



The Retirement Systems of Alabama

Component Units of the State of Alabama
Comprehensive Annual Financial Report

For the Fiscal Year Ended September 30, 2003

The Retirement Systems of Alabama

Component Units of the State of Alabama

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended September 30, 2003

The Retirement Systems of Alabama
Consists of:

TEACHERS' RETIREMENT SYSTEM of ALABAMA
EMPLOYEES' RETIREMENT SYSTEM of ALABAMA
JUDICIAL RETIREMENT FUND

(Each a Component Unit of The State of Alabama)

David G. Bronner, Ph.D., J.D., Chief Executive Officer

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INTRODUCTORY SECTION



Retirement Systems of Alabama



Teachers'
Paul R. Hubbert, Chair
Sarah Swindle, Vice Chair

David G. Bronner, CEO
Marcus H. Reynolds, Jr., Deputy

Employees'
State State Police Public Judicial
Bob Riley, Chair
John H. Wilkerson, Jr., Vice Chair

March 15, 2004

The Boards of Control
Teachers' Retirement System of Alabama
Employees' Retirement System of Alabama
135 South Union Street
Montgomery, AL 36130

Dear Board Members:

It is with great pleasure that I submit the Comprehensive Annual Financial Report (CAFR) of the Retirement Systems of Alabama (RSA) for the fiscal year ended September 30, 2003. The Retirement Systems of Alabama includes the Teachers' Retirement System of Alabama (TRS), the Employees' Retirement System of Alabama (ERS), and the Judicial Retirement Fund (JRF). Each system is considered a component unit of the State of Alabama for financial reporting purposes, and, as such, the financial statements contained in this report are also included in the State of Alabama Comprehensive Annual Financial Report.

Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the management of the Systems. Sufficient internal controls exist to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements, supporting schedules, and statistical tables. I trust that you and the members of the Systems will find this report helpful in understanding your retirement system.

Report Contents

The 2003 Comprehensive Annual Financial Report is divided into the following five sections:

- The *Introductory Section*, which contains this letter of transmittal and general information regarding the operations and administrative structure of the RSA.
- The *Financial Section*, which contains the Independent Auditors' Report by KPMG LLP, Management's Discussion and Analysis, financial statements, required supplementary information, and supporting schedules for the TRS, ERS, and JRF.
- The *Investment Section*, which contains a report on investment activity, an outline of investment policies, investment results, and various investment schedules.
- The *Actuarial Section*, which contains the certification letter of the independent consulting actuary, Mellon, for the TRS, ERS, and JRF, as well as summaries of the results of the most recent actuarial valuations.
- The *Statistical Section*, which contains significant statistical information regarding the TRS, ERS, and JRF.

Administration and Plan History

The Teachers' Retirement System (TRS), Employees' Retirement System (ERS), and Judicial Retirement Fund (JRF) operate under common management and are collectively referred to as the Retirement Systems of Alabama (RSA). In addition to executive management, the TRS, ERS, and JRF share investment management, accounting, and information system services, the costs of which are allocated to the funds on an equitable basis. The TRS was established under the provisions of Act 419 of the Legislature of 1939 to provide benefits to qualified persons employed by State-supported educational institutions. The ERS was established under the provisions of Act 515 of the Legislature of 1945 to provide benefits to State employees, State police, and, on an elective basis, to qualified persons of cities, towns, and quasi-public organizations. The JRF was established under the provisions of Act 1163 of the Legislature of 1973 to provide benefits to qualified judges and justices. Additional information regarding the administration and history of each system, including laws establishing each plan and services provided, can be found in the *Financial Section - Notes to the Financial Statements* portion of this report.

Financial Information

Accounting Method - As required by Generally Accepted Accounting Principles (GAAP), the financial information of the TRS, ERS, and JRF is reported on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when the corresponding liability is incurred. Investments are reported at fair value.

Internal Controls - The management of the RSA is responsible for maintaining the system of internal controls (system). The system provides management with reasonable, but not absolute, assurance regarding the safeguarding of assets against loss or unauthorized disposition and the reliability of the financial records from which the financial reports are prepared. The concept of reasonable assurance recognizes that the cost of a control should not exceed the resulting benefits.

Summary Comparative Data – Management's Discussion and Analysis (MD&A) includes a narrative introduction, an overview of the financial statements, including the notes, and required supplementary information, and summary comparative data for fiscal years 2003 and 2002. Also, an analysis of significant variances between fiscal years 2003 and 2002 is provided in the MD&A.

Plan Financial Condition

The funding objective of the RSA pension trust funds is to meet long-term benefit requirements through contributions, which remain relatively level as a percent of member payroll over time, and through investment earnings. Historical information concerning funding progress is presented in the *Required Supplementary Information* - "Schedule of Funding Progress" on page 34.

At the date of the latest actuarial valuations, as presented in the *Notes to the Required Supplementary Information* on page 36, the number of participants in the TRS, ERS, and JRF was 202,130, 118,858, and 708, respectively. The TRS's last valuation was performed as of June 30, 2003. The TRS's funded percentage decreased from 97.4% at June 30, 2002 to 93.6% at June 30, 2003. The ERS's and JRF's last valuations were performed as of September 30, 2002. The ERS's funded percentage decreased from 100.2% at September 30, 2001 to 95.4% at September 30, 2002. The JRF's funded percentage decreased from 85.0% at September 30, 2001 to 84.7% at September 30, 2002.

Investment Activity

Total investments for the RSA increased in fiscal year 2003, primarily due to increases in the fair value of investments. Investment balances for the TRS, ERS, and JRF at September 30, 2003 were \$15.5 billion, \$7.1 billion and \$204.0 million, respectively, compared to investment balances for the TRS, ERS, and JRF at September 30, 2002 of \$13.9 billion, \$6.3 billion, and \$190.2 million, respectively. Total pension fund investments managed by the RSA increased from \$20.4 billion at September 30, 2002 to \$22.8 billion at September 30, 2003, an 11.8% increase.

Interest and dividend income for the TRS, ERS, and JRF for the fiscal year ended September 30, 2003 was \$592.6 million, \$271.7 million, and \$8.0 million, respectively, compared to \$672.2 million, \$297.8 million, and \$9.8 million, respectively, for the fiscal year ended September 30, 2002. The increase in fair value of investments for the TRS, ERS, and JRF for the fiscal year ended September 30, 2003 was \$1.4 billion, \$668.5 million and \$12.9

RETIREMENT SYSTEMS OF ALABAMA

Introductory Section

Letter of Transmittal (Continued)

million, respectively, compared to the decrease in fair value of investments of \$1.9 billion, \$953.2 million, and \$33.0 million, respectively, for the fiscal year ended September 30, 2002.

The staff will continue to purchase and develop investments that will facilitate the mission of the RSA and serve the interests of our members by preserving the excellent benefits and soundness of the RSA while providing these at the least expense to the State of Alabama and all Alabama taxpayers. With the continued cooperative efforts of the Boards of Control, the RSA staff, and the Legislature, this goal will be achieved.

Management's Discussion and Analysis

GASB Statement No. 34 requires that management provide a narrative introduction, overview, and analysis to accompany the Financial Statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is intended to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the Independent Auditors' Report.

Legislation Enacted During Fiscal-Year 2003

Act 2003-120 Authorizes Tuscaloosa County elected officials to participate in the ERS.

Act 2003-204 Authorizes Hale County elected officials to participate in the ERS.

Act 2003-376 Allows ERS members participating under *Alabama Code Section 36-27-6* to purchase prior service credit under any other retirement system using the formula in effect for computing cost prior to December 28, 2001.

Act 2003-414 Includes the Mobile County Sheriff position as an elected official authorized to participate in the ERS.

Professional Services

Professional consultants are appointed by the Boards of Control to perform professional services that are essential to the effective operation of the TRS, ERS, and JRF. An opinion from the independent certified public accountant and the certification letters from the independent actuary are included in this report. The professional consultants appointed by the Boards of Control are listed on page 9 of this report.

Highlights and Initiatives

During the fiscal year, the *Plan Sponsor Magazine* honored the RSA as the "Plan Sponsor of the Year" for 2002. The magazine reviewed the history of the RSA, and its insistence on helping the state's economy as well as the RSA's participants over the past three decades.

The Retirement Systems of Alabama continues to expand its investments in real estate. Projects that are currently in progress include:

- The RSA Battle House Hotel and office complex in Mobile, which will assist in the revitalization of downtown Mobile.
- A new Robert Trent Jones (RTJ) 18-hole championship golf course in Hoover, Alabama. A hillside hotel/civic center complex will overlook the course.
- A new 36-hole RTJ championship golf complex in Florence, Alabama in conjunction with a new hotel that will be located next to the new Florence Conference Center and Renaissance Tower.

These investments will further diversify the RSA's real estate portfolio with the added benefit of investing in Alabama.

Introductory Section

Letter of Transmittal (Continued)

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Retirement Systems of Alabama for its comprehensive annual financial report for the fiscal year ended September 30, 2002. The Certificate of Achievement is a prestigious national award, which recognizes conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive financial report whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to the GFOA.

Acknowledgments

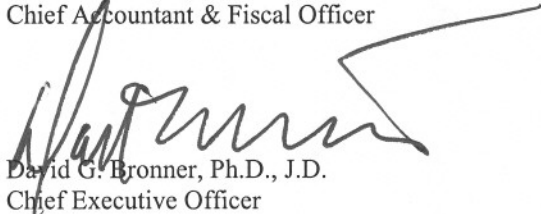
The compilation of this report reflects the combined effort of the staff under the leadership of the Boards of Control. It is intended to provide extensive and reliable information as a basis for making management decisions, determining compliance with legal provisions, and determining responsible stewardship of the funds of the TRS, ERS, and JRF.

I would like to take this opportunity to express my gratitude to the staff, the Boards of Control, the consultants, the Legislature, and to the many people who have worked so diligently through continued cooperative efforts to assure the successful operation and financial soundness of the TRS, ERS, and JRF.

Sincerely,



Norman D. Turnipseed, CPA
Chief Accountant & Fiscal Officer



David G. Bronner, Ph.D., J.D.
Chief Executive Officer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

The Retirement Systems of Alabama

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 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.



A handwritten signature in black ink, appearing to read "Edward Haney".

President

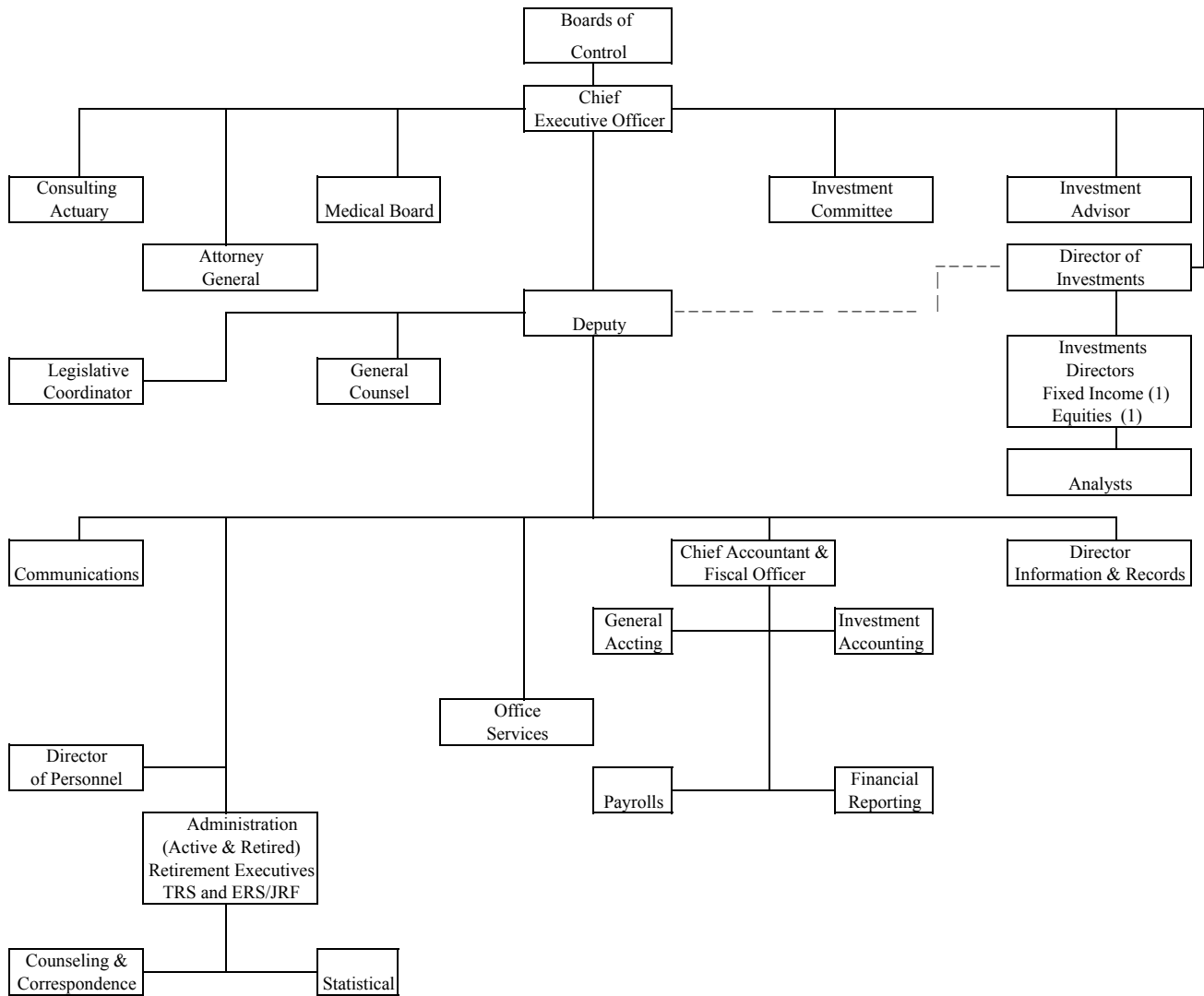
A handwritten signature in black ink, appearing to read "Jeffrey R. Enos".

Executive Director

RETIREMENT SYSTEMS OF ALABAMA

Introductory Section

Organization Chart



Teachers' Retirement System Board of Control

Ex Officio Members

Chairman, Dr. Paul R. Hubbert, Executive Secretary, AEA
Drayton Nabers, Jr., State Finance Director
Kay Ivey, State Treasurer
Dr. Edward R. Richardson, State Superintendent of Education

Elected Members

Vice-Chairman, Mrs. Sarah Swindle, Retired Position
Ms. Judy Rigdon, Teacher Position
Dr. Susan Williams Brown, Postsecondary Position
Mrs. Martha Black Handschumacher, Teacher Position
Dr. J. Terry Jenkins, Superintendent Position
Dr. John Landers, Principal Position
Dr. Wayne Teague, Retired Position
Mr. Russell J. Twilley, Support Personnel Position
Mrs. Peggy K. Lamb, Teacher Position
Mrs. Sharon P. Saxon, Support Personnel Position

Employees' Retirement System Board of Control**

Ex Officio Members

Chairman, Bob Riley, Governor
Drayton Nabers, Jr., State Finance Director
Kay Ivey, State Treasurer
Thomas G. Flowers, State Personnel Director

Elected Members

Mr. Clyde Sellers, Retired Local Employee
Mrs. Ann Gant, Active Local Employee
Mr. T. M. "Sonny" Jones, Active Local Employee
Ms. Mary Lou Foster, Retired State Employee
Ms. Alice Thornton, Active State Employee
Mr. Stephen C. Walkley, Active State Employee

Appointed Members

Vice-Chairman, Mr. John H. Wilkerson, Jr.
Mr. Robert H. Pruitt
Mr. Robert S. Miller

** The Employees' Retirement System Board of Control is responsible for the administration of both the Employees' Retirement System and the Judicial Retirement Fund.

Staff, Advisors, and Medical Board

David G. Bronner, Ph.D., J.D., Chief Executive Officer
Marcus H. Reynolds, Jr., J.D., Deputy Director

Administrative Staff

Chief Accountant and Fiscal Officer, Norman D. Turnipseed, M.B.A., C.P.A.
Director of Information Technology Services, Peggi L. Douglass, M.B.A.
Teachers' Retirement Executive, Donald L. Yancey, M.P.A., J.D.
Employees' & Judicial Retirement Executive, R. Donald Nelson, M.S.
Legislative Counsel, Lindy J. Beale, J.D.
General Counsel, William F. Kelley, Jr., J.D.
General Counsel, William T. Stephens, J.D.
Director of Communications, Michael E. Pegues, M.A.

Investment Staff

Acting Director of Investments, Darren J. Schulz, M.B.A., C.F.A.
Director of Alternative Investments, M. Hunter Harrell, M.B.A., J.D., C.F.A.
Director of Equities, R. Marc Green, M.B.A., C.F.A.
Assistant Director of Equities, Steven R. Lambdin, M.B.A., C.P.A., C.F.A.
Assistant Director of Equities, Eric J. Fox, M.B.A., C.F.A.
Director of Fixed Income, Julie S. Barranco, M.B.A., C.F.A.
Equity Analyst, John R. Givens, M.B.A., C.F.A.
Equity Analyst, G. Allan Carr Jr., M.B.A.
Fixed Income Analyst, C. Lance Lachney, M.B.A.
Fixed Income Analyst, Joseph G. Walker, M.B.A.
Cash Management & Operations, Nancy H. Sprayberry
Cash Management & Operations, Ann Roth, B.S.

Advisors

Independent Certified Public Accountants, KPMG LLP
AmSouth Bank, N.A., Mr. Brian Sullivan, Investment Consultant
J P Morgan Chase and Company, Investment Custodian
Mellon (formerly George B. Buck Consulting Actuaries), Mr. Edward A. Macdonald
Attorney General, Mr. Bill Pryor
Chief Examiner, Mr. Ronald L. Jones

Medical Board

Chairman, Neil Stronach, M.D.
A. S. Zdanis, M.D.
Glen Yates, M.D.



FINANCIAL SECTION



KPMG LLP
SouthTrust Tower
Suite 1800
420 20th Street North
Birmingham, AL 35203

Independent Auditors' Report

Boards of Control
Teachers' Retirement System of Alabama
Employees' Retirement System of Alabama
Judicial Retirement Fund:

We have audited the accompanying combining statement of plan net assets of the Retirement Systems of Alabama (consisting of the Teachers' Retirement System of Alabama, the Employees' Retirement System of Alabama, and the Judicial Retirement Fund), component units of the State of Alabama, as of September 30, 2003, and the related combining statements of changes in plan net assets for the year then ended. These financial statements are the responsibility of the management of the Retirement Systems of Alabama. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the Retirement Systems of Alabama's 2002 financial statements and, in our report dated January 31, 2003, we expressed an unqualified opinion on such financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Retirement Systems of Alabama (component units of the State of Alabama) as of September 30, 2003, and the results of their operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 14 through 17 and the schedules of funding progress and employer contributions (pages 33 to 36) are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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 made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included on pages 37 through 39 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

March 2, 2004

Management's Discussion and Analysis

The Retirement Systems of Alabama (RSA) is comprised of the Teachers' Retirement System (TRS), Employees' Retirement System (ERS), and Judicial Retirement Fund (JRF). The following discussion provides an overview of the financial position and results of operation for the RSA as of and for the period ended September 30, 2003, respectively. For more detailed information, please refer to the financial statements, including the Notes to the Financial Statements and the Required Supplementary Information.

Financial Statements and Required Supplementary Information

The financial statements (statements) include the Combining Statement of Plan Net Assets and the Combining Statement of Changes in Plan Net Assets. The Notes to the Financial Statements are considered an integral part of the financial statements. The statements are prepared using the economic resources measurement focus and accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of when cash is received or expended. Investments are reported at fair value.

Combining Statement of Plan Net Assets – Includes all accounting assets and liabilities of the RSA and provides a snapshot of the financial position of the RSA as of the end of the fiscal year. Assets less liabilities results in the net assets held in trust for pension benefits at fiscal year-end.

Combining Statement of Changes in Plan Net Assets – Reports all additions and deductions of the RSA for the fiscal year. Additions primarily consist of employer contributions, employee contributions, and investment income. Deductions are principally made up of retirement allowance payments. Additions minus deductions provide the change in plan net assets for the fiscal year. The change in plan net assets plus the beginning plan net assets results in the plan net assets at fiscal year-end.

The Notes to the Financial Statements include plan descriptions, a summary of significant accounting policies, a description of legally required reserves and corresponding reserve balances at year-end, credit risk disclosures for cash and investments, concentration of investments disclosures, and securities lending disclosures.

The Required Supplementary Information following the Notes to the Financial Statements includes a Schedule of Funding Progress and a Schedule of Employer Contributions. The Schedule of Funding Progress provides trend data on the level of funding for the TRS, ERS, and JRF plans. The Schedule of Employer Contributions provides trend data on the annual required employer contributions and the percentage actually contributed. The Notes to the Required Supplementary Information provide disclosures concerning actuarial assumptions.

Comparative Summary Statements

Summary Comparative Statement of Plan Net Assets As of September 30, 2003 and 2002 (Amounts in Thousands)

	<u>2003</u>	<u>2002</u>	<u>Variance</u>	<u>% Increase/ (Decrease)</u>
Assets				
Cash	\$ 18,889	\$ 21,419	\$ (2,530)	(11.81)
Receivables	287,995	318,827	(30,832)	(9.67)
Investments	22,807,598	20,444,910	2,362,688	11.56
Invested Securities Lending Collateral	2,505	1,182,769	(1,180,264)	(99.79)
Property and Equipment	4,880	5,156	(276)	(5.35)
Total Assets	<u>23,121,867</u>	<u>21,973,081</u>	<u>1,148,786</u>	5.23
Liabilities				
Accounts Payable and Other Liabilities	4,259	4,616	(357)	(7.73)
Securities Lending Collateral	2,505	1,182,769	(1,180,264)	(99.79)
Total Liabilities	<u>6,764</u>	<u>1,187,385</u>	<u>(1,180,621)</u>	(99.43)
Net Assets	<u>\$ 23,115,103</u>	<u>\$ 20,785,696</u>	<u>\$ 2,329,407</u>	11.21

RETIREMENT SYSTEMS OF ALABAMA

Financial Section

Management's Discussion and Analysis (Continued)

**Summary Comparative Statement of Changes in Plan Net Assets
For the Fiscal Years Ended September 30, 2003 and 2002**

(Amounts in Thousands)

	<u>2003</u>	<u>2002</u>	<u>Variance</u>	<u>% Increase/ (Decrease)</u>
<i>Additions</i>				
Employee Contributions	\$ 412,101	\$ 385,190	\$ 26,911	6.99
Employer Contributions	398,641	397,779	862	0.22
Investment Income	2,964,207	(1,924,450)	4,888,657	254.03
Transfers Between Systems	<u>4,543</u>	<u>4,113</u>	<u>430</u>	10.45
Total Additions	<u>3,779,492</u>	<u>(1,137,368)</u>	<u>4,916,860</u>	432.30
<i>Deductions</i>				
Retirement Allowance Payments	1,373,678	1,265,009	108,669	8.59
Return of Contributions, Unit Withdrawals, and Death Benefits	58,043	68,892	(10,849)	(15.75)
Transfers Between Systems	4,543	4,113	430	10.45
Administrative Expense	13,176	12,733	443	3.48
Depreciation	<u>645</u>	<u>626</u>	<u>19</u>	3.04
Total Deductions	<u>1,450,085</u>	<u>1,351,373</u>	<u>98,712</u>	7.30
<i>Increase/(Decrease) in Plan Net Assets</i>	2,329,407	(2,488,741)	4,818,148	193.60
Net Assets - Beginning of Year	<u>20,785,696</u>	<u>23,274,437</u>	<u>(2,488,741)</u>	(10.69)
<i>Net Assets - End of Year</i>	<u>\$ 23,115,103</u>	<u>\$ 20,785,696</u>	<u>\$ 2,329,407</u>	11.21

**Comparison of Individual Plan Net Assets
As of September 30, 2003 and 2002**

(Amounts in Thousands)

	<u>2003</u>	<u>2002</u>	<u>Variance</u>	<u>% Increase/ (Decrease)</u>
TRS	\$ 15,685,620	\$ 14,167,952	\$ 1,517,668	10.71
ERS	7,222,812	6,424,435	798,377	12.43
JRF	<u>206,671</u>	<u>193,309</u>	<u>13,362</u>	6.91
Totals	<u>\$ 23,115,103</u>	<u>\$ 20,785,696</u>	<u>\$ 2,329,407</u>	11.21

RETIREMENT SYSTEMS OF ALABAMA

Financial Section

Management's Discussion and Analysis (Continued)

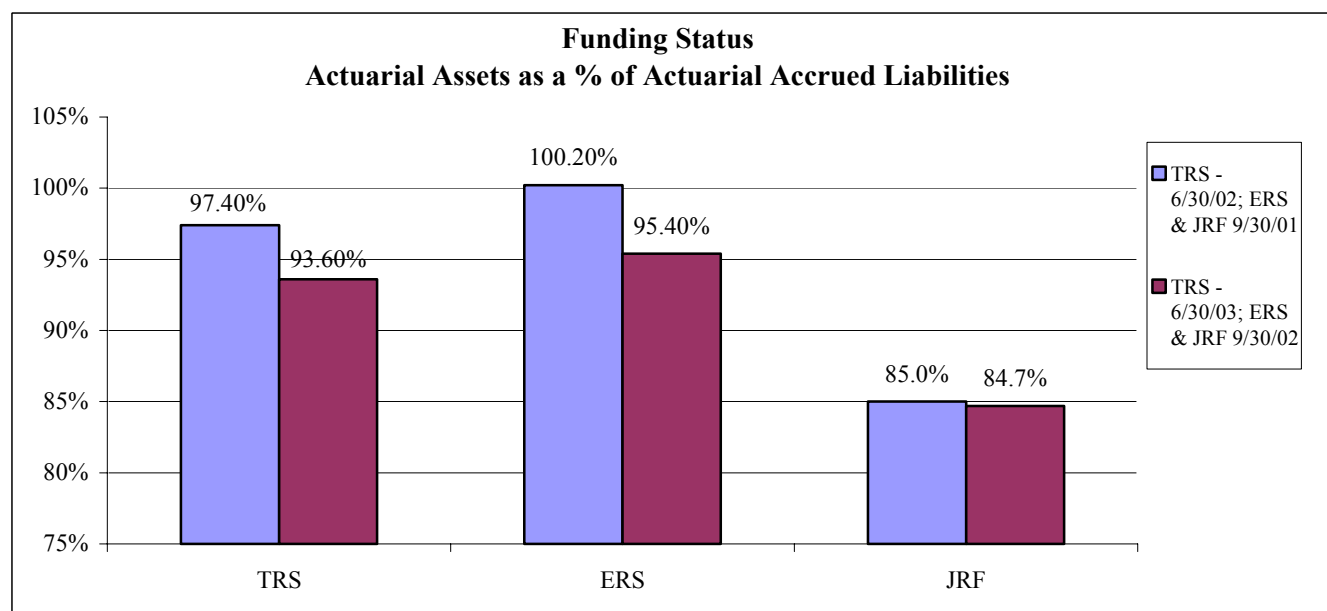
Financial Analysis

- Receivables decreased by \$30.8 million, primarily due to fixed income securities that were sold or matured during the fiscal year being replaced with fixed income securities with lower coupon rates, which resulted in lower interest receivables.
- Investments increased by \$2.4 billion, investment income increased by \$4.9 billion (previous year investment income was a \$1.9 billion loss), and plan net assets increased by \$2.3 billion, mainly as a result of an upturn in the stock market.
- Retirement allowance payments increased by \$108.7 million due to a 3% cost of living adjustment and normal new retirements.
- Securities lending collateral decreased by \$1.2 billion as a result of the RSA preparing to transition to a new investment custodian.

