COMPREHENSIVE ANNUAL FINANCIAL REPORT
of the
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
of NEVADA

A COMPONENT UNIT of the STATE of NEVADA

For the Fiscal Year Ended
June 30, 2004

Dana K. Bilyeu
Executive Officer

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PUBLIC EMPLOYEES' RETIREMENT SYSTEM OF NEVADA

Prepared by the PERS' Accounting Division

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MISSION STATEMENT

It is the mission of the Public Employees' Retirement System to:

- Provide public workers and their dependents with a retirement program that provides a reasonable base income for retirement or for periods where a disability has removed a worker's earning capacity.

- Encourage those workers to enter into and remain in government service for such periods of time to give public employers and the people of the State of Nevada the full benefit of their training and experience.

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December 3, 2004

Dear Chairman and Members of the Board:

It is a pleasure to present the Comprehensive Annual Financial Report (CAFR) of the Public Employees' Retirement System of Nevada (System or PERS), a component unit of the State of Nevada, for the fiscal year ended June 30, 2004.

The financial statements included in this report are the responsibility of the System's management and have been prepared in accordance with generally accepted accounting principles as promulgated or adopted by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants. In management's opinion, the financial statements present fairly the financial position of the System at June 30, 2004, and changes in fiduciary net assets for the year then ended.

The System was established by the Nevada State Legislature in 1947. By July 1, 1949, the System had approximately 3,000 members and 64 retirees. At the end of fiscal year 2004, the System had 158 participating employers, 90,242 active members, and 28,768 retirees and beneficiaries. The System is comprised of two sub-funds, the Regular sub-fund, consisting of members who are not police or fire employees, and the Police and Firefighter's sub-fund (Police/Fire). The Regular sub-fund was established to provide retirement, disability, and survivor benefits for public employees with the exception of those who are police officers or firefighters. The Police/Fire sub-fund was established to segregate accounting for retirement and survivor benefits related to members who are police officers or firefighters. All services provided by staff are performed in order to meet those objectives. For more specific information on plan provisions, please refer to the Plan Summary, beginning on page 95.

This CAFR is composed of the following sections:

- an Introductory Section, which contains this letter of transmittal, a list of administrative personnel which includes members of the Retirement Board and principal staff, an organizational chart, the Certificate of Achievement for Excellence in Financial Reporting, and the Public Pension Standards Award.

- a Financial Section, which contains the opinion of the System's certified public accountants, PricewaterhouseCoopers LLP, the System's financial statements with notes, and certain supplementary information. This section also includes Management's Discussion and Analysis (MD&A). Users of the financial statements are encouraged to review the MD&A, which contains highlights for the year, a statement overview, and a short analysis of the statements comparing the current and previous year.

- an Investment Section, prepared in conjunction with our investment consultant, Callan Associates, which contains a report on investment activity, investment policies, investment results, and various investment schedules.

- an Actuarial Section, which contains the Actuary's Certification Letter prepared by the System's consulting actuaries, The Segal Company, and the results of their annual actuarial valuation.

- a Statistical Section, which includes significant data pertaining to the System's membership and benefit recipients.

- our Plan Summary.

We hope that you and the members of the System will find this CAFR helpful in understanding your public employees' retirement system.

Major Initiatives

Legislation

The Nevada legislature convenes on a biennial basis in odd-numbered years. During the interim between legislative sessions, the System completed a mandated study relating to PERS' disability program and taxation of disability benefits. Senate Bill 345 of the 2003 session required this study to be completed by June 30, 2004, and included in the responsibilities of the System that an opinion be sought from the Internal Revenue Service on the taxation of PERS' disability benefits.

The study was completed in a timely fashion and concluded that changes to PERS' disability program must be viewed cautiously as changes in structure may affect the use of the program and eventually the costs associated with the program. Modifying the disability program to make a portion of the benefit non-taxable expands the nature of the program. Due to the potential for rising costs, as well as plan design and policy issues, the Retirement Board did not recommend any changes to the disability program.

Operational Initiatives

This fiscal year, PERS continued to upgrade its communications with specific groups. The quarterly newsletter was separated into two editions, one targeted at members and one targeted at retirees. A new telephone system was installed with a call center to allow the System to provide faster, more efficient service to our members and retirees. The System also held the first Annual Liaison Officer Conference in May. A total of 167 people representing 93 public employers attended the conference to learn more about the Retirement System and the services offered by the agency.

PERS participated for the first time in a performance benchmarking service designed to review the System's operational performance in the absence of a competitive marketplace. The analysis showed that PERS provides a good level of service at substantially lower administration costs than other peer retirement systems.

PERS' staff continues to monitor utilization of modifications to PERS' retiree re-employment restrictions passed by the 2001 Nevada legislature. This legislation was designed to assist Nevada public employers with re-employment of retirees in areas of critical labor shortage.

Information Technology

This year, the System focused on enhancing PERS' disaster recovery plan and business continuity planning. The agency leased alternate space for a disaster recovery site and put all necessary hardware in place to implement the system. Replicating software will provide PERS with current data at the disaster recovery site on a real-time basis.

The agency established a technology steering committee designed to oversee the allocation of technology resources. This committee reviews technology issues and assigns priorities for completion. The committee will also provide guidance on budgetary issues related to technology.

Information technology efforts were also focused on upgrading the servers the System uses to maintain data and manage accounts. PERS remains committed to providing faster, efficient service on an economical basis.

PERS initiated the use of a security certification process for technology supporting the agency. Staff meets regularly with security analysts to identify vulnerabilities within the various systems and make necessary modifications. No significant security issues have been identified in this process.

Strategic Planning

Strategic and tactical planning are key to the successful management of the System. These plans must address both external and internal elements ranging from financial market analysis to federal legislative efforts to member relations.

PERS' current strategic plan encompasses issues such as Social Security reform, system governance, staffing, operational performance benchmarking, and plan design. Strategic investment management includes validating our long-term return and risk assumptions for our asset classes.

Summary of Financial Information

The System's management is responsible for maintaining internal controls designed to provide reasonable assurance that transactions are executed according to management's authorization, recorded to maintain accountability for assets, and to allow the preparation of financial statements in accordance with generally accepted accounting principles. The internal controls include written policies and procedures and are reviewed periodically by independent auditors and the System's internal audit staff. Statute requires a biennial financial audit of the System by a certified public accountant. However, the System chooses to conduct such audits on an annual basis rather than biennially.

The System is required by statute to submit a biennial budget proposal to the Budget Division of the State of Nevada, which must be incorporated with the State Executive Budget and approved by the State Legislature.

The following schedule is a summary of the pension trust funds' additions and deductions for the years ended June 30:

	2004	2003
Additions	$2,615,725,384	$1,483,778,835
Deductions	(679,533,385)	(619,187,629)
Net Additions	$1,936,191,999	$ 864,591,206

Additions increased by $1.1 billion, due mainly to an increase in net investment income of $1.0 billion. Deductions increased by $60.3 million, due primarily to an increase of $65.8 million in benefit payouts, offset by the absence, in fiscal year 2004, of the one time transfer of $6.7 million in contributions from the Public Employees' Retirement System to the Judicial Retirement System for judges transferring from one retirement system to the other.

Funding

The System's basic funding policy provides for periodic contributions at a level pattern of cost as a percentage of salary throughout an employee's working lifetime in order to accumulate sufficient assets to pay benefits when due.

Although the System receives an annual actuarial valuation indicating the contribution rates required to fund the System on an actuarial reserve basis, contributions actually made are in accordance with the rates established by the Nevada State Legislature.

Level cost, as a percentage of salary contribution rates as determined by the actuary, was calculated using the "entry age normal" cost method and a year-by-year closed amortization period where each amortization period will be set at 30 years, in addition to other significant actuarial assumptions detailed beginning on page 71. Funding levels are presented on page 38 in the Financial Section of this report. The funded ratio for all members is 78.7% in 2004, a decrease from 81.3% in fiscal year 2003.

Investments

The responsibility of the System to provide retirement benefits to its members is influenced by management of the System's investment portfolio. Approximately 20% of the benefits the average member will receive in retirement are funded from contributions, the remaining 80% are generated from investment earnings.

The strategy employed to accomplish the goal of earning an appropriate return must be tempered with caution due to the level of risk which accompanies various types of investments. This cautious stance is defined by the prudent person standard outlined in the statute which sets guidelines for the System's administration. The standard states that the Public Employees' Retirement Board may invest the System's funds in every type of investment which persons of prudence, discretion and intelligence acquire or retain for their own account. By establishing a well diversified investment portfolio, the System has strengthened control over the fund's risk and return parameters.

Asset allocation is the most significant factor influencing the return and risk profile of the investment program. Determination of the fund's long-term asset allocation involves estimating the expected return and risk of major types of investments and blending them into a portfolio which meets the System's needs. This blend of asset types will provide protection against large fluctuations in portfolio returns. During fiscal year 2004, the Retirement Board reduced PERS' return expectations for the capital markets, and in response, 5% of assets were shifted from U.S. Fixed Income to U.S. Equity. In addition, real estate, private equity, and a new allocation to REITs were combined into one asset class, Alternative Investments, comprising 10% of the total fund. We believe these modifications enhance the probability that we will meet our funding objectives.

The fund is diversified among investment categories, styles of management, managers, and assets. Not all categories, styles, managers, and assets react to movements in the investment markets in the same manner. Therefore, one investment that is not favored by the markets should be offset by another which is doing well.

During the fiscal year, the Retirement Board terminated two active International Equity managers and shifted the International Equity portfolio structure to 100% index management. In addition, one active Real Estate and one U.S. Fixed Income Index manager were terminated due to disappointing performance. The Retirement Board also retained two U.S. Fixed Income Index and two U.S. Equity Index managers during the year to enhance diversification

The fair value of the System's investments at the end of fiscal year 2004 was $16.0 billion. The portfolio return objective includes a premium over the Consumer Price Index (CPI). This premium has ranged from 3.0% to 4.5% over time. On that basis, the total fiscal year 2004 return objective was 7.49%. The System's total return on investments for the same period was 12.1%, which includes both realized and unrealized gains. Fiscal year 2004 results were influenced by above average returns from the stock markets. The fund's annualized rate of return is 11.0% since inception (20 years) versus our long-term actuarial objective of 8%. The fund is competitive on a risk-adjusted basis, ranking in the top 10% of public funds for that same time frame. The Investment Section beginning on page 48 addresses specific activity and results in the portfolio.

GFOA Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Public Employees' Retirement System of Nevada for its comprehensive annual financial report for the fiscal year ended June 30, 2003 (see page 16). This was the fourteenth consecutive year the System has achieved this prestigious award.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. 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 report continues to meet the Certificate of Achievement Program requirements and are submitting it to the GFOA for consideration again this year.

PPCC Award

The Public Pension Coordinating Council awarded the Public Pension Principles Achievement Award to the Public Employees' Retirement System of Nevada for the fiscal year ended June 30, 2004 (see page 17). The award is designed to commend public employee retirement systems for implementing and maintaining high professional standards. PERS has received the award every year it has been offered.

Professional Services

Professional consultants are hired to perform services essential to the efficient operation of the System. The Report of Independent Auditors, Consultant's Report of Investment Activity, and the actuary's certifications are included in this report. The System's consultants are listed on pages 14 and 48.

Acknowledgements

This report reflects the combined effort of the System's administrative staff. It is intended to provide complete and reliable information as a basis for making management decisions, determining compliance with legal provisions, and determining the responsible stewardship of assets contributed by the members and their employers.

I would like to express my appreciation to the staff, consultants, Board, and other associates whose efforts ensured the successful operation of the System in 2004.

Respectfully submitted,

Dana K. Bilyeu
Executive Officer

ADMINISTRATIVE PERSONNEL

PUBLIC EMPLOYEES' RETIREMENT BOARD

L. Mark Balen	Chairman	2006
Sue DeFrancesco	Vice Chairman	2005
Purisimo B. Hernandez	Member	2005
David F. Kallas	Member	2006
Charles A. Silvestri	Member	2007
George W. Stevens	Member	2007
Warren Wish	Member	2005

Terms expire on June 30 of year noted.

RETIREMENT STAFF

Dana K. Bilyeu	Executive Officer
Tina M. Leiss	Operations Officer
Laura B. Wallace	Investment Officer
Ken Lambert	Assistant Investment Officer

Division Supervisors:

Ann Schleich	Accounting
Patti Keyes	Employer & Production Services
Paula Darragh	Information Technology
Mary Pistoresi	Internal Audit
Holly Zimmerman	Member & Retiree Services

LEGAL COUNSEL

Bob Auer, Deputy Attorney General, Carson City

MEDICAL ADVISOR

G. Bruce Nickles, M.D., Carson City

POLICE AND FIREFIGHTER RETIREMENT FUND ADVISORY COMMITTEE

William Loncar	Chairman	2007
Dean Molburg	Vice Chairman	2007
Fred Galey	Member	2006
Raymond McAllister	Member	2005
Richard Tiran	Member	2006

Terms expire on June 30 of year noted.

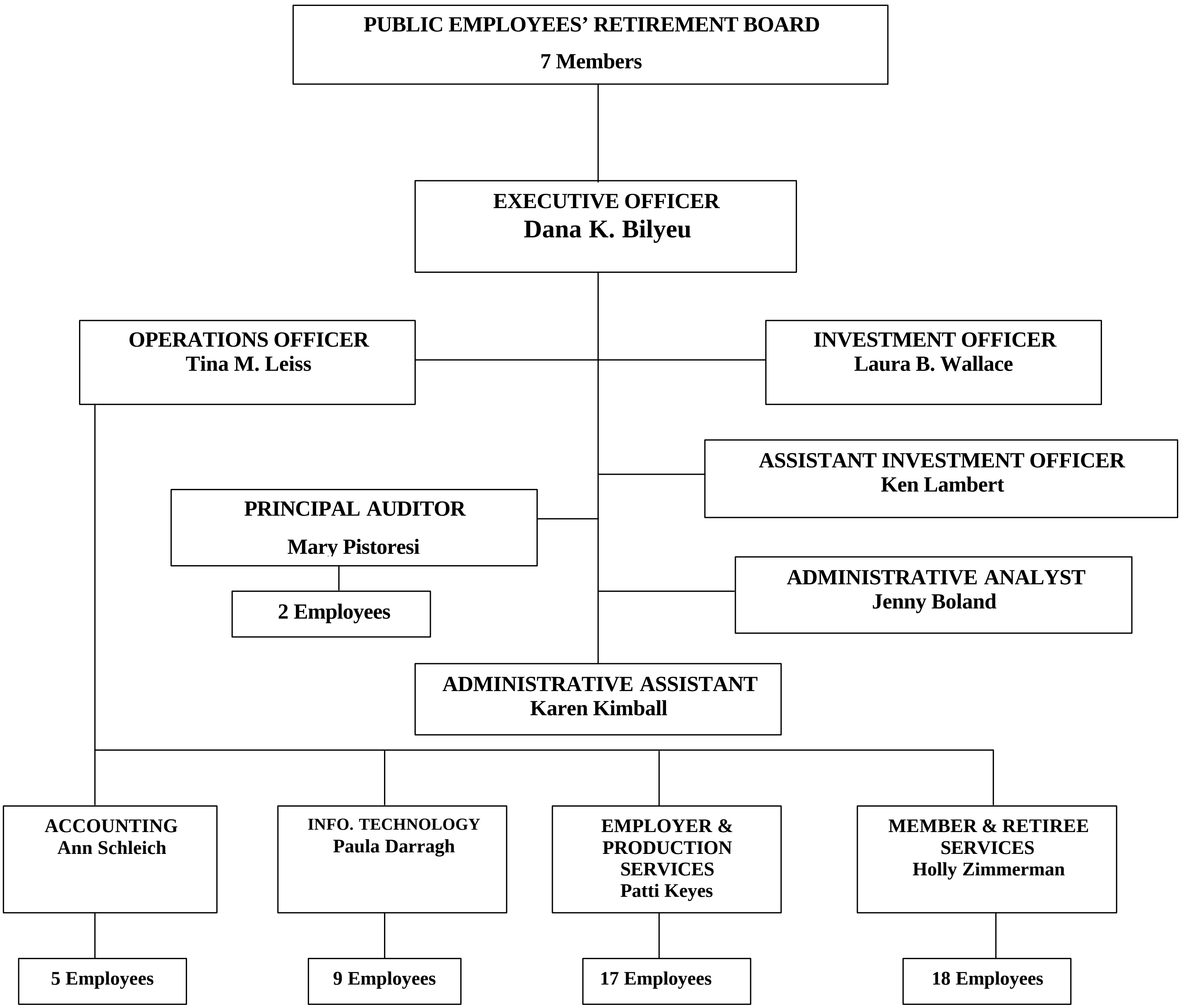
THE SYSTEM'S ADVISORS

Consulting Actuary – The Segal Company, Denver

Independent Auditors – PricewaterhouseCoopers LLP, Sacramento

Note: A list of investment professionals who provide services to the Public Employees' Retirement System of Nevada can be found on page 48. A schedule of fees and commissions paid to investment professionals can be found beginning on page 61.

