

Independent Auditors' Report
Management's Discussion & Analysis
Basic Financial Statements
Required Supplementary Information
Schedule of Administrative Expenses
Schedule of Investment Expenses
Schedule of Professional/Consultant Fees
<u>FINANCIAL SECTION</u>



3220 West Edgewood, Suite E • Jefferson City, MO 65101 • 573/635-6196 573/635-8394 fax

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

JEFFERSON CITY
COLUMBIA
MEXICO

INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Public School Retirement System of Missouri
Non-Teacher School Employee Retirement System of Missouri

We have audited the accompanying statement of plan net assets of the Public School Retirement System of Missouri and the Non-Teacher School Employee Retirement System of Missouri (the System) as of June 30, 2002 and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. These 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Public School Retirement System of Missouri and the Non-Teacher School Employee Retirement System of Missouri at June 30, 2002 and the changes in plan net assets for the year then ended, in conformity with U.S. generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary management discussion and analysis on pages 17 through 21 and the supplementary schedules of funding progress and employer contributions on pages 32 and 33 are not a required part of the basic financial statements of the System, but are required by the Governmental Accounting Standards Board (GASB). The supplementary information included on pages 34 through 36 is presented for purposes of additional analysis and is not a required part of the basic financial statements of the System. Such information, included on pages 17 through 21 and 32 through 36, 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.

Williams - Keepers LLC

August 30, 2002

Management's Discussion and Analysis

June 30, 2002

This discussion and analysis of the financial position of the Public School Retirement System and the Non-Teacher School Employees Retirement System (collectively referred to as the Systems) provides an overview of the Systems' financial activities for the fiscal year ended June 30, 2002. We encourage you to consider the information presented here in conjunction with additional information presented in the financial statements and required supplementary information.

Financial Highlights

The following highlights are explained in more detail for each system later in this discussion.

The combined net assets of the Systems at June 30, 2002 were \$21.0 billion. The net assets were down \$0.8 billion from June 30, 2001. This decrease was primarily due to the decrease in the fair value of investments of \$1.1 billion caused primarily by the slowdown in the general market conditions.

The overall investment return for the Systems was (2.8%). Although negative, the Systems' high bond allocation provided excellent diversification under the poor market environment. The Systems' return ranked in the top 25% of returns for large institutional pension systems.

The Systems' funding objective is to meet long-term benefit obligations through the accumulation of contributions and investment income. This funding shall be carried out in such a way to ensure that the burden of paying retirement costs shall be shared equitably by present and succeeding generations of members and taxpayers. As of June 30, 2002, the funded ratios were 95.3% for PSRS and 97.6% for NTRS. As of June 30, 2001, the funded ratios were 99.4% for PSRS and 103.1% for NTRS. The funded ratios have decreased due to increases in benefits paid and declining investment market conditions. If the funded ratios continue to decline, the Systems may need to consider contribution rate increases in the foreseeable future.

Revenues for the year were \$161.8 million. This figure is comprised of contribution revenue of \$788.7 million and investment losses of \$629.7 million. Other miscellaneous revenues contributed \$2.8 million.

Expenses increased 13.8% over the prior year from \$849.4 million to \$967.0 million. Most of this increase represented increased retirement benefits paid to members.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the financial report of the Systems. The financial report consists of:

The basic financial statements, comprised of the Statement of Plan Net Assets and the Statement of Changes in Plan Net Assets; the notes to the basic financial statements; and the required and other supplementary information.

The Statement of Plan Net Assets (page 22) presents information on the assets and liabilities of the Systems, with the difference between the two reported as net assets. The net assets of the Systems reflect the resources available to pay benefits to members when due. Over time, increases and decreases in net assets measure whether the Systems' financial position is improving or deteriorating.

The Statement of Changes in Plan Net Assets (page 23) presents information detailing the changes in net assets that occurred during the current fiscal year. All changes in net assets are reported on an accrual basis. This means that the revenue or expense is recognized as soon as the underlying event giving rise to the change occurs, regardless of when the actual cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods. For example, contributions due from a district, even though not yet paid by year end, will be reflected as revenue. Earned vacation accruals will be reflected as an expense, even though they have not been paid to employees.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes can be found on pages 24 through 31. The report also contains required supplementary information in addition to the basic financial statements themselves. The Schedules of Funding Progress (page 32) include historical trend information about the actuarially funded status of each plan from a long-term, ongoing perspective and the progress made in accumulating assets to pay benefits when due.

The Schedules of Employer Contributions (page 33) present historical trend information about the annual required contributions of employers and the actual contributions made by employers.

Other supplementary schedules are also included. The Schedule of Administrative Expenses (page 34) presents the overall cost of administering the system. The Schedule of Professional Services (page 36) further details this category of administrative expense.

The Schedule of Investment Expenses (page 35) shows the costs associated with investing the assets of the Systems. These expenses are shown as a reduction of revenue on the Statement of Plan Net Assets.

Financial Analysis of The Public School Retirement System

The Public School Retirement System (PSRS) is a mandatory cost-sharing multiple employer retirement system for full-time certificated employees and certain part-time employees of participating employers. PSRS members were required to contribute 10.5% of their annual covered salary during 2002. The employer was required to match that amount. PSRS members do not contribute to Social Security, except for employees hired after 1986 who contribute to Medicare only.

Assets

Total assets of PSRS as of June 30, 2002 were \$23.1 billion and were mostly comprised of cash, investments, and contributions due from employers. Total assets increased by \$0.4 billion or 1.8% from the prior year primarily due to increased invested security lending collateral.

Liabilities

Total liabilities as of June 30, 2002 were \$3.7 billion and were mostly comprised of obligations under security lending arrangements and payables from the purchase of investments. Total liabilities increased by \$1.1 billion. This increase was also primarily due to an increased liability for securities lending collateral.

Net Assets

System assets exceeded liabilities at June 30, 2002 by \$19.4 billion. This was down from 2001 net assets of \$20.2 billion by \$0.8 billion. This reduction was primarily due to a reduction in investment earnings due to adverse market conditions. In addition, benefit payments and other expenses exceeded contribution revenue by \$200.0 million. This trend is a natural progression in a mature defined benefit plan.

