

Independent Auditors' Report

Management's Discussion and Analysis

Basic Financial Statements

Required Supplementary Information

Schedule of Administrative Expenses

Schedule of Investment Expenses

Schedule of Professional/Consultant Fees

FINANCIAL SECTION



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CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

JEFFERSON CITY
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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, 2003 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, 2003 and the changes in plan net assets for the year then ended, in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis on pages 17 through 21 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. 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 made for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary schedules of funding progress and employer contributions on pages 33 and 34 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 35 through 37 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 33 through 37, 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 29, 2003

Management's Discussion and Analysis

June 30, 2003

This discussion and analysis of the financial position of the Public School Retirement System and the Non-Teacher School Employee Retirement System (collectively referred to as the Systems) provides an overview of the Systems' financial activities for the fiscal year ended June 30, 2003. 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 combined net assets of the Systems at June 30, 2003 were \$21.7 billion. The net assets were up \$0.7 billion from June 30, 2002. This increase was primarily due to the increase in the fair value of investments of \$495.1 million.

The overall investment return for the Systems was 4.8%. The diversified asset allocation provided downside protection and positive returns for the Systems in a year when the broad U.S. stock market (represented by the Russell 3000 Index) was up just 1% and non-U.S. equities (represented by the MSCI ACWI ex U.S. index) was down 4.2%. The Systems' return ranked in the top 35% 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, 2003, the funded ratios were 81.1% for PSRS and 81.9% for NTRS. As of June 30, 2002, the funded ratios were 95.3% for PSRS and 97.6% for NTRS. This large drop in funded ratios was primarily the result of the restatement of the actuarial value of assets to the market value of assets as of June 30, 2003. This one-time adjustment recognizes all losses incurred through June 30, 2003. Without this restatement of assets, these losses would be recognized over the next five years resulting in 2003 funded ratios of 92.6% for PSRS and 92.9% for NTRS. Although either method is generally acceptable, we feel the restatement more accurately reflects the current funding of the Systems. Because of the declining funded ratios, we anticipate contribution rate increases for the 2005 school year.

Revenues for the year were \$1.8 billion. This figure is comprised of contribution revenue of \$0.8 billion and investment income of \$0.9 billion. Other miscellaneous revenues contributed \$0.1 billion.

Expenses increased 7.8% over the prior year from \$967.0 million to \$1.0 billion. Most of this increase represents 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 32. The report also contains required supplementary information in addition to the basic financial statements themselves. The Schedules of Funding Progress (page 33) 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 34) 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 35) presents the overall cost of administering the Systems. The Schedule of Professional/Consultant Fees (page 37) further details this category of administrative expense.

The Schedule of Investment Expenses (page 36) shows the costs associated with investing the assets of the Systems. These expenses are shown as a reduction of revenue on the Statement of Changes in 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 2003. The employer was required to match that amount. Most 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, 2003 were \$24.3 billion and were mostly comprised of cash, investments, and contributions due from employers. Total assets increased by \$1.2 billion or 5.1% from the prior year primarily due to increased investment earnings.

Liabilities

Total liabilities as of June 30, 2003 were \$4.2 billion and were mostly comprised of obligations under security lending arrangements and payables from the purchase of investments. Total liabilities increased by \$.5 billion. This increase was primarily due to an increased liability for the purchase of investments.

Net Assets

System assets exceeded liabilities at June 30, 2003 by \$20.0 billion. This was up from 2002 net assets of \$19.4 billion by \$0.6 billion. This increase was primarily due to an increase in investment earnings due to improving market conditions. In addition, benefit payments and other expenses exceeded contribution revenue by \$229.2 million. This trend is a natural progression in a mature defined benefit plan.

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

	<u>2003</u>	<u>2002</u>	<u>Change</u>
Cash and investments	\$ 23,039,370	\$ 22,474,060	\$ 565,310
Receivables	1,248,772	636,018	612,754
Other	9,561	9,925	(364)
Total assets	<u>24,297,703</u>	<u>23,120,003</u>	<u>1,177,700</u>
Total liabilities	<u>4,249,721</u>	<u>3,716,526</u>	<u>533,195</u>
Plan net assets	<u>\$ 20,047,982</u>	<u>\$ 19,403,477</u>	<u>\$ 644,505</u>

