Comprehensive Annual Financial Report

Year Ended December 31, 2003

Denver Public Schools Retirement System
Denver, Colorado

Comprehensive Annual Financial Report

Year Ended December 31, 2003

Robert J. Scott
Executive Director

Denver Public Schools Retirement System
Denver, Colorado

Prepared by the DPSRS Staff

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Suite 700
Denver, Colorado 80203

303.813.4651
www.dpsrs.org

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Introductory

We are the over 5000 pupil contact employees who take a hand, open a mind, touch a heart, and shape the future. We help expand worlds and open doors for students, providing guidance to help them achieve educational, career, and personal goals.

We are the Denver Public Schools Retirement System!

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Denver Public Schools Retirement System, Colorado

For its Comprehensive Annual Financial Report for the Fiscal Year Ended December 31, 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.

President

Executive Director

DPSRS
DENVER PUBLIC SCHOOLS
RETIREMENT SYSTEM

Letter of Transmittal

June 10, 2004

To the Members of the Board of Trustees and the Board of Education:

I am pleased to present the Comprehensive Annual Financial Report (CAFR) of the Denver Public Schools Retirement System (System or DPSRS) for the year ended December 31, 2003.

The System is the successor of the Denver Public School Employees' Pension and Benefit Association, which was created by the Board of Education of School District No. 1 in the City and County of Denver, Colorado, on December 1, 1945, pursuant to state statute, that permitted first class school districts to establish an employees' retirement fund. Effective January 1, 2000, the state statute was rewritten, and the Association was renamed the Denver Public Schools Retirement System. The Retirement Board was replaced by an 11-member Board of Trustees having all fiduciary responsibilities for management of the System. The Board of Education retains responsibilities for funding and plan design.

School District No. 1 (DPS or School District), the System, and Charter Schools within the School District comprise the District. Membership in the System is required for full-time employees of the District.

The 2003 CAFR is presented in five major sections:

- The **Introductory Section** contains the Letter of Transmittal, Message from the Chairperson, listing of the Board of Trustee members, an administrative organization chart, and a listing of major consultants.
- The **Financial Section** presents the opinion of the System's independent auditors, KPMG LLP, Management's Discussion and Analysis of financial activities, the financial statements, and the supporting schedules for the System, including a listing of the investment professionals providing services to the System.
- The **Investment Section** includes information pertaining to the System's investment policies, objectives, and performance and detailed investment listings.
- The **Actuarial Section** contains the certification of the System's independent consulting actuary, Gabriel, Roeder, Smith & Company, and a review of the actuarial assumptions, valuation methods, funding progress and other statistics used in the actuarial valuation. Also included is a summary of the *Denver Public Schools Retirement System Retirement and Benefit Plan (Plan)* provisions. The Plan is the detailed statement of rights that one has as a member of the System and the statement of the procedures of operation and organization of the System.
- The **Statistical Section** contains tables and charts of additional data and interest pertaining to the System.

1301 PENNSYLVANIA STREET, SUITE 700 • DENVER, CO 80203-5014
(303) 813-4654 • FAX (303) 813-4666

Benefit Plan Changes and Other Initiatives

There were no benefit plan changes made effective during 2003. However, in 2003, upon the recommendation of the DPSRS Board of Trustees, the Board of Education approved several changes in the DPSRS Plan and Rules and Regulations that became effective January 1, 2004. Some of the significant changes are:

- Each active DPSRS member is credited with Earned Service, which is the greater of active or accredited service as of January 1, 2004. Earned Service is used to determine eligibility for a retirement benefit as well as the amount of the retirement benefit.
- The calculation to determine credit for casual, part-time, service is changed from one based on hours of employment to a calculation based on the compensation of a member. One month of service is credited for each month a member's earnings equal or exceed 80 times the hourly federal minimum wage in effect at the time of the service.
- The cost to purchase non-covered employment is 34% of highest average salary at the time of purchase.

In 2003, at the request of DPS, the Colorado Legislature passed and the Governor signed into law, legislation to authorize the merger of DPSRS into the Public Employees' Retirement Association of Colorado (Colorado PERA). Under provisions of the legislation, there can be no reduction in the accrued benefits of vested active and retired members of DPSRS at the date of the merger. The legislation also provides that DPS, DPSRS, or Colorado PERA can terminate the merger on or before July 1, 2004, if negotiated terms are not acceptable. After July 1, 2004, and prior to January 1, 2005, the merger can be terminated under limited circumstances. Negotiations on the formal merger agreement continued throughout 2003, and the agreement was signed by all three parties on April 22, 2004.

Financial Information

The financial statements and reporting are the responsibility of the System's management. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, and the System's auditor has so stated in its opinion. This CAFR was prepared to conform with the requirements of Governmental Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments.*

In the considered opinion of the System's management, the financial information presented is accurate in all material respects, and presents fairly, the financial status at December 31, 2003. The management of the System is responsible for maintaining an internal control structure to provide reasonable assurance of asset accountability and the authorized and proper recording of transactions.

Adoption of GASB No. 34 has no monetary impact on the financial statements of DPSRS but does require additional disclosure. Additional financial information can be found in Management's Discussion and Analysis, which is included as required supplementary information and precedes the financial statements in the Financial Section of this report.

Mission Statement

The System exists in partnership with the District and its employees to provide career employees and their families with a primary source of lifetime income relative to service at retirement, disability or death, in a prudent, responsible and cost-effective manner.

Funding

There are several ways to appraise the funding condition of the System and progress toward the objective of preserving financial solvency. The employment of a qualified, independent actuary is essential to perform an actuarial review and valuation and to provide technical advice and assistance.

The System's actuary performs an annual actuarial review. In addition, the Plan requires an investigation of mortality and service experience at least once during each five-year period. In recent years, the experience analysis has been performed every three years. The most recent experience investigation was completed for the period January 1, 1999, through December 31, 2001.

An adequate funding level provides assurance and security for payment of future benefits. One measure of funding status is the Solvency Test shown on page 55. This test compares actuarial valuation assets to actuarial accrued liabilities categorized by active member contributions, liabilities for future benefits for present retirees and beneficiaries, and liabilities for service already performed by active members.

Another measure of funding progress is shown in the funding progress schedule on page 28. This historical schedule indicates the actuarial value of assets as a percentage of actuarial accrued liabilities. The current actuarial funding ratio of the System is 90.6%. This is consistent with 90.9% in the previous year due to excellent investment results in the current year. The System remains in a funded position sufficient to pay promised future benefits.

Investments and Economic Overview

Investment policies and objectives for the System have been designed to enable the investment program of the retirement system to facilitate the long-term accomplishment of the System's mission. The program emphasizes long-term total returns and performance, recognizing the impact of inflation on benefit levels. Risk exposure is controlled by broad diversification related to asset mix and careful selection and evaluation of specialized investment managers.

The U.S. economy and financial markets performed well in 2003, after three sluggish years. The U.S. equity markets, as measured by the Russell 3000 Index, showed a total return of 31.0% for 2003. The S&P 500 Index showed a total return of 28.7%. Bonds, as measured by the Lehman Brothers Aggregate Index, showed a modest 2003 return of 4.1%.

The System's diversified portfolio produced a total return of 23.1% for 2003, performing in the upper half of the DPSRS consultant's universe. Detailed investment performance results, policies, and strategies are presented by the Chief Investment Officer in the Investment Management section of this report.

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 System for its CAFR for the fiscal year ended December 31, 2002. This was the eleventh consecutive year that the System has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a public employee retirement system must publish an easily readable and efficiently organized CAFR. This report 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 that our current CAFR continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgements

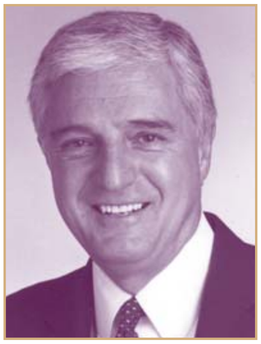
The compilation of this report reflects the combined efforts of the staff of the Retirement Administration Office, the Accounting Office and the Office of Fund Investments. It is intended to provide comprehensive and reliable information as a basis for making management decisions, determining compliance with legal provisions and determining responsible stewardship for the assets contributed by the System's members and the District.

I would like to express my appreciation to the Board of Education, Board of Trustees, staff, consultants and all others who work to assure the successful administration, operation and financial soundness of the retirement plan. If you have questions about this report or need additional information, contact the DPSRS Retirement Office.

Robert J. Scott

Executive Director

2004 Board of Trustees



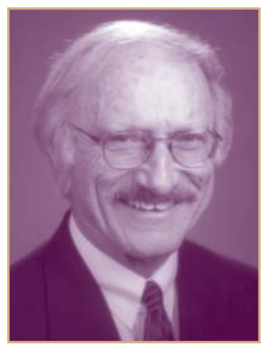
Andrew Raicevich
Chairperson
Retirees
2000-2004

Kay Speer
Vice-Chairperson
Pupil Contact
2003-2007

Ann Vogel
Secretary
Support Services
2001-2005

Darrell Allen
Recognized Expert
Appointed

Kathryn Doctor
Pupil Contact
2001-2005



Donald Giseburt
Retirees
2003-2007

Chrisanne LaHue
Pupil Contact
2001-2005

Velma Rose
Board of Education
Appointed

Gregg Torres
Support Services
2002-2006

Lita Weinstein
Administrators/Pro-Tech
2004

Lester Woodward
Board of Education
Appointed

Board of Trustees 2004

Pictured left to right: Robert Scott (Executive Director), Les Woodward, Andrew Raicevich (Chairperson), Velma Rose, Kathryn Doctor, Darrell Allen, Kay Speer (Vice Chairperson), Ann Vogel (Secretary), Gregg Torres, Donald Giseburt, and Chrisanne LaHue. Not pictured: Lita Weinstein

2004 Board of Education

Lester Woodward
Reverend Lucia Guzman
Michelle Moss
Kevin Patterson
Elaine Gantz Berman
Bruce Hoyt
Theresa Pena

Superintendent
Jerry Wartgow

Administrative Organization at January 1, 2004

Board of Trustees

Robert J. Scott, *Executive Director*

Colleen Meier
Mary Lee Lance

Information Systems	Retirement Administration	Accounting	Fund Investments
James Barley, *Manager*	Judith K. Shimono, *Assistant Executive Director*	Kipp Steinauer, *Manager*	E. Albert Thomas, *Chief Investment Officer*
Gary Alfred, *Programmer/ Web Master*	John MacPherson *Communications Director*	Kristine Drewes, *Senior Accountant*	Gary Ratliff, *Assistant Investment Officer*
Pamela Kopp, *Programmer/ Analyst*	Louise Crow Lucy Garrett Karen Hoisington Cheryl Lankenau Carole Maschka Patrick Naper	Judith Bailey Mary Lou Longoria Gary Meier	Sheila Stratton

Comprehensive Annual Financial Report

Message From the Chairperson

In keeping with past practice and generally accepted reporting standards, as Chairperson of the Board of Trustees for the Denver Public Schools Retirement System, I am pleased to present the Comprehensive Annual Financial Report for our 58th year of operation, the year ended December 31, 2003. The report provides the reader with an in-depth review of the financial, actuarial and investment status of the System.

The actuarial report for 2003 indicates that the plan continues to be financially sound as a result of excellent investment results during the year. However, if financial soundness is to be maintained, higher employer contributions will be needed in the future.

Much of the activity of the Board of Trustees and staff at DPSRS during 2003 involved administrative and benefit changes needed for the proposed merger with the Public Employees' Retirement Association of Colorado (Colorado PERA). Enabling legislation for this merger was passed by the legislature in 2003 at the request of the DPS Board of Education. The Board of Trustees of DPSRS is working to ensure that the merger only will take place if it is in the best interest of all active and retired members of DPSRS, and to ensure that member interests are safeguarded properly. The target date for the merger is January 1, 2005.

David Stella resigned as Executive Director of DPSRS effective December 2, 2003, and was replaced by Robert J. Scott. Mr. Scott retired as Executive Director of Colorado PERA in 2000. He served as Colorado PERA's chief executive officer for sixteen years. Prior to that, he served as the Colorado State Auditor for seven years. He has a wealth of experience with public pension plans that will be invaluable during 2004 as we move toward merger with Colorado PERA. Also, John MacPherson, former Chairperson of the Board of Trustees, joined the DPSRS staff in 2004 as Director of Communications. Mr. MacPherson's knowledge of the School District and its employees will help the merger proceed smoothly by providing timely information through direct communication with plan members. Lita Weinstein, the School District's Director of Compensation and Employee Benefits, replaced Mr. MacPherson on the Board of Trustees as the Administrative/Pro-Tech representative.

I hope you find the annual report informative and of value. The DPSRS Board of Trustees looks forward to our 59th year of service to retirees and employees of the District.

Andrew Raicevich
Board of Trustees Chairperson

2004 Board of Trustees Committee Assignments

Executive Committee

Andrew Raicevich
Kay Speer
Ann Vogel

Disability Appeal Committee

Chrisanne LaHue, Chairperson
Kathryn Doctor
Gregg Torres
Ann Vogel

Audit Committee

Les Woodward, Chairperson
Chrisanne LaHue
Andrew Raicevich
Velma Rose
Lita Weinstein

Ad-Hoc Election Committee

Gregg Torres, Chairperson
Ann Vogel
Les Woodward

Investment Committee

Velma Rose, Chairperson
Darrell Allen
Kathryn Doctor
Donald Giseburt
Gregg Torres

2003 Primary Consultants

Actuarial Services

Gabriel, Roeder, Smith & Company
One Towne Square
Suite 800
Southfield, MI 48076

Computer Services

Alfred Munksgard & Associates
3617 Thousand Oaks Boulevard
Suite 120
Thousand Oaks, CA 91320

Hewlett Packard
5555 Windward Parkway West
Alpharetta, GA 30004

Independent Auditors

KPMG LLP
707 Seventeenth Street
Suite 2700
Denver, CO 80202

Investment Services

Hewitt Investment Group
100 Half Day Road
Lincolnshire, IL 60069

Master Custodian

The Northern Trust Company
50 South LaSalle Street
Chicago, IL 60675

Legal Services

Cockrell, Quinn & Creighton
1700 Broadway #1516
Denver, CO 80290-1501

Otten, Johnson, Robinson,
Neff & Ragonetti, PC
1600 Colorado National
Bank Building
950 17th Street
Denver, CO 80202

Financial

We are the over 1000 managerial, technical, and office support employees who work on the front lines in the schools and departments. We are loyal employees with a variety of skills who keep things running smoothly on a daily basis.

We are the Denver Public Schools Retirement System!

Independent Auditors' Report

KPMG LLP
Suite 2700
707 Seventeenth Street
Denver, CO 80202

The Board of Education of School District No. 1 in the City and County of Denver and State of Colorado and the Board of Trustees of the Denver Public Schools Retirement System:

We have audited the accompanying statements of fiduciary net assets of the Denver Public Schools Retirement System (System) as of December 31, 2003 and 2002, and the related statements of changes in fiduciary net assets for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net assets of the System as of December 31, 2003 and 2002, and the changes in fiduciary net assets for the years then ended in conformity with accounting principles generally accepted in the Unites States of America.

The Management's Discussion and Analysis and required supplementary information included in the schedules of funding progress and employer contributions, and notes thereto, are not a required part 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 audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in the additional supporting schedules 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 audits 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.

Denver, Colorado
March 19, 2004

KPMG LLP

Management's Discussion and Analysis

December 31, 2003 and 2002

Management is pleased to present this discussion and analysis of the financial activities of the DPSRS as of and for the years ended December 31, 2003 and 2002.

The System administers the retirement plan for eligible, covered employees and retirees of the District. All assets of the plan are invested in a single trust fund. The sole purpose of the fund is to pay for benefit promises made to retired and active members of the System.

Overview of the Financial Statements

The Management's Discussion and Analysis is intended to serve as an introduction to the financial statements. The financial section consists of the basic financial statements and other supplementary information and schedules.