Public School Retirement System Plan Net Assets (000's)

	<u>2002</u>	<u>2001</u>	<u>Change</u>
Cash & Investments	\$ 22,474,060	\$ 22,166,681	\$ 307,379
Receivables	636,018	570,409	65,609
Other	9,925	8,201	1,724
Total Assets	<u>\$ 23,120,003</u>	<u>\$ 22,745,291</u>	<u>\$ 374,712</u>
Total Liabilities	<u>\$ 3,716,526</u>	<u>\$ 2,561,602</u>	<u>\$ 1,154,924</u>
Plan Net Assets	<u>\$ 19,403,477</u>	<u>\$ 20,183,689</u>	<u>(\$ 780,212)</u>

Public School Retirement System
Changes in Plan Net Assets (000's)

	<u>2002</u>	<u>2001</u>	<u>Change</u>
Additions			
Members' Contributions	\$ 356,684	\$ 335,275	\$ 21,409
Employer Contributions	340,000	324,526	15, 474
Investment Loss	(582,958)	(407,172)	(175,786)
Other	<u>2,762</u>	<u>810</u>	<u>1,952</u>
Total Additions	\$ 116,488	\$ 253,439	(\$ 136,951)
Deductions			
Monthly Benefits	\$ 860,435	\$ 749,891	\$ 110,544
Refunds of Contributions	31,779	35,047	(3,268)
Administrative Expenses	4,439	3,995	444
Other	<u>47</u>	<u>14</u>	<u>33</u>
Total Deductions	\$ 896,700	\$ 788,947	\$ 107,753
Change in Plan Net Assets	(\$ 780,212)	(\$ 535,508)	(\$ 244,704)

Revenues – Additions to Plan Net Assets

The reserves needed to finance retirement benefits are accumulated through the collection of employer and employee contributions and through investment earnings. Total contributions for the year increased by \$36.9 million to \$696.7 million. This was a 5.6% increase over the prior year. Retirement contributions are calculated at 10.5% of retirement salary for each member. The employer matches this amount. Members may also pay contributions to reinstate previously withdrawn service credit or to purchase various types of elective credit.

Net investment loss was \$583.0 million. This was an increase of 43.2% over the 2001 loss. This was a direct result of market declines that have affected all pension systems. While negative in absolute numbers, PSRS compared favorably to other systems. The PSRS one-year return of (2.8%) was better than 75% of large institutional pension funds, which on average, lost 5.2% for the year. All investment related expenses, such as fees paid to investment managers, are reflected as a reduction in revenue and are accounted for in this net figure.

Other income was up substantially due to the sale of the previous administration building. A gain on this sale was recorded for \$1.4 million.

Expenses – Deductions from Plan Net Assets

The primary expenses of PSRS include the payment of pension benefits to members and beneficiaries, refunds of contributions to former members, and the cost of administering the system. Total expenses for fiscal year 2002 were \$896.7 million, an increase of 13.7% over fiscal year 2001.

Benefit expenses increased by \$110.5 million. This was a result of cost-of-living increases applied to the benefits of current retirees and the addition of 2,292 new service and disability retirees. Refunds of contributions decreased by \$3.2 million to \$31.8 million. This is probably a reflection of the current market conditions. Members might feel that the stated return of 6% earned on their account balances with PSRS is an attractive choice compared to other retirement vehicles.

Administrative expenses increased by \$0.4 million to \$4.4 million. This was an 11.1% increase. This increase was primarily due to the addition of 5 staff members during the year, which has enabled us to better serve our members. The cost of these positions was charged 61% to PSRS and 39% to NTRS. In addition, our new administrative building was completed during fiscal year 2002. Depreciation charges were higher due to this factor.

Financial Analysis of the Non-Teacher School Employee Retirement System

The Non-Teacher School Employee Retirement System (NTRS) is a mandatory cost-sharing multiple employer retirement system for non-certificated employees and certain part-time certificated employees of participating employers. NTRS members were required to contribute 5% of their annual covered salary during 2002. The employer was required to match that amount. NTRS members also contribute to Social Security.

Assets

Total assets of NTRS as of June 30, 2002 were \$1.9 billion and were mostly comprised of cash, investments, and contributions due from employers. Total assets increased by \$0.1 billion from the prior year primarily due to increased invested security lending collateral.

Liabilities

Total liabilities as of June 30, 2002 were \$293.6 million and were mostly comprised of obligations under security lending arrangements and payables from the purchase of investments. Total liabilities increased by \$89.8 million. This increase was also primarily due to an increased liability for securities lending collateral.

Net Assets

NTRS assets exceeded liabilities at the close of fiscal year 2002 by \$1.6 billion. This was down from 2001 net assets by only \$25.0 million. Because NTRS is a much younger plan than PSRS, contribution revenues exceeded benefit payments and other expenses by \$21.7 million. Investment losses of \$46.7 million were a result of adverse market conditions.

Non Teacher School Employee Retirement System Plan Net Assets (000's)

	<u>2002</u>	<u>2001</u>	<u>Change</u>
Cash & Investments	\$ 1,827,470	\$ 1,759,804	\$ 67,666
Receivables	51,174	53,986	(2,812)
Other	1	8	(7)
Total Assets	<u>\$ 1,878,645</u>	<u>\$ 1,813,798</u>	<u>\$ 64,847</u>
Total Liabilities	<u>\$ 293,628</u>	<u>\$ 203,753</u>	<u>\$ 89,875</u>
Plan Net Assets	<u>\$ 1,585,017</u>	<u>\$ 1,610,045</u>	<u>(\$ 25,028)</u>

Non-Teacher School Employee Retirement System Changes in Plan Net Assets (000's)

	<u>2002</u>	<u>2001</u>	<u>Change</u>
Additions			
Members' Contributions	\$ 46,217	\$ 37,934	\$ 8,283
Employer Contributions	45,773	37,500	8,273
Investment Loss	(46,732)	(29,647)	(17,085)
Other	26	72	(46)
Total Additions	<u>\$ 45,284</u>	<u>\$ 45,859</u>	<u>(\$ 575)</u>
Deductions			
Monthly Benefits	\$ 59,871	\$ 49,038	\$ 10,833
Refunds of Contributions	7,866	9,201	(1,335)
Administrative Expenses	2,574	2,242	332
Other	1	4	(3)
Total Deductions	<u>\$ 70,312</u>	<u>\$ 60,485</u>	<u>\$ 9,827</u>
Change in Plan Net Assets	<u>(\$ 25,028)</u>	<u>(\$ 14,626)</u>	<u>(\$ 10,402)</u>

Revenues – Additions to Plan Net Assets

The reserves needed to finance retirement benefits are accumulated through the collection of employer and employee contributions and through investment earnings. Total contributions for the year increased by \$16.6 million to \$92.0 million. This was a 21.9% increase over the prior year. Retirement contributions are calculated at 5% of retirement salary for each member. The employer matches this amount. This rate was up 11.1% from the 2001 contribution rate of 4.5%. Members may also pay contributions to reinstate previously withdrawn service credit or to purchase various types of elective credit.

Net investment loss was \$46.7 million. This loss was an increase of 57.6% over the 2001 loss and was a direct result of market declines that have affected all pension systems. While negative in absolute numbers, NTRS compared favorably to other systems. The NTRS one-year return of (2.8%) was better than 75% of large institutional pension funds, which on average, lost 5.2% for the year. All investment related expenses, such as fees paid to investment managers, are reflected as a reduction in revenue and are accounted for in this net figure.

Expenses – Deductions from Plan Net Assets

The primary expenses of NTRS include the payment of pension benefits to members and beneficiaries, refunds of contributions to former members, and the cost of administering the system. Total expenses for fiscal year 2002 were \$70.3 million, an increase of 16.2% over fiscal year 2001.

