Oregon Public Employees Retirement System

An Agency of the State of Oregon

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2003

Change is inevitable, and the Oregon Legislature made significant changes to the Oregon Public Employees Retirement System during the 2001-2003 legislative session. To reflect the changing times, we have used representative photographs to depict our membership. Our "then" photographs are from 1946, when PERS began operations, and our "now" photographs are from 2002-03.

Thank you to the following agencies for supplying the photographs used in this report: Polk County Historical Society (page 1), Oregon Education Association (page 9), Oregon State Police (page 43), Oregon Department of Fish and Wildlife (page 51), and Oregon Department of Transportation (page 63).

Oregon Public Employees Retirement System

An Agency of the State of Oregon

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2003

Laurie A. Warner
Interim Executive Director

Dale S. Orr
Chief Financial Officer

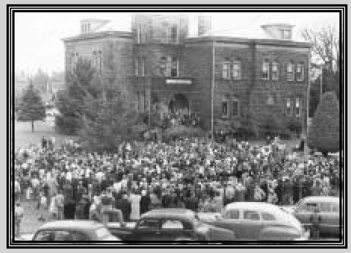
11410 SW 68th Parkway, Tigard OR 97223
Mailing Address – PO Box 23700, Tigard OR 97281-3700 – Phone 503-598-7377
Web site - www.pers.state.or.us

PERS Oregon Public Employees Retirement System

Table of Contents

Introductory Section

Political subdivisions have been part of PERS since it began in 1946. The agency currently covers the employees of 495 political subdivisions.



Polk County Courthouse Then

Polk County Courthouse Now

Oregon
Theodore R. Kulongoski, Governor

Public Employees Retirement System
Headquarters:
11410 S.W. 68th Parkway, Tigard, OR
Mailing Address:
P.O. Box 23700
Tigard, OR 97281-3700
(503) 598-7377
TTY (503) 603-7766
www.pers.state.or.us

December 12, 2003

Public Employees Retirement Board
Oregon Public Employees Retirement System
Tigard, Oregon 97281-3700

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the Oregon Public Employees Retirement System (PERS or "the System") for the fiscal year ended June 30, 2003. PERS management is responsible for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures.

The report is divided into five sections: (1) an Introductory Section, which contains this transmittal letter, administrative organization, and the Certificate of Achievement for Excellence in Financial Reporting; (2) the Financial Section, which contains the Independent Auditor's Report by the Oregon Audits Division; Management's Discussion and Analysis; the financial statements of the System; and certain required supplementary information; (3) an Investment Section, which contains the Investment Officer's report on investment activity, investment policies, investment results, and various investment schedules; (4) the Actuarial Section, which contains the Actuary's Certification Letter and the results of the biennial actuarial valuation; and (5) a Statistical Section, which includes significant PERS data. Management's Discussion and Analysis (MD&A) provides a narrative introduction, overview, and analysis to accompany the basic financial statements. This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. We would like to direct your attention to MD&A which begins on page 12.

This report includes all funds over which the Public Employees Retirement Board (Board) exercises authority. These funds were established to provide retirement, death, and disability benefits to members; administer retiree health insurance programs; and oversee the state-sponsored deferred compensation program. PERS currently provides services to more than 300,000 members and retirees and to 869 employers.

Major Initiatives

Several major events and initiatives dominated PERS during the past year and will most likely dominate PERS into the next year and beyond. Due to the large unfunded actuarial liability (UAL) and corresponding increases in employer contribution rates, the 2003 Oregon legislative assembly passed a number of bills that affect the System. Reform measures include (1) updating mortality tables and requiring the mortality tables to be reviewed on a regular basis; (2) shifting future employee contributions to a defined contribution plan; (3) creating a new defined benefit plan for new members; (4) converting the annual assumed guaranteed rate of return (currently 8 percent) to the assumed rate of return to be received by members on their accounts over the length of their service; (5) temporarily suspending future cost-of-living increases for retirees who have received excess interest credited to their accounts in 1999; and (6) creating a new Board. This new legislation is discussed extensively in Note 10, Recent Events, on page 30. Several lawsuits have been filed in both the Oregon supreme court and federal district court challenging the changes implemented by this legislation. See Note 11, Litigation, on page 31, for a more detailed discussion.

Financial Information

The financial information contained in this document is presented in conformance with reporting requirements of the Governmental Accounting Standards Board (GASB) Statements 25 (defined benefit pension plans), 26 (postemployment healthcare plans), and 32 (deferred compensation plans).

Internal Controls

Management is responsible for establishing and maintaining a system of internal controls to protect PERS assets from loss, theft, or misuse and to ensure that adequate accounting data is compiled for the preparation of financial statements in conformity with generally accepted accounting principles. This internal control system provides reasonable, but not absolute, assurance that these objectives are met.

Funding

Member contributions are set by statute at 6.0 to 7.0 percent of covered salary. Employer contributions have been established by actuarial valuations conducted biennially on odd-numbered calendar years. PERS' funding objective is to meet long-term benefit promises through contributions that remain approximately level as a percent of employer payroll. If the level of funding is adequate, the ratio of assets accumulated to total liabilities will increase and more income will be available for investment. Prudent investment of assets and the returns on those investments should increase the funding base and allow for a more stable employer contribution rate. Recent investment losses have caused erosion in the PERS' funded status, which currently has a funded ratio of 90 percent (see page 56).

Investments

The Oregon Investment Council (OIC) has statutory authority (ORS 293.701) to establish policies for the investment and reinvestment of PERS funds. The primary investment objective of the OIC is to make PERS investment funds as productive as possible. At the same time, the OIC acts as a prudent investor in the management of the PERS portfolio. Descriptions of specific OIC policies regarding diversification, performance objectives, fees, and asset allocation are found on pages 44 through 50.

Other Information

Professional Services

Professional consultants are appointed by the Board to perform services essential to the efficient operation of PERS. The audit opinion from the Oregon Audits Division and certification from the PERS actuary are included in this report. The consultants appointed by the Board are listed in the organizational chart on page 7.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to PERS for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2002. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards of preparation of state and local government financial reports.

To be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for one year only. PERS has received a Certificate of Achievement for the last 12 consecutive years. We believe our current report continues to conform with the Certificate of Achievement program requirements, and we are submitting it to the GFOA.

Acknowledgments

PERS intends to provide complete and reliable information as a basis for making management decisions, to demonstrate responsible stewardship of assets contributed by members and their employers, and to comply with legal provisions. The compilation of this report reflects the combined efforts of the PERS staff. Special recognition is extended to Gene Chouinard, CPA, who coordinated the compilation of the report.

Summary financial information will be reported in the PERS newsletter, *Perspectives,* which is distributed to active and retired members. This report will be posted to the PERS Web site.

The cooperation of PERS employers contributes significantly to PERS' success and is greatly appreciated. We would also like to express our gratitude to the staff, the Board, the advisors, and the many other people who work so diligently to assure the successful operation of PERS.

Respectfully submitted,

Laurie A. Warner
Interim Executive Director

Dale S. Orr
Chief Financial Officer

Certificate of Achievement

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Oregon Public Employees Retirement System

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2002

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

March 26, 1945, Governor Snell signs HB 344 into law, creating the Oregon Public Employees Retirement System. PERS began in 1946.
Also pictured are (standing, left to right): Delmar Cash, Fred Inkster, Forrest Stewart, Herman Kehrli, Frank Van Dyke, William Sylvester, I.A. DeFrance, Senator Paul L. Patterson, J.W. McArthur, and Martha Shull.

Public Employees Retirement Board

Michael Pittman
Board Chair

James Dalton

Thomas Grimsley

Eva Kripalani

Brenda Rocklin

Public Employees Retirement Board

The Public Employees Retirement Board is made up of five members. All are appointed by the governor and confirmed by the senate. The governor designates the chairperson.

One member must be a public employer manager or a local elected official, one member must be a union-represented public employee, and three members must have experience in business management, pension management, or investing.

Public Employees Retirement System Organizational Chart

Public Employees Retirement Board

Laurie A. Warner
Interim Executive Director

- **Actuary:** Mark O. Johnson, F.S.A., Milliman USA
- **Legal Counsel:** Robert W. Muir, Assistant Attorney General, Oregon Department of Justice
- **Insurance Consultant:** B.W. Reed Benefits, Inc.
- **Medical Advisor:** Lawrence Duckler, M.D.

- Internal Auditor
- Health Insurance
- Personnel Services
- Executive Support

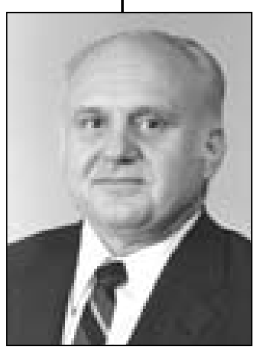
David Bailey
Deputy Director

Marsha Bacon
Administrator, Customer Service Division

- Customer Service Center
- Deferred Compensation Program
- Publications and Communications

Steve Delaney
Administrator, Policy, Planning, and Legislative Analysis Group

- Legislative Issues
- Research and Risk Management
- Social Security
- Contested Case Hearings
- Administrative Rules



Ed Johnson
Administrator, Information Services Division

- Image and Information Management
- Information Services
- Technical Operations
- Software Engineering

Dale Orr
Administrator, Fiscal Services Division

- Financial Reporting
- Fiscal Operations
- Auxiliary Services

Jacqueline Reep
Administrator, Processing and Data Quality Division

- Membership/ Employer Relations
- Specialty Services
- Retirement Services

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Financial Section

School districts make up a significant part of PERS memberships. PERS includes 232 school districts and 17 community colleges.

Oregon classroom
Then

Oregon classroom
Now

OFFICE OF THE
SECRETARY OF STATE
Bill Bradbury
Secretary of State

AUDITS DIVISION
Cathy Pollino
Director

(503) 986-2255
FAX (503) 378-6767

Auditing for a Better Oregon

The Honorable Theodore Kulongoski
Governor of Oregon
254 State Capitol
Salem, Oregon 97301-4047

The Board of Trustees
Oregon Public Employees Retirement System
11410 SW 68th Parkway
Tigard, Oregon 97223

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of the Oregon Public Employees Retirement System (PERS), as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of PERS management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 4, the basic financial statements present only the Oregon Public Employees Retirement System (PERS) and do not purport to, and do not, present fairly the financial position of the state of Oregon as of June 30, 2003, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of PERS, as of June 30, 2003, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

255 Capitol Street NE • Suite 500 • Salem, Oregon 97310
INTERNET: Audits.hotline@state.or.us • http://www.sos.state.or.us/audits/audithp.htm

The management's discussion and analysis and information listed as required supplementary information in the table of contents are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of PERS. The accompanying supplementary information, designated as the supporting schedules, introductory section, investment section, actuarial section, and statistical section in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying supplementary information listed above has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards,* we have also issued our report dated December 12, 2003 on our consideration of the Oregon Public Employees Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit. That report is separately presented as an other report, as listed in the table of contents.

OREGON AUDITS DIVISION

Bill Bradbury
Secretary of State

December 12, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents management's discussion and analysis of the Oregon Public Employees Retirement System's (PERS or "the System") financial performance during the fiscal year that ended on June 30, 2003. Please read it in conjunction with the transmittal letter on pages 2 through 3 and the financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS AND ACCOMPANYING INFORMATION

1. **Basic Financial Statements.** The System presents comparative financial statements as of June 30, 2003 and 2002, prepared on a full accrual basis. They are:
    a. Statements of Fiduciary Net Assets
    b. Statements of Changes in Fiduciary Net Assets
    c. Notes to the Financial Statements

2. **Required Supplementary Information.** The required supplementary information consists of:
    a. Schedules of Funding Progress
    b. Schedules of Employer Contributions
    c. Notes to the Required Supplementary Information

3. **Other Supplementary Schedules.**
    a. Combining schedules show the detailed components of the Defined Benefit Pension Plan and Postemployment Healthcare Plan.
    b. Other schedules include detailed information on administrative expenses incurred by the System and a summary of investment fees, commissions, and expenses.

The basic financial statements contained in this CAFR are described below:

- The Statements of Fiduciary Net Assets show a point-in-time snapshot of account balances at fiscal year-end. They report the assets available for future benefit payments and any current liabilities as of the statement date. The liabilities do not include the actuarial value of future benefits. Net Assets (Assets - Liabilities = Net Assets) represent the value of assets held in trust for payment of pension, postemployment healthcare, and deferred compensation benefits.

- The Statements of Changes in Fiduciary Net Assets show the sources and uses of funds during the fiscal year, where Additions - Deductions = Net Increase (or Decrease) in Net Assets. This Net Increase (or Decrease) in Net Assets illustrates the change in net assets as reported in the Statements of Fiduciary Net Assets from the prior year to the current year. The financial statements are prepared based on an economic resources focus and accrual basis of accounting in accordance with Governmental Accounting Standards Board (GASB) pronouncements. The provision of objective, consistent, and comparable information about operating costs requires a measurement focus on economic resource flows. It also requires use of the accrual basis of accounting, which recognizes economic transactions and other events when they occur, rather than only when the related inflows and outflows of cash or other financial resources occur. Acquired but unused goods and services are reported as assets until they are used, thus giving important information about resources already acquired that can be used to provide future services.

- The notes to the financial statements, beginning on page 20, are an integral part of the financial statements and include additional detailed information and schedules to provide a better understanding of the financial statements. Information in the notes discloses the System's organization; benefits and contributions; how asset values are determined; and contingencies and commitments.

Because of the long-term nature of a defined benefit pension plan, financial statements alone cannot provide sufficient information to properly reflect the ongoing plan perspective. Therefore, in addition to the financial statements explained above, this CAFR includes Required Supplementary Information schedules with historical trend information.

- The Schedules of Funding Progress, page 32, contain actuarial information about the status of the plan from an ongoing, long-term perspective, showing whether there are sufficient assets to pay pension and postemployment benefits when due. Actuarial Liabilities in excess of Valuation Assets indicate that insufficient assets have been accumulated as of the valuation date to fund the future benefits of current members and retirees.

- The Schedules of Employer Contributions, page 33, contain historical trend information regarding the value of total annual contributions employers must pay and the actual contributions by employers in meeting this requirement.

- The Notes to the Required Supplementary Information, page 34, provide background information and explanatory detail to help in understanding the required supplementary schedules.

The Schedules of Plan Net Assets and Schedules of Changes in Plan Net Assets, pages 35 through 38, display the components of the defined benefit pension and postemployment healthcare plans.

The Schedule of Administrative Expenses and Schedule of Payments to Consultants, page 39, show the costs of managing the System. The Summary of Investment Fees, Commissions, and Expenses, page 40, provides the detail of investment-related expenses included in the line item Investment Expense reported in the Statements of Changes in Fiduciary Net Assets.

FINANCIAL HIGHLIGHTS

- PERS' assets exceed its liabilities at the close of fiscal year 2003, with $37,735.8 million held in trust for pension, postemployment healthcare, and deferred compensation benefits.

- Fiduciary net assets increased by $2,440.3 million, or 6.9 percent, during the fiscal year, due in part to a rise in equity markets at home and abroad. Additionally, several employers made significant payments to reduce their unfunded actuarial liabilities (UALs).

- PERS' funding objective is to meet long-term defined pension benefit obligations and to partially fund healthcare benefits. As of December 31, 2002, the date of the latest actuarial valuation, the funded ratio of PERS was 90 percent. In general, this means that for every dollar of future pension benefits due, PERS has approximately $0.90 of net assets available for payment.

- Revenues (additions to fiduciary net assets) for fiscal year 2003 were $4,646.4 million, which includes member and employer contributions of $1,186.4 million, UAL payments of $1,953.1 million, and net gains from investment activities totaling $1,484.4 million.

- Expenses (deductions from fiduciary net assets) rose to $2,206.1 million, or 18.0 percent, during fiscal year 2003, from $1,869.8 million during fiscal year 2002. The increase is a result of PERS paying pension benefits to more retirees and corresponding increases in healthcare subsidy payments.

FIDUCIARY NET ASSETS

The following condensed comparative summary of Fiduciary Net Assets demonstrates that the pension trust is primarily focused on investments and net assets (reserves).

TABLE 1
FIDUCIARY NET ASSETS
(in millions)
As of June 30:

	Defined Benefit Pension Plan		Postemployment Healthcare Plan		Deferred Compensation Plan	
	2003	2002	2003	2002	2003	2002
Cash and Receivables	$ 3,662.3	$ 3,317.5	$ 36.6	$ 44.1	$ 4.9	$ 1.2
Investments at Fair Value	36,039.5	34,139.4	86.0	76.0	577.0	545.1
Securities Lending Collateral	2,069.6	2,091.5	-	-	-	-
Other	9.5	7.5	-	-	-	-
Total Assets	41,780.9	39,555.9	122.6	120.1	581.9	546.3
Investment Purchases	2,494.2	2,669.7	6.0	1.9	3.7	0.2
Securities Lending Payable	2,069.6	2,091.5	-	-	-	-
Other Payables	175.9	161.1	0.1	2.3	0.1	0.1
Total Liabilities	4,739.7	4,922.3	6.1	4.2	3.8	0.3
Total Net Assets	$ 37,041.2	$ 34,633.6	$ 116.5	$ 115.9	$ 578.1	$ 546.0

- Improving financial markets produced positive returns on PERS investments for the first time in three years. Additionally, contributions were significantly higher due to employer UAL payments. The net assets of the defined benefit pension plan increased approximately $2,407.7 million, or 7.0 percent, during the year ended June 30, 2003.

- The net assets of the postemployment healthcare plan increased approximately $0.7 million or 0.6 percent, during the year ended June 30, 2003, primarily due to increases in member contributions and participation in the plan, offset by increased retiree healthcare expense.

- The net assets of the deferred compensation plan increased approximately $32.0 million, or 5.9 percent, during the year ended June 30, 2003, primarily due to an upturn in investment markets.

CHANGES IN FIDUCIARY NET ASSETS

Revenues - Additions to Fiduciary Net Assets

Additions to Fiduciary Net Assets needed to finance retirement benefits are accumulated through the collection of employer and member contributions and through investment income.

- Member contributions to the defined benefit pension plan increased $9.4 million, or 2.4 percent, compared to fiscal year 2002. The increase in member contributions is attributed to a continued increase in salaries on which the contribution amounts are based.

- Member contributions to the postemployment healthcare plan increased $14.1 million, or 27.0 percent, compared to fiscal year 2002. The increase is attributed to higher contributions made to the Standard Retiree Health Insurance Account to pay for higher healthcare costs in fiscal year 2003.

- Member contributions to the deferred compensation plan increased $2.8 million, or 5.9 percent, compared to fiscal year 2002. The rise is due to increases in the salaries of active members and a concurrent increase in deferrals based on a percentage of those salaries. Active membership remained level, decreasing slightly from 18,270 to 18,182.

- Employer contributions to the defined benefit pension plan increased $1,589.9 million, or 160.7 percent, compared to fiscal year 2002. Employer contributions were $2,579.0 million in fiscal year 2003 and $989.1 million in fiscal year 2002. The significant increase in employer contributions resulted from several employers making additional contributions of $1,953.1 million to reduce their UALs.

- Employer contributions to the postemployment healthcare plan increased $1.3 million, or 3.1 percent, compared to fiscal year 2002 due to salary increases on which the contribution amounts are based.

- Net investment and other income in the defined pension plan was $1,466.0 million, a $3,888.0 million, or 160.5 percent, increase over the fiscal year 2002 loss of $2,422.0 million.

- Net investment and other income in the postemployment healthcare plan was $3.5 million, a $7.1 million, or 198.2 percent, increase over the fiscal year 2002 loss of $3.6 million.

- Net investment and other income in the deferred compensation plan was $16.0 million, a $57.9 million, or 138.2 percent, increase over the fiscal year 2002 loss of $41.9 million.

Expenses - Deductions from Fiduciary Net Assets

Benefit payments, refunds of contributions to members who terminate employment, health insurance premium subsidies, deferred compensation payments, and administrative costs comprise the System's expenses.

- Pension benefit payments increased by $308.1 million, or 17.6 percent, due to the large increase in retirees during the year. The number of retirees at June 30, 2003, was 91,526 compared to 86,082 at June 30, 2002.

- Postemployment healthcare and other payments rose $35.7 million, or 46.7 percent. Of this increase, $19.2 million is due to a healthcare provider contract change. Provisions of the new contract called for the reserve for expenses incurred but not reported to be expensed and transferred to the providers. The remaining $16.5 million increase is due to higher healthcare payments made from the Standard Retiree Health Insurance Account, which were offset by higher contributions from plan members.

- Deferred compensation benefit and other payments decreased $7.6 million, or 18.1 percent. Fiscal year 2002 payments were higher due to changes in the federal tax code allowing greater plan-to-plan transfers.

The table below shows a condensed comparative summary of the changes in fiduciary net assets and reflects the activities of the plans administered by the System.

TABLE 2
CHANGES IN FIDUCIARY NET ASSETS
(in millions)
For the Years Ended June 30:

	Defined Benefit Pension Plan		Postemployment Healthcare Plan		Deferred Compensation Plan	
	2003	2002	2003	2002	2003	2002
Additions:						
Member Contributions	$ 401.0	$ 391.5	$ 66.4	$ 52.3	$ 50.3	$ 47.5
Employer Contributions	2,579.0	989.1	42.8	41.6	-	-
Other Sources	21.4	20.9	-	-	-	-
Net Investment and Other Income (Loss)	1,466.0	(2,422.0)	3.5	(3.6)	16.0	(41.9)
Total Additions	4,467.4	(1,020.5)	112.7	90.3	66.3	5.6
Deductions:						
Benefits	1,994.4	1,678.0	-	-	33.6	41.8
Other	65.3	73.6	112.0	76.4	0.7	-
Total Deductions	2,059.7	1,751.6	112.0	76.4	34.3	41.8
Net Increase (Decrease)	$ 2,407.7	$ (2,772.1)	$ 0.7	$ 13.9	$ 32.0	$ (36.2)

PLAN MEMBERSHIP

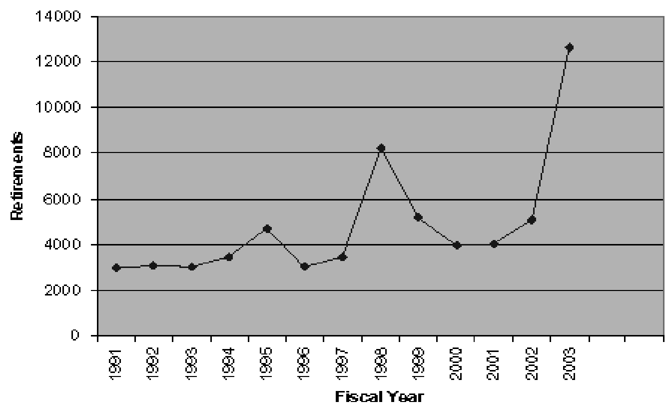
The table below reflects the defined benefit pension plan membership as of the beginning and end of the fiscal year.