ORGANIZATIONAL CHART



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FINANCIAL SECTION

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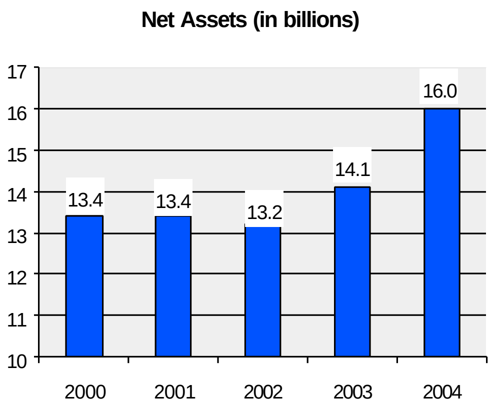
REQUIRED SUPPLEMENTARY INFORMATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

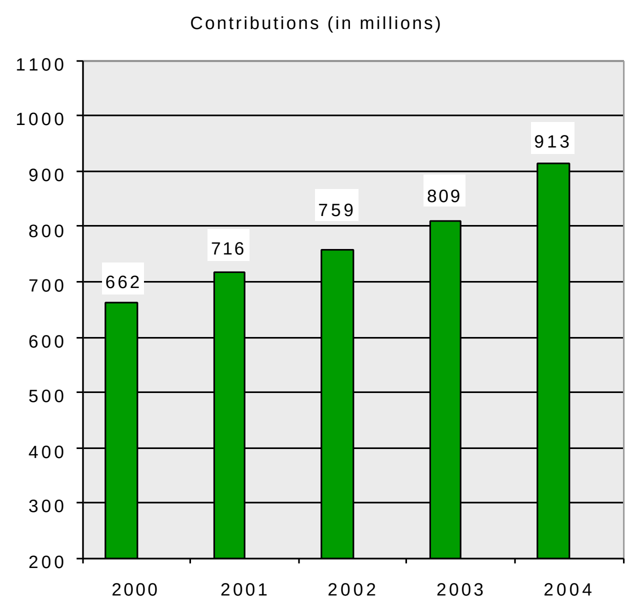
Management's Discussion and Analysis (MD&A) of the financial performance of the Public Employees' Retirement System of Nevada provides an overview of the agency's financial activities for the fiscal year ended June 30, 2004. The MD&A is designed to focus on the current year's activities, resulting changes, and currently known facts. Readers are encouraged to consider the information presented in conjunction with the financial statements as a whole, which follow Management's Discussion and Analysis.

The System is responsible for administering retirement, disability, and survivor benefits for Regular members (consisting of employees within the State of Nevada, school districts, counties, cities, special districts, etc.) as well as Police/Fire members throughout the state.

Financial Highlights



- Net assets increased by $1.9 billion or 13.7% to $16.0 billion as of June 30, 2004.
- Net investment income was $1.7 billion in fiscal year 2004, an increase from $672.8 million in fiscal year 2003.
- Total investments, excluding securities lending collateral, at June 30, 2004, increased by $2.2 billion or 15.4% to $16.2 billion.
- As of June 30, 2004, the most recent actuarial valuation, the System was 78.7% funded, compared to a funding level of 81.3% as of June 30, 2003.



- Total contributions for fiscal year 2004 increased by $103.9 million or 12.8% to $912.8 million.
- Benefit payments for fiscal year 2004 increased by $65.8 million or 11.1% to $657.6 million.
- Refunds of contributions increased by $1.0 million or 9.3% to $12.1 million.

Overview of Financial Statements

The basic financial statements consist of: 1) the Statement of Fiduciary Net Assets; 2) the Statement of Changes in Fiduciary Net Assets; 3) the Notes to the Financial Statements; 4) the Required Supplementary Information; 5) Other Supplementary Information.

The **Statement of Fiduciary Net Assets** includes all of the System's pension trust fund assets, liabilities, and the net assets available at the end of the fiscal year.

The **Statement of Changes in Fiduciary Net Assets** reports additions to and deductions from the pension trust fund during the fiscal year presented. Over time, the increase or decrease in net assets serves as a useful indicator of the health of the System's financial position.

FINANCIAL SECTION

The **Notes to the Financial Statements** provide additional information that is required by generally accepted accounting principles.

The **Required Supplementary Information** following the notes to the financial statements consists of schedules and related notes on the funding progress of our defined benefit pension plan, the funding progress broken down between Regular and Police/Fire members, and a short history of contributions from employers.

Other Supplementary Information details administrative expenses, investment expenses, consultant and professional service expenses, in addition to Schedules of Fiduciary Net Assets and Changes in Fiduciary Net Assets broken down between Regular and Police/Fire members.

Financial Analysis

The following are summary comparative statements of the System.

Condensed Statements of Fiduciary Net Assets

	As of June 30, 2004	As of June 30, 2003	Percentage Change
Cash and cash equivalents	$ 308,139,868	$ 631,076,979	(51.2)%
Receivables	146,482,235	132,867,962	10.2
Trades pending settlement	375,987,937	467,624,294	(19.6)
Investments, at fair value	16,174,953,194	14,012,185,527	15.4
Collateral on loaned securities	1,510,984,488	1,446,475,846	4.5
Property and equipment, net	6,038,853	8,134,271	(25.8)
Other assets	743,335	781,083	(4.8)
Total Assets	18,523,329,910	16,699,145,962	10.9
Accounts payable and other accrued expenses	8,406,618	7,857,304	7.0
Trades pending settlement	993,752,123	1,170,818,130	(15.1)
Obligations under securities lending activities	1,510,984,488	1,446,475,846	4.5
Total Liabilities	2,513,143,229	2,625,151,280	(4.3)
Net assets held in trust for pension benefits	$16,010,186,681	$14,073,994,682	13.8 %

Condensed Statements of Changes in Fiduciary Net Assets

	For the Year Ended June 30, 2004	For the Year Ended June 30, 2003	Percentage Change
Contributions	$ 912,778,168	$ 808,868,692	12.8%
Investment net income	1,700,860,918	672,834,767	152.8
Other income	2,086,298	2,075,376	0.5
Total Additions	2,615,725,384	1,483,778,835	76.3
Benefit payments	657,622,497	591,791,730	11.1
Refunds of contributions	12,116,351	11,086,193	9.3
Administrative expenses	9,794,537	9,618,500	1.8
Contribution distributions	0	6,691,206	(100.0)
Total Deductions	679,533,385	619,187,629	9.7
Net Increase	1,936,191,999	864,591,206	123.9
Net assets, beginning of year	14,073,994,682	13,209,403,476	6.5
Net assets, end of year	$16,010,186,681	$14,073,994,682	13.8%

The further recovery in the investment markets during fiscal year 2004 is the primary reason for the increase of 13.8% in net assets and the increase in net investment income of 152.8% between fiscal years 2003 and 2004. Cash equivalents experienced a decrease of 51.2% due to a shift in assets from cash equivalents to various investment vehicles. The System's total return on investments for the year ended June 30, 2004, was 12.1% and 5.0% for fiscal year 2003.

During fiscal year 2003, a one-time transfer of contributions in the amount of $6.7 million was made to the Judicial Retirement System for members transferring from the Public Employees' Retirement System to the Judicial Retirement System. No such transfer occurred during fiscal year 2004.

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2004
(With Comparative Totals for June 30, 2003)

ASSETS	2004	2003
Cash and cash equivalents	$ 308,139,868	$ 631,076,979
Receivables:		
Contributions receivable	67,478,126	59,875,813
Trades pending settlement	375,987,937	467,624,294
Accrued investment income	79,004,109	72,992,149
Total Receivables	522,470,172	600,492,256
Investments, at fair value:		
Fixed income securities	5,012,020,852	5,047,147,902
Marketable equity securities	6,781,380,863	4,892,542,687
International securities	3,236,055,118	2,592,081,571
Mutual funds	0	299,349,579
Mortgage loans	54,307	3,410,108
Real estate	990,503,124	1,047,855,920
Alternative investments	154,938,930	129,797,760
Total Investments	16,174,953,194	14,012,185,527
Collateral on loaned securities	1,510,984,488	1,446,475,846
Property and equipment, net	6,038,853	8,134,271
Other assets	743,335	781,083
Total Plan Assets	18,523,329,910	16,699,145,962
LIABILITIES		
Accounts payable and other accrued expenses	8,406,618	7,857,304
Trades pending settlement	993,752,123	1,170,818,130
	1,002,158,741	1,178,675,434
Obligations under securities lending activities	1,510,984,488	1,446,475,846
Commitments and contingencies (Note 6)		
Total Plan Liabilities	2,513,143,229	2,625,151,280
Net assets held in trust for pension benefits (A schedule of funding progress is presented on page 38)	$16,010,186,681	$14,073,994,682

The accompanying notes are an integral part of these financial statements

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
For the Year Ended June 30, 2004
(With Comparative Totals For the Year Ended June 30, 2003)

	2004	2003
ADDITIONS		
Contributions:		
Employer	$ 808,344,995	$ 724,030,565
Plan members	61,079,957	55,442,330
Repayment and purchase of service	43,353,216	29,395,797
Total Contributions	912,778,168	808,868,692
Investment Income		
Net appreciation in fair value of investments	1,251,451,013	222,344,110
Interest	248,808,703	272,514,607
Dividends	139,224,795	111,003,853
Other investment income	81,211,461	83,957,150
Securities lending income	19,040,124	25,293,441
	1,739,736,096	715,113,161
Less investment expense:		
Cost of securities lending	(13,990,481)	(20,250,900)
Fees and other	(24,884,697)	(22,027,494)
	(38,875,178)	(42,278,394)
Net Investment Income	1,700,860,918	672,834,767
Other Income	2,086,298	2,075,376
Total Additions	2,615,725,384	1,483,778,835
DEDUCTIONS		
Benefit payments:		
Retirement and survivor benefits	622,125,090	559,882,001
Disability	35,443,240	31,849,644
Post-retirement increases	54,167	60,085
Refunds of contributions	12,116,351	11,086,193
Administrative expenses	9,794,537	9,618,500
Transfer of contributions	0	6,691,206
Total Deductions	679,533,385	619,187,629
Increase in Net Assets	1,936,191,999	864,591,206
Net assets held in trust for pension benefits:		
Beginning of year	14,073,994,682	13,209,403,476
End of year	$16,010,186,681	$14,073,994,682

The accompanying notes are an integral part of these financial statements

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Plan Description

History and Purpose

The Public Employees' Retirement System of Nevada is the administrator of a cost-sharing, multiple-employer, defined benefit public employees' retirement system which includes both Regular and Police/Fire members. The System was established by the Nevada Legislature in 1947, effective July 1, 1948. The System is administered by the State of Nevada to provide a reasonable base income to qualified employees who have been employed by a public employer and whose earning capacities have been removed or substantially impaired by age or disability.

Membership

At June 30, 2004, the number of participating local government employers is:

State of Nevada and Related Agencies	20
University of Nevada System	2
Schools	31
Counties	16
Cities	19
Hospitals	7
Utility, Irrigation, and Sanitation Districts	18
Special Districts and Agencies	45
	158

Any local government employer in the State of Nevada may have its Regular or Police/Fire employees covered by the System. Membership at June 30 is as follows:

Service retirees, disability recipients, and beneficiaries receiving benefits:	2004	2003
Regular employees	23,749	22,306
Police/Fire employees	3,610	3,399
Survivor benefit recipients	1,409	1,335
Total Benefit Recipients	28,768	27,040
Inactive members:		
Regular employees	7,397	7,159
Police/Fire employees	432	528
Total Inactive Members	7,829	7,687
Active members:		
Regular employees	79,848	77,569
Police/Fire employees	10,394	9,758
Total Active Members	90,242	87,327

NOTES TO FINANCIAL STATEMENTS

Benefits

Benefits, as required by Nevada Revised Statutes (NRS or statute), are determined by the number of years of accredited service at time of retirement and the member's highest average compensation in any 36 consecutive months. Benefit payments to which participants or their beneficiaries may be entitled under the plan include pension benefits, disability benefits, and death benefits.

Monthly benefit allowances for Regular members are computed at 2.5% of average compensation for each accredited year of service prior to July 1, 2001. For service earned on and after July 1, 2001, this multiplier is 2.67% of average compensation. The System offers several alternatives to the unmodified service retirement allowance which, in general, allow the retired employee to accept a reduced service retirement allowance payable monthly during his or her life and various optional monthly payments to a named beneficiary after his or her death.

Post-retirement increases are provided by authority of the NRS. See Note to Required Supplementary Information schedules on page 40 for detail.

Vesting

Regular members are eligible for retirement at age 65 with five years of service, at age 60 with ten years of service, or at any age with 30 years of service. Police/Fire members are eligible for retirement at age 65 with five years of accredited service, at age 55 with ten years of accredited Police/Fire service, at age 50 with 20 years of accredited Police/Fire service, or at any age with 25 years of accredited Police/Fire service.

The normal ceiling limitation on monthly benefit allowances is 75% of average compensation. However, a member who retired on or after July 1, 1977, and is an active member whose effective date of membership is before July 1, 1985, is entitled to a benefit of up to 90% of average compensation. Both Regular and Police/Fire members become fully vested as to benefits upon completion of five years of service.

Member Contributions

The authority for establishing and amending the obligation to make contributions, and member contribution rates, is set by statute. New hires, in agencies which did not elect the Employer-Pay Contribution (EPC) plan prior to July 1, 1983, have the option of selecting one of two contribution plans. One plan provides for matching employee and employer contributions, while the other plan provides for employer-pay contributions only. Under the matching Employee/Employer Contribution plan a member may, upon termination of service for which contribution is required, withdraw employee contributions which have been credited to their account. All membership rights and active service credit in the System are cancelled upon withdrawal of contributions from the member's account. If EPC was elected, the member cannot convert back to the Employee/Employer Contribution plan.

Termination

Upon termination or partial termination of the System, all accrued benefits that are funded become 100% vested and nonforfeitable.

NOTES TO FINANCIAL STATEMENTS

NOTE 2 – Summary of Significant Accounting Policies and Plan Asset Matters

Financial Reporting Entity

The Public Employees' Retirement Board (Retirement Board) is the governing body of the System with responsibility for administration and management. This autonomous, seven-member Retirement Board is appointed by the Governor of the State of Nevada.

The System has developed criteria in accordance with standards issued by the Governmental Accounting Standards Board (GASB) to determine whether other state agencies, boards, and commissions, which benefit the members of the System, should be included within its financial reporting entity as component units. A component unit is defined as a legally separate organization for which officials of the System are financially accountable. In addition, component units can be other organizations for which the nature and significance of their relationship with the System are such that exclusion would cause the System's financial statements to be misleading or incomplete.

In accordance with GASB, the following criteria are used when evaluating financial accountability: The ability of the System to appoint a voting majority of the organization's governing body and (1) the ability to impose its will on the other organization or (2) the potential for the organization to provide specific financial benefits to or impose specific financial burdens on the System. In addition, the System may be financially accountable if an organization is fiscally dependent on the System regardless of whether the organization has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board.

The System has no relationship with another entity that meets the above criteria, and so has not included any other entity as a component unit of its financial reporting entity.

The System is classified as a component unit of the State of Nevada for financial reporting purposes, in accordance with the provisions of GASB. Assets of the System can legally be used to pay Regular or Police/Fire beneficiaries.

Basis of Accounting

The System uses the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded in the accounting period in which they are earned and become measurable. Expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made. Employee and employer contributions are recognized in the period in which employee services are performed. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Organization

The System is comprised of two sub-funds.

> Regular sub-fund – Established to provide retirement, disability, and survivor benefits for public employees with the exception of those who are police officers or firefighters.
>
> Police/Fire sub-fund – Established to segregate accounting for benefits related to members who are police officers or firefighters.

Cash and Cash Equivalents

Cash and cash equivalents include cash on deposit and highly liquid financial instruments with original maturities of one year or less.

NOTES TO FINANCIAL STATEMENTS

Contributions Receivable

No allowance for doubtful accounts has been established since the System anticipates no material collection loss with respect to contribution receivables.

Investments

The Regular sub-fund and the Police/Fire sub-fund are accounted for separately, based upon actual funds contributed and an allocation of the combined investment earnings. Individual investments are not specifically identified as belonging to either the Regular sub-fund or the Police/Fire sub-fund.

Plan investments are reported at fair value. Fair value is defined as the price at which an asset passes from a willing seller to a willing buyer. It is assumed that both buyer and seller are rational and have a reasonable knowledge of relevant facts. Securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates. The fair value of real estate investments is based on estimated current values and Member Appraisal Institute (MAI) independent appraisals. Investments that do not have an established market are reported at estimated fair value.

There is no concentration of investments in securities of a single organization that represent 5% or more of the plan's net assets (other than those issued by the U.S. Government).

Investment income is recognized as earned. Net appreciation (depreciation) is determined by calculating the change in fair value of investments between the beginning of the fiscal year and the end of the fiscal year, less purchases of investments at cost, plus sales of investments at fair value.

There are certain market risks, credit risks, foreign exchange currency risks, or event risks which may subject the System to economic changes occurring in certain industries, sectors, or geographies.

Derivatives

Derivatives are instruments (securities or contracts) whose value is dependent on such things as stock or bond prices, interest rate levels or currency exchange rates. The Retirement Board adopted a formal written policy on the use of derivatives. The types of derivatives used and limits on their use are defined in the System's Investment Objectives and Policies. The System's Investment Objectives and Policies restrict the use of certain types of derivatives. The use of exotic, highly leveraged structured notes such as inverse floaters, Constant Maturity Treasury (CMT) floaters, range floaters, dual index floaters, and other speculative instruments tied to inappropriate reset provisions is specifically prohibited. The System's derivatives transactions are designed to reduce transaction costs, reduce foreign exchange risk, and manage market risks associated with the underlying securities. They may also reduce the System's exposure to changes in stock prices, interest rates, and currency exchange rates.

NOTES TO FINANCIAL STATEMENTS

The principal categories of derivatives employed and their uses during the year were as follows:

Category	Purpose
Foreign exchange forward contracts	Hedge currency risk of investments in foreign currencies
Exchange traded fixed income futures and options	Reduce transaction costs, control portfolio duration, enhance return
Mortgage backed securities	Diversification, enhance return (component of Lehman Aggregate Index)
Asset backed securities	Diversification, enhance return (component of Lehman Aggregate Index)

Generally, derivatives are subject both to market risk and to counterparty risk. The derivatives utilized by the System typically have no greater market risk than their physical counterparts, and in many cases are offset by exposures elsewhere in the portfolio. Counterparty risk, the risk that the "other party" to a contract will default, is managed by utilization of exchange traded futures and options where practical (in which case the futures exchange is the counterparty and guarantees performance) and by careful screening of counterparties where use of exchange traded products is impractical or uneconomical.