Funding Status

The primary objective of a retirement system is to accumulate sufficient assets to pay benefits to participants when due. The principal sources of assets to fund benefits include investment income and member and employer contributions. A five-year smoothing method is used in actuarially valuing assets to limit fluctuations in the contributions from year to year.

The ratio of actuarial assets to actuarial liabilities provides an excellent indication as to whether sufficient assets are being accumulated to pay benefits when due. The following bar graph provides comparisons of the funded ratio (actuarial assets to actuarial liabilities) as of the last two valuations for each System (June 30, 2003 and June 30, 2002, for TRS and September 30, 2002 and September 30, 2001, for ERS and JRF). The funded ratio has decreased slightly in the most recent valuation as a result of downturns in the equities market during the two previous fiscal years. Since a five-year smoothing method is employed to value assets, the funded ratio is likely to continue to decrease over the next few years as the recent losses are incorporated into the smoothing calculations. However, as reflected by the following graph, the TRS, ERS, and JRF continue to operate on an actuarially sound basis and accumulated funds are sufficient to continue to provide benefits as they become due.



RETIREMENT SYSTEMS OF ALABAMA

Financial Section

Management's Discussion and Analysis (Continued)

Financial Highlights

- Total assets exceeded total liabilities at September 30, 2003, by \$23.1 billion. Net assets are held in trust to meet future benefit payments.
- The funding level (actuarial value of assets as a percent of actuarial accrued liabilities) as of the latest actuarial valuations was 93.6% for the TRS, 95.4% for the ERS, and 84.7% for the JRF.
- The investment section contains a detailed schedule of investment returns and related benchmarks.

RETIREMENT SYSTEMS OF ALABAMA

Financial Section

Combining Statement of Plan Net Assets

September 30, 2003 with comparative figures for 2002

(Amounts in Thousands)

	2003			
	Teachers' Retirement System	Employees' Retirement System	Judicial Retirement Fund	Totals
Assets				
Cash - Restricted for Administrative Expenses (Note 4)	\$ 15,325	\$ 2,917	\$ 647	\$ 18,889
Receivables				
Employee Contributions	19,362	8,989	111	28,462
Employer Contributions	19,541	8,337	296	28,174
Dividends and Interest	<u>156,398</u>	<u>73,249</u>	<u>1,712</u>	<u>231,359</u>
Total Receivables	<u>195,301</u>	<u>90,575</u>	<u>2,119</u>	<u>287,995</u>
Investments, at Fair Value (Note 5)				
Domestic Equity Securities	6,762,794	3,285,094	107,209	10,155,097
Domestic Fixed Income Securities	5,509,848	2,514,000	84,089	8,107,937
International Securities	1,429,102	635,563	-	2,064,665
Real Estate	940,122	454,569	2,227	1,396,918
Short-term Investments	<u>833,052</u>	<u>239,446</u>	<u>10,483</u>	<u>1,082,981</u>
Total Investments	<u>15,474,918</u>	<u>7,128,672</u>	<u>204,008</u>	<u>22,807,598</u>
Invested Securities Lending Collateral (Note 5)	2,505	-	-	2,505
Property and Equipment less				
Accumulated Depreciation (Note 8)	<u>2,763</u>	<u>2,117</u>	<u>-</u>	<u>4,880</u>
Total Assets	<u>15,690,812</u>	<u>7,224,281</u>	<u>206,774</u>	<u>23,121,867</u>
Liabilities				
Accounts Payable and Other Liabilities	2,687	1,469	103	4,259
Securities Lending Collateral (Note 5)	<u>2,505</u>	<u>-</u>	<u>-</u>	<u>2,505</u>
Total Liabilities	<u>5,192</u>	<u>1,469</u>	<u>103</u>	<u>6,764</u>
Net Assets Held in Trust for Pension Benefits (Note 3)	<u>\$ 15,685,620</u>	<u>\$ 7,222,812</u>	<u>\$ 206,671</u>	<u>\$ 23,115,103</u>

A "Schedule of Funding Progress" is presented on page 34.

See accompanying Notes to the Financial Statements .

	2002			
	Teachers' Retirement System	Employees' Retirement System	Judicial Retirement Fund	Totals
Assets				
Cash - Restricted for Administrative Expenses	\$ 15,393	\$ 5,379	\$ 647	\$ 21,419
Receivables				
Employee Contributions	18,775	8,498	109	27,382
Employer Contributions	22,480	7,259	286	30,025
Dividends and Interest	<u>178,606</u>	<u>80,647</u>	<u>2,167</u>	<u>261,420</u>
Total Receivables	<u>219,861</u>	<u>96,404</u>	<u>2,562</u>	<u>318,827</u>
Investments, at Fair Value				
Domestic Equity Securities	4,839,313	2,472,136	85,963	7,397,412
Domestic Fixed Income Securities	5,901,680	2,618,983	92,961	8,613,624
International Securities	1,108,812	504,038	-	1,612,850
Real Estate	900,686	432,015	2,363	1,335,064
Short-term Investments	<u>1,182,036</u>	<u>295,011</u>	<u>8,913</u>	<u>1,485,960</u>
Total Investments	<u>13,932,527</u>	<u>6,322,183</u>	<u>190,200</u>	<u>20,444,910</u>
Invested Securities Lending Collateral	944,077	236,328	2,364	1,182,769
Property and Equipment less				
Accumulated Depreciation	<u>2,917</u>	<u>2,239</u>	<u>-</u>	<u>5,156</u>
Total Assets	<u>15,114,775</u>	<u>6,662,533</u>	<u>195,773</u>	<u>21,973,081</u>
Liabilities				
Accounts Payable and Other Liabilities	2,746	1,770	100	4,616
Securities Lending Collateral	<u>944,077</u>	<u>236,328</u>	<u>2,364</u>	<u>1,182,769</u>
Total Liabilities	<u>946,823</u>	<u>238,098</u>	<u>2,464</u>	<u>1,187,385</u>
Net Assets Held in Trust for Pension Benefits	<u>\$ 14,167,952</u>	<u>\$ 6,424,435</u>	<u>\$ 193,309</u>	<u>\$ 20,785,696</u>

RETIREMENT SYSTEMS OF ALABAMA

Financial Section

Combining Statement of Changes in Plan Net Assets

For the Fiscal Year Ended September 30, 2003 with comparative figures for 2002

(Amounts in Thousands)

	2003			Totals
	Teachers' Retirement System	Employees' Retirement System	Judicial Retirement Fund	
Additions				
Contributions				
Employee	\$ 249,996	\$ 159,763	\$ 2,342	\$ 412,101
Employer	235,786	154,218	8,637	398,641
Transfers from Teachers' Retirement System	-	2,418	-	2,418
Transfers from Employees' Retirement System	2,022	-	-	2,022
Transfers from Judicial Retirement Fund	-	103	-	103
Total Contributions	<u>487,804</u>	<u>316,502</u>	<u>10,979</u>	<u>815,285</u>
Investment Income (Note 5)				
<i>From Investing Activities</i>				
Net Increase in Fair Value of Investments	1,412,887	668,539	12,905	2,094,331
Interest and Dividends	592,645	271,698	7,969	872,312
Total Investment Income from Investing Activities	2,005,532	940,237	20,874	2,966,643
Less: Investment Expenses	4,432	2,380	28	6,840
Net Investment Income from Investing Activities	<u>2,001,100</u>	<u>937,857</u>	<u>20,846</u>	<u>2,959,803</u>
<i>From Securities Lending Activities</i>				
Securities Lending Income	14,215	3,461	61	17,737
Less Securities Lending Expenses:				
Borrower Rebates	10,052	2,131	50	12,233
Management Fees	832	266	2	1,100
Total Securities Lending Expenses	10,884	2,397	52	13,333
Net Income from Securities Lending Activities	3,331	1,064	9	4,404
Total Investment Income	<u>2,004,431</u>	<u>938,921</u>	<u>20,855</u>	<u>2,964,207</u>
Total Additions	<u>2,492,235</u>	<u>1,255,423</u>	<u>31,834</u>	<u>3,779,492</u>
Deductions				
Retirement Allowance Payments	932,687	423,027	17,964	1,373,678
Return of Contributions and Death Benefits	32,084	25,056	83	57,223
Unit Withdrawals	-	820	-	820
Transfers to Employees' Retirement System	2,418	-	103	2,521
Transfers to Teachers' Retirement System	-	2,022	-	2,022
Administrative Expenses	7,011	5,843	322	13,176
Depreciation (Note 8)	367	278	-	645
Total Deductions	<u>974,567</u>	<u>457,046</u>	<u>18,472</u>	<u>1,450,085</u>
Net Increase	1,517,668	798,377	13,362	2,329,407
Net Assets Held in Trust for Pension Benefits:				
Beginning of Year	14,167,952	6,424,435	193,309	20,785,696
End of Year	<u>\$ 15,685,620</u>	<u>\$ 7,222,812</u>	<u>\$ 206,671</u>	<u>\$ 23,115,103</u>

See accompanying *Notes to the Financial Statements* .

	2002			
	Teachers' Retirement System	Employees' Retirement System	Judicial Retirement Fund	Totals
Additions				
Contributions				
Employee	\$ 233,789	\$ 149,130	\$ 2,271	\$ 385,190
Employer	265,670	123,887	8,222	397,779
Transfers from Teachers' Retirement System	-	2,091	-	2,091
Transfers from Employees' Retirement System	1,937	-	85	2,022
Total Contributions	<u>501,396</u>	<u>275,108</u>	<u>10,578</u>	<u>787,082</u>
Investment Income				
<i>From Investing Activities</i>				
Net Decrease in Fair Value of Investments	(1,915,592)	(953,188)	(33,036)	(2,901,816)
Interest and Dividends	672,200	297,845	9,777	979,822
Total Investment Income/(Loss) from Investing Activities	(1,243,392)	(655,343)	(23,259)	(1,921,994)
Less: Investment Expenses	4,592	2,331	85	7,008
Net Investment Income/(Loss) from Investing Activities	<u>(1,247,984)</u>	<u>(657,674)</u>	<u>(23,344)</u>	<u>(1,929,002)</u>
<i>From Securities Lending Activities</i>				
Securities Lending Income	16,473	5,741	88	22,302
Less Securities Lending Expenses:				
Borrower Rebates	12,462	4,094	75	16,631
Management Fees	784	333	2	1,119
Total Securities Lending Expenses	<u>13,246</u>	<u>4,427</u>	<u>77</u>	<u>17,750</u>
Net Income from Securities Lending Activities	<u>3,227</u>	<u>1,314</u>	<u>11</u>	<u>4,552</u>
Total Investment Income/(Loss)	<u>(1,244,757)</u>	<u>(656,360)</u>	<u>(23,333)</u>	<u>(1,924,450)</u>
Total Additions	<u>(743,361)</u>	<u>(381,252)</u>	<u>(12,755)</u>	<u>(1,137,368)</u>
Deductions				
Retirement Allowance Payments	858,383	389,856	16,770	1,265,009
Return of Contributions and Death Benefits	35,510	24,965	29	60,504
Unit Withdrawals	-	8,388	-	8,388
Transfers to Employees' Retirement System	2,091	-	-	2,091
Transfers to Teachers' Retirement System	-	1,937	-	1,937
Transfers to Judicial Retirement Fund	-	85	-	85
Administrative Expenses	6,845	5,582	306	12,733
Depreciation	391	235	-	626
Total Deductions	<u>903,220</u>	<u>431,048</u>	<u>17,105</u>	<u>1,351,373</u>
Net Decrease	(1,646,581)	(812,300)	(29,860)	(2,488,741)
Net Assets Held in Trust for Pension Benefits:				
Beginning of Year	<u>15,814,533</u>	<u>7,236,735</u>	<u>223,169</u>	<u>23,274,437</u>
End of Year	<u>\$ 14,167,952</u>	<u>\$ 6,424,435</u>	<u>\$ 193,309</u>	<u>\$ 20,785,696</u>

RETIREMENT SYSTEMS OF ALABAMA

Financial Section

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2003

(Dollar Amounts in Thousands)

1) PLAN DESCRIPTION

The Teachers' Retirement System (TRS), Employees' Retirement System (ERS), and Judicial Retirement Fund (JRF) operate under common management and are collectively referred to as the Retirement Systems of Alabama (RSA or Systems). In addition to executive management, the TRS, ERS, and JRF share investment management, accounting, and information system services, the costs of which are allocated to the funds on an equitable basis.

The TRS, a cost-sharing multiple-employer public employee retirement plan, was established as of September 15, 1939, under the provisions of Act 419 of the Legislature of 1939 for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by State-supported educational institutions. The responsibility for the general administration and operation of the TRS is vested in its Board of Control.

The ERS, an agent multiple-employer public employee retirement plan, was established as of October 1, 1945, under the provisions of Act 515 of the Legislature of 1945. The purpose of the ERS is to provide retirement allowances and other specified benefits for State employees, State police, and on an elective basis, to all cities, counties, towns, and quasi-public organizations. The responsibility for the general administration and operation of the ERS is vested in its Board of Control.

The JRF, a cost-sharing multiple-employer public employee retirement plan, was established as of September 18, 1973, under the provisions of Act Number 1163 of the Legislature of 1973 for the purpose of providing retirement allowances and other specified benefits for any Justice of the Supreme Court of Alabama, Judge of the Court of Civil Appeals, Judge of the Court of Criminal Appeals, Judge of the Circuit Court, or office holder of any newly created judicial office receiving compensation from the State Treasury. Act Number 1205 of the Legislature of 1975 supplemented the provisions of Act Number 1163 and enlarged the scope and coverage of the JRF to include District and Probate Judges. The responsibility for the general administration and operation of the JRF is vested in the Board of Control of the ERS.

At September 30, 2003, the number of participating units in each system was as follows:

	<u>TRS</u>	<u>ERS</u>
Cities	-	260
Counties	-	64
Other Public Entities	-	461
Universities	13	-
Post-Secondary Institutions	28	-
City and County Bds of Education	128	-
State Agencies & Other	33	-
Totals	<u>202</u>	<u>785</u>

At the date of the latest actuarial valuation as presented in the Notes to the Required Supplementary Information, membership consisted of:

	<u>TRS</u>	<u>ERS</u>	<u>JRF</u>
Retirees and beneficiaries currently receiving benefits:			
General	53,552	15,214	269
State Police	-	699	-
Employees of Local Employers	-	12,074	-
Deferred Retirement Option Plan (DROP)	2,711	428	-
Terminated employees entitled to benefits but not yet receiving benefits:			
General	16,250	2,844	108
State Police	-	10	-
Employees of Local Employers	-	6,044	-
Active employees:			
General	129,617	33,358	331
State Police	-	693	-
Employees of Local Employers	-	47,494	-
Totals	<u>202,130</u>	<u>118,858</u>	<u>708</u>

State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the TRS, ERS, and JRF. Benefits for TRS and ERS members vest after 10 years of credited service. Teachers and state employees who retire after age 60 (52 for state police) with 10 years or more of credited service or with 25 years of service (regardless of age) are entitled to an annual retirement benefit, payable monthly for life. Local employees who retire after age 60 with 10 years or more of credited service or with 25 or 30 years of service (regardless of age), depending on the particular entity's election, are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, members of the TRS and ERS (except State Police) are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service. State Police are allowed 2.875% for each year of state police service in computing the formula method.

The JRF benefits vest from five to eighteen years. Except for justices or judges who were either

disabled, elected prior to July 30, 1979, or have at least 25 years of credited service, no justice or judge is eligible to receive judicial service retirement pay prior to attaining sixty years of age. Service retirement benefits for justices and judges are dependent upon the particular office held in the judicial branch of government. A retirement benefit is payable upon the request of any member who has: (1) 25 years of credited service (regardless of age), (2) completed 12 years of credited service and has attained age 65, (3) completed 15 years of credited service and whose age plus service equals or exceeds 77, (4) completed at least 18 years of credited service or three full terms as a judge or justice and has attained age 65, (5) completed 10 years of credited service and has attained age 70 or (6) been elected prior to July 30, 1979 and has 18 years of service (regardless of age). A member eligible to retire who has not requested his or her retirement benefit to commence at the end of the term in which the member's seventieth birthday occurs is entitled only to the refund of his or her contributions (except for members with at least 25 years of credited service).

The service retirement benefit for a member other than a probate judge is equal to 75% of the state-paid salary prescribed by law for the position from which the member retires. If a probate judge is paid on a

(Dollar Amounts in Thousands)

fee basis, the service retirement benefit is equal to 90% of the benefit payable to a circuit judge on the date such judge retires. If a probate judge is paid on a salary basis, the benefit is equal to 75% of the salary upon which such judge contributes immediately prior to retirement.

Covered members of the TRS and ERS (except state police and certified law enforcement, correctional officers and firemen) are required by statute to contribute 5% of earnable compensation to the TRS and ERS. State police members of the ERS contribute 10% of earnable compensation. JRF members and certified law enforcement, correctional officers, and firemen members of the TRS and ERS are required to contribute 6% of earnable compensation.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The TRS, ERS, and JRF financial statements are prepared using the accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to plan requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. The accompanying financial statements are prepared in accordance with requirements of the Governmental Accounting Standards Board (GASB). Under these requirements, the TRS, ERS, and JRF are considered component units of the State of Alabama and are included in the State's Comprehensive Annual Financial Report.

B. Investments

The Boards of Control of the Systems have the responsibility and authority to invest and reinvest available funds, through the Secretary-Treasurer and Investment Committee, in bonds, mortgage-backed securities, common and preferred stock, and other investment vehicles with the care, skill, prudence,

and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use. All plan assets are carried at fair value. Securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates. Short-term investments are reported at cost, which approximates fair value. Mortgage-backed securities are reported based on future principal and interest payments discounted at the prevailing interest rate for similar instruments. The fair value of real estate investments is based on independent appraisals. Generally, private placements are valued based on the selling price of similar investments sold in the open market. In those instances where there are no similar investments sold in the open market, an appraisal is performed to determine the fair value of the private placements.

C. Comparative Combining Statements

The basic financial statements include the prior year Combining Statement of Plan Net Assets and Combining Statement of Changes in Plan Net Assets (Statements) for comparative purposes only. Prior-year Note Disclosures are not included. Therefore, the prior year basic financial statement presentation does not meet the minimum level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, the prior year Statements should be read in conjunction with the RSA's prior year financial report from which the prior year Statements were derived.

3) LEGALLY REQUIRED RESERVES

A. Annuity Savings

Member contributions are credited to the Annuity Savings account. Interest at 4% per annum is credited to the annuity savings account of each member on the basis of the average of the beginning and end of year balances (as of June 30 for the TRS and September 30 for the ERS and JRF).

When a member withdraws from service prior to becoming vested, the member's accumulated contributions and a portion of accumulated interest

credited to the Annuity Savings account are returned to the member. The portion of accumulated interest that, by law, is not payable to the member is transferred to the Expense fund.

When a TRS or ERS member dies prior to becoming eligible for retirement, the member's accumulated contributions and accumulated interest credited to the Annuity Savings account are returned to the member's designated beneficiary. If the preretirement death benefit defined below is not payable, an additional death benefit equal to the member's accumulated contributions, up to five thousand dollars, is paid from the Pension Accumulation account to the member's beneficiary.

When a member retires or when a survivor allowance becomes payable, the amount of the member's accumulated contributions and accumulated interest is transferred from the Annuity Savings account to the Pension Accumulation account.

B. Pension Accumulation

The Pension Accumulation account is credited with contributions made by the employer and net investment income. The lump sum death benefit is paid from this account when a TRS or ERS member dies prior to becoming eligible for the preretirement death benefit or retirement. Periodic interest representing member's earnings is transferred from the Pension Accumulation account to the Annuity Savings account. When a TRS, ERS, or JRF member retires or when a survivor allowance becomes payable, the member's accumulated contributions and accumulated interest is credited to the pension accumulation account, and all monthly benefit payments are paid from this account.

C. Preretirement Death Benefit

The Preretirement Death Benefit (PRDB) account (established October 1, 1983, under the provisions of Act 616 of the Legislature of 1983) is credited with contributions made by TRS and ERS employers and investment income on such funds. The preretirement death benefit (in the form of group term life insurance) is paid in addition to the return of member

contributions upon the death of an active TRS or ERS member who has completed at least one year of active membership in the system and whose date of death was within 180 days of such member's last date of actual service. However, a surviving spouse beneficiary of a deceased member who was eligible for service retirement may elect a survivor allowance in lieu of this benefit. The pre-retirement death benefit is equal to the annual earnable compensation of the member as reported to the System for the preceding year ending June 30 for the TRS and September 30 for the ERS. There is no PRDB available for JRF members.

D. Term Life Insurance

The Alabama Teacher's Group Term Life Insurance Plan (established October 1, 1987) is credited with a portion of the employer contributions. All active contributing members of the TRS are covered by this plan. Contingent on availability of funds, upon death, a benefit is paid to the designated beneficiary of an insured member of the TRS. Beneficiaries of full-time employees receive fifteen thousand dollars while beneficiaries of part-time employees receive a pro-rated amount of fifteen thousand dollars.

E. Expense

A portion of the employer contributions and the interest not payable upon member withdrawal is credited to the Expense fund. The majority of expenses are directly identifiable as expenses of the TRS, ERS, or JRF. As discussed in Note 1, certain administrative salaries and other expenses are shared on an equitable basis between the TRS and ERS.

F. Deferred Retirement Option Plan (DROP)

The DROP was established for election to participate on or after June 1, 2002, under the provisions of Act 23 of the Legislature of 2002. Eligible members may elect to retire, and, in lieu of immediate withdrawal of service, continue employment for a period of three to five years. The retirement allowance, employee contributions, and interest earned are accumulated in an account for the benefit of the member. At the end of participation, the account balance is paid to the

RETIREMENT SYSTEMS OF ALABAMA

Financial Section

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2003

(Dollar Amounts in Thousands)

member. DROP participation is an option available to eligible members that have at least twenty-five years of service (exclusive of sick leave), are at least

fifty-five years of age, and are eligible for service retirement. See the actuarial section for additional information.

G. Reserves

The reserves of the RSA are funded to the full extent required by statute. The reserve balances as of September 30, 2003, are as follows:

	<u>TRS</u>	<u>ERS</u>	<u>JRF</u>
Annuity Savings	\$ 2,720,928	\$ 1,484,794	\$ 25,012
Pension Accumulation	12,824,494	5,691,735	181,136
Preretirement Death Benefit	9,636	15,257	-
Term Life Insurance	10,870	-	-
Deferred Retirement Option Plan	102,902	26,978	-
Expense	14,027	1,931	523

4) CASH

Cash consists of deposits held by the State Treasurer in the respective retirement system's name and is fully insured or collateralized with collateral held by the State Treasurer or the State Treasurer's agent in the name of the State Treasurer. Virtually all cash on hand at September 30 was restricted for administrative purposes.

5) INVESTMENTS

A. Investment Credit Risk

The investments of the TRS, ERS, and JRF are summarized in the following tables by type of investment and are categorized based on the level of custodial credit risk. Investments that are insured, registered in the name of the respective retirement system, held by the system, the systems' safekeeping agent in the systems' name, or the State Treasurer in the systems' name are listed in the RSA column. Those investments that are uninsured, unregistered, and held by the broker, dealer, or the respective retirement systems' safekeeping agent, but not in the respective retirement systems' name, are shown in the Agent column. Fair value and cost are shown for each type of investment.

**INVESTMENT CREDIT RISK
TRS**

	<u>At Fair Value</u>			<u>Cost</u>
	<u>RSA</u>	<u>Agent</u>	<u>Total</u>	
<u>Investments Categorized</u>				
<i>From Investing Activities</i>				
Commercial Paper	\$ -	\$ 393,041	\$ 393,041	\$ 393,041
U.S. Government Guaranteed Bonds	41,203	-	41,203	40,328
U.S. Agency Securities	635,478	-	635,478	624,732
Mortgage-backed Securities	168,075	-	168,075	154,019
Domestic Corporate Bonds	2,055,777	-	2,055,777	2,033,897
Domestic Common and Preferred Stocks	6,762,794	-	6,762,794	6,125,196
International Securities	-	1,428,851	1,428,851	1,622,189
Totals From Investing Activities	<u>9,663,327</u>	<u>1,821,892</u>	<u>11,485,219</u>	<u>10,993,402</u>
<i>From Securities Lending Activities</i>				
Repurchase Agreements	-	2,505	2,505	2,505
Total Investments Categorized	<u>\$ 9,663,327</u>	<u>\$ 1,824,397</u>	<u>11,487,724</u>	<u>10,995,907</u>
<u>Investments Not Categorized</u>				
<i>From Investing Activities</i>				
Securities Lent Under Securities Lending for Cash Collateral				
Domestic Corporate Bonds			2,190	2,190
International Securities			251	251
Mutual and Money Market Funds			440,011	440,011
Private Placements			2,607,125	3,010,804
Real Estate			940,122	509,035
Totals From Investing Activities			<u>3,989,699</u>	<u>3,962,291</u>
Total Investments			15,477,423	14,958,198
Less Securities Purchased with Securities Lending Cash Collateral			<u>(2,505)</u>	<u>(2,505)</u>
Total Investments per Statement of Plan Net Assets			<u>\$ 15,474,918</u>	<u>\$ 14,955,693</u>

RETIREMENT SYSTEMS OF ALABAMA

Financial Section

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2003

(Dollar Amounts in Thousands)

INVESTMENT CREDIT RISK
ERS

	At Fair Value			Cost
	RSA	Agent	Total	
<u>Investments Categorized</u>				
Commercial Paper	\$ -	\$ 97,611	\$ 97,611	\$ 97,611
U.S. Government Guaranteed Bonds	20,352	-	20,352	19,920
U.S. Agency Securities	282,730	-	282,730	276,198
Mortgage-backed Securities	66,067	-	66,067	60,623
Domestic Corporate Bonds	906,236	-	906,236	898,320
Domestic Common and Preferred Stocks	3,285,094	-	3,285,094	3,030,091
International Securities	-	635,563	635,563	710,310
Totals Investments Categorized	<u>\$ 4,560,479</u>	<u>\$ 733,174</u>	<u>5,293,653</u>	<u>5,093,073</u>
<u>Investments Not Categorized</u>				
Money Market and Mutual Funds			141,835	141,835
Private Placements			1,238,615	1,439,821
Real Estate			454,569	253,111
Total Investments Not Categorized			<u>1,835,019</u>	<u>1,834,767</u>
Total Investments per Statement of Plan Net Assets			<u>\$ 7,128,672</u>	<u>\$ 6,927,840</u>

INVESTMENT CREDIT RISK
JRF

	<u>At Fair Value</u>			<u>Cost</u>
	<u>RSA</u>	<u>Agent</u>	<u>Total</u>	
<u>Investments Categorized</u>				
Commercial Paper	\$ -	\$ 2,078	\$ 2,078	\$ 2,078
U.S. Agency Securities	18,610		18,610	18,277
Mortgage-backed Securities	1,037		1,037	966
Domestic Corporate Bonds	46,540		46,540	54,794
Domestic Common and Preferred Stocks	107,209	-	107,209	73,657
Total Investments Categorized	<u>\$ 173,396</u>	<u>\$ 2,078</u>	175,474	<u>149,772</u>
<u>Investments Not Categorized</u>				
Money Market and Mutual Funds			8,405	8,405
Private Placements			17,902	19,747
Real Estate			2,227	892
Total Investments Not Categorized			<u>28,534</u>	<u>29,044</u>
Total Investments per Statement of Net Assets			<u>\$ 204,008</u>	<u>\$ 178,816</u>

B. Concentration of Investments

As of September 30, 2003, the TRS and ERS owned debt and equity securities of Raycom Media Corporation, which represented approximately 8.2% and 11.6%, respectively, of the net assets held in trust for pension benefits. Also, the TRS and ERS owned debt and equity securities of Community News Corporation, which represented approximately 7.5% and 6.3%, respectively, of the net assets held in trust for pension benefits. As of September 30, 2003, JRF owned debt securities in Texas Utilities Electric, which represented 5.1% of the net assets held in trust for pension benefits.