TABLE 3
PLAN MEMBERSHIP
As of June 30:

	2003	2002	Percentage Change
Retirees and beneficiaries receiving benefits:			
General	85,395	80,433	6.2%
Police and Fire	6,131	5,649	8.5
Total	91,526	86,082	6.3
Current and terminated employees entitled to benefits but not yet receiving them:			
Vested:			
General	139,971	139,419	0.4
Police and Fire	11,229	10,533	6.6
Nonvested:			
General	58,502	61,609	(5.0)
Police and Fire	3,882	4,226	(8.1)
Total	213,584	215,787	(1.0)%

A record number of employees retired in fiscal year 2003 as a result of changes to the PERS plan put in place by the 2003 legislative assembly. (See the "Effect of Economic Factors and Litigation" section on page 17). Service retirements in fiscal year 2003 were 12,654 compared to 5,068 in fiscal year 2002, an increase of 150.0 percent.

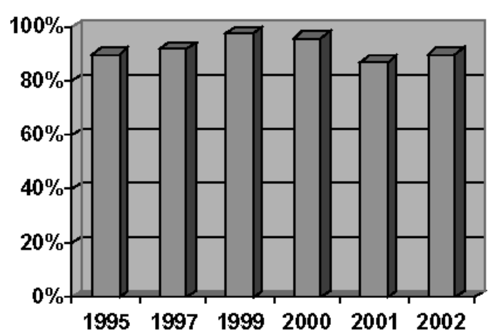
TABLE 4
SERVICE RETIREMENTS
By Fiscal Year



FUNDING STATUS

The System's UAL as of December 31, 2002, was $3,983.4 million, which was derived using the entry age cost method (see Summary of Actuarial and Unfunded Actuarial Liabilities on page 56). The 2002 UAL decreased by $2,112.2 million, or 34.7 percent, from $6,095.5 million in 2001. The Oregon Legislature passed a number of bills resulting in a significant reduction in the UAL. Additionally, several employers made large payments specifically to reduce their UALs.

TABLE 5
SCHEDULE OF FUNDING PROGRESS
FUNDED RATIO
As of December 31:



INVESTMENT ACTIVITIES

During fiscal year 2003, domestic and international equities increased $2,584.3 million. The increase is attributable to purchases made in accordance with the Oregon Investment Council's asset allocation policy as well as improvement in global equity markets. Increases of approximately $485.5 million in the alternative investment asset class can also be attributed to a rebalancing of investments. Investments in fixed income securities decreased approximately $1,151.4 million as a result of using these assets for payment of benefits, which significantly increased during the year. Additionally, fixed income investments were liquidated to purchase equity investments. Real Estate investments remained relatively stable, decreasing approximately $8.4 million. One-year returns on asset classes and comparative benchmarks are presented in the table on the next page.

TABLE 6
INVESTMENT RETURN
Periods Ending June 30:

	2003	2002
Total Portfolio	2.8%	(6.4)%
Domestic Stocks	0.8	(16.8)
Benchmark: Russell 3000 Index	0.8	(17.2)
International Stocks	(3.5)	(7.9)
Benchmark: Custom Index (1)	(2.5)	(6.7)
Fixed Income Segment	14.3	6.9
Benchmark: Custom Index (2)	11.1	7.4
Real Estate (3)	5.9	7.1
Benchmark: NCREIF	7.1	6.4
Private Equity (4)	(8.2)	(10.8)
Benchmark: S&P 500 +5%	(18.7)	6.0

(1) 90% Salomon World Equity Broad Market ex-US/10% International Finance Corporation EMG Investable Securities
(2) 90% Lehman Universal/10% SSBI Non-US World Government Bond Hedged
(3) Returns are lagged one quarter.
(4) Returns are lagged one quarter.

EFFECT OF ECONOMIC FACTORS AND LITIGATION

The financial position of the System improved during the fiscal year due to significant UAL payments and strong global equity markets. Table 6 above shows portfolio returns and indexes, which are reflective of the market environment.

While benefit payments in total increased due to additional retirements, retirees who have elected to continue participating in the Variable Annuity Account after retirement experienced a decrease in benefits of approximately 19 percent, effective February 1, 2003. This decrease in benefits was due to investment losses experienced by the Variable Annuity Account for the period November 1, 2001, through October 31, 2002.

Due to the large UAL and corresponding increases in employer contribution rates, the 2003 Oregon legislative assembly passed a number of bills that affect the System.

- House Bill 2001 prohibits the Board from crediting Tier One member regular accounts with earnings in excess of the assumed rate until: (1) the deficit reserve is no longer in deficit; (2) the Tier One rate guarantee reserve is fully funded with amounts determined by the Board to ensure a zero balance in the reserve when all Tier One members retire; and (3) the Tier One rate guarantee reserve has been fully funded in each of the three immediately preceding calendar years.
- House Bill 2003 addresses PERS deficits and, among other things, (1) eliminates the statutory requirement that members contribute 6 percent of their salaries to their retirement accounts; and (2) revises provisions relating to the crediting of certain accounts.
- House Bill 2004 provides that for retirements on or after July 1, 2003, the member's retirement benefit will be calculated using updated actuarial equivalency factors, and no member will receive less than the accrued benefit earned as of July 30, 2003.
- House Bill 2020 establishes a successor retirement plan, the Oregon Public Service Retirement Plan, which provides for a defined contribution plan for new and existing members, and a defined benefit retirement plan for those hired on or after August 29, 2003, who have not established membership in the System before that date.
- Senate Bill 258, effective January 1, 2004, allows any member who is vested but inactive to receive 150 percent of his or her account balance if the member withdraws the account between July 1, 2004 and June 30, 2006.

This and other legislation is discussed extensively in Note 10, Recent Events, on page 30.

CONTACTING THE SYSTEM'S FINANCIAL MANAGEMENT

This financial report is designed to provide plan participants, employers, citizens, taxpayers, and others with a general overview of the System's finances and to demonstrate the Board's oversight of the System. If you have questions about this report or need additional financial information, please contact the Fiscal Services Division Administrator, P.O. Box 23700, Tigard, OR 97281-3700.

Statements of Fiduciary Net Assets - Defined Benefit Pension Plan, Postemployment Healthcare Plan, and Deferred Compensation Plan June 30, 2003

	Defined Benefit Pension Plan	Post-employment Healthcare Plan	Deferred Compensation Plan	2003	2002
Assets:					
Cash and Cash Equivalents	$ 2,374,451,307	$ 18,099,170	$ 4,745,305	$ 2,397,295,782	$ 2,288,235,547
Receivables:					
Employer	28,590,437	1,969,378	---	30,559,815	36,466,876
Plan Member	18,911,770	5,002,348	---	23,914,118	23,443,240
Interest and Dividends	108,114,720	---	---	108,114,720	113,640,678
Investment Sales and Other Receivables	1,131,859,411	---	89,442	1,131,948,853	898,582,727
Total Receivables	1,287,476,338	6,971,726	89,442	1,294,537,506	1,072,133,521
Due from Other Funds	344,264	11,587,714	---	11,931,978	2,470,598
Investments:					
Fixed Income	9,280,301,953	---	---	9,280,301,953	10,430,374,139
Equity	21,038,177,227	---	---	21,038,177,227	18,463,083,750
Real Estate	1,720,012,476	---	---	1,720,012,476	1,728,688,206
Alternative Equity	4,001,041,295	---	---	4,001,041,295	3,517,297,853
Commingled Investments	---	85,963,696	---	85,963,696	76,036,521
Total Investments	36,039,532,951	85,963,696	---	36,125,496,647	34,215,480,469
Securities Lending Cash Collateral	2,069,624,570	---	---	2,069,624,570	2,091,464,709
Deferred Compensation Mutual Funds	---	---	577,048,849	577,048,849	545,089,973
Prepaid Expenses and Deferred Charges	1,516,174	---	---	1,516,174	156,222
Equipment and Fixtures, Cost Net of Accumulated Depreciation at 2003: $2,189,494; at 2002: $2,013,498	901,106	---	---	901,106	140,750
Land and Building, Cost Net of Accumulated Depreciation at 2003: $1,096,598; at 2002: $916,335	7,058,373	---	---	7,058,373	7,238,636
Office Supplies Inventory, Cost	5,710	---	---	5,710	4,839
Total Assets	**41,780,910,793**	**122,622,306**	**581,883,596**	**42,485,416,695**	**40,222,415,264**
Liabilities:					
Investment Purchases and Accrued Expenses	2,494,137,076	5,955,674	3,686,495	2,503,779,245	2,671,836,705
Deposits and Other Liabilities	112,119,105	---	--	112,119,105	107,811,246
Due Other Funds	11,643,200	147,626	141,152	11,931,978	2,470,598
Bonds Payable	52,144,627	---	---	52,144,627	53,336,481
Securities Lending Collateral Due Borrowers	2,069,624,570	---	---	2,069,624,570	2,091,464,709
Total Liabilities	**4,739,668,578**	**6,103,300**	**3,827,647**	**4,749,599,525**	**4,926,919,739**
Net Assets held in trust for pension, postemployment healthcare, and deferred compensation benefits (Schedules of Funding Progress are presented on page 32)	**$ 37,041,242,215**	**$ 116,519,006**	**$ 578,055,949**	**$ 37,735,817,170**	**$ 35,295,495,525**

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

Statements of Changes in Fiduciary Net Assets - Defined Benefit Pension Plan, Postemployment Healthcare Plan, and Deferred Compensation Plan For the Year Ended June 30, 2003

	Defined Benefit Pension Plan	Post-employment Healthcare Plan	Deferred Compensation Plan	2003	2002
Additions:					
Contributions:					
Employer	$ 2,578,989,169	$ 42,848,647	$ ---	$ 2,621,837,816	$ 1,030,657,648
Plan Member	400,988,567	66,380,497	50,279,420	517,648,484	491,289,070
Other Sources	21,436,993	---	---	21,436,993	20,939,073
Total Contributions	3,001,414,729	109,229,144	50,279,420	3,160,923,293	1,542,885,791
Investment Income:					
Net Appreciation (Depreciation) in Fair Value of Investments	846,968,645	2,936,502	16,930,954	866,836,101	(3,237,858,880)
Interest, Dividends, and Other Investment Income	817,188,441	527,712	---	817,716,153	984,458,972
Total Investment Income	1,664,157,086	3,464,214	16,930,954	1,684,552,254	(2,253,399,908)
Less Investment Expense	198,448,741	---	1,655,376	200,104,117	214,866,352
Net Investment Income	1,465,708,345	3,464,214	15,275,578	1,484,448,137	(2,468,266,260)
Other Income	282,126	15,000	711,954	1,009,080	801,674
Total Additions	4,467,405,200	112,708,358	66,266,952	4,646,380,510	(924,578,795)
Deductions:					
Benefits	1,994,401,530	---	33,596,122	2,027,997,652	1,719,100,895
Death Benefits	5,922,665	---	---	5,922,665	10,121,636
Refunds of Contributions	42,640,295	---	---	42,640,295	46,086,912
Administrative Expense	16,784,817	2,274,818	660,144	19,719,779	20,367,456
Healthcare Premium Subsidies	---	25,274,234	---	25,274,234	24,782,256
Retiree Healthcare Expense	---	84,504,240	---	84,504,240	49,376,276
Total Deductions	2,059,749,307	112,053,292	34,256,266	2,206,058,865	1,869,835,431
Net Increase (Decrease)	**2,407,655,893**	**655,066**	**32,010,686**	**2,440,321,645**	**(2,794,414,226)**
Net Assets held in trust for pension, postemployment healthcare, and deferred compensation benefits					
Beginning of Year	34,633,586,322	115,863,940	546,045,263	35,295,495,525	38,089,909,751
End of Year	**$ 37,041,242,215**	**$ 116,519,006**	**$ 578,055,949**	**$ 37,735,817,170**	**$35,295,495,525**

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

Notes to the Financial Statements
June 30, 2003

(1) Description of Plan

A. Plan Membership

The Oregon Public Employees Retirement System (PERS or "the System") provides a statewide defined benefit retirement plan for units of state government, political subdivisions, community colleges, and school districts. PERS is administered under Oregon Revised Statutes (ORS) Chapter 238 and Internal Revenue Code Section 401(a) by the Public Employees Retirement Board (Board). For state agencies, community colleges, and school districts, PERS is a cost-sharing, multiple-employer system. It is an agent multiple-employer system for political subdivisions who have not elected to join the State and Local Government Rate Pool. Participation by state government units, school districts, and community colleges is mandatory. Participation by most political subdivisions is optional, but irrevocable if elected. Plan assets of the defined benefit, postemployment healthcare, and deferred compensation plans may legally be used to pay benefits to plan members or plan beneficiaries for which the assets were accumulated.

Employee and Retiree Members

Retirees and beneficiaries currently receiving benefits:

	6/30/2003
General	85,395
Police and Fire	6,131
Total	91,526

Current employees and terminated employees entitled to benefits but not yet receiving them:

Vested:	
General	139,971
Police and Fire	11,229
Nonvested:	
General	58,502
Police and Fire	3,882
Total	213,584

Participating Employers

	6/30/2003
State Agencies	125
Political Subdivisions	495
Community Colleges	17
School Districts	232
Total	869

For many years, retirement programs for Oregon judges were administered by special legislation and programs under the Judges' Retirement Fund (JRF), established in 1963 under ORS 1.314 to 1.380. Effective August 1, 1991, the JRF was merged into the Public Employees Retirement Fund.

The 1995 Legislature enacted Chapter 654, Section 3, Oregon Laws 1995 which has been codified into ORS 238.435. This legislation created a second tier of benefits for those who established membership on or after January 1, 1996. The second tier does not have the Tier One assumed earnings rate guarantee, and has a higher normal retirement age of 60, compared to 58 for Tier One. Any potential reductions in employer contribution rates will not be realized until turnover has occurred and Tier Two members replace Tier One members. As of June 30, 2003, there were 116,782 Tier One members and 96,802 Tier Two members in the System.

B. Plan Benefits

a. Pension Benefits

The PERS retirement allowance is payable monthly for life. It may be selected from 13 retirement benefit options. These options include survivorship benefits and lump-sum refunds. The basic benefit is based on years of service and final average salary. A percentage (2.0 percent for police and fire employees, 1.67 percent for general service employees) is multiplied by the number of years of service and the final average salary. Benefits may also be calculated under either a formula plus annuity (for members who were contributing before August 21, 1981) or a money match computation if a greater benefit results. Monthly payments must be a minimum of $200 per month or the member will receive a lump-sum payment of the actuarial equivalence of benefits to which they are entitled.

Police and fire members may purchase increased benefits that are payable between the date of retirement and age 65.

A member is considered vested and will be eligible at minimum retirement age for a service retirement allowance if he or she has had a contribution in each of five calendar years or has reached at least 50 years of age before ceasing employment with a participating employer (age 45 for police and fire members). General service employees may retire after reaching age 55. Police and fire members are eligible after reaching age 50. Tier One general service employee benefits are reduced if retirement occurs prior to age 58 with fewer than 30 years of service. Police and fire member benefits are reduced if retirement occurs prior to age 55 with fewer than 25 years of service. Tier Two members are eligible for full benefits at age 60.

A judge member who has made contributions to the PERS Fund during each of five calendar years shall receive a retirement allowance, payable monthly, for life. Before reaching age 60, judge members must choose the calculation formula under which they will retire. The election is irrevocable after the member attains age 60. The two formulas, A and B, are described below.

The Plan A retirement allowance for judge members is computed by multiplying 2.8125 percent by the final average salary for the first 16 years of service, and 1.67 percent of the final average salary multiplied by the number of years of service as a judge in excess of 16. For most judge members the maximum amount is limited to 65 percent of final average salary. The Plan B retirement allowance for judge members is computed by multiplying 3.75 percent by the final average salary for the first 16 years of service and 2.0 percent of the final average salary multiplied by the number of years of service as a judge in excess of 16. For most judge members the maximum amount is limited to 75 percent of final average salary. Plan B requires a judge to serve up to 35 days per year for a period of five years as a pro-tem judge. There is no actuarial reduction for retirement prior to age 65.

Judges' Retirement System (JRS) members were entitled to a monthly amount equal to one-twelfth of final average salary upon reaching age 65 with 16 years of service or at age 70 with 12 years of service.

b. Death Benefits

Upon the death of a non-retired member, the beneficiary receives a lump-sum refund of the member's account balance (accumulated contributions and interest). In addition, the beneficiary will receive a lump-sum payment from employer funds equal to the account balance, provided that one or more of the following conditions are met:

- the member was employed by a PERS employer at the time of death;
- the member died within 120 days after termination of PERS-covered employment;
- the member died as a result of injury sustained while employed in a PERS-covered job; or
- the member is on an official leave of absence from a PERS-covered job at the time of death.

A member's beneficiary may choose a monthly payment for life instead of the lump sum, or a combination of lump-sum and monthly payments, if eligible. The monthly payment must be a minimum of $30 per month.

Surviving spouses of JRS members and judge members of PERS receive benefits as provided in ORS 238.055 and ORS 238.565.

c. Disability Benefits

A member with ten or more years of creditable service who becomes disabled from other than duty-connected causes may receive a non-duty disability benefit. A disability resulting from a job-incurred injury or illness qualifies a member (including judge members of PERS) for disability benefits regardless of the length of PERS-covered service. Upon qualifying for either a non-duty or duty disability, service time is computed to age 58 (55 for police and fire members) when determining the monthly benefit.

Judge members of PERS who have served a minimum of six consecutive years and who become physically or mentally incapacitated are entitled to benefits as provided in ORS 238.555.

d. Benefit Changes After Retirement

Members may choose to continue participation in a "variable" stock investment account after retiring and may experience annual benefit fluctuations due to changes in the market value of equity investments.

Monthly benefits are adjusted annually through cost-of-living changes through this reporting period. Two percent per year is the maximum cost-of-living adjustment. Periodically, the Oregon Legislature has granted *ad hoc* increases to post-retirement benefits.

e. Postemployment Healthcare Benefits

Under ORS 238.410 the Board contracts for medical and hospital insurance on behalf of retired members. Members and their dependents are eligible for PERS healthcare coverage if the member is receiving a retirement allowance or benefit under the System. A surviving spouse of a PERS retiree is eligible to participate if he or she was covered under the health plan at the time of the retiree's death.

ORS 238.420 established the Retirement Health Insurance Account (RHIA) and authorizes a payment of $60 from RHIA toward the monthly cost of health insurance for eligible PERS members.

To be eligible to receive this monthly payment toward the premium cost the member must: (1) have eight years or more of qualifying service in PERS at the time of retirement or receive a disability allowance as if the member had eight years or more of creditable service in PERS, (2) receive both Medicare Parts A and B coverage, and (3) enroll in a PERS-sponsored health plan.

A surviving spouse or dependent of a deceased PERS retiree who was eligible to receive the subsidy is eligible to receive the subsidy if he or she (1) is receiving a retirement benefit or allowance from PERS or (2) was insured at the time the member died and the member retired before May 1, 1991.

For the year ended June 30, 2003, all PERS employers contributed 0.64 percent of PERS-covered salaries to fund RHIA benefits based on the December 31, 1999 actuarial valuation. This is included in the employer contribution rates listed on page 23. The employer contribution rate covers the normal cost payment and an amount to amortize the unfunded actuarial accrued liability over a period commencing on the actuarial valuation date and ending on December 31, 2027.

The employers' contributions are advance-funded on an actuarially determined basis. Employers' actual contributions for the fiscal year ended June 30, 2003, were $41.2 million. There is no inflation assumption for RHIA postemployment benefits because the payment amount is set by statute and is not adjusted for increases in healthcare costs. The number of active plan RHIA participants was 33,632 for the fiscal year ended June 30, 2003.

ORS 238.415 established the Retiree Health Insurance Premium Account (RHIPA) and requires the Board on or before January 1 of each year to calculate the average difference between the health insurance premiums paid by retired state employees under contracts entered into by the Board and health insurance premiums paid by state employees who are not retired. ORS 238.415 authorizes payment of this average difference to qualified retired state employees. Retired state employees are qualified to receive this benefit if they had eight or more years of qualifying service in the System at the time of retirement or are receiving a disability pension calculated as if they had eight or more years of qualifying service, but are not eligible for federal Medicare coverage.

A surviving spouse or dependent of a deceased retired state employee is eligible to receive the subsidy if he or she (1) is receiving a retirement benefit or allowance from PERS or (2) was insured at the time the member died and the member retired on or after September 29, 1991.

For the year ended June 30, 2003, state agencies contributed 0.09 percent of PERS-covered salaries to fund RHIPA benefits, based on the December 31, 1999 actuarial valuation. See health cost inflation assumptions on page 34. The number of active plan RHIPA participants was 840 for the fiscal year ended June 30, 2003.

ORS 238.410(7) established the Standard Retiree Health Insurance Account (SRHIA). All subsidy payments from the RHIA, the RHIPA, and contributions from retired members are deposited in the SRHIA. Payments for medical and hospital insurance contracted for on behalf of retired members are made from SRHIA.

(2) Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying financial statements are prepared in accordance with Governmental Accounting Standards Board Statements 25, 26, and 34, as well as generally accepted accounting principles that apply to governmental accounting for fiduciary funds. Fiduciary funds are used to account for assets held by a governmental unit in a trustee capacity (trust funds).

PERS' activities are accounted for in two trust funds:

- Public Employees Retirement Fund:
    - Defined Benefit Pension Plan
    - Postemployment Healthcare Plan
- Deferred Compensation Fund:
    - Deferred Compensation Plan

B. Basis of Accounting

The accrual basis of accounting is used for all funds. Revenues are recognized when earned. Contributions are recognized as of the date on which employers pay members' salaries. Expenses are recognized when incurred. Benefits and refunds are recognized in the month they are due and payable.

C. Budgetary Data

Only administrative expenses are subject to biennial legislative budget control. The Legislature exercises this control at the agency level. Any unobligated balance lapses at the end of each biennium.

Encumbrance accounting is allowed only during the biennium. All encumbrances lapse at the end of the biennium except capital construction, capital improvements, and contested claims.

Budgetary accounting is not consistent with generally accepted accounting principles (GAAP) because the measurement focus is on decreases in financial resources rather than total economic resources.

The accompanying schedule reconciles administrative expenses on the budgetary basis to administrative expenses presented in the Statements of Changes in Fiduciary Net Assets. The legislatively approved budget includes increases approved by the Legislative Emergency Board through June 2003.

	Legislatively Approved Budget	Actual	Unobligated Balance at June 30, 2003
2001 - 2003 Biennium:			
Personal Services	$ 25,903,013	$ 24,105,280	$ 1,797,733
Services and Supplies	23,278,668	19,008,426	4,270,242
Capital Outlays	479,239	970,629	(491,390)
2001 - 2003 Totals	**$ 49,660,920**	**$44,084,335**	**$ 5,576,585**
Total Expenses July 1, 2001 - June 30, 2003			
Budgetary Basis (non-GAAP)			$ 44,084,335
Biennium Adjustments to Administrative Expenses			
Add:			
Depreciation Expense - Other			60,160
Depreciation Expense - IT			115,836
Depreciation Expense - Building			180,263
COP Amortization			45,924
Decrease Prepaid Expenses			25,820
Increases in Accruals			3,340
Increase Travel Advance			2,001
Deduct:			
Capital Outlay, July 1, 2002 - June 30, 2003			936,352
Increase Supplies Inventory			871
Decrease in Compensated Absences			96,183
Decrease in Accounts Payable			1,197,158
Deferred Compensation Accruals			28,633
Encumbrances as of June 30, 2003			981,093
Expenses from July 1, 2001 - June 30, 2002			21,557,610
Statement of Changes in Fiduciary Net Assets Defined Benefit Pension Plan, Postemployment Healthcare Plan, and Deferred Compensation Plan for the Year Ended June 30, 2003			**$ 19,719,779**

D. Valuation of Investments

Investments are recognized at fair value, the amount at which financial instruments could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The fair value of debt and equity securities is determined by the custodial agent, using recognized pricing services. Equity securities traded on a national or international exchange are valued at the last reported sales price. Debt securities are generally valued at the midpoint between the bid and ask prices. A small percentage of debt securities cannot be priced in this manner, and for these a similar "benchmark" security is used. The benchmark has a coupon rate and maturity date comparable to the debt security being valued, and its market risk is similar considering current market conditions. Investments in alternative equities representing publicly traded securities are stated at the quoted market price. Investments in alternative equities representing private securities are generally reported at cost unless a significant market event warrants an adjustment to cost. Mortgage loans on real estate and state agency loans are stated at the amortized unpaid principal balance. Fair values of investments in real estate are based upon valuations provided by investment managers and advisors retained by the Oregon state treasury.