Two financial statements are presented for the System. The Statements of Fiduciary Net Assets present the net assets held in trust for pension benefits at a given point in time. The Statements of Changes in Fiduciary Net Assets indicate the additions and deductions to the plan assets during the specified periods.

The Notes to the Financial Statements provide essential information for understanding the data provided in the financial statements by providing information about the description of the plan, significant accounting policies, investment assets and liabilities, contributions, and benefit enhancements.

The Required Supplementary Information includes two schedules and related notes. The Schedule of Funding Progress provides historical trend information about the actuarially determined funded status of the plan. The Schedule of Employer Contributions provides historical trend information about the annual required contributions (ARC) of the District and the contributions made by the District in relation to the ARC.

Additional Supporting Schedules include the Schedules of Administrative Expenses, the Schedule of Investment Expenses, and the Schedule of Payments to Consultants. These schedules provide additional analysis of the information provided in the financial statements.

Condensed Financial Information

Fiduciary Net Assets at December 31:

	2003	2002	2001	2003 % Change	2002 % Change
Assets					
Cash and short-term investments	$ 116,276,464	$ 117,824,283	$ 95,785,576	(1.31)%	23.01 %
Investments, at fair value	2,410,948,800	2,065,442,033	2,350,674,933	16.73 %	(12.13)%
Receivables	11,535,583	14,997,592	15,580,816	(23.08)%	(3.74)%
Prepaid expenses	490,479	883,143	606,955	(44.46)%	45.50 %
Capital assets, net	155,807	204,796	230,061	(23.92)%	(10.98)%
Securities lending collateral	184,990,477	142,715,941	184,629,803	29.62 %	(22.70)%
Total assets	2,724,397,610	2,342,067,788	2,647,508,144	16.32 %	(11.54)%
Liabilities					
Investment settlements and other liabilities	135,862,242	130,272,661	115,807,305	4.29 %	12.49 %
Securities lending obligations	184,990,477	142,715,941	184,629,803	29.62 %	(22.70)%
Total liabilities	320,852,719	272,988,602	300,437,108	17.53 %	(9.14)%
Net assets	$ 2,403,544,891	$ 2,069,079,186	$ 2,347,071,036	16.16 %	(11.84)%

Changes in Fiduciary Net Assets

	2003	2002	2001	2003 % Change	2002 % Change
Additions (reductions)					
Employer contributions	$ 13,023,157	$ 9,473,361	$ 8,735,015	37.47 %	8.45 %
Member contributions	32,665,945	28,275,170	25,848,785	15.53 %	9.39 %
Net investment income (loss)	449,742,992	(166,488,447)	(140,078,546)	370.13 %	(18.85)%
Total additions (reductions)	**495,432,094**	**(128,739,916)**	**(105,494,746)**	**484.83%**	**(22.03)%**
Deductions					
Benefit payments	(152,838,651)	(143,604,377)	(131,749,235)	6.43 %	9.00 %
Refunds	(4,893,891)	(3,346,228)	(3,974,835)	46.25 %	(15.81)%
Administrative expenses	(3,233,847)	(2,301,329)	(2,075,416)	40.52 %	10.89 %
Total deductions	**(160,966,389)**	**(149,251,934)**	**(137,799,486)**	**7.85 %**	**8.31 %**
Changes in net assets	**$ 334,465,705**	**$ (277,991,850)**	**$ (243,294,232)**	**220.31%**	**(14.26)%**

Financial Highlights and Analyses

Plan net assets increased by $334,465,705 in 2003. The increase in plan assets primarily is due to exceptional performance in the equity markets. This compares with a decrease in plan net assets of $277,991,850 in 2002 due to substantial losses in the equity markets. A comparative summary of financial activity for 2003, 2002, and 2001 is as follows:

	2003	2002	2001
Net assets	$ 2,403,544,891	$ 2,069,079,186	$ 2,347,071,036
Member and employer contributions	$ 45,689,102	$ 37,748,531	$ 34,583,800
Retirement benefits paid	$ 152,838,651	$ 143,604,377	$ 131,749,235
Net investment income (loss)	$ 449,742,992	$ (166,488,447)	$ (140,078,546)
Benefit recipients	5,699	5,610	5,514
Contributing and affiliate members	7,339	7,722	7,497
Investment return on total fund	23.08%	(5.15)%	.17 %

The overall investment return in 2003 was 23.08% compared with a negative 5.15% in 2002. Investment returns of 44.01% for domestic equities and 40.48% for international equities provided the largest change in 2003. The 2002 returns for these investment categories both were negative at 24.56% and 9.50%, respectively. As a result of the investment performance in 2003, the 3 and 5-year returns improved to 5.36% and 7.54% from -.81% and 5.80% in 2002, respectively. Despite the significant increases in investment returns, the 3 and 5-year return results are below the actuarial assumption rate of 8.75%. On a longer term basis the 10-year return improved to 10.23% from 8.52% in 2002.

In order for the System to meet expected future benefit obligations, investment returns must equal or exceed the actuarial assumption rate of 8.75% over the long term, and employer contributions must equal the annual required contribution or ARC funding levels. The ARC, expressed as a percentage of covered payroll, is actuarially determined and includes amounts for the employer normal cost and a provision for the unfunded actuarial accrued liability. Employer contributions were less than recommended levels both in 2003 and 2002. In 2003, the blended ARC was 10.74%, but the blended funding policy rate was 3.94%. The blended ARC was 5.87% and the blended funding policy rate was 2.90% in 2002. Beginning in July 2004, the employer contribution rate is scheduled, according to funding policy, to increase from 4.98% to 8.12%, while the ARC is 13.10%.

The Board of Trustees and System staff conducted an asset/liability modeling study during 2002 to determine the appropriate strategic, long-term asset allocation. A revised *Statement of Investment Objectives and Policies* allocation was adopted in September 2002. The target allocation for equity-type investments increased from 60% to 64%, and the target allocation for fixed income-type investments decreased from 40% to 36%. At December 31, 2003, the total investment portfolio consisted of 67% (56% in 2002) equity investments and 33% (44% in 2002) fixed income investments. The Board of Trustees is required to review, at least annually, the *Statement of Investment Objectives and Policies* and reaffirm or change the document where appropriate. The *Statement of Investment Objectives and Policies* was revised in December 2003 to update various sections of the document; however, the asset allocation remained unchanged.

As of December 31, 2003, the funded ratio of the plan, based on the actuarial value of assets, is 90.6%. The funded ratio has declined over the past three years due to investment losses, benefit changes, increased early retirements and salary increases. The funded ratio is determined by dividing the actuarial value of the assets by the actuarial accrued liability. It measures the progress of the System in accumulating the assets necessary to fund the long-term benefit obligations.

Year	Funded Ratio
2003	90.6%
2002	90.9%
2001	96.5%

The plan is a mature defined benefit plan with a 1.3:1.0 active member to retiree ratio. The plan is in a negative cash flow condition as benefit payments exceed contributions. For every $1 in contributions received by the System, $3.35 is paid out in retirement benefits. Although this is an improvement from 2002, which was $3.80 paid out in retirement benefits for every $1 in contributions, it emphasizes the need to maintain adequate contribution funding levels. As a result, assets must be liquidated to meet the benefit payment requirements. Management maintains a cash flow management strategy to assure adequate cash reserves are available to pay benefits and administrative expenses.

Employer contributions increased 37.47% from 2002 primarily due to an increase in the contribution rate. Any changes to the employer contribution rate occur in July of each year. In July 2003, the employer rate increased from 2.90% to 4.98%. Although the increase in the employer contribution rate is significant, it is well below the recommended rates. The recommended employer contribution rates for 2003 were 8.83% (2.90% in 2002) for the first six months of 2003 and 12.64% (8.83% in 2002) for the last six months of 2003. In terms of the ARC, employer contributions were 36.68% of the recommended levels for 2003 compared to 48.61% in 2002.

Employee contributions increased 15.53% from 2002 primarily due to a significant increase in the purchase of non-covered employment. Purchase of non-covered employment increased $4,035,905 from 2002 primarily in anticipation of the increase in the purchase cost from 25% to 34% of highest average salary effective January 2004.

The costs of administering the System increased 40.52% in 2003 compared with a 10.89% increase in 2002. This increase primarily is due to salary increases and more significantly, a change in the policy for compensated absences in 2003. In addition, a compensation plan was approved in 2003 to retain essential System employees in anticipation of the proposed merger of the System into the Public Employees' Retirement Association of Colorado (Colorado PERA). Despite the increase in 2003, the cost of administering the System remains low at .13% of net assets and compares favorably with .11% in 2002.

If agreement is reached among the parties involved in the proposed merger of the System into Colorado PERA, administrative costs for 2004 will increase substantially from 2003. The System will incur additional costs relating to actuarial, legal, staff compensation, data transfer, and record retention and conversion matters.

Proposed Merger Into the Public Employees' Retirement Association of Colorado

In 2003, the Colorado State Legislature passed, and the Governor of Colorado signed, Senate Bill 250, a bill that authorizes the System to enter into a merger agreement with the School District and Colorado PERA. If agreement is reached among the parties by July 1, 2004, the System will merge into Colorado PERA on January 1, 2005. The enabling legislation for the merger provides there will not be a subsidy between the School District and Colorado PERA or between the System and Colorado PERA, the benefits of the members and beneficiaries of the System will be preserved, and the merger will comply with the Internal Revenue Service rules and regulations. The merger of the System and Colorado PERA will provide greater portability of benefits for employees of the school districts of Colorado.

Statements of Fiduciary Net Assets

As of December 31, 2003 and 2002

	2003	2002
Assets		
Cash and short-term investments	$ 116,276,464	$ 117,824,283
Receivables		
Accrued interest and dividends	5,700,485	6,612,894
Contributions	1,251,788	1,363,959
Investment settlements	803,458	1,829,794
Other	3,779,852	5,190,945
Total receivables	11,535,583	14,997,592
Investments, at fair value		
Domestic stocks	859,416,125	540,891,339
International stocks	427,988,923	284,500,473
Private equities	92,607,906	92,499,939
Corporate securities	284,045,093	314,452,228
Government securities	245,873,170	217,906,730
Mortgage investments	248,591,834	346,304,215
Equity real estate	252,425,749	268,887,109
Securities lending collateral	184,990,477	142,715,941
Total investments	2,595,939,277	2,208,157,974
Prepaid expenses	490,479	883,143
Capital assets, at cost, net of accumulated depreciation of $887,111 ($821,749 in 2002)	155,807	204,796
Total assets	2,724,397,610	2,342,067,788
Liabilities		
Accounts payable and accrued expenses	7,654,054	7,622,693
Mortgages payable	32,718,773	32,953,921
Investment settlements	95,489,415	89,696,047
Securities lending obligations	184,990,477	142,715,941
Total liabilities	320,852,719	272,988,602
Net assets held in trust for pension benefits (A schedule of funding progress for the plan is presented on page 28.)	$ 2,403,544,891	$ 2,069,079,186

See accompanying notes to financial statements.

Statements of Changes in Fiduciary Net Assets

For the Years Ended December 31, 2003 and 2002

	2003	2002
Additions (reductions)		
Contributions		
Employer	$ 13,023,157	$ 9,473,361
Member	32,665,945	28,275,170
Total contributions	**45,689,102**	**37,748,531**
Investment income (loss)		
Interest	44,790,706	55,528,051
Net appreciation (depreciation) in fair value of investments	394,615,067	(229,517,051)
Dividends	14,859,373	11,507,061
Equity real estate	17,861,790	17,880,271
Private equities	(15,438,566)	(15,727,266)
Securities lending	2,056,777	2,845,467
Other	359,847	684,084
Investment income (loss)	**459,104,994**	**(156,799,383)**
Investment expense	(7,728,136)	(7,245,401)
Securities lending expense	(1,633,866)	(2,443,663)
Net investment income (loss)	**449,742,992**	**(166,488,447)**
Total additions (reductions)	**495,432,094**	**(128,739,916)**
Deductions		
Benefits paid to regular retirees	(146,197,007)	(137,126,610)
Benefits paid to disability retirees	(5,302,929)	(5,178,892)
Benefits paid to survivors	(1,338,715)	(1,298,875)
Refunds of contributions	(4,893,891)	(3,346,228)
Administrative expenses	(3,233,847)	(2,301,329)
Total deductions	**(160,966,389)**	**(149,251,934)**
Net increase (decrease) in net assets	**334,465,705**	**(277,991,850)**
Net assets held in trust for pension benefits		
Beginning of year	2,069,079,186	2,347,071,036
End of year	**$ 2,403,544,891**	**$ 2,069,079,186**

See accompanying notes to financial statements.

Notes to Financial Statements

December 31, 2003 and 2002

(1) Description of the Plan

The Board of Education of School District No. 1 in the City and County of Denver and State of Colorado established the System on December 1, 1945, which is a cost-sharing, multiple-employer defined benefit pension plan under Colorado law. The Board of Education adopted the Retirement and Benefit Plan, as amended, to provide defined retirement, death and disability benefits to participating members. Participation in the retirement plan is mandatory for all full-time employees of the School District hired after December 1, 1945, and of the System, and of Charter Schools within the School District, established under the Colorado Charter Schools Act of 1993.

The Board of Trustees (Board) is an 11-member body with the exclusive authority to invest and manage the assets of the System, pay benefits, and otherwise administer the System. The Board is composed of 6 elected active and 2 elected retired members of the System, 2 members appointed by the Board of Education of the School District, and 1 member, appointed by the other Board members, with expertise in pension administration or in investment matters.

At December 31, 2003 and 2002, the System's membership consisted of the following:

	2003	2002
Retirees and beneficiaries currently receiving benefits	5,699	5,610
Terminated members entitled to benefits but not yet receiving them	219	187
Current employees:		
Vested	4,407	4,827
Nonvested	2,932	2,895
Total membership	**13,257**	**13,519**

The Plan provides an Annual Retirement Allowance Adjustment (ARAA) increase in retired members' benefits. The annual percentage increase for each member is 3.25% of the member's retirement allowance.

If a member resigns prior to retirement, the member is entitled to a refund of accumulated member contributions, which includes interest. Member accounts are credited with interest on the last day of each month based upon the member's balance as of the beginning of that month. The following is a table of the interest rates applied to member accounts:

December 31,	Rate
1986 and prior years	3%
1987 through 1990	9%
1991 through present	5%

Terminating members, electing to leave their accumulated contributions in the System, are eligible for deferred retirement provided they have a minimum of 5 years of service.

Employees who have attained either age 55 with a minimum of 25 years of civilian service in a tax-supported institution, of which 15 years must have been service qualified with the District, or age 65 with at least 5 years of active service, or age 50 with at least 30 years of active service, are entitled to regular retirement benefits. Employees who meet the above criteria at retirement are entitled to regular retirement benefits, payable monthly for life, in an amount equal to 2.50% of their monthly highest average salary (HAS) for each year of accredited service to the date of retirement. The monthly HAS is defined as the average of the highest 36 months of compensation earned by the employee throughout employment with the District or career average salary, whichever is greater.

Beyond each full year of service, any full month(s) of service are credited proportionally. Optional early retirement with a reduction of benefits may be elected by a member at an age younger than 55 with 25 years of District service or at age 55 or beyond with 15 years of District service. The benefit reduces by 4% for each year of age or service the member lacks in fulfilling the minimum requirements for a regular retirement.

The Plan also provides for a disability retirement. Members with 5 or more years of active service, who become permanently incapacitated from performing their duties, are eligible for disability retirement. The amount of the disability benefit is calculated in the same manner as for a regular retirement under the provisions of a single life annuity. Members with at least 25 years of active service at the date of retirement can elect at age 55 (age 50 with 30 years of active service) to recalculate their benefits as a regular retirement. Otherwise, recalculation of a disability retirement occurs at age 65. Beginning with 1999 and under prescribed circumstances, disability retirees with fewer than 25 years of service can apply to qualify full years after retirement to be used when their disability benefits are recalculated to regular retirement benefits. The maximum number of accredited and additional qualified years cannot exceed 25 at the date of recalculation, unless the total number of years of accredited service at the effective date of disability retirement exceeds 25, in which case such number of years is used to compute the recalculated benefit.