C. Securities Lending Program

The TRS, ERS, and JRF are authorized by the Boards of Control to participate in a securities lending program. The Systems' custodian, J P Morgan Chase and Company, administers the program. Certain securities from the TRS, ERS, and JRF are loaned to borrowers approved by the Systems. Approved

borrowers of securities provide acceptable collateral in the form of cash, U.S. Treasury securities, or U.S. Government Agency securities. All security loans are open loans and can be terminated on demand by the TRS, ERS, JRF, or borrower. At the inception of each loan, collateral must be provided in the amount of 105% and 102% of the fair value of the loaned securities for international and U. S. equity securities, respectively. Subsequently, collateral for each loan is allowed to fluctuate between the initial required percentage and 100% of the fair value of the loaned securities. If the fair value of the collateral falls below 100% of the fair value of the loaned securities, additional collateral is required to restore the collateralized amount to the initial required collateralization. All collateral remains in the exclusive possession of the Systems' custodial agent who is responsible for marking the collateral to fair value each day and ensuring that the loaned securities are properly collateralized at all times.

The TRS, ERS, and JRF cannot pledge or sell collateral securities received unless the borrower defaults. Therefore, securities lent that are collateralized by other securities are categorized in the investment credit risk table based on how the

(Dollar Amounts in Thousands)

collateral received is held. The securities received as collateral are not categorized since these securities cannot be sold or pledged without borrower default.

Cash collateral is invested in a dedicated short-term investment fund in the respective systems' name using investment guidelines provided by the TRS, ERS, and JRF.

As a result, the securities purchased with cash collateral are categorized in the investment credit risk tables based on how they are held. The securities lent are included in the investment credit risk tables in the "Investments Not Categorized" section of the table. As of September 30, 2003, the cash collateral investments had a weighted-average maturity of 1 day for the TRS. Also, the average term of the loans was 1 day for the TRS. As of September 30, 2003, the ERS and JRF did not have any outstanding balances related to securities lending. There is no direct matching of the maturities of the loans with the investments made with cash collateral.

At September 30, 2003, the fair value of the securities on loan was \$2,441 for the TRS. The fair value of the collateral pledged by the borrowers was \$2,505 for the TRS. Since the amounts owed by the TRS exceeded the amounts the borrowers owed to the TRS, there was no credit risk exposure as of September 30, 2003. There were no significant violations of legal or contractual provisions, no borrower or lending agent default losses, and no recoveries of prior period losses during the year.

D. Mortgage-backed Securities

The Systems periodically invest in mortgage-backed securities to improve yield and adjust the duration of the Systems' fixed income portfolio. These securities are subject to change in fair value due to changes in interest rates. Credit risk (the risk that the counterparty might be unable to meet its obligations) results from the same considerations as other counterparty risk assumed by the Systems.

6) FUNDING STATUS AND PROGRESS

State law provides that the Boards of Control engage an actuary to prepare an annual valuation of the assets and liabilities of the various reserve funds. Under the provisions of GASB Statement No. 25, *Financial Reporting for Defined Benefit Plans and Note Disclosures for Defined Contribution Plans*, the actuary determines the "unfunded actuarial liability." The "unfunded actuarial liability" is the difference between the actuarial value of assets and the actuarial accrued liability.

Significant actuarial assumptions used and results from the most recent actuarial valuations are presented in the "Notes to the Required Supplementary Information."

7) CONTRIBUTIONS REQUIRED AND MADE

The actuary has computed, as of the date of the latest available actuarial valuation (June 30, 2003, for the TRS and September 30, 2002, for the ERS and JRF), the estimated present value of benefits payable to retired members, beneficiaries, and active members. The actuarial valuations for the TRS and ERS are prepared using the entry age method, while the JRF valuation utilized the projected unit credit method. The present value of all expected benefits payable from each system to the present group of members and beneficiaries is calculated by adding the present value of the expected benefits payable to the active members to the present value of the expected future payments to retired members and beneficiaries.

As required by statute, the TRS, ERS, and JRF provide for employer contributions at actuarially determined rates (expressed as percentages of annual covered payroll) that accumulate sufficient assets to pay benefits when due. The employer contributions required to support the benefits of each system are determined following a level funding approach and consist of a normal contribution, an accrued liability contribution, and a portion to finance administrative costs.

For the TRS and ERS, the normal contribution is determined using the "entry age normal" method.

Under this method, a calculation is made to determine the uniform and constant percentage rate of employer contributions which, if applied to the compensation of the average new member during the entire period of the member's anticipated covered service, would be required in addition to the contributions of the member to meet the cost of all benefits payable on the member's behalf.

For the JRF, the normal contribution is determined using the "projected accrued benefit" (unit-credit) method. Under this method, the benefits of each individual included in an actuarial valuation are allocated by a consistent formula to valuation years. The actuarial gains (losses), as they occur, generally reduce (increase) the unfunded actuarial accrued liability.

The 2003 retirement contributions were made in accordance with actuarially determined contribution requirements.

8) PROPERTY AND EQUIPMENT

Plan assets used in plan operations are reported at historical cost less accumulated depreciation. Depreciation is determined on the straight-line basis using estimated useful lives of 30 years for buildings and 3 to 10 years for furniture and equipment.

Property and equipment was comprised of the following amounts as of September 30, 2003:

	<u>TRS</u>	<u>ERS</u>
Land	\$ 691	\$ 499
Building and Improvements	4,678	3,405
Furniture and Equipment	<u>2,085</u>	<u>1,249</u>
Total Property and Equipment	7,454	5,153
Less Accum Depreciation	<u>(4,691)</u>	<u>(3,036)</u>
Net Property and Equipment	<u>\$ 2,763</u>	<u>\$ 2,117</u>

9) OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 1, the TRS, ERS, and JRF (as agencies of the State of Alabama) participate in the State Employees' Health Insurance Plan (SEHIP).

The SEHIP provides postretirement health care benefits, in accordance with State statute, to all TRS, ERS, and JRF employees who retire with a retirement benefit payable from the TRS, ERS, or JRF. The SEHIP provides a fixed amount equal to the Medicare eligible premium (presently one hundred ten dollars per month) for each retiree. Those retirees who are not Medicare eligible must pay the difference to maintain the insurance. Under the SEHIP statute, the fixed amount per month per retiree is funded on a pay-as-you-go basis through the premiums each agency pays for its active employees. During the fiscal year 2003, the estimated portion of health insurance premiums paid and included in administrative expense by the TRS, ERS, and JRF on behalf of retirees was \$78, \$66, and \$1, respectively.

10) PENSION PLAN FOR RSA EMPLOYEES

A portion of the RSA employees participates in the TRS pension plan, which is a cost sharing plan, and a portion of the RSA employees participates in the ERS pension plan, which is an agent multiple-employer pension plan. As a component unit, RSA employees participating in the ERS pension plan are valued with all other State of Alabama employees, and therefore, report under the requirements of a cost sharing unit.

Contributions were made to each plan in accordance with actuarially determined contribution requirements.

RETIREMENT SYSTEMS OF ALABAMA

Financial Section

Notes to the Financial Statements

For the Fiscal Year Ended September 30, 2003

(Dollar Amounts in Thousands)

A schedule of Employer Contributions is shown below:

	<u>Fiscal Year Ended</u>	<u>Annual Required Contributions</u>	<u>Percentage Contributed</u>
TRS	2003	\$ 313	100
	2002	345	100
	2001	326	100
ERS	2003	178	100
	2002	160	100
	2001	140	100

11) TREND INFORMATION

The schedules of funding progress and employer contributions, as required by GASB Statement No. 25, are presented in the Required Supplementary Information section.

12) RELATED PARTY TRANSACTIONS

The TRS and ERS jointly own office buildings in Montgomery and lease office space to agencies of the State of Alabama. These agencies are obligated to the TRS and ERS to lease space for varying terms through the year 2012. Rental payments (reported as investment income) from leases with state agencies totaled \$14,809 during the 2003 fiscal year.

(Dollar Amounts in Thousands)

1) CONTRIBUTIONS

Contributions were made in accordance with actuarially determined contribution requirements. The employer cost rate expressed as a percent of payroll is determined annually by reviewing a variety of factors including benefits promised, member contributions, investment earnings, mortality, and withdrawal experience.

The employer cost rates for the fiscal year 2003-2004 are 6.56% for the TRS, 4.19% for the ERS - State Employees, 13.87% for the ERS - State Police and 21.93% for the JRF. Local agency rates differ for each agency.

2) ANALYSIS OF FUNDING PROGRESS

Analysis of the dollar amounts of the actuarial value of assets, the actuarial accrued liability, and the unfunded actuarial accrued liability in isolation may be misleading.

Expressing the actuarial value of assets as a percentage of the actuarial accrued liability provides one indication of the respective retirement system's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the respective system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the respective retirement system. Trends in the unfunded actuarial accrued liability and the annual covered payroll are both affected by inflation.

Expressing the unfunded actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the respective retirement system's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the respective retirement system.

The following schedules provide information concerning funding progress, employer contributions, and actuarial assumptions.

RETIREMENT SYSTEMS OF ALABAMA

Financial Section

Required Supplementary Information

For the Fiscal Year Ended September 30, 2003

(Dollar Amounts in Thousands)

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded/ (Overfunded) AAL (UAAL)	Percentage Funded (A/B)	Annual Covered Payroll (C)	UAAL as a % of Covered Payroll ((B-A)/C)
	(A)	(B)	(B-A)			((B-A)/C)
TRS						
06/30/2003	\$18,110,470	\$ 19,357,735	\$ 1,247,265	93.6	\$4,632,611	26.9
06/30/2002	17,904,881	18,374,174	469,293	97.4	4,379,183	10.7
06/30/2001	17,475,298	17,238,616	(236,682)	101.4	4,305,080	(5.5)
06/30/2000	16,703,929	16,291,462	(412,467)	102.5	4,131,904	(10.0)
06/30/1999	15,642,066	15,568,192	(73,874)	100.5	3,964,112	(1.9)
06/30/1998	14,533,824	14,601,426	67,602	99.5	3,937,739	1.7
ERS						
09/30/2002	8,100,846	8,493,469	392,623	95.4	2,547,775	15.4
09/30/2001	8,028,471	8,010,123	(18,348)	100.2	2,408,543	(0.8)
09/30/2000	7,769,122	7,403,968	(365,154)	104.9	2,278,637	(16.0)
09/30/1999	7,302,046	6,884,355	(417,691)	106.1	2,159,608	(19.3)
09/30/1998	6,888,446	6,564,079	(324,367)	104.9	2,061,104	(15.7)
09/30/1997	6,463,795	5,818,097	(645,698)	111.1	1,970,922	(32.8)
JRF						
09/30/2002	245,425	289,858	44,433	84.7	39,763	111.7
09/30/2001	245,705	289,044	43,339	85.0	38,694	112.0
09/30/2000	239,023	268,598	29,575	89.0	40,325	73.3
09/30/1999	221,926	263,491	41,565	84.2	40,499	102.6
09/30/1998	210,116	246,177	36,061	85.4	39,060	92.3
09/30/1997	198,014	190,572	(7,442)	103.9	30,742	(24.2)

See Notes to the Required Supplementary Information .

SCHEDULE OF EMPLOYER CONTRIBUTIONS

<u>Fiscal Year</u> <u>Ended</u>	<u>Annual Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>
TRS		
09/30/2003	\$ 235,786	100
09/30/2002	265,670	100
09/30/2001	279,880	100
09/30/2000	277,180	100
09/30/1999	166,100	100
09/30/1998	358,088	100
ERS		
09/30/2003	154,218	100
09/30/2002	123,887	100
09/30/2001	122,483	100
09/30/2000	113,991	100
09/30/1999	97,373	100
09/30/1998	157,246	100
JRF		
09/30/2003	8,637	100
09/30/2002	8,222	100
09/30/2001	7,598	100
09/30/2000	5,696	100
09/30/1999	2,870	100
09/30/1998	5,417	100

See Notes to the Required Supplementary Information .

RETIREMENT SYSTEMS OF ALABAMA

Financial Section

Notes to the Required Supplementary Information
For the Fiscal Year Ended September 30, 2003

ACTUARIAL ASSUMPTIONS

	TRS	ERS	JRF
Valuation date	June 30, 2003	September 30, 2002	September 30, 2002
Actuarial cost method	Entry age	Entry age	Projected unit credit
Asset valuation method	5-year market related value	5-year smoothed market	5-year smoothed market
Amortization method	Level percent open	Level percent open	Level percent open
Remaining amortization period including cost of living †	10 years	Within 40 years - varies by employer	20 years
Actuarial assumptions:			
Investment rate of return ‡	8%	8%	8%
Future salary increases ‡	5.00%-7.75%	4.61%-7.75%	5%
Cost of living increases	None	None	None

† The State of Alabama has restrictions on the length of the amortization period. The remaining amortization period for the ERS, excluding COLAS, is between 10 and 20 years (varies by employers).

‡ Includes inflation at 4.5%.

RETIREMENT SYSTEMS OF ALABAMA

Financial Section

Schedule of Administrative Expenses

For the Fiscal Year Ended September 30, 2003

(Amounts in Thousands)

	<u>Teachers' Retirement System</u>	<u>Employees' Retirement System</u>	<u>Judicial Retirement Fund</u>	<u>Totals</u>
Personal Services:				
Salaries	\$ 3,650	\$ 2,996	\$ 268	\$ 6,914
Employee Fringe Benefits	748	716	36	1,500
Total Personal Services	<u>4,398</u>	<u>3,712</u>	<u>304</u>	<u>8,414</u>
Professional Services:				
Actuarial	103	271	6	380
Accounting	30	29	11	70
Information Technology	209	202	-	411
Education & Training	15	7	-	22
Mailing Services	131	96	-	227
Legal Services	-	38	-	38
Personnel Services	34	-	-	34
Other Professional Services and Fees	22	13	-	35
Total Professional Services	<u>544</u>	<u>656</u>	<u>17</u>	<u>1,217</u>
Communication:				
Telephone	63	34	-	97
Telecommunication Lines	39	29	-	68
Postage	810	627	-	1,437
Travel	73	78	1	152
Total Communication	<u>985</u>	<u>768</u>	<u>1</u>	<u>1,754</u>
Rentals:				
Office Space	262	262	-	524
Equipment Leasing	29	27	-	56
Total Rentals	<u>291</u>	<u>289</u>	<u>-</u>	<u>580</u>
Miscellaneous:				
Supplies	686	382	-	1,068
Maintenance	107	36	-	143
Total Miscellaneous	<u>793</u>	<u>418</u>	<u>-</u>	<u>1,211</u>
Total Administrative Expenses	<u>\$ 7,011</u>	<u>\$ 5,843</u>	<u>\$ 322</u>	<u>\$ 13,176</u>

RETIREMENT SYSTEMS OF ALABAMA

Financial Section

Schedule of Investment Expenses

For the Fiscal Year Ended September 30, 2003

(Amounts in Thousands)

	<u>Teachers' Retirement System</u>	<u>Employees' Retirement System</u>	<u>Judicial Retirement Fund</u>	<u>Totals</u>
<i>Investment Activity</i>				
Investment Management Fees:				
Salaries and Benefits	\$ 3,420	\$ 1,834	\$ -	\$ 5,254
Dues and Subscriptions	337	220	-	557
Travel	32	3	-	35
Professional Services:				
Investment Advisor	60	30	-	90
Investment Custodian	522	252	28	802
Real Estate Appraisal	61	41	-	102
Total Investment Activity Expenses	<u>4,432</u>	<u>2,380</u>	<u>28</u>	<u>6,840</u>
<i>Securities Lending Activity</i>				
Securities Lending Borrower Rebates	10,052	2,131	50	12,233
Securities Lending Management Fees	832	266	2	1,100
Total Securities Lending Activity Expenses	<u>10,884</u>	<u>2,397</u>	<u>52</u>	<u>13,333</u>
Total Investment Expense	<u>\$ 15,316</u>	<u>\$ 4,777</u>	<u>\$ 80</u>	<u>\$ 20,173</u>

RETIREMENT SYSTEMS OF ALABAMA

Financial Section

Schedule of Professional/Consultant Fees
For the Fiscal Year Ended September 30, 2003

(Amounts in Thousands)

<u>Professional/Consultant</u>	<u>Nature of Service</u>	<u>Teachers' Retirement System</u>	<u>Employees' Retirement System</u>	<u>Judicial Retirement Fund</u>	<u>Totals</u>
Mellon	Actuary	\$ 62	\$ 230	\$ 6	\$ 298
Milliman USA, Inc	Actuary	41	41	-	82
KPMG	Auditor	25	25	11	61
Crum Defense Escrow Account	Legal	-	38	-	38
Applied Information Sciences	Information Technology	182	200	-	382
Auburn University Montgomery	Information Technology	20	-	-	20
Action in Mailing	Mail	100	89	-	189
Finance Mail & Supply	Mail	42	14	-	56
State Personnel Department	Personnel	34	-	-	34
Various	Other	38	19	-	57
Total Professional/Consultant Fees-Admin Services		544	656	17	1,217
AmSouth Bank	Investment Advisor	60	30	-	90
J P Morgan Chase Bank	Investment Custodial	522	252	28	802
Houlihan, Lokey, Zukin Fin. Advisors	Real Estate Appraisor	61	41	-	102
Total Professional/Consultant Fees-Investment Services		643	323	28	994
Total Professional/Consultant Fees		\$ 1,187	\$ 979	\$ 45	\$ 2,211



INVESTMENT SECTION

RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Report on Investment Activity

For the Fiscal Year Ended September 30, 2003

Dear Members,

I am pleased to present the following report on investment activity for the fiscal year ended September 30, 2003. The report provides highlights on investments in general as well as specific information on the Retirement System's investment activity for the fiscal year. Investment data presented in the investment section of this report were prepared using AIMR performance presentation standards.

After three long years in the grasp of the bear, the financial markets managed to claw their way back to positive returns virtually across the board in 2003. The economy, which had muddled along the past three years with the help of the omnipresent consumer, finally broke free with the return of corporate capital expenditures and increased government spending.

The big question now is what kind of sustainability can we expect in this economic rebound. With the equity markets having posted sizeable gains the past twelve months, and bond rates at extremely low levels, a lot has to go right this year to expect another year of outsized gains in the financial markets. This is an election year, so one should expect that government spending and tax incentives will lend a helping hand. Inflation continues to remain in check, so rising short-term rates are not a problem in the near term.

However, there are several existing hurdles that can derail the continued expansion of the economy. Obviously, the continued threat of a significant terrorist attack could cause a retraction by the consumer. Oil prices have unabatedly stayed high, acting as a tax on both consumers and corporations. Healthcare inflation and pension issues continue to strain the pocketbooks of corporate America. Lastly, the twin trade and budget deficits that have expanded rapidly the past couple of years need to be addressed, which will stress the economy and financial markets.

With that in mind, we feel a more normalized range of returns can be expected in the coming years. Presently, we foresee no sizeable changes to the current asset allocation. One area of interest that we are considering is expanding the size of the international equity portfolio as opportunities arise. We will continue to demand the best execution from all our financial counterparts, and will strive to produce results that strengthen the Retirement Systems of Alabama (RSA).

RSA Performance Summary

Fiscal year 2003 was a much better year for the RSA than the previous three fiscal years. A confluence of factors contributed to the breakout in the economy and rebound in corporate profits, and those are addressed in the following fixed income and equity activity sections.

As of September 30, 2003, aggregate defined benefit assets under management totaled \$22.8 billion. During fiscal year 2003, annualized total returns of the Teachers' Retirement System (TRS), Employees' Retirement System (ERS), and Judicial Retirement Fund (JRF) were 15.98%, 16.48% and 11.70%, respectively. Positive contributors to fund performance were found in most every asset class, with airline debt being the biggest drag as the major airlines continued to struggle under weak pricing and lighter load numbers. Equity outperformance was seen in both of the active funds as well as the international fund. The fixed income portion benefited from the narrowing of spreads in the corporate heavy portfolio.

Fixed Income

Fiscal year 2003 began with very little optimism regarding financial markets. Toward the end of fiscal year 2002, equities had encountered another sizable pullback, while interest rates continued to tumble. The theme throughout 2002 seemed to have been investors' inherent risk aversion. While large, stable names continued to outperform within the corporate bond market, higher yielding credits with liquidity concerns were quickly shut out of the capital markets. During this time, economic numbers were weak, consumer confidence was eroding, and the employment picture did not look good. However, near the end of September, Greenspan and the Federal Reserve left short-term interest rates steady at 1.75%.

A few weeks into the new fiscal year, third-quarter GDP was released showing growth at a rate of 3.1%. While there were few surprises in companies' third quarter of 2002 numbers, information regarding future prospects was well received. In response, stocks rallied considerably off their lows and rates started drifting higher. In what we believed to be a measure taken to ensure a stable recovery, the Fed stepped in and delivered a 50 basis point cut in early November. Unfortunately, unemployment continued to rise, and window-dressing from portfolio managers sent equity markets and treasury yields lower throughout the end of the year. However, if one were to read between the lines, high yield credits posted a 6.5% return in the fourth quarter, a sign that investors were slightly more comfortable in taking on risk. This was a pretty sharp reversal from the previous two quarters when this asset class lost 10%.

During the first weeks of the new calendar year, the January effect helped stocks recoup nearly all of December's losses. However, these gains were once again taken away as investors began to focus on the administration's next battle in the "war against terrorism". So as the showdown with Iraq became inevitable, market participants sought refuge in government securities, sending yields lower. At the time, government securities had outperformed all other asset classes for three years in a row, as real yields fell 250 basis points. The question in our minds was "when will investors shun risk-free securities in favor of risky assets for an extended amount of time?" Even though the success of the Iraqi invasion can be debated for years to come, once the long-standing Hussein regime was ousted, stocks and high yield bonds have taken off and not looked back.

As late spring and early summer rolled in, rates continued to be depressed with the Fed's main concern being deflation. In its June meeting, the Federal Reserve lowered the fed funds rate by a quarter-point, its 13th move in a little more than two years. However, in the following months, we saw tremendous selling within the fixed income market, with corporates and treasuries posting their worst returns in two decades. The two main culprits for this fixed income sell-off were better expectations for an economic recovery and volatility within the mortgage market. Over the last couple of years, the bond market has been supported by fund inflows to the detriment of stocks. So as expectations and the economy began to recover, money managers were simply selling fixed instruments to go long in the equity market. As such, managers of mortgage securities were essentially forced to sell treasuries in order to hedge themselves against duration risk, putting additional upward pressure on rates.

At the end of our fiscal year, with jobless claims reports considerably weaker than expected, the Fed announced no change was needed in monetary policy. However, they did cite that "the risk of inflation becoming undesirably low" is still a lingering concern. This news sent government yields across the maturity curve lower by 60 basis points. Currently the yield curve is steep from a historical perspective, with the spread between the 2yr and 30yr hovering around 350 basis points. Going forward, we think the curve has plenty of room to flatten, although expectations for a rate hike have been pushed back to the late first half of 2004 at the earliest. We also believe that the heavy issuance, especially from high yield names, that we have witnessed throughout 2003 will decline substantially as rates drift higher over the next year. Finally, we feel that any moves made by the Federal Reserve will not be aggressive, but rather a slow and steady process given the outlook for both employment and inflation.

In fiscal year 2003, the RSA purchased approximately \$1.35 billion in additional securities for the fixed income portfolio. As of September 30, 2003, the RSA's fixed income portfolio had a book value of \$8.13 billion, of which 13.3% is in money market securities. For the fiscal year, the total annual returns for the TRS, ERS, and JRF fixed income portfolios were 10.01%, 10.47%, and .60%, respectively, versus 5.49% for the Salomon Brothers Broad Investment Grade Index (SBBIG) and 5.41% for the Lehman Brothers Aggregate Index. The five-year annualized returns for the TRS, ERS, and JRF fixed income portfolios were 5.76%, 5.65%, and 3.59%, respectively, versus 6.63% for the SBBIG Index. The ten-year annualized returns for the TRS, ERS, and JRF fixed income portfolios were 6.92%, 6.84%, and 5.94%, respectively, versus 6.92% for the SBBIG Index.

RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Report on Investment Activity

For the Fiscal Year Ended September 30, 2003 (Continued)

Equity

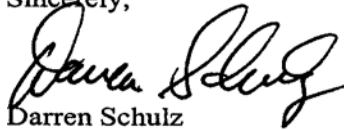
The economy continued to pick up momentum throughout the course of 2003, and that resulted in strong corporate earnings growth. The lean years of 2001 and 2002, which caused slimming down of corporate fat, resulted in huge leverage to the bottom line. Throughout most of 2003, earnings revisions were in an upward trend, resulting in strong equity returns.

After climbing a wall of worry the first two quarters of fiscal year 2003, fundamentals finally outweighed the memory of the past two years. The accounting scandals that had plagued the market took a back seat in the minds of investors. The tax cuts started to put cash back in consumer's pockets. Mortgage rates stayed at extremely low levels, allowing for the continuation of the refinancing boom. Terrorist activity subsided, and the war in Iraq, for the most part, went favorably for the United States. Inflation stayed at low levels, even in the face of higher energy prices. Companies began jumping on the dividend bandwagon, with 33% of S&P 500 companies raising their dividend by an average of 24% this year. A weakening dollar allowed for some leverage in earnings of U.S. multinational companies. Productivity gains from both better technology and continued headcount reductions allowed for significant margin expansion. Basically, several factors converged which overwhelmed the bear that had a grip on the U.S. stock market.

In review, the RSA equity allocation began the year at 40.5%, and there were two separate series of additions to equities. In January and February, roughly 2.5% was added to equities, and later in July and August another 4% was added. The year-end equity weighting for equities was roughly 50%. The difference between the numbers is the appreciation in the equity holdings. Much the same as 2002, the smaller the market capitalization, the better the performance. The S&P 500 was up 24.38%, the S&P Midcap 400 was up 26.76%, and the S&P Smallcap 600 was up 26.86%. The International equity markets followed suit in whole, with the EAFE index up 26.01%, with quite a wide range of returns within the index. In dollar terms, Japan had the largest negative impact on the portfolio, up 18.3%, but the prospects there have improved dramatically the past couple of quarters.

For the year, the RSA domestic equity portfolios increased 25.59%, 25.66%, and 24.59% for the TRS, ERS, and JRF funds, respectively, which exceeded the benchmark S&P 500 return of 24.38%. International equity returns fared slightly better, returning 26.67% and 26.73% for TRS and ERS, respectively, which exceeded the MSCI EAFE index return of 26.01%. The global equity returns for FY 2003 were 25.68%, 25.77%, and 24.55% for the TRS, ERS, and JRF, respectively. Three-, five-, and ten-year annualized global equity returns were -8.26%, 2.31%, and 8.74% for TRS, -8.25%, 2.39%, and 8.75% for ERS, and -9.14%, 1.9%, and 10.54% for JRF, respectively.