E. Distribution of Earnings

By law earnings distribution to members is made on a calendar-year basis. Members in Tier One were guaranteed to receive at least the assumed earnings rate used in the most recent actuarial valuation through December 31, 2002. That rate is now 8.0 percent. Members participating in the Variable Account and Tier Two members receive actual earnings or losses.

(3) Contributions and Reserves

A. Contributions

a. Member Contributions

Member contributions are set by statute at 6.0 to 7.0 percent of salary and are remitted by participating employers. The contributions are either deducted from member salaries or paid by the employers. The Member Reserve, described in Note (3)C.a., represents member contributions and earnings allocations less refunds and amounts transferred to reserves for retirements and disabilities.

b. Employer Contributions

Employer contribution rates are determined by an actuarial formula known as the "entry-age cost method." Under this method, a "normal cost" rate for each member is calculated. Normal cost is a level percentage of salary. Beginning at the member's entry into the System, the calculated normal cost should accumulate an amount sufficient to provide the member's retirement benefit. After the unfunded supplemental present value created by this method has been determined, the employer contribution rates are established as a level percentage of salary. The rates are set to cover the normal cost and amortize the unfunded amount over a period commencing on the actuarial valuation date and ending on December 31, 2027.

	State Agencies and Community Colleges	Schools	Political Subdivisions: Police and Fire	Political Subdivisions: General	Judiciary
Employee Normal Cost	6.00%	6.00%	6.00%	6.00%	7.00%
Employer Normal Cost	8.81%	10.22%	12.06%	8.96%	17.65%
Unfunded Actuarial Liability	(0.05)	1.87	(0.51)	(0.51)	(7.5)
Healthcare Benefits	0.73	0.64	0.64	0.64	0.64
Total Employer Rates	9.49%	12.73%	12.19%	9.09%	10.79%

The employer contribution rate for state agencies and community colleges is 9.49 percent, for schools the rate is 12.73 percent, and for the judiciary the rate is 10.79 percent of PERS-covered salaries, effective July 1, 2001. The rates for political subdivisions are presented in the aggregate. Actual rates for political subdivisions vary by employer (see table above for average rate).

Employer contribution rates during the period were based on December 31, 1999 actuarial valuation, effective July 1, 2001.

PERS funding policy provides for monthly employer contributions at actuarially determined rates. These contributions, expressed as a level percentage of annual covered payroll, coupled with employee contributions, are intended to accumulate sufficient assets to pay benefits when due.

Oregon Laws 2001, Chapter 945, Section 13 authorized establishing the State and Local Government Rate Pool. Local political subdivisions were given the option to join the state of Oregon and community colleges for the actuarial purpose of calculating employer rates. Participation by local political subdivisions in this pool was effective for the actuarial valuation period beginning January 1, 2002.

Separate contribution rates are adopted by the Board for all state agencies and community colleges combined, all school districts combined, the state judiciary, and each individual political subdivision employer that did not pool.

Employer aggregate contributions to the Public Employees Retirement Fund (PERF) for the calendar year ended December 31, 2002, were $1,748.3 million less $1,046.5 million for integration of prior plan assets by employers merging into the System and payments of certain employers toward their unfunded actuarial liabilities from the 1999 actuarial valuation, ($3.1) million pertaining to salaries from prior years and $1.1 million for the Benefit Equalization Fund, for a total of $703.8 million attributable to calendar year 2002 activity. Employer contributions consist of

$597.8 million normal cost, $63.1 million amortization of the unfunded actuarial accrued liability, $41.3 million to fund the RHIA, and $1.6 million to fund the RHIPA. Employer contributions attributable to the period were equivalent to 10.89 percent of the members' aggregate annual salaries of $6,461.7 million.

Employee contributions for the calendar year ended December 31, 2002, consisted of $397.5 million less $9.2 million for member purchases and $3.1 million of contributions pertaining to salaries from prior years and integration of prior plan assets of employees merging into the System, for a total of $385.2 million of employee contributions attributable to calendar year 2002 activity.

Based on the actuarial valuation as of December 31, 1999, judiciary, state agencies, and certain political subdivisions received lower employer contribution rates. Schools and other political subdivisions experienced an increase in their employer contribution rates. The Board practice has been to implement the new employer contribution rates for those employers who experienced a decrease and to delay implementation of the new employer contribution rates for those employers who experienced an increase in their employer contribution rate to provide employers an opportunity to budget for the increases. Due to a significant increase in employer contribution rates, based on the December 31, 1999 valuation, the Board allowed local employers to elect actuarially equivalent rates which deferred increases to future periods.

B. Actuarial Cost Method and Assumptions

Employer contribution rates are set using the entry age actuarial cost method. This method produces an employer contribution rate consisting of (1) an amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year), (2) an amount for amortization of the unfunded actuarial accrued liability over a period commencing on the valuation date and ending on December 31, 2027, and (3) an actuarially determined amount for funding postemployment healthcare subsidies.

C. Reserves and Designations

a. Member Reserve

The Member Reserve of $8,924.0 million as of June 30, 2003, represents member contributions and earnings allocations less refunds and amounts transferred to reserves for retirements and disabilities.

b. Employer Contribution Designation

The Employer Contribution Designation of $12,099.5 million as of June 30, 2003, represents employer contributions and earnings allocations less amounts transferred to reserves for retirements and disabilities.

c. Benefit Reserve

The Benefit Reserve of $18,548.9 million as of June 30, 2003, is the amount set aside to pay future benefits. It includes funds transferred from the individual member and employer accounts and earnings allocations, less amounts paid for retirements and disabilities.

d. Undistributed Investment Earnings Reserve

The Undistributed Investment Earnings Reserve may be credited with investment earnings in excess of required minimum distributions. Oregon law requires individual accounts for Tier One members to be credited at the assumed rate of return on investments adopted by the Board for use in actuarial valuations. In previous years, this reserve has been used to meet this crediting requirement. As of June 30, 2003, the balance of this designation was zero and is not fully funded according to Board policy.

e. Contingency Reserve

The Contingency Reserve is a designation to be maintained and used by the Board to prevent any deficit of moneys available for the payment of retirement allowances due to interest fluctuations, changes in mortality rates, or other unforeseen contingency. As of June 30, 2003, the balance of this designation was zero.

f. Unallocated Earnings Designation

The Unallocated Earnings Designation represents January through June investment earnings or losses less administrative expenses which will be distributed after member accounts have been credited with contributions. This distribution takes place in March of the following year after employer annual reports have been reconciled and contributions have been posted to individual member and employer accounts. As of June 30, 2003, the balance of this designation was $3,419.0 million.

g. Deficit Reserve

The Deficit Reserve is used to account for amounts credited to members' regular accounts as required by ORS 238.255. This statute requires the Board to credit Tier One member regular accounts with at least the assumed rate of return on investments, currently 8.0 percent. As of June 30, 2003, the balance of this designation was ($1,931.0) million.

h. Pending Reserve

The Pending Reserve is a designation established by the Board for Tier One Regular Account Investment losses that were attributable to employer accounts and the Benefit Reserves. The Board is studying an alternative legal interpretation of earnings crediting statutes and has not made a final determination on allocating these losses. As of June 30, 2003, the balance of this designation was ($4,019.2) million.

i. Retirement Health Insurance Account

The RHIA plan net assets balance represents the program's accumulation of employer contributions and investment earnings less premiums and administrative expenses. As of June 30, 2003, the balance of this account was $96.8 million.

j. Retiree Health Insurance Premium Account

The RHIPA plan net assets balance represents the program's accumulation of employer contributions and investment earnings less premiums and administrative expenses. As of June 30, 2003, the balance of this account was $2.7 million.

k. Standard Retiree Health Insurance Account

The SRHIA plan net assets balance represents the program's accumulation of retiree contributions and interest earnings less premiums and administrative expenses. As of June 30, 2003, the balance of this account was $17.0 million.

D. Administrative Costs

Costs for administering the System are funded from investment earnings and are allocated to all plans and programs administered by the System. If earnings are not sufficient to cover administrative expenses, they are charged to employers based on contributions for that year.

(4) Reporting Entity

The Public Employees Retirement Board is the governing authority of the System. It consists of five people appointed by the governor and subject to confirmation by the state Senate. The Board appoints an executive director to act as the principal administrative officer of the System. The Board has independence in the operation and management of the System. The state legislature has significant ability to influence funding, approve the System's budget, and pass laws governing the System.

PERS' financial statements are prepared on the basis of a fiscal year ended June 30. The Oregon state treasury has statutory responsibility for custody and investment of PERS assets. As a result of this fiduciary responsibility, PERS is included as part of the primary government in the *State of Oregon Comprehensive Annual Financial Report.*

(5) Assets Used in Plan Operations

A. Building and Improvements

Capital construction of PERS headquarters in Tigard, Oregon, was completed May 31, 1997. Land and building plus improvements are recorded at cost. The depreciation of the building/improvements is computed on the straight-line method over the estimated useful life of 40 years.

B. Equipment and Fixtures

Equipment and fixtures are recorded at cost. These are items which are not consumed in the normal course of operations, have a useful life of more than two years, and whose value is $5,000 or more. Depreciation is computed using the straight-line method over the assets' estimated useful lives. Useful lives range from three to ten years.

C. Office Supplies Inventory

Office supplies inventory is reflected at cost, using the first-in/first-out (FIFO) method.

(6) Deposits and Investments

A. Cash

PERS cash and cash equivalents consist of cash on hand, demand deposits, and deposits in the Oregon Short Term Fund, and are carried at cost. The carrying amount is separately displayed on the balance sheet as cash and cash equivalents. Statutes require that all moneys received by the pension trust fund be deposited with the state treasurer.

Deposits	Carrying Amount	Bank Balance
Investment Managers with Custodian Banks	$ 1,835,903,774	$ 1,835,903,774
State Treasury	561,389,888	718,751,989
Other Banks	2,120	2,120
	$ 2,397,295,782	$2,554,657,883

PERS deposits are classified in three categories of credit risk to give an indication of the level of risk assumed by PERS as of year end. The three categories of credit risk are:

1) insured or collateralized with securities held by the state treasurer or its custodian in the name of the state of Oregon;

2) collateralized with securities held by the pledging financial institution's trust department or custodian in the name of the state of Oregon; and

3) uncollateralized.

As of June 30, 2003, all PERS deposits held by the state treasurer were in credit risk category "1." Deposits of cash and cash equivalents from the proceeds of certificates of participation held in other banks are classified as credit risk category "3."

Investment managers' deposits with custodian banks consist of cash and cash equivalents that represent buying reserves. As of June 30, 2003, there was $1,736.7 million on deposit for the accounts of the Oregon Equity Fund, Real Estate Investment Fund, and Alternative Equity Fund investment managers and $99.2 million on deposit for the accounts of the International Equity Fund and Global Fixed Income investment managers. These deposits, with State Street Bank, are classified as uncollateralized, category "3."

	Risk Category 1	2	3	Total Fair Value
Pension Trust Fund Investments				
Investment Type:				
U.S. Government Securities	$ 374,351,262	$ ---	$ ---	$ 374,351,262
U.S. Agency Securities	2,078,438,368	---	---	2,078,438,368
Domestic Corporate Securities	2,536,343,208	---	---	2,536,343,208
Domestic Stocks	4,443,131,989	---	491,514,613	4,934,646,602
International Government and Corporate Securities	861,030,834	---	---	861,030,834
International Stocks	3,343,336,344	---	---	3,343,336,344
Asset-Backed Securities	1,376,820,545	---	---	1,376,820,545
Real Estate Securities	551,688,758	---	---	551,688,758
Investments on Securities Loan for Securities and Tri-Party Agreement Collateral:				
Domestic Stocks	7,881,414	---	---	7,881,414
International Stocks	49,746,628	---	---	49,746,628
International Government and Corporate Securities	69,548,540	---	---	69,548,540
Subtotal Pension Plan Investments	$ 15,692,317,890	$ ---	$ 491,514,613	16,183,832,503
Unclassified as to Risk:				
Real Estate				1,724,276,464
Real Estate Mortgages				1,392,491
Annuity Contracts				5,325,807
Leveraged Buyouts				1,291,665,504
Venture Capital				1,933,810
Limited Partnerships				2,717,360,743
Domestic Mutual Funds				8,738,335,523
Global Mutual Funds				3,546,669,852
Investments Held by Broker-Dealers under Securities Loans with Cash Collateral:				
U.S. Government Securities				509,257,439
U.S. Agency Securities				30,679,033
Domestic Stocks				571,312,309
Domestic Corporate Securities				219,530,626
International Stocks				516,813,953
International Government and Corporate Securities				67,110,590
Total Pension Plan Investments				$ 36,125,496,647
Deferred Compensation Mutual Funds Unclassified as to Risk				577,048,849
Total PERS Investments				**$ 36,702,545,496**

B. Investments

By statute, the Oregon Investment Council (OIC) is responsible for investment policy. The state treasurer is the investment officer. ORS 293.726 allows any kind of investment that is prudent. Common stock acquisitions are limited to 50 percent of the moneys contributed. The state treasurer is prohibited from investing in common stock. Independent investment managers selected and evaluated by the OIC make common stock investments.

GASB Statement No. 3 requires that investments be categorized to give an indication of the level of risk assumed at year-end. Certain investment types in the PERS portfolio, such as equity real estate, mutual funds, leveraged buyouts, and deferred compensation investments, cannot be categorized within the guidelines established by GASB Statement No. 3. These investments total approximately $20,518.7 million in fair value.

PERS investments are classified in three categories of credit risk to give an indication of the level of risk assumed by PERS as of year-end. The three categories of credit risk are:

1) insured or registered, or securities held by the state of Oregon or its agent in the state of Oregon's name for PERS;

2) uninsured and unregistered with securities held by the counterparty's trust department or agent in the state of Oregon's name for PERS; and

3) uninsured and unregistered with securities held by the counterparty or by its trust department or agent but not in the state of Oregon's name for PERS.

The schedule on Page 26 presents the fair value of the investments held by the state of Oregon for PERS as of June 30, 2003.

Derivatives. Deriatives are contracts for which the value depends on, or derives from, the value of an underlying asset, reference rate, or index. In accordance with state investment policy, the state treasury invests either directly or through its outside investment managers on behalf of PERF in contracts that have deriavative characteristics. Derivatives are used to manage the overall risk of investment portfolios. PERF does not hold or issue derivative financial instruments for trading purposes.

Derivative reporting in previous years was directed by a Technical Bulletin issued by the Governmental Accounting Standards Board (GASB) in 1994. In 2003, the GASB adopted a new standard that is applicable as of June 30, 2003, which superseded the prior standard. The new standard provides disclosure requirements for governmental units holding derivatives that are not reported at fair value in the statement of net assets. Since all investments, including those with derivative characteristics, are reported at fair value in accordance with GASB statements 25 and 31, no additional disclosures are required.

C. Securities Lending

In accordance with state investment policies, PERF participates in securities lending transactions. The state treasury has, through securities lending authorization agreements, authorized its custodian to lend its securities pursuant to a form of loan agreement. Both PERF and the borrowers maintained the right to terminate all securities lending transactions on demand. There were no significant violations of the provisions of securities lending agreements during the period of these financial statements.

The custodian had the authority to loan short-term, fixed income, and equity securities and to receive as collateral U.S. dollar and foreign currency cash; U.S. government and agency securities; letters of credit; and foreign sovereign debt of Organization of Economic Cooperation and Development (OECD) countries. Borrowers were required to deliver collateral for each loan equal to not less than 102 percent of the market value of the loaned security, or 105 percent in the case of international securities. The custodian did not have the ability to pledge or sell collateral securities absent a borrower default, and PERF did not impose any restrictions during the fiscal year on the amount of the loans the custodian made on its behalf. PERF is fully indemnified against losses due to borrower default by its current custodian. There were no losses during the year from the failure of borrowers to return loaned securities and no recoveries of amounts from prior losses.

The maturities of investments made with cash collateral did not generally match the maturities of the securities loaned. Since the securities loaned are callable on demand by either the lender or borrower, the life of the loans at June 30, 2003, is effectively one day. On June 30, 2003, PERF had no credit risk exposure to borrowers because the amounts the PERF owes borrowers exceed the amounts borrowers owe PERF. The fair values of the collateral received and the securities on loan from PERF as of June 30, 2003, including accrued income, were $2,112.3 million and $2,041.9 million, respectively. For the fiscal year ended June 30, 2003, total income from securities lending activity was $36.8 million, and total expenses for the period were $28.0 million for net income of $8.8 million.

PERF's cash balances held by the state treasurer are invested in the Oregon Short Term Fund (OSTF), as is the cash of other state agencies. As of June 30, 2003, the fair values of the collateral received and the securities on loan, including accrued income, from the OSTF were $965.2 million and $938.3 million respectively. PERF's allocated portions of the collateral received and securities on loan were $93.8 million and $91.2 million respectively. These amounts are not included in the table to the right.

The total cash collateral of $2,069.6 million is not categorized as to risk.

Securities Loaned Fair Value		
U.S. Government Securities	$ 509,257,439	
U.S. Agency Securities	30,679,033	
Domestic Stocks	579,193,723	
Domestic Corporate Securities	219,530,626	
International Stocks	566,560,581	
International Government and Corporate Securities	136,659,131	
Total		**$2,041,880,533**
Collateral Fair Value		
Cash	$ 1,975,812,511	
Securities	136,516,025	
Total		**$2,112,328,536**

(7) Leases

Operating leases are rental agreements where the payments are chargeable as rent and recorded in the services and supplies expense account. Should the legislature disallow the necessary funding for particular leases, all lease agreements contain termination clauses which provide for cancellation of the lease as of the end of a fiscal year. Lease obligations decrease each year because of various lease expirations. It is expected that ongoing leases will be replaced with leases which have higher rental rates due to inflation. Fiscal year 2003 operating lease expenses were $41,258.

The schedule to the right summarizes the minimum lease payments for operating leases in effect as of June 30, 2003.

	Operating Leases
2004	$ 38,274
2005	38,888
2006	39,563
2007	24,022
Thereafter	0
Total Future Minimum Lease Payments	**$ 140,747**

(8) Deferred Compensation Plan

Deferred compensation plans are authorized under Internal Revenue Code Section 457. The Oregon Legislature enacted Chapter 179, Oregon Laws 1997 that established the Deferred Compensation Fund. ORS 243.400 to 243.507 established and provided for PERS to administer the state deferred compensation plan, known as the Oregon Savings Growth Plan (OSGP). As of June 30, 2003, the fair value of investments was $577.0 million.

The plan is a benefit available to all state employees. To participate, an employee executes an individual agreement with the state deferring current earnings to be paid at a future date. Participants in the plan are not required to pay federal and state income taxes on the deferred contributions and earnings until the funds are received. Participants or their beneficiaries cannot receive the funds until at least one of the following occurs: termination by reason of resignation, death, disability, or retirement; unforeseeable emergency; or by requesting a *de minimis* distribution from inactive accounts valued less than $5,000.

PERS contracts with CitiStreet, a joint venture between Citigroup and State Street Bank and Trust Company, to maintain the OSGP participant records. The state treasurer, as custodian of the assets, also contracts with State Street Bank and Trust Company to provide financial services. There are nine investment options with varying degrees of market risk. Up to four financial institutions provide investment services in mutual funds for each investment option. A participant receives a blend of these mutual funds within the investment option. Participants direct the selection of investment options and also bear any market risk. The state has no liability for losses under the plan but does have the prudent investor responsibility of due care.

PERS may assess a charge to the participants not to exceed 2.0 percent on amounts deferred, both contributions and investment earnings, to cover costs incurred for administering the program. Actual charges to participants, including investment charges, for the year ended June 30, 2003, averaged approximately 0.33 percent of amounts deferred.

Oregon Revised Statute 243.505 established a Deferred Compensation Advisory Committee to provide input to the PERS Board. This committee is composed of seven members who meet at least quarterly.

(9) Long-Term Debt

In 1992, PERF entered into an agreement to guarantee $50 million in taxable special revenue obligation bonds issued by the Port of Portland on behalf of a start-up aircraft maintenance company at Portland International Airport. The company ceased operations at the end of October 1993. Initial interest payments were made from a reserve fund established from bond sale proceeds. This reserve fund was depleted and interest payments from the retirement trust fund commenced in October 1994.

PERS has purchased a lease-hold interest in the facility. The value of any recovery cannot be estimated because it will depend on whether PERS can re-lease or sell the facility, and on what terms. In October 1996, the attorney general filed a lawsuit against the owners of the company and the consulting firm that advised the investment. At the time of this report, some claims are still pending. The value of any recovery from pending claims cannot be estimated at this time.

The table below describes taxable obligation revenue bonds issued and outstanding guaranteed by the retirement fund.

The first table on page 29 summarizes the amounts necessary to pay all future long-term guaranteed debt principal and interest requirements as of fiscal year ending June 30, 2004, for each fiscal year during the next five-year period ending June 30, 2008, and for the five-year periods ending June 30, 2013, June 30, 2018, and June 30, 2023. The current portion of the long-term guaranteed debt is $4,955,150.

In 1996, PERF purchased the land and began construction on a new retirement system headquarters building in Tigard, Oregon. The construction was financed by the sale of certificates of participation. The certificates of participation were sold on March 16, 1996, for $8.6 million at a 5.45 percent interest rate. On March 1, 2002, a new COP, Series B, was issued at a 4.41 percent interest rate, and was used to partially refund the original Series A COP. The remaining Series A COP has a final repayment due May 1, 2006. The Series B COP has a final repayment due May 1, 2017.