Derivative securities are priced and accounted for at fair value. For exchange traded securities such as futures and options, closing prices from the securities exchanges are used. For fixed income derivatives such as collateralized mortgage obligations (CMO), mortgage backed securities, and asset backed securities, commercial pricing services (where available) or bid-side prices from a broker/dealer are used. Foreign exchange forward contracts are valued at the price at which the transaction could be settled by offsets in the forward markets.

Management believes that it is unlikely that any of the derivatives in the System's portfolio could have a material adverse effect on the financial condition of the System. In addition, the credit, market, or legal risks are not above and beyond those risks apparent by the nature of the type of investment for any of the securities contained within the portfolio.

Property and Equipment

Property and equipment consists of furniture, equipment, computer hardware, and computer software reported at cost, net of accumulated depreciation. Depreciation is calculated using the straight-line depreciation method over five years.

Administrative Expenses

The funds for administering the System are provided by assessment of an administrative fee for each member and benefit recipient. Monthly fees at June 30, 2004, were $3.77 for each Regular member and benefit recipient and $3.95 for each Police/Fire member and benefit recipient. PERS is required by statute to submit a biennial budget proposal to the Budget Division of the State of Nevada, which must be incorporated with the State Executive Budget and approved by the Nevada State Legislature.

Financial Statement Presentation

Comparative data shown for the prior year has been extracted from the June 30, 2003, financial statements. It has been presented to facilitate financial analysis, but is not considered full disclosure of transactions for that year.

NOTES TO FINANCIAL STATEMENTS

NOTE 3 – Contributions Required and Contributions Made

The System's basic funding policy provides for periodic contributions at a level pattern of cost as a percentage of salary throughout an employee's working lifetime, in order to accumulate sufficient assets to pay benefits when due.

Although the System receives an actuarial valuation on an annual basis indicating the contribution rates required to fund the System on an actuarial reserve basis, contributions actually made are in accordance with the required rates established by the Nevada State Legislature. These statutory rates are increased/decreased pursuant to NRS 286.421 and 286.450.

Level pattern of cost as a percentage of salary contribution rates, as determined by the actuary, was calculated using the "entry age normal" cost method. As of June 30, 2004, the System's unfunded accrued liability amounted to approximately $4.6 billion. The unfunded accrued liability is amortized using a year-by-year closed amortization period where each amortization period is set at 30 years.

Rates in effect for fiscal year ended June 30, 2004, were as follows:

Regular Employees	Funding Basis*	Statutory Rate
Employer-Pay Plan	20.07%	20.25%
Employee/Employer Plan (matching rate)	10.51	10.50
Police/Fire Employees		
Employer-Pay Plan	32.60%	28.50%
Employee/Employer Plan (matching rate)	16.68	14.75

* Based on June 30, 2003, Actuarial Valuation

For fiscal year 2004, contributions totaling $912,778,168 ($808,344,995 employer and $104,433,173 employee) were made in accordance with statutory rates.

The Public Employees' Retirement Act requires an adjustment in the statutory contribution rates on July 1st of each odd-numbered fiscal year. However, contribution rates are only adjusted if the difference between the existing and actuarially determined rate exceeds 0.5% of salary for the Employer-Pay rates, or 0.25% of salary for the Employee/Employer rates. Contribution rates are rounded to the nearest 0.25% of covered payroll.

Under the Employer-Pay provisions, the contributions made by employers on behalf of employees are not credited to the member's account and are not refunded upon termination. For employees covered by the Employer-Pay provisions, average compensation is increased by half the total contribution made by the public employer and may not be less than it would have been if contributions had been made by the member and the employer separately.

NOTES TO FINANCIAL STATEMENTS

NOTE 4 – Retirement Fund Contributions of PERS' Employees

Administrative employees of the System (as a participating employer) are members of the System. All participating public employers make contributions to the System at the same percentage of salary rate for Regular members as required by statute. Actuarially determined contribution requirements for administrative employees of the System are the same as all other employers within the System (See Note 3). Employer contributions for administrative employees were $469,651 for the year ended June 30, 2004.

NOTE 5 – Cash, Cash Equivalents, and Investments

Cash and Cash Equivalents

At June 30, 2004, the carrying amount of the System's commercial cash deposits was $3,413,226 and the bank balance was $7,919,878. Of the bank balance, $100,000 was insured by the Federal Deposit Insurance Corporation (FDIC). The remaining bank balance is fully collateralized with securities held by the System's agent in the System's name.

The cash and cash equivalent balances as of June 30, 2004, are:

	Fair Value
Cash equivalents	
Pooled mutual funds	$162,500,616
Commercial paper	71,799,868
U.S. treasury portfolio	28,073,360
Repurchase agreements	14,000,000
International securities	11,094,866
Total cash equivalents	287,468,710
Cash-Investments	17,257,932
Cash-Administrative	3,413,226
Total cash and cash equivalents	$308,139,868

NOTES TO FINANCIAL STATEMENTS

Cash equivalents fall under risk Category 1 as described below, except pooled mutual funds, which are not required to be categorized.

Investments

The investments of the System are governed primarily by the “prudent person” standard. The prudent person standard, as set forth by NRS 286.682, authorizes the Retirement Board to invest the System’s funds in “every kind of investment which persons of prudence, discretion and intelligence acquire or retain for their own account.”

The majority of the System’s investments are held by the Depository Trust Company (DTC) in DTC’s nominee name, and trading is conducted through the DTC’s book-entry system. The holder of record for the System is The Bank of New York.

The System’s investments are categorized below to give an indication of the level of credit risk assumed at June 30, 2004. The three categories of credit risk are:

Category 1 – Investments which are insured or registered, or for which the securities are held by the System or its agent in the System’s name.

Category 2 – Investments which are uninsured and unregistered for which the securities are held by the counterparty’s trust department or agent in the System’s name.

Category 3 – Investments which are uninsured and unregistered for which the securities are held by the counterparty, or by its trust department or agent, but not in the System’s name.

All investments of the System meet the criteria of Category 1, except for investments unclassified as to risk. Investments in mutual funds, mortgage loans, real estate, and alternative investments, by their nature, are not required to be categorized and therefore are unclassified as to risk.

A summary of investments as of June 30, 2004 is as follows:

		Fair Value
Category 1:		
Fixed income securities		$ 4,250,112,151
Marketable equity securities		6,157,796,693
International securities		3,143,389,464
Securities lending collateral: *		
U.S. Government and Agencies	$719,293,751	
U.S. Corporate Fixed Income	54,312,962	
U.S. Equities	639,870,679	
Non-U.S. Governments	1,458,880	
Non-U.S. Equities	96,048,216	1,510,984,488
Total		15,062,282,796
Category 2:		-
Category 3:		-

*Securities lending collateral also includes $7,716,973 in securities, making total securities lending collateral $1,518,701,461.

NOTES TO FINANCIAL STATEMENTS

Unclassified as to risk:		
Mortgage loans		54,307
Real estate		990,503,124
Private Equity**		154,938,930
Investments held by broker-dealers under securities loans:		
Fixed income securities	$761,908,701	
Marketable equity securities	623,584,170	
International securities	92,665,654	1,478,158,525
Total		2,623,654,886
Total Investments		$17,685,937,682

**Private Equity investments consist of ownership in funds using the following investment strategies: venture capital, acquisitions, equity infusion, recovery, subordinated debt investments, and special situations.

Securities Lending

The System maintains a securities lending program by authorization of NRS 286.682, the "prudent person" standard previously described. Securities loaned under this program consist of U.S. Treasury Obligations, corporate fixed income securities, international fixed income securities, equity securities, and international equity securities. Collateral received consists of cash and securities issued by the U.S. Government, its agencies or instrumentalities. The System has no discretionary authority to sell or pledge collateral received. The maturities of the investments made with cash collateral generally match the maturities of securities loaned. At June 30, 2004, the weighted average maturities are two days for loans outstanding and 27 days for collateral/reinvestments. Collateral received must equal at least 102% of the market value of the underlying security and is marked to market daily. In accordance with the System's Investment Objectives and Policies, the securities lending agent is authorized to invest collateral only in high quality, short-term investment vehicles. The System has no credit risk exposure to borrowers, because the amount the System owes the borrowers exceeds the amount the borrowers owe the System. As of June 30, 2004, collateral was 102%. In addition, securities loaned may not exceed 33-1/3% of the total portfolio. Loss indemnification due to borrower default is provided by agents. There were no losses during the period, nor any prior period, resulting from default. Therefore, there were no recoveries of prior period losses.

The fair value of securities loaned at June 30, 2004, is $1,478,158,525. Cash collateral received in securities lending arrangements is reported on the Statement of Fiduciary Net Assets as an asset with a related liability. At June 30, 2004, the System has collateral, consisting of cash and securities issued by the U.S. Government, its agencies or instrumentalities, in excess of the market value of investments held by brokers/dealers under a securities lending agreement.

NOTE 6 – Commitments and Contingencies

The System has entered into investment funding commitments related to alternative investments to fund an additional $203.8 million at some future date.

NOTES TO FINANCIAL STATEMENTS

NOTE 7 – Risk Management

The System is exposed to various risks of loss related to theft of, damage to, and destruction of assets; injuries to employees; and court challenges to fiduciary decisions. To cover these risks, the System maintains commercial building and contents insurance; vehicle liability and collision/comprehensive insurance; general liability insurance; worker's compensation insurance; and employee fidelity bonds. For coverage included within the State of Nevada's policies (all but worker's compensation and building/contents insurance), the System pays its premium directly to the State. The System's worker's compensation and building/contents insurance are placed with private insurance companies. There have been no reductions of insurance coverage from coverage of the previous year in any of the categories of risk. In addition, there have never been any insurance settlements which exceeded insurance coverage.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS
1999 to 2004
(dollars in millions)

June 30	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Ratio of AVA to AAL	Annual Covered Payroll	UAAL as a % of Annual Covered Payroll
1999	$11,104.5	$13,462.9	$2,358.4	82.5%	$2,682.1	87.9%
2000	12,662.1	14,951.9	2,289.8	84.7	2,967.7	77.2
2001	14,031.1	16,664.2	2,633.1	84.2	3,168.9	83.1
2002	15,052.3	18,259.9	3,207.6	82.4	3,417.6	93.9
2003	15,883.0	19,540.7	3,657.7	81.3	3,595.5	101.7
2004	16,830.3	21,385.4	4,555.1	78.7	3,812.8	119.5

UNFUNDED ACTUARIAL ACCRUED LIABILITY and FUNDING RATIOS
REGULAR and POLICE/FIRE MEMBERS
1999 to 2004

	Unfunded Actuarial Accrued Liability (millions)		Unfunded Actuarial Accrued Liability as % of Payroll		Actuarial Value of Assets as % of Total Actuarial Accrued Liability	
June 30	Regular	Police/ Fire	Regular	Police/ Fire	Regular	Police/ Fire
1999	$1,776.9	$581.5	77.5%	149.5%	83.7%	77.1%
2000	1,708.9	580.9	67.7	131.5	85.9	79.5
2001	1,954.4	678.7	72.8	140.0	85.5	78.9
2002	2,433.8	773.7	84.6	143.3	83.5	78.1
2003	2,612.5	1,045.2	85.9	188.2	83.2	73.9
2004	3,306.5	1,248.6	103.3	203.6	80.5	71.7

The accompanying note is an integral part of the required supplementary information.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF EMPLOYER CONTRIBUTIONS
1999 to 2004

	Regular		Police/Fire		Total	
June 30	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
1999	$462,040,200	96 %	$127,193,800	91 %	$589,234,000	95 %
2000	496,794,400	96	129,349,400	99	626,143,800	97
2001	514,992,000	100	140,428,200	100	655,420,200	100
2002	550,513,000	96	158,694,400	96	709,207,400	96
2003	630,511,700	89	173,194,600	94	803,706,300	90
2004	650,105,000	100	214,378,000	86	864,483,000	99

The accompanying note is an integral part of the required supplementary information.

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

Actuarial Information

The funding progress and employer contribution information presented in the Required Supplementary Information schedules were determined as part of the actuarial valuations at the date indicated. Additional information as of the latest actuarial valuation for the System follows:

Valuation date		6/30/04
Actuarial cost method		Entry age normal
Amortization method*		Year-by-year closed with each amortization period set at 30 years
Asset valuation method		5-year smoothed market
Actuarial assumptions:		
Investment rate of return (Includes inflation at 3.5%)		8.0%
Projected salary increases (Includes inflation at 3.5%)	Regular	4.5% - 9.5%
	Police/Fire	6.25% - 14.75%
Cost of living (post-retirement) increases		2% after 3 years of receiving benefits 3% after 6 years of receiving benefits 3.5% after 9 years of receiving benefits 4% after 12 years of receiving benefits 5% after 14 years of receiving benefits

* This amortization method represents a change from the 2003 actuarial valuation. The previous method was a closed amortization period of 40 years as of July 1, 1984 (with 20 years remaining as of July 1, 2004). This change, from the prior year, in the period used to amortize the unfunded actuarial accrued liability does not impact the determination of the actuarial accrued liability.

Trends are affected by investment experience (favorable or unfavorable), salary experience, changes in demographic characteristics of employees as well as the distribution of employees under Employer-Pay and Employee/Employer contribution provisions. Other factors include retirement experience. For example, the number of service retirements could be greater or less than expected for those with shorter or longer service. Changes in benefit provisions and in actuarial methods and assumptions also affect trends.

OTHER SUPPLEMENTARY INFORMATION

Schedule of Administrative Expenses

For the Year Ended June 30, 2004
(GAAP Basis)

Personnel Services:		
Staff payroll and benefits	$3,805,786	
Retirement Board fees	21,200	
Total Personnel Services		$3,826,986
Out-of-State Travel:		
Staff	10,054	
Retirement Board	6,208	
Police/Fire Committee	2,025	
Total Out-of-State Travel		18,287
In-State Travel:		
Staff	36,297	
Retirement Board	17,023	
Police/Fire Committee	2,042	
Total In-State Travel		55,362
Operating:		
Office supplies	27,917	
Equipment less than $1,000	8,781	
Postage and freight	175,218	
Communications	30,216	
Printing	202,346	
Publications and periodicals	4,769	
Bonds and insurance premiums	10,908	
Contract services	592,687	
Vehicle expense	2,076	
Equipment rental and repair	22,454	
Building rental	218,025	
License and fees	1,815	
Client communication	162,487	
Dues and registration	26,036	
Medical expenses	20,160	
Host expense	837	
Nationwide Search	13,818	
Other	(18,748)	
Total Operating		1,501,802
Equipment and office furniture	60,985	
Depreciation	41,657	
Total Equipment and Office Furniture		102,642
Information technology	599,390	
Depreciation	3,592,305	
Total Information Technology		4,191,695
Training		37,396
Purchasing Assessment		9
Attorney General allocation		78,382
TOTAL EXPENSES		$9,812,561

OTHER SUPPLEMENTARY INFORMATION

Schedule of Administrative Expenses
For the Year Ended June 30, 2004
(Non-GAAP Budgetary Basis)
Budget vs. Actual

	Budget	Actual Expenditures	Variance Under (Over)
Personnel services	$4,028,912	$3,841,035	$187,877
Out-of-state travel	48,781	18,287	30,494
In-state travel	75,657	55,362	20,295
Operating	1,548,213	1,520,550	27,663
Equipment and office furniture	86,060	79,067	6,993
Information technology	2,118,478	2,118,411	67
Training	39,239	37,396	1,843
Purchasing assessment	0	1,449	(1,449)
State cost allocation	1,311	0	1,311
Attorney General allocation	78,382	78,382	0
Unallocated budgetary authority	200,000	0	200,000
Total	$8,225,033	$7,749,939	$475,094

Reconciliation of GAAP Basis Administrative Expenses to Non-GAAP Budgetary Basis
For the Year Ended June 30, 2004

The budget and actual (non-GAAP budgetary basis) schedules present comparisons of the legally adopted budget with actual data on a budgetary basis. Since accounting principles applied for purposes of developing data on a budgetary basis sometimes differ significantly from those used to present financial statements in conformity with generally accepted accounting principles, a reconciliation of resulting differences is presented for the year ended June 30, 2004.

Administrative Expenses (Non-GAAP Budgetary Basis)	$7,749,939
Adjustments:	
Accrued payroll	(14,048)
Depreciation expense	3,633,962
Capitalization of fixed assets & software	(1,538,544)
Other	(18,748)
Administrative Expenses (GAAP Basis)	$9,812,561

OTHER SUPPLEMENTARY INFORMATION

SCHEDULE OF INVESTMENT EXPENSES
For the Year Ended June 30, 2004

Investment counselor fees	$15,564,291
Mortgage loans legal and professional fees	2,002,444
Investment consulting fees	450,221
Depreciation expense	25,561
Equity real estate expense	6,826,239
Custodial banking fees	3,112
Investment monitoring expense	12,829
Securities lending broker rebates and fees	13,990,481
Total Investment Expenses	$38,875,178

SCHEDULE OF PAYMENTS TO CONSULTANTS
For the Year Ended June 30, 2004

Actuary	
The Segal Company	$ 308,656
Cost Effectiveness Consultant	
Cost Effectiveness Measurement Inc.	25,000
Fiduciary Consultant	
Cortex Applied Research	85,000
Independent Auditors	
PricewaterhouseCoopers LLP	99,000
Technology Consultants	
Advance Total Imaging	77,848
Covansys	1,167,870
Cypress Systems	200,362
Darrin Driscoll	975
Sigma IT Group	23,907
Administrative Legal Counsel	
State Attorney General	87,235
Groom Law Group	35,717
Medical Consultant	
Dr. G. Bruce Nickles	20,245
	$2,131,815

Note: Information on payments made to investment professionals can be found on page 61.