Sincerely,



Darren Schulz
Acting Director of Investments

I. Board Objectives

The Boards of Control, as Trustees of the Teachers' Retirement System and Employees' Retirement System (Systems), have full power, through each System's secretary-treasurer, to invest and reinvest System funds in accordance with the Prudent Man Rule: "with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims." Other funds currently and hereafter under the management of the Systems will be governed by this Investment Policy Statement within each System's limitations and/or by other applicable legislated restrictions.

It is the objective of the Boards that funds be invested in such a manner as to maximize the total return of each System within prudent risk parameters. Also, the Systems recognize that a stronger Alabama equates to a stronger Retirement System, and as such, investments in Alabama businesses are encouraged to the extent the investment meets the criteria delineated by this policy statement.

The long term investment performance expectations of the Systems are to achieve a return on marketable securities in excess of the actuarial investment assumption and to exceed the rate of inflation (as measured by the CPI) by 3% through investments in a broadly diversified portfolio. The performance evaluation of each System will be submitted to the respective Board on a semi-annual basis.

II. Asset Allocation

The most important aspect of any investment strategy is the decision regarding allocation of investments among the various asset classes. The purpose of formulating asset allocation guidelines is to maximize investment returns within the standards of prudence established for the whole portfolio. Accordingly, the asset allocation decisions will be predicated on the following factors:

1. The actuarial projected liability stream of benefits and their cost,
2. The perception of the prospective risks and returns of eligible asset classes, and
3. Judgments regarding future economic and financial conditions.

The maximum permissible allocation of assets in the Systems to each eligible asset class is expressed below:

A. Domestic Fixed Income

The domestic fixed income portfolio of each System may consist of any rated or non-rated debt security including, but not limited to, the following: U.S. Treasury issues, agency issues, mortgage-backed securities, corporate bonds, and privately placed debt securities. This area of investments may not exceed 70% of the market value of the aggregate portfolio of each System.

B. International Fixed Income

The international fixed income asset class may be used to provide diversification for each System and may consist of U.S. dollar denominated or foreign currency denominated fixed income obligations of sovereign countries with a rating of at least A by one of the principal rating agencies at the time of purchase or acquisition, except that up to 2 percent of the market value of each System's total portfolio may be invested in the obligations of sovereign countries with a rating of BBB or BAA by one of such agencies at the time of purchase. The Systems may hedge against the possible adverse effects of currency fluctuations on each System's portfolio of international fixed income obligations when it is considered appropriate. The market value of this asset may not exceed 10% of the market value of each System's total portfolio.

Investment Section

Investment Policies and Procedures (Continued)

For the Fiscal Year Ended September 30, 2003

C. Domestic Equity

The domestic equity portfolio of each System may consist of both actively and passively managed equity securities. Also, covered call options may be utilized in order to add incremental value to each System's equity portfolio and may be written and repurchased as market conditions warrant. The asset class may not exceed 65% of the market value of each System's aggregate portfolio.

D. International Equity

The international equity asset class may be used to provide diversification for the Systems and may consist of both actively and passively managed international equity securities. In order to be eligible for purchase by the Systems, an international equity security must be issued by a company incorporated in a country whose debt securities are eligible for investment under Section B above, and the market value of the aggregate outstanding equity of the issuing company must be at least \$100 million. Furthermore, each System may not purchase or hold more than 5 percent of any class of the outstanding stock of a company. The Systems may hedge against the possible adverse effects of currency fluctuations on each System's portfolio of international equity securities when it is considered appropriate. The aggregate market value of international equities may not exceed 15% of the aggregate market value of each System's total portfolio.

E. Real Estate

The real estate portfolio of each System may consist of office, retail, industrial, commercial, and residential housing projects. The suggested range may not exceed 10% of the book value of each System's aggregate portfolio.

F. Alternative Investments

Alternative investments may consist of, but are not limited to, mezzanine financing, LBO's, venture capital, limited partnerships, futures, commodities, and derivative investments. The asset class may not exceed 5% of the book value of each System's aggregate portfolio.

G. Short-term Investments

Short-term investments may consist of money allocated to commercial paper, rated at least A-2 and/or P-2, repurchase agreements, short-term U.S. Treasury securities and other money market investments. The primary objective of short-term investments is to provide highly liquid, low risk methods of return on funds, which have not been committed to the other aforementioned asset classes. The asset class may not exceed 20% of the market value of each System's aggregate portfolio.

Asset allocation is a dynamic process, and as such, the allocation decision should be revisited as market conditions change. In order to recognize this dynamism, the allocation targets within the recommended ranges of each asset class for the prospective quarter should be included in the quarterly strategy report.

III. Procedures

1. The investment advisor will work with the staff to develop a quarterly strategy for investments, which will be disseminated to the Boards, as it is prepared each quarter.
2. The Investment Committee of each System shall approve all investments made within the prescribed investment policy. These Investment Committees, in their approval, are considered to be signing for the respective Board of Control. If any purchase or sale is questioned by a member of the respective Investment Committee as to whether it is within given Board policy, the Board shall decide and no purchase or sale shall take place until all parties are in clear agreement that said action is or is not covered by policy.
3. Each week the secretary-treasurer of each System will send to the investment advisor the list of actual activities for written confirmation, which will then be forwarded to the respective System's Board of Control members upon receipt.
4. The staff members of the investment advisor will meet at least quarterly with members of the RSA staff and interested Boards of Control members to cover subjects of mutual interest.
5. All investment security purchases will be documented with an individual worksheet setting out the reason for the purchase, rating, market history and other general data pertinent to the decision making process.
6. An annual survey will be made of all fixed income investments held with emphasis on credit quality. A holding that has been downgraded in rating will be examined as to the reason for the downgrade and a determination should be made as to whether the security should remain in the portfolio.
7. The rules of the Securities Exchange Commission, the general policies of the Boards of Control, and the Alabama Ethics Commission shall govern the ethical conduct of employees. The RSA staff will provide the Alabama Ethics Commission with a quarterly report of all purchases and sales of any and all securities for personal accounts occurring within each reported quarter. The staff will abide by the Alabama Ethics Commission Advisory Opinion No. 673.

RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Schedule of Investment Performance

For the Fiscal Year Ended September 30, 2003

	Annualized			
	1 Year	Last 3 Years	Last 5 Years	Last 10 Years
Total Portfolio				
TRS	15.98%	0.15%	4.36%	7.65%
ERS	16.48%	-0.35%	4.12%	7.55%
JRF	11.70%	-3.24%	2.72%	7.37%
Total Domestic Equity				
TRS	25.59%	-8.29%	2.64%	9.67%
ERS	25.66%	-8.31%	2.68%	9.70%
JRF	24.59%	-9.14%	1.90%	10.54%
<i>Domestic Equity Benchmarks:</i>				
S&P 500	24.38%	-10.14%	0.98%	10.04%
Dow Jones Industrial Average	25.14%	-2.59%	5.27%	12.45%
S&P MidCap 400	26.76%	-0.74%	11.96%	12.80%
Russell 2000	36.48%	-0.82%	7.46%	8.28%
Total International Equity				
TRS	26.67%	-7.90%	1.23%	
ERS	26.73%	-7.89%	1.30%	
<i>International Equity Benchmarks:</i>				
Morgan Stanley EAFE (Unhedged)	26.01%	-8.71%	0.55%	
Total Fixed Income				
TRS	10.01%	6.83%	5.76%	6.92%
ERS	10.47%	6.49%	5.65%	6.84%
JRF	0.60%	2.85%	3.59%	5.94%
<i>Fixed Income Benchmarks:</i>				
SB Broad Investment Grade	5.49%	8.93%	6.63%	6.92%
Lehman Bros. Aggregate	5.41%	8.94%	6.63%	6.92%

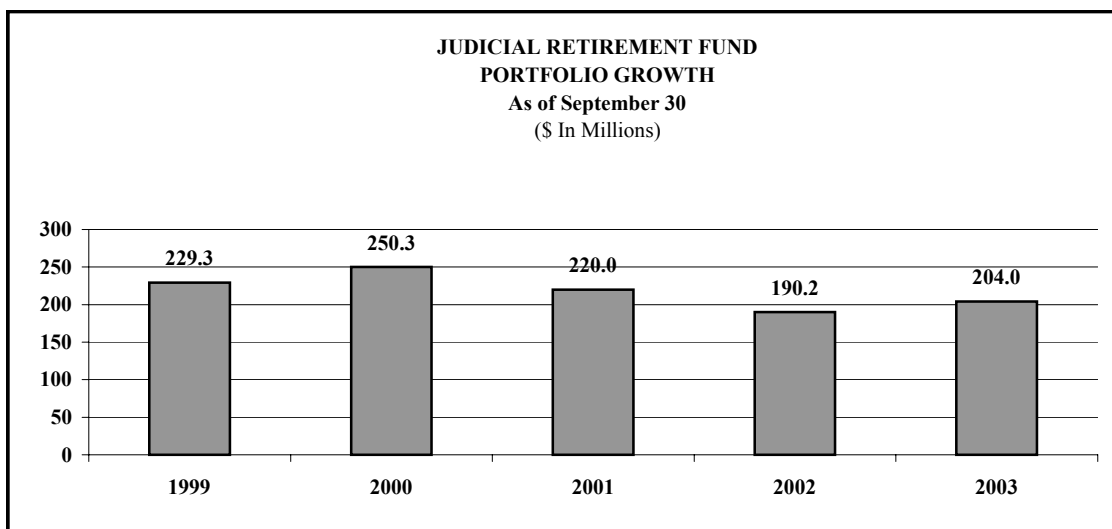
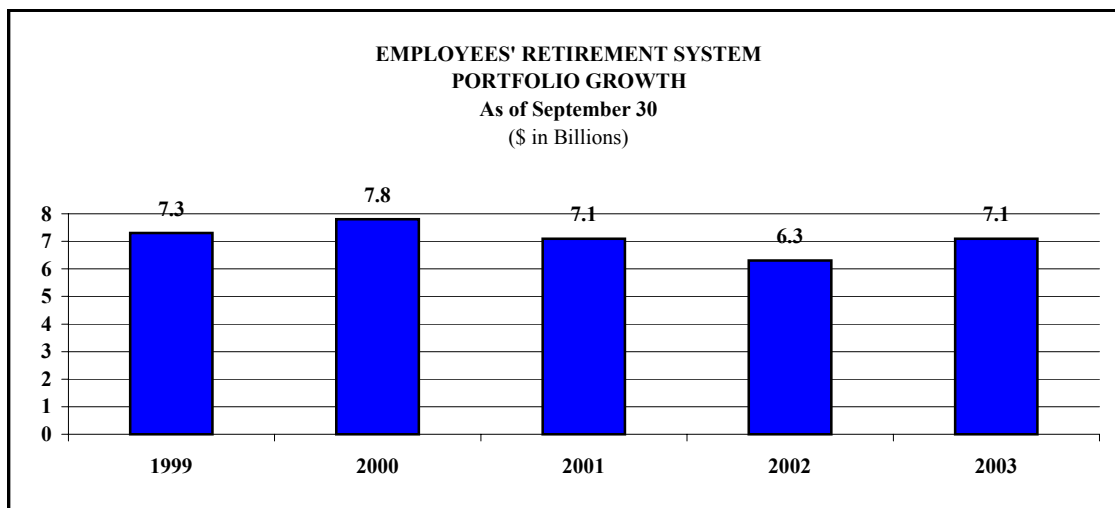
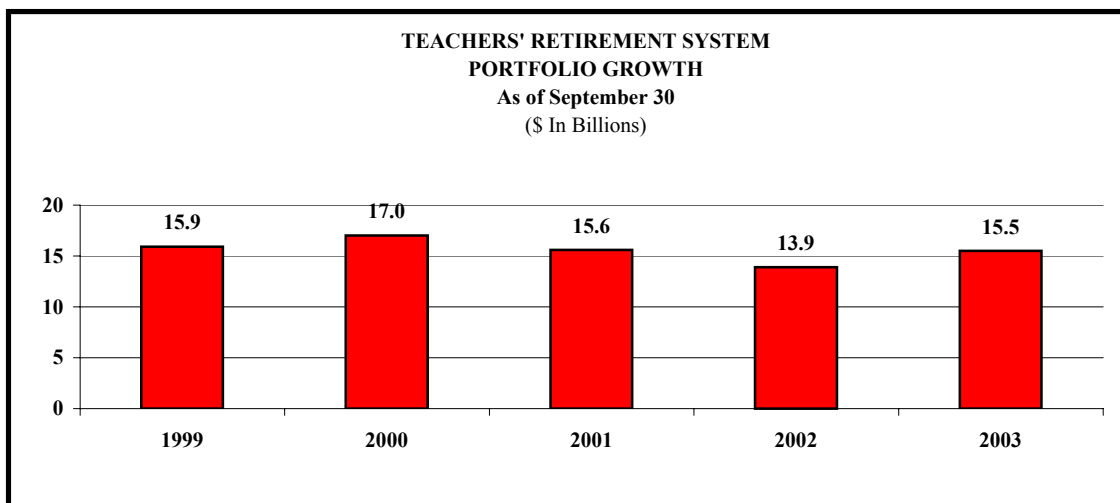
Investment return calculations were prepared using a time-weighted rate of return based on AIMR's performance presentation standards.

RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Portfolio Growth

Five-Year Comparison

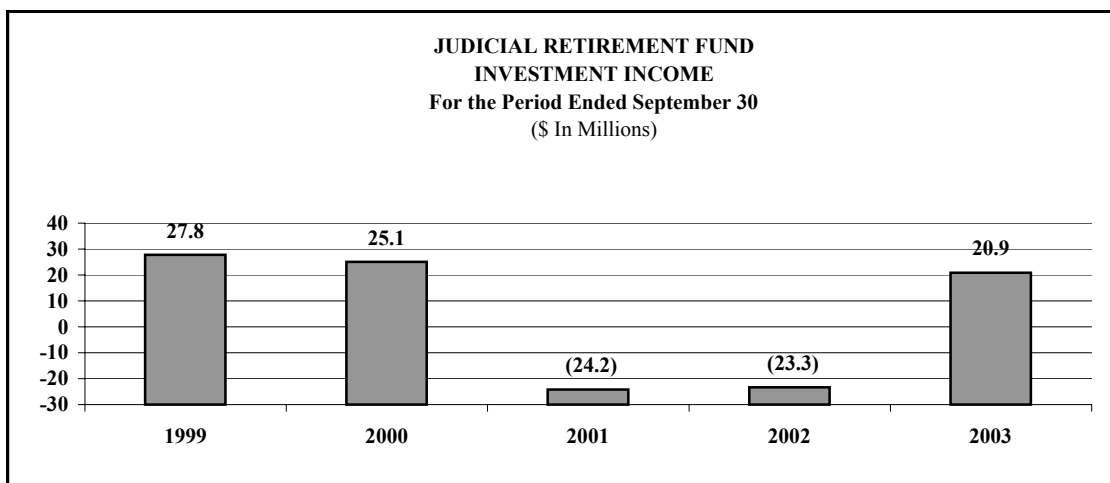
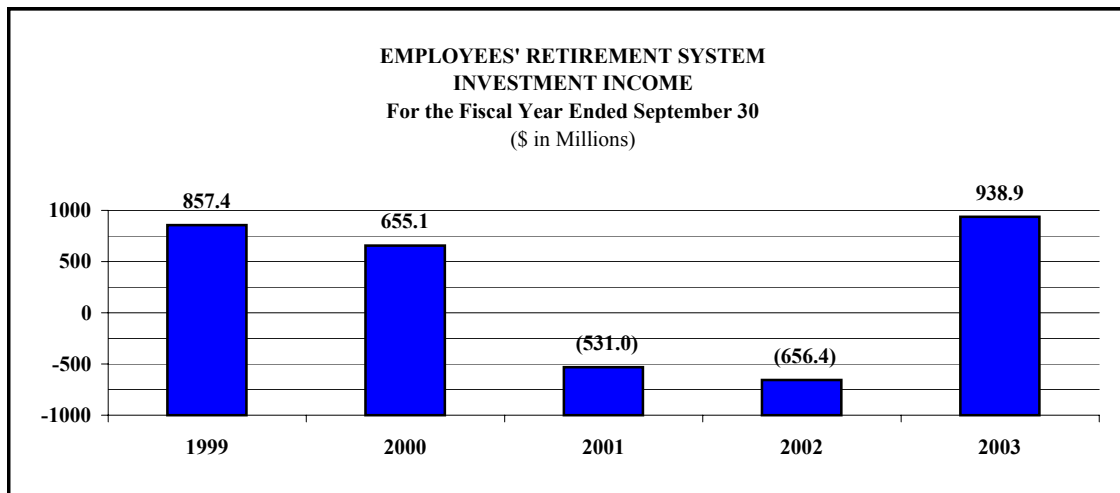
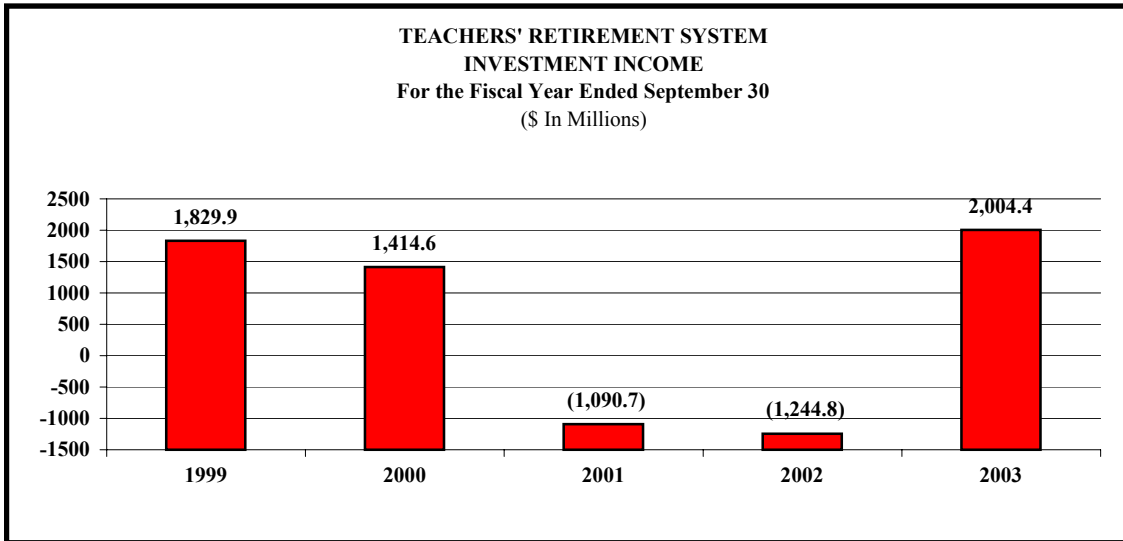


RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Investment Income

Five-Year Comparison

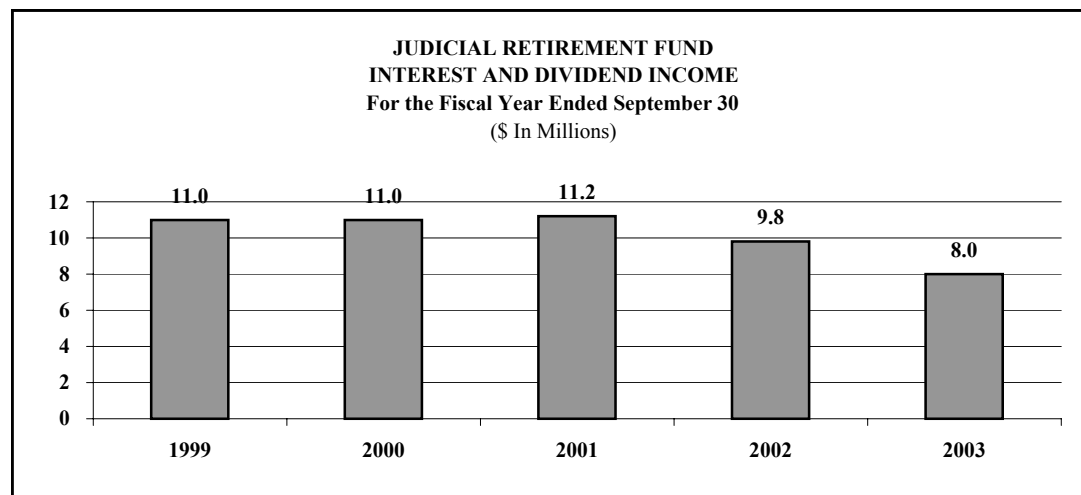
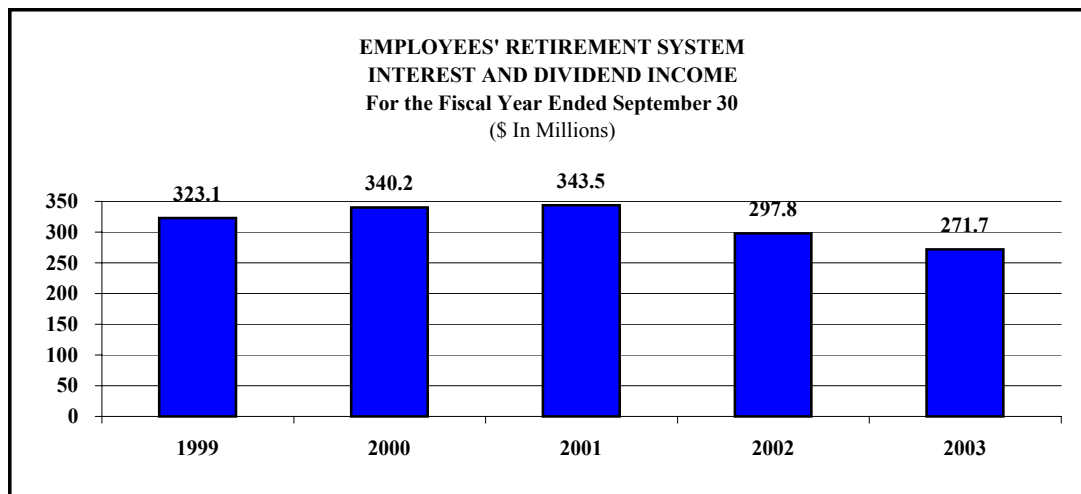
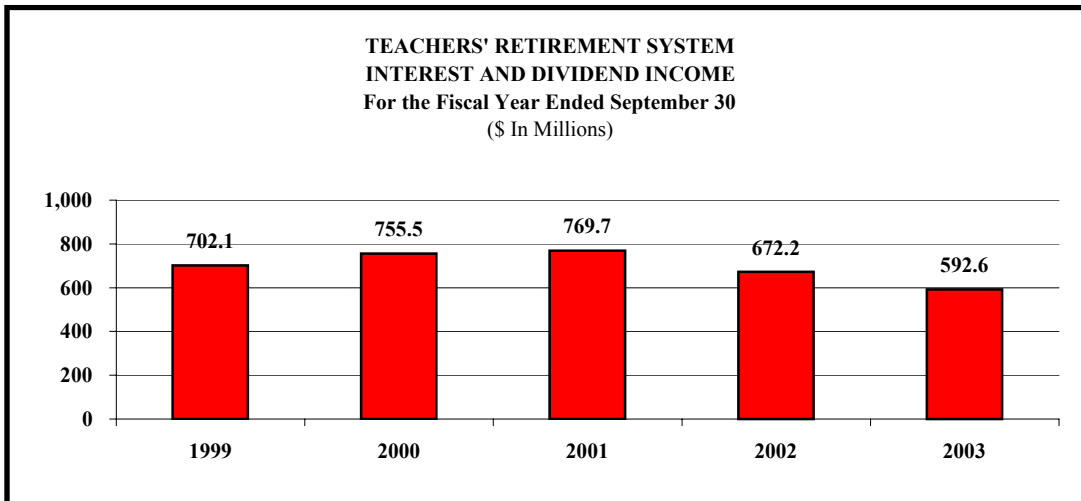


RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Interest and Dividends

Five-Year Comparison

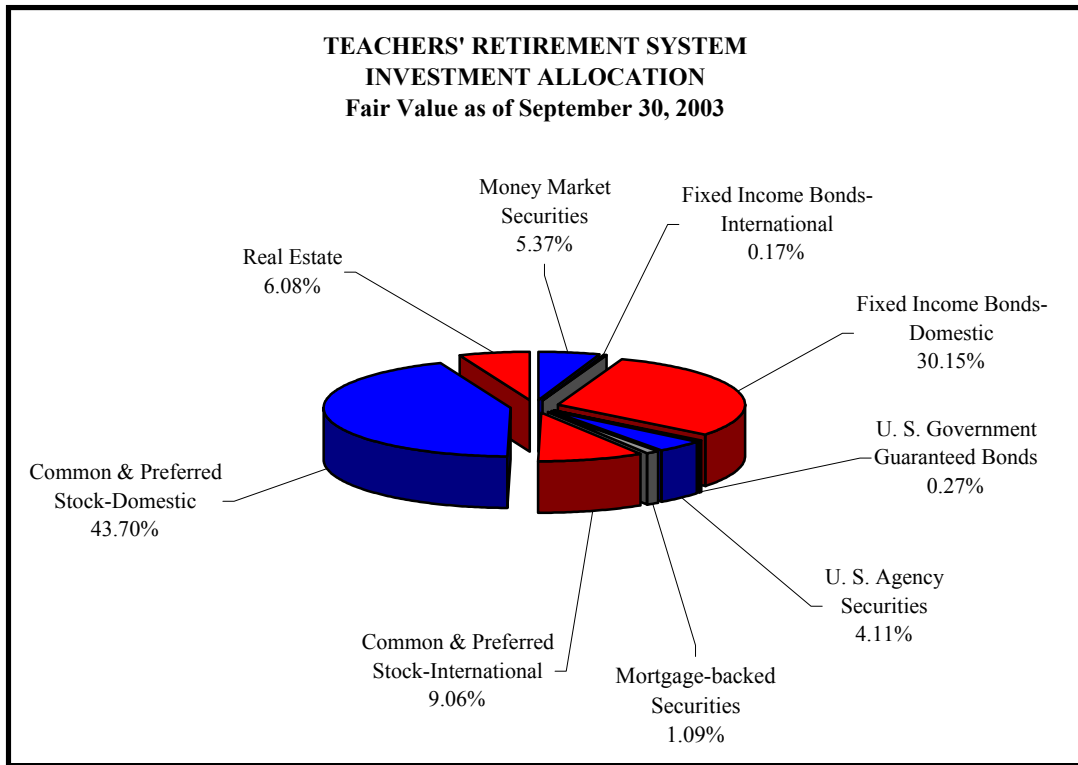


RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Teachers' Retirement System

Investment Allocation and Summary



**TEACHERS' RETIREMENT SYTEM
INVESTMENT SUMMARY AT FAIR VALUE**

As of September 30, 2003

(\$ In Thousands)

	<u>Fair Value</u>	<u>% of Fair Value</u>
Money Market Securities	\$ 833,052	5.37
U.S. Government Guaranteed	41,203	0.27
U.S. Agency Securities	635,478	4.11
Mortgage-backed Securities	168,075	1.09
Fixed Income Bonds		
Domestic	4,665,092	30.15
International	26,810	0.17
Common and Preferred Stocks		
Domestic	6,762,794	43.70
International	1,402,292	9.06
Real Estate	940,122	6.08
Total Investments	\$ 15,474,918	100.00

RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Teachers' Retirement System

Largest Stock and Bond Holdings

TEACHERS' RETIREMENT SYSTEM LARGEST STOCK HOLDINGS

September 30, 2003

(Amounts In Thousands)