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

	<u>2003</u>	<u>2002</u>	<u>Change</u>
Additions			
Member contributions	\$ 378,434	\$ 356,684	\$ 21,750
Employer contributions	355,979	340,000	15,979
Investment income (loss)	873,340	(582,958)	1,456,298
Other	351	2,762	(2,411)
Total additions	<u>1,608,104</u>	<u>116,488</u>	<u>1,491,616</u>
Deductions			
Monthly benefits	930,450	860,435	70,015
Refunds of contributions	28,474	31,779	(3,305)
Administrative expenses	4,674	4,439	235
Other	1	47	(46)
Total deductions	<u>963,599</u>	<u>896,700</u>	<u>66,899</u>
Change in plan net assets	<u>\$ 644,505</u>	<u>(\$ 780,212)</u>	<u>\$ 1,424,717</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 \$37.7 million to \$734.4 million. This was a 5.4% 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.

The net investment gain was \$873.3 million as compared to a net investment loss of \$583.0 million in 2002. The PSRS one-year return of 4.8% compared favorably to other systems, which on average, gained 4.3% for the year. The PSRS one-year return exceeded the average pension fund return (universe of large institutional investors) for the third year in a row. 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 down substantially due to the one-time gain on the sale of the previous administration building of \$1.4 million in 2002.

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 2003 were \$963.6 million, an increase of 7.5% over fiscal year 2002.

Benefit expenses increased by \$70.0 million. This was a result of cost-of-living increases applied to the benefits of current retirees and the addition of 2,094 new service and disability retirees. Refunds of contributions decreased by \$3.3 million to \$28.5 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 investment options.

Administrative expenses increased by \$0.2 million to \$4.7 million. This was a 5.3% increase. This increase was primarily due to the addition of five staff members during the year, which has enabled us to better serve our members. The cost of these positions was charged 60% to PSRS and 40% to NTRS. In addition, our new administrative building was completed during fiscal year 2002. Fiscal year 2003 reflected the first full year of depreciation charges for the new building.

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 2003. The employer was required to match that amount. NTRS members also contribute to Social Security.

Assets

Total assets of NTRS as of June 30, 2003 were \$2.0 billion and were mostly comprised of cash, investments, and contributions due from employers. Total assets increased by \$0.1 billion or 6% from the prior year primarily due to increased investment returns.

Liabilities

Total liabilities as of June 30, 2003 were \$320.3 million and were mostly comprised of obligations under security lending arrangements and payables from the purchase of investments. Total liabilities increased by \$26.7 million. This increase was also primarily due to an increased liability for the purchase of investments.

Net Assets

NTRS assets exceeded liabilities at the close of fiscal year 2003 by \$1.7 billion. This was up from 2002 net assets by \$0.1 billion. This increase was primarily due to an increase in investment earnings due to improving market conditions. Because NTRS is a much younger plan than PSRS, contribution revenues exceeded benefit payments and other expenses by \$19.5 million.

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 \$5.9 million to \$97.9 million. This was a 6.5% increase over the prior year.

Retirement contributions are calculated at 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.

The net investment gain was \$73.2 million as compared to a net investment loss of \$46.7 million in 2002. The NTRS one-year return of 4.8% compared favorably to other systems, which on average, gained 4.3% for the year. The NTRS one-year return exceeded the average pension fund return (universe of large institutional investors) for the third year in a row. 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 2003 were \$78.4 million, an increase of 11.5% over fiscal year 2002.

Benefit expenses increased by \$7.5 million. This was a result of cost-of-living increases applied to the benefits of current retirees and the addition of 997 new service and disability retirees. There were no changes to the benefit formula during 2003. Refunds of contributions increased by \$0.2 million to \$8.0 million. This total amount still remains low compared to years prior to 2002. 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 investment options.

Administrative expenses increased by \$0.4 million to \$2.9 million. This was a 14.5% increase. This increase was primarily due to compensated absence expenses being allocated to NTRS for the first time. Previously, all compensated absence expenses were charged to PSRS. The addition of five staff members during the year also contributed to this increase. The cost of these positions was charged 60% to PSRS and 40% to NTRS. In addition, the portion of shared expenses allocated to NTRS increased from 39% to 40% in 2003. This allocation is based upon the number of members served in each System.