Liquidation of the System can be initiated by either the Board of Education or by vote of the members. In the event of liquidation, the assets would be distributed as specified in the Plan.

Reporting Entity

The Board is responsible for the general operations and fiscal matters of the System. These responsibilities include the ability to designate management, select the System's independent actuary and auditor, and determine investment policies.

The System is a body corporate and an instrumentality of the School District; it is not an agency of the School District. In addition, the System is not subject to administrative direction by the School District, and the assets of the System are not available to the School District. Accordingly, the financial statements of the System are not included in the financial statements of the School District or any other organization.

Pension Plan Disclosure for System Employees

The employees of the System are members of the plan and earn and accrue benefits as would any other member as described above. The System's employer contributions were $51,832 and $36,062 for the years ending December 31, 2003 and 2002, respectively. In addition, the System contributed $134,404 and $127,256, for the same periods, for the cost of the pension certificates of participation issued by the District on July 17, 1997.

(2) Significant Accounting Policies

Basis of Accounting and Presentation

The financial statements of the System are prepared using the economic resources measurement focus and the accrual basis of accounting. Investment income is recorded when it is earned. Expenses are recorded when liabilities are incurred. Member and employer contributions are recorded in the period in which the contributions are due. Benefit and refund payments are recorded in the period in which the liabilities are due and payable.

The financial statements are presented in accordance with GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and generally accepted accounting principles that apply to governmental accounting for fiduciary funds.

Investments

System investments are presented at fair value or estimated fair value. Securities traded on a national or international exchange are valued at the last reported sales price. Securities traded over-the-counter are valued at the last bid price. The values of corporate and government securities are based on comparable securities with similar yield and risk factors. The System's equity in real estate investments are stated at estimated fair value at the date of the financial statements. Generally, this value is determined periodically (usually annually) by the advisor or independent appraisers or more frequently if management of the applicable funds has determined that there has been a significant change in the economic circumstances related to the investment. The fair values of mortgage investments are based upon current interest rates and prepayment assumptions. The value of private equities generally remains at cost until a significant event results in an increase or decrease in fair value.

For the purpose of determining realized gains and losses, the costs of corporate stocks are calculated on the average cost basis. The costs of all other investments are determined based on specific identification.

Derivative Financial Instruments

The System invests in derivative financial instruments as authorized in the *Statement of Investment Objectives and Policies* of the System. As of December 31, 2003 and 2002, the System had derivative financial instruments with off-balance sheet risk including options, futures, interest rate swaps, and credit default swaps. The System invests in derivative financial instruments for yield curve and interest rate risk management.

Option contracts convey rights between contracting parties to buy or sell the underlying securities. The owner of a call option has the right to purchase the security, and the owner of a put option has the right to sell the security. The System buys and sells option contracts actively traded on major exchanges. As of December 31, the fair value of the option contracts was $(187,895) in 2003 and $(193,122) in 2002.

Futures contracts represent commitments to purchase or sell securities at a future date and at a specified price. Futures are exchange traded, and the exchange assumes the risk of nonperformance by a counterparty.

Interest rate swaps represent contractual agreements between counterparties to exchange interest rate cash flows for a specified period and based upon notional amounts. One of the counterparties is obligated to make a net cash settlement at the maturity of the contract. The System is exposed to credit risk in the event of nonperformance of the counterparty to the contract. As of December 31, the fair value of these contracts was $(86,554) in 2003 and $(492,919) in 2002.

As of December 31, 2003 and 2002, the System had investments in the following derivative financial instruments. The contract or notional amounts do not represent the exposure to market loss.

	2003		2002	
Description	Contracts	Contract or Notional Value	Contracts	Contract or Notional Value
Long fixed income futures	97	$ 9,981,422	108	$ 10,800,000
Short fixed income futures	68	(7,590,500)	212	(21,200,000)
Interest rate swaps	10	-	3	8,610,000
Credit default swaps	16	-	2	910,000
Swaption put	1	(4,200,000)	-	-
Short put options	1,254	(17,934,125)	1,250	23,150,000
Short call options	192	(21,371,903)	96	(9,600,000)
Long call options	1,100	1,100,000	1,100	1,100,000

Securities Lending Collateral and Obligations

The System participates in a securities lending program in accordance with the provisions of a contract between the System (lender) and its custodial agent, The Northern Trust Company (NTC). NTC, acting as the lending agent, loans equity, fixed income, and short-term securities to independent brokers and dealers (borrowers). The borrower exchanges collateral, in the form of cash, government securities or irrevocable letters of credit, for the loaned securities equal to 102% and 105% of the market value, plus accrued income, of domestic and global securities, respectively. Collateral is marked to market daily with additional collateral required when the value of the collateral falls below the minimum requirements. The System retains all beneficial rights to the loaned securities except for the ability to vote proxies.

NTC invests cash collateral in a short-term investment pool or in separate term loans with maturities equal to the terms of the security loans. These loans can be terminated on demand by either lender or borrower. Non-cash collateral cannot be pledged or sold unless the borrower defaults on the loan agreement. A portion of the earnings on the invested collateral is rebated to the borrower in accordance with the agreement between NTC and the borrower. The System receives revenue from the loaned securities, less the borrower rebate and loan fees or premiums and NTC lending fees. The lending fees are 35% of the loan premium for government securities and for U.S. corporate and global securities.

There were no significant violations of legal or contractual provisions, no borrower or lending agent default losses known to the securities lending agent and no dividend or coupon payments owing on the loaned securities as of December 31, 2003 and 2002.

NTC provides loss indemnification to the extent NTC performs appropriate borrower and collateral investment credit analyses, by demanding adequate types and levels of collateral and complying with applicable Department of Labor and Federal Financial Institutions Examination Council regulations concerning securities lending. The System had no credit risk exposure at December 31, 2003 and 2002, because the amount the System owed the borrowers exceeded the amount the borrowers owed the System.

As of December 31, 2003, the fair value of loaned securities was $179,890,378 ($139,398,370 in 2002). The fair value of the associated collateral was $184,990,477 ($142,715,941 in 2002). Security lending income, net of borrower rebates and lending fees, was $422,911 for the year ended December 31, 2003 ($401,804 in 2002).

Federal Income Tax Status

The System is qualified under Internal Revenue Code (IRC) Section 401(a). The System is a governmental plan as described in IRC Section 414(d). It therefore, is exempt from federal income taxation under IRC Section 501(c)(25)(C)(ii).

Capital Assets

Capital assets are recorded at cost, less accumulated depreciation. Costs of major additions and improvements are capitalized. Expenses for maintenance and repairs are charged as deductions as incurred. Depreciation is calculated using the straight-line method based on estimated useful lives of four and five years.

Compensated Absences of System Staff

The policy for compensated absences was changed in 2003. Sick and personal leave and vacation allowances were combined into paid leave. Accumulated paid leave is payable upon termination or retirement and based upon the rate of pay at termination or retirement. At December 31, 2003, the liability for accumulated paid leave was $421,740. Prior to 2003, accrued sick leave was payable at retirement and unpaid accrued vacation was limited. The liability for 2002 was immaterial.

Risk Management

The System is exposed to various risks related to theft, damage, and destruction of assets, errors and omissions, injuries to employees and court challenges to fiduciary decisions. To insure against such risks of losses, the System carries policies of fiduciary liability insurance, general liability insurance, property insurance, and a crime/fidelity bond. Employees of the System receive health, life, and dental insurance coverage under the policies of the School District. There have been no insurance claims against the System for the past three years.

Use of Estimates

Preparation of the financial statements, in conformity with accounting principles generally accepted in the United States of America, requires that management make certain estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions during the reporting period. Actual results could differ significantly from these estimates.

(3) Investments

Investment Authority

The System is authorized to invest in the following:

- Direct obligations of the United States of America or obligations issued, guaranteed, or insured by an agency or instrumentality of the United States of America and derivatives of said securities.
- Certificates of deposit and commercial paper of domestic savings institutions and corporations.
- Debt securities and derivatives of said securities.
- Equity and debt investments in income-producing real estate, provided such investments previously have been approved.
- Shares of capital stock, common or preferred, actively traded in domestic and international markets and derivatives of said securities.
- Investments in limited partnerships or other commingled vehicles formed for the purpose of investing in privately-held securities.
- Short-term investment funds with the trustee bank.

Concentrations of Credit Risk

The System's overall investment policy emphasizes total return, which includes current income and capital growth.

Mortgage investments represent investments in real estate loans collateralized by the related properties, mortgage participation certificates, mortgage participation funds, and commercial mortgage-backed securities.

Investments in corporate stocks and bonds are diversified by: (1) geographic area primarily within the United States for bonds and worldwide for corporate stocks, (2) industry group and (3) sensitivity to general economic cycles. Generally, these investments represent non-collateralized ownership in, or lending to, publicly held corporations traded on domestic and international markets.

U.S. government securities are composed of securities with varying maturities and interest rates and are backed by the full faith and credit of the U.S. government. The above limitations and the System's diversification over several asset classes are intended to reduce the overall investment risk exposure.

Cash and Short-Term Investments

The carrying amount of the System's cash deposits at December 31, 2003, was $862,317, and the bank balance was $1,516,110 ($1,599,468 and $2,315,677 in 2002, respectively). Of the bank balances at December 31, 2003, and 2002, $100,000 is covered by federal depository insurance and $1,416,110 ($2,215,677 in 2002) is covered by the provisions of the Colorado Public Deposit Protection Act and is collateralized in single institution pools with securities held by the pledging institution's trust department or agent, but not in the System's name. The table above at right summarizes the fair value of cash and short-term investments held by the System as of December 31.

	2003	2002
General operating bank accounts	$ 862,317	$ 1,599,468
Short-term government securities (registered securities, held by the System's agent in the System's name)	19,339,257	1,248,250
Variable money market accounts with custodial bank (fully collateralized by the underlying securities, held by the System's agent in the System's name)	96,074,890	114,976,565
Total cash and short-term investments	**$ 116,276,464**	**$ 117,824,283**

Investment Categorization

The following table presents the System's investments at December 31, 2003 and 2002, categorized to give an indication of the level of risk assumed by the System. The categories are:

1. Insured or registered investments or securities held by the System or its agent in the System's name.
2. Uninsured or unregistered investments, with securities held by the counterparty's trust department or agent in the System's name.
3. Uninsured and unregistered investments, with securities held by the counterparty in the System's name or held by the counterparty's trust department or agent but not in the System's name.

Investments not evidenced by securities are not categorized.

	2003	2002
Investments – category 1		
Corporate securities	$ 284,045,093	$ 314,452,228
Government securities	245,873,170	217,906,730
Domestic stocks	524,137,119	283,185,127
International stocks	118,664,554	72,054,971
Total category 1 investments	**1,172,719,936**	**887,599,056**
Investments not subject to credit risk classification:		
Mortgage investments	248,591,834	346,304,215
International stock funds	309,324,369	212,445,502
Equity real estate	252,425,749	268,887,109
Domestic stock funds	335,279,006	257,706,212
Private equity funds	92,607,906	92,499,939
Security lending collateral	184,990,477	142,715,941
Total investments not categorized	**1,423,219,341**	**1,320,558,918**
Total investments	**$ 2,595,939,277**	**$ 2,208,157,974**

General operating bank accounts are maintained at Wells Fargo Bank, Denver, Colorado. Variable money market funds and short-term fixed rate securities are invested with The Northern Trust Company, Chicago, Illinois.

(4) Contributions

Employer contributions are based on the funding policy required by Plan provisions. The employer contribution rate is fixed at 2.90% of covered salary for the period from July 1, 2000, through June 30, 2010. Should unfunded actuarial accrued liabilities (UAAL) accumulate during this period, the employer contribution rate each year will increase by the amount required to amortize the UAAL over 30 years. The actuary of the System issues an annual report as of January 1 of each year. The School District adopts changes in the employer contribution rates for its fiscal year beginning 18 months after the date of the annual actuarial valuation report.

Members are required to contribute 8% of gross covered salary to the System. These contributions are recorded in separate member accounts. Member contributions are tax-deferred for federal and state income tax purposes.

In accordance with funding policy, the District made contributions to the System totaling $13,023,157 at 3.94% of current covered payroll ($9,473,361 at 2.90% in 2002). The ARC was 8.83% for the period January 1, 2003 through June 30, 2003 (2.90% for 2002), and 12.64% for the period July 1, 2003 through December 31, 2003 (8.83% for 2002). Employee contributions totaled $32,665,945 and $28,275,170 for 2003 and 2002, respectively.

(5) Future Benefit Enhancements

Created in 1991, the Reserve for Future Benefit Enhancements (FBE) serves as an account within the System Retirement Trust Fund (SRTF) designated to provide for the payment of future improvements in Plan benefits. This account is funded annually in accordance with prescribed guidelines set forth in the Plan. The balance in the FBE is a component of net assets held in trust for pension benefits but is excluded from the computation of the actuarial accrued liability of the System. The balance in the FBE at December 31, 2003 and 2002, was $0.

(6) Mortgages Payable

The System obtained mortgage loans on four commercial office buildings owned by the System. Each mortgage loan is non-recourse and is secured by the respective real property. The mortgages only require interest payments with balloon payments due at maturity. The following table summarizes the mortgage note balances as of December 31.

			Principal Balance	
Property	Rate	Maturity	2003	2002
Denver, CO	LIBOR + 1.80%	April 30, 2008	$ 5,250,000	$ 6,170,212
New York, NY	LIBOR + 1.75%	May 23, 2005	9,500,000	9,500,000
Stamford, CT	LIBOR + 1.40%	April 1, 2004	11,918,773	11,233,709
Malvern, PA	6.66%	May 15, 2006	6,050,000	6,050,000
			$ 32,718,773	$ 32,953,921

Maturities on mortgages payable as of December 31, 2003, are as follows:

	Principal
2004	$ 11,918,773
2005	9,500,000
2006	6,050,000
2007	-
2008	5,250,000
	$ 32,718,773

(7) Proposed Merger Into Colorado PERA

During 2002, the System entered into discussions with the School District and Colorado PERA concerning a proposal by the School District to merge the System into Colorado PERA. In November 2002, the Board of Trustees of the System approved, in concept, a draft document containing the terms of the proposed merger. The School District indicated the intent to seek legislation during the 2003 Colorado legislative session to authorize the merger of the System into Colorado PERA. In 2003, the Legislature introduced and passed Senate Bill 250, a bill that authorizes the School District, the System, and Colorado PERA to enter into a merger agreement no later than July 1, 2004. On June 5, 2003, the Governor of Colorado signed Senate Bill 250 into law. Provided the parties reach agreement, the effective date of the merger will be January 1, 2005.

(8) Staff Retention Pay Plan

On June 2, 2003, the Board approved a Staff Retention Pay Plan, effective July 1, 2003, for employees of the System. The Board determined a need to encourage staff members to remain with the System during the merger transition, as described in note 7. The retention payments will be made to permanent full-time employees on two dates, provided the employees remain employed by the System on the specified payment dates. On June 30, 2004, eligible employees will receive 25% of their 2003 annual base salaries. On December 25, 2004, eligible employees will receive 50% of their 2004 annual base salaries.

To facilitate payments under the Staff Retention Pay Plan, the Board approved the establishment of a discretionary defined contribution plan (DC Plan) for employees of the System. The DC Plan is maintained in compliance with the requirements of IRC Section 401(a). Contributions to the DC Plan are at the sole discretion of the System. The System will contribute amounts equal to the amounts payable under the Staff Retention Pay Plan. At December 31, 2003, the System contributed $280,576 on behalf of eligible employees covered under the DC Plan.

Required Supplementary Information

Schedule of Funding Progress (Unaudited)

Dollars are expressed in thousands.