	<u>Shares</u>	<u>Stock</u>	<u>Fair Value</u>
1)	489	Raycom Media (12% noncum PFD)	\$ 393,472
2)	5,641	Microsoft Corporation	156,820
3)	5,192	General Electric Company	154,762
4)	4,290	Pfizer Incorporated	130,324
5)	3,548	Exxon Mobil Corporation	129,859
6)	2,820	Citigroup Incorporated	128,354
7)	2,289	Wal Mart Stores	127,852
8)	3,686	Intel Corporation	101,425
9)	13,768	RSA Holdings LLC	101,103
10)	1,435	American International Group	82,809

TEACHERS' RETIREMENT SYSTEM LARGEST BOND HOLDINGS

September 30, 2003

(\$ in Thousands)

	<u>Par</u>	<u>Bonds</u>	<u>Fair Value</u>
1)	\$ 1,087,087	Community News due 1/31/17	\$ 890,463
2)	825,360	Raycom Media Incorporated due 12/15/16	663,783
3)	265,467	Raycom Media Incorporated due 4/1/12	213,498
4)	110,000	Mediaone Group Incorporated due 2/1/32	125,722
5)	133,525	IDB Monroe Alabama River Pulp due 3/31/13	124,216
6)	90,000	CSX Corporation due 5/1/32	102,818
7)	75,000	Nationwide Financial Services due 3/1/27	78,954
8)	73,250	J C Penney Company Incorporated due 4/1/27	75,081
9)	65,000	Ford Motor Company due 11/15/22	66,748
10)	84,350	Delta 1992 Ser B2 Pass Thr Cert. Due 3/11/15	64,106

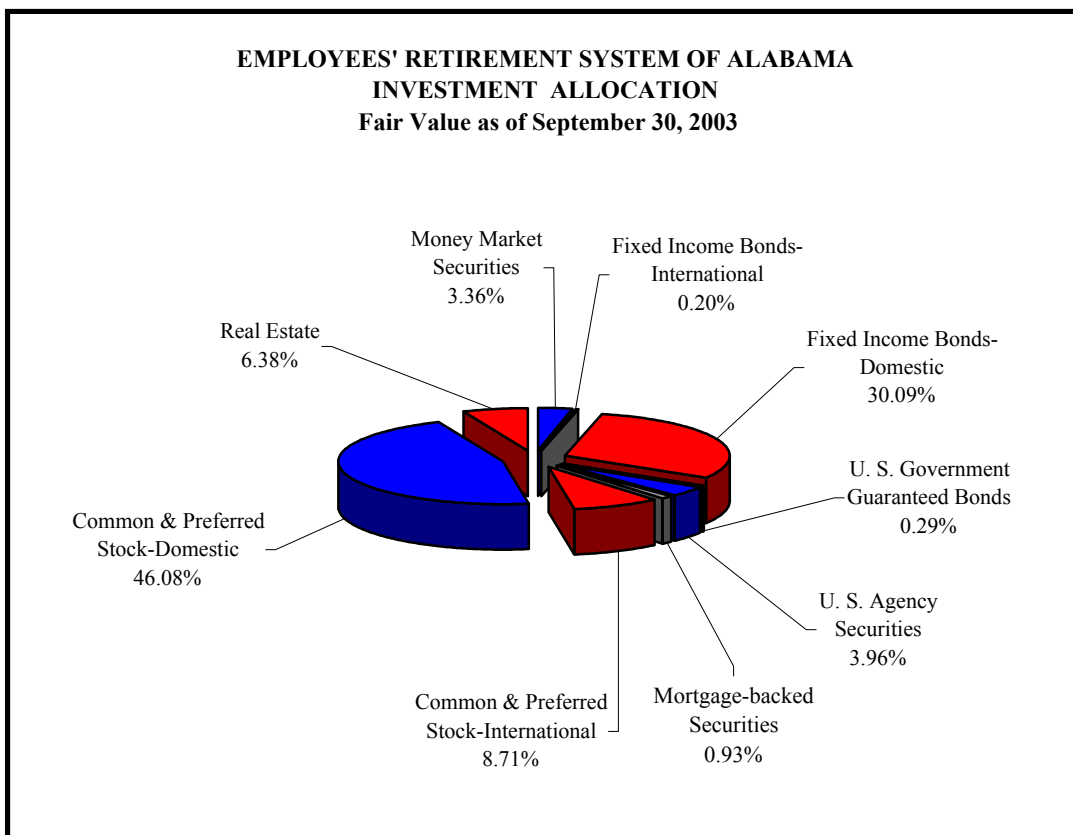
A complete list of portfolio holdings is available upon request.

RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Employees' Retirement System

Investment Allocation and Summary



**EMPLOYEES' RETIREMENT SYSTEM
INVESTMENT SUMMARY AT FAIR VALUE**

As of September 30, 2003

(\$ In Thousands)

	<u>Fair Value</u>	<u>% of Fair Value</u>
Money Market Securities	\$ 239,446	3.36
U.S. Government Guaranteed	20,352	0.29
U.S. Agency Securities	282,730	3.96
Mortgage-backed Securities	66,067	0.93
Fixed Income Bonds		
Domestic	2,144,851	30.09
International	14,385	0.20
Common and Preferred Stocks		
Domestic	3,285,094	46.08
International	621,178	8.71
Real Estate	454,569	6.38
Total Investments	<u>\$ 7,128,672</u>	<u>100.00</u>

RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Employees' Retirement System Largest Stock and Bond Holdings

EMPLOYEES' RETIREMENT SYSTEM LARGEST STOCK HOLDINGS

September 30, 2003

(Amounts in Thousands)

	<u>Shares</u>	<u>Stock</u>	<u>Fair Value</u>
1)	489	Raycom Media (12% noncum PFD)	\$ 393,472
2)	93	CNHI TR D Preferred (8% noncum)	76,458
3)	2,539	Microsoft Corporation	70,579
4)	2,337	General Electric Corporation	69,657
5)	1,930	Pfizer Incorporated	58,647
6)	1,591	Exxon Mobil Corporation	58,225
7)	1,268	Citigroup Incorporated	57,695
8)	1,029	Wal Mart Stores	57,442
9)	6,884	RSA Holdings LLC	50,551
10)	1,666	Intel Corporation	45,835

EMPLOYEES' RETIREMENT SYSTEM LARGEST BOND HOLDINGS

September 30, 2003

(\$ In Thousands)

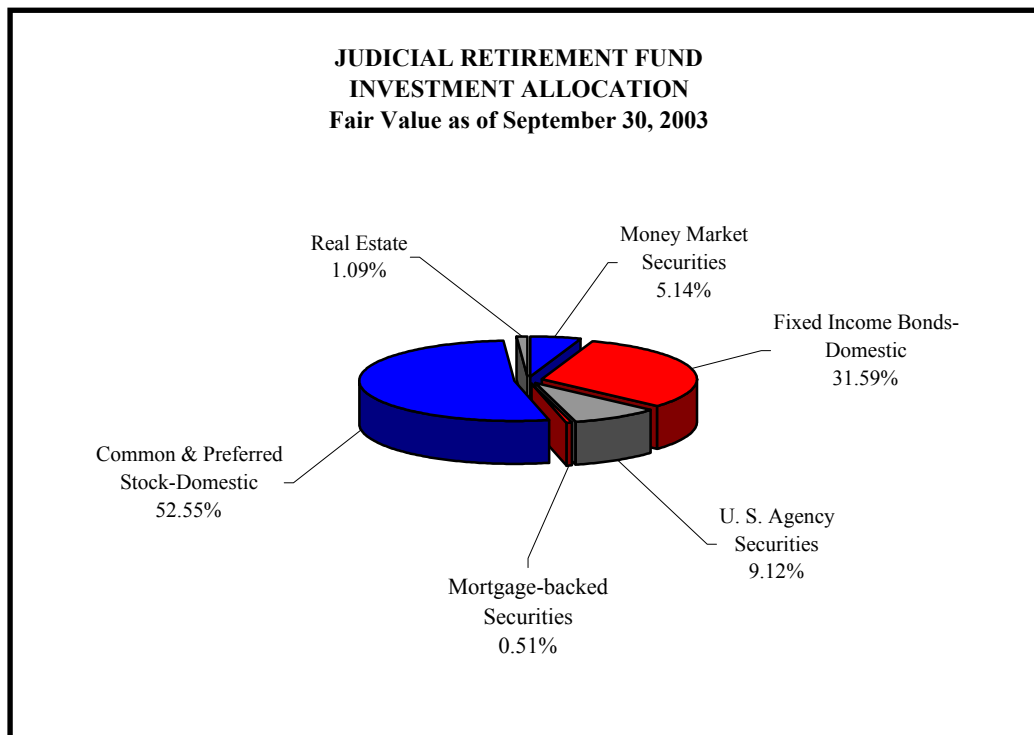
	<u>Par</u>	<u>Bonds</u>	<u>Fair Value</u>
1)	\$ 551,021	Community News due 1/31/17	\$ 451,357
2)	406,596	Raycom Media Incorporated due 12/15/16	326,999
3)	130,753	Raycom Media Incorporated due 4/1/12	105,156
4)	71,000	Mediaone Group Incorporated due 2/1/32	81,148
5)	50,000	CSX Corporation due 5/1/32	57,121
6)	57,225	IDB Monroe Alabama River Pulp due 3/31/13	53,235
7)	40,000	Sithe Funding due 12/30/13	42,300
8)	35,000	Ford Motor Company due 11/15/22	35,941
9)	41,785	Delta 1992 Ser B2 Pass Thr Cert. Due 3/11/15	31,757
10)	25,000	Nationwide Financial Services due 3/1/27	26,318

A complete list of portfolio holdings is available upon request.

Investment Section

Judicial Retirement Fund

Investment Allocation and Summary



**JUDICIAL RETIREMENT FUND
INVESTMENT SUMMARY AT FAIR VALUE
As of September 30, 2003**

(\$ In Thousands)

	<u>Fair Value</u>	<u>% of Fair Value</u>
Money Market Securities	\$ 10,483	5.14
U.S. Agency Securities	18,610	9.12
Mortgage-backed Securities	1,037	0.51
Fixed Income Bonds, Domestic	64,442	31.59
Common and Preferred Stocks, Domestic	107,209	52.55
Real Estate	2,227	1.09
Total Investments	\$ 204,008	100.00

RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Judicial Retirement Fund

Largest Stock and Bond Holdings

**JUDICIAL RETIREMENT FUND
LARGEST STOCK HOLDINGS**

September 30, 2003

(Amounts in Thousands)

	<u>Shares</u>	<u>Stock</u>	<u>Fair Value</u>
1)	111	Microsoft Corporation	\$ 3,080
2)	103	General Electric Corporation	3,073
3)	70	Exxon Mobil Corporation	2,553
4)	46	Wal Mart Stores	2,552
5)	83	Pfizer Incorporated	2,512
6)	53	Citigroup Incorporated	2,424
7)	69	Intel Corporation	1,891
8)	27	American International Group	1,558
9)	18	IBM Corporation	1,546
10)	31	Johnson & Johnson	1,523

**JUDICIAL RETIREMENT FUND
LARGEST BOND HOLDINGS**

September 30, 2003

(\$ In Thousands)

	<u>Par</u>	<u>Bonds</u>	<u>Fair Value</u>
1)	\$ 10,000	Texas Utilities Electric due 7/1/25	\$ 10,338
2)	7,794	Community News due 1/31/17	6,385
3)	5,000	Sithe Funding due 12/30/13	5,288
4)	3,000	Nationwide Financial Services due 3/1/27	3,158
5)	2,000	PPL Energy due 12/21/13	2,261
6)	2,000	Verizon Communication (GTE Corp.) due 2/1/27	2,254
7)	2,000	Tupperware Finance Company due 7/15/11	2,016
8)	5,424	UAL Pass-through Certicates Ser 1993-C1 due 6/17/09	2,007
9)	1,669	FPL Energy Virginia due 6/30/19	1,834
10)	2,000	IPSCO Saskatchewan due 12/31/38	1,797

A complete list of portfolio holdings is available upon request.

RETIREMENT SYSTEMS OF ALABAMA

Investment Section

Broker Commissions Paid

For the Fiscal Year Ended September 30, 2003

	Stock		Fixed		Total
	Commissions Per Share	# of Shares (000's)	Commissions (000's)	Securities Commissions (000's)	
A. G. Edwards-Campbell	0.0500	449,000	\$ 22,450	\$ 5,000	\$ 27,450
Banc of America	-	-	-	6,250	6,250
Bear Stearns & Co.	0.0477	5,056,875	241,208	443,235	684,443
Bernstein	0.0496	10,261,913	509,096	-	509,096
Centennial-Collins	0.0500	238,900	11,945	-	11,945
Chapman-Baldwin	0.0500	275,000	13,750	-	13,750
Citigroup	0.0439	10,836,876	475,633	533,919	1,009,552
Citigroup-Walker	0.0500	700,300	35,015	16,500	51,515
Collins Asset Management	0.0500	25,000	1,250	-	1,250
Concord-Rayl	0.0500	175,000	8,750	-	8,750
Credit Suisse First Boston Corp.	0.0405	10,679,880	432,770	237,188	669,958
Deutsche Bank Securities	0.0424	7,431,202	315,241	46,250	361,491
Gardner Rich	0.0500	302,300	15,115	-	15,115
Goldman Sachs & Co.	0.0504	3,259,940	164,412	121,344	285,756
Howard Weil & Co.	0.0500	873,655	43,683	-	43,683
ISI	0.0500	2,284,100	114,205	-	114,205
J. P. Morgan Chase	0.0394	5,683,291	224,067	22,500	246,567
Lazard/Reginald Rainey	-	-	-	39,063	39,063
Janney Montgomery Scott	0.0500	325,200	16,260	-	16,260
Lehman Brothers, Inc.	0.0334	4,224,125	141,012	117,500	258,512
Lehman Brothers, Inc.-Soft	0.0500	4,614,298	230,715	-	230,715
McDonald & Company	0.0500	300,000	15,000	159,526	174,526
Merrill Lynch, Pierce, Fenner & Smith	0.0376	7,950,700	299,156	717,239	1,016,395
Merrill Lynch-Soft	0.0500	662,700	33,135	-	33,135
Morgan Keegan-Rogers	0.0500	684,100	34,205	9,000	43,205
Morgan Stanley Dean Witter	0.0380	10,485,482	398,182	179,250	577,432
Morgan Stanley Dean Witter-Int'l	0.0022	66,992,653	147,702	-	147,702
Morgan Stanley-Rees	0.0500	699,900	34,995	9,000	43,995
NBC Capital Markets	-	-	-	399,935	399,935
NBC-Falkenburg	0.0500	850,000	42,500	39,000	81,500
Prudential Securities	0.0067	10,205,761	68,804	-	68,804
Quintus Securities/Register	0.0500	125,000	6,250	-	6,250
Raymond James-Maddux	0.0500	751,700	37,585	57,750	95,335
Robert Thomas	0.0500	225,000	11,250	-	11,250
Securities Corp-Jones	0.0500	347,185	17,359	-	17,359
Simmons-Savoie	0.0500	720,010	36,001	-	36,001
Southwest-Schramme	0.0500	224,000	11,200	-	11,200
Sterne, Agee-Childers	0.0500	497,700	24,885	34,000	58,885
Sterne, Agee-Tankersley	0.0500	394,100	19,705	9,000	28,705
UBS Warburg	0.0159	11,040,014	175,170	268,073	443,243
UBS Warburg-Allison	0.0500	324,000	16,200	-	16,200
UBS Warburg-Young	0.0500	175,000	8,750	-	8,750
Wachovia-Harris	0.0500	648,600	32,430	9,000	41,430
Totals		182,000,460	\$ 4,487,041	\$ 3,479,522	\$ 7,966,563
Average Commission Per Share of Stock =		\$	0.0247		

ACTUARIAL SECTION



February 13, 2004

Board of Control
Teachers' Retirement System of Alabama
Montgomery, Alabama

Members of the Board:

In this report are submitted the results of the sixty-second annual valuation of the assets and liabilities of the Teachers' Retirement System of Alabama, prepared as of June 30, 2003 in accordance with Section 367(15) of the act governing the operation of the System. The purpose of this report is to provide a summary of the funded status of the system as of June 30, 2003, to recommend rates of contribution and to provide accounting information under Governmental Accounting Standards Board Statements No. 25 and 27 (GASB 25 and 27). While not verifying the data at source, the actuary performed tests for consistency and reasonability. On the basis of the valuation, it is recommended that the State make contributions to the Retirement System at the rate of 9.44% of payroll. The increase in the contribution rate from 7.54% to 9.44% of payroll is primarily due to a recognition of asset losses. Due to the poor recent performance in the markets, we strongly recommend that the Board of Control consider lowering the assumed rate of investment return from 8.0% to 7.75% or 7.50%. This change would require an additional increase in the required employer contribution rate.

The promised benefits of the System are included in the actuarially calculated contribution rates which are developed using the entry age normal cost method. The valuation continues to take into account the provisions of Act 2000-732 which requires that the actuary certify annually to the Teachers' Retirement System that there has been no change in the liquidation period used to determine the accrued liability contribution rate. Under the requirements of Act 2000-732, we have determined an employer contribution rate of 9.44% of payroll based on a 10-year liquidation period. If the section of Act 2000-732 that requires the use of a liquidation period of 10 years was repealed, a liquidation period up to 20 years could be utilized and a lower employer contribution would be required. The repeal of this section of Act 2000-732 would be reasonable and actuarially sound and would result in an employer contribution of 8.17% based on a 20-year liquidation period. Additionally, this would make the TRS and ERS amortization methods the same, as they were prior to the passage of this section of Act 2000-732. Five-year market related value of assets is used for actuarial valuation purposes. Gains and losses are reflected in the unfunded accrued liability that is being amortized by regular annual contributions as a level percentage of payroll, on the assumption that payroll will increase by 4.5% annually. The assumptions recommended by the actuary and adopted by the Board are in the aggregate reasonably related to the experience under the Fund and to reasonable expectations of anticipated experience under the Fund and meet the parameters for the disclosures under GASB 25 and 27.

We have prepared the Schedule of Funding Progress and Trend Information shown in the financial section of the Comprehensive Annual Financial Report, and all supporting schedules including the Schedule of Active Member Valuation Data, the Solvency Test and the Analysis of Financial Experience shown in the actuarial section of the Comprehensive Annual Financial Report.

Actuarial Section

Teachers' Retirement System

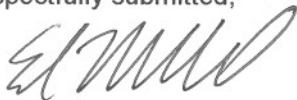
Actuarial Letter (Continued)

This is to certify that the independent consulting actuary is a member of the American Academy of Actuaries and has experience in performing valuations for public retirement systems, that the valuation was prepared in accordance with principles of practice prescribed by the Actuarial Standards Board, and that the actuarial calculations were performed by qualified actuaries in accordance with accepted actuarial procedures, based on the current provisions of the retirement system and on actuarial assumptions that are internally consistent and reasonably based on the actual experience of the System.

In our opinion the System is operating on an actuarially sound basis. Assuming that contributions to the System are made by the employer from year to year in the future at the rates recommended on the basis of the successive actuarial valuations, the continued sufficiency of the retirement fund to provide the benefits called for under the System may be safely anticipated.

The Table of Contents, which immediately follows, outlines the material contained in the report.

Respectfully submitted,



Edward A. Macdonald, ASA, MAAA, FCA
Principal, Consulting Actuary

EAM:sh

RETIREMENT SYSTEMS OF ALABAMA

Actuarial Section

Teachers' Retirement System

Summary of Actuarial Assumptions and Methods

Summary of Actuarial Assumptions and Methods

The Actuary selected the assumptions and methods used in the valuation based on the actuarial experience study prepared as of June 30, 2001, submitted on November 14, 2001, and adopted by the Board in January 2002.

Investment Rate of Return: 8% per annum, compounded annually.

Salary Increases: Representative values of the assumed annual rates of future salary increases are as follows and include inflation at 4.50% per annum:

<u>Age</u>	<u>Annual Rate (%)</u>
20	7.25
25	7.25
30	7.75
35	7.00
40	6.50
45	6.25
50	6.00
55	5.50
60	5.00
65	5.00

Separations Before Service Retirement: Representative values of the assumed annual rates of death, disability, and withdrawal are as follows:

<u>Age</u>	<u>Annual Rate (%)</u>					
	<u>Death</u>		<u>Disability</u>		<u>Withdrawal*</u>	
	<u>Men</u>	<u>Women</u>	<u>Men</u>	<u>Women</u>	<u>Men</u>	<u>Women</u>
20	0.05	0.03	0.05	0.07	23.83	23.83
25	0.06	0.03	0.06	0.07	11.59	11.14
30	0.08	0.03	0.07	0.07	7.86	7.93
35	0.08	0.04	0.12	0.10	6.08	6.08
40	0.09	0.06	0.14	0.16	4.78	4.35
45	0.14	0.09	0.24	0.32	3.75	3.71
50	0.21	0.12	0.61	0.65	2.82	2.57
55	0.36	0.19	1.35	0.95	1.85	2.07
60	0.63	0.34	2.50	1.89	1.41	1.95
65	1.15	0.67				
69	1.80	1.08				

* Withdrawal rates are higher during the first three years of service.

Service Retirement*: Representative values of the assumed annual rates of service retirement are as follows:

For those members first eligible for unreduced benefits before age 50 or after age 60, rates are as follows:

<u>Age</u>	<u>Annual Rate (%)</u>	
	<u>Men</u>	<u>Women</u>
45	7.0	4.0
50	12.0	8.0
55	45.0	45.0
60	15.0	15.0
62	35.0	35.0
65	40.0	40.0
70	100.0	100.0

*Retirement rates increase by 10% for males and 20% for females in the year members first become eligible for unreduced service retirement.

For members first eligible for unreduced benefits on or after age 50 but before age 60, no withdrawal or retirement is assumed to occur for the five years prior to DROP eligibility and 45% are assumed to retire in the first year eligible for DROP participation. The rates, thereafter, are as follows:

<u>Age</u>	<u>Annual Rate (%)</u>	
	<u>Men</u>	<u>Women</u>
58	15.0	15.0
60	15.0	15.0
62	35.0	35.0
65	40.0	40.0
70	100.0	100.0

Deaths after Retirement: Representative values of the assumed annual rates of death after service and disability retirement are as follows:

<u>Age</u>	<u>Annual Rate (%) of Death After</u>			
	<u>Service Retirement</u>		<u>Disability Retirement</u>	
	<u>Men</u>	<u>Women</u>	<u>Men</u>	<u>Women</u>
40	0.1	0.1	3.3	2.6
50	0.3	0.1	3.8	2.5
55	0.5	0.2	4.2	2.7
60	0.8	0.4	4.9	3.0
65	1.5	0.8	6.0	3.4
70	2.6	1.4	7.6	4.1
75	3.9	2.2	10.2	5.2
80	5.9	3.8	14.2	6.8
85	9.2	6.6	20.1	9.5
90	14.3	11.2	28.7	13.5
95	20.5	18.4	40.4	19.4

Actuarial Section

Teachers' Retirement System

Summary of Actuarial Assumptions and Methods (Continued), Actuarial Cost Method and Summary of Plan Provisions

Spousal Benefits: For those eligible for spousal benefits, it is assumed that 75% will elect the lump sum death benefit and 25% will elect the spousal benefit.

Valuation Method: Entry age normal cost method. Actuarial gains and losses are reflected in the unfunded actuarial accrued liability.

Assets: Actuarial value. The actuarial value of assets recognizes a portion of the difference between the market value of assets and the expected actuarial value of assets, based on the assumed valuation rate of return. Each year 20% of the difference between market value and expected actuarial value is recognized.

Actuarial Cost Method

1. The valuation is prepared on the projected benefit basis, which is used to determine the present value of each member's expected benefit payable at retirement or death. The calculations are based on the member's age, years of service, sex, compensation, expected future salary increases, and an assumed future interest earnings rate (currently 8%). The calculations consider the probability of a member's death or termination of employment prior to becoming eligible for a benefit and the probability of the member terminating with a service, disability, or survivor's benefit. The present value of the expected benefits payable to active members is added to the present value of the expected future payments to retired members and beneficiaries to obtain the present value of all expected benefits payable to the present group of members and beneficiaries.
2. The employer contributions required to support the benefits of the System are determined following a level funding approach, and consist of a normal contribution and an accrued liability contribution.
3. The normal contribution is determined using the "entry age normal" method. Under this method, a calculation is made to determine the uniform and constant percentage rate of employer contributions which, if applied to the compensation of the average new member during the entire period of the member's anticipated covered service, would be required in addition to the contributions of the member to meet the cost of all benefits payable on the member's behalf.
4. The unfunded accrued liability contributions are determined by subtracting the current assets held by the System and the present value of prospective employer normal contributions and member contributions from the present value of expected benefits to be paid from the System.

Summary of Plan Provisions as Interpreted for Valuation Purposes

The Teachers' Retirement System of Alabama was established on September 15, 1939 and became effective September 30, 1941. The valuation considered amendments to the System through the valuation date. The following summary describes the main benefit and contribution provisions of the System as interpreted for the valuation.

Definitions

Average Final Compensation - the average compensation of a member for the 3 highest years in the last 10 years of creditable service.

Membership Service - all service rendered while a member of the retirement system and for which contributions are made.

Creditable Service - the sum of membership service, prior service, and any other service established as creditable in accordance with the provisions of the retirement law.

Annuity - payments for life derived from accumulated contributions of a member.

Pension - payments for life derived from employer contributions.

Retirement Allowance - the sum of the annuity and pension.

Benefits

Service Retirement Allowance

Condition for Allowance A retirement allowance is payable upon the request of any member who has completed 25 years of creditable service or who has attained age 60 and completed at least 10 years of creditable service.

Amount of Allowance Upon service retirement, a member receives a retirement allowance equal to 2.0125% of the member's average final compensation multiplied by the number of years of creditable service. At retirement, a member receives one additional year of creditable service in determining retirement allowance for each five years of service as a full-time certified firefighter, police officer, or correctional officer.

Members may elect to receive a reduced retirement allowance in order to provide an allowance to a designated beneficiary after the member's death (see "Special Privileges at Retirement" below).

Disability Retirement Allowance

Condition for Allowance A disability retirement allowance may be granted to a member who has 10 years or more of creditable service and becomes totally and permanently incapacitated for duty before reaching eligibility for a service retirement allowance.

Amount of Allowance Upon retirement for disability, a member receives a retirement allowance equal to 2.0125% of the member's average final compensation multiplied by the number of years of creditable service. At retirement, a member receives one additional year of creditable service in determining retirement allowance for each five years of service as a full-time certified firefighter, police officer, or correctional officer.

Members may elect to receive a reduced retirement allowance in order to provide an allowance to a designated beneficiary after the member's death (see "Special Privileges at Retirement" below).

Benefits Payable on
Separation of Service

Any member who withdraws from service is entitled to receive his or her contributions with allowable interest. A member who has completed 10 years of creditable service may, after separation from service, continue in the membership of the System and file for service retirement after reaching age 60.

Benefits Payable upon
Death of an Active Member

In the event of the death of a member eligible for service retirement, the designated beneficiary may elect (1) to exercise Option 3 defined below under "Special Privileges at Retirement" or (2) to receive a return of member contributions and total earned interest plus a death benefit equal to the salary on which the member made retirement contributions for the previous scholastic year (July 1-June 30). *

In the event of the death of a member with more than one year of service who is not eligible to retire, the designated beneficiary shall receive the return of member contributions and total earned interest. Also, the designated beneficiary shall receive an additional death benefit equal to the salary on which member retirement contributions were made for the previous scholastic year (July 1-June 30). *

In the event of a job-related death of a member with less than one year of service, the designated beneficiary shall receive the return of member contributions and total earned interest plus a death benefit equal to the annual earnable compensation of the member at the time of death. *

In the event of a non-job related death of a member with less than one year of service, the designated beneficiary shall receive the return of member contributions and total earned interest plus a matching death benefit which is limited to a \$5,000 maximum.