Pamcorp Taxable Special Obligation Revenue Bonds Issued and Outstanding

	Amount Issued and Outstanding	Interest Rate	Due Date	Issue Date
Series “A”	$ 8,400,000	8.350%	May 15, 2010	June 1, 1992
Series “B”	9,800,000	8.875	May 15, 2015	June 1, 1992
Series “C”	27,000,000	9.200	May 15, 2022	June 1, 1992

Pamcorp Debt Service Requirements to Maturity

Fiscal Year	Series "A" Principal	Series "A" Interest	Series "B" Principal	Series "B" Interest	Series "C" Principal	Series "C" Interest	Total Principal	Total Interest	Total Expenses
2004	$ 900,000	$ 701,400	$ -	$ 869,750	$ -	$ 2,484,000	$ 900,000	$ 4,055,150	$ 4,955,150
2005	1,000,000	626,250	-	869,750	-	2,484,000	1,000,000	3,980,000	4,980,000
2006	1,100,000	542,750	-	869,750	-	2,484,000	1,100,000	3,896,500	4,996,500
2007	1,200,000	450,900	-	869,750	-	2,484,000	1,200,000	3,804,650	5,004,650
2008	1,300,000	350,700	-	869,750	-	2,484,000	1,300,000	3,704,450	5,004,450
2009-2013	2,900,000	367,400	5,500,000	3,887,252	-	12,420,000	8,400,000	16,674,652	25,074,652
2014-2018	-	-	4,300,000	576,876	8,200,000	11,711,600	12,500,000	12,288,476	24,788,476
2019-2023	-	-	-	-	18,800,000	5,041,600	18,800,000	5,041,600	23,841,600
	$ 8,400,000	$ 3,039,400	$ 9,800,000	$ 8,812,878	$ 27,000,000	$ 41,593,200	$ 45,200,000	$ 53,445,478	$ 98,645,478

The second table on this page describes COPs issued and outstanding. The third table summarizes all future certificates of participation payments of principal and interest as of fiscal year ending June 30, 2004, for each fiscal year during the next five-year period ending June 30, 2008, and the five-year periods ending June 30, 2013, and June 30, 2018. The current portion of the PERS building debt is $705,925.

PERS Building Certificates of Participation Issued and Outstanding

	Amount Issued and Outstanding	Interest Rate	Due Date	Issue Date
Series "A"	$ 1,075,000	5.450%	May 1, 2006	March 16, 1996
Series "B"	5,860,000	4.410	May 1, 2017	March 1, 2002

PERS Building Debt Service Requirements to Maturity

Fiscal Year	Series "A" Principal	Series "A" Interest	Series "B" Principal	Series "B" Interest	Total Principal	Total Interest	Total Expenses
2004	$ 340,000	$ 52,360	$ 10,000	$ 303,565	$ 350,000	$ 355,925	$ 705,925
2005	360,000	36,210	10,000	303,345	370,000	339,555	709,555
2006	375,000	18,750	15,000	303,075	390,000	321,825	711,825
2007	-	-	405,000	302,625	405,000	302,625	707,625
2008	-	-	425,000	282,375	425,000	282,375	707,375
2009-2013	-	-	2,485,000	1,062,800	2,485,000	1,062,800	3,547,800
2014-2018	-	-	2,510,000	337,575	2,510,000	337,575	2,847,575
	$ 1,075,000	$ 107,320	$ 5,860,000	$ 2,895,360	$ 6,935,000	$ 3,002,680	$ 9,937,680

The following table summarizes the changes in long-term debt for the year ended June 30, 2003:

Long-Term Debt Activity

	Balance July 1, 2002	Additions	Deductions	Balance June 30, 2003	Amounts Due Within One Year
Pamcorp Principal	$ 46,100,000	$ -	$ 900,000	$ 45,200,000	$ 4,955,150
PERS Building Principal	7,270,000	-	335,000	6,935,000	709,925
Plus: Premium (Net)	371,676	-	22,240	349,436	25,241
Less: Deferred Gain (Net)	(405,195)	-	(65,386)	(339,809)	24,546
Total Bonds Payable	$ 53,336,481	$ -	$ 1,191,854	$ 52,144,627	$ 5,714,862

(10) Recent Events (2003 Legislation)

Due to the large unfunded actuarial liability and corresponding increases in employer contribution rates, the 2003 Oregon legislative assembly passed a number of bills that affect the System subsequent to June 30, 2003. The following is a summary of the significant legislation.

House Bill 2001 — Places an effective cap on earnings crediting above the assumed rate, currently 8 percent, to Tier One regular member accounts until the following criteria are met:

- the deficit account is eliminated;
- a gain/loss reserve has been fully funded; and
- the gain/loss reserve has been fully funded for three consecutive years.

House Bill 2003 — Enacts six major reforms to the current PERS plan:

- redirects the 6 percent member contribution to a transition account outside of the PERS fund (repealed by HB 2020);
- freezes retiree benefits for those who retire between April 1, 2000, and April 1, 2004, under Money Match, providing for no future benefit growth by means of a cost-of-living-adjustment until the benefit is equal to what it would have been had lower Tier One regular account earnings been credited in 1999;
- changes the assumed rate guarantee to a lifetime rather than a year-to-year guarantee;
- eliminates the requirement to liquidate the deficit reserve within five years under ORS 238.255;
- prohibits the Board, beginning with calendar year 2003, from crediting Tier One regular accounts with earnings until the deficit account is eliminated;
- clarifies that the look back provisions of House Bill 2004 also apply to the full formula benefit calculation.

House Bill 2004 — Directs the Board to use new mortality tables effective July 1, 2003, and provides for look back protection to the member's account balance and service time as of June 30, 2003.

This bill also directs the Board to conduct a study of the life expectancy of certain police officer and firefighter members of PERS. The findings of the study are to be used when adopting mortality tables effective January 1, 2005.

House Bill 2005 — Reduces the number of Board members from twelve to five, with three private sector members, one state manager member (or local elected official), and one bargaining unit employee member.

House Bill 2020 — Creates the Oregon Public Service Retirement Plan as a hybrid successor plan to PERS. The new plan is administered by the Board and consists of two programs:

1. The Pension Program**,** the defined benefit portion of the plan, applies to employees hired after August 29, 2003, and to inactive Tier One or Tier Two members who return to employment following a six month or greater break in service.

   The Pension Program has a normal retirement age of 65 (58 with 30 or more years of service) for general service members and age 60 (53 with 25 or more years of service) for police officer or firefighter members.

   The pension benefit is solely formula based, with a 1.5 percent factor for general service members and 1.8 percent for police officer and firefighter members.

2. The Individual Account Program (IAP)**,** the defined contribution portion of the plan, applies to employees hired after August 29, 2003, and to all active Tier One and Tier Two members.

   House Bill 2020 repeals the transition account of House Bill 2003. Members must pay

6 percent of salary into the IAP. If an employer has been paying the member contribution into PERS, the employer must continue to pay the member portion until at least December 31, 2005.

Senate Bill 258	Allows any member who is vested but inactive to receive 150 percent of a member account balance if the member withdraws the account between July 1, 2004, and June 30, 2006.

A more comprehensive list of PERS related legislation can be found on the PERS Web site at http://www.pers.state.or.us/, under the Oregon Legislative Summary selection. The complete text of the enrolled version of legislation can be found at http://www.leg.state.or.us/03reg/measures/main.html.

(11) Litigation

Several lawsuits have been filed challenging the legislation described in Note 10. All complaints essentially contend that provisions in HB 2003 and HB 2004 reduce members' retirement benefits, and (1) impair the contract rights of PERS members under the Oregon and U.S. Constitutions; (2) breach PERS members contract rights; and/or (3) unconstitutionally take the property of PERS members (their accrued contract rights). The plaintiffs have not sought a specific amount of relief. Essentially, the claims seek to restore the status quo ante, i.e., require PERS to calculate benefits, and public employers to make PERS contributions, in the amounts that would have been required but for HB 2003 and HB 2004. Insofar as plaintiffs' claims are upheld, the resulting increase in PERS costs would be paid by participating public employers. The parties are engaged in a discovery-like process under the supervision of Court of Appeals Judge David Brewer, who has been appointed Special Master by the Oregon Supreme Court. He is to take evidence and decide motions and issue his findings and recommendations to the Supreme Court by April 12, 2004. The State is vigorously disputing plaintiffs' claims. The least favorable, plausible outcome for PERS would be for virtually all key elements of the bills to be declared unconstitutional.

In a prior case, *City of Eugene, et al v. PERS*, there was a petition for judicial review of orders issued by the PERS Board establishing local government employer contribution rates for 1998 and 2000 and order allocating 1999 earnings of the PERS fund. Petitioners alleged that the orders are contrary to governing statutes and were an abuse of discretion. Certain PERS members intervened to defend the orders challenged by petitioners; intervenors also asserted claims against PERS for breach of contract and breach of fiduciary duty. Intervenors alleged that PERS Board's allocation of a portion of 1999 earnings to employer accounts breached fiduciary and contractual duties owed to PERS members. No monetary damages are sought; no insurance coverage is available. Petitioners seek nonmonetary relief in the form of reversal and remand for recalculation of 1998 and 2000 employer contribution rates and reallocation of 1999 earnings. Petitioners also seek to recover attorney fees. Intervenors seek remand for reallocation of 1999 earnings and seek to recover attorney fees.

A trial in Marion County Circuit Court was held in July 2002. Judge Lipscomb ruled in favor of plaintiffs and intervenors. Final judgment has been entered; appeals were filed by PERS and by intervenors. New legislation (HB 2003) required the Court of Appeals to transfer jurisdiction to the Oregon Supreme Court. The case is now pending in Oregon Supreme Court. Record on appeal has not settled; briefing schedule will follow after that occurs. Given the results in Circuit Court, the likelihood of an unfavorable outcome following appeal is 60 percent or more; however, accurately assessing the chances of prevailing on appeal is very difficult due to the complexity of the issues presented. Potential liability for attorney fees is estimated to be in the range of $1.2 million to $2 million. The parties have agreed to postpone consideration of the attorney fee claims until all appeals are resolved. Other losses will be in the form of reallocations of funds within the PERS system, not monetary damages.

In the case of *Canby Utility Board et al v. PERB,* there is a petition for judicial review of orders issued by PERS Board establishing local government employer contribution rates for 2003. Petitioners allege, on behalf of themselves and all other similarly situated local government employers, that the 2003 rates are contrary to statute and suffer from the same flaws identified in city of Eugene case described above. The parties are currently discussing a stipulation and order staying further proceedings pending final resolution of the appeals in the City of Eugene case. No monetary damages are sought; petitioners seek reversal of the challenged orders and remand for recalculation of 2003 employer contribution rates. Petitioners also seek to recover their attorney fees. The likelihood of an unfavorable outcome is the same as in the city of Eugene case, and the potential liability for attorney fees is estimated to be in the range of $50,000 to $100,000.

There are five other cases (not consolidated yet) that present the same issues raised in the Canby Utility Board case described above. Petitioners are various groups of local government employers (cities, counties, school districts, other special districts) seeking review of 2003 employer contribution rates. PERB's Notice of Appearance was filed August 22, 2003. These cases will likely be consolidated with each other, and possibly with the Canby Utility Board case, and stayed pending resolution of the City of Eugene case described above. Likelihood of an unfavorable outcome is the same as in Canby Utility Board case, and potential liability for attorney fees is estimated to be in the range of $50,000 to $100,000.

Required Supplementary Information
Schedules of Funding Progress
(dollar amounts in millions)

Valuation Date	Actuarial Liability	Valuation of Assets	Assets as a % of Actuarial Liabilities	Unfunded Accrued Liabilities (UAL)	Annual Active Member Payroll	UAL as a % of Annual Active Member Payroll
Pension Benefits						
12/31/2002	$ 38,947.0	$ 35,446.9	91.0%	$ 3,500.1	$ 6,383.5	54.8%
12/31/2001#	37,258.3	39,772.7	106.7	(2,514.4)	6,254.0	(40.2)
12/31/2001	45,386.1	39,772.7	87.6	$ 5,613.4	6,254.0***	89.8
12/31/2000	42,783.9	41,739.6	97.6	1,044.3	6,195.9	16.9
12/31/1999	40,395.4	39,920.9	98.8	474.5	5,676.6	8.4
12/31/1997	31,178.0	29,097.2	93.3	2,080.8	5,161.6	40.3
12/31/1995	22,794.0	20,963.6	92.0	1,830.4	4,848.1	37.8
12/31/1993	18,614.7	17,560.1	94.3	1,054.6	4,466.8	23.6
12/31/1991	14,378.7	14,679.4	102.1	(300.7)	3,887.5	(7.7)
Postemployment Healthcare Benefits - Retirement Health Insurance Account*						
12/31/2002	$ 542.3	$ 87.4	16.1%	$ 454.9	$ 6,383.5	7.1%
12/31/2001#	533.7	76.5	14.3	456.6	6,254.0	7.3
12/31/2001	532.1	76.5	14.4	455.6	6,254.0***	7.3
12/31/2000	543.5	62.1	11.4	481.4	6,195.9	7.8
12/31/1999	495.3	41.4	8.4	453.9	5,676.6	8.0
12/31/1997	473.8	10.7	2.3	463.1	5,161.6	9.0
12/31/1995	428.1	(3.4)	(0.8)	431.5	4,848.1	8.9
12/31/1993	360.7	(6.8)	(1.9)	367.5	4,466.8	8.2
12/31/1991	263.2	(11.5)	(4.4)	274.7	3,887.5	7.1
Postemployment Healthcare Benefits - Retiree Health Insurance Premium Account**						
12/31/2002	$ 31.2	$ 2.8	9.0%	$ 28.4	$ 1,741.9	1.6%
12/31/2001#	30.2	3.0	9.9	22.2	1,954.1	1.4
12/31/2001	29.5	3.0	10.0	26.5	1,954.1***	1.4
12/31/2000	23.1	2.9	12.6	20.2	1,984.0	1.0
12/31/1999	17.2	2.5	14.5	14.7	1,802.7	0.8
12/31/1997	13.1	0.3	2.3	12.8	1,399.8	0.9
12/31/1995	26.5	(2.6)	(9.8)	29.1	1,581.5	1.8
12/31/1993	25.9	(1.3)	(5.0)	27.2	1,498.1	1.8
12/31/1991	29.3	0.0	0.0	29.3	1,440.6	2.0

*The Retirement Health Insurance Account provides postemployment healthcare benefits for eligible members for all participating employers. When created, the account also assumed the debt of its predecessor trust fund of $11.5 million, resulting in a negative valuation of assets prior to December 31, 1997.

**The Retiree Health Insurance Premium Account provides postemployment healthcare benefits only for eligible members who retired from state of Oregon employers. Required annual contributions did not begin until July 1, 1995, while benefits were being paid, resulting in a negative valuation of assets prior to December 31, 1997.

***Effective in 2001, the Annual Active Member Payroll excludes the member pick-up, if any.

#The 2001 valuation was revised to include the input of PERS reform legislation enacted in 2003. This legislation is currently under judicial review.

Required Supplementary Information
Schedules of Employer Contributions
(dollar amounts in millions)

Year Ended	Annual Required Contribution	Percentage Contributed
Pension Benefits		
12/31/2002	$ 665.9	97.4%*
12/31/2001	681.5	94.6*
12/31/2000	635.6	95.2*
12/31/1999	545.9	96.6*
12/31/1998	452.1	100.0
12/31/1997	440.0	100.0
12/31/1996	432.1	100.0
12/31/1995	401.4	100.0
12/31/1994	402.7	100.0
12/31/1993	399.7	100.0
Postemployment Healthcare Benefits - Retirement Health Insurance Account**		
12/31/2002	$ 41.0	100.0%
12/31/2001	41.7	100.0
12/31/2000	41.1	100.0
12/31/1999	37.4	100.0
12/31/1998	33.7	100.0
12/31/1997	30.7	100.0
12/31/1996	28.0	100.0
12/31/1995	24.6	100.0
12/31/1994	21.8	100.0
12/31/1993	21.4	100.0
Postemployment Healthcare Benefits - Retiree Health Insurance Premium Account***		
12/31/2002	$ 1.6	100.0%
12/31/2001	1.3	100.0
12/31/2000	1.1	100.0
12/31/1999	1.7	100.0
12/31/1998	2.2	100.0
12/31/1997	2.3	100.0
12/31/1996	2.4	100.0
12/31/1995	1.2	100.0

*Due to a significant increase in employer contribution rates based on the December 31, 1997 and December 31, 1999 actuarial valuations, the Board allowed employers to elect to defer increases to future periods.

**The Retirement Health Insurance Account provides postemployment healthcare benefits for eligible members for all participating employers.

***The Retiree Health Insurance Premium Account provides postemployment healthcare benefits only for eligible members who retired from state of Oregon employers. Required annual contributions did not begin until July 1, 1995.

Notes to Required Supplementary Schedules

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

	PERS
Valuation Date	December 31, 2002
Actuarial Cost Method	Entry age
Amortization Method	Level percent of salary over a period commencing on the valuation date and ending on December 31, 2027.
Actuarial Assumptions:	
Investment Rate of Return	8.0 percent
Projected Salary Increases	4.25 percent
Consumer Price Inflation (Inflation Rate)	3.5 percent
Health Cost Inflation	Graded from 8.5 percent in 2004, to 5.0 percent in 2011, at the rate of 0.5 percent per year.
Cost-of-living Adjustments	2.0 percent
Method Used to Value Assets	The actuarial value of assets is equal to the fair market value of assets on the valuation date, less a reserve equal to a pro-rata portion of the investment gains (losses) over the four-year period ending on the evaluation date. Investment gains (losses), effective from January 1, 2000, are recognized at the rate of 25.0 percent per year. The actuarial value of assets is limited to a 10.0 percent corridor above and below the fair market value.
Amortization Period	25 years
Selection of Amortization Approach	Closed

Note: The December 31, 2002 valuation will amortize the unfunded actuarial liability over a 25-year period. This amortization period will be shortened each valuation until a 20-year amortization period is achieved.

Schedule of Plan Net Assets - Defined Benefit Pension Plan June 30, 2003

	Regular Account	Variable Account	Totals 2003	Totals 2002
Assets:				
Cash and Cash Equivalents	$ 2,339,053,311	$ 35,397,996	$ 2,374,451,307	$ 2,250,021,481
Receivables:				
Employer	28,590,437	---	28,590,437	34,391,924
Plan Member	15,108,719	3,803,051	18,911,770	19,481,521
Interest and Dividends	106,559,068	1,555,652	108,114,720	113,640,678
Investment Sales and Other Receivables	1,127,280,115	4,579,296	1,131,859,411	898,543,971
Total Receivables	1,277,538,339	9,937,999	1,287,476,338	1,066,058,094
Interaccount Receivables and Payables	56,173,357	(56,173,357)	---	---
Due from Other Funds	344,264	---	344,264	1,419,643
Investments:				
Fixed Income	9,214,821,814	65,480,139	9,280,301,953	10,430,374,139
Equity	19,740,257,554	1,297,919,673	21,038,177,227	18,463,083,750
Real Estate	1,720,012,476	---	1,720,012,476	1,728,688,206
Alternative Equity	4,001,041,295	---	4,001,041,295	3,517,297,853
Total Investments	34,676,133,139	1,363,399,812	36,039,532,951	34,139,443,948
Securities Lending Cash Collateral	2,069,624,570	---	2,069,624,570	2,091,464,709
Prepaid Expenses and Deferred Charges	1,516,174	---	1,516,174	156,222
Equipment and Fixtures, Cost Net of Accumulated Depreciation at 2003: $2,189,494; at 2002: $2,013,498	901,106	---	901,106	140,750
Land and Buildings, Cost Net of Accumulated Depreciation at 2003: $1,096,598; at 2002: $916,335	7,058,373	---	7,058,373	7,238,636
Office Supplies Inventory, Cost	5,710	---	5,710	4,839
Total Assets	**40,428,348,343**	**1,352,562,450**	**41,780,910,793**	**39,555,948,322**
Liabilities:				
Investment Purchases and Accrued Expenses	2,484,960,863	9,176,213	2,494,137,076	2,669,749,564
Deposits and Other Liabilities	111,444,238	674,867	112,119,105	107,811,246
Due to Other Funds	11,643,200	---	11,643,200	---
Bonds Payable	52,144,627	---	52,144,627	53,336,481
Securities Lending Collateral Due Borrowers	2,069,624,570	---	2,069,624,570	2,091,464,709
Total Liabilities	**4,729,817,498**	**9,851,080**	**4,739,668,578**	**4,922,362,000**
Net Assets held in trust for pension benefits	**$ 35,698,530,845**	**$ 1,342,711,370**	**$ 37,041,242,215**	**$ 34,633,586,322**

Schedule of Changes in Plan Net Assets - Defined Benefit Pension Plan For the Year Ended June 30, 2003

	Regular Account	Variable Account	Totals 2003	Totals 2002
Additions:				
Contributions:				
Employer	$ 2,578,989,169	$ ---	$ 2,578,989,169	$ 989,078,917
Plan Member	316,082,771	84,905,796	400,988,567	391,542,211
Other Sources	21,436,993	---	21,436,993	20,939,073
Total Contributions	2,916,508,933	84,905,796	3,001,414,729	1,401,560,201
Investment Income:				
Net Appreciation (Depreciation) in Fair Value of Investments	837,625,342	9,343,303	846,968,645	(3,192,613,017)
Interest, Dividends, and Other Investment Income	810,455,286	6,733,155	817,188,441	983,556,869
Total Investment Income	1,648,080,628	16,076,458	1,664,157,086	(2,209,056,148)
Less Investment Expense	194,993,522	3,455,219	198,448,741	213,256,215
Net Investment Income	1,453,087,106	12,621,239	1,465,708,345	(2,422,312,363)
Other Income	282,126	---	282,126	257,155
Total Additions	4,369,878,165	97,527,035	4,467,405,200	(1,020,495,007)
Deductions:				
Benefits	1,954,611,830	39,789,700	1,994,401,530	1,677,951,252
Death Benefits	5,922,665	---	5,922,665	10,121,636
Refunds of Contributions	40,608,828	2,031,467	42,640,295	46,086,912
Administrative Expense	16,044,370	740,447	16,784,817	17,456,752
Interaccount Transfers	(136,072,732)	136,072,732	---	---
Total Deductions	1,881,114,961	178,634,346	2,059,749,307	1,751,616,552
Net Increase (Decrease)	**2,488,763,204**	**(81,107,311)**	**2,407,655,893**	**(2,772,111,559)**
Net Assets held in trust for pension benefits				
Beginning of Year	33,209,767,641	1,423,818,681	34,633,586,322	37,405,697,881
End of Year	**$ 35,698,530,845**	**$ 1,342,711,370**	**$ 37,041,242,215**	**$ 34,633,586,322**

Schedule of Plan Net Assets - Postemployment Healthcare Plan June 30, 2003

	Retirement Health Insurance Account	Retiree Health Insurance Premium Account	Standard Retiree Health Insurance Account	Totals 2003	Totals 2002
Assets:					
Cash and Cash Equivalents	$ 1,195	$ 1,017	$ 18,096,958	$ 18,099,170	$ 36,998,404
Receivables:					
Employer	1,969,378	---	---	1,969,378	2,074,952
Plan Member	---	---	5,002,348	5,002,348	3,961,719
Interest and Dividends	---	---	---	---	---
Total Receivables	1,969,378	---	5,002,348	6,971,726	6,036,671
Due from Other Funds	11,330,503	257,211	---	11,587,714	1,050,955
Commingled Investments	83,549,834	2,413,862	---	85,963,696	76,036,521
Total Assets	**96,850,910**	**2,672,090**	**23,099,306**	**122,622,306**	**120,122,551**
Liabilities:					
Investment Purchases and Accrued Expenses	---	---	5,955,674	5,955,674	1,903,757
Due to Other Funds	---	---	147,626	147,626	2,354,854
Total Liabilities	---	---	**6,103,300**	**6,103,300**	**4,258,611**
Net Assets held in trust for postemployment healthcare benefits	**$ 96,850,910**	**$ 2,672,090**	**$ 16,996,006**	**$ 116,519,006**	**$ 115,863,940**

