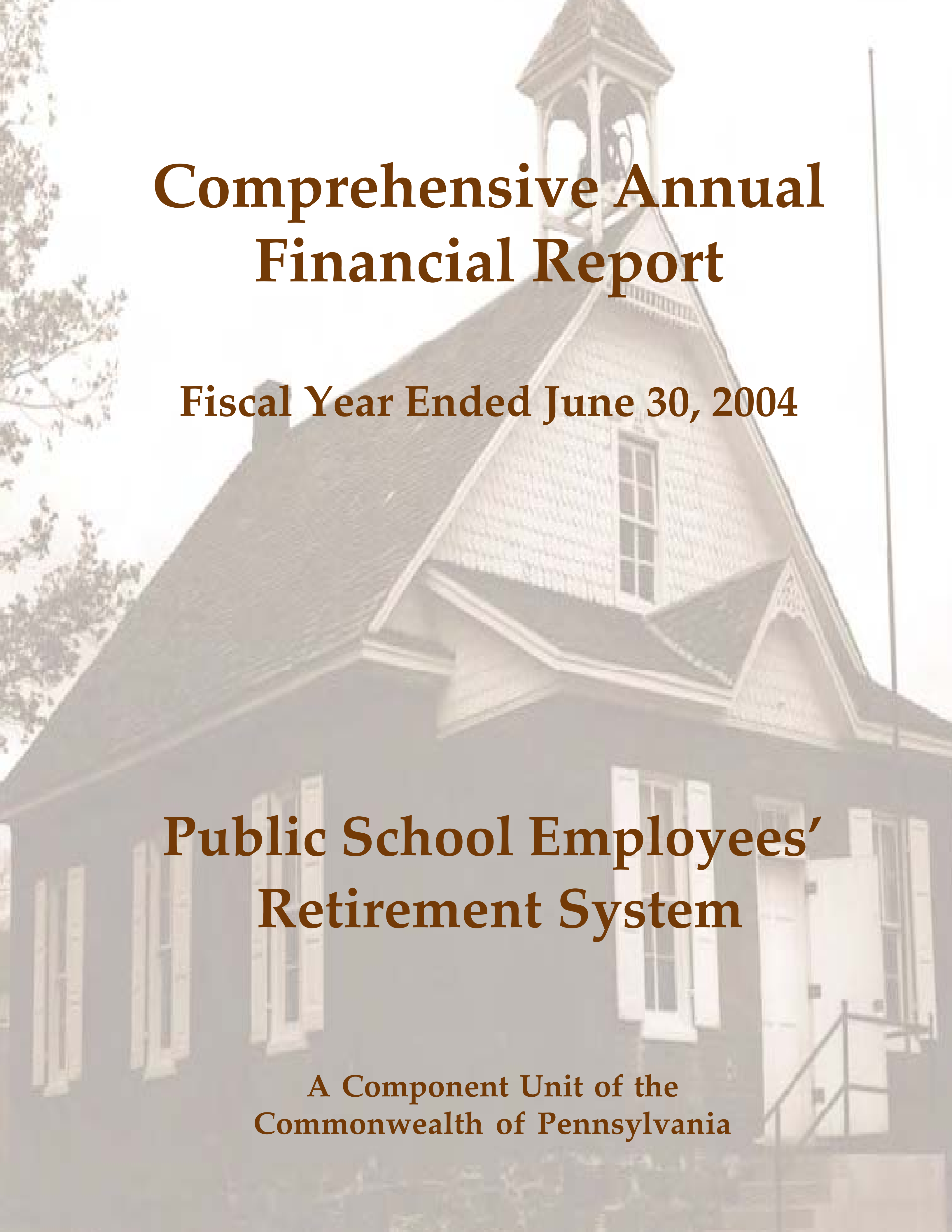

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2004

Public School Employees' Retirement System

A Component Unit of the
Commonwealth of Pennsylvania

Public School Employees' Retirement System
(A Component Unit of the Commonwealth of Pennsylvania)

PO Box 125
Harrisburg, Pennsylvania 17108-0125

Telephone:
Toll-Free - 1-888-773-7748
(1-888-PSERS4U)
Local - 717-787-8540

Comprehensive Annual Financial Report
for the
Fiscal Year Ended June 30, 2004

Report prepared by the Public School Employees' Retirement System staff

Photo on cover:
Fissels School, York County

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

Public School Employees' Retirement System, Pennsylvania

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

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

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

President

Executive Director

Public Pension Coordinating Council

Public Pension Standards

2004 Award

Presented to

Pennsylvania Public School Employees

In recognition of meeting professional standards for
plan design and administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

Alan H. Winkle

Alan H. Winkle
Program Administrator

Chairman's Report

COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
Telephone (717) 720-4749
Honorable Barbara Hafer, Chairman of the Board

December 1, 2004

The Honorable Edward G. Rendell
Governor of Pennsylvania

Members of the Legislature
Members of the Retirement System

Dear Governor Rendell, Legislators, and Members:

On behalf of the Board of Trustees of the Pennsylvania Public School Employees' Retirement System (the System, PSERS), I am pleased to present this eighty-fifth *Comprehensive Annual Financial Report* for the fiscal year ended June 30, 2004. The report provides an in-depth review of the financial, actuarial, and investment status of the Retirement Fund and the PSERS' postemployment healthcare programs.

As the System's report details, as of June 30:

1. The funded status of the pension plan as reported in the System's June 30, 2003 Actuarial Valuation was 97.2%.
2. The net assets held in trust for pension benefits were $48.3 billion at fair value.
3. Net assets held in trust for postemployment healthcare benefits were $197.5 million at fair value.
4. The active contributing membership of the System numbered approximately 249,000.
5. The number of annuitants totaled over 150,000 and received in excess of $3.0 billion in pension and postemployment healthcare benefits during the fiscal year.

The Board of Trustees is committed to prudent management of the System's assets for the benefit of the membership. At the same time, we are aware of our responsibilities to the Commonwealth, its taxpayers, and the System's employers.

The Board of Trustees appreciates the cooperation extended to it by the Governor's Office and the Legislature which enables and empowers us to meet the challenges which face us currently and make timely provisions for the challenges ahead.

The Board of Trustees pledges to continue to administer the affairs of the Pennsylvania Public School Employees' Retirement System in the most competent and efficient manner possible.

Barbara Hafer

Barbara Hafer
Chairman
Board of Trustees

Public School Employees' Retirement System

New Enterprise Public School, Bedford County

Introductory Section

Mission Statement

The Board of Trustees and the employees of the Public School Employees' Retirement System serve the members and stakeholders of the System by:

- *Prudently investing the contributions of the Fund*
- *Maintaining a fully-funded, financially sound Fund*
- *Providing timely and accurate payment of benefits*
- *Clearly communicating members' and employers' rights and responsibilities, and*
- *Effectively managing the resources of the System*

adopted 5/25/2000

Letter of Transmittal

COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Mailing Address
PO Box 125
Harrisburg PA 17108-0125

Toll-Free - 1-888-773-7748
(1-888-PSERS4U)
Local - (717) 787-8540

Building Location
5 North 5th Street
Harrisburg PA 17101

December 1, 2004

The Board of Trustees
Pennsylvania Public School Employees' Retirement System
Harrisburg, PA 17101

We are pleased to present the eighty-fifth edition of the *Comprehensive Annual Financial Report* for the Pennsylvania Public School Employees' Retirement System (the System, PSERS) for the year ended June 30, 2004. The management of the System is solely responsible for the accuracy and completion of this report, pursuant to section 24 Pa.C.S. §8502(n) of the Public School Employees' Retirement Code (Retirement Code).

