial Credit Risk

Deposits

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

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

	Carrying Amount	Bank Balance
SCRS	($ 27,373)	$ 21,732
PORS	151	2,238
GARS	1	83
JSRS	(2)	38
NGRS	2	93
Total	($ 27,221)	$ 24,184

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

Investments

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the Systems will not be able to recover the value of the investments or collateral securities that are in the possession of an outside party. Investing for the Systems is governed by Section 11-9-660 of the South Carolina Code of Laws and states that investments may be made in a variety of instruments including obligations of the United States and its agencies and securities fully guaranteed by the United States, certain corporate obligations, collateralized repurchase agreements, and equity securities.

Corporate obligations must bear an investment grade rating by at least two nationally recognized rating services. Collateral held for certificates of deposit or repurchase agreements must be obligations of the United States or investment grade corporate obligations and held by a third party as escrow agent or custodian and of a market value not less than the amount of either the certificate of deposit so secured, including interest, or the amount of the repurchase agreement so collateralized, including interest. At June 30, 2006, all of the Systems' investments were insured or collateralized.

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

Statement of Invested Assets
June 30, 2006
(Amounts expressed in thousands)

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

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Interest Rate Risk

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

South Carolina Retirement Systems
Interest Rate Sensitivity - Effective Duration
June 30, 2006
(Amounts expressed in thousands)

Investment Type	Fair Value	Effective Duration
Fixed Income Investments		
U.S. Government:		
U.S. Government Treasury Notes and Bonds	$ 720,034	4.51
U.S. Government Agencies	739,502	0.75
Other U.S. Government	4,120	8.05
Total U.S. Government	1,463,656	2.62
Mortgage Backed:		
Government Pass-Through	3,109,500	4.81
Collaterized Mortgage Obligations:		
Government CMOs	290,726	4.30
Corporate:		
Corporate Bonds	4,262,336	8.07
Corporate Asset Backed	165,481	6.58
Private Placements	1,224,002	9.86
Total Corporate	5,651,819	8.41
Dollar Denominated Bonds	160,008	8.42
Total Fixed Income Investments	10,675,709	6.46
Short Term Investments		
Commercial Paper	29,685	0.02
Repurchase Agreements	1,722,131	0.00
Total Short Term Investments	1,751,816	0.00
Total Invested Assets	**$ 12,427,525**	
Total Portfolio Effective Duration		**5.55**

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Credit Risk of Debt Securities

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the Systems. The investment policy for credit quality of debt securities states that securities must bear an investment grade rating from at least two of the national rating agencies. Obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk and disclosure is not required. Credit quality of cash reserves must carry a rating of A1/P1/F1 or D1 from at least two nationally recognized rating services. In the event that the rating of a security falls below investment grade, that security may continue to be held contingent upon an evaluation of the longer term investment merits of the security. As of June 30, 2006, the Systems' rated debt investments were rated by Standard & Poor's and are presented below:

South Carolina Retirement Systems
Credit Risk - S&P Quality Ratings
June 30, 2006
(Amounts expressed in thousands)

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

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Concentration of Credit Risk – Investments

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Systems' policy for reducing this risk is to comply with the statute which states that "Except for United States Treasury and Agency obligations, the fixed income portfolio shall contain no more than 5 percent exposure to any single issuer." At June 30, 2006, the Systems had approximately 5.63 percent of its investments in an overnight repurchase agreement with the Bank of America that was fully collateralized by United States Treasury and Agency obligations.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. At June 30, 2006, the Systems did not have any deposits or investments denominated in foreign currencies so this risk does not apply.

Securities Lending

Through a custodial agent, SCRS, PORS, GARS, JSRS, and NGRS participate in a securities lending program whereby securities are loaned for the purpose of generating additional income to the Systems. The Systems lends securities from its investment portfolios on a collateralized basis to third parties, primarily financial institutions. The market value of the required collateral must initially meet or exceed 102 percent of the market value of the securities loaned, providing a margin against a decline in the market value of the collateral, and requires additional collateral if the collateral value falls below 100 percent.