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

	<u>2003</u>	<u>2002</u>	<u>Change</u>
Cash and investments	\$ 1,892,077	\$ 1,827,470	\$ 64,607
Receivables	105,998	51,174	54,824
Other	-	1	(1)
Total assets	<u>1,998,075</u>	<u>1,878,645</u>	<u>119,430</u>
Total liabilities	<u>320,305</u>	<u>293,628</u>	<u>26,677</u>
Plan net assets	<u><u>\$ 1,677,770</u></u>	<u><u>\$ 1,585,017</u></u>	<u><u>\$ 92,753</u></u>

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

	<u>2003</u>	<u>2002</u>	<u>Change</u>
Additions			
Member contributions	\$ 48,994	\$ 46,217	\$ 2,777
Employer contributions	48,933	45,773	3,160
Investment income (loss)	73,188	(46,732)	119,920
Other	16	26	(10)
Total additions	<u>171,131</u>	<u>45,284</u>	<u>125,847</u>
Deductions			
Monthly benefits	67,399	59,871	7,528
Refunds of contributions	8,033	7,866	167
Administrative expenses	2,946	2,574	372
Other	-	1	(1)
Total deductions	<u>78,378</u>	<u>70,312</u>	<u>8,066</u>
Change in plan net assets	<u><u>\$ 92,753</u></u>	<u><u>\$ (25,028)</u></u>	<u><u>\$ 117,781</u></u>

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 five-year return of 3.5%, management will continue to strive to improve the financial position of the Systems through a prudent investment program and long-term strategic planning.

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 received. If you have any questions about this report or need additional financial information, contact the Public School and Non-Teacher School Employee Retirement System, P.O. Box 268, Jefferson City, MO 65102.

Statements of Plan Net Assets

As of June 30, 2003 with the comparative totals for June 30, 2002

	TOTALS			
	<u>PSRS</u>	<u>NTRS</u>	<u>June 30, 2003</u>	<u>June 30, 2002</u>
ASSETS				
Cash	\$ 55,520,755	\$ 24,570,982	\$ 80,091,737	\$ 44,545,364
Receivables				
Contributions	109,067,460	9,806,091	118,873,551	121,208,894
Accrued interest and dividends	73,777,171	6,361,519	80,138,690	97,019,086
Investment sales	1,065,714,969	89,823,942	1,155,538,911	468,717,028
Due from NTRS	94,105	-	94,105	79,234
Other	118,116	5,974	124,090	167,448
Total receivables	<u>1,248,771,821</u>	<u>105,997,526</u>	<u>1,354,769,347</u>	<u>687,191,690</u>
Investments, at fair value				
Fixed income	9,629,223,541	796,985,078	10,426,208,619	10,636,455,791
Domestic stocks	7,489,874,245	613,781,139	8,103,655,384	7,135,799,607
International equities	2,742,880,271	225,457,780	2,968,338,051	2,995,345,687
Short term investments	1,026,676,673	75,096,973	1,101,773,646	643,226,942
Total investments	<u>20,888,654,730</u>	<u>1,711,320,970</u>	<u>22,599,975,700</u>	<u>21,410,828,027</u>
Invested securities lending collateral	2,095,194,779	156,184,659	2,251,379,438	2,846,156,361
Prepaid expenses	191,069	-	191,069	177,131
Capital assets, net of accumulated depreciation	9,369,445	-	9,369,445	9,749,363
Total assets	<u>24,297,702,599</u>	<u>1,998,074,137</u>	<u>26,295,776,736</u>	<u>24,998,647,936</u>
LIABILITIES				
Accounts payable	7,048,880	549,776	7,598,656	7,013,540
Interest payable	1,474,387	126,829	1,601,216	351,009
Securities lending collateral	2,095,194,779	156,184,659	2,251,379,438	2,846,156,361
Investment purchases	2,145,805,458	163,224,108	2,309,029,566	1,156,266,830
Due to PSRS	-	94,105	94,105	79,234
Lease liability	10,036	-	10,036	19,619
Compensated absences	187,522	125,015	312,537	267,223
Total liabilities	<u>4,249,721,062</u>	<u>320,304,492</u>	<u>4,570,025,554</u>	<u>4,010,153,816</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	<u>\$ 20,047,981,537</u>	<u>\$ 1,677,769,645</u>	<u>\$ 21,725,751,182</u>	<u>\$ 20,988,494,120</u>
<i>(Schedules of funding progress for the plans are presented on page 33.)</i>				

See accompanying Notes to the Financial Statements.