Benefit expenses increased by \$10.8 million. This was a result of cost-of-living increases applied to the benefits of current retirees and the addition of 996 new service and disability retirees. In addition, the benefit formula increased from 1.51% to 1.61% while the temporary formula increased from 0.4% to 0.8%. Refunds of contributions decreased by \$1.3 million to \$7.9 million. This is probably a reflection of the current market conditions. Members might feel that the stated return of 6% earned on their account balances with NTRS is an attractive choice compared to other retirement vehicles.

Administrative expenses increased by \$0.3 million to \$2.6 million. This was a 14.8% increase. This increase was primarily due to the addition of 5 staff members during the year, which has enabled us to better serve our members. The cost of these positions was charged 61% to PSRS and 39% to NTRS. Our new administrative building was completed during fiscal year 2002. Depreciation charges were higher due to this factor. In addition, the portion of shared expenses allocated to NTRS increased from 38% to 39% in 2002. This is based upon the number of members served in each system.

Summary

Due to the long-term nature of defined benefit pension plans, it is important to look at the financial performance of the Systems over a period of years and not just at this single point in time. Although the Systems' have not met the 8% return assumption with the current 5-year return of 6%, management will continue to strive to improve the financial position of the Systems through a prudent investment program and long-term strategic planning. As indicated earlier, the current year decrease in net assets is a result of an overall investment market slowdown, which has affected all pension systems.

Requests for Information

This financial report is designed to provide the Board of Trustees, our members, and other users of our financial report with a general overview of the Systems' finances and to demonstrate the Systems' accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Public School and Non-Teachers School Employee Retirement System, P.O. Box 268, Jefferson City, MO 65102.

Statements of Plan Net Assets

as of June 30, 2002 with the comparative totals for June 30, 2001

	TOTALS			
	PSRS	NTRS	June 30, 2002	June 30, 2001
ASSETS				
Cash	\$ 27,773,096	\$ 16,772,268	\$ 44,545,364	\$ 61,463,675
Receivables				
Contributions	111,666,847	9,542,047	121,208,894	109,384,102
Accrued Interest and Dividends	89,720,380	7,298,706	97,019,086	83,593,847
Investment Sales	434,393,341	34,323,687	468,717,028	431,278,225
Due from NTRS	79,234	-	79,234	74,122
Other	158,181	9,267	167,448	64,561
Total Receivables	636,017,983	51,173,707	687,191,690	624,394,857
Investments, at fair value				
Fixed Income	9,834,577,972	801,877,819	10,636,455,791	10,286,316,788
Domestic Stocks	6,599,661,911	536,137,696	7,135,799,607	8,317,622,997
International Equities	2,774,231,184	221,114,503	2,995,345,687	2,995,764,330
Short Term Investments	597,913,307	45,313,635	643,226,942	382,207,816
Total Investments	19,806,384,374	1,604,443,653	21,410,828,027	21,981,911,931
Invested Securities Lending Collateral	2,639,902,565	206,253,796	2,846,156,361	1,883,109,573
Prepaid Expenses	177,131	-	177,131	183,974
Fixed Assets, net of accumulated depreciation	9,747,433	1,930	9,749,363	8,025,296
TOTAL ASSETS	23,120,002,582	1,878,645,354	24,998,647,936	24,559,089,306
LIABILITIES				
Accounts Payable	6,516,231	497,309	7,013,540	6,840,424
Interest Payable	311,133	39,876	351,009	270,988
Securities Lending Collateral	2,639,902,565	206,253,796	2,846,156,361	1,883,109,573
Investment Purchases	1,069,508,913	86,757,917	1,156,266,830	874,824,567
Due to PSRS	-	79,234	79,234	74,122
Lease Liability	19,619	-	19,619	2,175
Compensated Absences	267,223	-	267,223	233,659
TOTAL LIABILITIES	3,716,525,684	293,628,132	4,010,153,816	2,765,355,508
Net Assets Held in Trust for Pension Benefits <i>(Schedules of funding progress for the plans are presented on page 32.)</i>	\$ 19,403,476,898	\$ 1,585,017,222	\$ 20,988,494,120	\$ 21,793,733,798

Statements of Changes in Plan Net Assets

for the year ended June 30, 2002 with comparative totals for the year ended June 30, 2001

	TOTAL			
	PSRS	NTRS	2002	2001
ADDITIONS				
Contributions:				
Employer	\$ 340,000,556	\$ 45,773,119	\$ 385,773,675	\$ 362,025,916
Member	356,684,657	46,217,131	402,901,788	373,209,158
Total Contributions	<u>696,685,213</u>	<u>91,990,250</u>	<u>788,675,463</u>	<u>735,235,074</u>
Investment Income				
<i>From Investing Activities:</i>				
Net Appreciation (Depreciation) in Fair Value of Investments	(1,034,796,138)	(82,618,361)	(1,117,414,499)	(942,706,544)
Interest from Investments	357,735,014	28,571,047	386,306,061	424,827,763
Interest from Bank Deposits	103,894	12,400	116,294	299,208
Dividends	99,211,051	7,875,917	107,086,968	91,553,643
Total Investment Income (Loss)	<u>(577,746,179)</u>	<u>(46,158,997)</u>	<u>(623,905,176)</u>	<u>(426,025,930)</u>
Less Investment Expenses	23,267,281	1,975,791	25,243,072	23,956,486
Net Income (Loss) from Investing Activities	<u>(601,013,460)</u>	<u>(48,134,788)</u>	<u>(649,148,248)</u>	<u>(449,982,416)</u>
<i>From Security Lending Activities:</i>				
Security Lending Gross Income	62,303,154	4,689,540	66,992,694	135,148,223
Less Security Lending Activity Expenses:				
Agent Fees	4,142,698	313,547	4,456,245	2,775,900
Broker Rebates	40,105,474	2,973,883	43,079,357	119,209,205
Total Security Lending Expenses	<u>44,248,172</u>	<u>3,287,430</u>	<u>47,535,602</u>	<u>121,985,105</u>
Net Income from Security Lending Activity	<u>18,054,982</u>	<u>1,402,110</u>	<u>19,457,092</u>	<u>13,163,118</u>
Total Net Investment Income (Loss)	<u>(582,958,478)</u>	<u>(46,732,678)</u>	<u>(629,691,156)</u>	<u>(436,819,298)</u>
Other Income:				
NTRS Capital Asset Charge	223,160	-	223,160	226,639
Miscellaneous Income	2,538,421	26,070	2,564,491	655,731
Total Other Income	<u>2,761,581</u>	<u>26,070</u>	<u>2,787,651</u>	<u>882,370</u>
Total Additions	116,488,316	45,283,642	161,771,958	299,298,146
DEDUCTIONS				
Monthly Benefits	860,434,779	59,871,346	920,306,125	798,929,357
Refunds of Contributions	31,779,306	7,865,945	39,645,251	44,247,812
Administrative Expenses	4,439,493	2,574,150	7,013,643	6,236,682
Other Expenses	46,473	144	46,617	18,548
Total Deductions	<u>896,700,051</u>	<u>70,311,585</u>	<u>967,011,636</u>	<u>849,432,399</u>
NET INCREASE (DECREASE)	(780,211,735)	(25,027,943)	(805,239,678)	(550,134,253)
Net Assets Held in Trust for Pension Benefits				
Beginning of Year	20,183,688,633	1,610,045,165	21,793,733,798	22,343,868,051
End of Year	<u>\$ 19,403,476,898</u>	<u>\$ 1,585,017,222</u>	<u>\$ 20,988,494,120</u>	<u>\$ 21,793,733,798</u>

See accompanying Notes to the Financial Statements.