The System was established on July 18, 1917 to provide retirement benefits to public school employees of the Commonwealth of Pennsylvania. The System has experienced various benefit modifications throughout its existence.

The members eligible to participate in the System include all full-time public school employees and part-time public school employees who render at least 80 days or 500 hours of service yearly in any of 733 reporting entities in Pennsylvania. As of June 30, 2004, the System had approximately 249,000 active members with an annual active payroll of $10.6 billion.

The annuitant membership at June 30, 2004 was comprised of over 150,000 retirees and beneficiaries who receive nearly $191 million each month. The average yearly benefit paid to annuitants is $18,392. The average benefits for each option type are detailed in the **Statistical Section** of this report.

The System is a governmental cost-sharing multi-employer defined benefit pension plan, to which 733 reporting units contribute. PSERS is administered by a staff of 290. The System is headquartered in Harrisburg, Pennsylvania, and maintains eight field offices in strategic areas of the state to enable direct contact with the membership and the System's employers.

This report has been prepared in accordance with the principles of governmental accounting and reporting as promulgated by the Governmental Accounting Standards Board (GASB). The report consists of five sections: the **Introductory Section** containing the Chairman's Report, the Transmittal Letter, and the Administrative Organizational Structure; the **Financial Section** containing the opinion of the independent certified public accounting firm, the financial statements of the System, and Management's Discussion and Analysis of the financial statements (MD&A); the **Investment Section** containing an overview of the System's investment activities; the **Actuarial Section** containing the opinion of the independent actuarial firm and the results of its latest actuarial valuation; and the **Statistical Section** containing significant data pertaining to the System.

PSERS was established by law as an independent administrative board, directed by a governing board of trustees (Board) which exercises control and management of the System, including the investment of its assets. PSERS is considered a component unit of the Commonwealth of Pennsylvania as defined by the GASB. An annual audit of the System by a certified public accounting firm is required by the Retirement Code. PSERS has contracted with Clifton Gunderson LLP for this audit of its financial statements and has received an unqualified opinion as evidenced in the **Independent Auditors' Report** in the **Financial Section** of this report.

Economic Summary

Investment market conditions showed improvement during the fiscal year ended June 30, 2004 (FY 2004) enabling PSERS' investment portfolio to generate a rate of return of 19.67%. The total net assets of the System increased from $42.5 billion to $48.5 billion from July 1, 2003 to June 30, 2004. The increase is primarily attributable to net investment income and member and employer contributions that exceeded the payment of pension benefits and administrative expenses.

The Board has continued to fulfill its mission to maintain stability and the long-term optimum value of the Fund. This is evidenced in the long-term growth of the System's assets and the strength of the System with respect to its funding status. Of utmost importance to the Board is the assurance that required reserves are available for payment of current and prospective retirement benefits. PSERS maintains its position among the top twenty-five largest public pension systems in the nation.

Major Initiatives

New Pension Administration System (NPAS)

PSERS' project to develop and implement a new pension administration system, which began at the end of fiscal year ended June 30, 2002 (FY 2002), progressed on time and within budget during FY 2004. The first part of FY 2004 was spent finalizing the design of the second release of NPAS. The second part of FY 2004 was devoted to developing the first release (Release 1) of NPAS and preparing for its July 2004 implementation. Release 1 of NPAS includes, among other things, significant changes to the way PSERS' 733 employers report member salary, service, contribution, position, leave, and demographic information to the System.

Some of the major activities completed in FY 2004, in preparation for implementing Release 1 of NPAS:

- Prepared and delivered training to the staff of PSERS' employers
- Developed and distributed an expanded PSERS' Employer's Reference Manual
- Created and implemented the Employer Service Center, a new organizational entity whose purpose is to communicate and provide support to the employers
- Developed detailed procedures for moving to in-the-door scanning for Release 1 documents
- Prepared and delivered training to PSERS' employees
- Reviewed and executed detailed test scenarios for the NPAS' core system
- Tested data files submitted from employers
- Developed and tested computer queries and computer programs to cleanse millions of existing records in the legacy system and to convert the data for recognition in the new system
- Analyzed over 600 legacy programs for purposes of changing or de-implementing them to accommodate functions to be handled in the new system
- Developed and tested programs to handle the on-going bridging of information between the legacy system and the new system
- Developed and tested interfaces between NPAS and PSERS' existing imaging and output processing systems
- Deployed three complex technical environments composed of more than 30 computer servers

FY 2004 ended with PSERS finalizing the detailed schedule of activities for the Release 1 implementation period that took place July 1 through July 6, 2004.

Integrated Enterprise System (formerly Imagine PA Project)

Integrated Enterprise System is the Commonwealth's multi-year project to modernize, streamline and standardize key business processes in accounting, budgeting, payroll, human resources and procurement. The aim of the project is to improve public services delivery by redesigning administrative functions and incorporating state-of-the art technology.

The Integrated Enterprise System functions are being implemented to affected State agencies over a phased multi-year step plan. During the fiscal year ending June 30, 2004, the System began using Imagine PA employee self-service processes related to employee human resource areas such as employee personal information, leave management, work scheduling, payroll and benefits administration.

Independent Accounting Book of Record Project

The System continued its multi-year project to implement an independent accounting book of record for the System's investment transactions and holdings. In FY 2004, the domestic and international equity portfolios were converted to the System's internal investment accounting software provided by Financial Control Systems, Inc. In FY 2005, the domestic and international fixed income portfolios will be converted to the internal accounting software.

PSERS Health Options Program (HOP) — Health Insurance Rates

Since its inception, and until Plan Year 2002 (PY 2002), the HOP (a voluntary participant-funded health plan) provided a choice of comprehensive plans with unlimited prescription drug coverage. While medical care costs increased faster than other components of the consumer price index, increases in prescription drug costs rose even faster. Therefore, as premium costs increased for the HOP participants, younger retirees who did not need unlimited drug coverage opted for less costly (lower benefit) alternatives. This added fuel to premium cost increases as the average age of HOP participants increased.

Beginning with PY 2002, the Board revamped the HOP with the goal of stabilizing premiums and offering plans that are competitive with the Medigap plans sold to individuals. Among the reforms that have been instituted:

- Regional Rates – Prior to PY 2002, all participants paid the same rates regardless of regional differences in health care costs. Statewide premiums were not competitive with plans sold to individuals outside the major metropolitan areas of Philadelphia and Pittsburgh. Effective January 1, 2002, the Board adopted regional rating for the High and Standard Options to reflect the cost of health care.
- Caps on Prescription Coverage – Prescription costs were the major driver of rapidly escalating premium costs. The plans offered through HOP had no limits on prescription coverage. Competing Medigap plans had no prescription drug coverage or limited coverage with annual maximums. Younger retirees with little or no need for comprehensive prescription drug coverage opted for the lower cost Medigap plans. Effective January 1, 2002 the Board removed prescription drug coverage from the Standard Option and capped non-critical, brand named drugs in the High Option. In conjunction with the reduced prescription drug benefits, premium costs were dramatically reduced.

