

FINANCIAL STATEMENTS

SOUTH CAROLINA RETIREMENT SYSTEMS

Columbia, South Carolina

Year Ended June 30, 2003

South Carolina Retirement Systems

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June 30, 2003

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State of South Carolina



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October 23, 2003

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, 2003 was issued by Rogers & Laban, PA, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

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

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Tom Wagner".

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/trb



ROGERS & LABAN, PA

CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

Independent Auditor's Report

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

We have audited the financial statements of the South Carolina Retirement Systems (the "Systems") as of and for the year ended June 30, 2003, 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 University. They do not purport to and do not present the financial position of the State of South Carolina as of June 30, 2003, 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, 2003, and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Management's Discussion and Analysis on pages 2 to 5 and the required supplementary information on pages 23 and 24 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 25 to 30 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.

The information presented in the Introductory, Investment, Actuarial, and Statistical Sections are presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied to the audit of the basic financial statements and, accordingly, we express no opinion on it.

Rogers & Laban PA

September 29, 2003

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Management's Discussion and Analysis

The following discussion and analysis provides a narrative introduction to the basic financial statements and an analytical overview of the South Carolina Retirement Systems' financial activities for the fiscal year ended June 30, 2003.

Financial Highlights

- Our combined investment return net of expenses for the four pension trust funds administered by the South Carolina Retirement Systems for fiscal year 2003 was 8.9 percent, compared to a combined return of .92 percent for fiscal year 2002. Our investment return exceeded our assumed actuarial investment return of 7.25 percent, which will have a positive effect on the next actuarial valuation of the systems.
- In both fiscal year 2002 and fiscal year 2003, the South Carolina Retirement Systems was recognized by *Pensions & Investments*, The International Newspaper of Money Management, for having the highest one-year investment return of surveyed public pension funds.
- Plan net assets of the four pension trust funds administered by the South Carolina Retirement Systems increased by \$1.42 billion during fiscal year 2003, compared to a decrease of \$111.1 million in fiscal year 2002. This increase was due primarily to the strong performance of our fixed income investments, which contributed to our combined investment return of 8.9 percent for the four pension plans.
- State legislation effective July 1, 2002, expanded eligibility for participation in the State Optional Retirement Program (ORP), which is administered by the South Carolina Retirement System. State ORP is a defined contribution plan that serves as an alternative to membership in the traditional South Carolina Retirement System, which is a defined benefit plan. Expanded State ORP eligibility includes employees hired into full-time permanent positions with state agencies, institutions of higher education, and public school districts. As a result of this legislation, participation in State ORP increased during fiscal year 2003 when compared with the previous fiscal year.
- The deferred retirement option program, also known as the Teacher and Employee Retention Incentive (TERI) program, which was initiated January 1, 2001, continued to experience great popularity among our membership during fiscal year 2003. The amount of assets held in trust for future payments of accrued benefit expense, increased by 85.07 percent during the fiscal year. This increase is a result of both a growth of approximately 2,700 new participants in the program during the fiscal year and the continued accumulation of benefits deferred on a monthly basis for all participants. During fiscal year 2003, a legislative bill was proposed in the SC General Assembly to repeal the TERI program. Although no action was taken on the bill, its introduction contributed to the large number of new participants taking advantage of TERI.
- The number of active members in the South Carolina Retirement Systems decreased in fiscal year 2003 when compared with fiscal year 2002. The change resulted from increased State ORP participation, increased number of retirees returning to work (due in part to TERI participation), and as a result of continued state budget cuts enacted during the fiscal year which resulted in reductions in the number of active employees and teachers.
- The amount of retirement benefits paid as annuities to retired members and beneficiaries (not including TERI expenses) increased 7.34 percent during the current fiscal year. The increase is attributable to continued effects of 28-year retirement, an increase in the number of members electing to retire as a result of retirement incentives and state budget issues and a 1.3 percent cost of living adjustment granted to eligible annuitants effective July 1, 2002.

Overview of the Financial Statements

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

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

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

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

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

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

Condensed Financial Information

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

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

Condensed financial statements are presented on the following page.

Plan Net Assets

(Amounts in thousands)

Assets	2003	2002	% Increase/ Decrease
Cash and Cash Equivalents, Receivables and Prepaid Expenses	\$ 3,173,518	\$ 3,027,811	4.81%
Total Investments, at fair value	19,694,444	18,219,578	8.09%
Securities lending cash collateral invested	3,912,893	3,174,643	23.25%
Property, net of accumulated depreciation	4,052	4,171	(2.85%)
Total Assets	<u>26,784,907</u>	<u>24,426,203</u>	9.66%
Liabilities			
Deferred retirement benefits	424,906	229,590	85.07%
Obligations under securities lending	3,912,893	3,174,643	23.25%
Other accounts payable	67,738	70,414	(3.80%)
Total Liabilities	<u>4,405,537</u>	<u>3,474,647</u>	26.79%
Total Net Assets	<u>\$ 22,379,370</u>	<u>\$ 20,951,556</u>	6.81%

Changes in Plan Net Assets

(Amounts in thousands)

Additions	2003	2002	% Increase/ Decrease
Employee Contributions	\$ 465,709	\$ 472,490	(1.44%)
Employer Contributions	607,499	606,272	0.20%
Investment Income	1,859,758	190,007	878.78%
Other Income	4,350	5,455	(20.26%)
Total Additions	<u>2,937,316</u>	<u>1,274,224</u>	130.52%
Deductions			
Total Annuities	1,405,309	1,278,304	9.94%
Refunds	71,657	75,303	(4.84%)
Group Life	16,366	15,119	8.25%
Administrative & other expenses	16,170	16,643	(2.84%)
Total Deductions	<u>1,509,502</u>	<u>1,385,369</u>	8.96%
Increase (Decrease) in Net Assets	1,427,814	(111,145)	1384.64%
Beginning Net Assets	20,951,556	21,062,701	(0.53%)
Ending Net Assets	<u>\$ 22,379,370</u>	<u>\$ 20,951,556</u>	6.81%

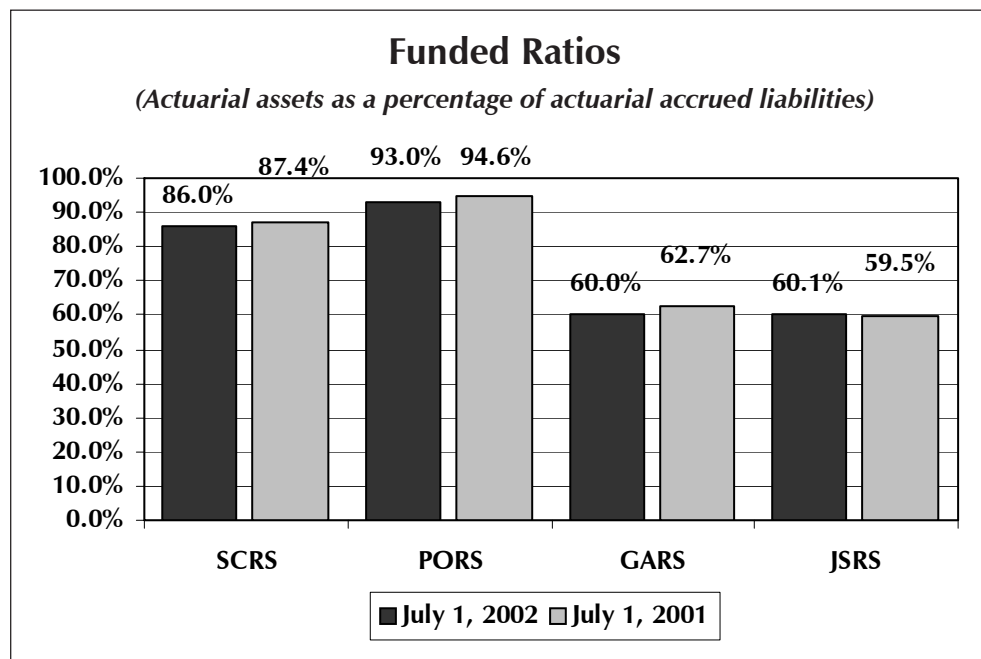
Analysis of Plan's Financial Position and Results of Operations