Notes to the Financial Statements

June 30, 2002

(with comparative information for June 30, 2001)

Note 1 — Plan Descriptions

The Board of Trustees of the Public School Retirement System administers two separate retirement systems, the Public School Retirement System (PSRS) and the Non-Teacher School Employee Retirement System (NTRS). The Board of Trustees consists of seven members, three of whom are elected PSRS active members, one an elected active member of NTRS and three persons appointed by the Governor, one of whom must be a retired member of either PSRS or NTRS.

The funds of the two systems are invested in conjunction with each other but each system retains title to its own investments. Each system's assets may be used only for the payment of benefits to the members of the separate system in accordance with the statutes governing that system.

The Public School Retirement System

The Public School Retirement System of Missouri (PSRS) is a mandatory cost-sharing multiple employer retirement system for all full-time certificated employees and certain part-time certificated employees of all public school districts in Missouri (except the school districts of St. Louis and Kansas City) and all public community colleges. The system also includes certificated employees of PSRS, Missouri State Teachers' Association, Missouri State High School Activities Association, and certain employees of the State of Missouri who elected to remain covered by PSRS under legislation enacted in 1986, 1987 and 1989.

PSRS was established as an independent trust fund by an Act of the Missouri General Assembly effective August 1, 1945. Statutes governing the retirement system are found in Sections 169.010-169.141 and Section 169.560-169.595 RSMo. It is a defined benefit plan providing service retirement, death and

disability benefits to its members. Members are vested for service retirement benefits after accruing 5 years of creditable service. Individuals who are (a) at least age 60 and have a minimum of 5 years of service, (b) have 30 years of service, or (c) qualify for benefits under the "Rule of 80" (service credit and age total at least 80) are entitled to a monthly benefit for life, which is calculated using a 2.5% formula factor. Beginning July 1, 2001, and ending June 30, 2008, a 2.55% formula factor is used to calculate benefits for members who have 31 or more years of service. Actuarially age-reduced benefits are available for members with 5 to 24.9 years of service at age 55 or with 25 years of service (if not yet age 55). Members who are less than age 55 and who do not qualify under the "Rule of 80" but have between 25 and 29.9 years of credit may retire with a lesser benefit formula factor during a window that will close July 1, 2003. Annual cost-of-living adjustments (COLAs) are provided for eligible service and disability retirees and for surviving beneficiaries receiving payments under optional retirement plans, up to a lifetime maximum of 80% of the original benefit amount.

Contributions — PSRS members were required to contribute 10.5% of their annual covered salary during both fiscal years. The employing districts were required to match the contributions made by employees. The contribution rate is set each year by the Board of Trustees upon the recommendation of the independent actuary within the maximum contribution limit set in Section 169.030 RSMo. Administrative costs are financed through investment earnings. Contributions for employees of the State of Missouri were made by the state in accordance with the actuarially determined contribution rate needed to fund current costs and prior service costs of state employees as authorized in Section 104.342.8 RSMo.

Members — The number of PSRS membership and benefit recipients served by the system at June 30 was:

	<u>2002</u>	<u>2001</u>
Retirees and beneficiaries receiving benefits	30,865	29,234
Inactive members entitled to but not yet receiving benefits	4,588	4,203
Active members:		
Vested	50,489	49,471
Non-vested	<u>23,184</u>	<u>23,217</u>
Total active members	73,673	72,688
Other inactive members	<u>4,788</u>	<u>4,727</u>
Total	<u>113,914</u>	<u>110,852</u>

Employers — PSRS had 546 contributing employers during 2002 and 548 during 2001.

The Non-Teacher School Employee Retirement System

The Non-Teacher School Employee Retirement System of Missouri (NTRS) is a mandatory cost-sharing multiple employer retirement system for all public school district employees (except the school districts of St. Louis and Kansas City), employees of the Missouri Association of School Administrators, and community college employees (except the Community College of St. Louis). Employees of covered districts who work 20 or more hours per week on a regular basis and who are not contributing members of the Public School Retirement System of Missouri (PSRS) must contribute to NTRS. Employees of PSRS who do not hold Missouri teaching certificates also contribute to NTRS.

NTRS was established as a trust fund by an Act of the Missouri General Assembly effective October 13, 1965. Statutes governing the retirement system are found in Sections 169.600 - 169.715 and Sections 169.560-169.595 RSMo. The statutes place responsibility for the operation of NTRS on the Trustees of the Public School Retirement System.

NTRS is a defined benefit plan providing service retirement and disability benefits to its members. Members are vested for service retirement benefits after accruing 5 years of creditable service. Individuals who are (a) at least age 60 and have a minimum of 5 years of service, (b) have 30 years of service, or

(c) qualify for benefits under the “Rule of 80” (service credit and age total at least 80) are entitled to a monthly benefit for life, which is calculated using a 1.61% formula factor. Beginning July 1, 2001, members qualifying for “Rule of 80” or “30 and out” are entitled to a temporary .8% benefit multiplier until reaching minimum Social Security age (currently age 62). Actuarially age-reduced retirement benefits are available with 5 years of service at age 55. Members who are less than age 55 and who do not qualify under the “Rule of 80” but have between 25 and 29.9 years of credit may retire with a lesser benefit formula factor during a window that will close July 1, 2003. Annual cost-of-living adjustments (COLAs) up to a lifetime maximum of 80% of the original benefit amount are provided for eligible service and disability retirees and for surviving beneficiaries receiving payments under optional retirement plans.

Contributions — NTRS members were required to contribute 5.0% of their annual covered salary during 2002 and 4.5% during 2001. The employing districts were required to match the contributions made by their employees. The contribution rate is set each year by the Board of Trustees upon the recommendation of the independent actuary within the contribution restrictions in Section 169.620 RSMo. Administrative costs proportional to its membership size are reimbursed by NTRS to the Public School Retirement System and are financed through investment earnings.