- Age-related premiums – When prescription drug benefits were removed from the Standard Option, the Board adopted age-related premiums for the High Option to protect against participants selecting prescription drug coverage only when their health deteriorates and they are incurring high prescription drug costs. Age-related rates are also used by Medigap plans.
- Self-insurance – Before PY 2002, HOP was fully insured with Blue Cross and Blue Shield. A study conducted by an independent actuarial consulting firm determined that administrative and other non-benefit expenses would be significantly reduced by self-funding benefits and purchasing excess risk insurance. Over several years, portions of the benefits provided by the High and Standard Options were self-funded. As of January 1, 2004, all the benefits provided by the High and Standard Options are self-funded with excess risk insurance protecting the plan from catastrophic losses.

As a result of these initiatives, PSERS was able to reduce the premium cost of the High and Standard Options for the PY 2002. The premiums of these options increased less than 3% per year for Plan Years 2003 and 2004 (in most regions). For the Plan Year 2005, the rates for all retirees living in Pennsylvania, age 65 and over will remain the same or decline.

Financial Highlights

The System maintains a full accrual accounting system. More specific accounting information is detailed in the **Summary of Significant Accounting Policies (Note 2)** in the notes to the financial statements found in the **Financial Section** of this report.

The System has established policies and procedures for the review and verification of all payments made by PSERS.

The fair value of the System's net assets totaled $48.5 billion as of June 30, 2004. The System is the 14th largest public pension fund in the nation and the 21st largest among public and corporate pension funds in the nation. More specific information on the System's assets is detailed in the Statements of Plan Net Assets and Management's Discussion and Analysis included in the **Financial Section** of this report.

The System's administrative budget request is appropriated by the Pennsylvania General Assembly and funded by the investment income of the System. For FY2004, the appropriation was $42.9 million.

Funding

Funding is the process of specifically setting aside money for current and future use. Proper funding entails an actuarial examination of the fund balances to ensure money will be available for future and current benefit payments.

The results of the latest published actuarial valuation (as of June 30, 2003) indicated that the rates of contribution payable by the members and employers, when taken together with the current assets of the System, are adequate to fund the actuarial liabilities on account of all benefits payable under the System at that date. The actuarial valuation measures the progress toward funding pension obligations of the System by comparing the actuarial assets to the actuarial liabilities of the System. The funded status as of the latest actuarial valuation was 97.2%. Additional comparative information on the funded status of PSERS can be found in the **Actuarial Section** and MD&A in the **Financial Section** of this report.

Investments

Income from the investment portfolio represents the major source of revenue to the System, accounting for over 75% of total revenues over the period from FY 1995 to FY 2004. During FY 2004 net investment income was $8.2 billion. The investment portfolio totaled $49.0 billion, at fair value, as of June 30, 2004. For FY 2004, the time-weighted rate of return on the System's investments was 19.67%.

The investment portfolio is of high quality and well-diversified to emphasize a long-term investment approach. The overall investment objectives of the System are to: (i) preserve capital in real terms; (ii) maximize total returns while limiting the risk of volatility through diversification; (iii) achieve returns in excess of the policy benchmark (the policy benchmark is a custom index based on the Board-established asset allocation structure to generate a return that meets the actuarial rate of return assumption); (iv) to achieve a real rate of return over CPI over time; and (v) provide sufficient liquidity to meet the current operating needs of the System.

Additional information on the System's investments is contained in the **Investment Section** of this report.

Federal and State Tax Status

The System is a qualified trust fund under Section 401(a) of the Internal Revenue Code (IRC). As a result of the qualified status, the trust fund is entitled to an exemption, under Section 501(a) of the IRC, from federal income taxation on its investment earnings. Additionally, contributions made on behalf of the active members are tax deferred under Section 414(h) of the IRC. The trust fund and any benefits accruing to the members of PSERS are exempt from Pennsylvania state and municipal taxes.

Professional Services

Professional consultants are appointed by the Board of Trustees to perform services essential to the efficient operation of the System. An annual audit by an independent certified public accounting firm and annual valuation by an actuarial consultant attest to the financial and actuarial soundness of PSERS. The investment performance of the System is reviewed by an investment evaluation firm on a quarterly basis. The consultants providing services to the System are listed in the **Financial Section** and **Investment Section** of this report.

Other Information

In compliance with the Retirement Code, actuarial tables and the computational procedures used by the System in calculating annuities and other benefits were published in the *Pennsylvania Bulletin* (Vol. 31, No.14).

System Awards

Government Finance Officers Association of the United States and Canada
Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a *Certificate of Achievement for Excellence in Financial Reporting* to PSERS for its *Comprehensive Annual Financial Report* for FY 2003. The *Certificate of Achievement* is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. To be awarded a *Certificate of Achievement*, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such a comprehensive annual financial 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. PSERS has received a *Certificate of Achievement* for 21 consecutive years for FY 1983 to FY 2003. The System believes the current report continues to conform to the *Certificate of Achievement* program requirements and will be submitting this report to GFOA to determine eligibility for the 2004 certificate.

A reproduction of this award appears in this **Introductory Section** of this report. Its attainment represents a significant accomplishment by the System, whose Office of Financial Management holds general responsibility for the compilation and validity of the financial data presented in the *Comprehensive Annual Financial Report*.

Public Pension Coordinating Council – Public Pension Standards Award

The Public Pension Coordinating Council has awarded its Public Pension Standards Award to PSERS for 2004. This award is in recognition of meeting professional standards for plan design and administration as set forth in the Public Pension Standards.

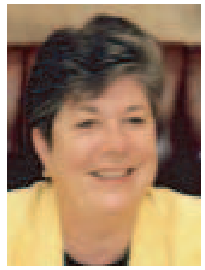
The Public Pension Coordinating Council was formed in 1990 to assist the public employee retirement community. The Council is composed of representatives from three national associations whose members are directly involved in the administration of public employee retirement systems: the National Association of State Retirement Administrators (NASRA); the National Conference on Public Employee Retirement Systems (NCPERS); and the National Council on Teacher Retirement (NCTR).

A reproduction of this award appears in the **Introductory Section.**

Respectfully submitted,

Jeffrey B. Clay	Arthur J. Granito
Executive Director	Chief Financial Officer

Administrative Organization
PSERS Board of Trustees



Treasurer of the
Commonwealth of Pennsylvania
Honorable Barbara Hafer
(ex officio)

Secretary of
Educaton
Honorable
Francis V. Barnes
(ex officio)

Executive Director
Pennsylvania School
Boards Association
Thomas J. Gentzel
(ex officio)

Two members appointed by the Governor
Arthur J. Rooney, II **Tina S. Byles Poitevien**

One member elected
by retired members
Sally J. Turley

Three members elected by active certified contributors
Gerald A. Katona **Roger H. May** **Melva S. Vogler**

One member elected by
active noncertified
contributors
Susan L. Clapper

Two members appointed by the Speaker of
the Pennsylvania House of Representatives
Honorable Dwight Evans **Honorable Steven R. Nickol**

One member elected
by members of
Pennsylvania Public
School Boards
Richard N. Rose

Two members appointed by the President *Pro Tempore* of the Pennsylvania Senate
Honorable Vincent J. Fumo **Honorable Roger A. Madigan**

PSERS Board of Trustees

as of December, 2004

2004 Board Committees

as of December 2004

Appeals / Member Services

Ms. Clapper, Chair
Mr. Gentzel
Ms. Hafer
Mr. Katona
Mr. May
Mr. Rose
Mrs. Turley
Rep. Nickol

Health Care

Mr. May, Chair
Ms. Clapper
Rep. Evans
Mr. Gentzel
Mr. Katona
Rep. Nickol
Mrs. Turley

Finance

Ms. Vogler, Chair

Committee is comprised of all Board members.