Schedule of Changes in Plan Net Assets - Postemployment Healthcare Plan For the Year Ended June 30, 2003

	Retirement Health Insurance Account	Retiree Health Insurance Premium Account	Standard Retiree Health Insurance Account	Totals 2003	Totals 2002
Additions:					
Contributions:					
Employer	$ 41,248,903	$ 1,599,744	$ ---	$ 42,848,647	$ 41,578,731
Plan Member	---	---	66,380,497	66,380,497	52,273,896
Total Contributions	41,248,903	1,599,744	66,380,497	109,229,144	93,852,627
Investment Income:					
Net Appreciation (Depreciation) in Fair Value of Investments	2,890,216	46,286	---	2,936,502	(4,445,823)
Interest, Dividends, and Other Investment Income	---	---	527,712	527,712	902,103
Total Investment Income	2,890,216	46,286	527,712	3,464,214	(3,543,720)
Less Investment Expense	---	---	---	---	---
Net Investment Income	2,890,216	46,286	527,712	3,464,214	(3,543,720)
Other Income	---	---	15,000	15,000	---
Total Additions	44,139,119	1,646,030	66,923,209	112,708,358	90,308,907
Deductions:					
Healthcare Premium Subsidies	23,906,241	1,367,993	---	25,274,234	24,782,256
Retiree Healthcare Expense	---	---	84,504,240	84,504,240	49,376,276
Administrative Expense	724,104	116,422	1,434,292	2,274,818	2,225,181
Total Deductions	24,630,345	1,484,415	85,938,532	112,053,292	76,383,713
Net Increase (Decrease)	**19,508,774**	**161,615**	**(19,015,323)**	**655,066**	**13,925,194**
Net Assets held in trust for postemployment healthcare benefits					
Beginning of Year	77,342,136	2,510,475	36,011,329	115,863,940	101,938,746
End of Year	**$ 96,850,910**	**$ 2,672,090**	**$ 16,996,006**	**$ 116,519,006**	**$ 115,863,940**

Schedule of Administrative Expenses
For the Years Ended
June 30, 2003 and 2002

	2003	2002
Personal Services:		
Staff Salaries	$ 8,856,763	$ 8,277,473
Social Security	687,308	631,653
Retirement	1,371,268	1,288,255
Insurance	1,467,297	1,293,788
Assessments	76,832	870,489
Total Personal Services	12,459,468	12,361,658
Professional Services:		
Actuarial	317,821	302,383
Data Processing	269,979	318,414
Audit	105,698	214,078
Legal Counsel	303,199	514,764
Medical Consultants	84,906	102,625
Training and Recruitment	239,625	136,844
Contract Services	1,147,874	1,437,216
Healthcare Fees	1,822,796	2,076,037
Total Professional Services	4,291,898	5,102,361
Communications:		
Printing	99,237	207,060
Telephone	229,159	233,882
Postage	369,210	335,682
Travel	76,294	89,266
Total Communications	773,900	865,890
Rentals:		
Office Space	66,597	72,536
Equipment	52,925	53,011
Total Rentals	119,522	125,547
Miscellaneous:		
Central Government Charges	133,769	512,197
Supplies	464,243	484,660
Maintenance	668,870	442,548
Non-Capitalized Equipment	405,544	159,880
Depreciation	356,259	287,663
COP Amortization	46,306	25,052
Total Miscellaneous	2,074,991	1,912,000
Total Administrative Expenses: Defined Benefit Pension Plan, Postemployment Healthcare Plan, and Deferred Compensation Plan for the Years Ending June 30, 2003 and 2002.	**$ 19,719,779**	**$ 20,367,456**

Schedule of Payments to Consultants
For the Years Ended
June 30, 2003 and 2002

Individual or Firm	Commission / Fees 2003	Commission / Fees 2002	Nature of Service
Milliman USA	$ 498,070	$ 248,475	Actuary
Oregon Department of Justice	388,277	385,430	Legal
Oregon Audits Division	127,898	199,477	Audit
B.W. Reed Benefits, Inc.	73,080	145,434	Health Insurance Consultant
Lawrence Duckler, MD	17,850	45,000	Medical Advisor

Summary of Investment Fees, Commissions, and Expenses
For the Years Ended June 30, 2003 and 2002

	2003	2002
International Equity Fund Managers		
Acadian	$ 1,445,788	$ 1,519,220
AllianceBernstein International Premier Growth Fund	1,796,519	1,870,818
Arrowstreet Capital, L.P.	551,270	---
Barclay's Global Investors (EAFE)	699,459	656,142
Brandes Investment	1,707,119	2,037,160
Clay Finlay, Inc.	1,024,754	1,203,816
Driehaus Capital	988,806	1,923,077
Genesis Investment Management Ltd.	1,447,795	1,453,643
Lazard Asset Management	222,371	218,446
Marvin & Palmer Associates	1,309,536	1,462,994
Putnam Investments	541,790	1,067,348
Rowe Price	1,717,457	2,104,018
Schroder Capital	1,097,788	1,040,790
TT International	1,249,691	1,371,035
Wells Capital Management	1,002,585	---
Domestic Equity Fund Managers		
AllianceBernstein Domestic Equity	1,851,033	1,531,199
Alliance Capital Management	1,226,377	2,200,768
Aronson, Johnson, Ortiz, L.P.	370,577	---
Barclay's Global Investors (all funds)	3,864,876	3,172,236
Becker Capital	1,190,026	1,386,532
Brown Capital	---	386,413
Equinox	---	817,501
Froley-Revy Equity	1,051,455	1,122,594
Goldman Sachs	89,044	---
MFS Institutional Advisors, Inc.	481,370	---
Nicholas Applegate	1,259,895	1,739,243
a Northern Trust Company	684,494	816,760
Oak Associates	1,000,990	1,140,488
PIMCO Advisors	87,420	---
Peachtree Asset Management	88,713	692,434
Shott Capital Management	127,180	776,516
Thompson/Rubenstein Investors	1,232,712	1,551,878
Veredus Capital Management	850,627	1,159,403
Wanger Asset Management	1,955,904	2,773,477
Wellington Management	2,593,306	2,881,182
Winslow Capital Management	969,783	1,083,717
Zesiger Capital Group	321,988	659,036
Fixed Income Managers		
Alliance Capital Management	1,877,455	1,503,807
Barclay's Global Investors (Corporate Government Bond Index)	6,305	60,448
Blackrock Financial Management	1,966,477	1,661,226
Fidelity Management Trust Co.	2,441,201	1,902,684
Merrill Lynch Investment Managers	---	119,146
Rogge Global Partners	---	147,805
Wellington Management Co.	1,574,459	1,671,068
Western Asset Management	1,473,818	1,536,908
Real Estate Investment Fund Manager		
La Salle Advisors (Alex Brown Realty)	1,068,346	1,161,274
Leveraged Buyout Manager		
KKR	16,987,188	12,664,688
Custodian		
State Street Bank	657,087	663,659
Alternative Equity Managers		
Aurora Equity Partners	872,171	806,617
BCI Growth	1,874,700	1,076,824
Castle Harlan	1,690,608	500,775
CVC European	2,549,439	2,109,538
Doughty Hanson	3,145,537	2,177,206
Exxel Capital Partners	960,521	2,500,000
Hicks Muse	2,632,843	2,031,606
Parthenon Investors	---	2,478,685
Pathway Private Equity	1,875,000	2,401,304
Solera Partners	1,021,100	2,558,002
TPG Partners	6,245,268	6,081,352
TSG Fund	1,366,168	1,584,365
Vestar Capital	1,270,036	1,237,070
Other Alternative Equity Fees	15,786,005	15,401,921
Real Estate Fees and Expenses	25,199,585	21,510,323
Real Estate Bond Expenses	4,417,127	4,903,274
State Treasury Fees	4,079,639	2,982,810
Securities Lending Fees	27,987,887	47,004,774
Brokerage Commissions	26,861,146	25,888,343
Other Investment Fees and Expenses	2,461,127	1,108,829
Total Investment Fees, Commissions, and Expenses - Defined Benefit Pension Plan	**$ 198,448,741**	**$ 213,256,215**

OFFICE OF THE
SECRETARY OF STATE
Bill Bradbury
Secretary of State

AUDITS DIVISION
Cathy Pollino
Director

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Auditing for a Better Oregon

The Honorable Theodore Kulongoski
Governor of Oregon
254 State Capitol
Salem, Oregon 97301-4047

The Board of Trustees
Oregon Public Employees Retirement System
11410 SW 68th Parkway
Tigard, Oregon 97223

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

We have audited the basic financial statements of the Oregon Public Employees Retirement System (PERS), as of and for the year ended June 30, 2003, and have issued our report thereon dated December 12, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether PERS' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered PERS' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we considered to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the PERS in a separate letter.

This report is intended solely for the information and use of the Board of Trustees of the Oregon Public Employees Retirement System, the Retirement System's management, the governor of the state of Oregon, and the Oregon Legislative Assembly and is not intended to be and should not be used by anyone other than these specified parties.

OREGON AUDITS DIVISION

Bill Bradbury
Secretary of State

December 12, 2003

Investment Section

PERS currently pays retirement benefits to more than 6,000 retired police and firefighters. It also covers more than 15,000 active police and firefighter members.

Oregon State Police
Then

Oregon State Police
Now

OREGON INVESTMENT COUNCIL

October 28, 2003

159 STATE CAPITOL
SALEM, OREGON 97310
378-4111

Dear PERS Members:

For most of the past fiscal year the markets were driven by recessionary concerns, the continuation of the technology stock collapse, corporate malfeasance, and the threat and commencement of war. With consumers over-leveraged and corporations largely in a cost-cutting mode, investors have not had much to cheer about. Overseas, the news has not been much better as Europe and Asia have also been in a malaise for most of the past 12 months.

However, during the quarter ending June 30, 2003, global equity markets began to show the effects of fiscal stimulus. In addition, most central banks have relaxed monetary policy over the last two years, further brightening the mood of both bond and stock markets. The credit sectors of the bond market, especially lower quality issues, performed well as mid-year approached. Corporate earnings have shown some strength, and businesses have begun to selectively spend on capital improvements. Finally, recent gains in the technology sector suggest that perhaps the hangover from the bubble has ended.

On June 30, 2003, the total PERS portfolio had an asset value of $37.1 billion. The total fund return for the fiscal year ended June 30, 2003 was 2.8 percent. The Regular Account, which represents the vast majority of the total PERS portfolio, performed slightly better, generating a return of 3.1 percent. While fund performance was disappointing in absolute terms, these results were approximately 1.0 percent better than a passively managed fund with the same asset allocation policy.

For the one-year period ended June 30, 2003, the domestic equity portfolio generated a 0.8 percent return, marginally above the Russell 3000 Index. The PERS international portfolio lost 3.5 percent over the same period versus the index loss of 2.5 percent. Alternative equities performed poorly in an absolute sense, losing 8.2 percent, but performed significantly better than the negative 18.7 percent return of the index. Fixed income assets performed strongly, registering a 14.3 percent gain against the bond benchmark return of 11.1 percent. Finally, real estate generated a 5.9 percent return, less than the 7.1 percent performance of the real estate index.

Over the five-year period, the total fund outperformed both its benchmark index and nearly all large public funds according to the State Street Bank Universe Ranking of large public funds over $10 billion. The primary goal of the investment program is realization of long-term earnings in excess of the rate assumed by the PERS actuary (currently 8 percent). To accomplish this objective, the investment portfolio has a decided tilt toward equity investments. The Oregon Investment Council regularly reviews this investment policy.

Ronald D. Schmitz
Director, Investments

Description of Investment Policies

Oregon Revised Statute (ORS) 293.706 established the Oregon Investment Council (OIC), which consists of five voting members. Four members of the council, who are qualified by training and experience in the field of investment or finance, are appointed by the governor, subject to Senate confirmation. The state treasurer serves as the remaining voting member of the council. In addition, the director of the Public Employees Retirement System serves as a non-voting member of the OIC.

ORS 293.701 defines the investment funds over which the OIC has responsibility. Included are the Public Employees Retirement Fund (PERF) and the Deferred Compensation Fund. The OIC establishes policies for the investment and reinvestment of moneys in the investment funds, as well as the acquisition, retention, management, and disposition of investments in the investment funds. The OIC is also responsible for providing an examination of the effectiveness of the investment program.

The OIC ensures that moneys in the investment funds are invested and reinvested to achieve the investment objective of making the moneys as productive as possible. Furthermore, the investments of those funds are managed as a prudent investor would do, under the prevailing circumstances and in light of the purposes, terms, distribution requirements, and laws governing each investment fund. This standard requires the exercise of reasonable care, skill, and caution, and is applied to investments not in isolation, but in the context of each fund's portfolio as part of an overall investment strategy. The strategy should incorporate risk and return objectives reasonably suitable to the particular investment fund.

When implementing investment decisions, the OIC has a duty to diversify the investments of the investment funds unless, under the circumstances, it is not prudent to do so. In addition, the OIC must act with prudence when selecting agents and delegating authority.

The OIC has approved the following asset classes for the PERF: Oregon Short-Term Fund, Fixed Income, Real Estate, Equities, Alternative Equities, and Venture Capital Partnerships. The OIC must approve, in advance, the purchase of investments in a new asset class not described above. Individual investments which will require more than 10.0 percent of the funds allocated to a single asset class require the advance and explicit approval of the OIC.

The OIC maintains an "open-door" policy wherein investment officers employed by the Oregon state treasury will hear and consider investment proposals and solicitations from any person, firm, or partnership that submits a proposal or solicitation in good faith. However, under no circumstance does this policy require that the Oregon state treasury purchase the proposed investment.

The OIC also maintains an equal opportunity policy. When awarding contracts or agreements, the OIC does not discriminate because of age, race, color, sex, religion, national origin, marital status, sexual orientation, or disability. Furthermore, the OIC encourages firms doing or seeking to do business with the OIC to have equal opportunity programs. The OIC requires that all written contracts or agreements with the OIC incorporate reference that affirms compliance with applicable nondiscrimination, equal opportunity, and contract compliance laws.

The OIC meets monthly and, in compliance with ORS 192.630-660, holds its meeting in a public forum. Public notice, including a meeting agenda, is provided to interested persons and news media which have requested notice. Written minutes and recordings are taken at all meetings.

The OIC recently embarked on a detailed documentation of its governance structure and beliefs encompassing delegation and return expectations. As funds under management have grown significantly over the last decade, these more formal guidelines have become invaluable to the professional management of state funds. The OIC also regularly reviews various aspects of investment policy; performance of investment managers and accounts; asset allocation; and a large number of investment proposals and recommendations.

Investment Results

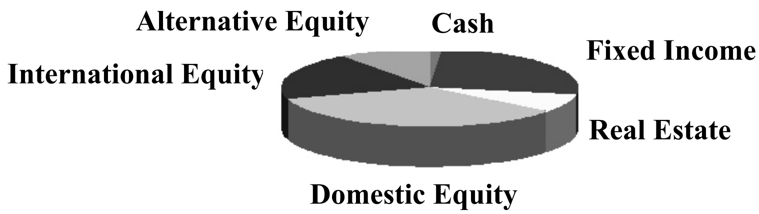
	Periods Ending June 30, 2003		
		Annualized	
	1-Year	3-Year	5-Year
Total Portfolio	2.8%	-4.0%	3.3%
Domestic Stocks	0.8%	-10.0%	0.6%
Benchmark: Russell 3000 Index	0.8%	-10.5%	-1.1%
International Stocks	-3.5%	-11.8%	-1.1%
Benchmark: Custom Index (1)	-2.5%	-10.7%	-1.8%
Fixed Income Segment	14.3%	10.5%	7.7%
Benchmark: Custom Index (2)	11.1%	9.7%	7.4%
Real Estate (3)	5.9%	8.9%	8.9%
Benchmark: NCREIF	7.1%	8.6%	10.2%
Private Equity (4)	-8.2%	-12.0%	0.5%
Benchmark: Russell 3000 +500 bps	-18.7%	-9.9%	2.5%

Calculations were prepared using a time-weighted rate of return based on the market rate in accordance with AIMR's performance presentation standards.

(1) 90% Salomon World Equity Broad Market ex-US/10% International Finance Corporation EMG Investable Securities
(2) 90% Lehman Universal/10% SSBI Non-US World Government Bond Hedged
(3) Returns are lagged one quarter.
(4) Returns are lagged one quarter.

Investment Target Allocation as of June 30, 2003

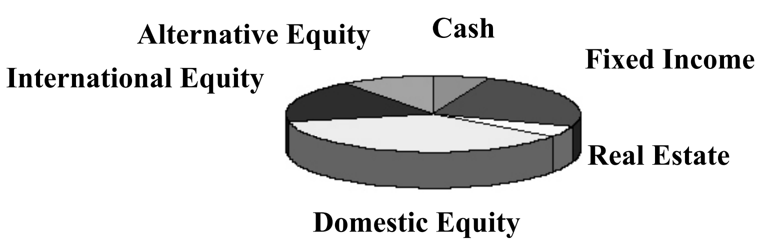
OIC Allocation



	Low Range	High Range	Weighted Average Range
Cash	0%	3%	1.5%
Fixed Income	22	32	26.6
Real Estate	5	11	7.8
Domestic Equity	30	40	34.5
International Equity	15	25	19.7
Alternative Equity	7	13	9.9
	79.0%	124.0%	100.0%

Investment Actual Allocation as of June 30, 2003

Actual Allocation



	Actual
Cash	6.2%
Fixed Income	24.2
Real Estate	4.5
Domestic Equity	37.0
International Equity	17.7
Alternative Equity	10.4
	100.0%

Schedule of Largest Assets Held

Largest Stock Holdings (by Fair Value)
June 30, 2003

Shares	Description	Fair Value
3,995,455	Pfizer, Inc.	$ 136,444,788
5,121,200	Cisco Systems, Inc.	85,472,828
1,702,700	Medtronic, Inc.	81,678,519
40,277,727	Vodafone Group PLC	78,760,122
1,811,742	Citigroup, Inc.	77,542,558
1,428,020	Johnson & Johnson	73,828,634
3,348,080	Intel Corporation	69,586,495
1,500,000	Canon Incorporated	68,831,980
2,413,560	Microsoft Corporation	61,811,272
727,030	Bank of America Corporation	57,457,181
		$ 791,414,377

Largest Bond Holdings (by Fair Value)
June 30, 2003

Par Value	Description	Fair Value
$ 119,444,237	US Treasury Inflation Indexed Notes 3.875% due 04-15-2029 Rating Aaa	$ 152,011,903
135,010,000	US Treasury Notes 2.25% due 07-31-2004 Rating Aaa	136,751,630
124,900,000	Federal National Mortgage Association TBA 7.0% due 12-31-2099 Rating Aaa	131,574,344
118,012,882	Federal National Mortgage Association TBA 5.0% due 12-31-2099 Rating Aaa	121,922,059
109,335,306	Federal National Mortgage Association TBA 6.0% due 12-31-2099 Rating Aaa	113,606,216
97,410,000	Federal National Mortgage Association TBA 4.5% due 12-31-2099 Rating Aaa	99,373,415
67,550,000	US Treasury Bonds 6.125% due 08-15-2029 Rating Aaa	82,554,199
80,400,000	Federal Home Loan Mortgage Corporation TBA 5.0% due 12-31-2099 Rating Aaa	81,681,375
77,000,000	Federal National Mortgage Association TBA 6.5% due 12-31-2099 Rating Aaa	81,235,000
76,840,000	Federal National Mortgage Association TBA 5.5% due 12-31-2099 Rating Aaa	79,805,548
		$ 1,080,515,689

A complete list of portfolio holdings is available for viewing upon request.

Schedule of Fees and Commissions
For the Fiscal Year Ended June 30, 2003

	Assets Under Management	Fees	Basis Points
Investment Managers' Fees:			
Fixed Income Managers	$ 9,303,145,912	$ 9,339,714	0.100393
Equity Managers	21,087,114,214	38,100,497	0.180681
Venture Capital Managers	1,933,810	---	0.000000
KKR Leveraged Buyouts	1,291,665,504	16,987,188	1.315138
Alternative Equity Managers (Limited Partnerships)	2,717,360,743	41,289,397	1.519467
Real Estate Managers	1,724,276,464	29,616,713	1.717631
Total Assets Under Management	**$36,125,496,647**		
Other Investment Service Fees:			
Securities Lending Fees		27,987,887	
Investment Consultant Fees		1,598,644	
Commissions and Other Fees		33,528,701	
Total Investment Service and Managers' Fees		**$ 198,448,741**	

Schedule of Broker Commissions
For the Fiscal Year Ended June 30, 2003

Broker's Name	Commission	Share / Par	Commission per Share
Merrill Lynch, Pierce, Fenner & Smith, Inc.	$ 2,764,654	$ 972,594,539	$ 0.00284
Goldman, Sachs & Co.	1,766,152	262,186,327	0.00674
Bear, Stearns & Co., Inc.	1,526,582	181,995,096	0.00839
UBS Securities Inc.	1,285,748	349,396,297	0.00368
Credit Suisse First Boston Corporation	1,110,276	175,792,390	0.00632
Salomon Smith Barney, Inc.	1,048,076	1,276,585,274	0.00082
Morgan Stanley & Co., Inc.	1,037,832	749,481,669	0.00138
Deutsche Bank	822,296	413,873,035	0.00199
Lehman Brothers, Inc.	773,920	41,804,762	0.01851
J.P. Morgan Securities, Inc.	668,989	80,164,234	0.00835
Jefferies & Company, Inc.	534,311	14,504,139	0.03684
Instinet Corporation	475,650	20,418,033	0.02330
Frank Russell Securities, Inc.	419,497	8,957,758	0.04683
Citigroup Global Markets, Inc.	360,347	28,543,893	0.01262
Lynch Jones and Ryan	332,990	7,202,036	0.04624
State Street Brokerage Services, Inc.	324,310	28,492,916	0.01138
Credit Lyonnais Securities	296,407	1,795,307,464	0.00017
BancAmerica Security LLC Montgomery	273,501	6,331,224	0.04320
Dresdner Kleinwort Benson North America, LLC	245,868	15,820,842	0.01554
HSBC Securities, Inc.	245,806	68,627,251	0.00358

Brokerage commissions on purchases and sales are too numerous to list; therefore, only the top 20 brokers by amount of commission paid are shown.

Investment Summary

Type of Investment	Fair Value at June 30, 2003	Percent of Total Fair Value
Fixed Income		
U.S. Government Securities	$ 883,608,701	2.45%
U.S. Agency Securities	2,109,117,401	5.84
Domestic Corporate Securities	2,755,873,834	7.63
Domestic Mutual Funds	547,258,839	1.51
International Government and Corporate Securities	997,689,964	2.76
Global Mutual Funds	626,058,330	1.73
Asset-Backed Securities and Annuity Contracts	1,382,146,352	3.83
Real Estate Mortgages	1,392,491	0.00
Total Fixed Income	**9,303,145,912**	**25.75**
Equity		
Domestic Stocks	6,065,529,083	16.79
Domestic Mutual Funds	8,191,076,684	22.68
International Stocks	3,909,896,925	10.82
Global Mutual Funds	2,920,611,522	8.08
Total Equity	**21,087,114,214**	**58.37**
Real Estate		
Real Estate	1,054,943,998	2.92
Limited Partnerships	640,774,595	1.77
Private Placements	28,557,871	0.08
Total Real Estate	**1,724,276,464**	**4.77**
Alternative Equity		
Limited Partnerships	2,717,360,743	7.52
Venture Capital	1,933,810	0.01
Leveraged Buyouts	1,291,665,504	3.58
Total Alternative Equity	**4,010,960,057**	**11.11**
Total Fair Value	**$ 36,125,496,647**	**100.00%**

Actuarial Section

State agencies have been part of PERS since it began in 1946. The Oregon Department of Fish and Wildlife, pictured here, is one of the 125 state agencies PERS covers.