Members – The number of NTRS membership and benefit recipients served by the system at June 30 was:

	<u>2002</u>	<u>2001</u>
Retirees and beneficiaries receiving benefits	14,270	13,673
Inactive members entitled to but not yet receiving benefits	2,768	2,498
Active members: Vested	20,181	19,022
Non-Vested	<u>26,547</u>	<u>26,495</u>
Total active members	46,728	45,517
Other inactive members	<u>13,145</u>	<u>11,493</u>
Total	<u>76,911</u>	<u>73,181</u>

Employers — NTRS had 536 contributing employers during 2002 and 535 during 2001.

Note 2 — Summary of Significant Accounting Policies

Basis of Accounting — The financial statements of both systems were prepared using the accrual basis of accounting. For both systems, member and employer contributions are required by state statute and are recognized in the period in which the employee services are performed. Benefits and refunds are recognized when due and payable in accordance with the statutes governing the systems. Expenses are recognized when the liability is incurred, regardless of when payment is made.

Cash — Cash includes cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables — Receivables consist primarily of contributions owed and yet to be remitted by the employing districts, pending investment trades and interest and dividends payable to the systems as of the end of each fiscal year.

Method Used to Value Investments — Investments are reported at fair value on a trade date basis. Securities traded on international exchanges are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments.

Investments that do not have an established market are reported at estimated fair value.

Fixed Assets — The building and most other fixed assets are owned by PSRS and are stated at cost less depreciation accumulated since acquisition. The stated value does not purport to represent replacement or realized value. Costs of major additions and improvements are capitalized. Expenditures for maintenance and repairs are charged to operations as incurred. Depreciation is calculated using the straight-line method, with estimated lives ranging from three to forty years in the following major classes: computers and software, three years; vehicles, five years; equipment, five years; building and land improvements, fifteen years; building, forty years.

NTRS owns office equipment purchased before 1997 and follows the same guidelines for depreciation. NTRS reimburses PSRS for the use of fixed assets used by the two systems on a proportional basis. The amount of this reimbursement was \$223,160 in 2002 and \$226,639 in 2001.

Capital Lease — PSRS entered into a three-year lease agreement during 2001-2002 for a color copier. This agreement qualifies as a capital lease for accounting purposes, and therefore, has been recorded at the lower of fair market value or the present value of the future minimum lease agreement. The future minimum lease obligation and the net present value of these payments as of June 30, 2002 was \$19,619.

Note 3 — Designations of Net Assets Held in Trust for Pension Benefits

The systems designate the net assets held in trust for pension benefits for specific purposes:

PSRS

	<u>2002</u>	<u>2001</u>
<i>Designated for Members' Contributions (Member Reserves) —</i> Accumulation of active and terminated member contributions plus interest.	\$ 4,366,500,583	\$ 4,141,256,015
<i>Designated for the Payment of Benefits to Present Retirees —</i> Transfers from Member Reserves at retirement and an actuarially determined transfer from Operating Reserves to fund the system's obligation for benefit payments and cost-of-living adjustments to current retirees and beneficiary recipients.	10,588,268,955	9,503,551,714
<i>Designated for Additional Deposit Annuities —</i> Accumulation of the additional deposits over and above the contributions required by law. Defined contribution annuity payments are made to current retirees from this reserve.	1,276,650	1,369,729
<i>Designated for Operating Expenses/Benefits to Future Retirees (Operating Reserves) —</i> Accumulation of employer contributions and investment income used to fund future benefit payments, interest on member accounts and administration and maintenance expenses of the system.	4,447,430,710	6,537,511,175
Net Assets Held In Trust For Pension Benefits	<u>\$19,403,476,898</u>	<u>\$20,183,688,633</u>

NTRS

	<u>2002</u>	<u>2001</u>
<i>Designated for Members' Contributions (Member Reserves) —</i> Accumulation of active and terminated member contributions plus interest.	\$ 341,393,112	\$ 303,324,367
<i>Designated for the Payment of Benefits to Present Retirees —</i> Transfers from Member Reserves at retirement and an actuarially determined transfer from Operating Reserves to fund the system's obligation for benefit payments and cost-of-living adjustments to current retirees and beneficiary recipients.	651,294,735	565,125,714
<i>Designated for Operating Expenses/Benefits to Future Retirees (Operating Reserves) —</i> Accumulation of employer contributions and investment income used to fund future benefit payments, interest on member accounts and administration and maintenance expenses of the system.	592,329,375	741,595,084
Net Assets Held In Trust For Pension Benefits	<u>\$ 1,585,017,222</u>	<u>\$ 1,610,045,165</u>

Note 4 – Deposits and Investments

Deposits — Cash balances include short-term securities held by the custodial bank to meet future system obligations and operating balances held by the depository banks.

At June 30, 2002, the NTRS carrying amount of deposits at the depository bank was (\$483,854) and the bank balance was \$0. Since the bank balance was \$0, no amount was required to be collateralized. To maximize investment income, the float caused by outstanding checks was invested in overnight repurchase agreements, thus causing the negative book balance. These overnight repurchase agreements are reflected on the Schedule

of Investments in Note 4.

At June 30, 2002, the PSRS carrying amount of deposits at the depository bank was \$7,691,766 and the bank balance was \$8,631,549. Of the bank balance, \$100,000 was covered by federal depository insurance. The remaining \$8,531,549 was collateralized with securities held by the pledging financial institution's trust department or agent in the system's name.

The deposits held by the custodial bank are in a pooled short-term investment fund which are not required to be categorized.

The following are the balances of these accounts at June 30:

	<u>2002 Book</u>	<u>2002 Bank</u>	<u>2001 Book</u>	<u>2001 Bank</u>
PSRS				
Depository Bank	\$ 7,691,766	\$ 8,631,549	\$ 18,443,621	\$ 19,943,690
Custodial Bank	17,050,171	17,050,171	23,929,749	23,929,749
NTRS				
Depository Bank	\$ (483,854)	\$ -	\$ (561,288)	\$ -
Custodial Bank	15,484,060	15,484,060	15,009,127	15,009,127

Authorization of Investments — Funds for both systems that are in excess of a safe operating balance are invested by the investment agents under policies and procedures established by the Board of Trustees. Chapter 160.040 RSMo, as amended effective August 13, 1984, authorizes any investment which a prudent person acting in a like capacity and familiar with similar matters would use in the conduct of an enterprise of a like character and with like aims. Any person with fiduciary responsibility with respect to the retirement systems is covered by this "prudent person" rule.

Categories of Custodial Credit Risk — The Governmental Accounting Standards Board Statement No. 3 requires disclosure of custodial credit risk. Investments are categorized into three categories of credit risk. Category 1 includes investments that are insured or registered or for which the securities are held by the systems' custodial agent in the name of each system. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the name of each system. Category 3 includes uninsured and unregistered

investments, which are held by the custodial agent, but not in the systems' names.

A security for purposes of credit risk disclosure is a transferable financial instrument that evidences ownership or creditorship. "Securities" do not include investments made in open-end pooled funds or securities on loan to broker-dealers under the security lending program. Such investments are shown as "not categorized."