Actuarial Valuation Date January 1,	Actuarial Value of Assets (1)	Actuarial Accrued Liability (2)	Unfunded Actuarial Accrued Liability (3)	Funded Ratio (1)/(2) (4)	Annual Covered Payroll (5)	Unfunded Actuarial Accrued Liability As a % of Covered Payroll (3)/(5) (6)
1999	$1,889,152	$1,894,139	$ 4,987	100%	$248,766	2 %
2000	2,044,332	1,983,400	(60,932)	103	264,079	(23)
2001	2,308,030	2,371,925	63,895	97	292,404	22
2002	2,462,548	2,550,556	88,008	97	307,834	29
2003	2,465,049	2,712,293	247,244	91	331,607	75
2004	2,531,746	2,793,788	262,042	91	318,122	82

Schedule of Employer Contributions (Unaudited)

Year Ended December 31,	Annual Required Contribution	Percentage of ARC Contributed	Annual Required Contribution Percentage
1998	$ 8,494,670	100.00%	3.47%
1999	7,140,565	100.00	2.79
2000	8,007,508	100.00	2.90
2001	8,735,015	100.00	2.90
2002	19,490,125	48.61	5.87
2003	35,505,920	36.68	10.74

Unaudited—see accompanying notes to required supplementary information.
Unaudited—see accompanying independent auditors' report.

Notes to Required Supplementary Information

December 31, 2003

(1) Actuarial Assumptions and Methods

The required supplementary schedules provide information to help users assess the ability of the System to accumulate sufficient assets to pay benefits when due. The information includes funding status, funding progress and contribution rates and requirements. The Schedule of Funding Progress reports the unfunded actuarial accrued liability of the System and its significance relative to the capacity to pay for the liability. The Schedule of Employer Contributions provides information about the required contributions and the extent to which the employer makes those contributions.

The following schedule provides information regarding significant actuarial assumptions and methods as of the latest actuarial valuation date.

Valuation date	January 1, 2004
Actuarial cost method	Entry age
Amortization method	Level percentage of increasing payroll
Amortization approach	Open
Remaining amortization period	30 years at each valuation date
Asset valuation method	20% smoothed excess market over expected actuarial value
Actuarial assumptions:	
Investment rate of return	8.75%
Including inflation at	4.00%
Projected salary increases	Varies based upon service and age from 4.6% to 9.7%
Including inflation at	4.00%
Cost-of-living adjustments	3.25% compounded

(2) Significant Factors Affecting Trends in Actuarial Information

2003 Changes in Plan Provisions

- As of January 1, 2004, earned service shall be used both to determine the eligibility for retirement and the amount of the retirement benefit. Prior to this change, active service was used to determine retirement eligibility, and accredited service was used to determine the retirement benefit.
- Effective January 1, 2004, the calculation to determine credit for casual service changes from one based on hours of employment to a calculation based on the compensation of the member. One month of service credit will be credited for each month the member's earnings equal or exceed 80 times the hourly federal minimum wage in effect at the time of service.
- Effective January 1, 2004, the cost to purchase non-covered employment increases from 25% to 34% of HAS at the time of the purchase.

2002 Changes in Plan Provisions

- Effective July 1, 2002, any changes in the employer contribution rate become effective on July 1 of the year that is 18 months after the end of the calendar year on which the actuarial valuation is based.

2001 Changes in Plan Provisions

- For retirements on or after January 1, 2001, the Unit Benefit Percentage Factor increased from 2.25% to 2.50% of highest average salary for all years of accredited service.
- Members age 50 with 30 years of active service are eligible for regular retirement beginning with retirements on or after January 1, 2001.
- The actuarial reduction on optional early retirements was reduced to 4% from 5% for retirements on or after January 1, 2001.

2001 Changes in Plan Provisions...continued

- Effective January 1, 2001, the annual basic benefit was increased by a one-time adjustment. The adjustment is equal to $25 for each full year of accredited service at retirement.
- Additional options are available to members who elect deferred retirement and become eligible for benefit payments on or after January 1, 2001. A member can elect either to receive a refund of 200% of accumulated contributions, a money purchase retirement benefit based on 200% of accumulated contributions and the minimum employer-provided benefit, or the existing defined benefit provided in the Plan.
- Beginning January 1, 2001, the ARAA is compounded at 3.25%.
- Beginning January 1, 2001, beneficiaries of members who die while eligible for regular retirements can select either a refund of the members' contributions, applicable retirement benefits under Options B or C, or applicable survivor benefits.

2000 Changes in Plan Provisions

- Beginning January 1, 2000, beneficiaries of members who die while eligible for optional early retirements can select either a refund of the members' contributions, applicable retirement benefits under Options B or C, or applicable survivor benefits.
- Effective with retirements on or after January 1, 2000, any individual can be named as a co-annuitant under either Options C or E.

1999 Changes in Plan Provisions

- Beginning with 1999 and years thereafter, members retired on disability with less than 25 years of service can apply to qualify full years after the year of their retirement to be used in the recalculation of their disability retirement benefits at normal retirement age. The total accredited years cannot exceed 25 at the time of recalculation.

1998 Changes in Plan Provisions

- Beginning January 1, 1998, members may purchase up to a maximum of 10 years of service credit for periods of private and public employment not covered by the System and not vested in another retirement plan. Purchase of private sector service is limited to 5 years.
- Beginning January 1, 1998, benefit payments to deferred retirees commence on the first day of eligibility. Payments to survivors commence on the day following the date of death or the first day a beneficiary becomes eligible. Previously, payments commenced on the first day of the month following eligibility or death.
- The method for crediting interest to active member accounts was changed from annually to monthly, effective January 1, 1998.
- The normal contribution rate for all members increased from 6% or 7% to 8% of gross salary effective July 1, 1998.
- For retirements on or after July 1, 1998, the Unit Benefit Percentage Factor increased from 2.07% to 2.25% of highest average salary for all years of accredited service.
- Effective July 1, 1998, a benefit increase was granted based upon the Consumer Price Index. The basic benefit, including benefit supplements, was adjusted to reflect 80% of the full cost-of-living calculated from the effective date of retirement.

Additional Supporting Schedules

Schedules of Administrative Expenses

For the Years Ended December 31, 2003 and 2002

	2003	2002
Personnel services		
Salaries	$ 1,732,861	$ 1,193,048
Employee benefits	591,856	274,119
Total personnel services	**2,324,717**	**1,467,167**
Professional services		
Legal fees	49,461	30,813
Actuarial fees	59,600	58,500
Audit fees	32,000	32,600
Consultants and outside services	162,725	174,363
Maintenance agreements	72,710	72,947
Total professional services	**376,496**	**369,223**
Miscellaneous expenses		
Insurance	89,280	78,038
Subscriptions and research materials	7,144	5,785
Investment services	31,982	19,435
Computer system software	5,096	5,491
Computer supplies	18,125	15,081
Registrations, conferences, and memberships	24,415	24,970
Planning and meeting	5,319	3,559
Travel	43,266	39,836
Office rent	88,655	83,887
Office supplies	9,862	10,893
Postage and printing	91,370	72,639
Equipment repair	599	2,960
Depreciation	90,706	84,706
Other	26,815	17,659
Total miscellaneous expenses	**532,634**	**464,939**
Total administrative expenses	**$ 3,233,847**	**$ 2,301,329**

See accompanying independent auditors' report.

Schedule of Investment Expenses

For the Year Ended December 31, 2003

	Share		Fees		
Description	Transactions	Commissions	Management	Custodian	Total
Internal fixed	-	$ -	$ -	$ 167,669	$ 167,669
Seneca Capital Management	-	-	402,976	-	402,976
Vanderbilt Capital Advisors	-	-	394,321	-	394,321
Western Asset Management	-	-	409,762	-	409,762
Arnhold and S. Bleichroeder	11,593,123	584,157	514,663	-	514,663
LSV Asset Management	2,875,500	63,001	280,318	-	280,318
The Boston Company	22,020,280	938,326	698,333	-	698,333
TCW Asset Management	1,683,655	83,727	500,526	-	500,526
Constitution Research and Management	4,304,450	151,413	344,087	-	344,087
Cordillera Asset Management	8,535,708	342,725	183,624	-	183,624
TT International Advisors, Inc.	44,445,053	630,996	524,773	-	524,773
Axiom International	8,142,365	36,176	285,589	-	285,589
Morgan Stanley	-	-	1,376,628	-	1,376,628
Rowe Price Fleming	-	-	189,292	-	189,292
Northern Trust Global	-	-	130,728	-	130,728
J.P. Morgan Investment	-	-	671,432	-	671,432
Loan servicing	-	-	568,162	-	568,162
Commission recapture	-	(341,712)	-	-	-
Bank fees	-	-	19,299	-	19,299
Other investment expense	-	-	65,954	-	65,954
	103,600,134	$ 2,488,809	$ 7,560,467	$ 167,669	$ 7,728,136

Schedule of Payments to Consultants

For the Year Ended December 31, 2003

Firm	Fees	Nature of Service
Gabriel, Roeder, Smith & Company	$ 59,600	Actuarial
Wilshire Associates	30,387	Investment
KPMG LLP	73,775	Audit and benefits
Hewitt Associates	101,059	Investment
RiskCap	5,078	Insurance
University Physicians	5,894	Disability benefits
Munskgard & Associates	19,358	Information systems
Cockrell, Quinn & Creighton	46,544	Legal
Otten, Johnson, Robinson, Neff & Ragonetti PC	2,917	Legal
	$ 344,612	

See accompanying independent auditors' report.

Investment

We are the more than 5700 retired employees who gave of ourselves over many years for the District. We have not really retired, but rather changed directions. Our intergenerational contact provides educational and life skills support for Denver children and our communities.

We are the Denver Public Schools Retirement System!

Investment Management

Economic Overview

by E. Albert Thomas, CFA,
Chief Investment Officer

After three consecutive years of traumatic losses, equity markets worldwide enjoyed a broad-based rally in 2003. The rally in U.S. equities kicked off in mid-March and included most sectors. The impetus seemed to be higher corporate earnings, evidence of accelerating economic growth, and some of the lowest interest rates in 45 years. Also, a large tax cut, a mortgage refinancing boom, and a weaker dollar added fuel. The stock market rally was strong enough to overcome war in Iraq, scandals involving mutual funds, and a scandal involving the nation's oldest stock exchange. By finishing 2003 in the black, stocks avoided a four-year losing streak, something that hasn't happened since the great depression.

While it generally was thought interest rates were set to go higher, the Federal Reserve cut short-term rates in June to 1%, a 45-year low. This helped spur another wave of mortgage refinancing. Interest rates remained low despite strong economic growth, which usually leads to rising interest rates. The yield on the benchmark 10-year Treasury note started the year at 3.81%, hit a low in May of 3.31%, and finished the year at 4.25%. Inflation remained tame in 2003, with the Consumer Price Index-All Urban Consumers (CPI) increasing by 1.88%. The U.S. dollar reached a three-year low against the Japanese yen and an all-time low against the euro.

The U.S. economy struggled in the first half of 2003 but sprang to life in the second half, with Gross Domestic Product (GDP) gaining 8.2% in the third quarter and 4.1% in the fourth quarter. For the full year of 2003, GDP increased 5.9%. As mentioned, the recovery was touched off by multiple factors including low interest rates, tax cuts, and a declining dollar. The main cloud remaining over the economy is the job market. The unemployment rate finished the year with a slight decline to 5.7%; however, some job seekers have stopped looking for work and thus dropped out of the statistics. For the first time since the Bureau of Labor Statistics began keeping records in 1940, net job creation was negative for three consecutive calendar years.

The unpredictability of the markets over the last several years underscores the value of having a *long-term* investing strategy, which includes a diversified portfolio consisting of multiple asset classes. DPSRS maintains a prudent, long-term, strategic asset allocation and a consistent investment strategy.

Markets and Fund Performance

The U.S. stock market rebounded strongly in 2003 from one of the longest and deepest bear markets in many decades. For the year 2003, the S&P 500 Index posted a 28.7% total return, the Dow Jones Industrial Average was up 28.2% and the technology-heavy NASDAQ Composite Index posted a 50.8% gain. The NASDAQ, however, finished the year at 2003.37, which is far from its high of 5048.62 reached in March 2000. The Russell 3000 Index, a benchmark for the broad market, posted a 31.0% gain. Ninety percent of the stocks in the S&P 500 Index produced positive returns. A good year for the stock market was marred by revelations of serious lapses in judgment and fiduciary duty by some mutual fund executives, as well as by a scandal at the New York Stock Exchange. Small company stocks outperformed large company stocks in 2003 by almost 20% as investors were compensated for taking risk. Small cap stocks now have outperformed large caps for five consecutive years. The 2003 return for the DPSRS domestic equity portfolio was 44.01%.

International diversification was rewarded in 2003 as international stocks also rebounded strongly. Foreign stocks, as measured by the Morgan Stanley Capital International Europe Australasia Far East (MSCI EAFE) Index returned 38.6% in U.S. dollars. Weakness of the U.S. dollar contributed 18.3% of that gain, with the MSCI EAFE Index returning 20.3% in local currencies. During 2003, the U.S. dollar declined 20.2% vs. the euro, 11.2% vs. the British pound, and 10.7% vs. the Japanese yen. Most all regions of the world participated in the 2003 stock market rally. Japan's Nikkei Stock Average rose 23.0%, as that economy showed signs of recovery. The System's international stock portfolio returned 40.48% in 2003.

Bonds had a mediocre year in 2003. Following three years of impressive capital returns, most bond investors had to settle for coupon-like returns in 2003. The Lehman Aggregate Index, an index of investment grade or core bonds, was up 4.1% in 2003, after averaging returns of approximately 10% for 2000 to 2002. High yield bonds, a non-core sector of the market, did very well, posting an approximate 29% gain for the year. The System's fixed income portfolio, which is primarily core but includes some non-core sectors, returned 8.05% in 2003.

The overall return for the System's total portfolio for 2003 was 23.08%. This exceeds both the System's benchmark custom index, which returned 22.83%, and the median of a universe of retirement systems monitored by Hewitt Investment Group, the System's investment consultant. The System's 2003 return of 23.08% placed it in the 48th percentile of Hewitt's universe. The System's 2003 return of 23.08% includes private equity returns for the first time. Private equities do not lend themselves to the computation of an accurate time-weighted rate of return. However, since they only accounted for approximately 4% of the System's total assets as of the end of 2003, a return based on cash flows was computed by Hewitt Investment Group and included in the System's total return. This method showed a 2003 return of a negative 9.12% for the private equity portfolio.

Goal

The *Statement of Investment Objectives and Policies* is designed to enable the investment program of the retirement system to be a major contributor to the long-term accomplishment of the System's mission to provide career employees and their families with a primary source of lifetime income relative to service at retirement, disability or death. Summarized below are some of the major features of the *Statement of Investment Objectives and Policies* as well as recent investment results.

Investment Responsibilities

Colorado State Statutes designate the Board of Trustees as the ultimate fiduciary of the assets of the System. The Board must approve all decisions relating to the *Statement of Investment Objectives and Policies*. The Board has delegated the implementation of the Statement to the Investment Committee. Responsibilities of the Investment Committee include, but are not limited to, recommending investment policy changes to the Board and appointing, monitoring and terminating investment managers.

The Chief Investment Officer supervises and reviews activities and performance of investment managers, recommends changes in the investment program, and monitors the day-to-day investment activities. The investment managers manage the assets and exercise complete investment discretion in accordance with policy statements and guidelines and specific restrictions stated in their Investment Management Agreements. The managers are responsible for communicating with the Chief Investment Officer regarding all significant matters pertaining to investments of the fund assets.

Asset Allocation

The System's asset allocation is approved by Board of Trustees as part of the *Statement of Investment Objectives and Policies*. Although the *Statement of Investment Objectives and Policies* was revised December 1, 2003, the target asset allocations and related ranges have not been revised since September 9, 2002.

The overall target asset allocation can be divided into 64% equity-type investments (domestic, international, private, and real estate equity) and 36% fixed income-type investments (fixed income and mortgages). The target allocation ranges for specific asset classes are noted below, however, within the equity-type investment category, there are further constraints so that the total of the equity-type investments does not fall outside of the range of 56% to 72% of total investments.