*However, if the death occurred more than 180 calendar days after the member's last day in pay status, or if the deceased had applied for a refund of contributions or terminated employment, the lump sum will be the same as if the member had less than one year of service and the death was non-job related.

Special Privileges at Retirement

In lieu of the full retirement allowance, any member may, at retirement, elect to receive a reduced retirement allowance equal in value to the full allowance, with the provision that:

Option 1 – If a member dies before the annuity payments equals the present value of the annuity at the date of retirement, the balance is paid to a designated beneficiary or to the member's estate, or

Option 2 – After the member's death, the member's allowance is continued throughout the life of the designated beneficiary, or

Option 3 – After the member's death, one-half of the member's allowance is continued throughout the life of the designated beneficiary, or

Option 4 - Some other benefit is paid either to the member or to such other person as the member shall designate provided such benefit, together with the reduced retirement allowance, is of equivalent actuarial value to the member's retirement allowance and is approved by the Board of Control.

Deferred Retirement Option Plan (DROP)

A member may elect to participate in the Deferred Retirement Option Plan (DROP) upon completion of at least 25 years of creditable service (excluding sick leave) and attainment of at least 55 years of age. Under the DROP, the member may defer receipt of a retirement allowance and continue employment for a period not to exceed five years, nor to be less than three years. At the end of the period, the member may withdraw from active service and receive the retirement benefit based on his or her years of service credit at the time of enrollment in the DROP, and also receive a payment for the deferred retirement benefits, employee contributions while participating in the DROP, and interest earned on DROP deposits.

Member Contributions

Regular members contribute 5% of salary. Certified police officers and firefighters contribute 6% of salary. DROP participants continue to contribute during the DROP period, but receive a refund of these contributions and interest upon retirement.

Supporting Schedules

The following table reflects a six-year history of active member valuation data:

**TEACHERS' RETIREMENT SYSTEM
SCHEDULE OF ACTIVE MEMBER VALUATION DATA**

<u>Valuation Date</u>	<u>Number</u>	<u>Annual Payroll</u>	<u>Annual Average Pay</u>	<u>% Increase (Decrease) in Average Pay</u>
06/30/03 §	129,617	\$ 4,486,058,170	\$ 34,610	2.78
06/30/02 †	128,649	4,332,119,671	33,674	1.74
06/30/01	130,066	4,305,080,140	33,099	3.96
06/30/00	129,777	4,131,903,775	31,838	3.03
06/30/99	128,279	3,964,111,877	30,902	(1.54)
06/30/98 *	125,464	3,937,739,237	31,385	10.60

§ - In addition, there are 2,711 employees with annual compensation of \$146,552,344 who are currently in the DROP program. Employers contribute on this payroll.

† - In addition, there are 973 employees with annual compensation of \$47,063,551 who are currently in the DROP program. Employers contribute on this payroll.

* - Amounts include an 8.5% across-the-board pay increase effective October 1, 1998.

RETIREMENT SYSTEMS OF ALABAMA

Actuarial Section

Teachers' Retirement System
Supporting Schedules (Continued)

The following table presents a six-year history of a solvency test:

TEACHERS' RETIREMENT SYSTEM
SOLVENCY TEST
(\$ in Thousands)

Valuation Date	Aggregate Accrued Liabilities For			Reported Assets	% of Accrued Liabilities Covered by Reported Assets		
	(1)	(2)	(3)		(1)	(2)	(3)
	Active Member Contributions	Retirants and Beneficiaries	Active Members (Employer Financed Portions)				
06/30/03	\$ 2,750,536	\$ 9,548,773	\$ 7,058,426	\$ 18,110,470	100	100	82.3
06/30/02 §	2,690,967	8,526,609	7,156,598	17,904,881	100	100	93.4
06/30/01 γ	2,607,236	7,471,415	7,159,965	17,475,298	100	100	103.3
06/30/00	2,405,186	7,075,177	6,811,099	16,703,929	100	100	106.1
06/30/99 †	2,335,475	6,582,401	6,650,316	15,642,066	100	100	101.1
06/30/98 *	2,140,753	5,833,899	6,626,774	14,533,824	100	100	99.0

§ Reflects effect of amendments to the System and additional allowance payable under Act 2002-393. Beginning 6/30/2002, item 2 includes DROP participants.

γ Reflects changes in actuarial assumptions.

† Reflects additional allowance payable under Act 2000-741.

* Reflects change in asset method from market value to market related value, 8.5% across-the-board increase effective October 1, 1998, and additional allowance payable under Act 98-355.

The following table presents a six-year history of retirants and beneficiaries:

SCHEDULE OF RETIRANTS AND BENEFICIARIES ADDED AND REMOVED FROM ROLLS

Fiscal Year Ended	Number of Retirees and Beneficiaries *			Annual Allowances		
	Added	Removed	Year-end	Year-end (000s)	% Increase	Average
2003	3,782	1,275	54,410	\$ 963,130	8.6	\$ 17,701
2002	3,550	1,294	51,903	886,969	5.6	17,089
2001	3,225	1,280	49,647	839,704	9.4	16,913
2000	4,312	1,248	47,702	767,477	9.7	16,089
1999	2,756	1,176	44,638	699,517	12.8	15,671
1998	4,433	1,104	43,058	620,395	11.4	14,408

* Does not include DROP participants.

The following table provides an analysis of actuarial gains and losses:

**TEACHERS' RETIREMENT SYSTEM
ANALYSIS OF ACTUARIAL GAINS AND LOSSES AS OF JUNE 30, 2003**

	<u>Amount</u>
Unfunded Actuarial Liability as of June 30, 2002	\$ 469,293,297
Normal Cost for 2003 Plan Year	267,764,888
Contributions Received During the Year	(225,651,474)
Interest to Year End	<u>39,228,000</u>
Expected (Overfunded)/Unfunded Actuarial Liability as of June 30, 2003	<u>550,634,711</u>
Actuarial (Gains)/Losses During the Year	
From Investments	732,958,475
From Actuarial Liabilities	<u>(36,328,269)</u>
Total Actuarial (Gains)/Losses During the Year	<u>696,630,206</u>
Actual Unfunded Actuarial Liability as of June 30, 2003	<u>\$ 1,247,264,917</u>



October 6, 2003

Board of Control
Employees' Retirement System of Alabama
State Capitol
Montgomery, AL 36104

Members of the Board:

In this report are submitted the results of the fifty-seventh annual valuation of the assets and liabilities of the Employees' Retirement System of Alabama, prepared as of September 30, 2002 in accordance with Section 36-27-23(p) of the act governing the operation of the System. The purpose of this report is to provide a summary of the funded status of the system as of September 30, 2002, to recommend rates of contribution and to provide accounting information under Governmental Accounting Standards Board Statements No. 25 and 27 (GASB 25 and 27). While not verifying the data at source, the actuary performed tests for consistency and reasonability. The valuation reflects the cost-of-living increase granted under Act 2002-393. On the basis of the valuation, it is recommended that the State make contributions to the Retirement System for State employees (members other than State policemen) at the rate of 5.57% of payroll. It is also recommended that the State make contributions to the Retirement System for State policemen at the rate of 18.03% of payroll.

The financing objective of the System has been to have contribution rates remain relatively level over time as a percentage of payroll. The promised benefits of the System are included in the actuarially calculated contribution rates which are developed using the entry age normal cost method. Market related value of plan assets is used for actuarial valuation purposes. Gains and losses are reflected in the unfunded accrued liability that is being amortized by regular annual contributions as a level percentage of payroll within a 20-year period for State Employees and State Police, on the assumption that payroll will increase by 4.5% annually. The assumptions recommended by the actuary and adopted by the Board are in the aggregate reasonably related to the experience under the Fund and to reasonable expectations of anticipated experience under the Fund and meet the parameters for the disclosures under GASB 25 and 27.

We have prepared the Schedule of Funding Progress and Trend Information shown in the financial section of the Comprehensive Annual Financial Report, and all supporting schedules including the Schedule of Active Member Valuation Data, the Solvency Test and the Analysis of Financial Experience shown in the actuarial section of the Comprehensive Annual Financial Report.

This is to certify that the independent consulting actuary is a member of the American Academy of Actuaries and has experience in performing valuations for public retirement systems, that the valuation was prepared in accordance with principles of practice prescribed by the Actuarial Standards Board, and that the actuarial calculations were performed by qualified actuaries in accordance with accepted actuarial procedures, based on the current provisions of the retirement system and on actuarial assumptions that are internally consistent and reasonably based on the actual experience of the System.

In our opinion the System is operating on an actuarially sound basis. Assuming that contributions to the System are made by the employer from year to year in the future at the rates recommended on the basis of the successive actuarial valuations, the continued sufficiency of the retirement fund to provide the benefits called for under the System may be safely anticipated.

The Table of Contents, which immediately follows, outlines the material contained in the report.

Respectfully submitted,



Edward A. Macdonald, ASA, MAAA, FCA
Principal, Consulting Actuary

EAM:sh

RETIREMENT SYSTEMS OF ALABAMA

Actuarial Section

Employees' Retirement System

Summary of Actuarial Assumptions and Methods

Summary of Actuarial Assumptions and Methods

The Actuary selected the assumptions and methods used in the valuation based on the actuarial experience study prepared as of September 30, 2000, submitted on May 23, 2002, and adopted by the Board on June 5, 2002.

Investment Rate of Return: 8% per annum, compounded annually.

Salary Increases: Representative values of the assumed annual rates of future salary increases are as follows and include inflation at 4.50% per annum:

<u>Age</u>	<u>Annual Rate (%)</u>
20	7.66
25	7.75
30	7.61
35	7.25
40	6.98
45	6.60
50	6.32
55	5.84
60	5.49
65	5.05

Separations from Active Service: Representative values of the assumed annual rates of death, disability, withdrawal, and service retirement are as follows:

STATE AND LOCAL EMPLOYEES						
Annual Rate (%) of						
<u>Age</u>	<u>Death</u>		<u>Disability</u>		<u>Withdrawal</u>	
	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>
20	0.05	0.03	0.05	0.08	25.80	31.30
25	0.06	0.03	0.06	0.09	18.50	21.50
30	0.08	0.03	0.08	0.12	11.40	14.40
35	0.08	0.04	0.17	0.24	8.10	10.10
40	0.09	0.06	0.30	0.41	6.30	7.30
45	0.14	0.09	0.54	0.65	4.90	6.00
50	0.21	0.12	0.98	0.98	3.30	6.00
55	0.36	0.19	1.50	1.50	3.00	4.50
60	0.63	0.34	2.37	2.37	3.00	4.50
62	0.80	0.44	2.84	2.84	3.00	4.50
65	1.15	0.67	3.71	3.71		
69	1.80	1.08	4.85	4.85		

For members who are first eligible for unreduced benefits before age 50 or on or after age 60, rates are as follows:

<u>Age</u>	Annual Rate of Service Retirement	
	<u>Male(%) §</u>	<u>Female(%) †</u>
45	11.00	15.00
50	11.00	15.00
55	45.00	45.00
60	15.00	15.00
62	45.00	35.00
65	60.00	50.00
69	30.00	30.00
70	100.00	100.00

§ Retirement rates increase by 20% in the year a member first becomes eligible for unreduced service retirement.

† Retirement rates increase by 25% in the year a member first becomes eligible for unreduced service retirement.

For members first eligible for unreduced benefits on or after age 50 but before age 60, no withdrawal or retirement is assumed to occur for the five years prior to DROP eligibility and 45% are assumed to retire in the first year of eligibility for DROP participation. The rates, thereafter, are as follows:

<u>Age</u>	Annual Rate of Service Retirement	
	<u>Male(%)</u>	<u>Female(%)</u>
58	15.00	25.00
60	15.00	15.00
62	45.00	35.00
65	60.00	50.00
70	100.00	100.00

RETIREMENT SYSTEMS OF ALABAMA

Actuarial Section

Employees' Retirement System

Summary of Actuarial Assumptions and Methods (Continued), Actuarial Cost Methods, and Summary of Plan Provisions

STATE POLICEMEN

Age	Annual Rate (%) of					
	Death		Disability	Withdrawal †	Service	Service
	Male	Female			Retirement "A"	Retirement "B"
20	0.05	0.03	0.04	1.00		
25	0.06	0.03	0.05	1.00		
30	0.08	0.03	0.07	1.50		
35	0.08	0.04	0.11	2.00		
40	0.09	0.06	0.17	1.00		
45	0.14	0.09	0.23	0.50		
50	0.21	0.12	0.30		20.00	
55	0.36	0.19	0.35		10.00	30.00
60	0.63	0.34				30.00
62	0.80	0.44				30.00
65	1.15	0.67				100.00
69	1.80	1.08				100.00
70						100.00

† Higher rates are assumed during the first three years of employment.

A - For those who will become eligible for DROP prior to age 57, these are the rates in effect prior to the DROP eligibility. An additional 20% are assumed to retire in the first year of eligibility for unreduced benefits. 80% are assumed to retire in the first year eligible for DROP participation if less than age 57.

B - Rates for those who will not become eligible for DROP prior to age 57. An additional 25% are assumed to retire in the first year of eligibility for unreduced benefits. Also, for those who will become eligible for DROP prior to age 57, these are the rates after the first year of DROP eligibility.

Death after Retirement: The rate of mortality after service retirement are based on the George B. Buck 1979 Table for males rated forward one year and the George B. Buck 1979 Table for females. Special tables are used for the period after disability retirement.

Spousal Benefit: For those eligible for spousal benefits, it is assumed that 75% will elect the lump sum death benefit and 25% will elect the spousal benefit.

Percent Married: 100% of employees are assumed to be married, with the wife 3 years younger than the husband.

Actuarial Method: Entry age normal cost method. Actuarial gains and losses are reflected in the unfunded actuarial accrued liability.

Assets: Actuarial value. The actuarial value of assets recognizes a portion of the difference between the market value of the assets and the expected value of the assets, based on the assumed valuation rate of return. Each year 20% of the difference between the market value and expected value is recognized.

Actuarial Cost Method

1. The valuation is prepared on the projected benefit basis, which is used to determine the present value of each member's expected benefit payable at retirement or death. The calculations are based on the member's age, years of service, sex, compensation, expected future salary increases, and an assumed future interest earnings rate (currently 8%). The calculations consider the probability of a member's death or termination of employment prior to becoming eligible for a benefit and the probability of the member terminating with a service, disability, or survivor's benefit. The present value of the expected benefits payable to active members is added to the present value of the expected future payments to retired members and beneficiaries to obtain the present value of all expected benefits payable to the present group of members and beneficiaries.
2. The employer contributions required to support the benefits of the System are determined following a level funding approach and consist of a normal contribution and an accrued liability contribution.
3. The normal contribution is determined using the "entry age normal" method. Under this method, a calculation is made to determine the uniform and constant percentage rate of employer contributions which, if applied to the compensation of the average new member during the entire period of the member's anticipated covered service, would be required in addition to the contributions of the member to meet the cost of all benefits payable on the member's behalf.
4. The unfunded accrued liability is determined by subtracting the current assets and the present value of prospective employer normal contributions and member contributions from the present value of expected benefits to be paid from the System. The accrued liability contribution amortizes the balance of the unfunded accrued liability over a period of years from the valuation date.

Summary of Plan Provisions as Interpreted for Valuation Purposes

The Employees' Retirement System of Alabama was established on October 1, 1945. The valuation considered amendments to the System effective through the valuation date. The following summary describes the main benefit and contribution provisions of the System as interpreted for the valuation.

Definitions

Average Final Compensation - the average compensation of a member for the 3 highest years in the last 10 years of creditable service.

Membership Service - all service rendered while a member of the Retirement System and for which contributions are made.

Creditable Service - the sum of membership service, prior service, and any other previous service established as creditable in accordance with the provisions of the retirement law.

Annuity - payments for life derived from accumulated contributions of a member.

Pension - payments for life derived from the accumulated contributions of an employer.

Retirement Allowance - the sum of the annuity and pension payments.

Benefits – Members Classified as Other Than State Policemen

Service Retirement Allowance

Condition for Allowance

A retirement allowance is payable upon the request of any member who has completed 25 years of creditable service (except for local employers that maintained 30-year retirement by not electing 25-year retirement) or who has attained age 60 and completed at least 10 years of creditable service.

RETIREMENT SYSTEMS OF ALABAMA

Actuarial Section

Employees' Retirement System

Summary of Plan Provisions (Continued)

Amount of Allowance	<p>Upon service retirement, a member receives a retirement allowance equal to 2.0125% of the member's average final compensation multiplied by the number of years of creditable service. At retirement, a member receives one additional year of creditable service in determining retirement allowance for each five years of service as a full-time certified firefighter, police officer, or correctional officer.</p> <p>The member may elect to receive a reduced retirement allowance in order to provide an allowance to a designated beneficiary after the member's death (see "Special Privileges at Retirement – All Employees" below).</p>
Disability Retirement Allowance	
Condition for Allowance	<p>A disability retirement allowance may be granted to a member who has 10 or more years of creditable service and becomes permanently incapacitated for duty before reaching eligibility for service retirement.</p>
Amount of Allowance	<p>Upon retirement for disability, a member receives a retirement allowance equal to 2.0125% of the member's average final compensation multiplied by the number of years of the member's creditable service. At retirement, a member receives one additional year of creditable service in determining retirement allowance for each five years of service as a full-time certified firefighter, police officer, or correctional officer.</p> <p>The member may elect to receive a reduced retirement allowance in order to provide an allowance to a designated beneficiary after the member's death (see "Special Privileges at Retirement – All Employees" below).</p>
Benefits Payable on Separation of Service	<p>Any member who withdraws from service is entitled to receive a return of member contributions with allowable interest. A member who has completed at least 10 years of creditable service may, after separation from service, continue membership in the System and file for service retirement after reaching age 60.</p>
Benefits Payable upon Death in Active Service	<p>In the event of the death of a member eligible for service retirement, the designated beneficiary may elect: (1) to exercise option 3 as defined below under "Special Privileges at Retirement – All Employees" or (2) to receive a return of member contributions and total interest earned plus a death benefit equal to the salary on which the member made retirement contributions for the previous fiscal year (October 1 – September 30). *</p> <p>In the event of the death of a member with more than one year of service who is not eligible for retirement, the designated beneficiary shall receive a return of member contributions and total interest earned. Also, the designated beneficiary shall receive an additional death benefit equal to the salary on which the member retirement contributions were made for the previous fiscal year (October 1 – September 30). *</p> <p>In the event of a job-related death of a member at any age with less than 1 year of service, the beneficiary shall receive the return of member contributions and total earned interest plus a death benefit equal to the annual earnable compensation of the member at the time death occurs. *</p>

In the event of a non job-related death of a member with less than 1 year of service, the beneficiary shall receive the return of member contributions and total interest earned plus a matching death benefit, which is limited to a maximum of \$5,000.

* However, if the death occurred more than 180 calendar days after the member's last day in pay status, or if the deceased had applied for a refund of contributions or terminated employment, the lump sum will be the same as if the member had less than one year of service and the death was not job-related.

Deferred Retirement Option Plan (DROP)

A member may elect to participate in the Deferred Retirement Option Plan (DROP) upon completion of at least 25 years (at least 30 years for units that did not elect 25 year retirement) of creditable service (excluding sick leave) and attainment of at least 55 years of age. Under the DROP, the member may defer receipt of a retirement allowance and continue employment for a period not to exceed five years, nor to be less than three years. At the end of the period, the member may withdraw from active service and receive the retirement benefit based on his or her years of service credit at the time of enrollment in the DROP, and also receive a payment for the deferred retirement benefits, employee contributions while participating in the DROP, and interest earned on DROP deposits.

Member Contributions

Regular members contribute 5% of salary. Certified firefighters, police officers and correctional officers contribute 6% of salary. DROP participants continue to contribute during the DROP period, but receive a refund of these contributions and interest upon retirement.

Benefits – Members Classified as State Policemen

Service Retirement Allowance

Condition of Allowance

A retirement allowance is payable upon the request of any member who has completed 25 years of creditable service or who has attained age 52 and completed at least 10 years of creditable service.

Amount of Allowance

Upon service retirement, a member receives a retirement allowance equal to 2.875% of the member's average final compensation multiplied by the number of years of their creditable service.

The member may elect to receive a reduced retirement allowance in order to provide an allowance to a designated beneficiary after the member's death (see "Special Privileges at Retirement – All Employees" below).

A member who has attained 20 or more years of creditable service and retires prior to age 60 is eligible to receive a "bonus service credit" up to 4 years as follows:

-Age 56 or older – bonus service of 4 years reduced by 1 month for each month over the age of 56.

-Age 52 to 56 – bonus service of 4 years.

-Age 52 or less (disability retirement only) – bonus service of 4 years.

RETIREMENT SYSTEMS OF ALABAMA

Actuarial Section

Employees' Retirement System

Summary of Plan Provisions (Continued) and Supporting Schedules

	-Age 52 or less with 25 or more years of service – bonus service of 4 years.
Disability Retirement Allowance	
Condition for Allowance	A disability retirement allowance may be granted to a member who has 10 or more years of creditable service or who becomes disabled as a result of his or her employment in the line of duty without regard to his or her years of creditable service, and who becomes permanently incapacitated, mentally or physically, for the further performance of duty before reaching the minimum age for service retirement.
Amount of Allowance	<p>Upon retirement for disability, a member receives a retirement allowance equal to 2.875% of the member's average final compensation multiplied by the number of years of their creditable service.</p> <p>The member may elect to receive a reduced retirement allowance in order to provide an allowance to a designated beneficiary after the member's death (see "Special Privileges at Retirement – All Employees" below).</p>
Benefits Payable upon Separation from Service	Any member who withdraws from service is entitled to receive a return of member contributions with allowable interest. A member who has completed 10 years or more of creditable service may, after separation from service, continue in the membership of the System and file for service retirement after the attainment of age 52.
Benefits Payable upon Death in Active Service	<p>In the event of the death of a member who is eligible for service retirement, the designated beneficiary may elect: (1) to exercise option 3 as defined below under "Special Privileges at Retirement – All Employees" or (2) to receive a return of member contributions and total interest earned plus a death benefit equal to the salary on which the member made retirement contributions for the previous fiscal year (October 1 – September 30). *</p> <p>In the event of the death of a member with one or more years of service who is not eligible for service retirement, the designated beneficiary shall receive a return of member contributions and total interest earned plus an additional death benefit equal to the salary on which member retirement contributions were made for the previous fiscal year (October 1 – September 30). *</p> <p>In the event of a job-related death of a member at any age with less than 1 year of service, the designated beneficiary shall receive the return of member contributions and total earned interest plus a death benefit equal to the annual earnable compensation of the member at the time death occurs. *</p> <p>In the event of a non job-related death of a member with less than 1 year of service, the designated beneficiary shall receive the return of member contributions and total interest earned plus a matching death benefit, which is limited to a maximum of \$5,000.</p> <p>* However, if the death occurred more than 180 calendar days after the member's last day in pay status, or if the deceased had applied for a refund of contributions or terminated employment, the lump sum will be the same as if the member had less than one year of service and the death was not job-related.</p>

Deferred Retirement Option Plan (DROP)

A member may elect to participate in the Deferred Retirement Option Plan (DROP) upon completion of at least 25 years of creditable service (excluding sick leave) and attainment of at least 52 years of age. Under the DROP, the member may defer receipt of a retirement allowance and continue employment for a period not to exceed five years, nor to be less than three years. At the end of the period, the member may withdraw from active service and receive the retirement benefit based on his or her years of service credit at the time of enrollment in the DROP, and also receive a payment for the deferred retirement benefits, employee contributions while participating in the DROP, and interest earned on DROP deposits.

Member Contributions

Members contribute 10% of salary. DROP participants continue to contribute during the DROP period, but receive a refund of these contributions with interest upon retirement.

Special Privileges at Retirement – All Members

In lieu of the full retirement allowance, any member may, at retirement, elect to receive a reduced retirement allowance equal in value to the full retirement allowance, with the provision that:

- Option 1: If a member dies before the annuity payments equal or exceed the present value of the member's annuity at the date of retirement, the balance is paid to a designated beneficiary or to the member's estate, or
- Option 2: After the member's death, the member's allowance is continued throughout the life of the designated beneficiary, or
- Option 3: After the member's death, one-half of the member's retirement allowance is continued throughout the life of the designated beneficiary, or
- Option 4: Some other benefit is paid either to the member or the designated beneficiary, provided such benefit, together with the reduced retirement allowance, is of equivalent actuarial value to the member's retirement allowance and is approved by the Board of Control.

Supporting Schedules

The following schedule provides a six-year history on active member valuation data:

**EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF ACTIVE MEMBER VALUATION DATA**

	Valuation Date	Number	Annual Payroll	Annual Average Pay	% Increase in Average Pay
*	09/30/02	81,545	\$ 2,525,514,089	\$ 30,971	3.20
	09/30/01	80,256	2,408,542,913	30,011	2.33
	09/30/00	77,693	2,278,637,042	29,329	2.85
	09/30/99	75,734	2,159,607,572	28,516	2.37
	09/30/98	73,990	2,061,103,741	27,857	6.39
	09/30/97	75,274	1,970,921,776	26,183	2.51

*In addition, there are 428 members with compensation of \$22,260,590 who are currently participating in the DROP. Employers of the Retirement System contribute on this payroll.

RETIREMENT SYSTEMS OF ALABAMA

Actuarial Section

Employees' Retirement System
Supporting Schedules (Continued)

The following table provides a six-year history of solvency tests:

EMPLOYEES' RETIREMENT SYSTEM OF ALABAMA
SOLVENCY TEST
(\$ in Thousands)

Valuation Date	Aggregate Accrued Liabilities For			Reported Assets	Portion (%) of Accrued Liabilities Covered by Reported Assets		
	(1)	(2)	(3)		(1)	(2)	(3)
	Active Member Contributions	Retirants and Beneficiaries	Active Members (Employer Financed Portion)				
09/30/02	\$ 1,400,699	\$ 3,580,584	\$ 3,512,186	\$ 8,100,846	100	100	88.8
09/30/01 §	1,319,603	3,244,967	3,445,553	8,028,471	100	100	100.5
09/30/00	1,219,344	3,080,504	3,104,120	7,769,122	100	100	111.8
09/30/99	1,152,050	2,826,060	2,906,245	7,302,046	100	100	114.4
09/30/98 †	1,022,088	2,788,846	2,753,144	6,888,446	100	100	111.8
09/30/97 *	1,016,854	2,161,301	2,639,942	6,463,795	100	100	124.5

§ Reflects changes in actuarial assumptions.

† Reflects change in asset method from market value to market related value.

* Reflects change in asset method from market related value to market value.