On a combined basis, plan net assets were \$22.38 billion at June 30, 2003, representing a 6.81 percent increase in net assets from the previous year-end. Because investment income is a major revenue source, the increase in plan net assets is in large part due to our positive investment performance in fiscal year 2003. Our investment rate of return exceeded our assumed actuarial investment return by 1.65 percent, which will have a positive actuarial impact on the systems. In contrast, fiscal year 2002 produced a combined investment return of .92 percent during a time when world equity markets experienced a significant downturn. Fiscal year 2003 witnessed an improving economic environment with historically low interest rates, which contributed to greater returns for our portfolios.

During fiscal year 2003, the total amount of retirement annuities increased by 9.94 percent when compared with the previous fiscal year. This was due primarily to the continued popularity of our deferred retirement option plan, which is also known as the Teacher and Employee Retention Incentive (TERI) program. The TERI program allows a member to accumulate a tax-deferred monthly retirement benefit while continuing to earn a salary from full-time employment. The SCRS holds the accumulated TERI retirement benefits in trust for the member, thus creating a liability for the SCRS. Total annuity expense also increased as a result of a 1.3 percent cost of living adjustment granted to SCRS and PORS annuitants. The continued effects of 28-year retirement in the SCRS system and the impact of retirement incentives offered through covered employers due to budget constraints in fiscal year 2003 also contributed to the increase in expenses.

Funding Status

An overall objective in the funding of any defined benefit retirement system is to accumulate sufficient funds to pay benefits to participants when due. The greater the level of funding, the larger the ratio of actuarial assets to actuarial accrued liability. The most recent actuarial valuation, reported as of July 1, 2002, indicates that the funded ratio of three of the plans, SCRS, PORS and GARS, declined slightly from the previous valuation completed July 1, 2001. The funded ratio in JSRS increased slightly from the previous valuation. Funding levels of all the plans are such that annual contributions are sufficient for the valuation to find the plans in good actuarial condition as of July 1, 2002. The changes in the levels of funding do not affect the availability of fund resources for future use. The funded ratios of the four plans are presented in the following graph.



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
Phone 803-737-6800

South Carolina Retirement Systems

Statement of Plan Net Assets

June 30, 2003

With comparative totals for June 30, 2002

(Amounts expressed in thousands)

	SCRS	PORS	GARS	JSRS	TOTAL	TOTAL 2002
ASSETS						
Cash and cash equivalents	\$ 2,422,406	\$ 427,306	\$ 3,043	\$ 12,386	\$ 2,865,141	\$ 2,595,589
Receivables						
Due from other Systems	49	546	4		599	675
Employee and employer contributions	110,434	12,982	52	324	123,792	134,510
Employer contributions long-term	1,550	17			1,567	2,108
Accrued investment income	144,152	16,171	385	905	161,613	189,118
Unsettled investment sales	18,013	2,055	44	98	20,210	105,660
Total receivables	274,198	31,771	485	1,327	307,781	432,071
Investments, at fair value						
Short-term securities						331,702
United States Government securities	1,994,697	196,796	4,016	3,179	2,198,688	2,269,991
United States Government agencies and government-insured	1,580,521	196,529	3,768	11,956	1,792,774	2,127,008
Corporate bonds	4,611,780	525,793	11,908	29,470	5,178,951	5,345,833
Convertible bonds	4,720	575	10	25	5,330	
Financial and other	2,331,371	254,065	4,215	9,621	2,599,272	2,586,988
Mutual Funds	3,525,479	416,050	8,145	18,077	3,967,751	2,655,788
Common Stock	3,508,284	417,076	7,984	17,944	3,951,288	2,902,268
Convertible Preferred Stock	345	42	1	2	390	
Total investments	17,557,197	2,006,926	40,047	90,274	19,694,444	18,219,578
Prepaid administrative expenses	528	64	1	3	596	151
Securities lending cash collateral invested	3,535,984	352,687	8,633	15,589	3,912,893	3,174,643
Capital assets, net of accumulated depreciation	3,651	373	11	17	4,052	4,171
Total assets	23,793,964	2,819,127	52,220	119,596	26,784,907	24,426,203
LIABILITIES						
Due to other Systems	548	18	11	22	599	675
Accounts payable - unsettled investment purchases	27,600	3,268	62	140	31,070	42,143
Investment fees payable	3,717	453	8	20	4,198	3,509
Obligations under securities lending	3,535,984	352,687	8,633	15,589	3,912,893	3,174,643
Deferred retirement benefits	424,906				424,906	229,590
Due to Employee Insurance Program	27,276	888			28,164	21,178
Benefits Payable	2,242	391			2,633	1,619
Other Accrued Liabilities	866	200	8		1,074	1,290
Total liabilities	4,023,139	357,905	8,722	15,771	4,405,537	3,474,647
Net assets held in trust for Pension Benefits (a schedule of funding progress for each plan is presented on Page 23)	\$19,770,825	\$2,461,222	\$ 43,498	\$ 103,825	\$22,379,370	\$20,951,556

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

South Carolina Retirement Systems

Statement of Changes in Plan Net Assets

Year Ended June 30, 2003

With comparative totals for the year ended June 30, 2002
(Amounts expressed in thousands)

	SCRS	PORS	GARS	JSRS	TOTAL	TOTAL 2002
Additions						
Contributions						
Employee	\$ 408,325	\$ 55,641	\$ 612	\$ 1,131	\$ 465,709	\$ 472,490
Employer	512,345	86,563	2,577	6,014	607,499	606,272
Total contributions	920,670	142,204	3,189	7,145	1,073,208	1,078,762
Investment Income						
Net appreciation (depreciation) in fair value of investments	926,804	96,804	2,115	4,531	1,030,254	(691,295)
Interest and dividend income	735,974	87,546	1,891	4,290	829,701	886,936
Investment expense	(16,776)	(1,988)	(37)	(80)	(18,881)	(14,559)
Net income from investing activities	1,646,002	182,362	3,969	8,741	1,841,074	181,082
From securities lending activities:						
Securities lending income	58,898	6,733	165	241	66,037	57,538
Securities lending expense	(42,119)	(4,918)	(129)	(187)	(47,353)	(48,613)
Net income from securities lending activities	16,779	1,815	36	54	18,684	8,925
Total net investment income	1,662,781	184,177	4,005	8,795	1,859,758	190,007
Supplemental retirement benefits funded by the State	2,688	82			2,770	3,233
Transfers of contributions from other Systems	34	1,461	7	78	1,580	2,222
Total additions	2,586,173	327,924	7,201	16,018	2,937,316	1,274,224
Deductions						
Refunds of contributions to members	60,133	11,452	72		71,657	75,303
Transfers of contributions to other Systems	1,525		55		1,580	2,222
Regular retirement benefits	1,022,993	124,634	5,073	8,217	1,160,917	1,080,930
Deferred retirement benefits	240,667				240,667	193,283
Supplemental retirement benefits	2,688	82			2,770	3,233
Group life insurance claims	14,759	1,594	5	8	16,366	15,119
Accidental death benefits		955			955	858
Depreciation	107	11		1	119	118
Administrative charges	12,815	1,561	29	66	14,471	14,303
Total deductions	1,355,687	140,289	5,234	8,292	1,509,502	1,385,369
Net increase (decrease)	1,230,486	187,635	1,967	7,726	1,427,814	(111,145)
Net assets held in trust for Pension Benefits						
Beginning of year	18,540,339	2,273,587	41,531	96,099	20,951,556	21,062,701
End of year	\$19,770,825	\$ 2,461,222	\$ 43,498	\$ 103,825	\$22,379,370	\$20,951,556