Asset Allocation By Asset Class

Asset Class	Low	Target	High
Total Domestic Equities	27%	32%	37%
Large Capitalization Equities	11%	16%	21%
Small/Mid Capitalization Equities	11%	16%	21%
International Equities	12%	17%	22%
Private Equity	2%	5%	10%
Real Estate Equity	7%	10%	13%
Fixed Income Securities	20%	23%	26%
Real Estate Mortgages	8%	13%	18%

Investment Guidelines

Equity Investments

The portion of assets invested in publicly traded equity securities is diversified between domestic and international, by company capitalization, and by manager style. A portion of the domestic equity portfolio is managed passively (indexed), and a portion is actively managed.

The asset allocation provides for approximately 16% in large capitalization domestic issues, 16% in small/mid capitalization domestic issues, and 17% in international issues. As a general practice, equity holdings in a single company should not exceed 5% of a manager's portfolio at cost or 8% at market value. Also, as a general practice, holdings in any single industry sector should not exceed 40% of the total related portfolio, i.e., large capitalization domestic, small/mid capitalization domestic, and international portfolio. In certain instances, these guidelines can be altered depending on a particular manager's style and expertise, if stated in the Investment Management Agreement.

Fixed Income Investments

The fixed income asset class includes a broad array of debt securities, including U.S. Government and agency securities, corporate notes and bonds, short-term money market securities, such as certificates of deposit and commercial paper, mortgage and other asset-backed securities and securities issued by non-U.S. governments and corporations. The Board of Trustees recognized that there are periods during economic and capital market cycles where utilization of debt securities and derivative securities of various sectors, currencies, and structures is appropriate in a well-diversified portfolio in order to manage risk and to provide the potential for above average long-term investment returns.

Except for U.S. Government and agency guaranteed securities, concentrations in the securities of a single entity are limited to not more than 5% of the fixed income securities at market value. Concentrations in the corporate securities of a single industry are limited to not more than 25% of fixed income securities at market value.

Deviations from the standard guidelines must be stated and approved in the Investment Management Agreement.

Mortgage Investments

This asset class can include all mortgage investments except mortgage-backed securities, such as mortgages on income-producing properties, mortgage pools, interests in commingled funds or co-investment vehicles which invest in mortgages, investment management separate accounts, and interest in participating and convertible mortgages where it is intended to be primarily a debt rather than an equity investment.

In order to protect the overall performance and preservation of fund assets, mortgages that are secured by a single property are limited in size to not more than 5% of the total mortgage portfolio. Due to the broad diversification characteristics represented by mortgage pools and commingled mortgage funds, the 5% limitation does not apply to the System's participation in such investment vehicles.

Equity Real Estate Investments

Investments in this asset class can include any of the following: direct ownership of real estate properties, ownership in commingled funds that invest primarily in equity real estate, interests in hybrid debt instruments where the investment is deemed to be more of an equity rather than a fixed income investment, investment management separate account, investments in real estate joint ventures, partnerships or similar vehicles or investments in Real Estate Investment Trusts.

Real estate assets are diversified geographically by property type and by property size. The System will, as a general practice, not own more than a 20% interest in any one commingled fund, nor will an initial investment in any one individual property be more than 10% of the total equity real estate portfolio.

Private Equity Investments

The private equity asset class consists of investment vehicles that are not registered with the Securities and Exchange Commission and as a result, are not marketable through public transactions. The terms and structures of the investment are privately negotiated between the investor and the business enterprise. Investments may be structured as equity or debt or a combination of equity and debt.

In selecting appropriate private equity limited partnerships, emphasis is given to broad diversification relative to transaction type, economic sectors, industries, geographical location, development stage, and general partners. The System will, as a general practice, not own more than a 10% interest in any one private equity limited partnership.

Investment Management Objectives

The *Statement of Investment Objectives and Policies* provides for performance objectives for the total fund as well as for individual managers. As presented in the table below, the performance of the total fund is evaluated relative to inflation, an appropriate universe of other pension funds, and a Custom Index, which was revised December 1, 2003. Individual external investment managers are evaluated relative to an appropriate universe and a relevant index. The Investment Committee meets quarterly to review the actual performance of the total fund, each asset class, and each investment manager. Performance evaluations are performed quarterly by Hewitt Investment Group, the System's investment consulting firm, and are distributed to the Board of Trustees.

	Total Fund	Equity Specialist Managers	Fixed Income Specialist Managers
Relative to inflation	CPI + 5% annually	N/A	N/A
Relative to an institutional universe	Top 60%	Top 40%	Top 40%
Relative to an index	Exceed a Custom Index weighted as follows: Russell 1000 – 16% Russell 2500 – 21% [1] Lehman Aggregate – 23% Lehman A Intermediate Credit – 13% NCREIF Property – 10% MSCI EAFE – 17%	Large Cap: Exceed appropriate Russell 1000 Index Small/Mid Cap: Exceed appropriate Russell 2500 Index International: Exceed EAFE Index Real Estate Equity: Match NCREIF Property Index	Exceed Lehman Aggregate Index

[1] *Includes 5% allocation to Private Equity*

The objective of investment in mortgages is to maintain a portfolio of high quality mortgage investments that provide an alternative to other fixed income investments. With the mix of mortgage investments being so varied, there is no nationally recognized published index that would approximate the mix of investments in the mortgage portfolio. However, it is expected that the mortgage investment portfolio should produce returns that exceed the CPI by at least 4% annually over a three-to-five-year period.

Investments in equity real estate are structured to create a diversified real estate portfolio of high quality property assets to provide a hedge against inflation, diversify the fund's asset base and stabilize overall fund investment performance. Total return shall include income as well as appreciation or depreciation. It also is expected that the total return of the total equity real estate portfolio will at least match the total return of the NCREIF Property Index over a seven-to-ten year time horizon.

The private equity asset class should provide a well-above-average rate of return relative to other asset classes utilized by the System. It is recognized that along with the higher rate of return will come higher volatility relative to other asset classes. With the wide variation in types of private equity limited partnerships and the long time period from investment to liquidation, there is no nationally recognized published index that would be comparable to the mix of investments contained in the System's portfolio. However, in general, the private equity asset class is expected to produce an annual rate of return, as measured by net internal rate of return, of greater than or equal to 5% above the return of the Russell 3000 Index over a seven-to-ten year time horizon.

Safeguarding of Assets

Marketable securities owned by the System are held under a custodial arrangement with The Northern Trust Company in Chicago, Illinois. In addition to safekeeping the assets, the custodian also is responsible for the timely and accurate settlement of securities transactions as well as the collection and accounting for all income receivable from the investments. Investments that are managed by outside managers using a commingled vehicle are held under similar custodial arrangements. The Northern Trust Company's securities lending operations generated additional income of approximately $400,000 for the System during 2003.

The System's own internal accounting department verifies and reconciles the activity of the custodian and the investment managers while maintaining financial records according to governmental accounting standards. Annual audit and actuarial examinations also are performed by independent professional firms to provide assurance of the integrity of the System's financial statements and long-term actuarial funding.

Historical Performance

Presented below are the annual total returns from each asset class for the 1999-2003 period as well as the compounded three-year and five-year total returns. These results have been prepared by the System's outside investment performance consultant Hewitt Investment Group and are time-weighted returns computed in conformance with the presentation standards of the Association for Investment Management and Research. Comparable indexes also are presented below each asset class.

Total Returns

	1999	2000	2001	2002	2003	3-Year	5-Year
Total DPSRS Fund *	**19.75%**	**2.72%**	**0.17%**	**- 5.15%**	**23.08%**	**5.36%**	**7.54%**
DPSRS Domestic Stock	**30.50**	**- 4.19**	**- 5.86**	**- 24.56**	**44.01**	**0.75**	**5.04**
Standard & Poor's 500	21.03	- 9.10	- 11.88	- 22.10	28.69	- 4.05	- 0.57
DPSRS International Stock	**35.00**	**- 4.79**	**- 17.29**	**- 9.50**	**40.48**	**1.69**	**6.21**
MSCI EAFE Index	26.97	- 14.16	- 21.45	- 15.94	38.59	- 2.91	- 0.05
DPSRS Fixed Income	**2.66**	**6.87**	**10.45**	**9.61**	**8.05**	**9.37**	**7.50**
Lehman Aggregate	- 0.83	11.63	8.43	10.27	4.11	7.57	6.62
DPSRS Mortgages	**1.25**	**14.17**	**8.45**	**9.15**	**7.96**	**8.52**	**8.12**
Lehman A Intermediate Credit	- 0.28	9.83	10.06	10.58	7.14	9.25	7.39
DPSRS Real Estate	**12.59**	**14.10**	**7.56**	**7.15**	**7.76**	**7.49**	**9.80**
NCREIF Property Index	11.36	12.23	7.35	6.76	8.99	7.70	9.32
DPSRS Short-Term Investments	**5.41**	**6.69**	**4.50**	**2.07**	**1.27**	**2.60**	**3.97**
3-Month Treasury Bills	4.83	6.18	4.42	1.80	1.15	2.45	3.66

** The 2003 total return includes private equity. Prior years' returns do not include private equity. 3-year and 5-year total fund returns include private equity only for 2003.*

List of Largest Assets Held

December 31, 2003

Largest Stock Holdings

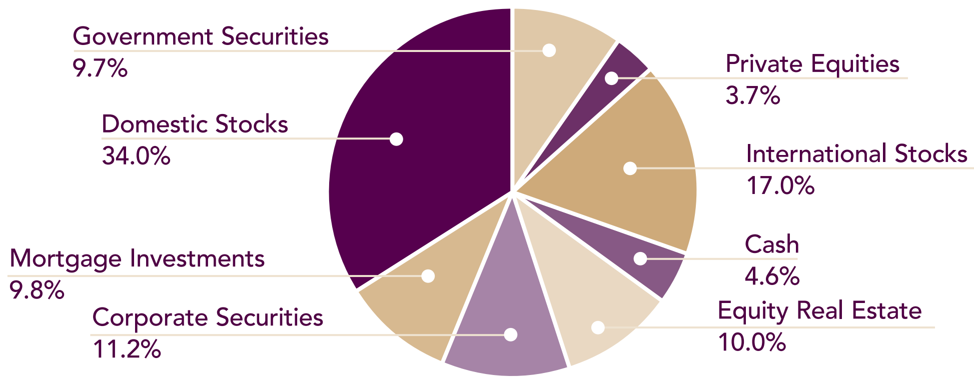
Shares	Stock	Market Value
503,840	Microsoft	$ 13,790,104
2,621,820	Amphenol	12,057,198
132,143	Progressive Corporation	10,926,885
407,900	Tyco International	10,809,350
162,362	Amazon	8,543,472
134,421	Amgen	8,305,920
97,000	3M	8,247,910
2,727,773	Vodafone Group	6,763,125
71,740	Genentech	6,712,712
213,500	Baxter International	6,516,020

Largest Bond Holdings

Par	Bond	Market Value
$ 20,900,000	GNMA I Single Family 30 Year, 5.00%, due 01/01/2004	$ 20,704,167
15,480,000	GNMA TBA Pool, 6.50%, due TBA	16,312,050
14,740,000	GNMA I 30 Year Single Family, 6.00%, due 01/01/2033	15,315,744
12,600,000	FHLMC Gold 15 Year, 7.00%, due 01/01/2018	13,438,656
10,965,000	U.S. Treasury Bonds, 5.375%, due 02/15/2031	11,434,412
11,123,051	Mississippi Business Finance, 9.00%, due 01/01/2023	11,147,522
4,765,000	U.S. Treasury Bonds, 3.875%, due 04/15/2029	6,938,551
6,660,000	U.S. Treasury Notes, 4.25%, due 11/15/2013	6,653,740
3,440,000	U.S. Treasury Bonds, 3.625%, due 04/15/2028	4,871,214
4,500,000	Banco Centro Americano A.I.D., 11.00%, due 12/01/2012	4,500,000

A complete list of portfolio holdings is available upon request.

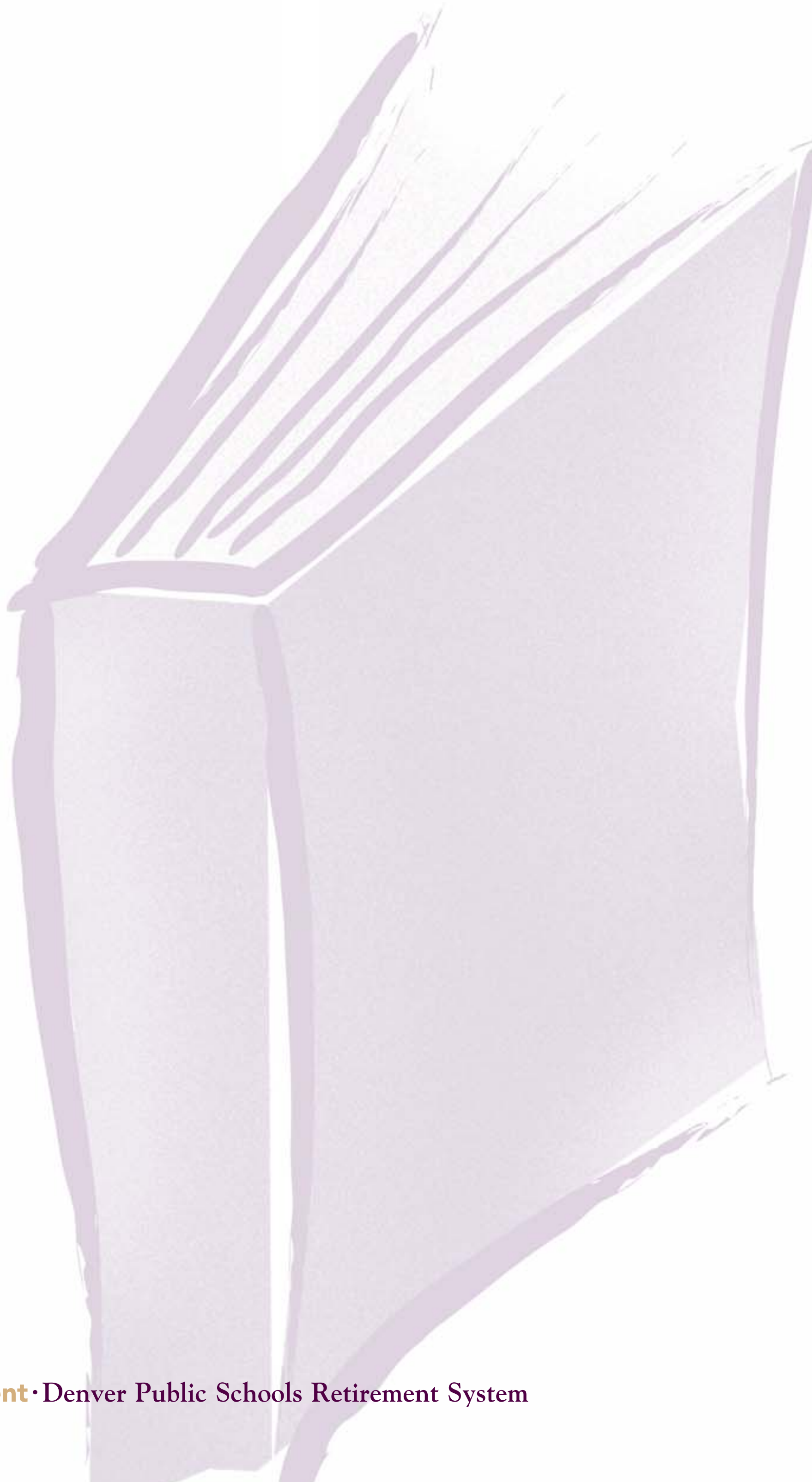
Investment Summary



Type of investment	January 1, 2003	December 31, 2003	% Total Value
Cash and short-term investments	$ 117,824,283	$ 116,276,464	4.6%
Fixed income investments:			
Corporate securities	314,452,228	284,045,093	11.2
Government securities	217,906,730	245,873,170	9.7
Mortgage investments	346,304,215	248,591,834	9.8
Total fixed income investments	878,663,173	778,510,097	30.7
Domestic stocks	540,891,339	859,416,125	34.0
International stocks	284,500,473	427,988,923	17.0
Equity real estate	268,887,109	252,425,749	10.0
Private equities	92,499,939	92,607,906	3.7
Investments and cash	**2,183,266,316**	**2,527,225,264**	**100.0%**
Security lending collateral	142,715,941	184,990,477	
Total investments and cash	**$ 2,325,982,257**	**$ 2,712,215,741**	

Schedule of Fees and Commissions

	Assets under management	Fees	Commissions		
			Shares	Amount	Per Share
Investment manager fees					
Fixed income managers	$ 646,194,727	$ 1,207,059	-	$ -	$ -
Equity managers	1,287,405,048	5,028,561	103,600,134	2,830,521	0.03
Other investments	593,625,489	1,324,847	-	-	-
Total investment manager fees	**$ 2,527,225,264**	**7,560,467**	**103,600,134**	**2,830,521**	**0.03**
Other investment service fees					
Custodian fees		167,669	-	-	-
Security lending fees		1,633,866	-	-	-
Commission recapture income		-	-	(341,712)	(0.01)
Total investment service fees		**$ 9,362,002**	**103,600,134**	**$ 2,488,809**	**$ 0.02**



Actuarial

We are the more than 600 transportation and maintenance employees minding the yellow school buses that carry the children to and from school with noses pressed against fogged-up windows. We watch affectionately as the children dream their dreams while bouncing along on these gentle, noisy road giants.