PSRS

	<u>June 30, 2002</u>	<u>June 30, 2001</u>
Category 1 Investments		
Municipals	\$ 25,823,585	\$ 23,801,498
FHA/VA Mortgages	4	4
US Government & Agencies Securities	2,971,050,622	2,565,148,571
Domestic Fixed Income	1,855,212,610	2,102,248,871
Domestic Equities	3,842,849,118	4,113,335,861
International Equities	1,846,095,450	1,718,310,916
REITS	7,151,282	5,732,258
Treasury bonds, notes & bills		13,715,004
Commercial Paper		171,937,755
Category 2 Investments		
Repurchase Agreements	3,031,159	2,245,263
Investments Not Categorized		
Loaned Under The Securities Lending Program		
U.S. Governmental and Agencies Securities	1,891,637,043	1,147,387,313
Domestic Corporate Fixed Income Securities	108,977,020	39,350,030
Domestic Equities	140,314,016	137,216,706
International Equities	498,974,486	429,229,273
Pooled Funds		
Domestic Corporate Fixed Income Securities	2,981,877,088	3,737,736,549
Domestic Equities	2,609,347,495	3,454,545,423
International Equities	429,161,248	626,252,982
Money Market Fund	597,913,307	82,929,921
Total Investments	19,809,415,533	20,371,124,198
Security Lending Collateral (not categorized)	2,639,902,565	1,753,183,322
Total	<u>\$22,449,318,098</u>	<u>\$22,124,307,520</u>
Reconciliation to Statement of Plan Net Assets		
Number from Above	\$22,449,318,098	\$22,124,307,520
Less:		
Security Lending Collateral	(2,639,902,565)	(1,753,183,322)
Repurchase Agreements reported as cash	(3,031,159)	(2,245,263)
Investments per Statement of Plan Net Assets	<u>\$19,806,384,374</u>	<u>\$20,368,878,935</u>

NTRS

	<u>June 30, 2002</u>	<u>June 30, 2001</u>
Category 1 Investments		
Municipals	\$ 1,900,090	\$ 1,764,086
US Government & Agencies Securities	244,178,254	219,928,142
Domestic Fixed Income	152,669,981	172,591,204
Domestic Equities	305,201,010	306,786,299
International Equities	151,151,005	138,822,195
REITS	543,938	412,716
Treasury bonds, notes & bills		1,768,223
Commercial Paper		17,757,235
Category 2 Investments		
Repurchase Agreements	1,772,062	2,397,203
Investments Not Categorized		
Loaned Under The Securities Lending Program		
U.S. Governmental and Agencies Securities	144,486,109	71,513,114
Domestic Fixed Income	6,106,250	3,329,160
Domestic Equities	19,109,857	20,404,261
International Equities	36,551,581	34,679,716
Pooled Funds		
Domestic Corporate Fixed Income Securities	252,537,135	295,617,924
Domestic Equities	211,282,891	279,189,473
International Equities	33,411,917	48,469,248
Money Market Fund	45,313,635	-
Total Investments	<u>1,606,215,715</u>	<u>1,615,430,199</u>
Security Lending Collateral (not categorized)	206,253,796	129,926,251
Total	<u>\$ 1,812,469,511</u>	<u>\$ 1,745,356,450</u>
Reconciliation to Statement of Plan Net Assets		
Number from Above	\$ 1,812,469,511	\$ 1,745,356,450
Less:		
Security Lending Collateral	(206,253,796)	(129,926,251)
Repurchase Agreements reported as cash	(1,772,062)	(2,397,203)
Investments per Statement of Plan Net Assets	<u>\$ 1,604,443,653</u>	<u>\$ 1,613,032,996</u>

Derivatives — The retirement systems are parties to certain financial investments with off-balance sheet risk used in the normal course of business to generate earnings and reduce exposure to fluctuations in market conditions. International security managers are authorized to engage in forward contracts to exchange different currencies at a specified date and rate. These forward contracts involve elements of custodial and market risk in excess of the amount recognized in the Statement of Plan Net Assets. The forward exchange contracts purchased/sold in effect at June 30 are shown below.

	<u>2002</u>	<u>Purchase Value</u>	<u>Fair Value</u>
PSRS		\$ 48,081,909	\$ 46,619,698
NTRS		3,273,569	3,159,186
	<u>2001</u>	<u>Purchase Value</u>	<u>Fair Value</u>
PSRS		\$ 54,761,282	\$ 53,935,159
NTRS		4,528,267	4,459,761

The retirement systems also participate in three pooled index funds that use off-balance-sheet financing instruments. The derivatives in the S&P 500 Index Fund are S&P 500 futures and those in the Russell 1000 Value Fund are S&P Barra Value futures, both of which are used to accommodate cash flows and to equitize receivables while maintaining tight tracking to the index. The derivatives in the developed country portion of the ACWI World ex-US Fund are also index futures used for the same purposes as in the domestic equity fund. In some emerging market countries, equity swaps are used to achieve part of the exposure. As of June 30, 2002, these off-balance-sheet financial instruments comprised 1.02% of the \$64.4 billion S&P 500 Index Fund, 0.94% of the \$15.1 billion Russell 1000 Value Fund, and 0% of the \$3.6 billion Bond Market Index. PSRS' participation in these funds was 3.61%, 13.28%, and 5.88%, respectively. The NTRS exposure was 0.25%, 1.34%, and 1.67%.

On June 30, 2001, off balance sheet financial instruments comprised 1.02% of the \$64.4 billion S&P 500 Index Fund, 0.84% of the \$5.1 billion Russell 1000 Value Fund, and 1.42% of the \$10.6 billion ACWI World ex-US Fund. PSRS' participation in these funds was 3.61%, 13.28%, and 5.88%, respectively. The NTRS exposure was 0.29%, 1.05%, and 0.46%.

Neither the percentages of participation in the funds nor the funds' exposure to derivatives differed substantially from the June 30 figures throughout either year.

Security Lending Activity – Under the “prudent person” authority of the governing statutes and in accordance with the policies set by the Board of Trustees, the systems lend securities to broker-dealers and banks pursuant to a form of loan agreement. The systems' custodial bank is authorized to lend available securities to approved broker-dealers and banks subject to the receipt of acceptable collateral.

During the fiscal year, the systems lent securities and received cash (both U.S. and foreign currency), securities issued or guaranteed by the U.S. government or its agencies, sovereign debt of foreign countries, and irrevocable bank letters of credit as collateral. The systems did not have the ability to pledge or sell noncash collateral absent borrower default. Borrowers were required to deliver collateral for each loan equal to: (1) in the case of loaned securities denominated in U.S. dollars or whose primary trading market was located in the United States, or sovereign debt issued by foreign governments, 102% of the fair value of the loaned securities; and (2) in the case of loaned securities not denominated in U.S. dollars or whose primary trading market was not located in the United States, 105% of the fair value of the loaned securities.

The systems did not impose any restrictions during the fiscal year on the amount of the loans that the custodial bank made

on their behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the year. There were no losses during the year resulting from a default of the borrowers or the custodial bank.