Statements of Changes in Plan Net Assets

For the year ended June 30, 2003 with comparative totals for the year ended June 30, 2002

	TOTALS			
	PSRS	NTRS	2003	2002
ADDITIONS				
Contributions				
Employer	\$ 355,979,027	\$ 48,933,326	\$ 404,912,353	\$ 385,773,675
Member	378,434,127	48,994,009	427,428,136	402,901,788
Total contributions	<u>734,413,154</u>	<u>97,927,335</u>	<u>832,340,489</u>	<u>788,675,463</u>
Investment income				
<i>From investing activities:</i>				
Net appreciation (depreciation) in fair value of investments	456,091,771	39,016,895	495,108,666	(1,117,414,499)
Interest from investments	298,109,813	24,457,616	322,567,429	386,306,061
Interest from bank deposits	87,039	4,975	92,014	116,294
Dividends	133,210,704	10,944,770	144,155,474	107,086,968
Total investment income (loss)	<u>887,499,327</u>	<u>74,424,256</u>	<u>961,923,583</u>	<u>(623,905,176)</u>
Less investment expenses	26,289,195	2,225,613	28,514,808	25,243,072
Net income (loss) from investing activities	<u>861,210,132</u>	<u>72,198,643</u>	<u>933,408,775</u>	<u>(649,148,248)</u>
<i>From security lending activities:</i>				
Security lending gross income	47,649,593	3,914,488	51,564,081	66,992,694
Less security lending activity expenses:				
Agent fees	3,227,248	261,289	3,488,537	4,456,245
Broker rebates	32,292,969	2,664,266	34,957,235	43,079,357
Total security lending expenses	<u>35,520,217</u>	<u>2,925,555</u>	<u>38,445,772</u>	<u>47,535,602</u>
Net income from security lending activity	<u>12,129,376</u>	<u>988,933</u>	<u>13,118,309</u>	<u>19,457,092</u>
Total net investment income (loss)	<u>873,339,508</u>	<u>73,187,576</u>	<u>946,527,084</u>	<u>(629,691,156)</u>
Other income:				
NTRS capital asset charge	240,353	-	240,353	223,160
Miscellaneous income	111,180	15,859	127,039	2,564,491
Total other income	<u>351,533</u>	<u>15,859</u>	<u>367,392</u>	<u>2,787,651</u>
Total additions	<u>1,608,104,195</u>	<u>171,130,770</u>	<u>1,779,234,965</u>	<u>161,771,958</u>
DEDUCTIONS				
Monthly benefits	930,449,641	67,398,657	997,848,298	920,306,125
Refunds of contributions	28,474,288	8,033,535	36,507,823	39,645,251
Administrative expenses	4,674,174	2,945,847	7,620,021	7,013,643
Other expenses	1,453	308	1,761	46,617
Total deductions	<u>963,599,556</u>	<u>78,378,347</u>	<u>1,041,977,903</u>	<u>967,011,636</u>
Net increase (decrease)	644,504,639	92,752,423	737,257,062	(805,239,678)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS				
Beginning of year	19,403,476,898	1,585,017,222	20,988,494,120	21,793,733,798
End of year	<u>\$ 20,047,981,537</u>	<u>\$ 1,677,769,645</u>	<u>\$ 21,725,751,182</u>	<u>\$ 20,988,494,120</u>

See accompanying Notes to the Financial Statements.

Notes to the Financial Statements

June 30, 2003

(with comparative information for June 30, 2002)

Note 1 — Plan Descriptions

The Board of Trustees of the Public School Retirement System administers two separate retirement systems, the Public School Retirement System of Missouri (PSRS) and the Non-Teacher School Employee Retirement System of Missouri (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 System are found in Sections 169.010-169.141 and Sections 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 five years of creditable service. Individuals who are (a) at least age 60 and have a minimum of five 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 five to 24.9 years of service at age 55 or with 25 years of service (if not yet age 55). Members who are younger 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, 2008. 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 contribution restrictions 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>2003</u>	<u>2002</u>
Retirees and beneficiaries receiving benefits	32,249	30,865
Inactive members entitled to but not yet receiving benefits	5,031	4,588
Active members:		
Vested	51,580	50,489
Non-vested	22,767	23,184
Total active members	74,347	73,673
Other inactive members	5,300	4,788
Total	<u>116,927</u>	<u>113,914</u>

Employers— PSRS had 546 contributing employers during both years.