Dept. of Fish and Wildlife Then

Dept. of Fish and Wildlife Now

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November 20, 2003

Retirement Board
Oregon Public Employees Retirement System

Dear Members of the Board:

We have performed an actuarial valuation of the Oregon Public Employees Retirement System as of December 31, 2002. In our opinion, the System is an actuarially sound system based on the current actuarial assumptions.

Actuarial valuations are normally performed every two years, as of the end of each odd-numbered year. Special interim valuations were performed as of December 31, 2000, and December 31, 2002.

In preparing the valuation, we relied upon the financial and membership data furnished by the System. Although we did not audit this data, we compared the data for this and the prior valuation and tested for reasonableness. Based on these tests, we believe the data to be sufficiently accurate for the purposes of our calculations.

Milliman prepared the information presented in this Actuarial Section of the 2003 Comprehensive Annual Financial Report, including the following supporting tables, based on information in our 2001 actuarial valuation report:

- Actuarial Assumptions and Methods
  - Economic Assumptions
  - Mortality Tables
  - Rates of Retirement and Disability
  - Rates of Other Terminations of Employment
  - Future Salaries
  - Unused Sick Leave
  - Probability of Annuity
  - Probability of Vesting
  - Actuarial Cost Method
  - Actuarial Value of Assets
- Actuarial Schedules
  - Schedule of Active Member Valuation Data
  - Schedule of Retirees and Beneficiaries
- Summary of Actuarial and Unfunded Actuarial Liabilities
- Solvency Test
- Recommended vs. Actual Contributions

In addition, we reviewed the Summary of Plan Provisions and prepared the Schedules of Funding Progress in the Financial Section of this report.

Legislation enacted during 2003 had a significant impact on the actuarial liabilities of the System. The 2001 and 2002 valuations have been performed <u>including</u> the impact of the 2003 PERS Reform Legislation. This legislation is currently under judicial review.

The Retirement Board has sole authority to determine the actuarial assumptions and methods used for the valuation of the System. The Board adopted all of the actuarial methods and assumptions used in the 2002 valuation.

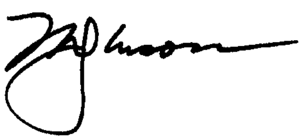
The findings have been determined according to actuarial assumptions and methods that were chosen on the basis of recent experience of the System and of current expectations concerning future economic conditions. In our opinion, the assumptions used in the actuarial valuation are appropriate for purposes of the valuation, are internally consistent, and reflect reasonable expectations. The assumptions represent our best estimate of future conditions affecting the System. Nevertheless, the emerging costs of the System will vary from those presented in this report to the extent that actual experience differs from that projected by the assumptions.

The actuarial valuation was prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the applicable Standards of Practice adopted by the Actuarial Standards Board of the American Academy of Actuaries. In addition, the assumptions and methods used meet the parameters set for disclosures by Governmental Accounting Standards Board Statement No. 25.

The undersigned is an independent actuary, a Fellow of the Society of Actuaries, a Member of the American Academy of Actuaries, an Enrolled Actuary, and experienced in performing valuations for large public employee retirement systems.

In conclusion, the Oregon Public Employees Retirement System is an actuarially sound system based on the current actuarial assumptions.

Respectfully submitted,



Mark O. Johnson, F.S.A., M.A.A.A., E.A.
Principal and Consulting Actuary

Actuarial Assumptions and Methods

1. Economic Assumptions

a.	Consumer Price Inflation	3.25 percent	(Adopted 2001)
b.	Health Cost Inflation	Graded from 8.5 percent in 2004 to 5 percent in 2011	(Adopted 2001)
c.	Investment Return	8.0	(Adopted 1989)
d.	Interest on Tier One Accounts	8.5	(Adopted 1997)
e.	Wage Growth	4.25	(Adopted 1999)

2. Mortality Tables (Adopted 2001)

Class	Service Retirees *	Contributing Members
General Service	RP-2000,	
Male	18-month setback	75 percent of retiree table
Female	18-month setback	60 percent of retiree table
Police and Fire	RP-2000,	
Male	12-month setback	40 percent of retiree table
Female	18-month setback	40 percent of retiree table
School District	RP-2000	
Male	24-month setback	50 percent of retiree table
Female	36-month setback	50 percent of retiree table
Judge Members	RP-2000	
Male	18-month setback	100 percent of retiree table
Female	18-month setback	100 percent of retiree table
Disabled Members	Service retiree table set forward	
Male	36 months; minimum 2.5 percent	N/A
Female	Service retiree table set forward 24 months; minimum 3.0 percent	N/A
Surviving Beneficiaries	RP-2000	
Male	18-month setback	N/A
Female	18-month setback	N/A

3. Retirement (Adopted 1997)

Rates of retirement and disablement are illustrated in the following table.

	State Employees			School Employees		Subdivision Employees			
	General Service		Police and Fire			General Service		Police and Fire	
Attained Age	Male	Female		Male	Female	Male	Female		Judge Members
Duty Disablement									
32	.01%	.02%	.01%	.01%	.01%	.02%	.01%	.06%	.01%
42	.01	.02	.03	.02	.01	.02	.01	.06	.01
52	.03	.03	.09	.02	.01	.02	.02	.20	.03
Ordinary Disablement									
32	.09%	.14%	.06%	.0%	.0%	.08%	.02%	.09%	.07%
42	.14	.21	.14	.13	.17	.12	.20	.22	.11
52	.28	.60	.23	.64	.45	.60	.65	.37	.21
Service Retirement - Tier One **									
50	0%	0%	14%	0%	0%	0%	0%	12%	0%
55	10	5	12	15	9	5	5	25	-
58	14	11	12	20	15	15	8	25	-
60	12	10	15	20	19	10	10	25	-
62	40	30	35	60	40	55	30	70	-
65	65*	70*	100	50*	60*	75*	50*	100	100*
30 and Out	40	20	-	40	40	25	15	-	-

* Members over 65 are assumed to retire within the following ten years. All judges are assumed to retire at age 63 under Plan B.

** Tier Two service retirement rates are reduced 33 percent for retirement from ages 55 through 59 for General Service members.

4. Other Terminations of Employment (Adopted 2001)

A select period of five years is used in the withdrawal assumption. The rates of termination after five years of membership are illustrated in the following table:

	State Employees			School Employees		Subdivision Employees					
	General Service		Police and Fire			General Services		Police and Fire	OHSU		Judge Members
Attained Age	Male	Female		Male	Female	Male	Female		Male	Female	
22	19%	14%	3%	18%	15%	7%	13%	4%	9%	17%	0%
32	8	8	3	5	6	4	7	3	5	9	-
42	4	5	2	2	3	3	5	2	4	6	-
52	3	3	-	2	2	2	3	-	2	4	-

5. Future Salaries (Adopted 2001)

The total annual rates of salary increase include an assumed 4.0 percent per annum rate of increase in the general wage level of the membership plus increases due to promotions and longevity. The total rates of salary increase after five years of membership are illustrated in the following table:

	State Employees			Subdivision Employees			
Attained Service	General Service	Police and Fire	School Employees	General Service	Police and Fire	OHSU	Judge Members
5	6.25%	6.50%	7.00%	6.25%	7.25%	5.50%	4.25%
10	5.25	5.30	6.00	5.35	5.65	4.65	4.25
15	4.75	4.80	5.35	4.85	4.85	4.50	4.25
20	4.75	4.30	4.85	4.60	4.60	4.25	4.25

6. Unused Sick Leave (Adopted 2001)

For members covered by this provision, unused sick leave increases the final average salary used to calculate the pension. These members are assumed to receive an increase in their pensions on account of such provision varying from 3.0 percent to 10.0 percent.

7. Annuity (Adopted 2001)

The probability that retiring members will elect to receive an annuity based on their own contributions rather than a lump-sum distribution ranges from 75 to 80 percent.

8. Vesting (Adopted 1999)

The following table illustrates the probability that vested terminating members will elect to receive a deferred benefit instead of withdrawing accumulated contributions.

	State Employees			School Employees		Subdivision Employees			
	General Service		Police and Fire			General Service		Police and Fire	Judge Members
Attained Age	Male	Female		Male	Female	Male	Female		
22	46%	46%	25%	63%	53%	44%	48%	31%	100%
32	58	58	25	63	79	55	72	50	100
42	75	75	50	75	79	72	78	56	100
52	92	92	100	94	95	83	84	100	100

9. Actuarial Cost Method (Adopted 1999)

Accruing costs for all benefits are measured by the entry age actuarial cost method. The unfunded actuarial liability created by this method, including gains and losses, is amortized as a level percentage of salary over a period commencing on the valuation date and ending on December 31, 2027.

10. Actuarial Value of Assets (Adopted 2000)

The Actuarial Value of Assets is equal to the fair market value of assets on the valuation date, less a reserve equal to a *pro rata* portion of the investment gains (losses) over the four-year period ending on the valuation date. Investment gains (losses), effective from January 1, 2000, are recognized at the rate of 25.0 percent per year. The actuarial value of assets is limited to a 10.0 percent corridor above and below the fair market value.

11. Changes in Assumptions due to 2003 Legislation (Adopted 2001)

Tier One Interest Credit

No earnings were assumed to be credited to Tier One regular accounts for five years beginning with 2003 for the purposes of refunds and retirement calculations with effective dates on or after April 1, 2004. After 2007, Tier One interest credits were assumed to be 8.0 percent per year.

Service Retirements

Service retirements from active status were assumed to be 30 percent higher than those shown in Section 3 for 2002 (but not higher than 100 percent), and 50 percent higher for 2003 (but not higher than 100 percent). The regular retirement rates were applied for 2004 and beyond.

Actuarial Schedules

Schedule of Active Member Valuation Data

Valuation Date	Number	Annual Payroll in Thousands	Average Annual Pay	Annualized % Increase Average	
12/31/1991	131,721	3,887,529	29,513	5.9	
12/31/1993	137,513	4,466,797	32,483	4.9	
12/31/1995	141,471	4,848,058	34,269	2.7	
12/31/1997	143,194	5,161,562	36,045	2.6	
12/31/1999	151,262	5,676,606	37,528	2.0	
12/31/2000	156,869	6,195,862	39,497	5.2	
12/31/2001	160,477	6,520,225	40,630	2.9	Old Basis
12/31/2001	160,477	6,253,965	38,971	---	New Basis *
12/31/2002	159,287	6,383,475	40,075	3.8	

*Effective in 2001, the Annual Payroll excludes the member pick-up, if any.

Schedule of Retirees and Beneficiaries*

Valuation Date	Number	Annual Allowances in Thousands	% Increase in Annual Allowances**	Average Annual Allowances
12/31/1989	54,486	344,771	24.5	6,328
12/31/1991	56,779	442,112	28.2	7,787
12/31/1993	60,841	564,341	27.6	9,276
12/31/1995	64,796	700,171	24.1	10,806
12/31/1997	69,624	919,038	31.3	13,200
12/31/1999	82,819	1,299,380	41.4	15,689
12/31/2000	82,458	1,385,556	6.6	16,803
12/31/2001	85,216	1,514,491	9.3	17,772
12/31/2002	89,482	1,722,865	13.8	19,254

*Information regarding the number of retirees and beneficiaries added to/ removed from the rolls was not used in the actuarial valuations and was not available in the records given to the actuary.

**Since last valuation date.

Summary of Actuarial and Unfunded Actuarial Liabilities*

(dollar amounts in millions)

Valuation Date	Aggregate Actuarial Liabilities	Valuation Assets	Assets as a % of Actuarial Liabilities	Unfunded Accrued Liabilities (UAL)	Annual Active Member Payroll	UAL as a % of Annual Active Member Payroll
12/31/1991	14,671.2	14,667.9	100	3.3	3,887.5	0
12/31/1993	19,001.3	17,552.0	92	1,449.3	4,466.8	32
12/31/1995	23,248.6	20,957.6	90	2,291.0	4,848.1	47
12/31/1997	31,664.9	29,108.2	92	2,556.7	5,161.6	50
12/31/1999	40,907.9	39,964.8	98	943.1	5,676.6	17
12/31/2000	43,350.5	41,804.6	96	1,545.9	6,195.9	25
12/31/2001	45,947.7	39,852.2	87	6,095.5	6,254.0	97
12/31/2001#	37,821.6	39,852.2	105	(2,030.6)	6,254.0	(32)
12/31/2002	39,520.5	35,537.1	90	3,983.4	6,383.5	62

*An extensive revision of the actuarial valuation assumptions occurs at each valuation; therefore, the figures are not directly comparable.

#See footnote on page 32.

Solvency Test

(dollar amounts in millions)

	(1)	(2)	(3)				
			Other		Portion of		
	Active	Retirees	Members		Actuarial Liabilities		
Valuation	Member	and	(Employer	Valuation	Covered by Assets		
Date	Contributions	Beneficiaries	Financed)*	Assets	(1)	(2)	(3)
12/31/1991	4,000.7	4,471.6	6,198.9	14,667.9	100	100	100
12/31/1993	4,853.4	6,239.3	7,908.6	17,552.0	100	100	82
12/31/1995	5,753.0	7,492.8	10,002.8	20,957.6	100	100	77
12/31/1997	8,135.4	9,994.9	13,534.6	29,108.2	100	100	81
12/31/1999	8,238.1	14,333.7	18,336.1	39,964.8	100	100	95
12/31/2000	10,142.5	15,664.1	17,543.9	41,804.6	100	100	91
12/31/2001	10,252.8	17,465.9	18,229.0	39,852.2	100	100	67
12/31/2001#	10,252.8	17,340.0	10,228.8	39,852.2	100	100	120
12/31/2002	9,940.7	19,339.0	10,240.8	35,537.1	100	100	61

*An extensive revision of the actuarial valuation assumptions occurs at each valuation; therefore, the figures are not directly comparable.

#See footnote on page 32.

Recommended vs. Actual Contributions

Separate contribution rates are adopted by the Board for all state agencies, community colleges, all school districts combined, and the state judiciary. Each individual political subdivision employer (467 subdivision employers on December 31, 2001) has a unique contribution rate. The rates adopted by the Board were those recommended by the actuary after each valuation and after legislative changes enacted subsequent to the valuations, except for the 2000 and 2002 interim actuarial valuations which did not impact employer contribution rates.

Plan Summary

Summary of Plan Provisions

As of December 31, 2001

Membership

All employees of public employers participating in this system who are in qualifying positions become members of the System after completing six months of service.

Employee Contributions Mandatory

Employment categories

All.

Amount of mandatory contributions

Employee contributions are at a fixed rate of 6 percent of salary except for some cases where another rate from an old law is still in effect. Judges contribute at the rate of 7 percent of salary. Some employers have elected to "pick-up" employee contributions.

Unit Purchases

Purpose

To allow police officers and firefighters to purchase, jointly with their employers, additional benefits payable between retirement and age 65.

Amount of employee contributions

That amount actuarially determined to be necessary to provide half the additional benefits desired. Benefits are in units of $10 per month. A total of eight units may be purchased providing $80 per month at age 60.

Matching feature

Each unit purchased by the member is matched by an equal benefit from the employer.

Employer Contribution

To provide for benefits earned by prior service

As necessary to pay for such benefits amortized over a 26-year period beginning January 1, 2002, and ending on December 31, 2027.

To provide for benefits earned by current service

Normal costs plus amounts as necessary to pay for the excess of the value of such benefits over the sum of the present value of future normal costs plus the assets available to provide benefits amortized over a 26-year period beginning January 1, 2002, and ending on December 31, 2027.

Prior Service Credit

State and school district employees prior to formation of System

Service prior to July 1946, but not to exceed 20 years.

Other employees prior to employer joining System

Service prior to the date on which the employer commenced participation in the System, as determined by formula agreed upon by the Board of the System and the governing body of the public employer.

Normal Retirement Allowance

Eligibility

Police officers and firefighters
  Age 55
Judges
  Age 65
Others
  Age 58

Amount of monthly retirement allowance: full formula

The sum of:

a. a current service life pension equal to final average monthly salary times years of service times a percentage factor (see table on next page), plus
b. a prior service life pension of $4 ($6 for employees retired before April 8, 1953) times years of prior service.

Minimum monthly retirement allowance

$100 for an employee with at least 15 years of creditable service. This is actuarially reduced if retirement occurs prior to age 65. Benefits under the former judges' system are grandfathered for those who retire after age 70 with at least 12 years of service.

Formula plus annuity

For members making contributions prior to August 21, 1981, the benefit will not be less than the sum of:

a. an annuity actuarially equivalent to the employee's accumulated contributions with interest, plus

b. a current service life pension equal to final average monthly salary times years of service times a percentage factor (see table below under “Old”) but at least equal to the annuity.

Money match

In no case will the current service allowance be less than:

a. An annuity actuarially equivalent to the employee’s accumulated contributions with interest, plus
b. A matching amount from the employer.

		Percentage Factor New	Percentage Factor Old	Limitation on Years of Membership Service*
Police Officers, Firefighters, and Legislators		2.00%	1.35%	None
Judges**	Plan A	2.8125	1.67	16-year limit on new percentage factor. Old factor used for for service after 16 years.
	Plan B	3.75	2.00	
Others		1.67	1.00	None

* If the participant has at least ten years of membership service and agrees to pay an amount equal to the employer plus employee contribution that would have been paid, credit is granted for the six-month waiting period.

** Under law, the maximum benefit payable is 65 percent of final average salary.

Early Retirement Allowance

Eligibility

Police officers and firefighters
Age 50 or 25 years of service
Judges
Age 60
Others
Age 55 or 30 years of service

Amount of Benefit

Police officers and firefighters
Normal retirement allowance, actuarially reduced if retirement occurs prior to age 55 or 25 years of service.
Judges
Normal retirement allowance, actuarially reduced from age 65 for Plan A judges.
Others
Normal retirement allowance, actuarially reduced if retirement occurs prior to age 58 or 30 years of service.

Optional Forms of Benefit Payment

Options available

1. Lifetime annuity
2. Cash refund annuity
3. Lifetime annuity guaranteed 15 years
4. Joint and 100 percent survivor contingent annuity, with or without pop-up feature.
5. Joint and 50 percent survivor contingent annuity, with or without pop-up feature.
6. Lump sum of employee contributions and interest plus life pension (under any form) for current service under old law and prior service pension.

Amount of benefit

All options are actuarially equivalent.

Special judges’ provision

The normal form is a joint and two-thirds survivor contingent benefit for a married judge and a cash refund annuity for an unmarried judge.

Death Benefit Prior to Retirement

Eligibility

Judges

Six or more years of service

Others

All members

Amount of benefit

Judges

1. The spouse shall receive a life pension equal to two-thirds of the service allowance.
2. The beneficiary of an unmarried judge shall receive the member's accumulated contributions with interest.

Others

1. If death occurs while the member is an employee of a participating employer or within 120 days of termination if the employee does not withdraw the account balance or retire, or if death results from injury received while in the service of a participating employer, the benefit is the member's accumulated contributions with interest plus an equal amount from employer contributions.
2. If death occurs more than 120 days after termination, the benefit is the member's accumulated contributions with interest.

Survivor Benefit After Retirement

Amount of benefit

Continuation of payments in accordance with the optional form of retirement allowance, if such election was made.

Additional Death Benefits For Police Officers And Firefighters

Eligibility

Spouse or dependent children under age 18 of deceased police officer or firefighter whose death occurred after retirement for service or disability.

Amount of benefit

Twenty-five percent of the unmodified retirement allowance that the police officer or firefighter was entitled to at the time of death.

Disability Benefits: Duty-Related

Eligibility

Disablement occurring as a direct result of a job-incurred injury or illness, regardless of length of service.

Amount of benefit

The sum of:

a. the current service pension the employee would be entitled to at age 58 (age 55 if police officer or firefighter; age 65 if a judge) or age at disablement, if greater, plus

b. the same prior service pension the employee would be entitled to at normal retirement date.

Police officers' and firefighters' alternatives

In lieu of the above, police officers and firefighters may elect to receive a benefit of 50 percent of final average salary at the time of disablement.

Minimum monthly retirement allowance

Judges

45 percent of final average salary

Others

$100. This is actuarially reduced if an optional form of benefits is chosen.

Reduction of benefits

Whenever a disabled employee's disability benefit and earned income for any month exceed the monthly salary received at the time of disablement, the disability benefit will be reduced by the excess, but the combined income shall not be reduced to less than $400 per month.

Disability Benefits: Non-Duty Related

Eligibility

Disablement occurring after ten years of service (six years, if a judge), but prior to normal retirement age.

Amount of benefit

Same as duty-related disability benefits, but with no police officers' and firefighters' alternative benefit.

Withdrawal of Benefits

Form of benefit

Payment of accumulated employee contributions with interest. Judges must have completed at least five years of service; otherwise, contributions are forfeited.

Vested Benefits

Eligibility

Contributions made in five calendar years without withdrawal of contributions.

Form of benefit

A deferred retirement allowance with payments starting on or after the employee's earliest retirement date. During the deferral period, the vested employee is, in some instances, eligible for death and disability benefits.

Amount of benefit

Service retirement allowance, actuarially reduced to the age at which benefits start.

Alternative

In lieu of all other benefits, and prior to voluntary retirement age, a member may receive a payment of accumulated contributions with interest.

Postemployment Adjustments

Benefits affected

Applicable pension and annuity benefits except unit purchases.

Provisions

Benefits are adjusted annually to reflect the increase or decrease in the Consumer Price Index (CPI) (Portland area — all items) as published by the Bureau of Labor Statistics, U.S. Department of Labor.

The maximum adjustment to be made for any year is 2.0 percent of the previous year's benefit. Any CPI change in excess of 2.0 percent is accumulated for future benefit adjustments which would otherwise be less than 2.0 percent. No benefit will be decreased below its original amount. In addition, the legislature periodically has granted *ad hoc* increases.

In addition to the provisions described above, all members are eligible for a benefit adjustment equal to the greater of (a) or (b):

(a) Senate Bill 656

For all benefits, except the return of member contributions, an adjustment equal to the following percentage:

Benefit Increase

Years of Service	General Service	Police and Fire
0 - 9	0.0%	0.0%
10 - 14	1.0	1.0
15 - 19	1.0	1.0
20 - 24	2.0	2.5
25 - 29	3.0	4.0
30+	4.0	4.0

(b) House Bill 3349

For all benefits, an adjustment equal to the following multiplier:

$$\frac{1}{1 - \text{maximum Oregon personal income tax rate}} \times \frac{\text{creditable service prior to October 1, 1991}}{\text{All creditable services}}$$

Variable Annuity Program

Employee contributions

An employee may elect to have 25, 50, or 75 percent of his or her contributions placed into the Variable Annuity Account.

Investment of contributions to Variable Annuity Account

Money in the Variable Annuity Account may be invested by the Oregon Investment Council in any investment authorized for the System, but is to be directed primarily to equity investments.