The systems and borrowers each maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested; together with the cash collateral of other qualified tax-exempt plan lenders in a collective investment pool. The average duration of such investment pool as of June 30, 2002 was 64 days and an average weighted maturity of 405 days. Because the loans were terminable at will, their duration did not match the duration of the investments made with cash collateral. On June 30, 2002 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 collateral held (including both cash collateral recognized in the “Statement of Plan Net Assets” and non-cash collateral) and the fair values of securities on loan for PSRS were \$2,794,103,529 and \$2,730,606,557 for June 30, 2002 and \$1,703,681,787 and \$1,655,307,037 for June 30, 2001. Net security lending income was \$18,054,982 for the 2001-2002 fiscal year and \$12,156,898 for the 2000-2001 fiscal year.

The collateral held (including both cash collateral recognized in the “Statement of Plan Net Assets” and non-cash collateral) and the fair values of securities on loan for NTRS were \$218,847,435 and \$214,114,461 for June 30, 2002 and \$167,706,214 and \$141,284,215 for June 30, 2001. Net security lending income was \$1,402,110 for the 2001-2002 fiscal year and \$1,066,220 for the 2000-2001 fiscal year.

The collective investment pool in which the collateral received from security lending loans is invested has the following characteristics. The fair value of the investments held by the pooled fund is based upon valuations provided by a recognized pricing service. Because the pooled fund does not meet the requirements of Rule 2a-7 of the Investment Company Act of 1940, the fund's investments are valued at fair market value for reporting purposes. The pooled fund is not registered with the Securities and Exchange Commission.

The custodial bank and, consequently, the investment vehicles it sponsors (including the pooled fund) are subject to the oversight of the Federal Reserve Board and the Massachusetts Commissioner of Banks. The fair value of the systems' position in the pooled fund is not the same as the value of the fund shares. The systems had no involuntary participation in an external investment pool through this fund and no income from one fund was assigned to another fund by the custodial bank during either fiscal year.

Note 5 – Additional Deposits Program

Section 169.035 RSMo provides for an additional deposits program for PSRS members. Members may make payments above the required defined benefit contribution amount to the retirement system in order to provide a monthly annuity at retirement based on the total of the deposits and interest.

This annuity is in addition to the defined benefit allowance provided by the system. Contributions to the program are tax-sheltered. As of September 1, 1996 new deposits to the program were limited to members currently with deposits in the program. No additional deposits were made during 2001-2002. The deposits and interest of the two members who have not yet retired totaled \$5,276 as of June 30, 2002.

The deposits to the program are included in the investment program of the PSRS defined benefit plan. The additional deposits program's basis of accounting and the asset valuation are identical to the defined benefit plan.

Note 6 – Retirement Plans

Section 401 (a) Defined Benefit Plan

All full-time retirement system employees holding a valid Missouri teaching certificate are covered by PSRS. All other eligible employees are members of NTRS. Both systems provide retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries. Chapter 169 RSMo contains the statutory provisions of both systems.

PSRS members were required to contribute 10.5% of their annual covered salary during both years. PSRS, as the employer, was required to match that amount. The contribution rate is established and may be amended by the Board of Trustees. Employer contributions to PSRS totaled \$30,121 for the 2001-2002 fiscal year and \$46,644 for 2000-2001. The amounts for these years are equal to the required contributions.

NTRS members were required to contribute 5% of their annual covered salary during 2001-2002 and 4.5% during 2000-2001. PSRS, as the employer, was required to match that amount. The contribution rate is established and may be amended by the Board of Trustees. Employer contributions to NTRS totaled \$174,859 for the 2001-2002 fiscal year and \$132,876 for 2000-2001. The amounts for these years are equal to the required contributions.

Section 457 Deferred Compensation Plan

A Section 457 deferred compensation plan is also administered to provide additional retirement benefits for employees. Participation in this plan is voluntary. The level of contributions is elected by the employee, subject to limitations of IRC Section

457. The system matches the employee contributions up to a set maximum. For members of PSRS, the system will match up to \$50 per month. For members of NTRS, the system will match \$50 plus 0.52% of salary per month. Members immediately vest in the matching contributions. Employer matching contributions totaled \$60,132 for the 2001-2002 fiscal year and \$62,189 for the 2000-2001 fiscal year.

Maintenance of individual member accounts and custody of assets have been contracted to a third party administrator and investment custodian. Member contributions are sent directly to the third party administrator by the system. Members can self-direct investments of their contributions and their respective share of matching contributions in a number of investment options. Because the system does not hold the plan's assets and does not have significant administrative responsibilities, the plan's assets and changes in net assets are not reported in the systems' financial statements.

Note 7 — Risk Management

The retirement systems are exposed to various risks of loss related to natural disasters, errors and omissions, loss of assets, torts, etc. The systems have chosen to cover such losses through the purchase of commercial insurance. There have been no material insurance claims filed or paid during the past three years.

The systems have a disaster recovery plan that provides for continued computer operations at a remote location should the retirement office be unavailable for normal operations.

Note 8 – Commitments and Contingencies

PSRS was committed to the future purchase of investments at a cost of \$1,069,508,913 on June 30, 2002 and to the future purchase of \$801,538,387 in investments on June 30, 2001. NTRS had investment commitments of \$86,757,917 on June 30, 2002 and \$73,286,180 on June 30, 2001.

Certain legal proceedings are pending against PSRS and NTRS arising from normal activities. Although unable to predict the outcome of these matters, the Systems believe the final outcome of these actions will not have a material adverse effect on the Systems' financial statements.

Note 9 – Subsequent Events

The Systems suffered a decline in the market value of investments subsequent to June 30, 2002. As of August 30, 2002, the market value of the assets of PSRS has declined approximately \$580.0 million, or 2.9%. The market value of the assets of NTRS has declined \$46.6 million, or 2.9%. This decline in market value of investments is primarily the result of continued worldwide economic slowdown.

Schedules of Funding Progress

Required Supplementary Information

Public School Retirement System

(Dollar amount 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 % of Covered Payroll ((b-a)/c)
6/30/1997	\$ 13,099,219	\$ 12,449,178 ¹	\$ (650,041)	105.2%	\$ 2,427,429	(26.8%)
6/30/1998	14,979,358	14,471,049 ²	(508,309)	103.5%	2,577,594	(19.7%)
6/30/1999	17,209,870	16,373,144 ³	(836,726)	105.1%	2,690,007	(31.1%)
6/30/2000	19,437,223	18,279,113 ⁴	(1,158,110)	106.3%	2,836,062	(40.8%)
6/30/2001	21,146,294	21,282,203 ⁵	135,909	99.4%	2,982,051	4.6%
6/30/2002	\$ 22,236,105	\$ 23,333,937⁶	\$ 1,097,832	95.3%	\$ 3,213,461	34.2%

¹ Assumptions used to calculate salary growth and COLA increases for retirees were revised.