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

South Carolina Retirement Systems

Notes to Financial Statements

I. Basis of Presentation and Summary of Significant Accounting Policies

Description of the Entity

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

Pension Trust Funds

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

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

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

Plan Descriptions

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

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

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

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

A summary of information related to participating employers and members as of June 30, 2003, follows (dollars in thousands):

	<u>State*</u>	<u>School</u>	<u>Other</u>	<u>Total</u>
SCRS				
Number of Employers	110	96	545	751
Annual Covered Payroll	\$ 2,022,054	\$ 2,648,661	\$ 1,368,703	\$ 6,039,418
Average Number of Contributing Members	60,248	84,356	49,420	194,024
PORS				
Number of Employers	46	3	261	310
Annual Covered Payroll	\$ 309,625	\$ 142	\$ 469,336	\$ 779,103
Average Number of Contributing Members	10,410	8	14,266	24,684
GARS				
Number of Employers	2			2
Annual Covered Payroll	\$ 3,262			\$ 3,262
Average Number of Contributing Members	170			170
JSRS				
Number of Employers	2			2
Annual Covered Payroll	\$ 14,241			\$ 14,241
Average Number of Contributing Members	128			128

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

Based upon the most recent, complete actuarial valuation (July 1, 2002), membership in the Systems was as follows:

	SCRS	PORS	GARS	JSRS
Retirees and beneficiaries currently receiving benefits	79,064	7,706	266	126
Terminated members entitled to but not yet receiving benefits	141,313	8,675	68	7
Total active members	<u>189,166</u>	<u>23,963</u>	<u>200</u>	<u>128</u>
Total	<u><u>409,543</u></u>	<u><u>40,344</u></u>	<u><u>534</u></u>	<u><u>261</u></u>

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

Membership

SCRS

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

State ORP

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

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

State ORP Activity
Year Ended June 30, 2003
(Amounts expressed in millions)

Covered Payroll	\$ 324.9
Amount Retained by SCRS	8.8
Employee Contributions to Investment Providers	19.5
Employer Contributions to Investment Providers	16.2

PORS

All police officers with principle job duties of preserving public order, protecting life and property, and detecting crimes in the state; firefighters with principle job duties of preventing or controlling property destruction by fire; magistrates; probate judges; or coroners in full-time, permanent positions; or a peace officer employed by the SC Department of Corrections or the SC Department of Juvenile Justice are eligible for membership in PORS. PORS members must earn at least \$2,000 and devote at least 1,600 hours per fiscal year to this work.

GARS

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

JSRS

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

Pension Benefits

SCRS

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

PORS

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

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

GARS

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

JSRS

A pension benefit is payable at age 70 with 15 years service, age 65 with 20 years service, age 65 with four years in a JSRS position and 25 years other service with the state, 25 years service regardless of age for a judge or 24 years of service for a solicitor regardless of age. A member is eligible to receive a deferred annuity with 12 years service. A group life insurance benefit is also provided to members with at least one year of service.

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

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

Summary of Significant Accounting Policies

Fund Structure

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

Basis of Accounting

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

Administrative Expenses

The State Budget and Control Board's Office of Internal Operations maintains an internal service fund to account for the administrative costs of operating the Systems. This fund assesses administrative charges to each of the pension trust funds based on its respective portion of total assets in order to pay for actual expenses incurred during the year.

Cash and Cash Equivalents

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

Contributions

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

Investments

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

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

Capital Assets

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

II. Contributions and Reserves

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

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

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

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

In accordance with provisions of the 2002-2003 State Appropriations Act, an additional employer contribution surcharge of 3.15 percent of covered payroll was added to the contribution rate applicable to State and local governments, and Public School entities covered by the Employee Insurance Program. This assessment is for the purpose of providing retiree health and dental insurance coverage and is not a part of the actuarially established contribution rates. Functioning as a collecting agent, SCRS and PORS collected (in thousands) \$171,360 and \$9,948 respectively in retiree insurance surcharges (\$10,366 of which was applicable to the State ORP) and remitted these funds to the Employee Insurance Program.

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

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

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

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

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

this fund. Administrative expenses are paid from this fund.

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

Balances (amounts expressed in thousands) in the respective reserves at June 30, 2003, were as follows:

	SCRS	PORS	GARS	JSRS
Employee Fund	\$ 4,627,360	\$ 516,313	\$ 8,324	\$ 16,545
Employer Fund	15,038,211	1,904,156	35,174	87,280
Group Life Insurance Fund	105,254	18,896		
Accidental Death Fund		21,857		
	<u>\$19,770,825</u>	<u>\$ 2,461,222</u>	<u>\$ 43,498</u>	<u>\$ 103,825</u>

III. Deposits and Investments

Deposits

As prescribed by statute, the State Treasurer is the custodian and investment manager of all deposits and investments of the Systems. All deposits are required to be insured or collateralized with securities held by the State or its agent in the State Treasurer's name as custodian. Category 1 deposits are those covered by Federal depository insurance or by collateral held by the Systems or by its agent in the Systems' name. Category 2 deposits are collateralized with securities held by the pledging financial institution's trust department or agent in the Systems' name. Category 3 deposits are uncollateralized. At June 30, 2003, all of the deposits of the Systems were fully insured or collateralized by securities recorded in the Systems' name and held by the Systems' agent.

The carrying amount of the System's deposits at June 30, 2003, was as follows (amounts expressed in thousands):

SCRS	\$ 10,168
PORS	836
GARS	12
JSRS	3
Totals	<u>\$ 11,019</u>

Investments

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

The tables on pages 13-16 present the credit risk and fair value of investments (amounts expressed in thousands) by system and type at June 30, 2003. For purposes of classification in these tables, a security is a transferable financial instrument that evidences ownership or creditorship. Investments included in the "Equities – S&P 500 Index" and "Equities – Russell 2000 Index" are mutual funds and are not considered securities for purposes of credit risk classification.