Elections

Rep. Evans, Chair
Ms. Clapper
Dr. Barnes

Audit / Budget

Mr. Rose, Chair
Rep. Evans
Mr. Gentzel
Sen. Fumo
Sen. Madigan
Ms. Vogler

Personnel

Mr. Gentzel, Chair
Ms. Clapper
Rep. Evans
Ms. Hafer
Sen. Madigan
Ms. Poitevien

Bylaws / Policy

Rep. Nickol, Chair
Rep. Evans
Mr. Katona
Sen. Madigan
Ms. Poitevien
Mrs. Turley
Ms. Vogler

Technology Steering

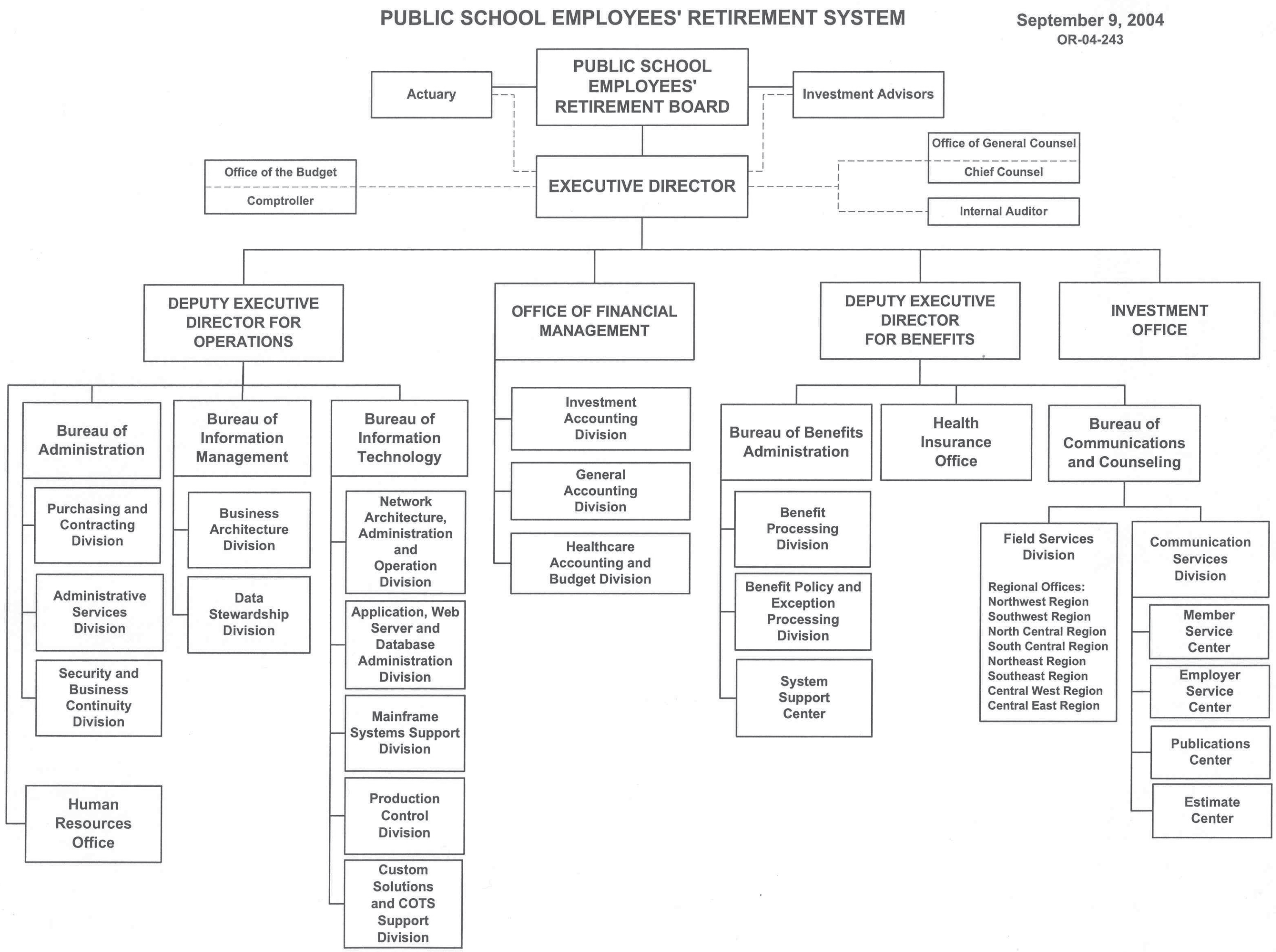
Sen. Fumo, Chair
Mr. Katona
Mr. May
Mr. Rose
Ms. Vogler

Corporate Governance

Mr. Katona, Chair
Rep. Evans
Mr. May
Ms. Poitevien
Mr. Rose
Ms. Vogler

NOTE: The chair of the Board of Trustees is a voting *ex-officio* member of all committees.

Organizational Chart of the Public School Employees' Retirement System



Organizational Structure of the Public School Employees' Retirement System

Executive Office

The Executive Office is responsible for the overall management of the Public School Employees' Retirement System (PSERS) to achieve the primary objectives of the Fund as established by the Board of Trustees (Board). Reporting directly to the Executive Director are the Deputy Executive Director for Operations, Deputy Executive Director for Benefits, Chief Investment Officer, Chief Financial Officer, Internal Auditor, Press Secretary, Board Liaison, and Legislative Liaison. The Executive Director serves as chief executive officer responsible for the establishment, installation, and maintenance of modern management techniques to provide an efficient control of funds for and services to the active members and annuitants of the System.

The Executive Office monitors the operation of the investment portfolio and evaluates portfolio performance for consideration by the Board, certifies expenditures of the Fund, and measures performance of professional individuals or firms with whom the Board contracts for specialized services. The Executive Office also apprises the Board of any development that will in any way affect the System and its operation.

Investment Office

The Investment Office is responsible for the investment activities of the System. In accordance with the investment policy established by the Board, PSERS' investment assets are allocated to numerous outside professional investment advisors and internal investment professionals. Refer to the **Investment Section** Pages 80 to 84 for lists of professional investment advisors and Page 64 in the **Financial Section** for a summary of investment expenses.

Office of Chief Counsel

Legal services are provided by a team of professional personnel under the Governor's Office of General Counsel. The legal staff is responsible for representing the System in all administrative hearings and other litigation matters and providing counsel on a wide variety of matters including the interpretation of the Retirement Code, the form and legality of all System contracts, corporate governance issues and the structure and implementation of the System's varied financial investments.