OTHER SUPPLEMENTARY INFORMATION

COMBINING SCHEDULE OF FIDUCIARY NET ASSETS
June 30, 2004
(With Comparative Totals for June 30, 2003)

	Regular	Police/Fire	Eliminations	Total Pension Trust Fund 2004	Total Pension Trust Fund 2003
ASSETS					
Cash and cash equivalents	$308,139,868	$ -	$ -	$ 308,139,868	$ 631,076,979
Contributions receivable	67,478,126	-	-	67,478,126	59,875,813
Trades pending settlement	375,987,937	-	-	375,987,937	467,624,294
Accrued investment income	79,004,109	-	-	79,004,109	72,992,149
Investments, at fair value	16,174,953,194	-	-	16,174,953,194	14,012,185,527
Collateral on loaned securities	1,510,984,488	-	-	1,510,984,488	1,446,475,846
Property and equipment, net	6,038,853	-	-	6,038,853	8,134,271
Other assets	743,335	-	-	743,335	781,083
Due from other funds- equity in investments		3,012,785,144	(3,012,785,144)	-	-
Total Plan Assets	18,523,329,910	3,012,785,144	(3,012,785,144)	18,523,329,910	16,699,145,962
LIABILITIES					
Accounts payable and other accrued expenses	8,406,618			8,406,618	7,857,304
Trades pending settlement	993,752,123			993,752,123	1,170,818,130
Due to other funds – equity in investments	3,012,785,144		(3,012,785,144)		
Obligations under securities lending activities	1,510,984,488			1,510,984,488	1,446,475,846
Total Plan Liabilities	5,525,928,373		(3,012,785,144)	2,513,143,229	2,625,151,280
Net assets held in trust for pension benefits	$12,997,401,537	$3,012,785,144	$ -	$16,010,186,681	$14,073,994,682

OTHER SUPPLEMENTARY INFORMATION

COMBINING SCHEDULE OF CHANGES IN FIDUCIARY NET ASSETS

For the Year Ended June 30, 2004
(With Comparative Totals for the Year Ended June 30, 2003)

	Regular	Police/Fire	Total Pension Trust Fund 2004	Total Pension Trust Fund 2003
ADDITIONS				
Contributions:				
Employer	$ 635,287,523	$ 173,057,472	$ 808,344,995	$ 724,030,565
Plan members	51,650,773	9,429,184	61,079,957	55,442,330
Repayment and purchase of service	32,786,744	10,566,472	43,353,216	29,395,797
Total Contributions	719,725,040	193,053,128	912,778,168	808,868,692
Investment Income:				
Net appreciation in fair value of investments	1,251,451,013	-	1,251,451,013	222,344,110
Interest	248,808,703	-	248,808,703	272,514,607
Dividends	139,224,795	-	139,224,795	111,003,853
Other investment income	81,211,461	-	81,211,461	83,957,150
Securities lending income	19,040,124	-	19,040,124	25,293,441
	1,739,736,096	-	1,739,736,096	715,113,161
Less investment expense:				
Cost of securities lending	(13,990,481)	-	(13,990,481)	(20,250,900)
Other	(24,884,697)	-	(24,884,697)	(22,027,494)
	(38,875,178)	-	(38,875,178)	(42,278,394)
Net Investment Gain	1,700,860,918	-	1,700,860,918	672,834,767
Other Income	1,758,434	327,864	2,086,298	2,075,376
Total Additions	2,422,344,392	193,380,992	2,615,725,384	1,483,778,835
DEDUCTIONS				
Benefit payments:				
Retirement and survivor benefits	509,475,297	112,649,793	622,125,090	559,882,001
Disability	27,796,346	7,646,894	35,443,240	31,849,644
Post-retirement increases	46,289	7,878	54,167	60,085
Refund of contributions	9,139,861	2,976,490	12,116,351	11,086,193
Administrative expenses	9,794,537	-	9,794,537	6,618,500
Contribution distributions	-	-	-	6,691,206
Total Deductions	556,252,330	123,281,055	679,533,385	619,187,629
Increase in Net Assets	1,866,092,062	70,099,937	1,936,191,999	864,591,206
Transfers:				
Interfund transfers	522,852	(522,852)	-	-
Transfer of annual investment income	(318,741,336)	318,741,336	-	-
Transfer of administrative fees	806,238	(806,238)	-	-
Total Transfers	(317,412,246)	317,412,246	-	-
Net assets held in trust for pension benefits:				
Beginning of year	11,448,721,721	2,625,272,961	14,073,994,682	13,209,403,476
End of year	$12,997,401,537	$3,012,785,144	$16,010,186,681	$14,073,994,682

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INVESTMENT SECTION

INVESTMENT CONSULTANT

Callan Associates, Inc.

INVESTMENT COUNSEL

Domestic Equities:

Alliance Capital Management
Atlanta Capital Management
Barclays Global Investors
Mellon Capital
Merrill Lynch
J & W Seligman
Loomis, Sayles & Company

International Equities:

BNY Asset Management
Mellon Capital

Domestic Fixed Income Securities:

Banc One Investment Advisors
Barclays Global Investors
Dodge & Cox
Lincoln Capital Management
Payden & Rygel
WestAM
Western Asset Management

International Fixed Income Securities:

Julius Baer Investment Management
Payden & Rygel
Rogge Global Partners
UBS Global Asset Management

Private Equity:

Pathway Capital Management

Private Real Estate:

Invesco Realty Advisors
SSR Realty Advisors

Real Estate Investment Trust (REIT) Securities:

Alliance Capital Management
Barclays Global Investors
Invesco Realty Advisors

Securities Lending:

The Bank of New York

INVESTMENT REVIEW

Introduction

The investment program is designed to generate earnings to fund the System's benefits while minimizing investment risk. The structure and administration of the portfolio is defined by the prudent person standard. The standard states that the Retirement Board may invest the System's funds in every type of investment which persons of prudence, discretion, and intelligence acquire or retain for their own account under similar circumstances. By establishing a well-diversified portfolio at the asset class, management, and security level, the System has strengthened control over the fund's risk and return parameters. Through the prudent person standard, the Board has established Investment Objectives and Policies that recognize future funding requirements based on membership demographics.

The System's Investment Objectives and Policies detail the fund's long-term investment goals, management responsibilities, return/risk expectations, and monitoring requirements. These policies are subject to change at any time by the Retirement Board and are reviewed thoroughly at least annually to ensure that they continue to reflect the System's expectations.

Objective

The investment objective of the System is to:

- Generate 8% investment return by producing a long-term total return from investments which exceeds the rate of inflation (CPI) by 4.5% by capturing market returns within each asset class.
- Invest so the short-term volatility of returns will not cause the System to alter its long-term strategy.
- Structure an investment program which is sufficiently uncomplicated to control the ability to consistently meet return and risk objectives.

Chart 1, on page 53, demonstrates that the investment portfolio, over the last ten years, has achieved the blended real return objective in seven of those years (prior to fiscal year 2004 the total fund objective was CPI + 3.75%, prior to fiscal year 2003 the total fund objective was CPI + 3.5%, and prior to fiscal year 2001, the total fund objective was CPI +3.0%). Chart 2, on page 53, details annualized returns for long-term periods ended June 30, 2004. The System achieved the blended market objective for the 5, 10, and 20-year periods, and the real return and the 8% actuarial earnings goal for the 1-year, 10-year, and 20-year periods. The System's 12.1% return in fiscal year 2004 was driven by U.S. and international equity, as those portfolios experienced positive returns of 19.2% and 30.9%, respectively. An analysis of asset class results versus the markets is included on pages 59–60.

Note: Inception on Chart 2 refers to July 1, 1984, the date the System began calculating total return versus the annual yield. For all other charts, inception refers to the point at which the System began including that particular investment vehicle in the portfolio.

Asset Allocation

Determination of long-term asset allocation for the fund involves estimating returns and risk associated with major types of investments and blending them into a portfolio which meets the risk/return comfort level of the Board. This blend of asset types is designed to provide protection against large fluctuations in portfolio returns and to stabilize overall investment earnings.

The Board annually reviews capital market expectations and asset allocation. During fiscal year 2004, return expectations for the capital markets were reduced. To improve the portfolio's ability to meet our funding objectives, the Retirement Board shifted 5% of assets from U.S. Fixed Income to U.S. Equity. Additionally, private real estate, private equity, and REITs were combined into one asset class, Alternative Investments, which comprises 10% of the total fund.

The long-term target allocation for the fund as of June 30, 2004, was 30% U.S. Fixed Income, 40% U.S. Equity, 10% International Fixed Income, 10% International Equity, and 10% Alternative Investments. The June 30, 2004, actual asset class allocation is shown in Chart 3, page 54.

Diversification

In addition to the asset allocation decision, the Board must also determine what investment categories and styles of management will make up the portfolio, and which managers will oversee each investment type. By blending categories (e.g. domestic versus international), styles (e.g. active versus indexed), managers (e.g. different asset selection processes), and assets, the diversity of the fund is enhanced. Not all categories, styles, managers, and assets react to movements in the investment markets in the same manner. Therefore, one manager whose investment style is not favored by the markets should be offset by a manager whose style is doing well. The System maintains a well diversified portfolio. Chart 4, on page 55, shows the market value of the assets under management by investment type, category, and manager. A detail of the fund's 10 largest equity and fixed income holdings based on fair market value at June 30, 2004, is included in Chart 5 on page 57. A complete list of security holdings is available upon request.

Investment Class Objectives

In order to achieve the total fund objectives, each asset type is assigned return objectives (listed below). Progress toward those benchmarks is closely monitored.

U.S. Equity	-	Produce a total return that captures the Standard and Poor's 500 Common Stock Index over rolling 10-year periods with commensurate volatility.
International Equity	-	Produce a total return that captures the unhedged Morgan Stanley Capital International Europe, Australia, Far East (MSCI EAFE) Index over rolling 10-year periods with commensurate volatility.
U.S. Fixed Income	-	Produce a total return that captures the Lehman Aggregate Index over rolling 10-year periods with commensurate volatility.
International Fixed Income	-	Produce a total return that captures the unhedged Citigroup Non-Dollar Government Bond Index over rolling 10-year periods with commensurate volatility.
Alternative Investments	-	Produce a total return which captures the blended return (based on PERS' actual allocation) of: National Council of Real Estate Investment Fiduciaries (NCREIF) Property Index, Wilshire REIT Index, and S&P 500 Index + 4% per year over rolling 10-year periods with commensurate volatility.

Each of the System's investment managers agrees to a performance benchmark which, when all the benchmarks in an investment class are combined, is expected to produce the class objective.

Investment Performance

Our investment consultant calculates performance for the total fund, each asset class, and individual investment management firms employed by the Board. By policy, the System requires performance to be calculated and presented in accordance with Association for Investment Management and Research guidelines. Performance calculations are prepared using time-weighted rate of return based on market values. Returns in this report are gross of fees.

Chart 6, shown on page 58, shows a year by year comparison of how the total fund and each investment class compared with its corresponding objective.

Charts 7-10 on pages 59-60, compare 1, 5, 10-year, and since-inception returns for each asset class to the corresponding objective for periods ended June 30, 2004.

U.S. Equity portfolio returns captured the objective for the 1, 5, and 10-year periods ended June 30, 2004. Since inception, the portfolio trails the S&P 500 Index due to substandard performance from active management. Beginning in fiscal year 2004, the Board reviewed the U.S. Equity portfolio structure. Following the fiscal year end, the Board increased the allocation to index management from 50% to 60% of the portfolio to increase our opportunity to capture the return of the market on an annual basis.

The international equity portfolio outperformed the market benchmark for the 5, 10-year, and since-inception periods, though it trailed the objective for the 1-year period due to active management under performance. In response, two active managers were terminated and the structure was shifted to 100% index management.

U.S. fixed income captured the objective for the fiscal year and since inception. A number of changes addressing management and structure were implemented in the last two fiscal years to address performance concerns in this portfolio. These actions have improved short-term results as evidenced by the fiscal year return.

International fixed income captured the objective for the 1, 10-year, and inception to date periods. Results for the 5-year period were influenced by active management performance. At times, we have observed significant variability in international fixed income management returns versus the objective. In response, the Board recently incorporated a 50% allocation to index management to reduce the volatility of our returns versus the market.

The Alternative Investment portfolio has 3/4 year of performance, as it was established during the year. The portfolio trailed the benchmark due to private real estate performance. Liquidation of assets from portfolios of two recently terminated managers influenced these results.

This report has been prepared in conjunction with our investment consultant, Callan Associates, Inc.

INVESTMENT PERFORMANCE VS. OBJECTIVE

CHART 1

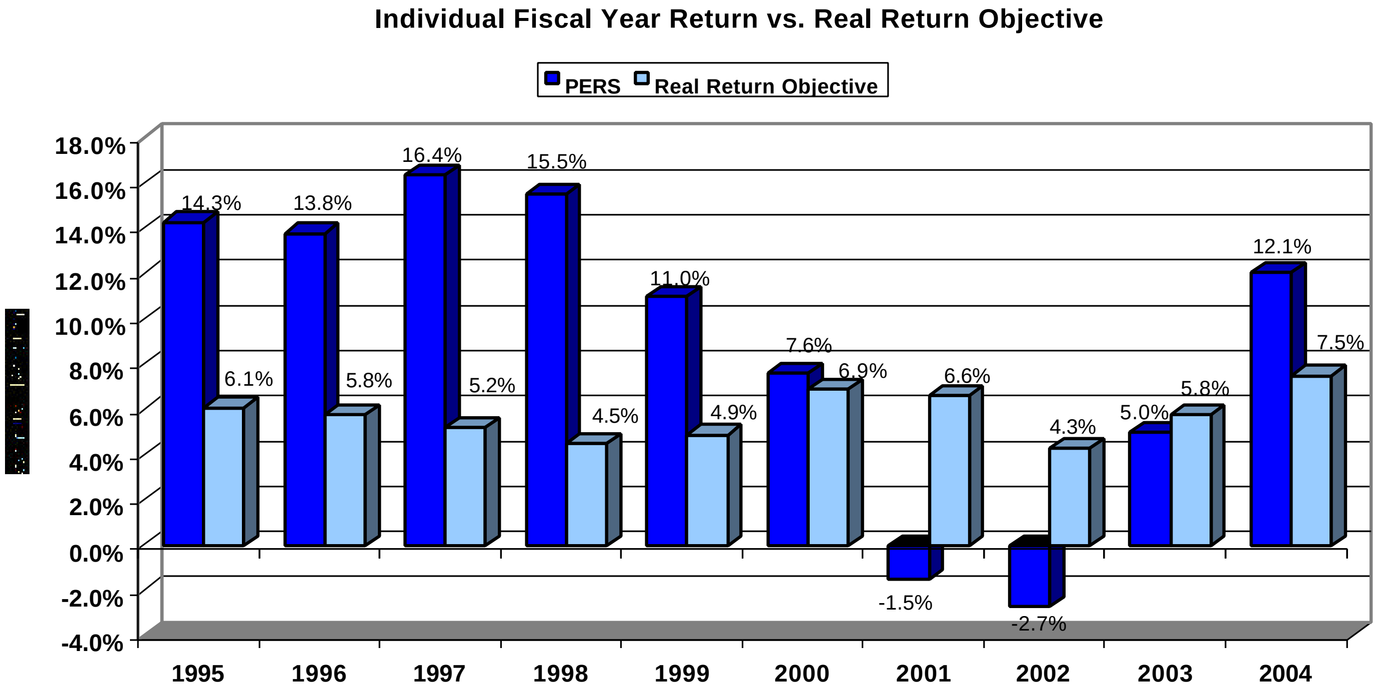
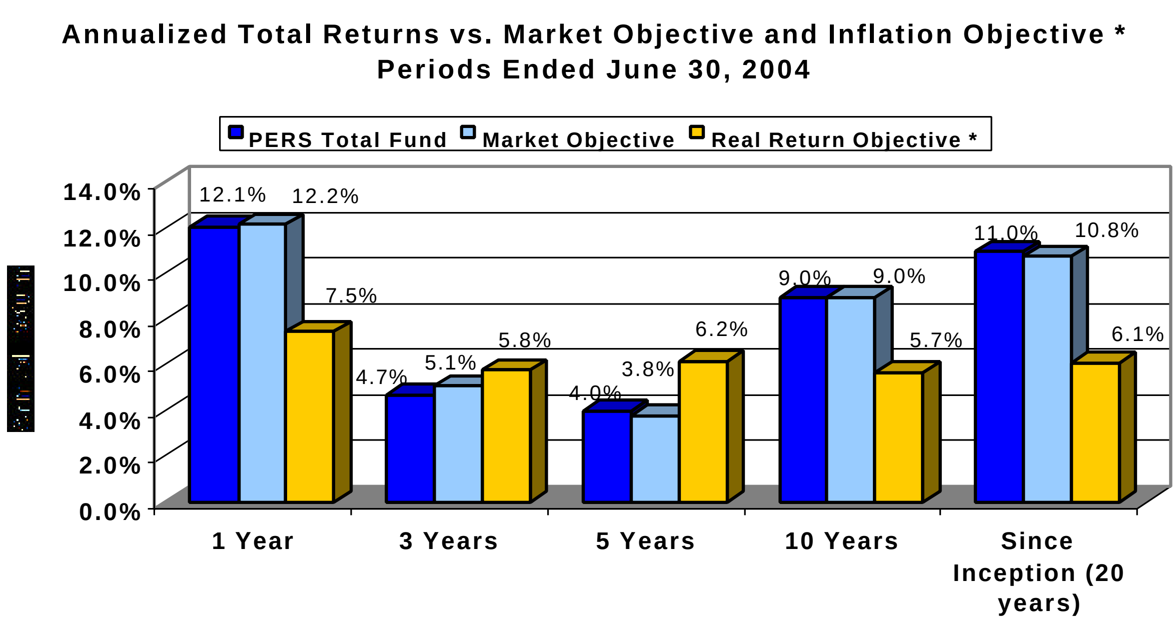


CHART 2



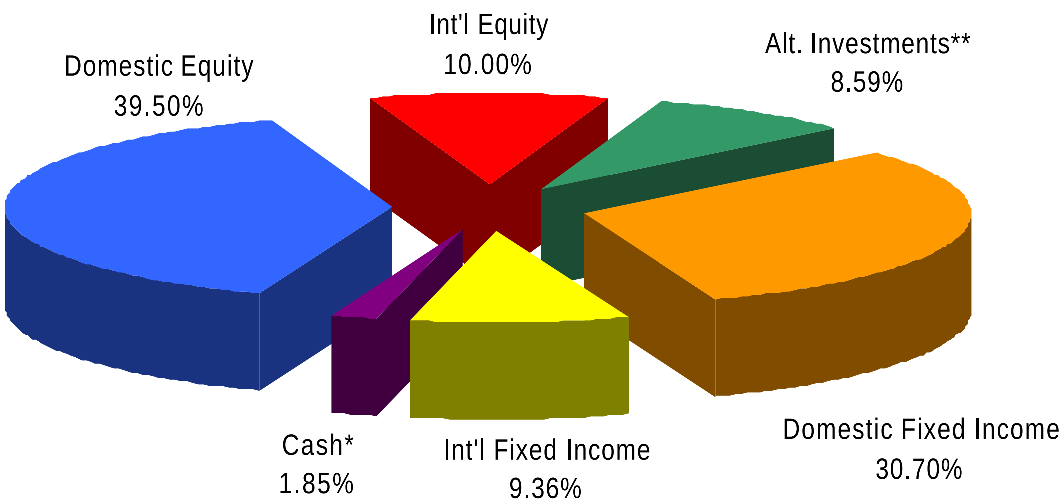
CPI +3.0% until September 2001. CPI + 3.5% from October 1, 2001, through September 30, 2002, CPI + 3.75% from October 1, 2002, through September 30, 2003, and CPI + 4.5% from October 1, 2003.