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 five years of creditable service. Individuals who are (a) at least age 60

and have a minimum of five 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. 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 five years of service at age 55. Members who are younger 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, 2008. 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 both years. 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>2003</u>	<u>2002</u>
Retirees and beneficiaries receiving benefits	14,837	14,270
Inactive members entitled to but not yet receiving benefits	3,002	2,768
Active members:		
Vested	21,408	20,181
Non-Vested	<u>25,455</u>	<u>26,547</u>
Total active members	46,863	46,728
Other inactive members	<u>14,649</u>	<u>13,145</u>
Total	<u><u>79,351</u></u>	<u><u>76,911</u></u>

Employers— NTRS had 536 contributing employers during both years.

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.

Capital Assets — The building and most other capital 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 40 years in the following major classes: computers and software, three years; vehicles, five years; equipment, five years; building and land improvements, 15 years; building, 40 years.

NTRS owns office equipment purchased before 1997 and follows the same guidelines for depreciation. NTRS reimburses PSRS for the use of capital assets used by the two Systems on a proportional basis. The amount of this reimbursement was \$240,353 in 2003 and \$223,160 in 2002.

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, 2003 was \$10,036.

Estimates — The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of net assets held in trust for pension benefits at June 30, 2003. Actual results could differ from those estimates.

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>2003</u>	<u>2002</u>
<i>Designated for Members' Contributions (Member Reserves) —</i> Accumulation of active and terminated member contributions plus interest.	\$ 4,657,734,877	\$ 4,366,500,583
<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 Systems' obligation for benefit payments and cost-of-living adjustments to current retirees and beneficiary recipients.	11,386,250,807	10,588,268,955
<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.	1,292,088	1,276,650
<i>Designated for Operating Expenses/Benefits to Future Retirees</i> <i>(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.	4,002,703,765	4,447,430,710
Net Assets Held In Trust For Pension Benefits	<u>\$ 20,047,981,537</u>	<u>\$ 19,403,476,898</u>

NTRS

	<u>2003</u>	<u>2002</u>
<i>Designated for Members' Contributions (Member Reserves) —</i> Accumulation of active and terminated member contributions plus interest.	\$ 383,179,328	\$ 341,393,112
<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 Systems' obligation for benefit payments and cost-of-living adjustments to current retirees and beneficiary recipients.	731,059,146	651,294,735
<i>Designated for Operating Expenses/Benefits to Future Retirees</i> <i>(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.	563,531,171	592,329,375
Net Assets Held In Trust For Pension Benefits	<u>\$ 1,677,769,645</u>	<u>\$ 1,585,017,222</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, 2003, the NTRS carrying amount of deposits at the depository bank was (\$577,789) 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, 2003, the PSRS carrying amount of deposits at the depository bank was \$16,884,157 and the bank balance was \$14,579,337. Of the bank balance, \$100,000 was covered by federal depository insurance. The remaining \$14,479,337 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>2003 Book</u>	<u>2003 Bank</u>	<u>2002 Book</u>	<u>2002 Bank</u>
PSRS				
Depository bank	\$ 16,884,157	\$ 14,579,337	\$ 7,691,766	\$ 8,631,549
Custodial bank	38,109,933	38,109,933	17,050,171	17,050,171
NTRS				
Depository bank	\$ (577,789)	\$ -	\$ (483,854)	\$ -
Custodial bank	23,412,206	23,412,206	15,484,060	15,484,060

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, 2003</u>	<u>June 30, 2002</u>
Category 1 Investments		
Municipals	\$ 18,995,884	\$ 25,823,585
FHA/VA mortgages	4	4
U.S. Government and agencies securities	3,469,437,328	2,971,050,622
Domestic fixed income	1,601,906,662	1,855,212,610
Domestic equities	5,120,315,836	3,842,849,118
International equities	2,283,849,138	1,846,095,450
REITS	8,731,610	7,151,282
Category 2 Investments		
Repurchase agreements	526,665	3,031,159
Investments Not Categorized		
Loaned under the securities lending program		
U.S. Government and agencies securities	1,175,432,075	1,891,637,043
Domestic corporate fixed income securities	64,444,910	108,977,020
Domestic equities	396,286,661	140,314,016
International equities	459,031,133	498,974,486
Pooled funds		
Domestic corporate fixed income securities	3,299,006,678	2,981,877,088
Domestic equities	1,964,540,138	2,609,347,495
International equities	-	429,161,248
Money market fund	1,026,676,673	597,913,307
Total Investments	<u>20,889,181,395</u>	<u>19,809,415,533</u>
Security lending collateral (not categorized)	2,095,194,779	2,639,902,565
Total	<u>\$ 22,984,376,174</u>	<u>\$ 22,449,318,098</u>
 Reconciliation to Statement of Plan Net Assets		
Number from above	\$ 22,984,376,174	\$ 22,449,318,098
Less:		
Security lending collateral	(2,095,194,779)	(2,639,902,565)
Repurchase agreements reported as cash	(526,665)	(3,031,159)
Investments per Statement of Plan Net Assets	<u>\$ 20,888,654,730</u>	<u>\$ 19,806,384,374</u>