The following table presents a six-year history of data concerning retirants and beneficiaries:

EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF RETIRANTS AND BENEFICIARIES ADDED AND REMOVED FROM ROLLS

Fiscal Year Ended	Number of Retirees and Beneficiaries			Annual Allowances		
	Added	Removed	Year-end	Year-end (000s)	% Increase	Average
2003	1,702	709	28,920	\$ 430,633	8.1	\$ 14,890
2002	1,678	760	27,927	398,383	5.5	14,265
2001	1,458	803	27,009	377,548	8.1	13,979
2000	1,589	828	26,354	349,260	5.1	13,253
1999	1,121	787	25,593	332,237	9.5	12,982
1998	3,170	688	25,259	303,401	17.8	12,012

The following table provides an analysis of actuarial gains and losses:

**EMPLOYEES' RETIREMENT SYSTEM
ANALYSIS OF ACTUARIAL GAINS AND LOSSES AS OF SEPTEMBER 30, 2002**

	<u>Amount</u>
(Overfunded) Actuarial Liability as of September 30, 2001	\$ (18,348,476)
Normal Cost for 2002 Plan Year	130,805,728
Contributions Received During the Year	(128,318,163)
Interest to Year End	<u>(1,368,375)</u>
Expected (Overfunded) Actuarial Liability as of September 30, 2002	<u>(17,229,286)</u>
Actuarial (Gains)/Losses During the Year	
From Investments	421,317,458
From Actuarial Liabilities	<u>(11,465,614)</u>
Total Actuarial (Gains)/Losses During the Year	<u>409,851,844</u>
Actual Unfunded Actuarial Liability as of September 30, 2002	<u>\$ 392,622,558</u>



September 26, 2003

Board of Control
Judicial Retirement Fund of Alabama
State Capitol
Montgomery, AL 36104

Members of the Board:

In this report are submitted the results of the annual actuarial valuation of the assets and liabilities of the Alabama Judicial Retirement Fund, prepared as of September 30, 2002 in accordance with Section 36-27-23(p) of the act governing the operation of the Fund. The purpose of this report is to provide a summary of the funded status of the Fund as of September 30, 2002, to recommend rates of contribution and to provide accounting information under Governmental Accounting Standards Board Statements No. 25 and 27 (GASB 25 and 27). While not verifying the data at source, the actuary performed tests for consistency and reasonability. The valuation liabilities include the salary increases and the corresponding increase in retired members' allowances granted under Act 99-427. On the basis of the valuation, it is recommended that the State continue to make contributions to the Retirement Fund at the rate of 21.93% of payroll.

The financing objective of the Fund has been to have contribution rates remain relatively level over time as a percentage of payroll. The promised benefits of the Fund are included in the actuarially calculated contribution rates which are developed using the projected unit credit cost method. Market related value of plan assets is used for actuarial valuation purposes. Gains and losses are reflected in the unfunded accrued liability that is being amortized by regular annual contributions as a level percentage of payroll within a 20-year period, on the assumption that payroll will increase by 4.5% annually. The assumptions recommended by the actuary and adopted by the Board are in the aggregate reasonably related to the experience under the Fund and to reasonable expectations of anticipated experience under the Fund and meet the parameters for the disclosures under GASB 25 and 27.

We have prepared the Schedule of Funding Progress and Trend Information shown in the financial section of the Annual Report, and all supporting schedules including the Schedule of Active Member Valuation Data, the Solvency Test and the Analysis of Financial Experience shown in the actuarial section of the Annual Report.

This is to certify that the independent consulting actuary is a member of the American Academy of Actuaries and has experience in performing valuations for public retirement systems, that the valuation was prepared in accordance with principles of practice prescribed by the Actuarial Standards Board, and that the actuarial calculations were performed by qualified actuaries in accordance with accepted actuarial procedures, based on the current provisions of the retirement system and on actuarial assumptions that are internally consistent and reasonably based on the actual experience of the Fund.

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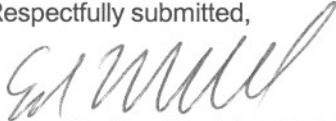
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In our opinion the Fund is operating on an actuarially sound basis. Assuming that contributions to the Fund are made by the employer from year to year in the future at the rates recommended on the basis of the successive actuarial valuations, the continued sufficiency of the retirement fund to provide the benefits called for under the Fund may be safely anticipated.

The Table of Contents, which immediately follows, outlines the material contained in the report.

Respectfully submitted,



Edward A. Macdonald, ASA, MAAA, FCA
Principal, Consulting Actuary

EAM:sh

RETIREMENT SYSTEMS OF ALABAMA

Actuarial Section

Judicial Retirement Fund

Summary of Actuarial Assumptions and Methods and Summary of Plan Provisions

Summary of Actuarial Assumptions and Methods

The Actuary selected the assumptions and methods used in the valuation based on the actuarial experience study prepared as of September 30, 2000, submitted May 23, 2002, and adopted by the Board on June 5, 2002.

Investment Rate of Return: 8% per annum, compounded annually.

Salary Increases: 5% per annum, compounded annually.

Separations Before Retirement: Representative values of the assumed annual rates of death and disability are as follows:

Age	Annual Rate (%) of		
	Death		Disability
	Male	Female	
30	0.08	0.03	0.08
35	0.08	0.04	0.16
40	0.09	0.06	0.27
45	0.14	0.09	0.43
50	0.21	0.12	0.65
55	0.36	0.19	1.00
60	0.63	0.34	1.58
64	1.01	0.58	2.28

Rates of Retirement: 30% of members are assumed to retire in the first year of eligibility and 5% in each year thereafter. All remaining members are assumed to retire at age 70.

Deaths after Retirement: The rate of mortality after service retirement are based on the George B. Buck 1979 Table for males rated forward one year and the George B. Buck 1979 Table for females. Special mortality tables are used for the period after disability retirement.

Percent Married: 90% of members are assumed to be married.

Actuarial Method: Projected unit credit method. Gains and losses are reflected in the unfunded accrued liability.

Assets: Actuarial Value. The actuarial value of assets recognizes 20% of the difference between the market value of assets and the expected actuarial value of assets.

Summary of Plan Provisions as Interpreted for Valuation Purposes

The Judicial Retirement Fund (JRF) was established on September 18, 1973. The valuation considered amendments to the JRF through the valuation date. The following summary describes the main benefit and contribution provisions of the JRF as interpreted for the valuation.

Membership

Any justice of the Supreme Court, judge of the Court of Civil Appeals, judge of the Court of Criminal Appeals, judge of the Circuit Court, or officeholder of any newly created judicial office receiving compensation from the State Treasury who was holding office on the effective date of the Act and elected to come under its provisions became a member of the JRF. Justices, Appellate Judges, and Circuit Judges elected or appointed after September 18, 1973 must become a member of the JRF. Also, District Judges appointed after October 1, 1975 and Probate Judges elected or appointed after October 1, 1976 must become a member of the JRF. Certain other district and probate judges as well as certain former county court judges, district attorneys, or assistant district attorneys serving as circuit judges and certain supernumerary judges and justices may also elect to become a member.

Credited Service

Credited service is service as a member plus certain periods of previous service credited in accordance with the provisions of the Act.

Benefits

Service Retirement Benefit

Condition of Benefit

A retirement benefit is payable upon request of any member who has:

- Completed 12 years of credited service and has attained age 65, or
- Completed 15 years of credited service and whose age plus service equals or exceeds 77, or
- Completed at least 18 years of credited service or three full terms as a judge or justice, or
- Completed 10 years of credited service and has attained age 70, or
- Completed 25 years of service or 24 years of service provided the member purchases one year of service prior to retirement, regardless of age.

However, a judge who became a member on or after July 30, 1979 or who is a district or probate judge must meet the following age and service requirement combinations in order to be eligible to retire (except judges with at least 25 years of creditable service):

- Age 70 with at least 10 years of service
- Age 65 or greater with at least 12 years of service
- Age 62 or greater with at least 15 years of service
- Age 61 with at least 16 years of service
- Age 60 with at least 17 years of service

Amount of Benefit

The service retirement benefit for a member is equal to:

- (a) For circuit or appellate judges who were members prior to July 30, 1979, 75% of the salary prescribed by law for the position from which the member retires.

RETIREMENT SYSTEMS OF ALABAMA

Actuarial Section

Judicial Retirement Fund

Summary of Plan Provisions (Continued) and Supporting Schedules

- (b) For circuit and appellate judges who assumed office on or after July 30, 1979, 75% of the member's salary at the time of separation from service.
- (c) For probate judges, 75% of the member's salary at the time of separation from service.
- (d) For district judges, 75% of the position's salary immediately prior to retirement.

Disability Retirement Benefit

Condition of Benefit

A disability retirement benefit is payable to any member who becomes permanently unable, physically or mentally, to carry out their duties on a full-time basis, provided the member has completed five or more years of credited service.

Amount of Benefit

The disability retirement benefit for a judge is equal to 25% of the salary prescribed by law for the position at the time of retirement from which the member retires on disability plus 10% of such salary for each year of credited service in excess of five years. The disability retirement benefit is subject to a 30% minimum and a 75% maximum of such salary. The retirement benefit for a circuit judge and for an appellant judge who assumed office prior to July 30, 1979, is adjusted as current salaries are adjusted.

Spousal Benefits

Condition of Benefit

Upon the death of an active, inactive, or retired member with at least 5 years of credited service, a death benefit is payable to the member's spouse.

Amount of Benefit

The death benefit for the spouse of a judge other than a district or probate judge consists of a yearly benefit equivalent to 3% of the salary prescribed by law for the position for each year of service of the former member, not to exceed 30% of such salary.

The death benefit for the spouse of a district judge consists of a yearly benefit equal to 3% of the position's salary prescribed by law at the time of death for each year of service not to exceed 30% of such salary.

For the spouse of a probate judge, the yearly benefit is equal to the greater of \$480 for each year of credited service to a maximum of 10 year, or 3% of the judge's salary at the time of their separation from service for each year of credited service not to exceed 30% of such salary.

The benefit is payable for the spouse's life or until remarriage.

Benefit Payable on Separation from Service

If a member terminates service and elects not to withdraw his or her contributions and accrued interest from the JRF, the member is eligible to receive any of the above benefits for which the member has sufficient credited service upon reaching an eligible retirement age.

A member terminating service prior to reaching eligibility for retirement benefits may elect to receive a refund of their accumulated contributions

and interest (the amount of accrued interest refundable to a District or Probate Judge is based upon the same rules and regulations applicable to similar refunds under ERS).

Member Contributions

Each member contributes 6% of salary.

State Contributions

The State makes contributions, which, in addition to the members' contributions, are sufficient to carry out the provisions of the Act.

Supporting Schedules

The following schedule presents six years of active member valuation data:

JUDICIAL RETIREMENT FUND SCHEDULE OF ACTIVE MEMBER VALUATION DATA

<u>Valuation Date</u>	<u>Number</u>	<u>Annual † Payroll</u>	<u>Annual Average Pay</u>	<u>% Increase (Decrease) in Average Pay</u>
09/30/02	331	\$ 37,849,332	\$ 114,348	9.95
09/30/01	326	33,902,846	103,996	26.04
09/30/00	326	26,898,150	82,510	(0.88)
09/30/99	325	27,053,721	83,242	7.94
09/30/98	318	24,523,217	77,117	0.03
09/30/97	319	24,593,274	77,095	0.25

† Does not include salary increases effective after the valuation date.

The following schedule presents six years of solvency tests:

JUDICIAL RETIREMENT FUND SOLVENCY TEST

(\$ in Thousands)

<u>Valuation Date</u>	<u>Aggregate Accrued Liabilities For</u>				<u>Reported Assets</u>	<u>Portion (%) of Accrued Liabilities Covered by Reported Assets</u>		
	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>	<u>Members (Employer Financed Portion)</u>		<u>(1)</u>	<u>(2)</u>	<u>(3)</u>
	<u>Active Member Contributions</u>	<u>Retirants and Beneficiaries</u>	<u>Active</u>					
09/30/02	\$ 23,537	\$ 184,490	\$ 81,831	\$ 245,425	100	100	45.7	
09/30/01 *	21,015	189,375	78,654	245,705	100	100	44.9	
09/30/00	20,865	169,016	78,897	239,023	100	100	62.5	
09/30/99	18,812	171,346	73,333	221,926	100	100	43.3	
09/30/98 †	17,665	154,319	74,194	210,116	100	100	51.4	
09/30/97 ‡	16,294	120,633	53,644	198,014	100	100	113.9	

* Reflects change in post retirement mortality.

† Reflects change in asset method from market value to market-related value.

‡ Reflects change in asset method from market-related value to market value.

RETIREMENT SYSTEMS OF ALABAMA

Actuarial Section

Judicial Retirement Fund

Supporting Schedules (Continued)

The following schedule presents six years of retirant and beneficiary data:

SCHEDULE OF RETIRANTS AND BENEFICIARIES ADDED AND REMOVED FROM ROLLS

Fiscal Year Ended	Number of Retirees and Beneficiaries			Annual Allowances		
	Added	Removed	Year-end	Year-end	% Increase	Average
2003	14	7	276	\$ 18,002,868	7.6	\$ 65,228
2002	8	10	269	16,728,048	4.5	62,186
2001	25	6	271	16,006,800	44.7	59,066
2000	3	3	252	11,060,436	(2.1)	43,891
1999	13	4	252	11,293,512	12.8	44,816
1998	8	3	243	10,015,812	2.5	41,217

The following table provides an analysis of actuarial gains and losses:

**JUDICIAL RETIREMENT FUND
ANALYSIS OF ACTUARIAL GAINS AND LOSSES AS OF SEPTEMBER 30, 2002**

	<u>Amount</u>
Unfunded Actuarial Liability as of September 30, 2001	\$ 43,339,350
Normal Cost for 2002 Plan Year	5,310,261
Contributions Received During the Year	(7,921,786)
Interest to Year End	<u>3,362,687</u>
Expected Unfunded Actuarial Liability as of September 30, 2002	<u>44,090,512</u>
Actuarial (Gains)/Losses During the Year	
From Investments	13,157,042
From Actuarial Liabilities	<u>(12,814,554)</u>
Total Actuarial (Gains)/Losses During the Year	<u>342,488</u>
Actual Unfunded Actuarial Liability as of September 30, 2002	<u>\$ 44,433,000</u>

STATISTICAL SECTION

RETIREMENT SYSTEMS OF ALABAMA

Statistical Section
Revenues by Source
Six-Year History

(Amounts in Thousands)

TEACHERS' RETIREMENT SYSTEM
REVENUES BY SOURCE

Fiscal Year	Member Contributions §	Employer Contributions		Investment Income	Total
		Amount	Employer Rate %		
2003	\$ 252,018	\$ 235,786	5.02	\$ 2,004,431	\$ 2,492,235
2002	235,726	265,670	5.96	(1,244,757)	(743,361)
2001	230,618	279,880	6.38	(1,090,706)	(580,208)
2000	214,003	277,180	6.38	1,414,568	1,905,751
1999	217,205	166,100	4.03	1,829,883	2,213,188
1998	199,780	358,088	9.66	564,331	1,122,199

EMPLOYEES' RETIREMENT SYSTEM
REVENUES BY SOURCE

Fiscal Year	Member Contributions §	Employer Contributions				Investment Income	Total
		Amount	Employer Rate %		Local		
			Regular	Law			
2003	\$ 162,284	\$ 154,218	3.95	9.24	*	\$ 938,921	\$ 1,255,423
2002	151,221	123,887	3.95	9.24	*	(656,360)	(381,252)
2001	132,238	122,483	4.08	9.45	*	(530,968)	(276,247)
2000	118,128	113,991	4.08	9.45	*	655,108	887,227
1999	112,779	97,373	3.11	6.85	*	857,378	1,067,530
1998	108,477	157,246	7.56	15.74	*	254,330	520,053

JUDICIAL RETIREMENT FUND
REVENUES BY SOURCE

Fiscal Year	Member Contributions §	Employer Contributions		Investment Income	Total
		Amount	Employer Rate %		
2003	\$ 2,342	\$ 8,637	21.19	\$ 20,855	\$ 31,834
2002	2,356	8,222	21.19	(23,333)	(12,755)
2001	2,212	7,598	21.19	(24,197)	(14,387)
2000	1,643	5,696	21.19	25,081	32,420
1999	1,594	2,870	9.16	27,800	32,264
1998	1,467	5,417	19.71	17,378	24,262

§ Includes transfers from other systems.

* Local agency rates differ for each participating agency.

RETIREMENT SYSTEMS OF ALABAMA

Statistical Section

Expenses by Type

Six-Year History

(Amounts in Thousands)

**TEACHERS' RETIREMENT SYSTEM
EXPENSES BY TYPE**

Fiscal Year	Benefit Payments	Contribution Refunds & Death Benefits	Service Transfers	Administrative Expenses	Other	Total
2003	\$ 932,687	\$ 32,084	\$ 2,418	\$ 7,011	\$ 367	\$ 974,567
2002	858,383	35,510	2,091	6,845	391	903,220
2001	811,896	34,156	1,207	6,023	1,002	854,284
2000	720,576	33,978	1,534	5,639	165	761,892
1999	678,740	31,307	1,800	6,563	737	719,147
1998	576,463	32,636	1,116	7,076	547	617,838

**EMPLOYEES' RETIREMENT SYSTEM
EXPENSES BY TYPE**

Fiscal Year	Benefit Payments	Contribution Refunds & Death Benefits	Unit Withdrawals & Service Transfers	Administrative Expenses	Other	Total
2003	\$ 423,027	\$ 25,056	\$ 2,842	\$ 5,843	\$ 278	\$ 457,046
2002	389,856	24,965	10,410	5,582	235	431,048
2001	371,715	24,906	4,074	4,578	330	405,603
2000	341,145	24,864	1,985	3,811	367	372,172
1999	330,231	25,291	1,674	4,812	333	362,341
1998	270,469	26,031	1,757	4,855	351	303,463

**JUDICIAL RETIREMENT FUND
EXPENSES BY TYPE**

Fiscal Year	Benefit Payments	Contribution Refunds & Death Benefits	Service Transfers	Administrative Expenses	Other	Total
2003	\$ 17,964	\$ 83	\$ 103	\$ 322	\$ -	\$ 18,472
2002	16,770	29	-	306	-	17,105
2001	15,655	79	163	272	-	16,169
2000	11,256	43	-	263	-	11,562
1999	11,150	101	-	226	-	11,477
1998	10,035	155	145	245	-	10,580

RETIREMENT SYSTEMS OF ALABAMA

Statistical Section

Benefits by Type

Six-Year History

(Amounts in Thousands)

**TEACHERS' RETIREMENT SYSTEM
BENEFITS BY TYPE**

<u>Fiscal Year</u>	<u>Age & Service Benefits</u>		<u>Disability Benefits</u>	<u>Death Benefits & Refunds</u>	
	<u>Retirants</u>	<u>Survivors</u>		<u>Death</u>	<u>Resignation</u>
2003	\$ 872,992	\$ 27,020	\$ 32,675	\$ 10,035	\$ 22,049
2002	804,822	24,076	29,485	12,390	23,120
2001	762,007	22,104	27,785	10,949	23,207
2000	676,365	19,384	24,827	9,800	24,178
1999	637,542	18,180	23,018	8,550	22,757
1998	541,729	15,267	19,467	9,171	23,465

**EMPLOYEES' RETIREMENT SYSTEM
BENEFITS BY TYPE**

<u>Fiscal Year</u>	<u>Age & Service Benefits</u>		<u>Disability Benefits</u>	<u>Death Benefits & Refunds</u>	
	<u>Retirants</u>	<u>Survivors</u>		<u>Death</u>	<u>Resignation</u>
2003	\$ 372,512	\$ 21,832	\$ 28,683	\$ 6,554	\$ 18,502
2002	343,265	20,181	26,410	5,540	19,425
2001	327,214	19,372	25,129	5,965	18,941
2000	300,541	17,394	23,210	5,564	19,300
1999	291,548	16,489	22,194	6,195	19,096
1998	236,328	14,562	19,579	5,252	20,779

**JUDICIAL RETIREMENT FUND
BENEFITS BY TYPE**

<u>Fiscal Year</u>	<u>Age & Service Benefits</u>		<u>Disability Benefits</u>	<u>Death Benefits & Refunds</u>	
	<u>Retirants</u>	<u>Survivors</u>		<u>Death</u>	<u>Resignation</u>
2003	\$ 14,823	\$ 2,801	\$ 340	\$ -	\$ 83
2002	13,655	2,746	369	-	29
2001	12,711	2,543	401	-	79
2000	9,061	1,852	343	-	43
1999	9,110	1,694	346	-	101
1998	8,194	1,509	332	-	155

RETIREMENT SYSTEMS OF ALABAMA

Statistical Section

Teachers' Retirement System

Retired Members by Type of Benefit as of June 30, 2003

Amount of Monthly Benefit	Number of Retirants	Type of Retirement ¹			Option Selected ²				
		A	B	C	Maximum	Opt-1	Opt-2	Opt-3	Opt-4
\$ 1 - 250	1,311	818	333	160	293	415	274	329	-
251 - 500	7,904	6,208	687	1,009	2,397	3,662	910	926	9
501 - 750	5,891	4,781	502	608	1,800	2,685	663	738	5
751 - 1,000	4,663	3,883	308	472	1,360	2,167	530	604	2
1,001 - 1,250	4,351	3,746	214	391	1,211	2,043	538	553	6
1,251 - 1,500	5,459	5,005	157	297	1,320	2,634	792	709	4
1,501 - 1,750	6,547	6,252	106	189	1,330	3,614	792	805	6
1,751 - 2,000	5,669	5,513	72	84	1,066	3,362	555	682	4
2,001 - 2,250	4,190	4,107	43	40	747	2,489	446	500	8
2,251 - 2,500	2,741	2,676	34	31	487	1,583	325	343	3
2,501 - 2,750	1,898	1,856	29	13	333	1,013	274	276	2
2,751 - 3,000	1,355	1,325	25	5	254	659	221	216	5
3,001 - 3,250	1,048	1,037	9	2	163	551	166	166	2
3,251 - 3,500	795	778	14	3	153	414	114	111	3
3,501 - 3,750	609	603	4	2	124	299	91	93	2
3,751 - 4,000	445	439	6	-	60	228	72	81	4
4,001 - 4,250	368	362	6	-	68	178	55	65	2
4,251 - 4,500	253	249	4	-	36	127	45	42	3
4,501 - 4,750	190	188	1	1	28	92	27	43	-
4,751 - 5,000	123	119	2	2	17	58	28	19	1
Over 5,000	457	450	6	1	62	180	95	112	8
Totals ³	56,267	50,395	2,562	3,310	13,309	28,453	7,013	7,413	79

¹ Type of Retirement

- A - Service
- B - Survivor benefit
- C - Disability

² Option

- Maximum - Life Annuity
- Opt-1 - Cash Refund
- Opt-2 - 100% Joint Survivorship
- Opt-3 - 50% Joint Survivorship
- Opt-4 - Other

³ This includes 2,711 DROP participants as of June 30, 2003.

Prepared by Mellon

RETIREMENT SYSTEMS OF ALABAMA

Statistical Section

Employees' Retirement System

Retired Members by Type of Benefit as of September 30, 2002

Amount of Monthly Benefit	Number of Retirants	Type of Retirement ¹			Option Selected ²				
		A	B	C	Maximum	Opt-1	Opt-2	Opt-3	Opt-4
\$ 1 - 250	904	308	567	29	148	90	131	523	12
251 - 500	4,523	2,844	1,222	457	1,148	1,286	909	1,157	23
501 - 750	4,907	3,539	547	821	1,615	1,825	575	845	47
751 - 1,000	4,065	3,135	271	659	1,257	1,739	439	599	31
1,001 - 1,250	3,545	3,020	167	358	987	1,570	397	556	35
1,251 - 1,500	2,638	2,379	98	161	644	1,186	343	441	24
1,501 - 1,750	2,080	1,937	53	90	489	999	208	369	15
1,751 - 2,000	1,537	1,467	28	42	365	758	143	254	17
2,001 - 2,250	1,110	1,067	18	25	245	536	110	207	12
2,251 - 2,500	801	775	11	15	181	360	88	161	11
2,501 - 2,750	593	575	12	6	133	281	58	117	4
2,751 - 3,000	458	448	7	3	105	221	33	92	7
3,001 - 3,250	317	314	1	2	63	165	27	59	3
3,251 - 3,500	231	225	3	3	57	110	12	48	4
3,501 - 3,750	180	179	1	-	42	90	11	35	2
3,751 - 4,000	134	133	1	-	27	61	12	31	3
4,001 - 4,250	108	108	-	-	24	57	4	20	3
4,251 - 4,500	74	73	1	-	22	27	4	21	-
4,501 - 4,750	57	57	-	-	18	24	1	14	-
4,751 - 5,000	39	39	-	-	9	14	3	10	3
Over 5,000	114	113	1	-	41	43	3	25	2
Totals ³	28,415	22,735	3,009	2,671	7,620	11,442	3,511	5,584	258

¹ Type of Retirement

- A - Service
- B - Survivor benefit
- C - Disability

² Option

- Maximum - Life Annuity
- Opt-1 - Cash Refund
- Opt-2 - 100% Joint Survivorship
- Opt-3 - 50% Joint Survivorship
- Opt-4 - Other

³ Includes 342 DROP participants as of September 30, 2002.

Does not include 38 members entitled to deferred benefits, but not currently in receipt.