Performance calculations are prepared using time-weighted rate of return based on market values.

CHART 3

ASSET MIX

JUNE 30, 2004



***Includes cash held by investment managers.**

****Includes 6.00% Private Real Estate, 1.65% REITS, and .94% Private Equity.**

CHART 4

Fair Value by Investment Type, Category, and Manager
June 30, 2004
(Page 1 of 2)

	Amount Under Management		Percent of Total Managed
EQUITIES			
Domestic Active Managers			
Alliance Growth	$ 775,299,044		
Atlanta Capital	785,831,963		
Loomis, Sayles	377,306,617		
J & W Seligman	656,147,187		
Subtotal	2,594,584,811		15.74%
Domestic Index Managers			
Alliance – S&P Barra Value	654,216,763		
Alliance – S&P 500	946,196,361		
Barclays – S&P 500	842,057,507		
Mellon Capital S&P 500	740,985,022		
Merrill Lynch S&P 500	731,904,798		
Subtotal	3,915,360,451		23.76
International Active Managers			
Mellon Capital	6		
Mellon Capital	830,881,954		
Subtotal	830,881,960		5.04
International Index Manager			
BNY Asset Management	816,988,085		4.96
Private Equity			
Pathway Capital	154,938,930		0.94
REIT Index			
Alliance REIT	83,898,375		
Barclays REIT	96,792,132		
Invesco REIT	90,745,094		1.65
Subtotal	271,435,601		
Total Equities		$8,584,189,838	52.09
FIXED INCOME			
Domestic Active Managers			
Banc One	546,003,828		
Dodge & Cox	554,541,996		
Payden & Rygel US Bond	730,112,421		
Western Asset Management	46,996,899		
Western Asset Management	690,450,641		
Subtotal	2,568,105,785		15.58

CHART 4

Fair Value by Investment Type, Category, and Manager
June 30, 2004
(Page 2 of 2)

	Amount Under Management		Percent of Total Managed
Domestic Index Managers			
Barclays U.S. Debt Index	559,217,641		
Lincoln Capital	747,211,899		
Payden & Rygel U.S. Bond Index	581,296,232		
WestLB Asset Management	603,186,195		
Subtotal	2,490,911,967		15.12
International Active Managers			
Julius Baer Investment Management	238,048,684		
UBS Global Asset Management	293,144,609		
Rogge Global Partners	242,738,763		
Subtotal	773,932,056		4.70
International Index Managers			
Payden & Rygel	381,662,045		
UBS Global Asset Management	385,594,072		
Subtotal	767,256,117		4.66
Mortgage Loans			
Invesco	54,307		<.01
Total Fixed Income		6,600,260,232	40.06
PRIVATE REAL ESTATE			
Invesco Realty	535,739,867		
Invesco RealtyTakeover	113,588,484		
SSR Realty Advisors	131,608,751		
SSR Realty Advisors Takeover	209,566,022		
Total Real Estate		990,503,124	6.00
SHORT-TERM INVESTMENTS			
Cash Equivalents	287,468,710		
Custodial Cash - Bank of New York	17,257,932		
Total Short-Term Investments		304,726,642	1.85
TOTAL PORTFOLIO		**$16,479,679,836**	**100.00%**

Notes: The Statement of Fiduciary Net Assets contains $3,413,226 in administrative cash, which does not appear on this schedule. Total Portfolio less short term investments of $304,726,642 equals investments of $16,174,953,194.

CHART 5

LIST OF LARGEST ASSETS HELD

Largest Equity Holdings
June 30, 2004

Ranking	Shares	Name	Fair Value
1	5,429,871	GENERAL ELECTRIC CO	$175,927,820
2	5,762,530	MICROSOFT CORP COM	164,577,857
3	4,582,296	PFIZER INC COM	157,081,107
4	3,339,842	EXXON MOBIL CORP	148,322,383
5	2,928,228	CITIGROUP INC	136,162,602
6	1,833,666	AMERICAN INTERNATIONAL GROUP	130,703,712
7	1,342,628	BANK OF AMERICA CORP	113,613,181
8	4,774,503	CISCO SYSTEMS INC	113,155,721
9	3,624,339	INTEL CORPORATION	100,031,756
10	1,802,393	WAL MART STORES INC	95,094,255

Largest Fixed Income Holdings
June 30, 2004

Ranking	Units	Name	Fair Value
1	103,765,000	FNMA TBA 30 YR 5.50% JUL	$103,246,175
2	59,935,000	GNMA TBA 30 YR 6.00% JUL	61,358,456
3	58,000,000	UNITED STATES TREASURY NOTES	57,963,750
4	53,705,000	FNMA TBA 30 YR 6.00% JUL	54,812,666
5	5,975,000	JAPAN NOTES NO. 231	54,778,226
6	42,757,000	GERMANY (REP) 4.75	54,545,218
7	49,415,000	FNMA TBA 30 YR SFM 7.00% JUL	52,101,941
8	5,620,000,000	JAPAN-162 5.20 JUL	51,829,576
9	47,400,000	GNMA I TBA 30 YR SFM 6.50% JUL	49,488,563
10	45,360,000	FNMA TBA 30 YR SFM 6.00% AUG	46,111,275

Note: A complete list of the portfolio's holdings can be obtained upon request.

CHART 6

SUMMARY OF ACTUAL PERFORMANCE VS. OBJECTIVES
(% Returns)

	U.S. EQUITY	INT'L EQUITY	U.S. FIXED INC.	INT'L FIXED INC.	REAL ESTATE	ALT. INVEST*	TOTAL FUND
Fiscal Year 2000							
Total Return	9.3	22.3	4.2	(1.2)	10.5		7.6
Objective	7.2	17.2	4.6	2.4	10.9		6.9
Fiscal Year 2001							
Total Return	(9.1)	(23.6)	11.3	(7.8)	10.0		(1.5)
Objective	(14.8)	(23.6)	11.2	(7.4)	11.2		6.6
Fiscal Year 2002							
Total Return	(17.5)	(9.4)	8.3	15.9	3.9		(2.7)
Objective	(18.0)	(9.5)	8.6	15.7	5.6		4.3
Fiscal Year 2003							
Total Return	(1.2)	(7.2)	10.1	18.3	4.6		5.0
Objective	0.3	(6.5)	10.4	17.9	7.6		5.8
Fiscal Year 2004							
Total Return	19.2	30.9	0.6	7.7		8.7	12.1
Objective	19.1	32.4	0.3	7.6		10.5	7.5

Objectives: U.S. Equity (S&P 500), Int'l. Equity (MSCI EAFE), U.S. Fixed Income (Lehman Aggregate), Int'l. Fixed Income (Citigroup Non U.S. Govt.), Real Estate (NCREIF), Alternative Investments (Portfolio weighted blend of NCREIF, Wilshire REIT, and S&P 500 + 4%), Total Fund (CPI + 3.0/3.5/3.75/4.5%). Objective was CPI + 3.0% until September 30, 2001, CPI + 3.5% from October 1, 2001, through September 30, 2002, CPI + 3.75% from October 1, 2002, through September 30, 2003, and CPI +4.5% from October 1, 2003.

* Real Estate was combined with private equity and REITs in September 2003. Fiscal Year 2004 Alternative Investments Return represents performance from 10/1/03 to 6/30/04.

INVESTMENT PERFORMANCE VS. OBJECTIVE

CHART 7

U.S. Equity vs. S&P 500 Periods Ended June 30, 2004

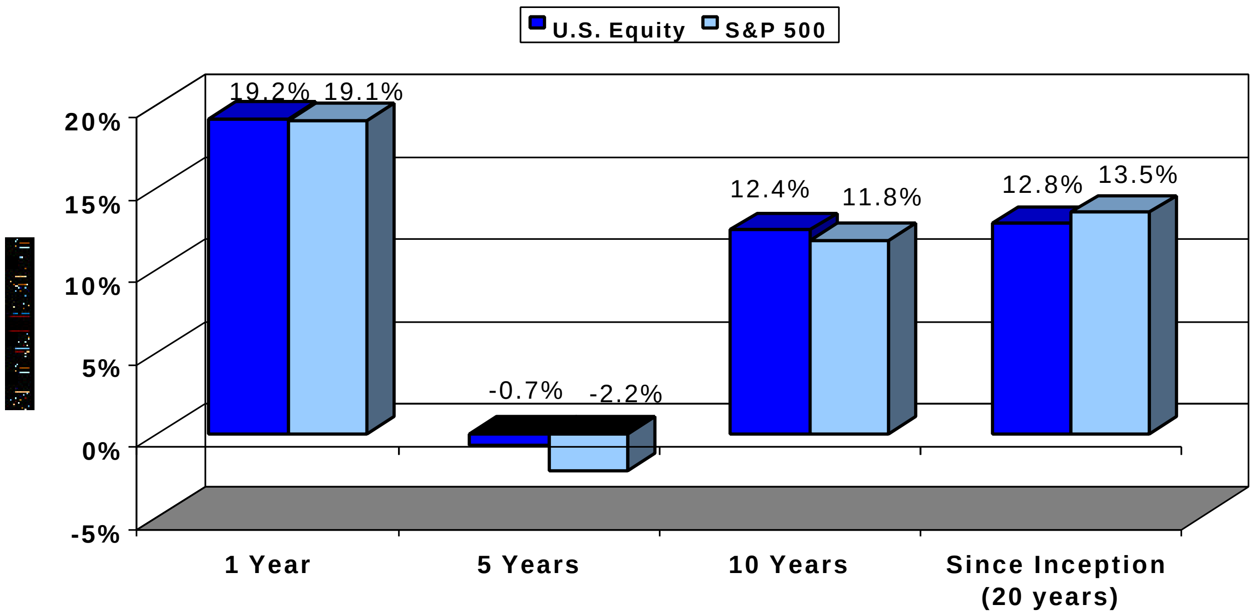
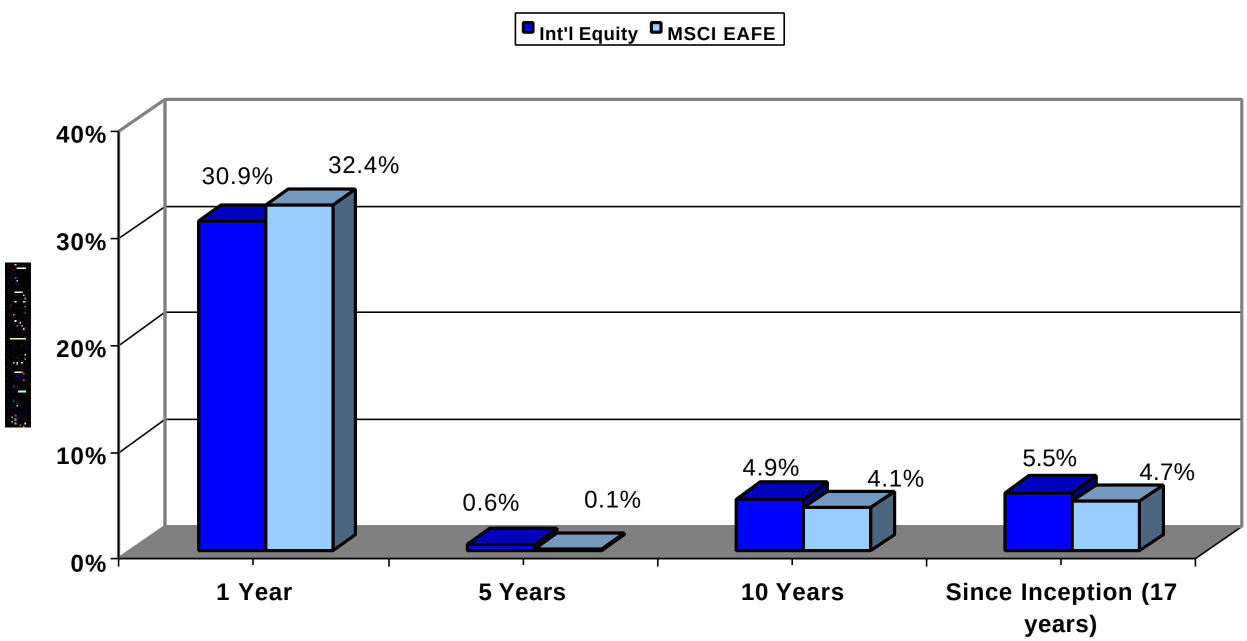


CHART 8

Int'l Equity vs. MSCI EAFE Periods Ended June 30, 2004



INVESTMENT PERFORMANCE VS. OBJECTIVE

CHART 9

U.S Fixed Income vs. Lehman Aggregate Periods Ended June 30, 2004

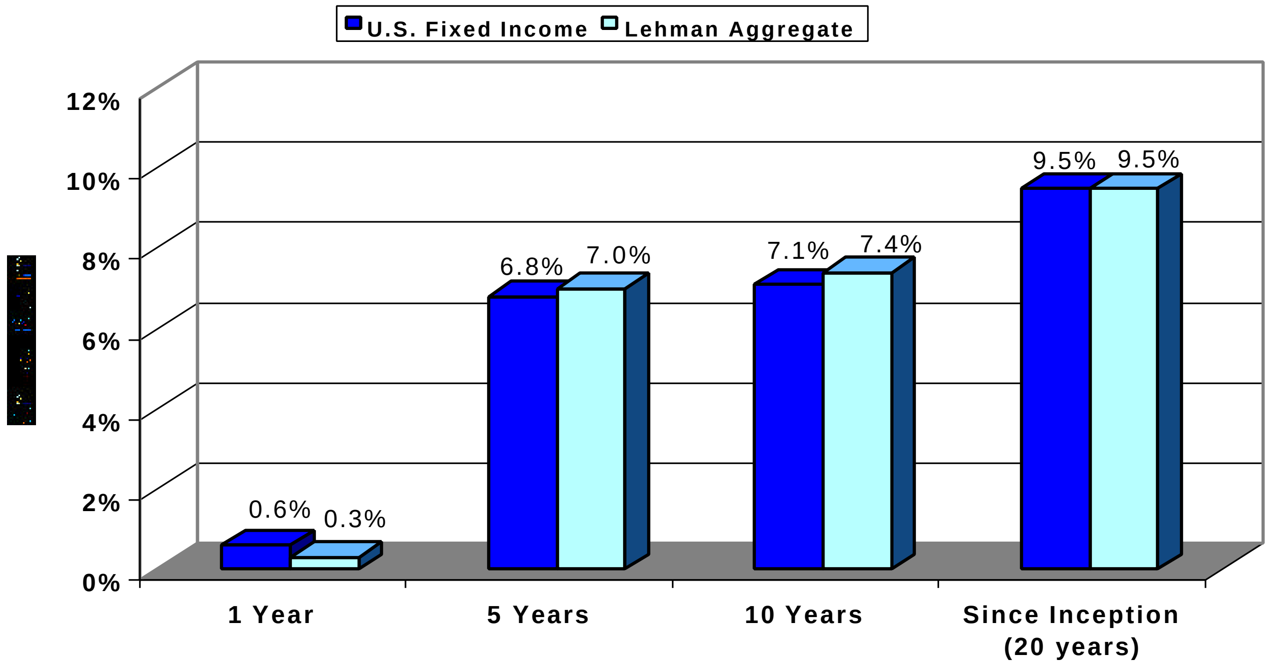


CHART 10

Int'l Fixed Income vs. Citigroup Non U.S. Govt. Periods Ended June 30, 2004

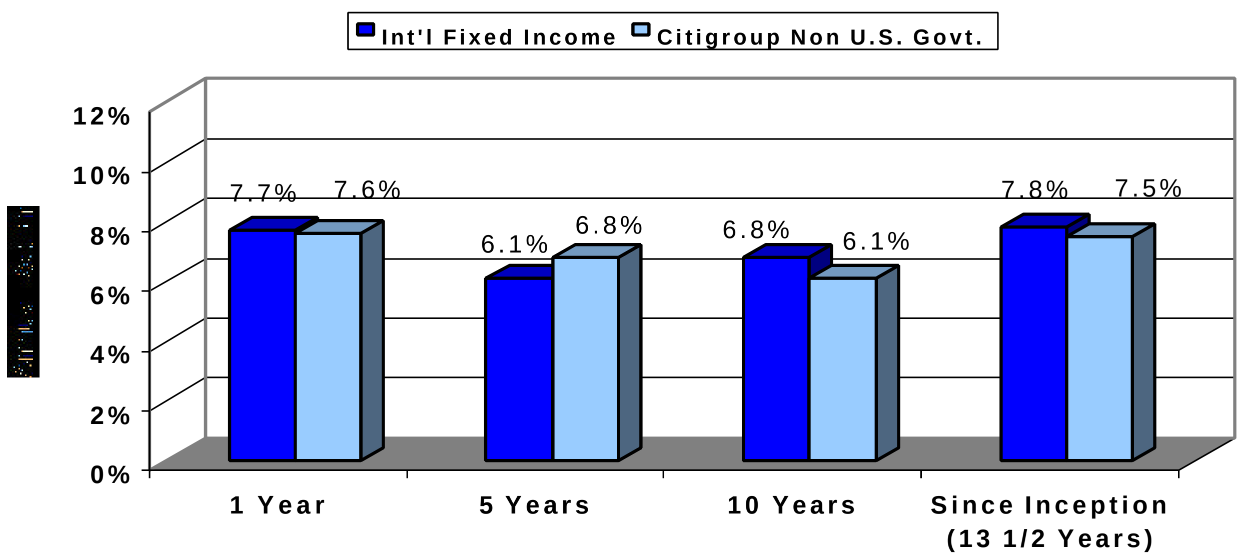


CHART 11

SCHEDULE OF FEES and COMMISSIONS

For Year Ended June 30, 2004
(Page 1 of 4)