NTRS

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Category 1 Investments		
Municipals	\$ 1,538,048	\$ 1,900,090
U.S. Government and agencies securities	283,769,008	244,178,254
Domestic fixed income	132,363,051	152,669,981
Domestic equities	426,293,352	305,201,010
International equities	195,728,912	151,151,005
REITS	703,864	543,938
Category 2 Investments		
Repurchase agreements	1,736,565	1,772,062
Investments Not Categorized		
Loaned under the securities lending program		
U.S. Government and agencies securities	95,389,446	144,486,109
Domestic fixed income	4,530,475	6,106,250
Domestic equities	26,535,870	19,109,857
International equities	29,728,868	36,551,581
Pooled funds		
Domestic corporate fixed income securities	279,395,050	252,537,135
Domestic equities	160,248,053	211,282,891
International equities	-	33,411,917
Money market fund	75,096,973	45,313,635
Total Investments	<u>1,713,057,535</u>	<u>1,606,215,715</u>
Security lending collateral (not categorized)	156,184,659	206,253,796
Total	<u>\$ 1,869,242,194</u>	<u>\$ 1,812,469,511</u>

Reconciliation to Statement of Plan Net Assets

Number from above	\$ 1,869,242,194	\$ 1,812,469,511
Less:		
Security lending collateral	(156,184,659)	(206,253,796)
Repurchase agreements reported as cash	(1,736,565)	(1,772,062)
Investments per Statement of Plan Net Assets	<u>\$ 1,711,320,970</u>	<u>\$ 1,604,443,653</u>

Derivatives — The 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. Derivatives are reported at fair value on the Statement of Plan Net Assets.

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>2003</u>	<u>Purchase Value</u>	<u>Fair Value</u>
PSRS	\$ 61,969,938	\$ 62,812,527
NTRS	4,982,163	4,972,295
<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

The “Net Appreciation (Depreciation) in Fair Value of Investments” found on the Statement of Changes in Plan Net Assets includes for PSRS a net loss on forward contracts and currency disposal of \$1,722,322 during 2002-2003 and a net loss of \$3,913,813 during 2001-2002. NTRS had a similar net loss of \$149,542 during 2002-2003 and a net loss of \$340,839 in 2001-2002.

Certain managers are authorized to enter into contractual commitments involving other financial instruments with off-balance-sheet risk. During the year, the systems held Russell 2000 futures, S&P 500 futures, and Treasury futures. These are used to minimize the expenses and volatility of the portfolio.

In addition to the currency forwards listed above, the following derivatives were held by the Systems at June 30, 2003:

Type	PSRS Notional Value	NTRS Notional Value
S&P 500 Futures	\$ 29,365,146	\$ 2,409,351
Russell 2000 Futures	15,859,933	1,149,412
Treasury Futures	423,867,831	37,922,040
Total	\$ 469,092,910	\$ 41,480,803

The Systems’ exposure to derivatives as a percent of total investments does not differ substantially from June 30, 2002.

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, 2003 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, 2003 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 \$2,363,532,666 and \$2,270,277,863 for June 30, 2003 and \$2,794,103,529 and \$2,730,606,557 for June 30, 2002. Net security lending income was \$12,129,376 for the 2002-2003 fiscal year and \$18,054,982 for the 2001-2002 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 \$183,147,489 and \$174,836,594 for June 30, 2003 and \$218,847,435 and \$214,114,461 for June 30, 2002. Net security lending income was \$988,933 for the 2002-2003 fiscal year and \$1,402,110 for the 2001-2002 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 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 2002-2003. The deposits and interest of the two members who have not yet retired totaled \$1,382 as of June 30, 2003.