There are no restrictions on the amount of securities that may be loaned. The types of securities available for loan during the year ended June 30, 2006, included U. S. Government securities, U. S. Government agencies, corporate bonds, convertible bonds, and equities. The contractual agreement with the Systems' custodian provides indemnification in the event the borrower fails to return the securities lent or fails to pay the Systems income distribution by the securities' issuers while the securities are on loan. Cash and U.S. Government securities were received as collateral for these loans. The Systems cannot pledge or sell collateral securities without a borrower default. The Systems invest cash collateral received; accordingly, investments made with cash collateral appear as an asset. A corresponding liability is recorded as the Systems must return the cash collateral to the borrower upon the expiration of the loan.

With regard to custodial credit risk, the Systems' cash collateral invested is held by the counterparty and is uninsured. All securities loaned can be terminated on demand by either the Systems or the borrower. At year end the average number of days the loans were outstanding ranged from 1 to 24 days. The average weighted maturity of investments made with cash collateral ranged from 3 to 27 days. At June 30, 2006, there had been no losses resulting from borrower defaults and the Systems had no credit risk exposure to borrowers because the amounts the Systems owed the borrowers exceeded the amounts the borrowers owed the Systems.

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The following table presents the fair value (amounts expressed in thousands) of the underlying securities and the total collateral received for securities on loan at June 30, 2006.

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

Certain short-term, highly liquid securities, which were insured or registered by the Systems or in the Systems' name with an original maturity of three months or less are considered cash equivalents in accordance with Governmental Accounting Standards Board Statement 9. These investments at June 30, 2006, were composed of the following (amounts expressed in thousands):

Cash Equivalents

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

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

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The Systems maintains a portfolio of short-term securities in order to actively manage all funds waiting to be placed in a more permanent investment. As of June 30, 2006, the Systems held the following short-term investments with maturities of less than one year (amounts expressed in thousands):

Short-term Securities

	U.S. Government Agency Discount Notes	Commercial Paper	Total 2006	Total 2005
SCRS	$ 19,958	$ 29,685	$ 49,643	$ 230,054
PORS	4,990		4,990	65,518
Totals	$ 24,948	$ 29,685	$ 54,633	$ 295,572

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

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

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

Equity Investments

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

The Systems retains a consultant to provide investment consulting services necessary to fulfill the duties for investing in equity securities. As of June 30, 2006, individual agreements were in place between the Systems and 20 equity investment managers.

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On June 30, 2006, the Systems held collateralized mortgage obligations (CMOs) in its portfolios. The CMOs in these portfolios consist of the planned amortizations class-1 (PAC-1) and the very accurately defined maturity (VADM) tranches of these issues. The PAC-1 and VADM tranche CMO structure securities were entered into for several reasons: (1) to protect the Retirement Systems' portfolios from princial prepayment risk during an environment of declining interest rates, (2) to provide incremental yield above that available on corporate securities with similar terms, (3) to provide diversification in the portfolios, (4) to maintain the high quality of government-sponsored credits in the portfolios, and (5) to utilize the estimated future term cash flows provided by these securities to match the term of the liabilities of the Retirement Systems. These securities are all rated AAA by the major rating agencies. The PAC-1 and VADM structures are highly marketable securities.

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

Collateral Mortgage Obligations (CMOs)

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

On June 30, 2006, the Systems also held asset-backed securities in its portfolios. These securities had an average life of one to three years with a legal final maturity of two to five years. These securities represent an undivided ownership interest in a trust consisting of auto loan receivables. These securities are rated AAA by the major rating agencies. In addition, under the asset-backed securities category, the Systems held bonds issued by the South Carolina Tobacco Settlement 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, 2006 Fair Value	June 30, 2005 Fair Value
SCRS	$ 137,609	$ 561,790
PORS	24,299	123,544
GARS	621	958
JSRS	1,764	2,682
NGRS	495	-
Totals	$ 164,788	$ 688,974

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

Corporate Financial Paper

	June 30, 2006 Fair Value	June 30, 2005 Fair Value
SCRS	$ 1,112,379	$ 967,113
PORS	145,909	101,556
GARS	2,281	1,417
JSRS	5,469	2,312
NGRS	2,024	-
Totals	$ 1,268,062	$ 1,072,398