South Carolina Retirement System

<u>INVESTMENTS</u>	<u>INVESTMENT RISK CATEGORY</u>			<u>June 30, 2003</u>	<u>June 30, 2002</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Fair Value</u>	<u>Fair Value</u>
Investments - categorized:					
Short term securities		None	None	\$ -	\$ 314,303
U.S. Government securities:					
Unloaned securities	\$ 1,207,220			1,207,220	1,186,567
On securities loan-noncash collateral	32,908			32,908	2,143
U.S. Government agencies:					
Unloaned securities	251,362			251,362	827,089
Corporate bonds:					
Unloaned securities	4,431,183			4,431,183	4,601,481
Financial & other	2,331,371			2,331,371	2,314,936
Convertible bonds:					
Unloaned securities	2,628			2,628	
Common stock:					
Unloaned securities	2,359,930			2,359,930	1,886,469
Convertible Preferred stock	345			345	
Total - categorized	<u>\$ 10,616,947</u>			<u>10,616,947</u>	<u>11,132,988</u>
Investments - not categorized:					
Mutual funds - S&P 500 Index Fund				3,467,855	2,302,354
Mutual funds - Russell 2000 Index Fund				57,624	59,776
Investments held by broker-dealers under securities loans with cash collateral:					
U.S. Government securities				754,569	865,431
U.S. Government agencies				1,329,159	1,029,831
Corporate bonds				180,597	140,693
Convertible bonds				2,092	
Common stock				1,148,354	695,278
Total - not categorized				<u>6,940,250</u>	<u>5,093,363</u>
Total investments				17,557,197	16,226,351
Securities lending cash collateral invested			\$ 3,535,984	<u>3,535,984</u>	<u>2,824,390</u>
Total			<u>\$ 3,535,984</u>	<u>\$ 21,093,181</u>	<u>\$ 19,050,741</u>

Police Officers Retirement System

<u>INVESTMENTS</u>	<u>INVESTMENT RISK CATEGORY</u>			<u>June 30, 2003</u>	<u>June 30, 2002</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Fair Value</u>	<u>Fair Value</u>
Investments - categorized:					
Short term securities		None	None		\$ 17,399
U.S. Government securities:					
Unloaned securities	\$ 103,580			\$ 103,580	88,820
On securities loan-noncash collateral	433			433	3,418
U.S. Government agencies:					
Unloaned securities	115,456			115,456	127,054
Corporate bonds:					562,439
Unloaned securities	500,915			500,915	
Financial & other	254,065			254,065	259,144
Convertible bonds:					
Unloaned securities	320			320	
Common stock:					
Unloaned securities	277,138			277,138	217,972
Convertible Preferred stock	42			42	
Total - categorized	<u>\$ 1,251,949</u>			<u>1,251,949</u>	<u>1,276,246</u>
Investments - not categorized:					
Mutual funds - S&P 500 Index Fund				409,717	269,081
Mutual funds - Russell 2000 Index Fund				6,333	7,027
Investments held by broker-dealers under securities loans with cash collateral:					
U.S. Government securities				92,783	113,300
U.S. Government agencies				81,073	127,724
Corporate bonds				24,878	
Convertible bonds				255	
Common stock				139,938	83,625
Total - not categorized				<u>754,977</u>	<u>600,757</u>
Total investments				2,006,926	1,877,003
Securities lending cash collateral invested			\$ 352,687	<u>352,687</u>	<u>334,614</u>
Total			<u>\$ 352,687</u>	<u>\$ 2,359,613</u>	<u>\$ 2,211,617</u>

General Assembly Retirement System

<u>INVESTMENTS</u>	<u>INVESTMENT RISK CATEGORY</u>			<u>June 30, 2003</u>	<u>June 30, 2002</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Fair Value</u>	<u>Fair Value</u>
Investments - categorized:					
U.S. Government securities:		None	None		
Unloaned securities	\$ 1,202			\$ 1,202	\$ 1,977
On securities loan-noncash collateral					361
U.S. Government agencies:					
Unloaned securities	2,331			2,331	3,699
Corporate bonds:					
Unloaned securities	10,449			10,449	12,195
Financial & other	4,215			4,215	3,891
Convertible bonds:					
Unloaned securities	5			5	
Common stock:					
Unloaned securities	5,411			5,411	4,374
Convertible Preferred stock	1			1	
Total - categorized	<u>\$ 23,614</u>			<u>\$ 23,614</u>	<u>26,497</u>
Investments - not categorized:					
Mutual funds - S&P 500 Index Fund				7,991	5,378
Mutual funds - Russell 2000 Index Fund				154	143
Investments held by broker-dealers under securities loans with cash collateral:					
U.S. Government securities				2,814	4,196
U.S. Government agencies				1,437	551
Corporate bonds				1,459	
Convertible bonds				5	
Common stock				2,573	1,611
Total - not categorized				<u>16,433</u>	<u>11,879</u>
Total investments				40,047	38,376
Securities lending cash collateral invested		\$ 8,633		8,633	6,644
Total		<u>\$ 8,633</u>		<u>\$ 48,680</u>	<u>\$ 45,020</u>

Judges and Solicitors Retirement System

<u>INVESTMENTS</u>	<u>INVESTMENT RISK CATEGORY</u>			<u>June 30, 2003</u>	<u>June 30, 2002</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Fair Value</u>	<u>Fair Value</u>
Investments - categorized:					
U.S. Government securities:		None	None		
Unloaned securities	\$ 1,169			\$ 1,169	\$ 1,552
U.S. Government agencies:					
Unloaned securities	6,265			6,265	8,868
Corporate bonds:					
Unloaned securities	28,381			28,381	28,525
Financial & other	9,621			9,621	9,017
Convertible bonds:					
Unloaned securities	14			14	
Common stock:					
Unloaned securities	11,867			11,867	9,263
Convertible Preferred stock	2			2	
Total - categorized	<u>\$ 57,319</u>			<u>\$ 57,319</u>	<u>\$ 57,225</u>
Investments - not categorized:					
Mutual funds - S&P 500 Index Fund				17,809	11,722
Mutual funds - Russell 2000 Index Fund				268	307
Investments held by broker-dealers under securities loans with cash collateral:					
U.S. Government securities				2,010	2,226
U.S. Government agencies				5,691	2,192
Corporate bonds				1,089	500
Convertible bonds				11	
Common stock				6,077	3,676
Total - not categorized				<u>32,955</u>	<u>20,623</u>
Total investments				90,274	77,848
Securities lending cash collateral invested			\$ 15,589	<u>15,589</u>	<u>8,995</u>
Total			<u>\$ 15,589</u>	<u>\$ 105,863</u>	<u>\$ 86,843</u>

Summary for South Carolina Retirement Systems

<u>INVESTMENTS</u>	<u>INVESTMENT RISK CATEGORY</u>			<u>June 30, 2003</u> <u>Fair Value</u>	<u>June 30, 2002</u> <u>Fair Value</u>
	1	2	3		
Investments - categorized:					
Short term securities		None	None	\$ -	\$ 331,702
U.S. Government securities:					
Unloaned securities	\$ 1,313,171			1,313,171	1,278,916
On securities loan-noncash collateral	33,341			33,341	5,922
U.S. Government agencies:					
Unloaned securities	375,414			375,414	966,710
Corporate bonds:					574,634
Unloaned securities	4,970,928			4,970,928	4,630,006
Financial & other	2,599,272			2,599,272	2,586,988
Convertible bonds:					
Unloaned securities	2,967			2,967	
Common stock:					
Unloaned securities	2,654,346			2,654,346	2,118,078
Convertible Preferred stock	390			390	
Total - categorized	<u>\$ 11,949,829</u>			<u>\$ 11,949,829</u>	<u>12,492,956</u>
Investments - not categorized:					
Mutual funds - S&P 500 Index Fund				3,903,372	2,588,535
Mutual funds - Russell 2000 Index Fund				64,379	67,253
Investments held by broker-dealers under securities loans with cash collateral:					
U.S. Government securities				852,176	985,153
U.S. Government agencies				1,417,360	1,160,298
Corporate bonds				208,023	141,193
Convertible bonds				2,363	
Common stock				1,296,942	784,190
Total - not categorized				<u>7,744,615</u>	<u>5,726,622</u>
Total investments				19,694,444	18,219,578
Securities lending cash collateral invested			\$ 3,912,893	<u>3,912,893</u>	<u>3,174,643</u>
Total			<u>\$ 3,912,893</u>	<u>\$ 23,607,337</u>	<u>\$ 21,394,221</u>