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 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 \$28,618 for the 2002-2003 fiscal year and \$30,121 for 2001-2002. The amounts for these years are equal to the required contributions.

NTRS members were required to contribute 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 NTRS totaled \$195,887 for the 2002-2003 fiscal year and \$174,859 for 2001-2002. The amounts for these years are equal to the required contributions.

Section 457 Deferred Compensation Plan

A voluntary Section 457 deferred compensation plan is

administered to provide additional retirement benefits for employees. The plan provides for employer-matching contributions up to a set maximum. The total contributions are subject to the limitations established in IRC Section 457. The Board of Trustees has authority to establish the employer contribution levels. For employees that are members of PSRS, the System will match up to \$50 per month. For employees that are members of NTRS, the System will match \$50 plus 0.52% of salary per month. For certain employees, the System will make employer-paid contributions of \$1,000 per month. This is governed by individual employment contracts as approved by the Board of Trustees.

All employees immediately vest in the employer-matching and employer-paid contributions. Employer-matching contributions totaled \$57,722 for the 2002-2003 fiscal year and \$54,424 for the 2001-2002 fiscal year. Employer-paid contributions totaled \$17,250 for the 2002-2003 fiscal year and \$10,500 for the 2001-2002 fiscal year. Employee contributions totaled \$131,077 for the 2002-2003 fiscal year and \$139,617 for the 2001-2002 fiscal year.

Maintenance of individual member accounts and custody of assets have been contracted to a third party administrator and investment custodian. Total contributions are sent directly to the third party administrator by the employer. Employees 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 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 \$2,145,805,458 on June 30, 2003 and to the future purchase of \$1,069,508,913 in investments on June 30, 2002. NTRS had investment commitments of \$163,224,108 on June 30, 2003 and \$86,757,917 on June 30, 2002.

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.

Schedules of Funding Progress

Required Supplementary Information

Public School 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)
6/30/1998	\$ 14,979,358	\$ 14,471,049 ¹	\$ (508,309)	103.5%	\$ 2,577,594	(19.7)%
6/30/1999	17,209,870	16,373,144 ²	(836,726)	105.1	2,690,007	(31.1)
6/30/2000	19,437,223	18,279,113 ³	(1,158,110)	106.3	2,836,062	(40.8)
6/30/2001	21,146,294	21,282,203 ⁴	135,909	99.4	2,982,051	4.6
6/30/2002	22,236,105	23,333,937 ⁵	1,097,832	95.3	3,213,461	34.2
6/30/2003	20,047,982	24,719,450 ⁶	4,671,468	81.1	3,373,058	138.5

¹ Legislative improvements to the benefit formula and ad hoc benefit increases for retirees added \$1.1 billion to the AAL.

² Legislative improvements to age of eligibility ("Rule of 80") and ad hoc benefit increases for retirees added \$982.5 million to the AAL.

³ Legislative improvement to the benefit formula and ad hoc benefit increases for retirees added \$643 million to the AAL.

⁴ Legislative improvements to the benefit formula and ad hoc benefit increases for retirees added \$630.3 million to the AAL.

Actuarial assumptions were also revised.

⁵ There were no legislative changes in fiscal year 2002.

⁶ The extension of the 25-and-Out provision to 2008 is included in the AAL for 2003.

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)
6/30/1998	\$ 1,150,311	\$ 1,036,347 ¹	\$ (113,964)	111.0%	\$ 616,303	(18.5)%
6/30/1999	1,335,308	1,168,511 ²	(166,797)	114.3	685,272	(24.3)
6/30/2000	1,522,660	1,395,300 ³	(127,360)	109.1	735,400	(17.3)
6/30/2001	1,686,242	1,636,076 ⁴	(50,166)	103.1	814,158	(6.2)
6/30/2002	1,810,619	1,855,982 ⁵	45,363	97.6	895,420	5.1
6/30/2003	1,677,770	2,049,716 ⁶	371,946	81.9	971,177	38.3

¹ 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.

² Legislative improvements to age of eligibility and benefit formula plus ad hoc benefit increases for retirees added \$80.3 million to the AAL.

³ Legislative improvements to the benefit formula and ad hoc benefit increases for retirees added \$121.7 million to the AAL.

⁴ Legislative improvements to the benefit formula and ad hoc benefit increases for retirees added \$126.4 million to the AAL.

Actuarial assumptions were also revised.

⁵ There were no legislative changes in fiscal year 2002.