Benefits purchased from Variable Annuity Account funds at retirement

At retirement an employee may elect to receive a variable annuity with the funds accumulated in his or her variable account.

The variable annuity portion of the benefit is thus increased or decreased annually to reflect investment gains and losses of the variable annuity portfolio.

Alternatively, the employee may elect to have all variable funds in his or her account transferred to the regular fund and receive an annuity from the System as though no variable annuity program existed. The benefit is increased or decreased to reflect the value of the Variable Annuity Account at retirement. No subsequent changes after retirement are made.

Retiree Healthcare: Medicare Supplement

Eligibility

A member is eligible for a Retirement Health Insurance Account contribution if all of the following are met:

1. Currently receiving a retirement benefit or allowance from the System,
2. Accrued eight years of creditable service before retirement,
3. Enrolled in a PERS-sponsored health plan, and
4. Enrolled in both Medicare Part A and Part B.

Benefit

A monthly contribution of up to $60 per retiree is applied to PERS-sponsored Medicare supplemental insurance costs.

Retiree Healthcare: Under Age 65

Eligibility

Retired state employees.

Benefit

A monthly subsidy based on the average difference between the health insurance premiums paid by retired state employees in a PERS-sponsored plan and those paid by active state employees in a state-sponsored plan. The difference is attributable to grouping retired state employees separately from active state employees.

The average difference is the maximum subsidy allowed and is recalculated every year. The scheduled subsidy as a percentage of the maximum subsidy is shown to the right.

Years of Service	Subsidized Amount
Under 8	0%
8 - 9	50
10 - 14	60
15 - 19	70
20 - 24	80
25 - 29	90
30+	100

Changes in PERS due to 2003 PERS Reform Legislation

Member Contributions

Beginning in January 2004, member contributions for all active members (except judges) will be deposited in the OPSRP Individual Account Program, which is supplemental to the determination of the PERS retirement benefit.

Tier One Interest Credits

No earnings may be credited to Tier One regular accounts in any year in which the Gain and Loss Reserve is in a deficit position, and no earnings may be credited that would result in a deficit. This change becomes effective with the crediting of earnings for 2003. The assumed interest rate guarantee applies on a compounded basis for all years of membership rather than individually in each year. Interest credits may not exceed the assumed interest rate until the Gain and Loss Reserve has been fully funded in each of the last three years.

Suspension of Postemployment Adjustments

For Tier One members who retire with an effective date of retirement on or after April 1, 2000, and before April 1, 2004, and receive a service retirement allowance under the Money Match formula, a “Revised Service Retirement Allowance” is calculated. The Revised Service Retirement Allowance is calculated with the member’s regular account balance adjusted as though 11.33 percent was credited for 1999 (instead of 20 percent), and includes an imputed cost-of-living adjustment. Members will receive the Fixed Service Retirement Allowance, the benefit amount received on July 1, 2003, with no additional postemployment adjustment until the Revised Service Retirement Allowance with postemployment adjustments provides a higher benefit.

Actuarial Equivalency Conversion Factors

For effective retirement dates on or after July 1, 2003, new actuarial factors are put into use. The retirement allowance uses the member account balance, final average salary, years of service, and actuarial factors in effect as of the retirement date. The allowance can be no less than that produced by a “look-back” calculation which uses the member account balance, final average salary, years of service, and actuarial factors in effect on June 30, 2003.

150 Percent Lump Sum Distribution

An inactive member who withdraws the member account balance between July 1, 2004, and June 30, 2006, receives an additional 50 percent of the account balance. The member must be inactive on January 1, 2000, and remain inactive to the date of withdrawal. The member must be vested.

Analysis of Financial Experience

An analysis of the gains and losses has not been performed in conjunction with the valuations. Therefore, the figures for this statement are not available. However, an extensive review of all actuarial assumptions is required to be performed at each biennial actuarial valuation.

Independent Actuarial Review Opinion

The firm of Milliman USA is retained as an independent actuarial consultant by the System. All of the information presented in this section of the report has been prepared by Milliman USA.

Statistical Section

As an Oregon state agency, the Department of Transportation has been a PERS employer since PERS was signed into law in 1945.

Steel Bridge, Portland
Then

Steel Bridge, Portland
Now

Revenues by Source

For the Years Ended June 30:

Defined Benefit Pension Plan

Fiscal Year	Member Contributions	Employer Contributions Dollars	Employer Contributions Percent of Annual Covered Payroll	Contributions from Other Sources	Net Investment and Other Income	Total
1994	$ 264,495,474	$ 396,009,324	9.24%	$ 17,864,885	$ 878,353,382	$ 1,556,723,065
1995	277,590,846	416,283,061	9.32	15,335,870	2,427,244,219	3,136,453,996
1996	289,734,738	415,704,528	8.40	16,754,883	3,970,105,115	4,692,299,264
1997	303,723,333	433,289,222	8.83	17,111,261	4,827,330,145	5,581,453,961
1998	322,378,126	455,531,987	8.86	17,957,112	4,861,851,105	5,657,718,330
1999	338,859,319	473,096,323	8.97	17,502,513	3,491,728,315	4,321,186,470
2000	348,244,045	1,022,650,598*	17.53	19,121,874	6,680,242,927	8,070,259,444
2001	370,165,609	639,010,754*	10.80	20,278,204	(3,465,913,890)	(2,436,459,323)
2002	391,542,211	989,078,917*	15.56	20,939,073	(2,422,055,208)	(1,020,495,007)
2003	400,988,567	2,578,989,169*	39.91	21,436,993	1,465,990,471	4,674,405,200

Postemployment Healthcare Plan

Fiscal Year	Member Contributions**	Employer Contributions Dollars	Employer Contributions Percent of Annual Covered Payroll	Contributions from Other Sources	Net Investment and Other Income	Total
1994	$ N/A	$ 21,485,927	0.50%	$ N/A	$ (962,206)	$ 20,523,721
1995	N/A	22,663,321	0.51	N/A	(824,523)	21,838,798
1996	N/A	29,903,612	0.60	N/A	(721,711)	29,181,901
1997	N/A	28,489,876	0.58	N/A	559,558	29,049,434
1998	N/A	36,425,398	0.71	N/A	(216,554)	36,208,844
1999	N/A	37,282,630	0.71	N/A	855,465	38,138,095
2000	36,870,774	41,242,733	0.71	N/A	9,845,657	87,959,164
2001	45,492,117	43,472,869	0.74	N/A	(2,524,623)	86,440,363
2002	52,273,896	41,578,731	0.65	N/A	(3,543,720)	90,308,907
2003	66,380,497	42,848,647	0.66	N/A	3,479,214	112,708,358

Deferred Compensation Plan***

Fiscal Year	Member Contributions	Employer Contributions Dollars	Employer Contributions Percent of Annual Covered Payroll	Contributions from Other Sources	Net Investment and Other Income	Total
1998	$ 51,781,886	$ N/A	N/A%	$ N/A	$ 62,151,320	$ 113,933,206
1999	34,550,787	N/A	N/A	N/A	59,157,120	93,707,907
2000	41,512,686	N/A	N/A	N/A	69,840,556	111,353,242
2001	43,512,667	N/A	N/A	N/A	(61,887,870)	(18,375,203)
2002	47,472,963	N/A	N/A	N/A	(41,865,658)	5,607,305
2003	50,279,420	N/A	N/A	N/A	15,987,532	66,266,952

*Employer contributions for fiscal years 2000 and thereafter include employer prepayments of unfunded liabilities.
**Standard Retiree Health Insurance account activity was added to the System July 1, 1999.
***Deferred Compensation became an Expendable Trust Fund in July 1997, and information prior to 1998 is not available.

Expenses by Type

For the Years Ended June 30:

Defined Benefit Pension Plan

Fiscal Year	Benefits	Administrative Expenses	Refunds	Total
1994	$ 603,324,622	$ 10,237,720	$ 33,479,349	$ 647,041,691
1995	709,539,161	10,320,028	37,249,150	757,108,339
1996	760,759,150	11,867,713	51,914,136	824,540,999
1997	882,187,884	13,227,283	52,542,067	947,957,234
1998	1,574,494,076	15,183,982	56,893,468	1,646,571,526
1999	1,343,217,654	15,666,811	50,530,792	1,409,415,257
2000	1,442,314,231	18,568,579	51,726,463	1,512,609,273
2001	1,578,497,193	25,374,819	46,243,701	1,650,115,713
2002	1,688,072,888	17,456,752	46,086,912	1,751,616,552
2003	2,000,324,195	16,784,817	42,640,295	2,059,749,307

Postemployment Healthcare Plan

Fiscal Year	Benefits	Administrative Expenses	Refunds	Total
1994	$ 20,227,065	$ 1,376,109	$ N/A	$ 21,603,174
1995	20,692,001	1,329,042	N/A	22,021,043
1996	21,144,177	1,371,756	N/A	22,515,933
1997	21,726,518	1,449,323	N/A	23,175,841
1998	22,437,919	1,422,420	N/A	23,860,339
1999	23,090,627	1,789,977	N/A	24,880,604
2000	59,448,485*	2,112,148	N/A	61,560,633
2001	64,018,157	2,209,878	N/A	66,228,035
2002	74,158,532	2,225,181	N/A	76,383,713
2003	109,778,474	2,274,818	N/A	112,053,292

Deferred Compensation Plan **

Fiscal Year	Benefits	Administrative Expenses	Refunds	Total
1998	$ 36,226,625	$ 546,537	$ N/A	$ 36,773,162
1999	14,045,802	475,878	N/A	14,521,680
2000	26,484,319	607,203	N/A	27,091,522
2001	28,387,233	589,512	N/A	28,976,745
2002	41,149,643	685,523	N/A	41,835,166
2003	33,596,122	660,144	N/A	34,256,266

*Standard Retiree Health Insurance account activity was added to the System July 1, 1999.
**Deferred Compensation became an Expendable Trust Fund in July 1997, and information prior to 1998 is not available.

Revenues by Source

For the Years Ended December 31*:

Defined Benefit Pension Plan

Calendar Year	Member Contributions	Employer Contributions Dollars	Employer Contributions Percent of Annual Covered Payroll	Contributions from Other Sources	Net Investment and Other Income	Total
1993	$ 256,388,041	$ 399,671,570	9.48%	$ 16,911,600	$ 2,170,354,673	$ 2,843,325,884
1994	271,256,815	402,789,786	9.23	16,425,716	(14,042,420)	676,429,897
1995	285,912,537	401,403,529	8.28	16,450,744	4,110,617,339	4,814,384,149
1996	296,417,998	432,112,090	8.95	17,132,464	4,358,354,523	5,104,017,075
1997	291,120,161	440,001,230	8.81	17,361,420	4,582,430,090	5,330,912,901
1998	318,434,441	452,088,742	8.72	18,625,828	3,976,901,225	4,766,050,236
1999	347,053,753	981,343,197**	17.70	18,671,028	7,455,428,861	8,802,496,839
2000	358,532,128	617,392,002**	10.52	20,251,776	140,492,280	1,136,668,186
2001	385,221,900	715,640,552**	11.52	20,591,587	(2,704,326,428)	(1,582,872,389)
2002	397,510,787	1,705,408,456**	26.39	21,294,266	(3,453,139,033)	(1,328,925,524)

Postemployment Healthcare Plan

Calendar Year	Member*** Contributions	Employer Contributions Dollars	Employer Contributions Percent of Annual Covered Payroll	Contributions from Other Sources	Net Investment and Other Income	Total
1993	$ N/A	$ 21,368,081	0.51%	$ N/A	$ (812,648)	$ 20,555,433
1994	N/A	21,749,553	0.50	N/A	(880,189)	20,869,364
1995	N/A	25,772,074	0.53	N/A	(811,528)	24,960,546
1996	N/A	30,396,820	0.63	N/A	(581,094)	29,815,726
1997	N/A	32,910,294	0.66	N/A	(460,449)	32,449,845
1998	N/A	35,950,477	0.69	N/A	882,186	36,832,663
1999	N/A	39,120,067	0.71	N/A	7,073,415	46,193,482
2000	41,997,999	42,183,758	0.72	N/A	2,137,657	86,319,414
2001	46,694,469	43,083,579	0.69	N/A	(3,444,763)	86,333,285
2002	42,936,743	58,309,342	0.90	N/A	(6,967,896)	94,278,189

Deferred Compensation Plan **

Calendar Year	Member Contributions	Employer Contributions Dollars	Employer Contributions Percent of Annual Covered Payroll	Contributions from Other Sources	Net Investment and Other Income	Total
1998	$ 40,915,041	$ N/A	N/A%	$ N/A	$ 57,926,233	$ 98,841,274
1999	40,900,068	N/A	N/A	N/A	96,754,765	137,654,833
2000	48,984,327	N/A	N/A	N/A	(18,990,331)	29,993,996
2001	42,815,469	N/A	N/A	N/A	(44,610,460)	(1,794,991)
2002	51,123,470	N/A	N/A	N/A	(50,282,443)	841,027

*Calendar year-end information is provided because earnings are distributed as of December 31.

**Employer Contributions for calendar year 1999 and thereafter after include employer prepayments of the unfunded liability based on the 1997 and 1999 actuary valuations.

***Standard Retiree Health Insurance account activity was added to the System July 1, 1999.

****Deferred Compensation became an Expendable Trust Fund in July 1997, and information prior to 1998 is not available.

Expenses by Type

For the Years Ended December 31*:

Defined Benefit Pension Plan

Calendar Year	Benefits	Administrative Expenses	Refunds	Total
1993	$ 591,860,846	$ 9,201,128	$ 28,943,900	$ 630,005,874
1994	653,521,434	10,070,508	37,659,540	701,251,482
1995	740,128,144	11,573,568	42,292,938	793,994,650
1996	802,862,785	12,026,101	43,850,630	858,739,516
1997	1,292,499,686	13,377,687	56,034,638	1,361,912,011
1998	1,308,791,798	15,991,040	58,616,445	1,383,399,283
1999	1,423,239,307	17,636,439	47,338,113	1,488,213,859
2000	1,529,826,160	22,240,490	48,558,962	1,600,625,612
2001	1,647,429,438	20,934,512	42,537,159	1,710,901,109
2002	1,768,022,037	16,156,679	39,767,828	1,823,946,544

Postemployment Healthcare Plan

Calendar Year	Benefits	Administrative Expenses	Refunds	Total
1993	$ 19,691,660	$ 1,357,073	$ N/A	$ 21,048,733
1994	20,560,342	1,228,793	N/A	21,789,135
1995	20,934,989	1,437,917	N/A	22,372,906
1996	21,415,108	1,410,077	N/A	22,825,185
1997	22,056,428	1,477,442	N/A	23,533,870
1998	22,794,955	2,110,411	N/A	24,905,366
1999	39,616,270	1,885,042	N/A	41,501,312
2000	60,920,905**	2,148,202	N/A	63,069,107
2001	69,921,725	2,224,045	N/A	72,145,770
2002	90,470,569	2,292,036	N/A	92,762,605

Deferred Compensation Plan ***

Calendar Year	Benefits	Administrative Expenses	Refunds	Total
1998	$ 22,421,987	$ 546,997	$ N/A	$ 22,968,984
1999	25,252,693	568,686	N/A	25,821,379
2000	34,886,565	619,774	N/A	35,506,339
2001	29,114,174	660,738	N/A	29,774,912
2002	41,926,056	691,968	N/A	42,618,024

*Calendar year-end information is provided because earnings are distributed as of December 31.
**Standard Retiree Health Insurance account activity was added to the System July 1, 1999.
***Deferred Compensation became an Expendable Trust Fund in July 1997, and information prior to 1998 is not available.

Schedule of Benefit Expenses By Type - Defined Benefit Pension Plan For the Years Ended June 30:

Fiscal Year	Service Benefits	Disability Benefits Duty	Disability Benefits Non-Duty	Death Benefits	Refunds	Total
1994	$ 564,359,717	$ 4,353,988	$ 29,493,976	$ 5,116,941	$ 33,479,349	$ 636,803,971
1995	666,576,763	4,968,384	31,826,498	6,167,516	37,249,150	746,788,311
1996	712,724,411	4,907,472	35,785,241	7,342,026	51,914,136	812,673,286
1997	829,635,096	5,246,985	40,722,296	6,583,507	52,542,067	934,729,951
1998	1,493,706,047	8,424,021	61,959,497	10,404,511	56,893,468	1,631,387,544
1999	1,272,018,822	6,747,274	53,102,285	11,349,273	50,530,792	1,393,748,446
2000	1,369,434,952	7,328,142	56,328,089	9,223,048	51,726,463	1,494,040,694
2001	1,498,822,236	7,822,924	62,163,492	9,688,541	46,243,701	1,624,740,894
2002	1,599,474,816	8,496,606	69,979,830	10,121,636	46,086,912	1,734,159,800
2003	1,910,349,266	9,102,457	74,949,807	5,922,665	42,640,295	2,042,964,490

Schedule of Earnings and Distribution at December 31:

Year	Regular Tier One Account Earnings/(Loss) Available for Distribution	Distribution Tier One	Distribution Tier Two*	Variable Account Earnings/(Loss) Distributed
1993	15.0423	12.00		12.65
1994	2.1625	8.00		(1.76)
1995	20.7829	12.50		29.92
1996	24.4204	21.00	24.42%	21.06
1997	20.4232	18.70	20.42	28.87
1998	15.4300	14.10	13.63	21.45
1999	24.8900	20.00	21.97	28.83
2000	0.6300	8.00	0.54	(3.24)
2001	(7.1700)	8.00	(6.66)	(11.19)
2002	(8.9300)	8.00	(8.93)	(21.51)

*The law creating Tier Two became effective January 1, 1996.

Schedule of Average Benefit Payments

Retirement Effective Dates July 1, 1993 to June 30, 2003	Years Credited Service 0 - 5	6 - 10	11 - 15	16 - 20	21 - 25	26 - 30	31+	Total
1994 Average Monthly Benefit	$ 162.59	$ 427.76	$ 795.72	$1,261.53	$ 1,953.18	$ 2,777.73	$ 3198.73	$ 1,690.50
Number of Active Retirees	286	361	456	563	628	669	431	3,394
1995 Average Monthly Benefit	$ 181.60	$ 417.91	$ 808.94	$1,252.13	$ 1,989.81	$ 2,763.34	3,267.39	$ 1,796.91
Number of Active Retirees	365	497	545	804	831	1,018	753	4,813
1996 Average Monthly Benefit	$ 162.90	$ 403.57	$ 821.43	$1,245.84	$ 1,883.49	$ 2,654.72	$ 3,168.42	$ 1,503.77
Number of Active Retirees	352	417	419	553	488	657	251	3,137
1997 Average Monthly Benefit	$ 210.04	$ 448.45	$ 891.82	$1,366.20	$ 2,161.83	$ 2,971.71	$ 3,378.60	$ 1,736.90
Number of Active Retirees	432	470	444	660	714	781	376	3,877
1998 Average Monthly Benefit	$ 254.13	$ 576.32	$1,012.16	$1,557.57	$ 2,426.50	$ 3,364.36	$ 3,961.66	$ 2,202.52
Number of Active Retirees	503	837	899	1,525	1,609	2,081	919	8,373
1999 Average Monthly Benefit	$ 301.85	$ 642.61	$1,152.30	$1,723.71	$ 2,612.64	$ 3,588.21	$ 4,167.89	$ 2,235.40
Number of Active Retirees	405	602	733	916	937	1,334	438	5,365
2000 Average Monthly Benefit	$ 267.35	$ 667.06	$1,075.55	$1,718.75	$ 2,621.89	$ 3,622.79	$ 4,306.18	$ 2,071.46
Number of Active Retirees	449	589	567	650	716	953	250	4,174
2001 Average Monthly Benefit	$ 340.39	$ 637.24	$1,148.16	$1,761.58	$ 2,678.94	$ 3,731.47	$ 4,140.55	$ 2,086.29
Number of Active Retirees	526	557	610	657	761	945	246	4,302
2002 Average Monthly Benefit	$ 474.36	$ 782.62	$1,151.99	$1,847.10	$ 2,681.69	$ 3,929.24	$ 4,585.00	$ 2,422.50
Number of Active Retirees	348	584	727	708	1,035	1,257	372	5,031
2003 Average Monthly Benefit	$ 698.65	$ 930.97	$1,324.56	$1,909.57	$ 2,799.33	$ 4,084.74	$ 4,122.45	$ 2,752.04
Number of Active Retirees	390	679	908	1,043	1,462	1,853	706	7,041
Total								
Average Monthly Benefit	**$ 201.93**	**$ 435.23**	**$ 778.94**	**$1,261.49**	**$ 1,988.97**	**$2,968.70**	**$ 3,178.74**	**$ 1,637.99**
Number of Active Retirees	**8,544**	**11,954**	**13,230**	**15,069**	**15,553**	**17,350**	**9,826**	**91,526**

Schedule of Benefit Recipients by Type of Benefit For the Year Ended June 30, 2003

Monthly Benefit Amount	Number of Retirees	Type of Retirement* 1	2	3	4	Refund Annuity	Annuity Options** 1	2	3	4	Lump Sum Options** 1	2	3
$ 1-100	5,856	5,056	5	0	795	896	777	700	167	79	2,130	972	133
101-200	5,828	4,769	39	19	1,001	1,124	1,123	942	379	140	1,191	704	226
201-300	5,152	4,262	54	75	761	1,172	1,136	898	379	127	818	463	159
301-400	4,594	3,731	77	132	654	1,093	1,145	843	393	100	569	329	123
401-500	4,158	3,366	70	179	543	1,004	1,031	779	380	111	464	286	103
501-600	3,829	3,163	26	174	466	887	1,018	773	381	108	352	215	95
601-700	3,539	2,973	22	167	377	819	986	735	408	102	264	165	60
701-800	3,208	2,645	21	209	333	729	857	664	411	89	238	163	55
801-900	2,932	2,435	15	189	293	646	808	610	368	68	227	143	63
901-1000	2,808	2,377	16	158	257	573	780	604	393	75	187	136	62
1001-1500	11,541	9,808	80	725	928	2,355	3,075	2,732	1,558	319	706	576	220
1501-2000	8,725	7,652	70	533	470	1,568	2,301	2,129	1,249	226	535	559	156
Over 2000	29,356	27,701	117	831	707	3,729	7,679	9,984	5,152	786	748	997	282
Totals	**91,526**	**79,938**	**612**	**3,391**	**7,585**	**16,595**	**22,716**	**22,393**	**11,618**	**2,330**	**8,429**	**5,708**	**1,737**

***Type of Retirement**
1 - Normal
2 - Duty Disability
3 - Non-Duty Disability
4 - Survivor Payment

****Annuity and Lump Sum Options**
1 - No benefit for beneficiary.
2 - Beneficiary receives same monthly benefit for life.
3 - Beneficiary receives half the monthly benefit for life.
4 - 15-year certain.