Certain short-term, highly liquid securities, which were insured or registered by the Systems or in the Systems' name (investment credit risk category 1), with an original maturity of three months or less are considered cash equivalents in accordance with Governmental Accounting Standards Board Statement 9. These investments (in thousands) at June 30, 2003, were composed of the following:

Cash Equivalents

	Repurchase Agreements	Commercial Paper	Total	Total 2002
SCRS	\$ 2,225,902	\$ 186,336	\$ 2,412,238	\$ 2,213,976
PORS	406,485	19,985	426,470	355,964
GARS	3,031		3,031	2,614
JSRS	12,383		12,383	16,591
Totals	<u>\$ 2,647,801</u>	<u>\$ 206,321</u>	<u>\$ 2,854,122</u>	<u>\$ 2,589,145</u>

The Systems maintains a portfolio of short-term securities in order to actively manage all funds waiting to be placed in a more permanent investment. These short-term securities held during fiscal year 2003 included U.S. Treasury obligations, commercial paper, and repurchase agreements; however, as of June 30, 2003, all short-term securities had an original maturity of three months or less and were therefore classified as cash equivalents.

Effective May 26, 1998, legislation was passed implementing the 1996 public vote amending the State Constitution to allow the Retirement Systems to invest in equity securities. This legislation established a five-member investment panel responsible for defining and developing the investment objectives and the types of investments to be purchased. The Act also specified that a maximum of 10 percent of the assets for each system may be invested in equities annually until a maximum of 40 percent of assets are invested in equities. As of June 30, 2003, the Retirement Systems' assets were invested in equities as follows (in thousands):

Equity Investments

	Mutual Fund S&P 500 Index Fund	Mutual Fund Russell 2000 Index Fund	Common Stock	Convertible Preferred Stock	Total Equities	Total 2002
SCRS	\$ 3,467,855	\$ 57,624	\$ 3,508,284	\$ 345	\$ 7,034,108	\$ 4,943,877
PORS	409,717	6,333	417,076	42	833,168	577,705
GARS	7,991	154	7,984	1	16,130	11,506
JSRS	17,809	268	17,944	2	36,023	24,968
Totals	<u>\$ 3,903,372</u>	<u>\$ 64,379</u>	<u>\$ 3,951,288</u>	<u>\$ 390</u>	<u>\$ 7,919,429</u>	<u>\$ 5,558,056</u>

The Systems retains a consultant to provide investment consulting services necessary to fulfill the duties for investing in equity securities. As of June 30, 2003, 14 individual agreements were in place between the Systems and equity investment managers.

On June 30, 2003, the Systems held collateralized mortgage obligations (CMOs) in its portfolios. The CMOs in these portfolios consist of the planned amortizations class-1 (PAC-1) tranche of these issues. The PAC-1 tranche CMO structure securities were entered into for several reasons: (1) to protect the Retirement Systems' portfolios from principal prepayment risk during an environment of declining interest rates, (2) to provide incremental yield above that available on corporate securities with similar terms, (3) to provide diversification in the portfolios, (4) to maintain the high quality of government-sponsored credits in the portfolios, and (5) to utilize the estimated future term cash flows provided by these securities to match the term of the liabilities of the Retirement Systems. These securities are all rated AAA by the major rating agencies and the PAC-1 structure is a highly marketable security.

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

Collateral Mortgage Obligations (CMOs)

	June 30, 2003	June 30, 2002
	<u>Fair Value</u>	<u>Fair Value</u>
SCRS	\$ 428,718	\$ 551,841
PORS	15,219	18,728
GARS	511	964
JSRS	404	762
Totals	<u>\$ 444,852</u>	<u>\$ 572,295</u>

On June 30, 2003, 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 (in thousands):

Asset Backed Securities

	June 30, 2003	June 30, 2002
	<u>Fair Value</u>	<u>Fair Value</u>
SCRS	\$ 153,144	\$ 167,772
PORS	22,596	32,321
GARS	250	-
JSRS	1,609	1,274
Totals	<u>\$ 177,599</u>	<u>\$ 201,367</u>

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

Corporate Financial Paper

	June 30, 2003	June 30, 2002
	<u>Fair Value</u>	<u>Fair Value</u>
SCRS	\$ 1,749,509	\$ 1,595,323
PORS	216,250	208,095
GARS	3,454	2,927
JSRS	7,608	6,981
Totals	<u>\$ 1,976,821</u>	<u>\$ 1,813,326</u>

Securities Lending

Through a custodial agent, SCRS, PORS, GARS, and JSRS participate in a securities lending program whereby securities are loaned for the purpose of generating additional income to the Systems. The Systems lends securities from its investment portfolios on a collateralized basis to third parties, primarily financial institutions. The market value of the required collateral must initially meet or exceed 102 percent of the market value of the securities loaned, providing a margin against a decline in the market value of the collateral, and requires additional collateral if the collateral value falls below 100 percent. There are no restrictions on the amount of securities that may be loaned. The types of securities available for loan during the year ended June 30, 2003, included U.S. Government securities, U.S. Government agencies, corporate bonds, convertible bonds, and equities. The contractual agreement with the Systems' custodian provides indemnification in the event the borrower fails to return the securities lent or fails to pay the Systems income distribution by the securities' issuers while the securities are on loan. Cash and U.S. Government securities were received as collateral for these loans. The Systems cannot pledge or sell collateral securities without a borrower default. The Systems invest cash collateral received; accordingly, investments made with cash collateral appear as an asset. A corresponding liability is recorded as the Systems must return the cash collateral to the borrower upon the expiration of the loan. All securities loaned can be terminated on demand by either the Systems or the borrower. At year end the average number of days the loans were outstanding ranged from 1 to 131 days. The average weighted maturity of investments made with cash collateral ranged from 28 to 46 days. At June 30, 2003, there had been no losses resulting from borrower defaults and the Systems had no credit risk exposure to borrowers because the amounts the Systems owed the borrowers exceeded the amounts the borrowers owed the Systems.

The following table presents the fair value (in thousands) of the underlying securities and the total collateral received for securities on loan at June 30, 2003.

	June 30, 2003					June 30, 2002
	SCRS	PORS	GARS	JSRS	TOTAL	TOTAL
Securities lent for cash collateral:						
U.S. Government securities	\$ 754,569	\$ 92,783	\$ 2,814	\$ 2,010	\$ 852,176	\$ 985,153
U.S. Government agencies	1,329,159	81,073	1,437	5,691	1,417,360	1,160,298
Corporate bonds	180,597	24,878	1,459	1,089	208,023	141,193
Convertible bonds	2,092	255	5	11	2,363	
Common Stock	1,148,354	139,938	2,573	6,077	1,296,942	784,190
Total securities lent for cash collateral	3,414,771	338,927	8,288	14,878	3,776,864	3,070,834
Securities lent for noncash collateral:						
U.S. Government securities	32,908	433	-	-	33,341	5,922
Total for securities lent	\$ 3,447,679	\$ 339,360	\$ 8,288	\$ 14,878	\$ 3,810,205	\$ 3,076,756
Cash collateral invested as follows:						
Repurchase agreements	\$ 570,257	\$ 81,509	\$ 1,887	\$ 2,826	\$ 656,479	\$ 93,095
Corporate bonds	2,917,908	268,481	6,697	12,646	3,205,732	3,081,548
Commercial Paper	47,819	2,697	49	117	50,682	
Total for cash collateral invested	3,535,984	352,687	8,633	15,589	3,912,893	3,174,643
Securities received as collateral:						
U.S. Government securities	34,759	454			35,213	6,095
Total for securities collateral invested	\$ 3,570,743	\$ 353,141	\$ 8,633	\$ 15,589	\$ 3,948,106	\$ 3,180,738

IV. Capital Assets

Capital assets at June 30, 2003, consist of the following amounts (in thousands). There were no additions or dispositions of capital assets during the year.