Name/Firm	Amount Under Management at June 30, 2004	Fees Paid
Investment Management Fees		
Domestic and International Equity Managers		
Alliance Capital	$2,381,039,124	$ 1,948,996
Atlanta Capital	790,985,872	1,583,905
BNY Asset Management	826,664,588	652,692
Barclays Global Investors	1,401,235,575	380,037
GE Asset Management	0	509,879
J & W Seligman	663,791,474	1,287,879
Loomis, Sayles & Company	384,551,874	839,827
Mellon Capital	1,574,127,154	390,947
Merrill Lynch	732,322,671	63,396
Putnam Investments	0	475,533
Domestic and International Fixed Income Managers		
Banc One	559,870,880	691,854
Dodge & Cox	577,002,148	807,989
Julius Baer	239,739,874	539,106
Lincoln Capital	639,688,522	269,934
Standish Mellon	0	25,542
Payden & Rygel	1,530,805,672	1,259,735
Rogge Global	252,187,700	600,824
State Street	0	(57,547)
UBS Global Asset Management	691,156,054	891,427
West AM	605,718,617	251,325
Western Asset Management	574,217,238	1,104,472
Private Equity Manager		
Pathway	158,633,229	1,006,346
Private Real Estate Managers		
Invesco Realty	650,007,935	4,329,024
L & B Realty	0	1,072,070
SSR Realty	341,174,773	1,425,145
Real Estate Investment Trust (REIT) Managers		
Alliance REIT	84,184,483	36,243
Barclays REIT	96,792,132	4,976
Invesco REIT	90,815,470	0
Sub-total management fees		22,391,556
Investment Services Fees		
Investment Consultants		
Callan Associates		450,221
Sub-total services fees		450,221

CHART 11

SCHEDULE OF FEES and COMMISSIONS

For Year Ended June 30, 2004
(Page 2 of 4)

Broker Commissions	Number of Shares	Commission Paid	Commission Per Share (rounded)
Able Noser Corp.	24,100	1,205	0.05
ABN AMRO Securities	239,200	2,174	0.01
A. G. Edwards & Sons Inc.	567,400	28,370	0.05
American Technology Research	22,000	990	0.04
Arnold S. Bleischroder, Inc.	184,500	8,975	0.05
Avalon Research Group, Inc.	23,900	1,076	0.04
B-Trade Services LLC	877,575	18,530	0.02
Baird Robert W & Co.	62,000	2,790	0.04
Bank of America Securities LLC	1,405,363	68,810	0.05
Bear Stearns & Co. Inc.	3,569,740	159,848	0.05
BNY Brokerage Inc.	4,090,300	4,363	0.01
BNY Clearing Services LLC	400	20	0.05
Brown Brothers Harriman & Co.	86,700	4,262	0.05
Buckingham Research Group Inc.	55,900	2,515	0.04
Cantor, Fitzgerald & Co.	439,558	10,033	0.03
Capital Institutional Services Inc.	916,052	34,994	0.04
Charles Schwab & Co.	1,007,433	45,924	0.05
CIBC World Markets Corp.	351,900	17,277	0.05
Citation Group Chase NYC	206,960	10,503	0.05
Citigroup Global Markets Inc.	4,184,675	204,369	0.05
CL King & Associates	71,800	3,590	0.05
Credit Suisse First Boston	4,880,991	144,803	0.03
Davis, Mendel & Regenstein Inc.	138,725	6,936	0.05
DBTC Americas/Deutsche Bank AG	46,600	2,097	0.04
Deutsche Bank/Alex Brown	2,493,994	55,816	0.02
Direct Brokerage Inc.	29,600	888	0.03
Doughtery Company	9,600	432	0.05
Dowling & Partners Securities, LLC	35,200	1,584	0.04
Factset Data Systems, Inc.	424,700	21,235	0.05
Fox-Pitt Kelton Inc.	135,400	6,770	0.05
Friedman, Billings & Ramsey	97,800	4,401	0.05
Fulcrum Global Partners LLC	86,100	3,875	0.04
Goldman Sachs & Co.	3,942,382	110,136	0.03
Griswold Company	55,000	1,650	0.03
Guzman & Company	3,300	33	0.01
Howard Weil Div – Legg Mason	400	20	0.05
Instinet Corporation	96,518	1,490	0.02
Investment Technology Group	3,723,514	49,354	0.02
ISI Group, Inc.	219,800	10,151	0.05
J P Morgan Securities Inc.	5,635,515	152,715	0.03

CHART 11

SCHEDULE OF FEES and COMMISSIONS

For Year Ended June 30, 2004
(Page 3 of 4)

Broker Commissions	Number of Shares	Commission Paid	Commission Per Share (rounded)
Jackson Securities	56,300	2,815	0.05
Jefferies & Company, Inc.	256,000	12,593	0.05
Jones & Associates	1,800	54	0.03
Kaufman Brothers	12,700	572	0.05
Keefe Bruyette & Woods, Inc.	91,925	4,596	0.05
Knight Securities	105,970	5,299	0.05
Lebrink Swann and Co.	43,300	2,109	0.05
Legg Mason Wood Walker Inc.	2,643,250	68,594	0.03
Lehman Brothers, Inc.	6,502,664	210,124	0.03
Liquidnet Inc.	1,496,300	49,267	0.03
Lynch Jones & Ryan Inc.	129,100	6,455	0.05
Magna Securities Corporation	20,000	1,000	0.05
McDonald Investments Inc.	145,000	7,145	0.05
Merrill Lynch Pierce Fenner	8,091,198	381,060	0.05
Merrill Lynch Professional	43,700	1,809	0.04
Midwest Research Securities	445,500	21,285	0.05
Morgan Stanley & Co.	3,486,175	138,570	0.04
National Financial Services Corp.	136,000	1,360	0.01
Neuberger & Berman	175,040	7,780	0.04
Nordberg Capital Inc.	24,000	1,080	0.05
Oppenheimer and Co. Inc.	80,000	4,000	0.05
Pacific Growth Equities	219,000	10,950	0.05
Pershing & Company	635,200	31,350	0.05
Portales Partners LLC	13,000	585	0.05
Princeton Securities	477,800	14,334	0.03
Prudential Equity Group	401,900	19,848	0.05
Pulse Trading LLC	45,100	2,255	0.05
Raymond James & Associates Inc.	578,000	28,850	0.05
RBC Dominion Securities Corp.	10,000	500	0.05
RBC/Dain Rauscher Inc.	93,000	4,650	0.05
Sanders Morris Mundy	251,600	12,580	0.05
Sandler O’Neill & Partners LP	67,600	3,302	0.05
Sandford C Bernstein & Co. LLC	2,102,825	105,141	0.05
SG Cowen Securities Corp.	172,400	8,487	0.05
Soundview Technology Group	12,500	625	0.05
Spear, Leeds & Kellogg	2,266	15	0.01
Sun Trust Capital Markets Inc.	666,400	33,320	0.05
The Fourteen Research Corp.	40,400	2,020	0.05
Thomas Weisel Partners LLC	217,876	10,244	0.05
U.S. Bancorp Piper Jaffray Inc.	46,500	2,093	0.05
UBS Financial Services Inc.	180,000	9,000	0.05

CHART 11

SCHEDULE OF FEES and COMMISSIONS
For Year Ended June 30, 2004
(Page 4 of 4)

Broker Commissions	Number of Shares	Commission Paid	Commission Per Share (rounded)
UBS Securities LLC	5,530,646	188,055	0.03
Utendahil Capital Partners	29,684	520	0.02
Veritas Securities	460,600	13,818	0.03
Wachovia Secs Capital Market	923,025	45,957	0.05
Wedbush Morgan Securities Inc.	380,000	19,000	0.05
Weeden & Co.	180,600	3,612	0.02
Wells Fargo Investments LLC	70,800	3,540	0.05
William Blair & Co. LLC	174,800	8,223	0.05
Williams Capital Group LP	74,600	3,730	0.05
Sub-total Commissions		2,719,175	
Total Fees and Commissions		$25,560,952	

ACTUARIAL SECTION

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SEGAL

THE SEGAL COMPANY
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November 23, 2004

DIRECT DIAL NUMBER
303-714-9936
WRITER'S E-MAIL ADDRESS
lthompson@segalco.com

Public Employees' Retirement Board
State of Nevada
693 West Nye Lane
Carson City, Nevada 89703

Re: **Certification Letter for Actuarial Section of Financial Report for Fiscal Year Ended June 30, 2004**

Dear Retirement Board Members:

This letter is to certify that Segal has prepared an actuarial valuation of the Public Employees' Retirement System of Nevada as of June 30, 2004, and that such valuation is accurate and fairly presents the actual position of the Public Employees' Retirement System of Nevada.

The unfunded actuarial accrued liability is being amortized by level percentage-of-payroll payments over a year-by-year closed amortization period where each amortization period will be set at 30 years. As of June 30, 2004, the funded ratio is 78.7%.

Actuarial valuations are prepared annually by the independent actuary for the Public Employees' Retirement Board. The basic purposes of annual actuarial valuations are to determine the Retirement System's actuarial liabilities and the level percentage-of-payroll contribution rates required to fund the Retirement System on an actuarial reserve basis.

For actual funding purposes, to amortize the unfunded portion of actuarial accrued liability under the level percentage-of-payroll amortization method, the dollar amounts of calculated amortization payments increase in direct proportion to the assumed payroll growth rates of 6.5% per year for Regular employees and 8.0% per year for Police/Fire employees. These payroll growth rates are based on a 3.5% per year inflation assumption.

For GASB reporting purposes only, the unfunded actuarial accrued liability payments are assumed to increase in direct proportion to assumed payroll growth rates of 5.0% per year for both regular and Police/Fire employees. This payroll growth rate is based on a 3.5% per year inflation assumption.

Public Employees' Retirement Board
November 23, 2004
Page 2

The most recent actuarial valuation prepared as of June 30, 2004, is based on the following major elements:

- Current benefit provisions (as specified in the Public Employees' Retirement Act).
- Membership data as of June 30, 2004, obtained from electronic files provided by the Retirement System. Membership data contained on the electronic files is examined and tested for reasonableness, but is not audited by the actuary.
- Assets as of June 30, 2004, obtained from the System's unaudited financial statements.
- Trend schedules for financial and actuarial sections of the Comprehensive Annual Financial Report (CAFR) as of June 30, 2004, (based upon data from the System, accepted without verification or audit, and upon results of the annual actuarial valuation).
- Actuarial assumptions and methods adopted by the Public Employees' Retirement Board.

Each annual actuarial valuation involves a projection of the benefits expected to be paid in the future to all members of the Retirement System. The projection of expected future benefit payments is based on the benefit provisions in effect on the actuarial valuation date. (See the Plan Summary section of this Annual Financial Report for a summary of current benefit and contribution provisions.)

List of Trend Schedules

The following schedules, prepared by Segal, are included in the Financial Section of this report:

- Schedule of Funding Progress
- Unfunded Actuarial Accrued Liability and Funding Ratios
- Schedule of Employer Contributions

List of Supporting Schedules

The following schedules and summaries prepared by Segal are included within this Actuarial Section:

- Summary of Actuarial Assumptions and Methods
- Schedule 1 - Retirement System Membership
- Schedule 2 - Active Member Valuation Data
- Schedule 3 - Pay Status Participants Added to and Removed from the Rolls
- Schedule 4 - Solvency Test
- Schedule 5 - Analysis of Financial Experience
- Actuarial Valuation Statement (GASB Disclosure Basis)

Public Employees' Retirement Board
November 23, 2004
Page 3

The Board conducted an overall review of its funding policy since the last actuarial valuation, and decided to change the period used to amortize the unfunded actuarial accrued liability from a closed amortization period of 40 years as of July 1, 1984 (with 20 years remaining as of July 1, 2004) to a year-by-year closed amortization approach where each amortization period will be set at 30 years, effective July 1, 2004. The 40 year closed method presumed the entire unfunded actuarial accrued liability in existence on 2023 would be fully paid in 2024. The new method presumes each year's change in unfunded liability will be fully paid in 30 years from inception. This change was made in order to minimize contribution rate volatility from year to year.

The Public Employees' Retirement Act requires an adjustment in the statutory contribution rates on July 1st of each odd-numbered fiscal year, based on the actuarially determined rates indicated in the actuarial valuation report for the immediately preceding year. However, contribution rates are only adjusted if the difference between the existing and actuarially determined rate exceeds 0.50% of salary for the Employer-Pay rates or 0.25% of salary for the Employee/Employer rates. Contribution rates are rounded to the nearest 0.25% of covered payroll.

For both the Regular and Police/Fire employees, the calculated rates for 2004 decreased from the previous year. Three significant factors contributed to change in this year's calculated contribution rates. First, there was a loss on the actuarial value of assets due to the recognition of past investment losses. Second, as noted earlier, the amortization period for the unfunded actuarial accrued liability was changed as of July 1, 2004. Third, for Police/Fire employees, the normal cost rate has increased about 1% of payroll due to salary increases being higher than assumed and other demographic changes.

Since the actuarially determined rates from this July 1, 2004 valuation are not within the ranges previously noted, and this valuation year is an even-numbered year, an adjustment in the statutory contribution rates is required for fiscal years July 1, 2005, through June 30, 2007. A summary of this change is as follows:

	Regular Employees	Police/Fire Employees
Employer-Pay		
Statutory Rate for Fiscal Years July 1, 2003 through June 30, 2005	20.25%	28.50%
Actuarial Determined Contribution Rate per this Actuarial Valuation	19.70%	32.12%
Statutory Rate for Fiscal Years July 1, 2005 through June 30, 2007	19.75%	32.00%
Employee/Employer		
Statutory Rate for Fiscal Years July 1, 2003 through June 30, 2005	21.00%	29.50%
Actuarial Determined Contribution Rate per this Actuarial Valuation	20.61%	32.88%
Statutory Rate for Fiscal Years July 1, 2005 through June 30, 2007	21.00%	33.00%

Public Employees' Retirement Board
November 23, 2004
Page 4

A summary of the GASB disclosure rates are as follows:

	Regular Employees	Police/Fire Employees
Employer-Pay	20.46%	34.98%
Employee/Employer	21.37%	35.74%

The actuarial calculations prepared for disclosure requirements under GASB as well as for actual funding purposes were made by qualified actuaries in accordance with generally accepted actuarial principles and procedures, based on the current provisions of the Public Employees' Retirement Act and on the actuarial assumptions and methods adopted by the Public Employees' Retirement Board.

Sincerely,

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

The actuarial assumptions and methods used in the June 30, 2004 actuarial valuation were adopted by the Public Employees' Retirement Board and were based on the results of the experience review completed in 2003.

Economic Assumptions

The economic assumptions for the 2004 actuarial valuation.

Investment return* - 8.0% per year.

Salary increases* - The assumed salary increase rates are shown below:

Regular Employees	
Years of Service	**Rate**
1	9.50%
2	8.00%
3	7.50%
4	7.25%
5	7.00%
6	6.75%
7	6.50%
8	5.75%
9	5.50%
10	5.25%
11	5.00%
12	4.75%
13 or more	4.50%

Police/Fire Employees	
Years of Service	**Rate**
1	14.75%
2	10.75%
3	10.50%
4	10.25%
5	10.00%
6	8.50%
7	7.75%
8	7.25%
9	6.75%
10 or more	6.25%

Payroll growth* (Funding) - 6.5% per year for Regular employees and 8.0% per year for Police/Fire employees.

Payroll growth* (GASB disclosure) - 5.0% per year for both Regular employees and for Police/Fire employees.

Post-retirement - 2.0% per year compounded following the third anniversary of benefit commencement;
3.0% per year compounded following the sixth anniversary of benefit commencement;
3.5% per year compounded following the ninth anniversary of benefit commencement;
4.0% per year compounded following the twelfth anniversary of benefit commencement;
5.0% per year compounded following the fourteenth anniversary of benefit commencement.

* Includes inflation at 3.5% per year.