We are the Denver Public Schools Retirement System!

GABRIEL, ROEDER, SMITH & COMPANY
Consultants & Actuaries

One Towne Square • Suite 800 • Southfield, Michigan 48076 • 248-799-9000 • 800-521-0498 • fax 248-799-9020

April 1, 2004

Board of Trustees
Denver Public Schools Retirement System
1301 Pennsylvania Street, Suite 700
Denver, CO 80203-5014

Dear Board Members:

The basic funding objective of the Denver Public Schools Retirement Systems (DPSRS) is to establish and receive contributions which, when expressed in terms of the percentage of active member payroll, will remain approximately level from generation to generation, and when combined with present assets and future investment return will be sufficient to meet the financial obligations of DPSRS to present and future retirees and beneficiaries.

The annual actuarial valuation process develops contribution rates that are sufficient to fund the current cost (i.e., the costs assigned by the valuation method to the year of service about to be rendered), as well as to fund unfunded actuarial accrued liabilities as a level percent of active member payroll. The most recent annual valuation was completed based upon census data, asset data, and plan provisions as of December 31, 2003. The valuation is performed in accordance with standards of practice prescribed by the Actuarial Standards Board. Each of the actuaries involved is a member of the American Academy of Actuaries and works exclusively in the public sector arena.

The System's administrative staff provides the actuary with data for the actuarial valuations. The actuary relies on the census data after reviewing it for internal and year-to-year consistency. Asset information was accepted without further audit. Assets are valued on a market related basis that recognizes the difference between actual and assumed investment return over an open five-year period.

Schedules in the Financial Section prepared by the actuary were:

- Schedule of funding progress
- Schedule of employer contributions

Schedules in the Actuarial Section prepared by the actuary were:

- Percent of members separating before retirement
- Percent of eligible members retiring next year
- Individual pay increase assumptions
- Schedule of contributing, affiliate and deferred member valuation data
- Schedule of retirees and beneficiaries added to and removed from benefit payroll
- Solvency test
- Analysis of financial experience

Schedules in the Statistical Section prepared by the actuary were:

- Schedule of average benefit payments
- Schedule of retired members and beneficiaries by option

The assumptions and methods used are internally consistent and comply with the requirements of Statement No. 25 of the Governmental Accounting Standards Board. The valuation assumptions were based on a study of DPSRS experience covering the 1999-2001 period.

For the period July 1, 2000 through June 30, 2010, the established policy is to contribute 2.90% of covered payroll, plus an amount to amortize any unfunded actuarial accrued liability over a 30-year period as a level percent of compensation. For the 2005-2006 fiscal year, this results in a funding policy contribution rate of 8.66% of compensation. The annual required contribution (ARC) under GASB 25 is equal to 13.55% of compensation. The DPSRS was 90.6% funded as of December 31, 2003 based on the DPSRS market related value of assets.

Based upon the results of the December 31, 2003 valuations, the Denver Public Schools Retirement System is in sound condition in accordance with actuarial principles of level percent of payroll financing.

Respectfully Submitted,
GABRIEL, ROEDER, SMITH & COMPANY

Judith A. Kermans, E.A., M.A.A.A.   Norman L. Jones, F.S.A., M.A.A.A.

Summary of Principal Plan Provisions and Organization

Background

The System was established by the Board of Education of School District No. 1 on December 1, 1945, to provide defined retirement, death and disability benefits to participating employees. The organization and amendments of the Plan have been carried out in accordance with the provisions of Colorado law. The System Retirement Trust Fund is designated as a trust fund established to accomplish the objectives set forth in the Plan.

The responsibility for the general administration, investment of assets, and proper operation of the System is vested in an 11-member board of managers known as the Board of Trustees.

The daily administration of the retirement plan is the responsibility of the Executive Director of the System who is appointed by the Board of Trustees. The retirement organization consists of four major divisions. The Retirement Administration Office has the responsibility for administrative operations, including contribution, service and salary maintenance, retirement estimate preparation and finalization, and administration of the retirement payroll. The Accounting Office generally is responsible for the processing of the retirement payroll and all financial accounting and reporting for the retirement plan. The Chief Investment Officer is the custodian of the funds held on behalf of the System and directs the activities of the third division, the Office of Fund Investments. All of the offices are provided with data processing support by the Information Systems Department.

Contributions and Membership

Contributing members receive benefits based upon years of accredited service and their highest average salaries. Prior to retirement, members are required to contribute 8% of regular compensation. Contributions currently accumulate interest monthly at the effective annual rate of 5%. Interest crediting will continue at 5% in future years unless changed by action of the Board of Education. The contributions and the interest are returned to the member's beneficiary or to the member upon his or her death or termination of employment prior to retirement, respectively. In the event of the member's death prior to retirement, his or her beneficiary may elect to have survivor benefits paid to the eligible survivors in lieu of the return of the member's contributions with interest.

Affiliate members are part-time or temporary employees of the District who have applied and been accepted for affiliate membership. Generally, continuously-employed employees contribute 6% of compensation paid prior to July 1, 1998, and 8% of compensation paid on or after July 1, 1998. Affiliate members receive a benefit determined in the same manner as provided for contributing members, except that career average salary is substituted for highest average salary in computing such benefit. Upon termination of affiliate membership or death prior to retirement, all of the member's contributions, together with interest, are returned to the member or in the event of the member's death, to his or her beneficiary.

Disability retirement may be granted to either classification of membership in case of disability prior to eligibility for normal retirement. The amount of such benefits depends upon the class of membership and accrued service.

Optional forms of retirement allowance, which provide a continuance or a lump-sum death benefit to a member's beneficiary, are available to all members upon retirement.

Service Retirement Benefits

I. ELIGIBILITY

A. Superannuation Retirement

1. Attained age 55 with 25 or more years of active service
2. Attained age 65 with 5 or more years of active service
3. Attained age 50 with 30 or more years of active service

B. Optional Early Retirement

1. Attained age 55 with 15 or more years of active District service
2. Attained age younger than 55 with 25 or more years of active District service

II. BENEFITS

A. Superannuation Retirement Single Life Annuity

2.5% of Highest Average Salary for every year of accredited service. Highest Average Salary is the average monthly compensation of the 36 months of accredited service having the highest rates multiplied by twelve.

B. Optional Early Retirement Single Life Annuity

Same provisions as for superannuation retirement with a 4% reduction in allowance applied for each year the member lacks eligibility for superannuation retirement. Proration on a monthly basis is applied for partial years.

C. Minimum Benefits

A minimum pension benefit equal to $15 per year for each of the first 10 years of accredited service and $20 per year thereafter is guaranteed by the provisions of the Plan.

Deferred Retirement Benefits

I. ELIGIBILITY–Five or more years of active service with the District

II. BENEFITS (Pension and Annuity)

Determination of benefits is the same as for superannuation retirement. Benefits are payable at attained age 55 with 25 years of active service, at age 65 with fewer than 25 years of active service, and for members who terminate on or after January 1, 2001, at attained age 50 with 30 years of active service. Also available at the time a member who resigns on or after January 1, 2001, becomes eligible to draw a deferred benefit, is a choice of a refund of 200% of accumulated contributions, a money purchase retirement benefit based on 200% of accumulated contributions plus the minimum employer-provided benefit, or the existing defined benefit provided by the Plan.

"Automatic" Retirement Benefits

In case of the death of any affiliate or contributing member who was eligible for retirement, the Retirement Plan provides for an automatic retirement as of the day after the date of death.

Disability Retirement Benefits

I. ELIGIBILITY–Five or more years of active service with the District

II. BENEFITS (Pension and Annuity)

Determination of benefits is the same as for superannuation retirees who retire under the provisions of a "Single Life Annuity." Recalculation occurs at age 55 if active service at the time of disability is 25 years or more or at age 50 if active service at the time of disability is 30 years or more. Otherwise, recalculation occurs at age 65.

- *Retirement benefits are subject to the limits set forth in the United States Internal Revenue Code.*
- *This Summary generally describes the basic benefits available under the Plan as it existed December 31, 2003, and shall in no way be taken as the basis of, or creating, any contractual rights between the District or the System and any person or employee.*

Retirement Options

Option A

Option A is a single life annuity, which is defined as a specified sum of money payable monthly to an annuitant from the time of his or her retirement until death, without refund of any kind to the estate of the deceased annuitant or anyone claiming by or through him or her.

Option B

Option B is an installment refund annuity, which is defined as a somewhat smaller sum of money than the amount which would be payable under Option A but which is the actuarial equivalent thereof, payable monthly to an annuitant from the time of his or her retirement until his or her death. Additionally, if the annuitant dies before receiving an amount equal to the total of his or her reserve, the payments continue to his or her designated beneficiaries or estate until the total amount of the payments made to the annuitant and to the beneficiaries or estate is equal to the total amount of reserve allocated to the payment of said annuitant's retirement allowance.

Option C

Option C is a joint survivorship annuity, which is defined as a somewhat smaller sum of money than the amount which would be payable under Option A but which is the actuarial equivalent thereof, as provided in the Plan and in accordance with the action of the Board of Education, payable monthly to an annuitant from the time of retirement so long as he or she lives and thereafter to his or her designated co-annuitant, so long as the designated co-annuitant lives. The designation of the co-annuitant is effective upon the effective date of the member's retirement and subsequently may not be changed. For all retirements effective on or after January 1, 1998, in addition to designating a co-annuitant, the member designates a contingent beneficiary(ies) and has the exclusive right to change such designation of contingent beneficiary(ies) at any time prior to his or her death. If, at the date of death of the annuitant and the designated co-annuitant, whichever is the later, the total number of monthly payments made does not equal at least 120 full months, the remainder necessary to equal 120 full monthly payments is paid in equal shares monthly to the member's contingent beneficiary(ies). In the event of the death(s) of all contingent beneficiaries, prior to the death(s) of the annuitant and the co-annuitant, the remaining amount due, at the death of the annuitant or co-annuitant, whichever is the later, is commuted and paid in one lump sum to the estate of the annuitant or the co-annuitant, whoever dies later. In the event any contingent beneficiary survives such later death and thereafter dies, the remainder of payments due that beneficiary is commuted and paid to his or her estate.

In case of the death of the designated co-annuitant under Option C after the date of application for retirement and before the effective date of retirement, the member may make a change of option or designate a new co-annuitant within 30 days after the death of the previously designated co-annuitant and subject to the appropriate recalculation of the retirement allowance.

Option D

Option D is a reduced single life annuity, which is defined as a somewhat smaller sum of money than the amount which would be payable under Option A, the portion thereof attributable to the pension share of retirement allowance being the same as under Option A and the annuity share of the retirement allowance being the actuarial equivalent of such share under Option A. The benefit is payable monthly to an annuitant from the time of retirement so long as he or she lives, with a cash refund on his or her death to the designated beneficiaries or to his or her estate, of any excess of the accumulated contributions of the member at the time of the effective date of retirement over the total amount of the annuity share of the retirement allowance paid or payable to the annuitant to and including the date of death.

Option E

Option E is a modified joint-survivorship annuity, which is defined as a somewhat smaller sum of money than the amount which would be payable under Option A but which is the actuarial equivalent thereof, as provided in the Plan and in accordance with action of the Board of Education, payable monthly to an annuitant from the time of retirement so long as he or she lives. Upon the death of the annuitant, an amount equal to one-half of the monthly amount paid to the annuitant is payable monthly to his or her designated co-annuitant so long as he or she lives. The designation of the co-annuitant is effective upon the effective date of the member's retirement and subsequently may not be changed. For all retirements effective on or after January 1, 1998, in addition to designating a co-annuitant, the member designates a contingent beneficiary(ies) and has the exclusive right to change such designation of contingent beneficiary(ies) at any time prior to his or her death. If, at the date of death of the annuitant and the designated co-annuitant, whichever is the later, the total number of monthly payments made does not equal at least 120 months, the remainder necessary to equal 120 monthly payments is paid in equal shares monthly to the member's contingent beneficiary(ies), using the same amount payable to the designated co-annuitant. In the event of the death(s) of all contingent beneficiaries, prior to the death(s) of the annuitant or the co-annuitant, the remaining amount due, at the death of the annuitant or co-annuitant, whichever is the later, is commuted and paid in one lump sum to the estate of the annuitant or the co-annuitant, whoever dies later. In the event any contingent beneficiary survives such later death and thereafter dies, the remainder of payments due that beneficiary is commuted and paid to his or her estate.

In case of the death of the designated co-annuitant under Option E after the date of application for retirement and before the effective date of retirement, the member may make a change of option or designate a new co-annuitant within 30 days after the death of the previously designated co-annuitant and subject to the appropriate recalculation of the retirement allowance.

Survivor Benefits

(On or after January 1, 1988, the deceased member was an active, contributing member or a contributing member retired for disability who died prior to eligibility for normal retirement and benefit recalculation.)

I. ELIGIBILITY–Five or more years of continuous active service

II. BENEFITS

SURVIVOR	MONTHLY BENEFIT
1. Child/Children	10% of Highest Average Salary for each child up to a limit of 30% or $160 for each child up to a limit of $480, whichever is greater
2. Spouse with eligible child/children (fewer than 15 years of member accredited service)	The difference between (1) above and 30% of Highest Average Salary or $480, whichever is greater
3. Spouse with eligible child/children (at least 15 years of member accredited service but fewer than 25 years of service)	The difference between (1) above and 40% of Highest Average Salary or $480, whichever is greater
4. Spouse with eligible child/children (25 years of member accredited service or more)	The difference between (1) above and 40% of Highest Average Salary plus an additional 2% for each year of service beyond 25 years, or $480, whichever is greater
5. Dependent Parent	10% of Highest Average Salary for each parent or $240 for each parent, whichever is greater
6. Spouse (fewer than 15 years of member accredited service, payable at age 60)	30% of Highest Average Salary or $480, whichever is less
7. Spouse (at least 15 years, but fewer than 25 years of member accredited service, payable at age 50)	30% of Highest Average Salary plus an additional 1% for each year of service beyond 15 years, or $480, whichever is greater
8. Spouse (at least 25 years of member accredited service, payable at age 50)	40% of Highest Average Salary plus an additional 1% for each year of service beyond 25 years, or $480, whichever is greater

Unmarried children are eligible for survivor benefits to age 18. Unmarried children enrolled in an accredited school full time are eligible until age 23. Disabled children of any age who are unmarried and were financially dependent upon the member are eligible. Spouse/children's benefits are payable as long as there is an eligible child.