	<u>SCRS</u>	<u>PORS</u>	<u>GARS</u>	<u>JSRS</u>	<u>TOTAL</u>	<u>TOTAL 2002</u>
Land	\$ 524	\$ 54	\$ 1	\$ 3	\$ 582	\$ 582
Building	4,279	437	13	20	4,749	4,749
Total capital assets	4,803	491	14	23	5,331	5,331
Less: accumulated depreciation	1,152	118	3	6	1,279	1,160
Net capital assets	\$ 3,651	\$ 373	\$ 11	\$ 17	\$ 4,052	\$ 4,171

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, 2003, were as follows (amounts expressed in thousands):

	<u>Transfers to</u>				
<u>Transfers from</u>	<u>SCRS</u>	<u>PORS</u>	<u>GARS</u>	<u>JSRS</u>	<u>Totals</u>
SCRS	\$ -	\$ 1,461	\$ 7	\$ 57	\$ 1,525
PORS					
GARS	34			21	55
JSRS					
Total	\$ 34	\$ 1,461	\$ 7	\$ 78	\$ 1,580

The following schedule reflects amounts due to or from other systems as of June 30, 2003 as a result of transfers between systems (amounts expressed in thousands):

	<u>Due to</u>				
<u>Due from</u>	<u>SCRS</u>	<u>PORS</u>	<u>GARS</u>	<u>JSRS</u>	<u>Totals</u>
SCRS	\$ -	\$ 544	\$ 4	\$ -	\$ 548
PORS	18				18
GARS	11				11
JSRS	20	2			22
Total	\$ 49	\$ 546	\$ 4	\$ -	\$ 599

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 37 percent of combined

contribution revenues. In addition, the Systems receives custodial, investment and related services from the State Treasurer.

At June 30, 2003, liabilities of approximately \$28.2 million were due to other State departments and agencies and contributions receivable of approximately \$25.3 million were due from other State departments and agencies.

VII. Teacher and Employee Retention Incentive Program

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

A total of 10,946 members were participating in the TERI program at June 30, 2003. The activity for this program is reflected in the following schedule:

Schedule of TERI Activity Year Ended June 30, 2003 (Amounts in thousands)

Beginning Liability Balance	\$ 229,590
Additions	240,667
TERI Distributions	(45,351)
Ending Liability Balance	\$ 424,906

VIII. Litigation

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

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

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

On October 23, 2002, four members of the Retirement Systems filed an action in the Court of Common Pleas in Newberry County against the South Carolina Retirement Systems and the State Budget and Control Board alleging fraud on the court in an earlier case in which the Supreme Court of South Carolina ruled against these plaintiffs. In the earlier litigation, the plaintiffs argued that the defendants had misinterpreted the definition of average final compensation. In the newly filed case, the plaintiffs ask the Court to set aside the earlier judgment against them as well as for unspecified special and punitive damages. If the plaintiffs successfully re-open the earlier litigation against the Retirement Systems, plaintiffs will seek to certify a class and will seek damages of approximately \$2 billion. Generally, the \$2 billion sought by the

Kennedy plaintiffs is based on the same facts under which the plaintiffs in *Wehle* seek \$2 billion and the classes, if certified in these cases, would roughly encompass the same individuals. Accordingly, should the plaintiffs in either *Kennedy* or *Wehle* prevail, the Retirement System would not be liable for an additional \$2 billion in the other case. The Retirement Systems believes its position in *Kennedy* is meritorious and will vigorously defend it.

Victor Evans, on behalf of himself and others similarly situated v. the State of South Carolina, and the South Carolina Retirement System et al, C.A. No. 03CP403250.

On June 27, 2003, the plaintiff, Victor Evans, filed a putative class action in the Court of Common Pleas in Richland County against the State of South Carolina, the South Carolina Retirement System, the Police Officers Retirement System, the Retirement System for Members of the General Assembly, the Retirement System for Judges and Solicitors, and the Director of the South Carolina Retirement Systems. The plaintiff asserts that Act No. 189 of 1989, which removed the tax exemption for benefits from State retirement systems, violates the equal protection clause of the United States and South Carolina Constitutions and results in a taking of property without just compensation. Plaintiff seeks an injunction from enforcement of Act No. 189, and an unspecified amount of damages to plaintiff and all others similarly situated. The State defendants have filed a motion to dismiss the complaint. Although the State has not conducted a potential damages study, it appears that if a class is certified and plaintiffs prevail, they will be entitled to a recovery in the hundreds of millions of dollars. The Retirement Systems, however, believes its position is meritorious and will vigorously defend it.

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						
7/01/02	\$ 19,298,174	\$ 22,446,574	\$ 3,148,400	86.0%	\$ 6,147,712	51.2%
7/01/01	18,486,773	21,162,147	2,675,374	87.4%	6,017,537	44.5%
7/01/00	17,286,108	19,414,972	2,128,864	89.0%	5,881,847	36.2%
7/01/99	16,120,513	16,298,438	177,925	98.9%	5,473,759	3.3%
7/01/98	14,946,070	15,952,345	1,006,275	93.7%	5,191,048	19.4%
7/01/97	13,621,362	14,977,179	1,355,817	90.9%	4,927,124	27.5%
PORS						
7/01/02	2,351,100	2,527,876	176,776	93.0%	757,393	23.3%
7/01/01	2,197,982	2,324,257	126,275	94.6%	757,335	16.7%
7/01/00	2,008,554	2,095,991	87,437	95.8%	716,749	12.2%
7/01/99	1,844,517	1,898,237	53,720	97.2%	638,086	8.4%
7/01/98	1,684,641	1,733,578	48,937	97.2%	606,426	8.1%
7/01/97	1,512,390	1,570,816	58,426	96.3%	562,553	10.4%
GARS						
7/01/02	43,841	73,046	29,205	60.0%	4,515	646.9%
7/01/01	42,788	68,291	25,503	62.7%	4,761	535.6%
7/01/00	40,730	64,616	23,886	63.0%	4,858	491.7%
7/01/99	38,685	63,501	24,816	60.9%	4,979	498.4%
7/01/98	36,260	60,330	24,070	60.1%	4,810	500.4%
7/01/97	33,627	60,052	26,425	56.0%	4,721	559.7%
JSRS						
7/01/02	100,074	166,440	66,366	60.1%	14,211	467.0%
7/01/01	94,795	159,246	64,451	59.5%	14,109	456.8%
7/01/00	87,536	144,631	57,095	60.5%	13,214	432.1%
7/01/99	81,780	134,272	52,492	60.9%	12,748	411.8%
7/01/98	75,699	124,756	49,057	60.7%	11,564	424.2%
7/01/97	68,980	112,185	43,205	61.5%	11,221	385.0%

Schedule of Employer Contributions

(Amounts expressed in thousands)

Year Ended June 30,	SCRS		PORS		GARS		JSRS	
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
2003	\$ 512,345	100%	\$ 86,563	100%	\$ 2,577	100%	\$ 6,014	100%
2002	509,044	100%	88,608	100%	2,627	100%	5,993	100%
2001	491,329	100%	93,584	100%	2,510	100%	5,875	100%
2000	455,914	100%	76,267	100%	2,636	100%	5,659	100%
1999	419,918	100%	69,541	100%	2,768	100%	5,485	100%
1998	398,845	100%	65,538	100%	2,796	100%	4,991	100%