Internal Auditor's Office

The Internal Auditor's Office performs systematic reviews of the various activities of PSERS, testing for compliance with applicable laws, policies and procedures. The Internal Auditor makes recommendations on the improvement of the System's internal control system.

Office of Financial Management

The Office of Financial Management has responsibility for planning, organizing and directing a complete accounting and financial reporting system in conformance with accounting principles generally accepted in the United States of America. Oversight is provided for new systems development and maintenance of existing systems, and ensuring appropriate accounting controls. The Office is the liaison for other state and federal agencies, reporting units, financial consultants, actuaries, and investment advisors for all accounting matters. The Office is organized into three divisions: General Accounting, Healthcare Accounting and Budget, and Investment Accounting.

General Accounting Division

The General Accounting Division has the responsibility of recording all financial transactions for the pension and health care operations of the system. It maintains PSERS' General Ledger, audits and processes administrative expenses, and prepares interim and annual financial statements. It bills and collects contributions due to the Fund from its employers.

It provides accounts receivable services to the System for member debts. It also interacts with the other divisions in the Office of Financial Management to assure that the basic financial statements of the System include all financial activity monitored and controlled by those accounting divisions.

Healthcare Accounting and Budget Division

The Healthcare Accounting and Budget Division has the responsibility of monitoring and recording Postemployment Healthcare transactions. It reconciles and monitors the financial activities of the third party administrator of the Health Options Program. Additionally, the Division is responsible for developing and monitoring the System's annual budget.

Investment Accounting Division

The Investment Accounting Division (IAD) has responsibility for processing, monitoring, and recording all investment transactions. It contracts with a third-party application service provider to assist with monitoring the overall internal control structure for investments and assure adequate custody of all investment assets. It serves as intermediary with the custodian bank, the State Treasury Department, brokers, investment managers, the investment evaluator, and investment consultants. It audits and approves investment expenses, prepares monthly investment financial reports and processes all investment funding allocations.

The IAD is also responsible for directing and administering the Class Action Revenue Recovery, the Foreign Cash Overdraft and the Foreign Tax Reclaim Collection programs as part of PSERS' investment activities. It also supports PSERS' Investment Office and the Board in achieving investment objectives and monitoring compliance with investment policy. The Division is comprised of the Public Market Reporting and Analysis, Special Investment Reporting and Analysis, and Treasury and Manager Administration sections.

Deputy Executive Director, Operations

The Deputy Executive Director for Operations administers the facilities, technologies, data and records, policies and procedures, human resource, and procurement activities necessary to support, secure and optimize agency operations. Organizational units overseen by this position include the Bureau of Administration, Bureau of Information Management, Bureau of Information Technology, and the Human Resources Office.

Human Resources Office

The Human Resources Office is responsible for supporting management and staff to facilitate the accomplishment of the agency's mission. It administers all human resources programs and ensures compliance with labor law and Commonwealth regulations. Programs include position classification, labor relations, recruitment and placement, employee benefits, employee compensation and pay, training and staff development, time and attendance, performance management, organizational development and support, employee transactions, Equal Employment Opportunity and other miscellaneous programs.

Bureau of Administration

The Bureau of Administration provides facilities, purchasing and contracting, business continuity, automotive, mail, imaging, and other administrative services necessary to support agency functions.

Purchasing and Contracting Division

The Purchasing and Contracting Division procures materials, supplies, and services needed to support organizational goals and develops, monitors, processes and evaluates contract usage in the agency.

Administrative Services Division

The Administrative Services Division manages building and grounds for the agency both at headquarters and at the regional locations, provides mail, imaging, and work introduction services to the agency, asset management, automotive and other administrative services to the agency.

Security and Business Continuity Division

The Security and Business Continuity Division develops and implements those policies, programs and procedures necessary to ensure that PSERS' human, technology, and capital resources are secure and to ensure that PSERS is prepared to quickly recover and continue critical operations in the event of a disaster.

Bureau of Information Management

PSERS' organization, business processes, data, and information systems are inextricably intertwined with each other. To understand PSERS' business, as it exists, as well as the impact of change and potential for improvements, each of these components must be understood on their own, within the context of each other, and in context of PSERS' mission, vision, values and goals.

The goal of the Bureau of Information Management is to understand, analyze, document, and improve PSERS' organization, business rules, processes, information systems, and data and the relationships among these components so that PSERS is able to:

- conduct its business consistently and according to established rules
- understand each component, its relationship to each of the other components and to PSERS' mission, vision, values and goals
- fully, yet quickly analyze and understand the impact of potential change to one or more of these components on the others
- more effectively identify inefficient, duplicate, or suspect processes, data, or technologies
- account for its organization, business rules and processes, information systems and technologies, and data
- best manage its electronic data records, imaged records, paper and film/fiche records
- understand the meaning and know the location of its data
- ensure that PSERS' data, information systems, and business processes meet established quality goals
- manage PSERS' forms
- ensure that PSERS' data, forms, information systems, and business processes are in support of its business.

Division of Business Architecture

The Division of Business Architecture includes analysts who collect, analyze, and document PSERS' organization, business rules, processes, information systems, and data, and perform detailed impact analysis as and when change is proposed. Additionally, staff in this unit confirm that changes have been applied correctly. Staff in this unit also look for opportunities for improvement, lead the development of business requirements and serve as liaisons between PSERS' end-users and Information Technology staff.

This division serves as the repository for PSERS' business knowledge and makes that knowledge available and understandable to agency processing and technology staff.

This division also receives and responds to data queries from agency staff and investigates system, data, or process problems. Finally, this division maintains responsibility for PSERS' records and forms management programs.

Division of Data Stewardship

PSERS has realized that poor data quality and/or the lack of data can be a significant inhibitor to timely and efficient processing. Staff in the Division of Data Stewardship are the trustees and primary maintainers of PSERS' member and employer data, working to make this data most usable to agency processing staff. Specifically, this group maintains PSERS' member demographic information, affiliate information, and is responsible for correctly applying monetary and non-monetary adjustments to member accounts.

Bureau of Information Technology

The Bureau of Information Technology is responsible for planning, coordinating, administering, implementing, and supporting information technology resources within PSERS. The Bureau is organized into five Divisions: Network Architecture, Administration, and

Operation Division; Application, Web Server, and Database Administration Division; Mainframe Systems Support Division; Production Control Division; and Custom Solutions and COTS Support Division.

Network Architecture, Administration, and Operation Division

This division provides consultative and technical support in the planning, design, specification, implementation, deployment, operation, support, and troubleshooting of all PSERS' Network Servers, Desktop Systems, Operating Systems and associated Hardware Components.

Application, Web Server, and Database Administration Division

This division provides consultative and technical support in the planning, design, specification, implementation, deployment, operation, support, and troubleshooting of all PSERS' Database Management systems, Web Application servers and Web servers.

Mainframe Systems Support Division

The Mainframe Systems Division maintains the legacy COBOL and LINC mainframe business applications and for the development of data migration import and export programs and interface programs resident on the legacy mainframe platform.

Production Control Division

The Production Control Division develops job control programs, maintains mainframe system batch schedules, and controls the movement of legacy programs into the production environment. This division also manages the agency printing and post-processing operations.