Annual Retirement Allowance Adjustment (ARAA)

Effective on January 1 of each year, an increase in retirement or survivor benefits becomes payable based on 3 1/4% of the previous year's retirement or survivor benefit.

Summary of Actuarial Assumptions and Methods

Assumptions as of January 1, 2004

a. The investment return used in the valuation is 8.75% per annum, compounded annually (net after expenses), and was adopted in 1996.

b. The post-retirement mortality tables used in evaluating the liabilities of service retirement and disability benefits to be paid under the Plan are based on the 2002 DPSRS Experience Study. These assumptions were adopted in 1999. They were reviewed in 2002 but were not changed.

c. The probabilities of pre-retirement death, disability, superannuation, and nonvested withdrawal are based on the Plan's experience. Probabilities for sample ages are shown below and were adopted in 2002.

d. Individual salaries are assumed to increase by merit and longevity plus 4.0% for inflation per year. These increases are shown for sample ages below. Active membership is assumed to remain constant. These assumptions were adopted in 2002.

e. The actuarial value of assets is the expected value of assets plus 20% of the difference between the expected and the adjusted market value of assets as of the valuation date.

f. The retirement plan's liabilities are funded on the Entry Age Normal Actuarial Cost method. Beginning July 17, 1997, the employer contribution rate was decreased to 4.26% from 15.75% as a result of the issuance of Pension Certificates of Participation and full funding of the unfunded actuarial accrued liability. Actuarial liabilities or surpluses are amortized over 30 years as a level percentage of increasing payroll subsequent to each annual valuation.

g. Annual benefit increases are equal to 3.25% of the previous year's retirement benefit.

h. The assumptions and methods are specified by the System upon recommendation of the actuary, a qualified member of the American Academy of Actuaries. The information for the schedules in this section is provided by the actuary.

i. Assumptions and methods used for funding purposes meet the parameters set for the disclosures presented in the financial section by GASB Statement No. 25.

j. The last study of the plan's experience took place in 2002. Assumption changes generally are effective in the year subsequent to adoption.

Percent of Members Separating Before Retirement

For Reasons Other Than Death or Disability

Sample Ages	Years of Service	% of Active Members Separating Within Next Year: Men	Women
All	0	20.00%	20.00%
	1	18.00	18.00
	2	15.00	15.00
	3	12.00	12.00
	4	10.00	10.00
25	5 & over	8.19	7.20
30		7.76	6.40
35		7.27	5.30
40		5.60	4.40
45		3.35	3.10
50		2.50	2.40
55		2.50	1.20
60		2.50	0.70
65		3.00	0.70

Due to Death or Disability

Sample Ages	Death: Male	Death: Female	Disability: Male	Disability: Female
20	0.02%	0.01%	0.00%	0.00%
25	0.02	0.01	0.06	0.06
30	0.02	0.01	0.06	0.06
35	0.03	0.02	0.07	0.07
40	0.04	0.03	0.10	0.10
45	0.07	0.04	0.17	0.17
50	0.13	0.07	0.31	0.31
55	0.21	0.10	0.56	0.56
60	0.32	0.17	1.19	1.19
65	0.50	0.29	0.00	0.00

Percent of Eligible Members Retiring Next Year (Superannuation)

Retirement	Eligible for Reduced Benefits		Eligible for Unreduced Benefits	
Age	Male	Female	Male	Female
50	5.00%	3.00%	15.00%	15.00%
51	5.00	4.00	15.00	15.00
52	6.00	4.00	15.00	15.00
53	7.00	5.00	15.00	15.00
54	8.00	5.00	15.00	15.00
55	9.00	5.00	20.00	20.00
56	10.00	5.00	22.00	22.00
57	12.00	6.00	23.00	24.00
58	12.00	6.00	25.00	24.00
59	13.00	7.00	26.00	26.00
60	14.00	7.00	29.00	28.00
61	14.00	8.00	31.00	30.00
62	15.00	8.00	34.00	33.00
63	17.00	10.00	40.00	36.00
64	20.00	12.00	47.00	39.00
65	0.00	0.00	55.00	42.00
66	0.00	0.00	65.00	48.00
67	0.00	0.00	76.00	56.00
68	0.00	0.00	84.00	67.00
69	0.00	0.00	92.00	83.00
70	0.00	0.00	100.00	100.00

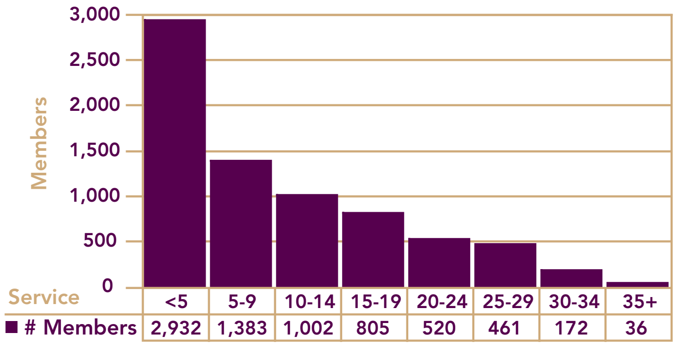
Individual Pay Increase Assumptions

Sample Age	Merit and Longevity	Base (Inflation)	Increase Next Year
20	5.70%	4.00%	9.70%
25	5.10	4.00	9.10
30	4.10	4.00	8.10
35	3.40	4.00	7.40
40	2.90	4.00	6.90
45	2.34	4.00	6.34
50	1.74	4.00	5.74
55	1.26	4.00	5.26
60	0.86	4.00	4.86
65	0.58	4.00	4.58

Summary of Member Data

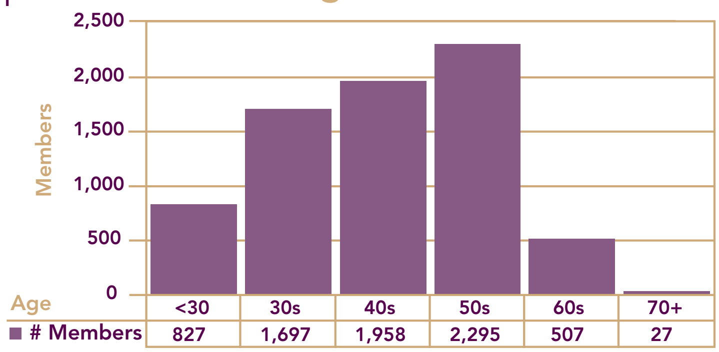
Active Members

Member Years of Service



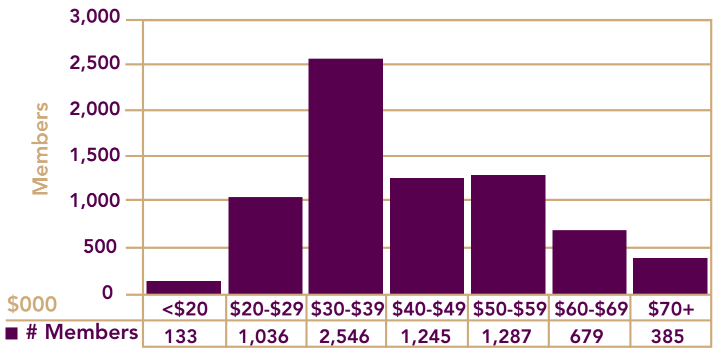
Total Number of Contributing Members: 7,311
Average Years of Service: 10.18

Member Ages



Average Contributing Member Age: 44.6 years

Member Salaries



Average Contributing Member Salary: $43,513

Schedule of Contributing, Affiliate and Deferred Member Valuation Data

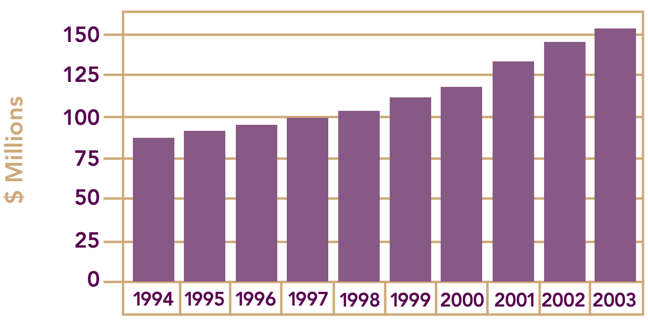
Calendar Year Ending	Number of Contributing Members	Payroll at Valuation Date	Average Annual Salary	% Increase In Average Salary	Number of Affiliate Members	Number of Deferred Members
1998	6,434	$ 248,766,000	$ 38,664	3.53%	39	99
1999	6,677	264,079,000	39,551	2.29	39	102
2000	7,182	292,404,000	40,713	2.94	31	120
2001	7,466	307,834,000	41,231	1.27	31	141
2002	7,691	331,607,000	43,116	4.57	31	187
2003	7,311	318,122,000	43,513	0.92	28	219

Schedule of Retirees and Beneficiaries Added To and Removed From Benefit Payroll

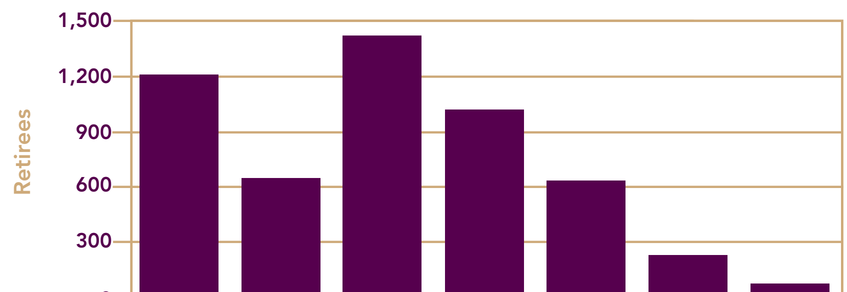
Calendar Year Ending	Added to Payroll: Number	Added to Payroll: Annualized Monthly Benefit	Removed from Payroll: Number	Removed from Payroll: Annualized Monthly Benefit	Payroll at End of Year: Number	Payroll at End of Year: Annualized Monthly Benefit	Average Annualized Monthly Benefit	% Increase in Annualized Benefit
1998	225	$ 431,296	145	$ 170,857	5,037	$ 9,059,246	$ 1,799	7.43 %
1999	243	522,226	122	149,335	5,158	9,646,294	1,870	6.48
2000	288	574,626	224	326,483	5,222	10,462,574	2,004	7.17
2001	476	1,281,629	184	300,047	5,514	11,781,954	2,137	6.64
2002	303	781,834	207	333,511	5,610	12,606,923	2,247	5.15
2003	260	665,284	171	283,937	5,699	13,397,013	2,351	4.63

Retired Members

Total Benefits Paid

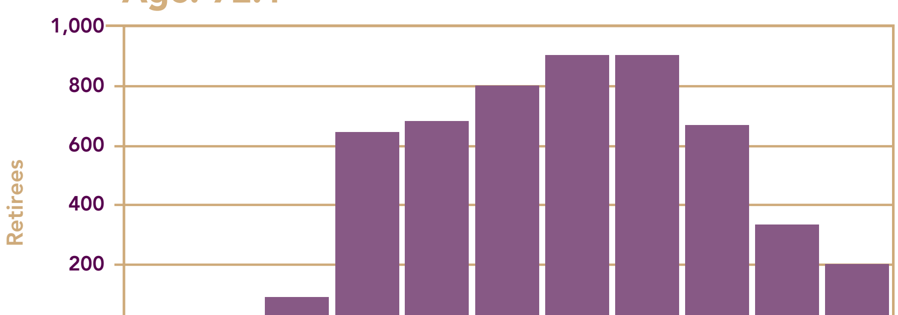


Average Years Since Retirement: 12.5*



Years	0-4	5-9	10-14	15-19	20-24	25-29	30+
■ Retirees	1,207	644	1,418	1,014	631	226	70

Average Retiree Age: 72.1*



Age	<45	45-49	50-54	55-59	60-64	65-69	70-74	75-79	80-84	85-89	90+
■ Retirees	0	5	89	642	680	801	902	895	665	331	200

** Includes regular and optional early retirements only. Total recipients: 5,210*

Member and Employer Contribution Rates

Year	Member Rate		Funding Policy Employer Rate		Actual Employer Rate
1994	6.0%		16.27%	(1)	16.27%
1995	6.0/7.0	(2)	16.27		16.27
1996	6.0/7.0		16.01	(3)	16.01
1997	6.0/7.0		10.01	(4)	10.01
1998	6.0/7.0/8.0	(5)	3.47	(6)	3.47
1999	8.0		2.79	(7)	2.79
2000	8.0		2.90		2.90
2001	8.0		2.90		2.90
2002	8.0		2.90	(8)	2.90
2003	8.0		3.94	(9)	3.94

(1) *Regular contribution rate was 12.50% and 3.77% for the 1992 Early Retirement Incentive Program (ERIP).*

(2) *Contribution rate was 7.0% for employees hired or rehired on or after 1/1/95.*

(3) *The total contribution rate from 1/1/96 - 6/30/96 was 16.27% and 15.75% from 7/1/96 - 12/31/96, composed of 12.25% regular contribution and 3.50% for the 1992 ERIP.*

(4) *The rate from 1/1/97 - 7/16/97 was 15.75% and 4.26% from 7/17/97 - 12/31/97 as a result of the issuance of Pension Certificates of Participation.*

(5) *The employee contribution rate increased to 8.0% on 7/1/98 for all active members.*

(6) *The rate was 4.26% from 1/1/98 - 6/30/98 and 2.68% from 7/1/98 - 12/31/98.*

(7) *The rate was 2.68% from 1/1/99 - 6/30/99 and 2.90% from 7/1/99 - 12/31/99.*

(8) *The funding policy was amended so that changes in the required employer rate become effective on the July 1 that is 18 months after the end of the calendar year on which the actuarial valuation is based.*

(9) *The rate was 2.90% from 1/1/03 - 6/30/03 and 4.98% from 7/1/03 - 12/31/03.*

Funding

Solvency Test

The solvency test is used to test a system's funding progress. In this test, the actuarial valuation assets are compared to the total actuarial accrued liabilities relative to:

1. active member contributions on deposit
2. liabilities for future benefits to present retirees and beneficiaries
3. liabilities for service already rendered by active members

If the contributions to the System are level in concept and soundly contributed, and if the System continues in its present operational pattern for the indefinite future, the System will pay all promised benefits when due. The employer-financed portion of the aggregate accrued liabilities being fully funded is rare, but the issuance by the School District of Pension Certificates of Participation in July 1997, paid off the unfunded actuarial accrued liabilities of the System.

Dollars are expressed in thousands.

	Aggregate Accrued Liabilities For						
	(1)	(2)	(3)				
	Active	Retirees	Employer-		Accrued Liabilities		
Valuation	Member	and	Financed	Valuation	Covered By Assets		
Date	Contributions	Beneficiaries	Portion	Assets	(1)	(2)	(3)
1/1/1999*	$186,076	$1,153,017	$555,046	$1,889,152	100%	100%	99%
1/1/2000	194,748	1,237,311	551,341	2,044,332	100	100	100
1/1/2001	206,820	1,431,788	733,317	2,308,030	100	100	91
1/1/2002	200,222	1,631,424	718,910	2,462,548	100	100	88
1/1/2003	212,403	1,742,486	757,404	2,465,049	100	100	67
1/1/2004	229,828	1,841,065	722,895	2,531,746	100	100	64

** Data correspond to the valuation dates of the actuarial studies and include any adopted changes in applicable assumptions or in the retirement plan on or after the valuation date.*

Analysis of Financial Experience

Gains and Losses In Accrued Liabilities
During the Years Ended December 31, 2003 and 2002
Resulting From Differences Between
Assumed Experience and Actual Experience

Type of Activity	Gain (or Loss) for the Year 2003	2002
Age & Service Retirements. Members retired at younger ages or with higher final average pay than assumed, causing a loss.	$ (1,209,767)	$ (13,061,347)
Disability Retirements. Disability claims were more or less than assumed, causing a loss or a gain.	(609,631)	393,888
Death-in-Service Benefits. Survivor claims were less or more than assumed, causing a gain or a loss.	22,042	(26,228)
Withdrawal from Employment. Fewer liabilities were released by withdrawals than assumed, causing a loss.	(520,067)	(1,386,968)
New Entrants. New members entered the plan with some past service, causing a loss.	(2,722,872)	(3,526,576)
Pay Increases. There were smaller or larger pay increases than assumed, causing a gain or a loss.	42,232,133	(6,783,324)
Investment Income. Investment income was less than assumed, causing a loss.	(32,050,165)	(98,992,516)
Death After Retirement. Retirees lived for a shorter period than assumed, causing a gain.	2,342,984	3,781,275
Other. Miscellaneous gains and losses resulting from data adjustments, recognizing outside and non-qualified service for eligibility, timing of financial transactions, valuation methods, etc.	(14,593,667)	(31,088,755)
Loss During the Year from Financial Experience	**$ (7,109,010)**	**$ (150,690,551)**

Statistical

We are the over 250 foodservice and building support employees who provide for the needs of the students and adults every day. The orderly buildings, quality nutritional meals, the helping hands and warm smiles contribute to the environment of learning in our schools.