Non-Economic Assumptions

The assumed retirement rates, which project the percentage of eligible employees who will retire, are shown below:

Regular Employees				
Years of Service				
Age	**5 - 19**	**20 - 24**	**25 - 29**	**30 or more**
50 - 54	3%	3%	5%	30%
55 - 59	5%	10%	10%	30%
60 - 61	15%	20%	25%	30%
62 - 64	20%	20%	25%	30%
65 - 69	25%	25%	25%	30%
70 & older	100%	100%	100%	100%

Police/Fire Employees					
Years of Service					
Age	**5 - 9**	**10 - 19**	**20 - 24**	**25 - 29**	**30 or more**
45 - 49	--	--	--	15%	15%
50 - 54	5%	5%	15%	15%	35%
55 - 59	5%	15%	20%	25%	35%
60 - 64	5%	25%	25%	25%	35%
65 & older	100%	100%	100%	100%	100%

The assumed withdrawal rates are shown below:

Regular Employees	
Years of Service	**Rate**
0	18.50%
1	14.00%
2	10.25%
3	8.50%
4	6.50%
5	6.25%
6	5.25%
7	4.75%
8	4.25%
9	4.00%
10	3.50%
11 or more	3.00%

Police/Fire Employees	
Years of Service	**Rate**
0	14.00%
1	7.00%
2	6.00%
3	4.50%
4	4.00%
5	3.50%
6 or more	3.00%

Withdrawal rates end when retirement rates commence.

The assumed disability rates are shown below for selected ages:

Age	Regular Employees	Police/Fire Employees
22	0.03%	0.05%
27	0.03%	0.05%
32	0.05%	0.06%
37	0.07%	0.09%
42	0.14%	0.37%
47	0.25%	0.53%
52	0.40%	0.66%
57	0.55%	0.96%
62	0.40%	1.40%

No disability rates are assumed after age 65.

The mortality table used in the actuarial valuation to project mortality rates for all non-disabled Regular members is the 1994 Group Annuity Mortality Table set-forward one year. For all non-disabled Police/Fire members it is the 1983 Group Annuity Mortality Table. The schedules below show the assumed mortality rates and projected life expectancies for selected ages:

Regular Members				
	Mortality Rates		Expected Years of Life Remaining	
Age	Males	Females	Males	Females
40	0.12%	0.08%	39.2	43.6
50	0.29%	0.16%	29.8	34.0
60	0.90%	0.51%	21.0	24.7
70	2.60%	1.50%	13.7	16.6
80	6.86%	4.40%	7.9	9.8

Police/Fire Members				
	Mortality Rates		Expected Years of Life Remaining	
Age	Males	Females	Males	Females
40	0.12%	0.07%	38.0	44.0
50	0.39%	0.16%	28.7	34.4
60	0.92%	0.42%	20.1	25.2
70	2.75%	1.24%	12.7	16.6
80	7.41%	4.29%	7.1	9.7

The mortality table used in the actuarial valuation to project mortality rates for disabled members is the 1983 Railroad Retirement Board Disabled Life Mortality Table set-back six years. Any mortality that occurs in the first two years of employment is assumed to be non-duty related.

Asset Valuation Method

The actuarial value of assets is equal to the prior year's actuarial value of assets plus contributions, less benefit payments and expenses, an adjustment for net transfers, plus expected investment return, and 20% of each of the previous five years' gain/(loss) due to investment return greater/(less) than expected. The actuarial value of assets is further limited to not less than 80% or greater than 120% of the market value of assets.

Actuarial Funding Method

The actuarial cost or funding method used in the actuarial valuation is the Entry Age Normal Cost Method. Under this method, the total calculated employer contribution rate consists of the normal cost, the administrative expense allowance, plus the payment required to amortize the unfunded actuarial accrued liability over the established amortization period.

The normal cost rate is the level percentage-of-salary contribution required each year to accumulate over each covered employee's projected working lifetime the reserves needed to meet the cost of earned benefits. The normal cost is determined as if the current benefit accrual rate had always been in effect.

The total actuarial accrued liability under the Entry Age Normal Cost Method represents the amount that would have been accumulated as of the valuation date if contributions sufficient to meet the normal costs had been made each year in the past. The unfunded actuarial accrued liability is the amount obtained by subtracting valuation assets from the total actuarial accrued liability.

Amortization of the Unfunded Actuarial Accrued Liability

The unfunded actuarial accrued liability is amortized over a year-by-year closed amortization period where each amortization period will be set at 30 years.

Changes in Actuarial Assumptions and Methods Since the Previous Year

Effective July 1, 2004, the period used to amortize the unfunded actuarial accrued liability was changed from a closed amortization period of 40 years as of July 1, 1984 (with 20 years remaining as of July 1, 2004) to a year-by-year closed amortization approach where each amortization period will be set at 30 years. This change was made in order to minimize contribution rate volatility from year to year. No other changes were made to the actuarial methods or assumptions this year.

PUBLIC EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF NEVADA

SCHEDULE 1
RETIREMENT SYSTEM MEMBERSHIP
1999 to 2004

June 30	Active Members	Inactive Members	Retired and Disabled Members	Beneficiaries & Survivors	Total Membership
1999	77,252	5,212	18,038	2,984	103,486
2000	80,834	5,592	19,482	3,153	109,061
2001	82,890	6,276	20,827	3,250	113,243
2002	85,224	6,965	22,011	3,524	117,724
2003	87,327	7,687	23,371	3,669	122,054
2004	90,242	7,829	24,938	3,830	126,839

SCHEDULE 2
ACTIVE MEMBER VALUATION DATA
1999 to 2004

	Number of Active Members		Annual Payroll (millions)		Annual Average Salary		Percent Increase Average Salary	
June 30	Regular	Police/ Fire	Regular	Police/ Fire	Regular	Police/ Fire	Regular	Police/ Fire
1999	68,661	8,591	$2,293.1	$389.0	$33,397	$45,283	2.1%	0.7%
2000	71,793	9,041	2,526.0	441.7	35,185	48,857	5.4	7.9
2001	73,307	9,583	2,684.1	484.8	36,615	50,587	4.1	3.5
2002	75,518	9,706	2,877.7	539.9	38,106	55,628	4.1	10.0
2003	77,569	9,758	3,040.1	555.3	39,193	56,907	2.9	2.3
2004	79,848	10,394	3,199.5	613.3	40,069	59,008	2.2	3.7

PUBLIC EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF NEVADA

SCHEDULE 3

PAY STATUS PARTICIPANTS ADDED TO AND REMOVED FROM THE ROLLS

1999 to 2004

RETIREES AND BENEFICIARIES

		Added to Rolls		Removed from Rolls		Rolls at End of Year			
June 30	Beginning Balance	Number	Annual Allowances	Number	Annual Allowances	Number	Annual Allowances	% Increase in Annual Allowances	Average Annual Allowances
1999	$17,677	1,512	$33,750,839	(466)	($6,343,166)	18,723	$353,640,024	8.5%	$18,888
2000	18,723	2,068	48,738,624	(618)	(9,229,879)	20,173	410,076,744	16.0	20,328
2001	20,173	1,979	51,390,672	(663)	(10,102,608)	21,489	463,388,796	13.0	21,564
2002	21,489	2,017	52,934,066	(707)	(11,901,499)	22,799	515,044,612	11.2	22,591
2003	22,799	2,028	54,693,801	(702)	(12,333,157)	24,125	572,093,340	11.1	23,714
2004	24,125	2,283	62,097,018	(742)	(13,656,840)	25,666	636,595,582	11.3	24,803

DISABILITY RECIPIENTS

		Added to Rolls		Removed from Rolls		Rolls at End of Year			
June 30	Beginning Balance	Number	Annual Allowances	Number	Annual Allowances	Number	Annual Allowances	% Increase in Annual Allowances	Average Annual Allowances
1999	$1,037	158	$3,168,216	(66)	($796,614)	1,129	$16,081,476	36.6%	$14,244
2000	1,129	176	2,838,528	(56)	(756,235)	1,249	18,570,132	15.5	14,868
2001	1,249	168	2,842,560	(62)	(759,498)	1,355	21,105,480	13.7	15,576
2002	1,355	181	2,934,072	(84)	(1,322,553)	1,452	23,155,128	9.7	15,947
2003	1,452	183	3,052,989	(55)	(753,234)	1,580	26,061,629	12.6	16,495
2004	1,580	198	3,185,565	(85)	(1,378,530)	1,693	28,502,933	9.4	16,836

SURVIVOR ANNUITANTS

		Added to Rolls		Removed from Rolls		Rolls at End of Year			
June 30	Beginning Balance	Number	Annual Allowances	Number	Annual Allowances	Number	Annual Allowances	% Increase in Annual Allowances	Average Annual Allowances
1999	$1,122	102	$841,023	(54)	($276,374)	1,170	$9,898,200	7.6%	$8,460
2000	1,170	121	962,676	(78)	(459,838)	1,213	11,266,344	13.8	9,288
2001	1,213	115	1,253,040	(95)	(544,920)	1,233	12,295,476	9.1	9,972
2002	1,233	121	1,244,727	(70)	(720,090)	1,284	13,208,347	7.4	10,287
2003	1,284	121	1,406,944	(70)	(548,713)	1,335	14,487,802	9.7	10,852
2004	1,335	136	1,616,992	(62)	(469,614)	1,409	16,063,816	10.9	11,401

PUBLIC EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF NEVADA

SCHEDULE 4

SOLVENCY TEST
(millions)

1999 to 2004

	Actuarial Accrued Liabilities						
June 30	Active Member Contributions (1)	Retirees and Beneficiaries Inactive and Pay-Status Members* (2)	Active Members Employer Financed Portion (3)	Actuarial Value of Assets	Portion of Actuarial Accrued Liabilities Covered by Assets (1)	(2)	(3)
1999	$272.3	$5,338.0	$7,852.6	$11,104.5	100%	100%	70.0%
2000	295.6	6,064.9	8,591.3	12,662.1	100	100	73.3
2001	325.4	6,811.0	9,527.8	14,031.1	100	100	72.4
2002	352.1	7,559.7	10,348.1	15,052.3	100	100	69.0
2003	368.3	8,291.2	10,881.2	15,883.0	100	100	66.3
2004	403.4	9,312.1	11,669.9	16,830.3	100	100	61.0

* Includes liability for post-retirement benefit increases

PUBLIC EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF NEVADA

SCHEDULE 5
ANALYSIS OF FINANCIAL EXPERIENCE

Gains and Losses in Actuarial Accrued Liabilities During Year Ended June 30, 2004 Resulting from Differences Between Assumed Experience and Actual Experience (millions)

	Gain (or Loss) For Year	
Type of Activity	**Regular**	**Police/Fire**
Age and Service Retirements. If members retire at older ages or with lower final average pay than assumed, there is a gain. If younger ages or higher average pays, there is a loss.	($81.2)	($23.8)
Disability Retirements. If disability claims are less than assumed, there is a gain. If more claims, there is a loss.	8.2	1.2
Death-in-Service Benefits. If survivor claims are less than assumed, there is a gain. If more claims, there is a loss.	7.8	0.9
Withdrawal From Employment. If more liabilities are released by withdrawals than assumed, there is a gain. If smaller releases, there is a loss.	(32.7)	(18.9)
Pay Increases. If there are smaller pay increases than assumed, there is a gain. If greater increases, there is a loss.	1.6	27.8
Contribution Income. If more/(less) contributions are received than the calculated cost, there is a gain/(loss).	4.6	(25.1)
Purchase of Service. Unanticipated contributions due to service purchase.	32.8	10.6
Investment Income. If there is a greater investment income than assumed, there is a gain. If less income, there is a loss.	(459.8)	(100.8)
Death After Retirement. If retirees live longer than assumed, there is a loss. If not as long, there is a gain.	12.2	2.7
Inactive Vesteds. If inactive vesteds commence benefits sooner than projected, there is a loss. If later, there is a gain.	(15.9)	(2.4)
Inactive Showups. Persons in pay status who are added due to delayed reporting.	(1.9)	(0.5)
Other. Miscellaneous gains and losses result from data changes and adjustments, timing of financial transactions, and other miscellaneous impacts on the valuation results.	(45.4)	(2.4)
Total Experience Gain (or Loss) During Year.	**($569.7)**	**($130.7)**

ANALYSIS OF ACTUARIAL EXPERIENCE (continued)

Gains and Losses in Actuarial Accrued Liabilities During Year Ended June 30, 2004
Resulting from Differences Between Assumed Experience and Actual Experience
(millions)

	Gain (or Loss) For Year	
Type of Activity	**Regular**	**Police/Fire**
Active New Entrants/Rehires. Unanticipated cost due to new hires and rehires. Some new active members have past service credits reinstated, thereby increasing costs due to the unanticipated liabilities.	(83.9)	(19.8)
Net Gain (or Loss) During Year.	**($653.6)**	**($150.5)**
Actuarial Assumptions and Methods. The change in the period used to amortize the unfunded actuarial accrued liability does not impact the determination of the actuarial accrued liability.	0.0	0.0
Composite Gain (or Loss) During Year.	($653.6)	($150.5)

PUBLIC EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF NEVADA

June 30, 2004

Actuarial Valuation Statement
(GASB Disclosure Basis)

Normal Cost	Regular Employees	Police/Fire Employees	Total
Employer normal cost	$ 505,613,800	$ 162,812,700	$ 668,426,500
Employee contributions	57,889,100	10,283,000	68,172,100
Total Normal Cost	**$ 563,502,900**	**$ 173,095,700**	**$ 736,598,600**
Actuarial Accrued Liability			
Active members	$ 9,428,314,900	2,644,946,200	$12,073,261,100
Inactive members	314,799,900	22,587,000	337,386,900
Pensioners, beneficiaries and disabled	7,053,694,300	1,707,093,200	8,760,787,500
Survivors	180,199,300	33,746,500	213,945,800
Total Actuarial Accrued Liability	**$16,977,008,400**	**$4,408,372,900**	**$21,385,381,300**
Assets at Actuarial Value	**$13,670,515,500**	**$3,159,795,000**	**$16,830,310,500**
Total Unfunded Actuarial Accrued Liability	**$ 3,306,492,900**	**$1,248,577,900**	**$ 4,555,070,800**
Payment to amortize unfunded actuarial accrued liability over 30 years, based on level percentage of payroll amortization	**$ 160,994,800**	**$ 60,793,900**	**$ 221,788,700**
Employer-Pay Rate Payroll	$ 3,026,264,600	$ 602,841,100	$ 3,629,105,700
Employee/Employer Rate Payroll	516,507,700	67,123,000	583,630,700
Total Rate Payroll	**$ 3,542,772,300**	**$ 669,964,100**	**$ 4,212,736,400**

PUBLIC EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF NEVADA

June 30, 2004

Actuarial Valuation Statement (continued)
(GASB Disclosure Basis)

	Regular Employees	Police/Fire Employees
Calculated Contribution Rates (as percentage of rate payroll):		
Employer-Pay, statutory rate	**20.25%**	**28.50%**
Employer-Pay, total rate	**20.46%**	**34.98%**
Employer normal cost	15.77%	25.76%
Amortization percentage	4.54%	9.07%
Administrative expenses	0.15%	0.15%
Employee/Employer, statutory rate	**21.00%**	**29.50%**
Employee/Employer, total rate	**21.37%**	**35.74%**
Employee contribution rate	10.50%	14.75%
Employer normal cost	6.18%	11.77%
Amortization percentage	4.54%	9.07%
Administrative expenses	0.15%	0.15%

The actuarial calculations performed solely for GASB Disclosure were made by qualified actuaries in accordance with generally accepted actuarial principles and procedures, based on the current provisions of the Public Employees' Retirement Act and on the actuarial assumptions and methods recommended to the Public Employees' Retirement Board and as required under GASB. A comparison of the funding contribution rates and the GASB disclosure contribution rates can be found in the Certification Letter.

The Public Employees' Retirement System of Nevada is funded on an actuarial reserve basis. Participating employers are making contributions to the Retirement System based on the results of actuarial valuations and the statutory funding provisions of the Public Employees' Retirement Act.