Retirement System Membership at December 31:

	1975	1980	1985	1990	1995	2000
State Agencies	35,191	37,935	37,824	46,187	45,068	42,434
School Districts	44,400	46,150	47,590	48,144	55,734	63,133
Political Subdivisions	14,665	23,728	26,238	33,177	40,635	53,291
Inactive Members	10,354	14,128	15,920	23,225	32,033	44,830
Total Non-Retired	104,610	121,941	127,572	150,733	173,470	203,688
Retired Members	22,227	32,832	46,181	55,540	64,796	82,355
Total Membership	126,837	154,773	173,753	206,273	238,266	286,043
Administrative Expense	$ 1,007,293	$ 1,949,677	$ 2,905,072	$ 8,901,091	$ 13,500,677	$ 24,358,550
Pension Roll (one month)	$ 2,929,285	$ 7,474,402	$ 18,083,614	$ 33,175,888	$ 58,457,531	$ 122,467,087

Retirement System Membership at June 30:

	1998	1999	2000	2001	2002	2003
State Agencies	40,271	41,636	42,188	43,212	43,947	42,263
School Districts	59,578	62,303	63,944	65,962	67,124	63,132
Political Subdivisions	47,599	50,670	52,852	54,749	55,991	54,374
Inactive Members	37,946	39,702	42,937	46,460	48,725	53,815
Total Non-Retired	185,394	194,311	201,921	210,383	215,787	213,584
Retired Members and Beneficiaries	75,326	78,859	81,116	83,223	86,082	91,526
Total Membership	260,720	273,170	283,037	293,606	301,869	305,110
Administrative Expense*	$ 16,606,402	$ 17,456,788	$ 20,680,727	$ 27,584,697	$ 19,681,933	$ 19,059,635
Pension Roll (one month)	$ 87,909,572	$ 99,602,182	$ 109,290,162	$126,469,160	$ 135,201,238	$ 189,744,852

*The administrative expense amount includes Defined Benefit Pension Plan and Postemployment Healthcare administrative expense.

Schedule of Participating Employers (869)

State (125)

Adult and Family Services
Appraiser Certification and Licensure Board
Board of Accountancy
Board of Architect Examiners
Board of Chiropractic Examiners
Board of Engineering Examiners
Board of Geologists
Board of Investigators
Board of Medical Examiners
Board of Optometry
Board of Psychologist Examiners
Board of Tax Services Examiners
Bureau of Labor and Industries
Capitol Planning Commission
Children's Trust Fund
Commission for Women
Commission on Asian Affairs
Commission on Black Affairs
Commission on Hispanic Affairs
Commission on Judicial Fitness
Construction Contractors Board
Department of Administrative Services
Department of Agriculture
Department of Aviation
Department of Consumer and Business Services
Department of Corrections
Department of Education
Department of Education Contractors
Department of Energy
Department of Environmental Quality
Department of Human Resources
Department of Justice
Department of Land Conservation and Development
Department of Revenue
Department of State Police
Department of Transportation
Department of Veterans' Affairs
Dispute Resolution Commission
District Attorneys Department
Division of State Lands
Eastern Oregon Psychiatric Center
Eastern Oregon Training Center
Economic Development Department
Employment Department
Employment Relations Board
Fairview Training Center
Forestry Department
Geology and Mineral Industries
Government Standards and Practices Commission
Health Division
Insurance Pool Governing Board
Judicial Department
Land Use Board of Appeals
Landscape Architects Board
Legislative Administration Committee
Legislative Assembly
Legislative Committees
Legislative Fiscal Office
Long Term Care Ombudsman
Mental Health Division
Military Department
Office of Community College Services
Office of the Governor
Office of Legislative Counsel
Office of the Public Defender
Office of State Court Administrators
Oil Heat Commission
Oregon Board of Licensed Professional Counselors and Therapists
Oregon Beef Council
Oregon Blueberry Commission
Oregon Board of Massage Therapists
Oregon Commission for the Blind
Oregon Commission on Children and Families
Oregon Corrections Enterprises
Oregon Criminal Justice Commission
Oregon Dairy Products Commission
Oregon Department of Fish and Wildlife
Oregon Disabilities Commission
Oregon Dungeness Crab Commission
Oregon Film and Video
Oregon Forest Resources Institute
Oregon Fryer Commission
Oregon Hazelnut Commission
Oregon Health Licensing Office
Oregon Hop Commission
Oregon Housing Agency
Oregon Liquor Control Commission
Oregon Potato Commission
Oregon Racing Commission
Oregon Resource and Technology Development Corp.
Oregon Salmon Commission
Oregon State Bar
Oregon State Bar Professional Liability Fund
Oregon State Fair and Expo Center
Oregon State Hospital
Oregon State Library
Oregon Trawling Commission
Oregon Watershed Enhancement Board
Oregon Wheat Commission
Oregon Youth Authority
Physical Therapists Licensing Board
Psychiatric Security Review Board
Public Defense Services Commission
Public Employees Retirement System
Public Safety Standards and Training
Public Utility Commission
Real Estate Agency
Secretary of State
Senior and Disabled Services Division
Services to Children and Families
State Accident Insurance Fund
State Board of Clinical Social Workers
State Board of Higher Education
State Board of Nursing
State Board of Parole
State Fair Operations
State Lottery Commission
State Marine Board
State Parks and Recreation Department
State Scholarship Commission
State Treasury Department
Teacher Standards and Practices
Travel Information Council
Vocational Rehabilitation Division
Water Resources Department

Political Subdivisions (495)

Adair Village, City of
Albany, City of
Amity, City of
Amity Fire District
Applegate Valley RFPD 9
Arch Cape Service District
Ashland, City of
Ashland Parks Commission
Astoria, City of
Athena Cemetery Maintenance District
Athena, City of
Aumsville, City of
Aumsville RFD
Aurora, City of
Aurora RFPD
Baker, City of
Baker County
Baker County Library District
Baker Valley Irrigation District
Bandon, City of
Banks, City of
Bay City, City of
Beaverton, City of
Bend, City of
Bend Metropolitan Park and Recreation District
Benton County
Black Butte Ranch RFPD
Black Butte Ranch Service District
Boardman, City of
Boardman RFD
Boring RFD 59
Brookings, City of
Brownsville RFPD
Burns, City of
Burnt River Irrigation District
Butte Falls, Town of
Canby, City of
Canby FPD 62
Canby Utility Board
Cannon Beach, City of
Cannon Beach RFD
Canyon City, Town of
Canyonville, City of
Carlton, City of
Cascade Locks, City of
Cave Junction, City of
Center for Human Development
Central Oregon Coast Fire and Rescue District
Central Oregon Intergovernmental Council
Central Oregon Irrigation District
Central Oregon Park and Recreation District
Central Oregon Regional Housing Authority
Central Point, City of
Charleston RFPD
Chetco Community Public Library Board
Chiloquin, City of
Chiloquin-Agency Lake RFPD
City/County Insurance Service
Clackamas County
Clackamas County Fair
Clackamas County Fire District 1
Clackamas County Vector Control District
Clackamas River Water
Clatskanie, City of
Clatskanie Library District
Clatskanie People's Utility District
Clatskanie RFPD
Clatsop County
Clatsop County 4-H and Extension Service District
Cloverdale RFPD
Coburg, City of
Coburg RFPD
Colton RFPD 70
Columbia, City of
Columbia County
Columbia County 911 Communications District
Columbia Drainage Vector Control District
Columbia Health District
Columbia River PUD
Community Services Consortium
Condon, City of
Coos Bay, City of
Coos County
Corbett Water District
Cornelius, City of
Corvallis, City of
Cottage Grove, City of
Crescent RFPD
Creswell, City of
Creswell RFPD
Crook County
Crook County RFPD 1
Crooked River Ranch RFPD
Crystal Springs Water District
Culver, City of
Curry County
Curry Public Library District
Dallas, City of
Dayton, City of
Depoe Bay, City of
Depoe Bay RFPD
Deschutes County
Deschutes County Fair Association
Deschutes County RFPD 2
Deshutes Public Library District
Deschutes Valley Water District
Dexter RFPD
Douglas County
Douglas County RFPD
Douglas County Soil and Water
Drain, City of
Drain RFD
Dufur, City of
Dundee, City of
Dunes City, City of
Durham, City of
Eagle Point, City of
East Fork Irrigation District
Echo, City of
Elgin, City of
Elkton, City of
Enterprise, City of
Estacada, City of
Estacada Cemetery Maintenance District
Estacada RFD 69
Eugene, City of
Eugene Water and Electric Board
Evans Valley RFPD
Fairview, City of
Fairview Water District
Falls City, City of
Farmers Irrigation District
Fern Ridge Community Library
Florence, City of
Fossil, City of
Friends of Washington Park Zoo

Garibaldi, City of
Gaston, City of
Gaston RFPD
Gearhart, City of
Gervais, City of
Gilliam County
Gladstone, City of
Glide RFPD
Gold Beach, City of
Gold Hill, City of
Goshen RFPD
Grant County
Grants Pass, City of
Grants Pass Irrigation District
Greater St. Helens Parks and Recreation
Green Sanitary District
Gresham, City of
Halsey, City of
Halsey-Shedd RFPD
Happy Valley, City of
Harbor Water PUD
Harney County
Harney District Hospital
Harrisburg, City of
Harrisburg RFPD
Helix, City of
Heppner, City of
Hermiston, City of
Hermiston RFPD
High Desert Park and Recreation District
Hillsboro, City of
Hines, City of
Hood River, City of
Hood River County
Hoodland RFD 74
Horsefly Irrigation District
Housing Authority of Clackamas County
Housing Authority of Jackson County
Housing Authority of North Bend City
Housing Authority of Portland
Hubbard, City of
Hubbard RFPD
Huntington, City of
Ice Fountain Water District
Illinois Valley RFD
Imbler, City of
Imbler RFPD
Independence, City of
Irrigon, City of
Jackson County
Jackson County Fire District 3
Jackson County Fire District 4
Jackson County Fire District 5
Jackson County Vector Control District
Jacksonville, City of
Jefferson, City of
Jefferson County
Jefferson County EMS District
Jefferson County Library District
Jefferson County RFPD 1
Jefferson County SWCD
Jefferson RFPD
Job Council
John Day, City of
Jordan Valley, City of
Joseph, City of
Josephine County
Judges PERS
Junction City, City of
Keizer RFPD
Keizer, City of
Keno RFPD
King City, City of
Klamath County
Klamath County Emergency Communications District
Klamath County Fire District 1
Klamath Falls, City of
Klamath Housing Authority
Klamath Vector Control District
Knappa Svensen Burnside RFPD
La Grande, City of
La Pine RFPD
Lafayette, City of
Lake County
Lake County Library
Lake Oswego, City of
Lakeside, City of
Lakeside Water District
Lakeview, Town of
Lane Council of Governments
Lane County
Lane County Fair Board
Lane County Fire District 1
Lane Rural Fire Rescue
League of Oregon Cities
Lebanon Aquatic District
Lebanon, City of
Lebanon Fire District
Lifeways
Lincoln City, City of
Lincoln County
Lincoln County Communications Agency
Linn County
Linn-Benton Housing Authority
Local Government Personnel Institute
Lowell, City of
Lowell RFPD
Lyons, City of
Lyons RFPD
Madras, City of
Malheur County
Malin, City of
Manzanita, City of
Mapleton Water District
Marion County
Marion County Fire District 1
Marion County Housing Authority
Marion Salem Data Center
Maupin, City of
McKenzie RFPD
McMinnville, City of
McMinnville Water and Light Department
Medford, City of
Medford Irrigation District
Medford Water Commission
Merrill, City of
Metolius, City of
METRO
Metro Area Communication Commission
Mid-Columbia Center for Living
Mid-Willamette Valley Senior Services
Mill City, City of
Mill City RFPD
Millersburg, City of
Millington RFPD
Milton-Freewater, City of
Milton-Freewater Cemetery Maintenance District 3
Milwaukie, City of
Mist-Birkenfeld RFPD
Mohawk Valley RFD
Molalla, City of

Molalla RFPD 73
Monmouth, City of
Monroe, City of
Monroe RFPD
Moro, City of
Mt. Angel, City of
Mt. Vernon, City of
Mulino Water District 23
Multnomah County
Multnomah County Drainage District 1
Multnomah County RFPD 10
Multnomah County RFPD 14
Myrtle Creek, City of
Myrtle Point, City of
Nehalem Bay Health District
Nehelem Bay Wastewater Agency
Nesika Beach - Ophir Water District
Neskowin Regional Sanitary Authority
Neskowin Regional Water District
Nestucca RFPD
Netarts-Oceanside RFPD
Netarts-Oceanside Sanitary District
Netarts Water District
Newberg, City of
Newport, City of
North Bend, City of
North Clackamas County Water Commission
North Lincoln Fire & Rescue District 1
North Marion County 911
North Morrow Vector Control District
North Plains, City of
North Powder, City of
North Wasco County Parks &
Recreation District
Northeast Oregon Housing Authority
Northern Oregon Corrections
Nyssa, City of
Nyssa Road Assessment District 2
Oak Lodge Sanitary District
Oak Lodge Water District
Oakland, City of
Oakridge, City of
Odell RFPD
Odell Sanitary District
Ontario, City of
Oregon Cascades West COG
Oregon City, City of
Oregon Community College Association
Oregon Consortium, The
Oregon Coastal Zone Management Association
Oregon Health & Science University
Oregon School Boards Association
Oregon Small Schools Association
Oregon Trail Library District
Owyhee Irrigation District
Parkdale RFPD
Pendleton, City of
Philomath, City of
Philomath RFPD
Phoenix, City of
Pilot Rock, City of
Pleasant Hill RFPD
Polk County
Polk County Fire District 1
Polk County Housing and Urban Renewal Agency
Polk Soil and Water Conservation District
Port of Astoria
Port of Cascade Locks
Port of Coos Bay
Port of Garibaldi
Port of Hood River
Port of Newport
Port of Portland
Port of St. Helens
Port of The Dalles
Port of Tillamook Bay
Port of Umatilla
Port Orford, City of
Port Orford Public Library
Portland, City of
Portland Development Commission
Powell Valley Road Water District
Powers, City of
Prairie City, City of
Prineville, City of
Rainbow Water District
Rainier, City of
Rainier Cemetery District
Redmond, City of
Reedsport, City of
Regional Organized Crime Narcotics Task Force
Riddle, City of
Rockaway Beach, City of
Rockwood Water PUD
Rogue River, City of
Rogue River RFPD 4-201
Rogue River Valley Irrigation District
Roseburg, City of
Roseburg Urban Sanitary Authority
Rural Road Assessment District 3
Rural Road District
Salem, City of
Salem Housing Authority
Salem Mass Transit
Salem Metro Communications Agency
Salmon Harbor and Douglas County
Sandy, City of
Sandy RFPD 72
Santa Clara RFPD
Scappoose, City of
Scappoose Public Library
Scappoose RFPD
Scio RFPD
Seal Rock Water District
Seal Rock RFPD
Shady Cove, City of
Sheridan, City of
Sheridan Fire District
Sherman County
Sherwood, City of
Silver Falls 911
Silver Falls Library District
Silverton, City of
Silverton RFPD 2
Sisters and Camp Sherman RFPD
Sisters, City of
Siuslaw Library District
Siuslaw RFPD 1
South Fork Water Board
South Suburban Sanitary District
Southwest Polk County RFPD
Southwest Lincoln County Water District
Springfield, City of
St. Helens, City of
St. Helens RFPD

Stanfield, City of
Stanfield Fire District 7-402
Stayton, City of
Stayton RFPD
Sublimity RFPD
Suburban East Salem Water District
Sunrise Water Authority
Sunriver Service District
Sutherlin, City of
Sutherlin Water District
Sweet Home, City of
Sweet Home Cemetery Maintenance District
Sweet Home Fire and Ambulance District
Talent, City of
Talent Irrigation District
Tangent RFPD
Tigard, City of
Tillamook, City of
Tillamook County 911
Tillamook County Soil and Water
Tillamook Fire District
Tillamook People's Utility District
Tillamook Water Commission
Toledo, City of
Tri-City RFPD
Tri-City Sanitary District
Tri-City Water District
Tri-Met
Troutdale, City of
Tualatin, City of
Tualatin Valley Fire and Rescue
Tualatin Valley Irrigation District
Tualatin Valley Water District
Turner, City of
Turner RFPD
Umatilla, City of
Umatilla County
Umatilla County Soil and Water District
Umatilla County Special Library District
Umatilla RFPD 7-405
Umpqua Regional Council of Govt.
Unified Sewerage Agency
Union, City of
Vale, City of
Valley View Cemetery Maintenance District
Veneta, City of
Vernonia, City of
Vernonia RFPD
Waldport, City of
Wallowa, City of
Wallowa County
Warrenton, City of
Wasco County
Wasco County Soil and Water Conservation District
Washington County
Washington County Consolidated Communications Agency
Washington County Fire District 2
West Extension Irrigation District
West Linn, City of
West Slope Water District
Western Lane Ambulance District
Westfir, City of
Weston, City of
Weston Cemetery District
Westport Sewer Service District
Wheeler, City of
Wickiup Water District
Willamina, City of
Willamina Fire District
Wilsonville, City of
Winchester Bay Sanitary District
Winston, City of
Winston-Dillard RFPD 5
Winston-Dillard Water District
Wood Village, City of
Woodburn, City of
Woodburn RFPD
Workforce Development Board
Yachats, City of
Yachats RFPD
Yamhill, City of
Yamhill Communications Agency
Yamhill County
Yoncolla, City of

Community Colleges (17)

Blue Mountain Community College
Central Oregon Community College
Chemeketa Community College
Clackamas Community College
Clatsop Community College
Columbia Gorge Community College
Klamath Community College
Lane Community College
Linn-Benton Community College
Mt. Hood Community College
Oregon Coast Community College
Portland Community College
Rogue Community College
Southwestern Oregon Community College
Tillamook Bay Community College
Treasure Valley Community College
Umpqua Community College

School Districts (232)

Armadillo Technical Institute
Baker CSD 5J
Baker CSD 16J
Baker CSD 30 J
Baker CSD 61
Benton CSD 1J
Benton CSD 7J
Benton CSD 17J
Benton CSD 509J
Clackamas County ESD
Clackamas CSD 3
Clackamas CSD 7J
Clackamas CSD 12
Clackamas CSD 35
Clackamas CSD 46
Clackamas CSD 53
Clackamas CSD 62
Clackamas CSD 86
Clackamas CSD 108
Clackamas CSD 115
Clatsop CSD 1C
Clatsop CSD 8
Clatsop CSD 10
Clatsop CSD 30
Columbia CSD 1J
Columbia CSD 4
Columbia CSD 6J
Columbia CSD 13
Columbia CSD 47 J
Columbia CSD 502
Coos CSD 8
Coos CSD 9
Coos CSD 13
Coos CSD 31
Coos CSD 41
Coos CSD 54
Crook CSD
Crossroads Project Charter School
Curry CSD 1
Curry CSD 2CJ
Curry CSD 17
Deschutes County ESD
Deschutes CSD 1
Deschutes CSD 2J
Deschutes CSD 6
Deschutes CSD 15C
Douglas CSD 1
Douglas CSD 4
Douglas CSD 12
Douglas CSD 15
Douglas CSD 19
Douglas CSD 21
Douglas CSD 22
Douglas CSD 32
Douglas CSD 34
Douglas CSD 70
Douglas CSD 77
Douglas CSD 105
Douglas CSD 116
Douglas CSD 130
Douglas County ESD
Gilliam CSD 3
Grant School District 3
Grant County ESD
Grant CSD 4
Grant CSD 8
Grant CSD 16J
Grant CSD 17
Harney ESD Region 17

Harney CSD 3
Harney CSD 4
Harney CSD 5
Harney CSD 7
Harney CSD 10
Harney CSD 13
Harney CSD 16
Harney CSD 28
Harney CSD 33
Harney CSD UH1J
Hood River CSD 1
Jackson County ESD
Jackson CSD 4
Jackson CSD 5
Jackson CSD 6
Jackson CSD 9
Jackson CSD 35
Jackson CSD 59
Jackson CSD 94
Jackson CSD 549C
Jefferson County ESD
Jefferson CSD 4
Jefferson CSD 8
Jefferson CSD 41
Jefferson CSD 509J
Jordan Valley School District 3
Josephine County UJ School District
Josephine CSD 7
Kings Valley Charter School
Klamath CSD CU
Klamath CSD UH2
Lake County ESD
Lake CSD 7
Lake CSD 11C
Lake CSD 14
Lake CSD 18
Lake CSD 21
Lane County ESD
Lane CSD 1
Lane CSD 4J
Lane CSD 19
Lane CSD 28J
Lane CSD 32
Lane CSD 40
Lane CSD 45J3
Lane CSD 52
Lane CSD 66
Lane CSD 68
Lane CSD 69
Lane CSD 71
Lane CSD 76
Lane CSD 79J
Lane CSD 90
Lane CSD 97J
Lighthouse School
Lincoln CSD
Linn CSD 7
Linn CSD 9
Linn CSD 55
Linn CSD 95C
Linn CSD 129J
Linn CSD 552C
Linn-Benton Lincoln ESD
Linn-Benton School District 8J
Lourdes Charter School
Malheur ESD Region 14
Malheur CSD 8C
Malheur CSD 12
Malheur CSD 26C
Malheur CSD 29
Malheur CSD 61
Malheur CSD 66
Malheur CSD 81
Malheur CSD 84
Marion CSD 1
Marion CSD 4J
Marion CSD 14CJ
Marion CSD 15
Marion CSD 24J
Marion CSD 29J
Marion CSD 45
Marion CSD 91
Marion CSD 103C
Mitch Charter School
Morrow CSD
Multisensory Learning Academy
Multnomah County ESD
Multnomah CSD 1
Multnomah CSD 3
Multnomah CSD 7
Multnomah CSD 10
Multnomah CSD 28-302 JT
Multnomah CSD 39
Multnomah CSD 51JT
Multnomah CSD R-40
North Central ESD
Northwest Regional ESD
Pedee Charter School
Polk CSD 2
Polk CSD 13J
Polk CSD 21
Polk CSD 57
Ridgeline Montessori Charter School
Rimrock Academy Charter School
Sand Ridge Charter School
Sherman CSD
South Coast ESD Region 7
The 21st Century Community Schoolhouse
Three Rivers Charter School
Tillamook CSD 9
Tillamook CSD 56
Tillamook CSD 101
Trillium Charter School
Umatilla County Administrative School District 1R
Umatilla Morrow ESD
Umatilla CSD 2R
Umatilla CSD 5
Umatilla CSD 6R
Umatilla CSD 7
Umatilla CSD 8R
Umatilla CSD 16R
Umatilla CSD 29RJ
Umatilla CSD 61R
Umatilla CSD 80R
Union-Baker ESD
Union CSD 1
Union CSD 5
Union CSD 8J
Union CSD 11
Union CSD 15
Union CSD 23
Victory Middle School
Village School
Wallowa County Region 18 ESD
Wallowa CSD 6
Wallowa CSD 12
Wallowa CSD 21J
Wallowa CSD 54
Wasco County ESD
Wasco CSD 1
Wasco CSD 9
Wasco CSD 12
Wasco CSD 29
Washington CSD 1J
Washington CSD 15
Washington CSD 13
Washington CSD 23J
Washington CSD 48J
Washington CSD 88J
Washington CSD 511JT
Wheeler CSD 1
Wheeler CSD 21
Wheeler CSD 55U
Willamette ESD
Willamette Valley Community School
Yamhill County ESD
Yamhill CSD 1
Yamhill CSD 4J
Yamhill CSD 8
Yamhill CSD 29JT
Yamhill CSD 30-44-63J
Yamhill CSD 40
Yamhill CSD 48J

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