We are the Denver Public Schools Retirement System!

Average Benefit Payments

Retirement Effective Dates 1/1/98 to 12/31/03	Years of Accredited Service 5 - 10	10 - 15	15 - 20	20 - 25	25 - 30	30 +
1998						
Average Monthly Benefit	$ 251.82	$ 886.28	$ 898.33	$ 1,654.16	$ 2,125.99	$ 2,940.24
Average Highest Average Salary	$ 1,766.66	$ 3,335.07	$ 2,273.19	$ 3,424.96	$ 3,641.50	$ 4,258.35
Number of Active Retirees	10	16	26	34	59	62
1999						
Average Monthly Benefit	357.56	754.60	1,286.11	1,671.21	2,350.92	3,202.92
Average Highest Average Salary	2,275.74	2,549.87	3,191.19	3,178.43	3,668.41	4,199.02
Number of Active Retirees	4	14	22	30	60	79
2000						
Average Monthly Benefit	462.05	860.44	1,013.11	1,496.16	2,459.44	3,295.19
Average Highest Average Salary	2,677.47	2,955.91	2,486.83	2,712.81	3,725.52	4,254.75
Number of Active Retirees	6	7	20	16	46	64
2001						
Average Monthly Benefit	467.71	899.42	1,262.10	1,905.44	2,813.95	3,628.69
Average Highest Average Salary	2,697.14	2,877.47	2,987.44	3,345.98	4,032.72	4,381.01
Number of Active Retirees	5	20	29	40	117	187
2002						
Average Monthly Benefit	521.62	751.59	1,637.54	2,225.31	3,057.29	3,832.07
Average Highest Average Salary	3,128.32	2,329.31	3,901.55	3,900.38	4,335.07	4,550.10
Number of Active Retirees	9	10	30	31	53	95
2003						
Average Monthly Benefit	466.79	1,118.94	1,775.46	2,577.55	2,854.19	4,118.90
Average Highest Average Salary	2,692.13	3,492.59	3,964.47	4,466.57	4,060.62	4,821.75
Number of Active Retirees	9	19	30	28	62	59

Benefit Expenses

Calendar Year	Retirement Benefits Paid Regular	Disability	Survivors	Total
1998	$ 98,333,264	$ 3,638,617	$ 1,039,401	$ 103,011,282
1999	105,393,192	3,965,017	1,129,879	110,488,088
2000	111,724,928	4,292,644	1,161,674	117,179,246
2001	125,719,722	4,756,330	1,273,183	131,749,235
2002	137,126,610	5,178,892	1,298,875	143,604,377
2003	146,197,007	5,302,929	1,338,715	152,838,651

Revenues By Source

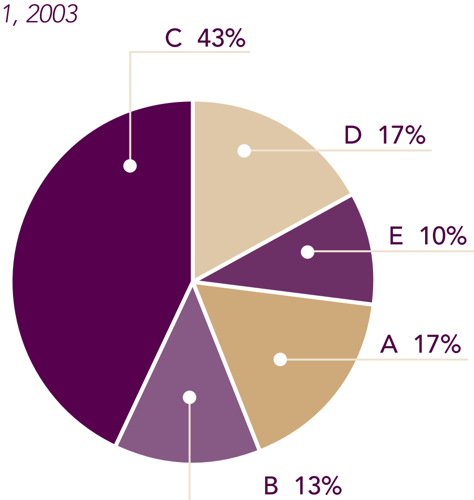
Calendar Year	Employee Contributions	Employee Assessments	Employer Contributions	Employer % of Annual Covered Payroll	Net Investment Income	Total
1998	$ 18,555,336	$ 9,151	$ 8,494,670	3.47%	$ 238,307,934	$ 265,367,091
1999	20,649,845	641	7,140,565	2.79	384,749,549	412,540,600
2000	22,869,611	0	8,007,508	2.90	185,639,527	216,516,646
2001	25,848,785	0	8,735,015	2.90	(140,078,546)	(105,494,746)
2002	28,275,170	0	9,473,361	2.90	(166,488,447)	(128,739,916)
2003	32,665,945	0	13,023,157	3.94	449,742,992	495,432,094

Expenses By Type

Calendar Year	Benefits	Administrative Expenses	Refunds	Other	Total
1998	$ 103,011,282	$ 1,580,456	$ 2,882,464	$ 4,793	$ 107,478,995
1999	110,488,088	1,668,830	3,369,172	(27,483)	115,498,607
2000	117,179,246	1,849,893	4,355,309	(201,429)	123,183,019
2001	131,749,235	2,075,416	3,974,835	0	137,799,486
2002	143,604,377	2,301,329	3,346,228	0	149,251,934
2003	152,838,651	3,233,847	4,893,891	0	160,966,389

Retired Members and Beneficiaries By Option

at December 31, 2003



Option	Annuity Description	Number
A	Single Life	911
B	Installment Refund	743
C	Joint Survivorship	2,391
D	Cash Refund	961
E	Half Joint-Survivorship	568

A description of the options is included in the Actuarial Section.

	A	B	C	D	E	Total
Superannuation and Early Retirement						
(Includes survivors of deceased employees)						
Males						
Number	126	145	1,478	145	221	2,115
Average Monthly Benefit	$ 2,550	$ 2,528	$ 2,853	$ 2,641	$ 2,261	$ 2,736
Females						
Number	591	565	833	786	320	3,095
Average Monthly Benefit	$ 2,352	$ 2,027	$ 2,279	$ 2,383	$ 2,291	$ 2,275
Total						
Number	**717**	**710**	**2,311**	**931**	**541**	**5,210**
Average Monthly Benefit	**$ 2,387**	**$ 2,129**	**$ 2,646**	**$ 2,423**	**$ 2,279**	**$ 2,462**
Regular Disability						
Males						
Number	55	8	40	3	11	117
Average Monthly Benefit	$ 1,186	$ 954	$ 1,206	$ 2,336	$ 1,456	$ 1,232
Females						
Number	139	25	40	27	16	247
Average Monthly Benefit	$ 1,356	$ 1,019	$ 1,296	$ 1,077	$ 1,062	$ 1,263
Total						
Number	**194**	**33**	**80**	**30**	**27**	**364**
Average Monthly Benefit	**$ 1,308**	**$ 1,003**	**$ 1,251**	**$ 1,203**	**$ 1,223**	**$ 1,253**
Survivors of Active Members and Disability Deaths						
Number						125
Average Monthly Benefit						$ 911
Grand Total						
Number						5,699
Average Monthly Benefit						$ 2,351

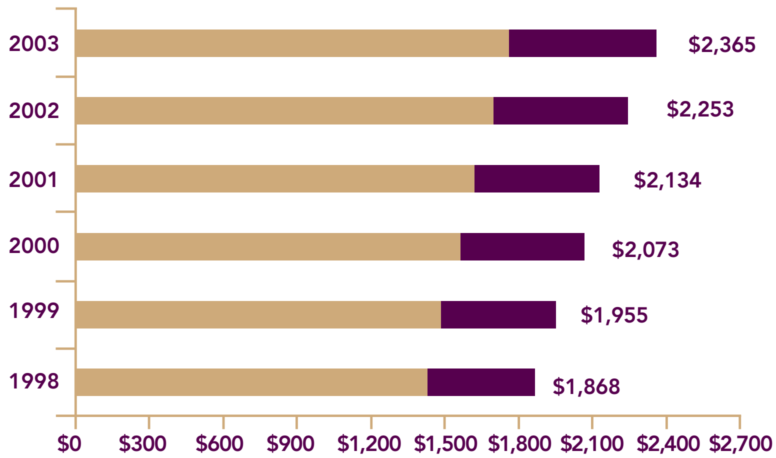
History of Contributions 1945-2003

Year	Employee Contribution	% of Salary	Employer Contribution	% of Salary
1945	$ 20,970	6.00%	$ -	0.00%
1946	252,306	6.00	357,572	8.50
1947	293,841	6.00	524,000	10.70
1948	419,941	6.00	738,101	10.55
1949	506,202	6.00	1,168,423	13.85
1950	569,934	6.00	1,257,920	13.24
1951	635,309	6.00	1,436,528	13.57
1952	723,415	6.00	1,582,645	13.13
1953	793,869	6.00	1,709,244	12.92
1954	950,743	6.00	2,290,531	14.46
1955	1,068,710	6.00	2,335,859	13.11
1956	1,192,281	6.00	2,517,771	12.67
1957	1,297,257	6.00	2,638,519	12.20
1958	1,405,086	6.00	2,700,863	11.53
1959	1,512,280	6.00	2,884,664	11.44
1960	1,657,213	6.00	3,140,426	11.37
1961	1,794,234	6.00	3,389,182	11.33
1962	1,942,689	6.00	3,666,565	11.32
1963	2,170,253	6.00	4,129,051	11.42
1964	2,296,928	6.00	4,565,531	11.93
1965	2,405,285	6.00	3,623,247	9.04
1966	2,542,358	6.00	3,778,176	8.92
1967	2,794,250	6.00	4,101,055	8.81
1968	3,037,008	6.00	4,413,826	8.72
1969	3,344,069	6.00	4,790,185	8.59
1970	3,683,017	6.00	5,184,773	8.45
1971	4,249,617	6.00	6,116,256	8.64
1972	4,498,354	6.00	6,627,970	8.84
1973	4,657,945	6.00	6,992,933	9.01
1974	5,051,951	6.00	7,565,764	8.99
1975	5,787,021	6.00	8,699,367	9.02
1976	6,540,784	6.00	9,806,004	9.00
1977	6,761,325	6.00	10,597,741	9.40
1978	7,051,761	6.00	11,318,077	9.63
1979	7,322,772	6.00	12,168,251	9.97
1980	7,749,670	6.00	13,600,671	10.53
1981	8,251,053	6.00	17,120,274	12.45
1982	8,603,848	6.00	20,774,584	14.49
1983	9,060,315	6.00	22,989,125	15.22
1984	9,382,871	6.00	23,451,590	14.99
1985	10,015,452	6.00	24,775,279	14.85
1986	10,502,019	6.00	26,565,337	15.19
1987	10,722,718	6.00	27,089,048	15.17
1988	11,279,373	6.00	22,412,768	11.93
1989	11,523,630	6.00	22,386,804	11.68
1990	11,484,060	6.00	22,589,146	11.80
1991	12,155,118	6.00	23,855,023	11.77
1992	12,857,937	6.00	26,787,862	12.50
1993	12,149,351	6.00	32,690,548	16.39
1994	11,943,024	6.00	32,358,200	16.27
1995	12,604,734	6.00/7.00	33,672,809	16.27
1996	13,170,061	6.00/7.00	34,395,941	16.01
1997	15,305,167	6.00/7.00	22,540,381	10.01
1998	18,555,336	6.00/7.00/8.00	8,494,670	3.47
1999	20,649,845	8.00	7,140,565	2.79
2000	22,869,611	8.00	8,007,508	2.90
2001	25,848,785	8.00	8,735,015	2.90
2002	28,275,170	8.00	9,473,361	2.90
2003	32,665,945	8.00	13,023,157	3.94

Statistical Charts

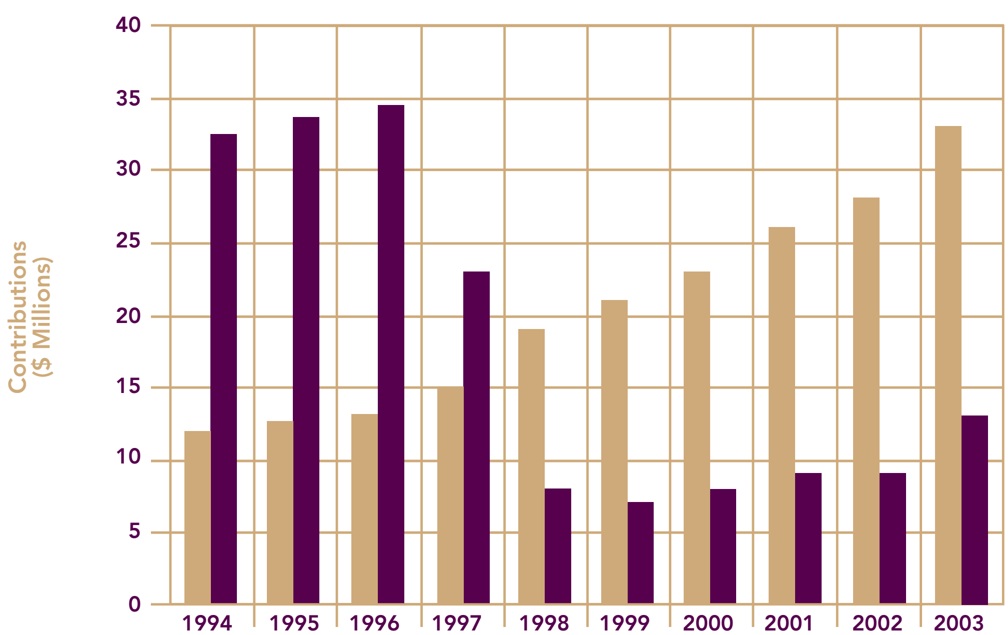
Average Monthly Benefit

Service Retirements
1998-2003



	1998	1999	2000	2001	2002	2003
■ ARAA Increases	$435	$467	$506	$513	$551	$601
■ Basic	$1,433	$1,488	$1,567	$1,621	$1,702	$1,764

Contributions
1994-2003



	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
■ Employee	12.0	12.6	13.1	15.0	19.0	21.0	23.0	26.0	28.0	33.0
■ Employer	32.4	33.7	34.4	23.0	8.0	7.0	8.0	9.0	9.0	13.0

Schedule of Participating Employers

ACE Community Challenge School
948 Santa Fe Drive
Denver, CO 80204

Challenges, Choices, Images
1537 Alston Street
Aurora, CO 80010

Colorado High School Charter
1175 Osage Street
Suite 100
Denver, CO 80204

Denver Arts and Technology Academy
2417 West 29th Avenue
Denver, CO 80211

Denver Big Picture High School
5900 East 39th Avenue
Denver, CO 80207

Denver Public Schools
Retirement System
1301 Pennsylvania Street
Suite 700
Denver, CO 80203

School District No. 1
900 Grant Street
Denver, CO 80203

KIPP Sunshine Peak Academy
2280 West Holden Place
Denver, CO 80204

Life Skills Center of Denver
1000 Cherokee Street
Denver, CO 80204

Odyssey Charter School
8800 East 28th Avenue
Suite C
Denver, CO 80238

Pioneer Charter School
3230 East 38th Street
Denver, CO 80205

Urban Learning Communities Inc.
P.S. 1 Charter School
1062 Delaware Street
Denver, CO 80204

Wyatt-Edison K-6 Charter School
3620 Franklin Street
Denver, CO 80205

Denver Public Schools Retirement System

1301 Pennsylvania Street, Suite 700
Denver, Colorado 80203
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