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IV. Capital Assets

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

	SCRS	PORS	GARS	JSRS	TOTAL	TOTAL 2005
Land	$ 524	$ 54	$ 1	$ 3	$ 582	$ 582
Building	4,279	437	13	20	4,749	4,749
Total Capital Assets	4,803	491	14	23	5,331	5,331
Less: Accumulated Depreciation	1,473	151	4	7	1,635	1,517
Net Capital Assets	$ 3,330	$ 340	$ 10	$ 16	$ 3,696	$ 3,814

V. Transfers Between Systems

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

Transfers made during the fiscal year ended June 30, 2006, were as follows (amounts expressed in thousands):

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

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

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

VI. Related Party Transactions

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

At June 30, 2006, liabilities of approximately $29.9 million were due to other State departments and agencies, and contributions receivable of approximately $27.6 million were due from other State departments and agencies.

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

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

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

VII. Teacher and Employee Retention Incentive Program

The Teacher and Employee Retention Incentive (TERI) program, implemented effective January 1, 2001, is a deferred retirement option plan available to active SCRS members eligible for service retirement on or after January 1, 2001. When a member enters TERI, the member's status changes from an active member to a retiree even though the employee continues to work at his regular job and earn his regular salary for a period of up to five years. TERI participants who entered the program after June 30, 2005, must continue to contribute at the same rate as active members. Those who entered prior to July 1, 2005, make no employee contributions while participating in TERI. No additional service credit is earned during this period and participants are ineligible for disability retirement benefits. During the TERI participation period, the retiree's monthly benefits are accrued and accumulate in the trust account. Upon the termination of employment or at the end of the TERI period (whichever is earlier), the retiree may elect to roll over his funds into a qualified, tax-sheltered, retirement plan or to receive a single-sum distribution (or a combination thereof). No interest is paid on the participant funds accumulated in the TERI account.

A total of 10,025 members were actively participating in the TERI program at June 30, 2006. The activity for this program is reflected in the following schedule:

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

Beginning Liability Balance	$ 884,776
Additions	321,374
TERI Distributions	(535,623)
Ending Liability Balance	$ 670,527

VIII. Litigation

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

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

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

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

This is a putative class action case, filed on August 9, 2005, alleging that provisions in Act 153 requiring retirees who have returned to covered employment in the Police Officers Retirement System and the South Carolina Retirement System to make employee contributions are unconstitutional and illegal. Specifically, the plaintiffs allege that the provisions of Act 153 requiring retirees who have returned to covered employment to make contributions impairs contractual rights, constitutes an unlawful taking of property, and violates due process. Plaintiffs seek a declaration that provisions in Act 153 affecting members who retired and returned to covered employment prior to July 1, 2005, are unconstitutional, an injunction enjoining the defendants from collecting employee contributions from plaintiffs, and a refund of all contributions paid by working retirees under Act 153, including attorneys' fees. If the plaintiffs were to prevail, the South Carolina Police Officers Retirement System estimates its potential loss to be $2.15 million for fiscal year 2006. (To the extent this case covers the South Carolina Retirement System, the class for Arnold and the potential class of retirees who have returned to covered employment in Layman [described above] would be the same. To the extent these cases cover the same class members in the South Carolina Retirement System, the defendants would only be liable for approximately $12.5 million in both cases. The defendants believe their defense is meritorious and will vigorously contest the case.