South Carolina Retirement Systems

Required Supplementary Information (continued)

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

Actuarial Assumptions and Methods

	SCRS	PORS	GARS	JSRS
Valuation date	07/01/02	07/01/02	07/01/02	07/01/02
Actuarial cost method	Entry age	Entry age	Entry age	Entry age
Amortization period	Level percent open	Level percent open	Level percent closed	Level percent open
Remaining amortization period	21 years	15 years	25 years	30 years
Asset valuation method	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market
Actuarial assumptions:				
Investment rate of return	7.25%	7.25%	7.25%	7.25%
Projected salary increases	4.00% - 9.00%	5.25% - 9.00%	2.00%	5.25%
Includes inflation at	3.75%	3.75%	4.25%	4.25%
Cost-of-living adjustments	None	None	2.00%	4.25%

South Carolina Retirement Systems
Schedule of Changes in Plan Net Assets
SCRS Pension Trust Fund
Year Ended June 30, 2003
With comparative totals for the year ended June 30, 2002
(Amounts expressed in thousands)

	EMPLOYEE FUND	EMPLOYER FUND	GROUP LIFE FUND	TOTAL	TOTAL 2002
Additions					
Employee contributions					
State department employees	\$ 141,548			\$ 141,548	\$ 145,900
Public school employees	179,177			179,177	182,842
Other political subdivision employees	87,600			87,600	85,108
Employer contributions					
State department employees		\$ 181,973	\$ 3,774	185,747	190,306
Public school employees		224,900	4,515	229,415	225,964
Other political subdivision employees		95,338	1,845	97,183	92,774
Total contributions	408,325	502,211	10,134	920,670	922,894
Investment Income					
Net appreciation (depreciation) in fair value of investments		921,760	5,044	926,804	(610,461)
Interest and dividend income		731,977	3,997	735,974	785,536
Investment expense		(16,685)	(91)	(16,776)	(12,986)
Net income from investing activities		1,637,052	8,950	1,646,002	162,089
From securities lending activities:					
Securities lending income		58,578	320	58,898	51,503
Securities lending expense		(41,890)	(229)	(42,119)	(43,308)
Net income from securities lending activities		16,688	91	16,779	8,195
Total net investment income		1,653,740	9,041	1,662,781	170,284
Supplemental retirement benefits funded by the State		2,688		2,688	3,141
Transfers of contributions from other Systems	34			34	55
Total additions	408,359	2,158,639	19,175	2,586,173	1,096,374
Deductions					
Refunds of contributions to members	60,133			60,133	63,936
Transfers of contributions to other Systems	1,004	521		1,525	2,104
Regular retirement benefits		1,022,993		1,022,993	957,114
Deferred retirement benefits		240,667		240,667	193,283
Supplemental retirement benefits		2,688		2,688	3,141
Group life insurance claims			14,759	14,759	13,492
Depreciation		107		107	107
Administrative expense		12,745	70	12,815	12,699
Total deductions	61,137	1,279,721	14,829	1,355,687	1,245,876
Interfund transfers according to statutory requirements					
Contributions by members at retirement	(482,664)	482,664			
Interest credited to members' accounts	250,400	(250,400)			
Net interfund transfers	(232,264)	232,264			
Net increase (decrease)	114,958	1,111,182	4,346	1,230,486	(149,502)
Net assets held in trust for Pension Benefits					
Beginning of year	4,512,402	13,927,029	100,908	18,540,339	18,689,841
End of year	\$ 4,627,360	\$ 15,038,211	\$ 105,254	\$ 19,770,825	\$ 18,540,339

South Carolina Retirement Systems
Schedule of Changes in Plan Net Assets
PORS Pension Trust Fund
Year Ended June 30, 2003
With comparative totals for the year ended June 30, 2002
(Amounts expressed in thousands)

	EMPLOYEE FUND	EMPLOYER FUND	GROUP LIFE FUND	ACCIDENTAL DEATH FUND	TOTAL	TOTAL 2002
Additions						
Employee contributions						
State department employees	\$ 22,245				\$ 22,245	\$ 24,141
Public school employees	52				52	12
Other political subdivision employees	33,344				33,344	32,409
Employer contributions						
State department employees		\$ 33,332	\$ 632	\$ 632	34,596	39,520
Public school employees		21	1	1	23	25
Other political subdivision employees		50,131	936	877	51,944	49,063
Total contributions	55,641	83,484	1,569	1,510	142,204	145,170
Investment Income						
Net appreciation (depreciation) in fair value of investments		95,219	746	839	96,804	(75,666)
Interest and dividend income		86,117	672	757	87,546	95,125
Investment expense		(1,956)	(15)	(17)	(1,988)	(1,481)
Net income from investing activities		179,380	1,403	1,579	182,362	17,978
From securities lending activities:						
Securities lending income		6,623	52	58	6,733	5,670
Securities lending expense		(4,838)	(38)	(42)	(4,918)	(4,978)
Net income from securities lending activities		1,785	14	16	1,815	692
Total net investment income		181,165	1,417	1,595	184,177	18,670
Supplemental retirement benefits funded by the State		82			82	92
Transfers of contributions from other Systems	940	521			1,461	1,974
Total additions	56,581	265,252	2,986	3,105	327,924	165,906
Deductions						
Refunds of contributions to members	11,452				11,452	11,214
Transfers of contributions to other Systems						
Regular retirement benefits		124,634			124,634	111,216
Supplemental retirement benefits		82			82	92
Group life insurance claims			1,594		1,594	1,608
Accidental death benefits				955	955	858
Depreciation		11			11	11
Administrative expense		1,535	12	14	1,561	1,509
Total deductions	11,452	126,262	1,606	969	140,289	126,508
Interfund transfers according to statutory requirements						
Contributions by members at retirement	(48,313)	48,313				
Interest credited to members' accounts	27,319	(27,319)				
Net interfund transfers	(20,994)	20,994				
Net increase (decrease)	24,135	159,984	1,380	2,136	187,635	39,398
Net assets held in trust for Pension Benefits						
Beginning of year	492,178	1,744,172	17,516	19,721	2,273,587	2,234,189
End of year	\$ 516,313	\$ 1,904,156	\$ 18,896	\$ 21,857	\$ 2,461,222	\$ 2,273,587

South Carolina Retirement Systems
Schedule of Changes in Plan Net Assets
GARS Pension Trust Fund
Year Ended June 30, 2003
With comparative totals for the year ended June 30, 2002
(Amounts expressed in thousands)

	EMPLOYEE FUND	EMPLOYER FUND	TOTAL	TOTAL 2002
Additions				
Contributions				
Employee contributions - State departments	\$ 612		\$ 612	\$ 641
Employer contributions - State departments		\$ 2,577	2,577	2,627
Total contributions	612	2,577	3,189	3,268
Investment Income				
Net appreciation (depreciation) in fair value of investments		2,115	2,115	(1,935)
Interest and dividend income		1,891	1,891	1,973
Investment expense		(37)	(37)	(31)
Net income from investing activities		3,969	3,969	7
From securities lending activities:				
Securities lending income		165	165	202
Securities lending expense		(129)	(129)	(181)
Net income from securities lending activities		36	36	21
Total net investment income		4,005	4,005	28
Transfers of contributions from other Systems	7		7	2
Total additions	619	6,582	7,201	3,298
Deductions				
Refunds of contributions to members	72		72	23
Transfers of contributions to other Systems	55		55	118
Regular retirement benefits		5,073	5,073	4,537
Group life insurance claims		5	5	12
Administrative expense		29	29	30
Total deductions	127	5,107	5,234	4,720
Interfund transfers according to statutory requirements				
Contributions by members at retirement	(2,128)	2,128		
Interest credited to members' accounts	490	(490)		
Net interfund transfers	(1,638)	1,638		
Net increase (decrease)	(1,146)	3,113	1,967	(1,422)
Net assets held in trust for Pension Benefits				
Beginning of year	9,470	32,061	41,531	42,953
End of year	\$ 8,324	\$ 35,174	\$ 43,498	\$ 41,531