Prepared by Mellon

RETIREMENT SYSTEMS OF ALABAMA

Statistical Section

Judicial Retirement Fund

Retired Members by Type of Benefit as of September 30, 2002

Amount of Monthly Benefit	Number of Retirants	Type of Retirement †			Option	
		A	B	C	Maximum	Joint Survivorship
\$ 1 - 250	1	-	1	-	-	1
251 - 500	1	-	1	-	-	1
501 - 750	9	1	8	-	-	9
751 - 1,000	9	-	8	1	1	8
1,001 - 1,250	6	1	5	-	1	5
1,251 - 1,500	2	-	2	-	-	2
1,501 - 1,750	-	-	-	-	-	-
1,751 - 2,000	4	1	2	1	1	3
2,001 - 2,250	6	1	5	-	1	5
2,251 - 2,500	5	1	3	1	2	3
2,501 - 2,750	7	3	3	1	3	4
2,751 - 3,000	4	3	1	-	3	1
3,001 - 3,250	18	2	16	-	-	18
3,251 - 3,500	35	6	29	-	3	32
3,501 - 3,750	11	8	1	2	2	9
3,751 - 4,000	6	6	-	-	1	5
4,001 - 4,250	9	6	1	2	4	5
4,251 - 4,500	7	3	4	-	-	7
4,501 - 4,750	3	1	2	-	-	3
4,751 - 5,000	4	3	1	-	-	4
Over 5,000	122	121	-	1	6	116
Totals	269	167	93	9	28	241

† Type of Retirement

- A - Service
- B - Survivor benefit
- C - Disability

Prepared by Mellon

RETIREMENT SYSTEMS OF ALABAMA

Statistical Section

Teachers' Retirement System

Six-Year History of Average Monthly Benefit Payments as of June 30

	Years Credited Service				
	10-14	15-19	20-24	25-29	30 & over
2003					
Average monthly benefit	\$ 535	\$ 798	\$ 1,133	\$ 1,905	\$ 2,984
Average final average salary	\$ 27,372	\$ 28,531	\$ 31,559	\$ 44,478	\$ 56,593
Number of active retirants	569	424	437	2,420	1,464
2002					
Average monthly benefit	\$ 563	\$ 791	\$ 1,090	\$ 1,795	\$ 2,657
Average final average salary	\$ 28,942	\$ 28,971	\$ 30,725	\$ 41,721	\$ 50,034
Number of active retirants	564	416	412	1,973	1,236
2001					
Average monthly benefit	\$ 502	\$ 777	\$ 1,092	\$ 1,788	\$ 2,819
Average final average salary	\$ 26,015	\$ 27,774	\$ 30,013	\$ 40,681	\$ 50,689
Number of active retirants	552	386	431	1,455	843
2000					
Average monthly benefit	\$ 465	\$ 756	\$ 1,036	\$ 1,698	\$ 2,387
Average final average salary	\$ 24,661	\$ 27,450	\$ 28,961	\$ 39,249	\$ 44,226
Number of active retirants	564	433	452	1,370	814
1999					
Average monthly benefit	\$ 484	\$ 726	\$ 980	\$ 1,723	\$ 2,528
Average final average salary	\$ 24,412	\$ 24,802	\$ 26,105	\$ 38,510	\$ 44,668
Number of active retirants	553	381	557	1,427	805
1998					
Average monthly benefit	\$ 414	\$ 675	\$ 885	\$ 1,577	\$ 2,255
Average final average salary	\$ 21,919	\$ 24,090	\$ 24,853	\$ 36,538	\$ 41,688
Number of active retirants	468	426	510	1,273	787

Prepared by Mellon

RETIREMENT SYSTEMS OF ALABAMA

Statistical Section

Employees' Retirement System

Six-Year History of Average Monthly Benefit Payments as of September 30

	Years Credited Service				
	10-14	15-19	20-24	25-29	30 & over
2002					
Average monthly benefit	\$ 1,107	\$ 1,023	\$ 1,346	\$ 1,665	\$ 2,725
Average final average salary	\$ 33,936	\$ 32,913	\$ 36,895	\$ 38,739	\$ 51,237
Number of active retirants	511	268	224	626	311
2001					
Average monthly benefit	\$ 979	\$ 935	\$ 1,224	\$ 1,630	\$ 2,359
Average final average salary	\$ 32,428	\$ 30,796	\$ 33,257	\$ 37,763	\$ 44,275
Number of active retirants	490	214	192	306	100
2000					
Average monthly benefit	\$ 873	\$ 973	\$ 1,343	\$ 1,636	\$ 2,399
Average final average salary	\$ 30,434	\$ 30,488	\$ 34,121	\$ 37,312	\$ 44,483
Number of active retirants	450	241	231	525	110
1999					
Average monthly benefit	\$ 731	\$ 899	\$ 1,173	\$ 1,455	\$ 2,249
Average final average salary	\$ 28,201	\$ 29,501	\$ 29,572	\$ 34,234	\$ 42,655
Number of active retirants	362	206	192	287	40
1998					
Average monthly benefit	\$ 799	\$ 814	\$ 1,140	\$ 1,447	\$ 2,352
Average final average salary	\$ 28,045	\$ 28,400	\$ 30,618	\$ 33,502	\$ 42,894
Number of active retirants	626	398	417	1,114	561
1997					
Average monthly benefit	\$ 659	\$ 866	\$ 1,110	\$ 1,404	\$ 2,175
Average final average salary	\$ 26,217	\$ 29,096	\$ 29,994	\$ 33,224	\$ 41,250
Number of active retirants	381	261	217	324	105

Prepared by Mellon

RETIREMENT SYSTEMS OF ALABAMA

Statistical Section

Judicial Retirement Fund

Six-Year History of Average Monthly Benefit Payments as of September 30

	Years of Credited Service			
	10-14	15-19	20-24	25-29
2002				
Average monthly benefit	\$ 7,840	\$ 7,446	\$ 8,711	\$ 8,430
Number of active retirants	1	3	1	2
2001				
Average monthly benefit	\$ 6,565	\$ 7,751	\$ 7,068	\$ 11,877
Number of active retirants	10	5	8	1
2000				
Average monthly benefit	\$ 5,717	\$ -	\$ -	\$ -
Number of active retirants	1	-	-	-
1999				
Average monthly benefit	\$ 4,144	\$ 5,285	\$ 6,127	\$ 7,809
Number of active retirants	4	2	6	1
1998				
Average monthly benefit	\$ -	\$ 4,894	\$ 4,100	\$ -
Number of active retirants	-	1	8	-
1997				
Average monthly benefit	\$ 7,231	\$ 4,282	\$ 5,822	\$ -
Number of active retirants	2	4	5	-

Prepared by Mellon

RETIREMENT SYSTEMS OF ALABAMA

Statistical Section

Employees' Retirement System

Local Participating Employers

Abbeville Water Works Board	Athens/Limestone County Emergency Management Communication District
Abbeville, City of	Athens/Limestone Public Library Authority
Adamsville, City of	Atmore, City of
Addison, Town of	Atmore Housing Authority
Alabama Elk River Development Agency	Atmore Utilities Board
Alabama Historic Ironworks Commission	Attalla Water Works Board
Alabama League of Municipalities	Attalla, City of
Alabama Municipal Electric Authority	Auburn Extension
Alabama Music Hall of Fame	Auburn Housing Authority
Alabama Rural Water Association	Auburn Water Works Board
Alabama Space & Rocket Center	Auburn, City of
Alabama Sports Hall of Fame Board	Autauga County Commission
Alabama Tombigbee Regional Commission	Autauga County Emergency Management Communication District
Alabaster Water & Gas Board	Autauga County Water Authority
Alabaster, City of	Autauga/Prattville Public Library
Albertville Municipal Utilities Board	B. B. Comer Memorial Library
Albertville, City of	Bakerhill Water Authority
Alexander City, City of	Baldwin County Board of Revenue
Aliceville Housing Authority	Baldwin County Emergency Communication District
Aliceville, City of	Baldwin County Mental Health Center
Altoona, Town of	Baldwin County Mental Health/Development Disabilities Board
Andalusia Housing Authority	Baldwin County Soil & Water Conservation District
Andalusia, City of	Barbour County Commission
Andalusia Utilities Board	Bay Minette Housing Authority
Anniston Housing Authority	Bay Minette, City of
Anniston Water Works & Sewer Board	Bay Minette Utilities Board
Anniston, City of	Bayou La Batre Water, Sewer and Gas Board
Anniston/Calhoun County Public Library	Bayou La Batre, City of
Anniston-Calhoun Co. Ft. McClellan Development Joint Power Authority	Bear Creek Development Authority
Arab Housing Authority	Bear Creek, Town of
Arab Sewer Board	Beauregard Water & Fire Protection Authority
Arab Water Works Board	Berry, Town of
Arab, Town of	Bessemer, City of
Argo, Town of	Bibb County Commissioners Court
Arley, Town of	Bibb County Emergency Management Commissions District
Ashland Housing Authority	
Ashville Water & Gas Board	
Ashville, Town of	
Association of County Commissioners	
Athens, City of	

RETIRMENT SYSTEMS OF ALABAMA

Statistical Section

Employees' Retirement System

Local Participating Employers

Bibb, Pickens & Tuscaloosa County Mental Health-Mental Retardation Board	Calhoun County Community Punishment and Corrections Authority
Billingsley, Town of	Calhoun County Economic Development Council
Birmingham Racing Commission	Camden, City of
Birmingham Regional Planning Commission	Camp Hill, City of
Black Warrior Solid Waste Disposal Authority	Carbon Hill Utilities Board
Blount County Communication District	Carbon Hill, City of
Blount County Commissioners Court	Carl Elliot Regional Library
Blount Count Water Authority	Carroll's Creek Water Authority
Blountsville Utility Board	Carrollton, Town of
Blountsville, Town of	Cedar Bluff, Town of
Boaz Water & Sewer Commissioners Board	Center Point, City of
Boaz, City of	Center Point Fire District
Boldo Water & Fire Protection Authority	Centreville, City of
Branchville, Town of	Central Alabama Aging Consortium
Brantley Housing Authority	Central Alabama Regional Planning & Development Commission
Brent Housing Authority	Central Alabama Youth Services
Brent, City of	Central Elmore Water Authority
Brewton Housing Authority	Centre Water Works & Sewer Board
Brewton, City of	Centre, City of
Bridgeport Utilities Board	Chambers County Commissioners Court
Bridgeport, City of	Chambers County Emergency Management Communications District
Brilliant, Town of	Chambers County Library Board
Brookwood, Town of	Chatom, City of
Brundidge, City of	Cheaha Regional Library
Buhl-Elrod-Holman Water Authority	Cheaha Regional Mental Health-Mental Retardation Board
Bullock County Commissioners Court	Cherokee County Commission
Butler County Commissioners Court	Cherokee County Water and Sewer Authority
Butler County Emergency Communication District	Cherokee Water Works & Gas Board
Butler, City of	Cherokee, Town of
Cahaba Center for Mental Health & Mental Retardation	Chickasaw Utilities Board
Cahaba Valley Fire & Emergency Medical Rescue District	Chickasaw, Town of
Calera, City of	Childersburg Water, Sewer & Gas Board
Calhoun County 911 District	Childersburg, City of
Calhoun County Commission	Chilton County Commission
Calhoun County Water & Fire Protection Authority	Chilton County Soil & Water Conservation District
Calhoun/Cleburne Mental Health Board	Chilton Water Authority

Chilton/Clanton Public Library	Cordova, City of
Chilton/Shelby Mental Health Center	Cottonwood, City of
Choctaw County Emergency Communications District	Courtland, Town of
Clanton, City of	Covington County Board of Revenue
Clanton Housing Authority	Covington County E-911 Board
Clanton Water Works & Sewer Board	Cowarts, Town of
Clark County Commission	Crems Etowah County Water Authority
Clarke County Industrial Development Board	Crenshaw County Court of Commissioners
Clarke County Soil and Water Conservation District	Crenshaw County Emergency Management Communications District
Clarke/Mobile County Gas District	Creola, City of
Clay County Commission	Cross Trails Regional Library
Clay County E-911	Cuba, Town of
Clay County Water Authority	Cullman Area Mental Health Authority
Clayton Housing Authority	Cullman County Board of Revenue
Clayton Water & Sewer Board	Cullman County Center for the Development Disabled
Clayton, City of	Cullman County E-911
Cleburne County Commission	Cullman County Parks & Recreation
Cleveland, Town of	Cullman Power Board
Coffee County Commissioners Court	Cullman, City of
Coffee County Soil & Water Conservation District	Cullman/Jefferson County Gas District
Coffeetown, Town of	Cumberland Mountain Water & Fire Protection Authority
Coker Water & Fire Protection Authority	Curry Water Authority
Colbert County Board of Revenue	CWM Water Authority
Colbert County Emergency Management Communications District	Dadeville Housing Authority
Colbert County Tourism and Convention Bureau	Dadeville Water Supply & Gas Board
Collinsville Water Works Board	Dadeville, City of
Collinsville, City of	Dale County Commissioners Court
Columbia, Town of	Dale County Water Authority
Columbiana, Town of	Daleville Housing Authority
Columbiana Water Works Board	Daleville, City of
Concord Fire District	Dallas County Court of County Revenue
Conecuh County Board of Directors	Daphne Utility Board
Conecuh County Soil and Water Conservation District	Daphne, City of
Cook Springs Water Authority	Dauphin Island Park and Beach Board
Coosa County Commissioners Court	Dauphin Island Water & Sewer Authority
Coosa Valley Youth Services	Dauphin Island, Town of
Coosada, Town of	Decatur, City of
Cordova Water & Gas Board	Decatur Utilities

RETIREMENT SYSTEMS OF ALABAMA

Statistical Section

Employees' Retirement System

Local Participating Employers

DeKalb County Commission	Enterprise, City of
DeKalb County Economic Development Authority	Enterprise Housing Authority
DeKalb County Emergency Communications District	Enterprise Water Works Board
DeKalb County Hospital Association	Ernest F. Ladd Memorial Stadium
DeKalb County Mental Retardation Board	Escambia County Commission
DeKalb County Soil and Water Conservation District	Escambia County Cooperative Library System
DeKalb/Cherokee County Gas District	Etowah County Board of Revenue
Demopolis Housing Authority	Etowah County Communications District
Demopolis, City of	Etowah County Community Punishment and Corrections
Demopolis Water Works and Sewer Board	Etowah Solid Waste Disposal Authority
Dora Gas Board	Eufaula Housing Authority
Dora, City of	Eufaula Water Works & Sewer Board
Dothan/Houston County Mental Retardation Board	Eufaula, City of
Double Springs Water Works Board	Eutaw Medical Clinic Board
Double Springs, Town of	Eutaw, City of
Douglas Water & Fire Protection Authority	Evergreen Housing Authority
Douglas, Town of	Evergreen, City of
Dutton, Town of	Excel, Town of
East Alabama Mental Health-Mental Retardation Board	Fairfield, City of
East Alabama Regional Planning & Development Commission	Fairhope Public Library
East Alabama Water, Sewer, & Fire Protection District	Fairhope, City of
East Brewton Water Works & Sewer Board	Falkville, Town of
East Brewton, City of	Fayette County Commission
East Central Alabama Gas District	Fayette County E911 District
East Lauderdale County Water & Fire Protection Authority	Fayette Gas Board
Eclectic Water Works & Sewer Board	Fayette Housing Authority
Eclectic, Town of	Fayette Water Works Board
Elba General Hospital & Nursing Home	Fayette County Water Coordination & Fire Protection Authority
Elba Water & Electric Board	Fayette, City of
Elba, City of	Fayetteville Water Authority
Elberta, City of	Flomaton, Town of
Elmore County Commissioners Court	Florence Housing Authority
Elmore County Emergency Communications District	Florence/Lauderdale Tourism Board
Elmore Water Authority	Foley Utilities Board
	Foley, City of
	Forestdale Fire District
	Fort Deposit Water Works & Sewer Board
	Fort Deposit, Town of

Fort Payne Housing Authority	Greenville, City of
Fort Payne Improvement Authority	Grove Hill, City of
Fort Payne Water Works Board	Guin, City of
Fort Payne, City of	Guin Housing Authority
Fosters-Ralph Water Authority	Guin Water & Sewer Board
Franklin County Commission	Guntersville Electric Board
Franklin County Soil and Water Conservation	Guntersville Water & Sewer Board
Franklin County Water Service Authority	Guntersville, City of
Fultondale, Town of	Gurley, Town of
Fyffe, Town of	Hackleburg, Town of
Gadsden Water & Sewer Board	Hackleburg Water Board
Gadsden, City of	Hackneyville Water & Fire Protection Authority
Garden City, Town of	Hale County Commission
Gardendale, City of	Hale County Soil and Water Conservation District
Geneva County Court of Commissioners	Hale County Emergency Medical Service
Geneva County E-911 Board, Inc.	Haleyville, City of
Geneva Water Works & Sewer Board	Hamilton, City of
Geneva, City of	Hamilton Housing Authority
Gilberttown Utilities Board	Hanceville, City of
Gilberttown, Town of	Hanceville Waterworks & Sewer Board
Glencoe, City of	Harpersville, Town of
Goodwater, City of	Hartford, City of
Gordo, City of	Hartford Housing Authority
Grant Water Works Board	Hartselle Utilities Board
Grant, Town of	Hartselle, City of
Graysville Public Library	Harvest-Monrovia Water & Fire Protection Authority
Graysville, City of	Hayneville, City of
Greater Etowah Mental Retardation 310 Board	Headland Housing Authority
Greater Mobile/Washington County Mental Health-Mental Retardation Board	Headland, City of
Greene County Ambulance Service	Heflin, City of
Greene County Commission	Heflin Water Works & Sewer Board
Greene County Economic & Industrial Development Board	Helen Keller Memorial Hospital
Greene County Hospital	Helena Utilities Board
Greene County Housing Authority	Helena, City of
Greene County Racing Commission	Henry County Commissioners Court
Greenhill Water & Fire Protection Authority	Henry County Soil & Water Conservation District
Greensboro Housing Authority	Henry County Water Authority
Greensboro, City of	
Greenville Water Works & Sewer Board	

RETIREMENT SYSTEMS OF ALABAMA

Statistical Section

Employees' Retirement System

Local Participating Employers

Highland Water Authority	Jackson County Soil & Water Conservation District
Hillsboro, Town of	Jackson, City of
Historic Blakeley Authority	Jackson County Water Authority
Historic Chattahoochee Commission	Jackson's Gap Water Authority
Hodges, Town of	Jackson's Gap, Town of
Hokes Bluff Sewer Board	Jacksonville Housing Authority
Hokes Bluff Water Works Board	Jacksonville Water Works, Gas & Sewer
Hokes Bluff, Town of	Jacksonville, City of
Holly Pond, Town of	Jasper Water Works & Sewer Board
Hollywood, Town of	Jasper, City of
Homewood, City of	Jefferson County Department of Health
Hoover, City of	Jefferson/Blount/St. Clair Mental Health Authority
Horseshoe Bend Regional Library	Jemison, Town of
Houston County Board of Revenue and Control	John Paul Jones Hospital
Houston County Soil Conservation District	Killen, City of
Houston County Water Authority	Kinsey, Town of
Houston/Love Memorial Library	Lafayette, City of
Hueytown, City of	Lamar County Commission
Huntsville Electric System	Lamar County Gas District
Huntsville Gas System	Lamar County Water & Fire Protection Authority
Huntsville Solid Waste Disposal Authority	Lanett, City of
Huntsville Water System	Lauderdale County Commission
Huntsville, City of	Lauderdale County Community Corrections & Punishment Authority
Huntsville/Madison County Airport Authority	Lauderdale County Regional Library System
Huntsville/Madison County Convention & Visitor's Bureau	Lawrence County Commission
Huntsville/Madison County Marina & Port Authority	Lawrence/Colbert County Gas District
Huntsville/Madison County Mental Health Board	Lawrence/Cullman/Morgan Regional Housing Authority
Huntsville/Madison County Railroad Authority	Lee County Commissioners Court
Indian Pines Recreation Authority	Lee County Emergency Communications District
Industrial Development Authority of Chambers County	Lee/Russell Council of Governments
International Motorsports Hall of Fame	Leeds Housing Authority
Irondale, City of	Leeds, City of
Jackson County Commission	Leeds Water Works Board
Jackson County Economic Development Authority	Leesburg, Town of
Jackson County Emergency Management Communications District	Lexington, Town of
	Limestone County Board of Revenue

Limestone County Water Authority	Middle Alabama Area Agency on Aging
Lincoln, City of	Midfield Library Board
Linden, City of	Midfield, City of
Lineville Housing Authority	Mildred B. Harrison Library
Lineville Water & Sewer Board	Millbrook, City of
Lineville, City of	Millport Housing Authority
Livingston Housing Authority	Millport, Town of
Livingston, City of	Mobile Airport Authority
Loachapoka Water Authority	Mobile County Commission
Locust Fork, Town of	Mobile County Communications District
Lowndes County Board of Revenue	Mobile County Emergency Management Agency
Loxley, City of	Mobile County Health Department
Luverne Housing Authority	Mobile County Housing Authority
Luverne, City of	Mobile County Law Enforcement & Firefighters Pension Fund
Macon County Commission	Mobile County Personnel Board
Macon County Racing Commission	Mobile County Racing Commission
Madison County Commissioners Court	Mobile County Water, Sewer & Fire Protection Authority
Madison County Communications District	Mobile Public Library
Madison County Mental Retardation Board	Mobile Transit Authority
Madison Water & Wastewater Board	Mobile Water Service System
Madison, City of	Mobile, City of
Malvern, Town of	Monroe County Commission
Maplesville Water & Gas Board	Monroeville Housing Authority
Maplesville, City of	Monroeville Water Board
Marengo County Commission	Monroeville, City of
Marengo County Emergency Communications District	Montevallo, City of
Marengo County Nursing Home	Montgomery Area Mental Health Authority
Marion County Board of Revenue	Montgomery County Soil & Water Conservation District
Marion County Public Water Authority	Moody, City of
Marion Housing Authority	Morgan County Commission
Marion, City of	Morgan County Emergency Management Communication District
Marshall County Commission on Government and Finance	Morgan County Soil & Water Conservation District
Marshall County Emergency Telephone Service Board	Moulton Housing Authority
Marshall County Gas District	Moulton, City of
Marshall County Soil & Water Conservation District	Moundville, City of
Marshall-Jackson Mental Retardation Authority	Mount High-Rock Springs Water Authority
Mental Health Dev Disabilities Board	Mountain Brook Library Board

RETIRMENT SYSTEMS OF ALABAMA

Statistical Section

Employees' Retirement System

Local Participating Employers

Mountain Brook Park & Recreation Board	Odenville, Town of
Mountain Brook, City of	Ohatchee, Town of
Mt. Vernon, Town of	Oneonta Utilities
Munford, Town of	Oneonta, City of
Muscle Shoals Electric Board	Opelika Housing Authority
Muscle Shoals Utilities Board	Opelika Utilities Board
Muscle Shoals, City of	Opelika, City of
Myrtlewood, Town of	Opp Utilities Board
Nectar, Town of	Opp, City of
New Hope, Town of	Orange Beach Water, Sewer & Fire Protection Authority
New London Water, Sewer & Fire Protection Authority	Orange Beach, Town of
New Site, Town of	Oxford, City of
North Alabama Gas District	Ozark Utilities Board
North Central Alabama Mental Health Center	Ozark, City of
North Central Alabama Mental Retardation Authority	Ozark/Dale E-911
North Central Alabama Regional Council of Governments	Pelham, City of
North Dallas County Water Authority	Pell City Housing Authority
North Jackson County Water & Fire Protection Authority	Pell City, City of
North Shelby County Library	Pennington, City of
Northeast Alabama Mental Retardation-Development Disability Authority	Pennington Utilities Board
Northeast Alabama Water, Sewer & Fire Protection District	Perry County Commissioners Court
Northeast Morgan County Water Authority	Phenix City Utilities
Northport Housing Authority	Phenix City, City of
Northport, City of	Phil Campbell Water Works Board
Northwest Alabama Council of Local Governments	Phil Campbell, Town of
Northwest Alabama Mental Health Center	Pickens County Commission
Northwest Alabama Regional Airport	Pickens County Cooperative Library
Northwest Blount County Water & Fire Protection Authority	Pickens County E-911 Board
Northwest Regional Library	Pickens County Water Authority
Notasulga, Town of	Piedmont Housing Authority
Oak Grove, Town of	Piedmont Water, Gas & Sewer Board
Oakman Waterworks	Piedmont, City of
Oakman, Town of	Pike County Commissioners Court
Odenville Utilities Board	Pike County Communications District
	Pike County Soil & Water Conservation District
	Pike County Water Authority
	Pine Bluff Water Authority
	Pine Hill, Town of
	Pine Level Water & Fire Protection

Authority
Pisgah, Town of
Pleasant Grove, City of
Prattville Housing Authority
Prattville Water Works Board
Prattville, City of
Priceville, Town of
Prichard Housing Authority
Quint-Mar Water & Fire Protection
Authority
Ragland, Town of
Ragland Water Works Board
Rainbow City Gas, Water & Sewer Board
Rainbow City, City of
Rainsville, City of
Randolph County Commissioners Court
Red Bay Housing Authority
Red Bay Water & Gas Board
Red Bay, City of
Red Level, Town of
Reform Housing Authority
Reform, City of
Rehobeth, City of
Remlap/Pine Mountain Water Authority
Riverbend Center for Mental Health
Riverside, Town of
Roanoke Utilities Board
Roanoke, City of
Robertsdale, City of
Rocky Ridge Fire District
Rogersville Water Works & Sewer Board
Rogersville, Town of
Russell County Commissioners Court
Russell County Emergency Communications
District
Russell County Soil & Water Conservation
District
Russell County Utilities Board
Russellville Electric Board
Russellville Gas Board
Russellville Water Works Board

Russellville, City of
Rutledge, Town of
Sand Mountain Water Authority
Sand Springs Water Authority
Saraland Water Service
Saraland, City of
Sardis City Water Board
Sardis City, City of
Satsuma Water Works Board
Satsuma, City of
Scottsboro Electric Power Board
Scottsboro Public Library
Scottsboro Public Park & Recreation Board
Scottsboro Water Works, Sewer & Gas Board
Scottsboro, City of
Section Water Works Board
Selma Housing Authority
Selma Water Works & Sewer Board
Selma, City of
Sheffield Power, Water & Gas Department
Sheffield, City of
Shelby County Board of Revenue
Shelby County Soil Conservation District
Shelby County Work Release Commission
Shoals Committee on Programs &
Employment for the Mentally Retarded
Shoals Economic Development Authority
Shoals Solid Waste Disposal Authority
Shorter, Town of
Silas, Town of
Silverhill, Town of
Sipsey, Town of
Slocumb, Town of
Slocumb Waterworks and Sewer Board
Snead, Town of
Somerville, Town of
South Alabama Regional Planning Commission
South Central Alabama Development Authority
South Central Mental Health Center
South Crenshaw County Water Authority

RETIREMENT SYSTEMS OF ALABAMA

Statistical Section

Employees' Retirement System

Local Participating Employers

Southeast Alabama Regional Planning & Development Commission	Talladega Water & Sewer Board
Southeast Alabama Solid Waste Disposal Authority	Talladega, City of
Southern Alabama Regional Council on Aging	Tallapoosa County Court of Commissioners
Southside Water & Sewer Board	Tallapoosa County Emergency Management Communications District
Southside, City of	Tallasse, City of
Southwest Alabama Water Authority	Tarrant City Electric System
Spanish Fort, City of	Tarrant City, City of
Spectracare	Tarrant Housing Authority
Springville, Town of	Taylor, Town of
St. Clair County Commissioners Court	Tennessee Valley Exhibit Commission
St. Clair County Industrial Development Board	Thomaston, Town of
St. Clair County Library	Thomasville, City of
St. Clair County Soil & Water Conservation District	Thorsby, Town of
St. Florian, Town of	Top of Alabama Regional Council of Governments
Star-Mindingall Water & Fire Prot Auth	Town Creek, Town of
Steele, Town of	Triana, City of
Stevenson Housing Authority	Tri-County Mental Retardation-Development Disability Board
Stevenson Utilities Board	Trinity, Town of
Stevenson, City of	Troy, City of
Stewartville Water Authority	Trussville Utilities Board
Sulligent, City of	Trussville, City of
Sulligent Housing Authority	Turnerville Water and Fire Protection District
Sumiton Water Works Board	Tuscaloosa, City of
Sumiton, City of	Tuscaloosa County Board of Revenue
Summerdale, Town of	Tuscaloosa County Industrial Dev Auth
Sumter County Board of Commissioners	Tuscaloosa County Park and Recreation Board
Sumter County Industrial Development Authority	Tuscaloosa County Parking & Transit Authority
Sumter County Soil & Water Cons District	Tuscaloosa County Public Defenders Office
Sumter County Water Authority	Tuscaloosa County Soil & Water Conservation District
Sylacauga Parks & Recreation Board	Tuscaloosa County Special Tax Board
Sylacauga Utilities Board	Tuscaloosa Public Library
Sylacauga, City of	Tuscumbia, City of
Talladega County Board of Revenue	Tuskegee, City of
Talladega County Emergency Management Communications District	Tuskegee Utilities
Talladega County Soil & Water Conservation District	Union Grove Utilities Board
	Union Springs Utilities Board

Union Springs, City of
Uniontown Housing Authority
Uniontown Utilities Board
Uniontown, City of
USS Alabama Battleship Commission
Valley Head, Town of
Valley Head Water Works Board
Valley Housing Authority
Valley Water Authority
Valley, City of
Vance, Town of
Vernon Housing Authority
Vernon, City of
Vestavia Hills, City of
Vincent, City of
Von Braun Civic Center
Walker County Commission
Walker County E911 District
Walker County Housing Authority
Walker County Mental Retardation Board
Walker County Soil & Water Conservation
District
Wall Street Water Authority
Walnut Hill Water Authority
Warrior River Water & Fire Protection
Authority
Warrior, City of
Washington County Commissioners Court
Washington County Soil & Water Conservation
District
Weaver, City of
Webb, Town of
Wedowee, City of
West Alabama Planning & Development
Commission
West Etowah County Water Authority
West Jefferson, Town of
West Lauderdale County Water & Fire
Protection Authority
West Morgan/East Lawrence Water Authority
Westover Water & Fire Protection Authority
Wetumpka, City of
Wetumpka Water & Sewer Board
Wilcox County Commission
Wilcox County Gas District
Wilsonville, Town of
Winfield Water Works Board
Winfield, City of
Winston County Commission
Winston County E-911 Communications District
Winston County Soil and Water Conservation
District
Woodstock, Town of
York Housing Authority
York, City of