IX. Refund of TERI Contributions

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

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

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

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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						
7/01/05	$ 21,625,510	$ 30,217,471	$ 8,591,961	71.6%	$ 6,356,489	135.2%
7/01/04	20,862,659	25,977,852	5,115,193	80.3%	6,180,599	82.8%
7/01/03	20,197,936	24,398,931	4,200,995	82.8%	6,240,768	67.3%
7/01/02	19,298,174	22,446,574	3,148,400	86.0%	6,147,712	51.2%
7/01/01	18,486,773	21,162,147	2,675,374	87.4%	6,017,537	44.5%
7/01/00	17,286,108	19,414,972	2,128,864	89.0%	5,881,847	36.2%
PORS						
7/01/05	2,774,606	3,173,930	399,324	87.4%	850,610	46.9%
7/01/04	2,616,835	2,984,584	367,749	87.7%	822,448	44.7%
7/01/03	2,511,369	2,744,849	233,480	91.5%	800,394	29.2%
7/01/02	2,351,100	2,527,876	176,776	93.0%	757,393	23.3%
7/01/01	2,197,982	2,324,257	126,275	94.6%	757,335	16.7%
7/01/00	2,008,554	2,095,991	87,437	95.8%	716,749	12.2%
GARS						
7/01/05	46,316	69,161	22,845	67.0%	3,853	592.9%
7/01/04	45,087	68,332	23,245	66.0%	3,839	605.5%
7/01/03	44,682	66,619	21,937	67.1%	3,844	570.8%
7/01/02	43,841	73,046	29,205	60.0%	4,515	646.9%
7/01/01	42,788	68,291	25,503	62.7%	4,761	535.6%
7/01/00	40,730	64,616	23,886	63.0%	4,858	491.7%
JSRS						
7/01/05	118,888	204,847	85,959	58.0%	15,465	555.8%
7/01/04	112,016	185,052	73,036	60.5%	14,870	491.2%
7/01/03	106,114	166,655	60,541	63.7%	14,437	419.3%
7/01/02	100,074	166,440	66,366	60.1%	14,211	467.0%
7/01/01	94,795	159,246	64,451	59.5%	14,109	456.8%
7/01/00	87,536	144,631	57,095	60.5%	13,214	432.1%
NGRS						
6/30/05	12,151	46,985	34,835	25.9%	N/A	N/A
6/30/04	13,567	47,281	33,714	28.7%	N/A	N/A
6/30/02	12,608	44,678	32,069	28.2%	N/A	N/A
6/30/00*	11,089	43,427	32,338	25.5%	N/A	N/A
6/30/98	8,640	41,478	32,839	20.8%	N/A	N/A
6/30/96	6,259	36,756	30,497	17.0%	N/A	N/A

*As of April 30, 2000

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South Carolina Retirement Systems
Required Supplementary Information (continued)

Schedule of Employer Contributions
(Amounts expressed in thousands)

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

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

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

Actuarial Assumptions and Methods

	SCRS	PORS	GARS	JSRS	NGRS
Valuation date	07/01/05	07/01/05	07/01/05	07/01/05	06/30/05
Actuarial cost method	Entry age	Entry age	Entry age	Entry age	Entry age
Amortization period	Level percent open	Level percent open	Level percent closed	Level percent open	Level dollar open
Remaining amortization period	30 years	15 years	20 years	36 years	30 years
Asset valuation method	5-year smoothed market	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%	7.25%
Projected salary increases	4.00% - 8.00%	4.50% - 11.50%	None	3.25%	None
Includes inflation at	3.00%	3.00%	3.00%	3.00%	4.25%
Cost-of-living adjustments	Automatic 1%[2]	None	None	3.25%	None

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

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

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

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

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

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

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

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

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

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South Carolina Retirement Systems
Schedule of Changes in Plan Net Assets
NGRS Pension Trust Fund
Year Ended June 30, 2006[1]
(Amounts expressed in thousands)

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

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

[2]Contributions for fiscal year 2006 were received prior to January 1, 2006, when the Retirement Systems assumed administration of the NGRS.

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Schedule of Administrative Expenses
For the Year Ended June 30, 2006
(Amounts expressed in thousands)

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

Schedule of Professional Consultant Fees
For the Year Ended June 30, 2006
(Amounts expressed in thousands)

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

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

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

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

[1]ClariVest Asset Management, LLC, was funded June 2006.
[2]The contract with J. L. Kaplan Associates, LLC, was terminated May 2006.
[3]Legg Mason Capital Management, Inc., was funded September 2005.
[4]The contract with Montag & Caldwell, Inc., was terminated September 2005.
[5]The contract with Nicholas-Applegate Capital Management, LLC, was terminated June 2006.
[6]Pzena Investment Management, LLC, was funded September 2005.
[7]Sands Capital Management, LP, was funded September 2005.
[8]The contract with The Boston Company Asset Management, LLC, was terminated September 2005.
[9]WCM Investment Management was funded September 2005.

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