South Carolina Retirement Systems
Schedule of Changes in Plan Net Assets
JSRS Pension Trust Fund
Year Ended June 30, 2003
With comparative totals for the year ended June 30, 2002
(Amounts expressed in thousands)

	EMPLOYEE FUND	EMPLOYER FUND	TOTAL	TOTAL 2002
Additions				
Contributions				
Employee contributions - State departments	\$ 1,131		\$ 1,131	\$ 1,437
Employer contributions - State departments		\$ 6,014	6,014	5,993
Total contributions	1,131	6,014	7,145	7,430
Investment Income				
Net appreciation (depreciation) in fair value of investments		4,531	4,531	(3,233)
Interest and dividend income		4,290	4,290	4,302
Investment expense		(80)	(80)	(61)
Net income from investing activities		8,741	8,741	1,008
From securities lending activities:				
Securities lending income		241	241	163
Securities lending expense		(187)	(187)	(146)
Net income from securities lending activities		54	54	17
Total net investment income		8,795	8,795	1,025
Transfers of contributions from other Systems	78		78	191
Total additions	1,209	14,809	16,018	8,646
Deductions				
Refunds of contributions to members				130
Regular retirement benefits		8,217	8,217	8,063
Group life insurance claims		8	8	7
Depreciation		1	1	
Administrative expense		66	66	65
Total deductions		8,292	8,292	8,265
Interfund transfers according to statutory requirements				
Contributions by members at retirement	(1,734)	1,734		
Interest credited to members' accounts	908	(908)		
Net interfund transfers	(826)	826		
Net increase (decrease)	383	7,343	7,726	381
Net assets held in trust for Pension Benefits				
Beginning of year	16,162	79,937	96,099	95,718
End of year	\$ 16,545	\$ 87,280	\$ 103,825	\$ 96,099

Schedule of Administrative Expenses

For the Year Ended June 30, 2003

(Amounts expressed in thousands)

	SCRS	PORS	GARS	JSRS	TOTAL
Personal Services					
Salaries and Wages	\$ 6,095	\$ 742	\$ 14	\$ 32	\$ 6,883
Employer Contributions	1,645	201	4	8	1,858
Contractual Services					
Data Processing Services	1,240	151	3	6	1,400
Medical & Health Services	554	68	1	3	626
Audit Fees	25	3			28
Actuarial Consultants	250	30	1	1	282
Other Professional Services	91	11		1	103
Attorney Fees	209	26		1	236
Operating Expenses					
Facilities Management	348	42	1	2	393
Intergovernmental Services	723	88	2	4	817
Telephone	167	20		1	188
Insurance	172	21		1	194
Postage	312	38	1	1	352
Supplies	197	24		1	222
Other Miscellaneous Expenses	787	96	2	4	889
Total Administrative Expenses	<u>\$ 12,815</u>	<u>\$ 1,561</u>	<u>\$ 29</u>	<u>\$ 66</u>	<u>\$ 14,471</u>

Schedule of Professional Consultant Fees

For the Year Ended June 30, 2003

(Amounts expressed in thousands)

	Professional/Consultant	Nature of Service	Amount Paid
Medical & Health Services	Dr. Jack Shelburg	Medical Board	\$ 6
	Dr. William E. Gause	Medical Board – Chairman	7
	Dr. James England	Medical Board	6
	SC Vocational Rehabilitation	Disability Applications	607
Auditing and Accounting	Rogers & Laban, PA	Financial audit	28
Management Consulting	Gabriel, Roder, Smith & Company	Actuarial services	257
	Buck Consultants	Actuarial services	25
Other Professional Services	Cost Effectiveness Measurements	Benchmarking services	25
	Summit Strategies	Optional Retirement Plan consultants	50
	Psychological & Training Services	Case Evaluations	11
	Joel Leonard/Leonard & Associates	Case Evaluations	14
	University Specialty Clinic	Case Evaluations	3
Attorney Fees	Nexsen Pruet Jacobs & Pollard	Attorney services	68
	Gergel Nickles & Solomon	Attorney services	168
			<u>\$ 1,275</u>

Information on investment management and consulting fees can be found in the *Schedule of Investment Expenses* on page 30.

South Carolina Retirement Systems

Schedule of Investment Expenses

Year Ended June 30, 2003

(Amounts expressed in thousands)

	<u>SCRS</u>	<u>PORS</u>	<u>GARS</u>	<u>JSRS</u>	<u>TOTAL</u>
Equity Investment Managers' Fees:					
State Street Global Advisors S&P500 Index Fund	\$ 87	\$ 11		\$ 1	\$ 99
Institutional Capital Corporation	1,348	164	\$ 3	7	1,522
Alliance Capital Management, LP	685	83	2	3	773
Flippin, Bruce & Porter, Inc.	724	88	2	4	818
Alliance Capital Management, LP	1,078	131	2	6	1,217
Montag & Caldwell, Inc.	711	86	2	4	803
Peachtree Asset Management*	205	25		1	231
J.P. Morgan Investment Management, Inc.*	771	94	1	4	870
Wellington Management Company, LLP	1,684	204	4	9	1,901
State Street Global Advisors Russell 2000 Index Fund	28	3			31
The Boston Company Asset Management, LLC	850	103	2	4	959
J.L. Kaplan Associates, LLC	1,022	125	2	5	1,154
Benson Associates, LLC*	525	64	1	3	593
MFS Institutional Advisors, Inc.*	25	3			28
Suffolk Capital Management, Inc.	789	96	2	4	891
TimesSquare Capital Management, Inc.*	885	108	2	5	1,000
Fidelity Management Trust Company	928	113	2	5	1,048
Total	<u>12,345</u>	<u>1,501</u>	<u>27</u>	<u>65</u>	<u>13,938</u>
Investment Service Fees:					
Bank Fees	3,843	416	9	12	4,280
Consultant Fees:					
Investment Consultant Fees	<u>588</u>	<u>71</u>	<u>1</u>	<u>3</u>	<u>663</u>
Total Investment Management Fees	<u>\$ 16,776</u>	<u>\$ 1,988</u>	<u>\$ 37</u>	<u>\$ 80</u>	<u>\$ 18,881</u>
Securities Lending Expenses:					
Borrower Rebates	<u>\$ 42,119</u>	<u>\$ 4,918</u>	<u>\$ 129</u>	<u>\$ 187</u>	<u>\$ 47,353</u>
Total Securities Lending Expenses	<u>\$ 42,119</u>	<u>\$ 4,918</u>	<u>\$ 129</u>	<u>\$ 187</u>	<u>\$ 47,353</u>

*The contract with Peachtree Asset management was terminated December 2002.

*The contract with J.P. Morgan Investment Management was terminated May 2003.

*The contract with MFS Institutional Advisors was terminated July 2002.

*Benson Associates and TimesSquare Capital Management, Inc., were funded on October 1, 2002.