Custom Solution and Commercial off the Shelf (COTS) Division

The Custom Solution and COTS Division supports PSERS' server-based COTS applications such as E-image and Workflow, Lawson General Ledger, Investment Accounting, etc. and for supporting the use of the Microsoft Office Suite in combination with data access tools such as Open/A. This division also designs, develops, tests and implements customized interfaces necessary to support the interaction between various COTS and custom business applications.

Deputy Executive Director, Benefits

The Deputy Executive Director for Benefits oversees the administration of the benefits programs for all active and retired members of the System and oversees the development and implementation of the communications and counseling programs. Organizational units under the management of the Deputy include the Bureau of Benefits Administration, the Bureau of Communications and Counseling and the Health Insurance Office.

Bureau of Benefits Administration

The Bureau of Benefits Administration provides professional and technical services to all full-time Pennsylvania public school employees and part-time employees who render at least 80 days or 500 hours with any of the System's 733 employers. They also provide services to retirees, their beneficiaries and their personal representatives.

Benefits Processing Division

The Benefits Processing Division handles the high volume of benefit calculations. The staff calculates estimated retirement benefits, creates payroll records, and originates the initial benefit payments and direct rollovers. As the employers report final salary and service data, staff conducts in-depth reviews of accounts and calculates finalized benefits.

This division has responsibility for determining eligibility and calculating the cost to the members and to the employers for the purchase of additional service credit. The division processes requests to refund contributions and interest from members terminating from the system who are not eligible for retirement benefits. The calculation and payment of death benefits for members who die subsequent to retirement is also performed within this division.

Benefits Policy and Exception Processing Division

The Benefit Policy and Exception Processing Division has responsibility for creating and writing all benefits policies, procedures, business rules and calculations and presenting policies to the Executive staff and the Board's Appeals/ Members Services Committee; for coordinating all requests for legal analyses and legal opinions; and for working with the System's actuaries regarding benefit calculations and audits. The staff also manages the first level of the member's administrative appeal process.

This division makes determinations relative to membership eligibility, retirement covered compensation and emergency employment where circumstances are suspect or atypical. To insure compliance with the Retirement Code, the division is also responsible for the review and approval of domestic relations orders.

The staff of this division also handles the benefits determinations that are more complex, more time-sensitive or have a significant impact on the agency or the members. This work includes divorce transactions, death benefits for in-service members, frozen annuity calculations, computations that must comply with special IRS regulations, multiple service eligibility and calculations, post finalized benefit adjustments, calculating cost of living increases and processing changes to annuitant or survivor gross benefits.

System Support Center

The System Support Center's primary responsibility is to work with technical staff in the Bureau of Information Technology to enhance automated business systems and the use of technology within the business areas. Enhancements are the result of changing technology as well as changes to legislation, court decisions and board policies. Work involves workflow analysis, requirements definition, testing and implementation. The Center is also responsible for reporting and providing assistance to resolve all problems with production, hardware and software.

Bureau of Communications & Counseling

The Bureau of Communications and Counseling is responsible for professionally communicating accurate and timely information. The goal is to promote the understanding of PSERS' benefits and processes to the members, the employers, the Legislature, the Governor's Office, other government organizations, professional organizations and the public.

Field Services Division

The Field Services Division provides services to both active and retired PSERS' members through eight regional offices located throughout the Commonwealth of Pennsylvania. The regional representatives conduct various meetings and workshops for members and employers and provide counseling services.

Communication Services Division

The Communication Services Division provides information to the members, employers, and the general public through the telephone, on-site visits, the worldwide web and various publications. There are four centers within this division:

Member Service Center

This center answers the PSERS' toll-free telephone number, responding to general inquiries about the benefits and processes of the System as well as specific inquiries related to members' accounts.

Employer Service Center

Staffing of the center includes customer service representatives to answer phone calls and emails, as well as field representatives to visit employers and conduct workshops, to provide assistance and training for proper reporting to the System.

Publications Center

This center is responsible for the development, production, and distribution of all printed and audiovisual materials for the System. Publications include newsletters, handbooks, pamphlets, annual reports, mass communications to the membership, and presentation material. Staff also responds to general correspondence and email inquiries.

Estimate Center

This center computes a large volume of estimates showing the potential monthly benefits members will receive at retirement through the normal, early, vested or disability benefit.

Health Insurance Office

This office is responsible for all aspects of the PSERS' Health Options Program and administering the annuitants' health insurance premium assistance benefits. HOP is a voluntary statewide plan that provides group health insurance coverage for school retirees, their spouses, and eligible dependents.

Administrative Staff

Jeffrey B. Clay
Executive Director

Gerald Gornish
Chief Counsel

Arthur J. Granito
Chief
Financial Officer

Terrill J. Savidge
Deputy Executive
Director, Operations

Veronica P. Thomas
Deputy Executive
Director, Benefits

Alan H. Van Noord
Chief
Investment Officer

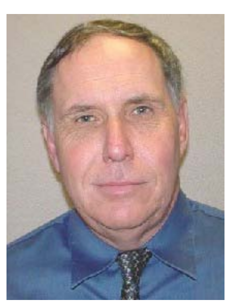
Douglas A. Bonsall
Director of
Communications &
Counseling

Deborah L. Garraway
Director of Information
Management

Donald J. Halke, II
Internal Auditor

Helen D. Hosler
Director of Benefits
Administration

Maribel La Luz
Director of Human
Resources



James F. Noone
Director of
Administration

Mark F. Schafer
Director of Health
Insurance

Nick Sutovich
Director of Information
Technology

PSERS REGIONAL OFFICES

NORTHWEST
Penn Wood Center, Suite C
464 Allegheny Blvd.
Franklin, PA 16323-6210
Local (814) 437-9845
FAX (814) 437-5826
Toll Free 1-888-773-7748 ext. 5175

NORTHCENTRAL
Suite 201
300 Bellefonte Avenue
Lock Haven, PA 17745-1903
Local (570) 893-4410
FAX (570) 893-4414
Toll Free 1-888-773-7748 ext. 5275

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Market Street Victorian Square
33 S Wilkes Barre Blvd., Suite 20
Wilkes Barre, PA 18702-5144
Local (570) 826-2003
FAX (570) 820-4868
Toll Free 1-888-773-7748 ext. 5375

SOUTHWEST
900 Sarah Street, Suite 208
Pittsburgh, PA 15203-1106
Local (412) 488-2031
FAX (412) 488-2338
Toll Free 1-888-773-7748 ext. 5775

SOUTHEAST
605 Louis Drive, Suite 500
Warminster, PA 18974-2825
Local (215) 443-3495
FAX (215) 443-3487
Toll Free 1-888-773-7748 ext. 5575

CENTRALWEST
636 Scalp Avenue
Johnstown, PA 15904-1640
Local (814) 262-7715
FAX (814) 262-7625
Toll Free 1-888-773-7748 ext. 5875

SOUTHCENTRAL
Three Crossgate Drive, Suite 101
Mechanicsburg, PA 17050-2459
Local (717) 795-9270
FAX (717) 795-9281
Toll Free 1-888-773-7748 ext. 5675

CENTRALEAST
110 West Arch Street, Suite 204
Fleetwood, PA 19522-1321
Local (610) 944-9113
FAX (610) 944-9275
Toll Free 1-888-773-7748 ext. 5475

PSERS Headquarters Building

The headquarters of the Public School Employees' Retirement System is located at 5 North Fifth Street in downtown Harrisburg, Pennsylvania within the State Capitol complex. Regional field offices are also maintained in Fleetwood, Franklin, Johnstown, Lock Haven, Mechanicsburg, Pittsburgh, Warminster and Wilkes Barre.