STATISTICAL SECTION

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SCHEDULE 1

Additions by Source

June 30	Member Contributions	Employer Contributions	Employer Contributions as a Percentage of Annual Covered Payroll	Net Investment Income (Loss)	Other Income	Total
1999	$51,889,904	$557,544,587	20.8%	$1,171,826,290	$1,935,820	$1,783,196,601
2000	56,842,969	604,926,098	20.4	916,992,809	2,162,002	1,580,923,878
2001	60,032,958	656,051,791	20.7	(217,005,186)	1,911,127	500,990,690
2002	78,624,839	680,730,753	19.9	(367,856,335)	2,104,359	393,603,616
2003	84,838,127	724,030,565	20.1	672,834,767	2,075,376	1,483,778,835
2004	104,433,173	808,344,995	21.2	1,700,860,918	2,086,298	2,615,725,384

SCHEDULE 2

Deductions by Type

June 30	Benefit Payments	Refunds to Members	Administrative/Other Expenses	Total
1999	$374,252,647	$11,315,902	$4,250,065	$389,818,614
2000	421,171,517	16,362,173	7,065,980	444,599,670
2001	477,319,049	10,031,413	7,570,472	494,920,934
2002	533,012,667	15,826,195	8,697,923	557,536,785
2003	591,791,730	11,086,193	16,309,706	619,187,629
2004	657,622,497	12,116,351	9,794,537	679,533,385

SCHEDULE 3

Benefit Expenses by Type – Regular Members

June 30	Service & Survivor	Disability	Post-Retirement Increases	Total
1999	$296,653,150	$11,324,548	$63,680	$308,041,378
2000	333,992,290	13,154,759	63,666	347,210,715
2001	373,685,416	19,039,793	59,521	392,784,730
2002	415,508,147	22,621,743	53,701	438,183,591
2003	460,209,111	24,792,006	50,407	485,051,524
2004	509,475,297	27,796,346	46,289	537,317,932

SCHEDULE 4

Benefit Expenses by Type – Police/Fire Members

June 30	Service & Survivor	Disability	Post-Retirement Increases	Total
1999	$62,142,558	$4,058,152	$10,559	$66,211,269
2000	69,446,322	4,504,802	9,678	73,960,802
2001	78,881,589	5,643,052	9,678	84,534,319
2002	88,284,961	6,534,437	9,678	94,829,076
2003	99,672,890	7,057,638	9,678	106,740,206
2004	112,649,793	7,646,894	7,878	120,304,565

SCHEDULE 5

Benefit Recipients by Type of Benefit – Regular Members

June 30	Service	Beneficiary	Disability	Survivor	Total
1999	14,821	1,585	908	1,016	18,330
2000	15,984	1,681	1,013	1,062	19,740
2001	17,081	1,748	1,090	1,075	20,994
2002	18,014	1,907	1,177	1,123	22,221
2003	19,042	1,976	1,288	1,174	23,480
2004	20,314	2,042	1,393	1,238	24,987

Information provided by The Segal Company

SCHEDULE 6

Benefit Recipients by Type of Benefit – Police/Fire Members

June 30	Service	Beneficiary	Disability	Survivor	Total
1999	2,088	229	221	154	2,692
2000	2,249	259	236	151	2,895
2001	2,391	269	265	158	3,083
2002	2,545	333	275	161	3,314
2003	2,749	358	292	161	3,560
2004	2,931	379	300	171	3,781

Information provided by The Segal Company

SCHEDULE 7

Number of Active Members Per Retiree

	Number of Active Members		Number of Retired Members*		Active Members per Retiree	
June 30	Regular	Police/ Fire	Regular	Police/ Fire	Regular	Police/ Fire
1999	68,661	8,591	15,729	2,309	4.4	3.7
2000	71,793	9,041	16,997	2,485	4.2	3.6
2001	73,307	9,583	18,171	2,656	4.0	3.6
2002	75,518	9,706	19,191	2,820	3.9	3.4
2003	77,569	9,758	20,330	3,041	3.8	3.2
2004	79,848	10,394	21,707	3,231	3.7	3.2

* Excluding survivors and beneficiaries
Information provided by The Segal Company

SCHEDULE 8

Average Monthly Benefit – Regular Members*

June 30	Number of New Retirees**	Average Monthly Benefit**	Average Age at Retirement	Average Years' Service at Retirement
1999	1,404	$1,540	59	19.30
2000	1,791	1,626	59	19.27
2001	1,741	1,719	59	18.96
2002	1,582	1,799	58	19.40
2003	1,731	1,879	59	19.32
2004	1,981	1,961	59	18.73

* Excluding survivors and beneficiaries
** Information provided by The Segal Company

SCHEDULE 9

Average Monthly Benefit – Police/Fire Members*

June 30	Number of New Retirees**	Average Monthly Benefit**	Average Age at Retirement	Average Years' Service at Retirement
1999	188	$2,333	53	20.27
2000	234	2,445	54	21.44
2001	236	2,583	54	21.24
2002	220	2,664	53	21.64
2003	283	2,862	54	21.78
2004	262	3,014	54	21.65

* Excluding survivors and beneficiaries
** Information provided by The Segal Company

SCHEDULE 10

Average Monthly Compensation at Retirement

June 30	Regular	Police/Fire
1999	$3,743	$5,052
2000	4,023	5,341
2001	4,091	5,548
2002	4,143	5,637
2003	4,238	5,931
2004	4,356	6,189

SCHEDULE 11
Participating Employers
(Page 1 of 2)

State of Nevada and Related Agencies
Board of Examiners for Alcohol & Drug Abuse
Cosmetology Board
Department of Transportation
Legislative Counsel Bureau
Liquefied Petroleum Gas Board
Nevada Board of Physical Therapy Examiners
Nevada Board of Veterinary Medical Examiners
Nevada Rural Housing Authority
Public Employees' Retirement System
State Board of Accountancy
State Board of Architecture
State Board of Chiropractic Examiners
State Board of Dental Examiners
State Board of Examiners for Social Workers
State Board of Medical Examiners
State Board of Nursing
State Board of Optometry
State Board of Osteopathic Medicine
State Board of Pharmacy
State Personnel

Schools
Academy for Career Education
Andre Agassi College Prepatory Academy
Bailey Charter Elementary School
Carson City School District
Churchill County School District
Clark County School District
Clark County Team Charter
Coral Academy of Science Charter School
Douglas County School District
Elko County School District
Esmeralda County School District
Eureka County School District
Explore Knowledge Charter School
Gateways to Success Charter School
High Desert Montessori School
Humboldt County School District
ICDA Charter High School
Keystone Academy Charter School
Lander County School District
Lincoln County School District
Lyon County School District
Mariposa Academy of Language and Learning
Mineral County School District
Nye County School District
Odyssey Charter School
Pershing County School District
Rainshadow Community Charter School
Sierra Nevada Academy
Storey County School District
Washoe County School District
White Pine County School District

University of Nevada System
University of Nevada, Las Vegas
University of Nevada, Reno

Counties
Churchill County
Clark County
Douglas County
Elko County
Esmeralda County
Eureka County
Humboldt County
Lander County
Lincoln County
Lyon County
Mineral County
Nye County
Pershing County
Storey County
Washoe County
White Pine County

Cities
City of Boulder
City of Caliente
City of Carlin
City of Carson
City of Elko
City of Ely
City of Fallon
City of Fernley
City of Henderson
City of Las Vegas
City of Lovelock
City of Mesquite
City of North Las Vegas
City of Reno
City of Sparks
City of Wells
City of West Wendover
City of Winnemucca
City of Yerrington

SCHEDULE 11
Participating Employers
(Page 2 of 2)

Hospitals
Battle Mountain General Hospital
Grover C. Dils Medical Center
Humboldt General Hospital
Mount Grant General Hospital
Pershing General Hospital
University Medical Center of Southern Nevada
William Bee Ririe Hospital

Utility, Irrigation and Sanitation Districts
Alamo Sewer & Water
Beatty Water and Sanitation District
CC Communications
Clark County Water Reclamation District
Douglas County Sewer District
Lander County Sewer and Water
Lincoln County Power District
Lovelock Meadows Water District
McGill-Ruth Consolidated Sewer and Water
Minden-Gardnerville Sanitation District
Moapa Valley Water District
Overton Power District
Pershing County Water Conservation District
Truckee-Carson Irrigation District
Truckee Meadows Water Authority
Virgin Valley Water District
Washoe County Water District
Walker River Irrigation District

Special Districts and Agencies
Airport Authority of Washoe County
Austin Volunteer Fire Department
Battle Mountain Volunteer Fire Department
Canyon General Improvement District
Central Dispatch Administrative Authority
Churchill County Volunteer Fire Department
Churchill Mosquito Abatement District
City of Wells Volunteer Fire Department
Clark County Health Department
Clark County Housing Authority
Conservation District of Southern Nevada
East Fork Swimming Pool District
Elko County Agricultural Association
Elko Convention and Visitors Authority
Gardnerville Ranchos General Improvement District
Gerlach General Improvement District
Grass Valley Volunteer Fire Department
Henderson District Public Libraries
Indian Hills Improvement District
Kingsbury General Improvement District
Las Vegas Convention/Visitors Authority
Las Vegas Housing Authority
Las Vegas Metropolitan Police Department
Las Vegas/Clark County Library District
Lovelock Volunteer Fire Department
Mineral County Housing Authority
Nevada Association of Counties
Nevada Tahoe Conservation District
North Lake Tahoe Fire Protection District
North Las Vegas Housing Authority
Palomino Valley General Improvement District
Pershing Volunteer Fire Department
Regional Planning Agency of Washoe County
Regional Transportation Commission
Reno Housing Authority
Reno/Sparks Convention and Visitors Authority
Round Hill General Improvement District
Southern Nevada Workforce Investment Board
Stagecoach General Improvement District
Sun Valley General Improvement District
Tahoe-Douglas District
Tahoe-Douglas Fire Protection District
White Pine County Tourism and Recreation
Winnemucca Rural Volunteer Fire
Winnemucca Volunteer Fire Department

SCHEDULE 12

Active Members by Employer Type*

June 30, 1999	Regular	Police/ Fire	Total	% of Total
State of Nevada and Related Agencies	12,301	2,508	14,809	19%
University of Nevada System	3,013	39	3,052	4
Schools	31,338	114	31,452	41
Counties	8,600	1,665	10,265	13
Cities	5,310	2,071	7,381	10
Hospitals	4,121	0	4,121	5
Utility, Irrigation, and Sanitation Districts	537	0	537	1
Special Districts and Agencies	3,441	2,194	5,635	7
Totals	68,661	8,591	77,252	100%

June 30, 2004	Regular	Police/ Fire	Total	% of Total
State of Nevada and Related Agencies	12,986	2,734	15,720	17%
University of Nevada System	3,669	59	3,728	4
Schools	38,870	158	39,028	43
Counties	9,735	1,819	11,554	13
Cities	6,184	2,838	9,022	10
Hospitals	3,771	0	3,771	4
Utility, Irrigation, and Sanitation Districts	651	0	651	1
Special Districts and Agencies	3,982	2,786	6,768	8
Totals	79,848	10,394	90,242	100%

SCHEDULE 13

Average Age and Service Statistics for Members*

	1999	2004
Regular members:		
Average age	43.9	45.1
Average years of service	8.3	8.7
Police/Fire members:		
Average age	39.3	39.7
Average years of service	9.6	9.9

SCHEDULE 14

Average Salaries for Members*

	Regular	Increase	Police/Fire	Increase
June 30, 1999	$33,397	2.1%	$45,283	.7%
2000	35,185	5.4	48,857	7.9
2001	36,615	4.1	50,587	3.5
2002	38,106	4.1	55,628	10.0
2003	39,193	2.9	56,907	2.3
2004	40,069	2.2	59,008	3.7
Annual increase 1999 – 2004		3.7%		5.4%
Fiscal Year 2004 Consumer Price Index (CPI)		2.99%		

* Information provided by The Segal Company

PUBLIC
EMPLOYEES'
RETIREMENT
SYSTEM OF
NEVADA

PLAN SUMMARY

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Administration

The Public Employees' Retirement System provides retirement, disability, and death benefits to long-term public employees. The System includes the employees of Nevada counties, cities, schools, state government, and miscellaneous public employers.

The governing authority of the System is a 7-member board appointed by the Governor. Day-to-day operations are managed by the Executive Officer. Operating funds are provided by transfer of an administrative fee assigned to each member and benefit recipient. Monthly fees at June 30, 2004, were $3.77 for Regular members and benefit recipients and $3.95 for Police/Fire members and benefit recipients.

Membership

An employee of a participating public employer is required to be a member of the System from the first day of service if he or she is employed in a position which is normally considered to be half-time or more according to the full-time work schedule established by the public employer. Persons employed in an approved police or fire position are covered under the Police/Fire sub-fund. Persons who are not police or fire employees are covered under the Regular sub-fund. Membership is canceled upon refund, retirement, or death. Membership is not canceled automatically upon termination of employment. A member must apply for a refund, distribution, or retirement to cancel membership.

Types of Contribution Plans

All pay earned, with the exception of overtime, terminal leave, and earnings from secondary employment, is subject to retirement contribution. New hires (in agencies which did not elect the Employer-Pay Contribution plan (EPC) prior to July 1, 1983) have the option of selecting the Employer-Pay Contribution plan or the Employee/Employer Contribution plan. Each plan is described below.

<u>Employer-Pay Contribution Plan (EPC)</u>

Under EPC, contributions are paid on the employee's behalf by their public employer. EPC contributions are not deposited to the individual member's account and are not available for refund upon termination of employment. The EPC contribution rates, through June 30, 2004, were 20.25% for Regular members and 28.5% for Police/Fire members.

<u>Employee/Employer Contribution Plan</u>

Under this plan, through June 30, 2004, the Regular member and the employer each contributed 10.5% of compensation to the System. Police/Fire members and their employers each contributed 14.75% of compensation. Employee contributions made under this plan are refundable upon termination of employment. Employer contributions are not refundable.

Public employees, other than school employees, earn service credit for years, months, and days actually worked. School employees, who are not regular 12-month employees, receive service credit on the basis of a full year if they work full-time for the entire school year. For these same school employees, service for a part of the school year is credited on a ratio of one and one-third days for each day worked.

PLAN SUMMARY

Service

Purchase of Service

Members with five years of creditable service may purchase up to five years of service credit. The member must pay the full actuarial cost associated with age and average compensation at the time of purchase.

Refund of Contributions

Members who have contributed under the Employee/Employer Contribution plan may withdraw employee contributions if terminating all employment for which contribution is required or if employed in a position ineligible for membership for at least 90 days. A refund cancels all rights of membership.

Repayment of Refunded Contributions

Members who receive a refund of employee contributions and later return to work and re-establish active membership for a period of at least six months may repay the refunded contributions and restore service credit. Repayment, including interest at the actuarially determined rate, may be in the form of a lump-sum payment or by monthly installments. Service will not be restored until the installment agreement is paid in full.

Benefits

Service Retirement Vesting

Contributing members of the System earn the right to receive a retirement benefit after five years of service.

Service Retirement

Requirements for Regular members **-** age 65 with five years of service, **or** age 60 with ten years of service, **or** any age with 30 years of service.

Requirements for Police/Fire members **-** age 65 with five years of service, **or** age 55 with ten years of Police/Fire service, **or** age 50 with 20 years of Police/Fire service, **or** at any age with 25 years of Police/Fire service.

Requirements for an Unreduced Benefit

Members with at least five years of service are eligible to receive an unreduced retirement benefit at age 65 or older. Regular members with ten or more years of service credit can receive an unreduced benefit at age 60 or older. Police/Fire members with ten or more years of Police/Fire service credit can receive an unreduced benefit at age 55 or older. Police/Fire members with 20 or more years of Police/Fire service credit can retire at age 50 or older and receive an unreduced benefit. Regular members with 30 or more years of service can retire at any age without penalty. Police/Fire members with 25 or more years of Police/Fire service can retire at any age without penalty.

Early Retirement Penalty

Members with the years of service necessary to receive a retirement benefit but who have not reached the age for an unreduced benefit may retire at any age with the benefit reduced by 4% for each full year that they retire early.

Important Factors for Determining Retirement Benefits

Benefit amounts are based on three factors:

1. Average compensation – defined as the average of 36 highest consecutive months of compensation.
2. Service credit – years, months, and days worked.
3. Selection of retirement plan – prospective retirees may elect one of seven retirement options.

Option 1 – (the unmodified plan) for Regular members – Pays the full monthly benefit earned but provides no income protection for beneficiary after death.

Option 1 – (the unmodified plan) for Police/Fire members – Pays the full monthly benefit earned for the retiree's lifetime. If the retired employee was married to the same spouse at the time of retirement and at the time of death, the spouse is eligible to receive a benefit equal to 50% of the retired employee's benefit earned in Police/Fire service upon attainment of age 50.

Option 2 – Provides an actuarially reduced lifetime benefit. After death, the same benefit continues for the lifetime of beneficiary.

Option 3 – Provides an actuarially reduced lifetime benefit. After death, 50% of the benefit continues for the lifetime of the beneficiary.

Option 4 – Provides an actuarially reduced lifetime benefit. After retiree's death and upon beneficiary reaching age 60, the same benefit continues for the lifetime of the beneficiary.

Option 5 – Provides an actuarially reduced lifetime benefit to retiree. After retiree's death and upon beneficiary reaching age 60, 50% of the benefit continues for the lifetime of the beneficiary.

Option 6 – Provides an actuarially reduced lifetime benefit to retiree. Upon death of the retiree, this option provides to the beneficiary a specific sum per month, which cannot exceed the monthly benefit paid to retiree.

Option 7 – Provides an actuarially reduced lifetime benefit to retiree. The option provides to the beneficiary, upon retiree's death and the beneficiary reaching age 60, a specific sum per month, which cannot exceed the monthly benefit paid to retiree.

Post-Retirement Benefit Increases

Retirees are eligible for annual benefit increases if they began receiving benefits at least three years before the effective date of the increase. Benefits are increased annually on the first day of the month following the anniversary of the commencement of benefits. See the Actuarial Section, page 71, for a schedule of post-retirement increases.

PLAN SUMMARY

Benefit Formula

The formula used for calculating retirement benefits is as follows:

- Total Service Credit Earned before July 1, 2001 X 2.5% = Service Time Factor
- Total Service Credit Earned on and after July 1, 2001 X 2.67% = Service Time Factor
- Total Service Time Factors X Average Monthly Compensation (36 Highest Consecutive Months of Salary) = Unmodified benefit (Option 1).

Maximum benefits are 90% of average compensation for individuals who became members before July 1, 1985, and 75% of average compensation for individuals who became members after June 30, 1985.

Actuarial reductions are based on the member's age and the beneficiary's age at the time of retirement, determined from tables supplied by the System's actuary.

Disability Retirement

Members with five or more years of service who become totally unable to perform their current or any comparable job because of an injury or mental or physical illness of a permanent nature, are eligible to apply for disability retirement. The application must be filed with the System prior to termination of employment. Disability retirement benefits are calculated in the same manner as service retirement without reduction for age.

Survivor Benefits

Eligibility

Eligible survivors of a member who dies prior to retirement are entitled to a benefit if:

1. The member had two years of service in the two and one half years immediately preceding death; or
2. The member had more than ten years of accredited service; or
3. The member's death was caused by an occupational disease or an accident arising out of or in the course of employment, regardless of service credit.

Eligible survivors:

1. Spouse.
2. Each unmarried dependent child under age 18, or up to age 23 if a full-time student.
3. Dependent parents, provided there are no other eligible survivors at the time of member's death.

Amount of Survivor Benefits

Generally, if a member dies with less than ten years of service, the spouse would receive $450 per month and each dependent child $400 per month. The spouse would receive survivor benefits for his or her lifetime. Each unmarried dependent child would receive monthly benefits until age 18, or age 23 if he or she is a full-time student.

If a member dies with more than ten years service credit, the spouse is entitled to a lifetime benefit. The amount of the benefit is based on the member's age, years of service, and average compensation at the time of death. A child would receive the same benefits as previously described.

A member is able to designate one survivor beneficiary to receive benefits (as described above) to be paid if the member was unmarried at the time of death. Beginning January 1, 2004, a member may designate additional payees to receive direct payment of a portion of the survivor beneficiary benefit.