² Legislative improvements to the benefit formula and to retirees' benefits added \$1.1 billion to the AAL.

³ Legislative improvement to age of eligibility ("rule of 80") and an ad hoc benefit increase to retirees added \$982.5 million to the AAL.

⁴ Legislative improvements to benefits added \$643 million to the AAL.

⁵ Legislative improvements to benefits added \$630.3 million to the AAL. Assumptions were also revised.

⁶ There were no legislative changes in fiscal year 2002.

Non-Teacher School Employee Retirement System

(Dollar amounts 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 % of Covered Payroll ((b-a)/c)
6/30/1997	\$ 1,001,035	\$ 964,212 ¹	\$ (36,823)	103.8%	\$ 556,534	(6.6%)
6/30/1998	1,150,311	1,036,347 ²	(113,964)	111.0%	616,303	(18.5%)
6/30/1999	1,335,308	1,168,511 ³	(166,797)	114.3%	685,272	(24.3%)
6/30/2000	1,522,660	1,395,300 ⁴	(127,360)	109.1%	735,400	(17.3%)
6/30/2001	1,686,242	1,636,076 ⁵	(50,166)	103.1%	814,158	(6.2%)
6/30/2002	\$ 1,810,619	\$ 1,855,982⁶	\$ 45,363	97.6%	\$ 895,420	5.1%

¹ Assumptions used to calculate salary growth and COLA increases for retirees were revised.

² Legislative improvements to the lifetime COLA limit, 25 and out benefit eligibility window, and an ad hoc benefit increase for retirees added \$13.7 million to the AAL.

³ Legislative improvements to the benefit formula and to retirees' benefits added \$80.3 million to the AAL.

⁴ Legislative improvements to benefits added \$80.3 million to the AAL.

⁵ Legislative improvements to benefits added \$126.4 million to the AAL. Assumptions were also revised.

⁶ There were no legislative changes in fiscal year 2002.

See accompanying Independent Auditors' Report.

Schedules of Employer Contributions

Required Supplementary Information

Public School Retirement System

Year Ended June 30	Annual Required Contribution (ARC)	Percentage Contributed
1997	\$ 251,957,622	100%
1998	273,125,719	100%
1999	287,698,736	100%
2000	304,944,352	100%
2001	324,525,673	100%
2002	\$ 340,000,556	100%

Non-Teacher School Employee Retirement System

Year Ended June 30	Annual Required Contribution (ARC)	Percentage Contributed
1997	\$ 24,393,542	100%
1998	27,315,729	100%
1999	30,012,859	100%
2000	34,185,605	100%
2001	37,500,243	100%
2002	\$ 45,773,119	100%

Notes to the Schedules of Trend Information

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

Valuation date	June 30, 2002
Actuarial cost method	Entry Age Normal
Amortization method/Approach	Level Percent, Open
Remaining amortization period	
PSRS	30 years (1)
NTRS	30 years (2)
Asset valuation method	5-year smoothed market
Actuarial Assumptions:	
Investment rate of return	8.0%
Projected salary increases*	
PSRS	5.0 - 10.0%
NTRS	5.0 - 10.0%
*Includes inflation at	3.5%
Cost-of-living adjustments	3.5%

- (1) 30 year amortization assumes an ARC rate of 22.22% for fiscal year 2003. The maximum statutory contribution rate at June 30, 2002 was 23%.
- (2) 30 year amortization assumes an ARC rate of 10.80% for fiscal year 2003. The maximum statutory contribution rate at June 30, 2002 was 10%.

See accompanying Independent Auditors' Report.

Schedule of Administrative Expenses

for the year ended June 30, 2002

	PSRS	NTRS	TOTAL
Personal Services	\$ 2,499,694	\$ 1,532,910	\$ 4,032,604
Professional Services			
Actuarial	52,518	30,198	82,716
Audit	18,980	12,870	31,850
Computer Consultants	29,460	18,835	48,295
Insurance Consultant	3,660	2,340	6,000
Legislative Consultant	18,961	12,123	31,084
Legal Expenses	<u>36,580</u>	<u>10,654</u>	<u>47,234</u>
Total Professional Services	160,159	87,020	247,179
Communications			
Information and Publicity	372,053	254,379	626,432
Postage	62,722	48,128	110,850
Printing	45,447	59,931	105,378
Staff Field	24,128	14,645	38,773
Telephone	<u>65,148</u>	<u>41,652</u>	<u>106,800</u>
Total Communications	569,498	418,735	988,233
Miscellaneous			
Building and Utilities	89,289	57,088	146,377
Board of Trustees	33,960	21,711	55,671
Insurance	64,391	41,168	105,559
Office	183,362	118,536	301,898
Staff Development	67,695	42,342	110,037
Miscellaneous	<u>90,607</u>	<u>29,460</u>	<u>120,067</u>
Total Miscellaneous	529,304	310,305	839,609
Charge For Use of Fixed Assets	-	223,160	223,160
Depreciation Expense	<u>680,838</u>	<u>2,020</u>	<u>682,858</u>
Total Administrative Expenses	<u>\$ 4,439,493</u>	<u>\$ 2,574,150</u>	<u>\$ 7,013,643</u>

Schedule of Investment Expenses

for the year ended June 30, 2002

	PSRS	NTRS	TOTAL
Investment Management Expenses			
U S Equity	\$ 10,884,270	\$ 822,156	\$ 11,706,426
International Equity	6,786,613	510,820	7,297,433
U S Fixed Income	<u>3,705,475</u>	<u>279,976</u>	<u>3,985,451</u>
Total Investment Management Expenses	21,376,358	1,612,952	22,989,310
Investment Consultant Fees	310,000	23,333	333,333
Custodial Bank Fees	1,239,750	123,767	1,363,517
Investment Staff Expenses	<u>341,173</u>	<u>215,739</u>	<u>556,912</u>
Total Investment Income Expenses	<u>\$ 23,267,281</u>	<u>\$ 1,975,791</u>	<u>\$ 25,243,072</u>
Security Lending Expenses			
Agent Fees	\$ 4,142,698	\$ 313,547	\$ 4,456,245
Broker Rebates	<u>40,105,474</u>	<u>2,973,883</u>	<u>43,079,357</u>
Total Security Lending Expenses	<u>\$ 44,248,172</u>	<u>\$ 3,287,430</u>	<u>\$ 47,535,602</u>

See accompanying Independent Auditors' Report.

Schedule of Professional/Consultant Fees

for the year ended June 30, 2002

	PSRS	NTRS	TOTAL
Actuarial services	\$ 52,518	\$ 30,198	\$ 82,716
Legal counsel	36,580	10,654	47,234
Financial audit	18,980	12,870	31,850
Legislative consulting	18,961	12,123	31,084
Technology consulting	29,460	18,835	48,295
Insurance consulting	3,660	2,340	6,000
Total	<u>\$ 160,159</u>	<u>\$ 87,020</u>	<u>\$ 247,179</u>