The building was built and first occupied by the Retirement System in 1987 and is its first home built specifically for its use. It is owned by the Five North Fifth Street Corporation, a holding entity formed by PSERS, and is managed by Property Management Inc.

Public School Employees' Retirement System

Charles Y, Audenried Junior High School, Philadelphia County

Financial Section

Clifton Gunderson LLP
Certified Public Accountants & Consultants
COUNT ON INSIGHT SM

Independent Auditor's Report

The Board of Trustees
Public School Employees' Retirement System
Harrisburg, Pennsylvania

We have audited the accompanying basic financial statements of the Public School Employees' Retirement System (PSERS), a component unit of the Commonwealth of Pennsylvania as of and for the years ended June 30, 2004 and 2003, as listed in the table of contents. These financial statements are the responsibility of the PSERS' management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, PSERS' plan net assets as of June 30, 2004 and 2003, and the changes in its plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and Required Supplemental Schedules of Funding Progress and Employer Contributions (Schedules 1 and 2) are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplemental Schedules 1 through 3 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Supplemental Schedules 1 through 3 have been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, are presented fairly, in all material respects, in relation to the basic financial statements taken as a whole.

Clifton Gunderson LLP

Baltimore, Maryland
September 28, 2004

Offices in 13 states and Washington, DC

Member of HLB International

Management's Discussion and Analysis

This section presents management's discussion and analysis of the Commonwealth of Pennsylvania Public School Employees' Retirement System's (PSERS) financial performance for the fiscal year ended June 30, 2004. It is presented as required supplemental information to the financial statements.

Overview of Financial Statements

PSERS is primarily responsible for administering a defined benefit pension plan for public school employees in the Commonwealth of Pennsylvania. PSERS also administers two postemployment healthcare programs, the Premium Assistance Program (Premium Assistance) and the Health Options Program (HOP), for its annuitants. The financial statements present the financial activities for the pension plan and the two postemployment healthcare programs.

The *Statements of Plan Net Assets* provide a snapshot of the financial position of PSERS at June 30, 2004, including comparative amounts for the prior year.

The *Statements of Changes in Plan Net Assets* summarize PSERS' financial activities that occurred during the fiscal period from July 1, 2003 to June 30, 2004, including comparative amounts for the prior year.

The *Notes to Financial Statements* provide additional information that is essential to a full understanding of the financial statements. The notes are an integral part of the financial statements and include detailed information not readily evident in the basic financial statements.

The *Required Supplemental Schedules* immediately following the notes to financial statements provide two schedules showing historical information concerning the funded status of PSERS and the employer contributions.

The remaining supplemental schedules provide additional detailed information concerning the operating expenses, investment expenses and payments to non-investment consultants. All of this supplemental information is considered useful in understanding and evaluating the financial activities of PSERS.

Financial Highlights

- PSERS' total plan net assets increased by $6.0 billion from $42.5 billion at June 30, 2003 to $48.5 billion at June 30, 2004. The increase is primarily attributable to net investment income and member and employer contributions that exceeded the payment of pension benefits and administrative expenses.
- The pension plan's funded ratio as of the latest actuarial valuation dated June 30, 2003 decreased from 104.8% to 97.2%. The decrease is due to the effect of an actuarial asset loss caused by the downturn in the financial markets from 2000 to 2002.
- The rate of return on investments for the fiscal year ended June 30, 2004 was 19.67% compared to a return of 2.74% in fiscal year ended June 30, 2003 (FY 2003).
- Total member and employer contributions increased from $1.0 billion in FY 2003 to $1.4 billion in FY 2004.

Management's Discussion and Analysis (Continued)

- Total PSERS' benefit payouts increased by 12.7% from $3.1 billion in FY 2003 to $3.5 billion in FY 2004. The increase is primarily attributable to the impact of the second phase of the Act 38 of 2002 COLA that was effective on July 1, 2003 and an increase in the number of retirees and beneficiaries currently receiving benefits.
- Total administrative expenses increased by 16.4% from $42.3 million in FY 2003 to $49.2 million in FY 2004 primarily due to the planned expenditures for the second year of the New Pension Administration System (NPAS) project along with vendor administrative fees for the self-insured drug program implemented on January 1, 2004. All administrative expenses were within PSERS' budgeted amounts for both years.

Funded Status

PSERS uses an actuarial reserve type of funding that is financed by member contributions, employer contributions and earnings from invested assets. An independent actuarial valuation of PSERS' actuarial assets and liabilities is performed annually. As part of this valuation, the progress toward funding pension obligations of PSERS is measured by comparing the actuarial value of assets to the actuarial accrued liability. This measurement is referred to as the funded ratio or funded status. The most recent actuarial valuation reports that PSERS is 97.2% funded as of June 30, 2003. The results of operations for FY 2004 will be reflected in the actuarial valuation for the year ended June 30, 2004. Due to the normal lag time for completion of the actuarial valuation, the resulting funded status will be available at the end of the calendar year and will be reported in the financial statements for the fiscal year ended June 30, 2005 (FY 2005).

Management's Discussion and Analysis (Continued)

Analysis of Plan Net Assets

(Dollar Amounts in Thousands)

Summary of Plan Net Assets:	**FY 2004**	FY 2003	Change
Assets:			
Receivables	**$ 1,085,109**	$ 1,282,433	$ (197,324)
Investments	**49,031,679**	43,720,004	5,311,675
Securities lending collateral pool	**4,505,428**	3,387,690	1,117,738
Fixed assets	**1,514**	2,428	(914)
Total Assets	**54,623,730**	48,392,555	6,231,175
Liabilities:			
Payables and other liabilities	**1,581,203**	2,516,947	(935,744)
Obligations under securities lending	**4,505,428**	3,387,690	1,117,738
Total Liabilities	**6,086,631**	5,904,637	181,994
Plan Net Assets	**$48,537,099**	$42,487,918	$ 6,049,181

Summary of Changes in Plan Net Assets:	**FY 2004**	FY 2003	Change
Additions:			
Contributions	**$ 1,351,144**	$ 1,013,763	$ 337,381
Net investment income	**8,244,604**	1,022,467	7,222,137
Total Additions	**9,595,748**	2,036,230	7,559,518
Deductions:			
Benefit payments	**$ 3,497,365**	$ 3,102,684	$ 394,681
Administrative expenses	**49,202**	42,278	6,924
Total Deductions	**3,546,567**	3,144,962	401,605
Changes in Plan Net Assets	**$ 6,049,181**	$(1,108,732)	$ 7,157,913

Investments

PSERS is a long-term investor and manages the pension fund with long-term objectives in mind. A primary element of PSERS' investment philosophy is that diversification among various asset classes is the best way to achieve its goals. PSERS makes estimates of future long-term market returns and establishes an asset allocation plan taking into account the risk associated with each asset class as well as the financial objectives of the Fund.