⁶ The extension of the 25-and-Out provision to 2008 is included in the AAL for 2003.

See accompanying Independent Auditors' Report.

Schedules of Employer Contributions

Required Supplementary Information

Public School Retirement System

<u>Year Ended</u> <u>June 30</u>	<u>Annual Required</u> <u>Contribution (ARC)</u>	<u>Percentage</u> <u>Contributed</u>
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
2003	355,979,027	94.5

Non-Teacher School Employee Retirement System

<u>Year Ended</u> <u>June 30</u>	<u>Annual Required</u> <u>Contribution (ARC)</u>	<u>Percentage</u> <u>Contributed</u>
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
2003	48,933,326	92.6

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, 2003
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 Marked to Market as of 6/30/2003

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 27.75% for fiscal year 2004. The annual statutory increase in the total contribution rate may not exceed 1% of pay. Contribution rates will be established by actuarial valuation.
- 2) 30 year amortization assumes an ARC rate of 12.47% for fiscal year 2004. The annual statutory increase in the total contribution rate may not exceed .5% of pay. Contribution rates will be established by actuarial valuation.

Schedule of Administrative Expenses

For the year ended June 30, 2003

	PSRS	NTRS	TOTAL
Personal services	\$ 2,586,482	\$ 1,893,799	\$ 4,480,281
Professional services			
Actuarial	75,415	45,532	120,947
Audit	21,720	14,480	36,200
Computer consultants	22,084	14,723	36,807
Insurance consultant	3,600	2,400	6,000
Legislative consultant	19,200	12,800	32,000
Other consultants	44,100	29,400	73,500
Legal expenses	90,368	31,369	121,737
Total professional services	276,487	150,704	427,191
Communications			
Information and publicity	316,984	218,976	535,960
Postage	77,756	64,628	142,384
Printing	50,132	29,481	79,613
Staff field	23,676	9,492	33,168
Telephone	60,894	40,597	101,491
Total communications	529,442	363,174	892,616
Miscellaneous			
Building and utilities	77,606	51,734	129,340
Board of trustees	43,155	28,528	71,683
Insurance	60,107	40,071	100,178
Office	150,290	100,194	250,484
Staff development	84,014	56,110	140,124
Miscellaneous	87,849	19,250	107,099
Total miscellaneous	503,021	295,887	798,908
Charge for use of fixed assets	-	240,353	240,353
Depreciation expense	778,742	1,930	780,672
Total administrative expenses	\$ 4,674,174	\$ 2,945,847	\$ 7,620,021

See accompanying Independent Auditors' Report.

Schedule of Investment Expenses

For the year ended June 30, 2003

	<u>PSRS</u>	<u>NTRS</u>	<u>TOTAL</u>
Investment management expenses			
U.S. equity	\$ 12,000,506	\$ 927,622	\$ 12,928,128
International equity	7,736,423	589,696	8,326,119
U.S. fixed income	4,061,018	312,235	4,373,253
Private equity	249,663	18,792	268,455
Total investment management expenses	<u>24,047,610</u>	<u>1,848,345</u>	<u>25,895,955</u>
Investment consultant fees	339,073	25,478	364,551
Custodial bank fees	1,557,314	121,441	1,678,755
Investment staff expenses	345,198	230,349	575,547
Total investment income expenses	<u>\$ 26,289,195</u>	<u>\$ 2,225,613</u>	<u>\$ 28,514,808</u>
Security lending expenses			
Agent fees	\$ 3,227,248	\$ 261,289	\$ 3,488,537
Broker rebates	32,292,969	2,664,266	34,957,235
Total security lending expenses	<u>\$ 35,520,217</u>	<u>\$ 2,925,555</u>	<u>\$ 38,445,772</u>

Schedule of Professional/Consultant Fees

For the year ended June 30, 2003

	<u>PSRS</u>	<u>NTRS</u>	<u>TOTAL</u>
Actuarial services	\$ 75,415	\$ 45,532	\$ 120,947
Legal counsel	90,368	31,369	121,737
Financial audit	21,720	14,480	36,200
Legislative consulting	19,200	12,800	32,000
Technology consulting	22,084	14,723	36,807
Insurance consulting	3,600	2,400	6,000
Other consulting	44,100	29,400	73,500
Total fees	<u>\$ 276,487</u>	<u>\$ 150,704</u>	<u>\$ 427,191</u>