Management's Discussion and Analysis (Continued)

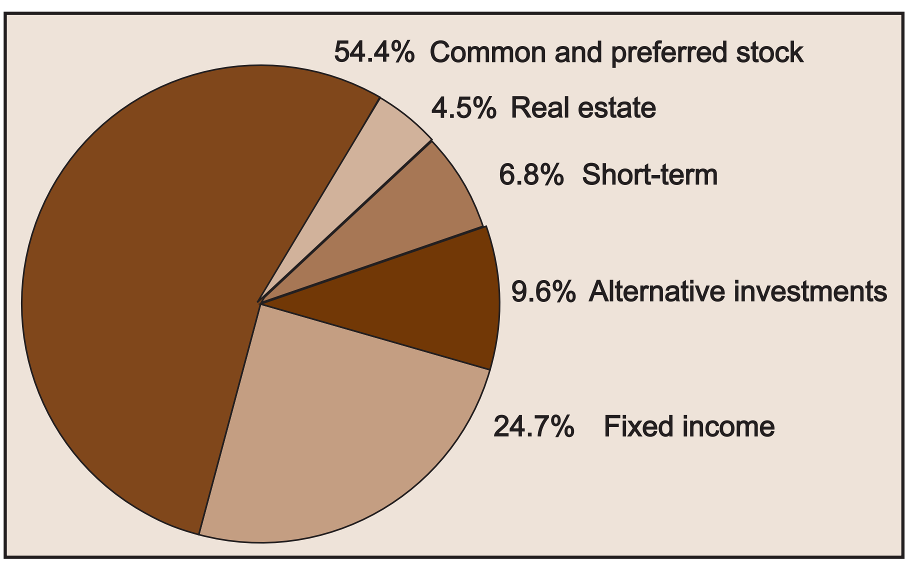
For FY 2004, PSERS' rate of return on investments was 19.67%, which is attributable to a strong rebound in the domestic and international equity markets. The FY 2004 investment return exceeded PSERS' total fund policy benchmark and placed PSERS' performance in the top quartile of the Public Fund Universe prepared by the System's investment evaluator, Wilshire Associates Inc. The annualized rate of return over the past three and five-year periods ended June 30, 2004 was 5.21% and 3.88%, respectively. The annualized rate of return for the ten-year period ended June 30, 2004 was 10.08% on a gross of fees basis. The Fund's long-term actuarial investment return assumption is 8.50%.

The asset distribution of PSERS' portfolio at June 30, 2004 and June 30, 2003, at fair value, including postemployment healthcare assets, was:

(Dollar Amounts in Thousands)

Asset Class	2004	%	2003	%
Short-term	**$ 3,328,633**	**6.8**	$ 1,907,821	4.4
Fixed income	**12,120,327**	**24.7**	12,372,930	28.3
Common and preferred stock	**26,688,099**	**54.4**	23,768,325	54.4
Real estate	**2,209,767**	**4.5**	1,993,188	4.5
Alternative investments	**4,684,853**	**9.6**	3,677,740	8.4
Total	**$ 49,031,679**	**100.0**	$ 43,720,004	100.0

Asset Distribution
Fiscal Year Ended June 30, 2004



Management's Discussion and Analysis (Continued)

Short-term investments at the close of FY 2004 increased by $1.4 billion primarily as a result of investment manager terminations occurring in FY 2004 and a portion of the subsequent redeployment of funds occurring in FY 2005. Fixed income investments decreased by $252.6 million from $12.4 billion in FY 2003 to $12.1 billion in FY 2004. Common and preferred stock investments increased by $2.9 billion from $23.8 billion in FY 2003 to $26.7 billion in FY 2004. The increase was primarily due to positive returns in the domestic and international equity markets that were partially offset by reductions to the asset class during FY 2004 in accordance with PSERS' asset allocation plan. Real estate investments increased by $216.6 million from $2.0 billion in FY 2003 to $2.2 billion in FY 2004. Common and preferred stocks and real estate investments remained relatively consistent on a percentage basis over the fiscal year. Alternative investments increased by $1.0 billion from $3.7 billion in FY 2003 to $4.7 billion in FY 2004 due to the addition of new investment partnerships, drawdowns of commitments to existing partnerships and market value appreciation.

Contributions and Investment Income

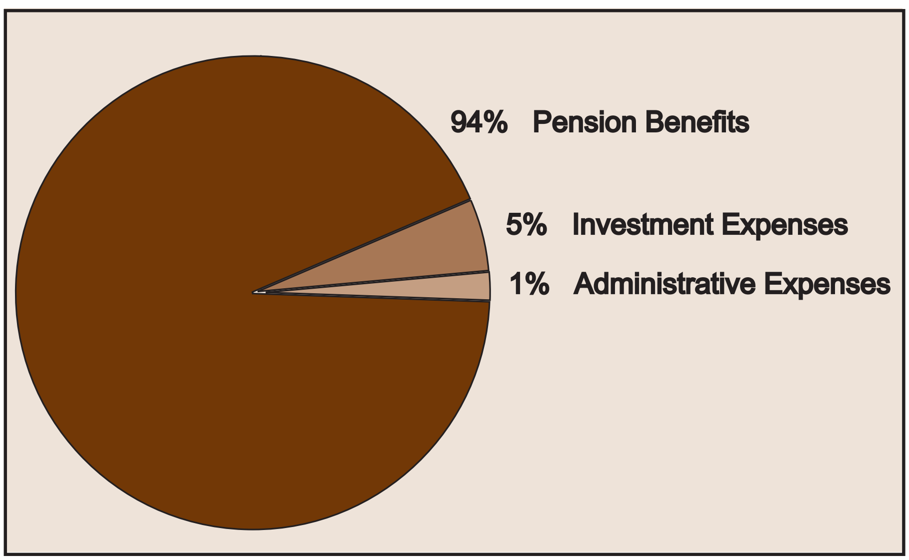
During FY 2004, total contributions from employers and members were $1.4 billion compared to $1.0 billion during FY 2003. Employer pension contributions increased by $300.3 million from $20.8 million in FY 2003 to $321.1 million in FY 2004. The increase was attributable to the increase in the employer pension contribution rate from 0.18% in FY 2003 to 2.98% in FY 2004. Member pension contributions increased by $31.6 million from $752.1 million in FY 2003 to $783.7 million in FY 2004 as a result of the increases in the total participant salary base. The contributions for Premium Assistance decreased by $10.0 million from $95.6 million in FY 2003 to $85.6 million in FY 2004 due to the reduction in the Premium Assistance contribution rate from 0.97% in FY 2003 to 0.79% in FY 2004. Net investment income increased by $7.2 billion from $1.0 billion in FY 2003 to $8.2 billion in FY 2004. The significant increase in investment performance was attributable to higher returns generated in FY 2004 due to a strong rebound in the domestic and international equity markets. Net investment income also includes investment expenses as a deduction. The "Total PSERS Benefits and Expenses" section that follows includes an analysis of investment expenses.

Management's Discussion and Analysis (Continued)

Total PSERS' Benefits and Expenses

The primary source of expense during FY 2004 was for the payment of benefits totaling $3.5 billion. This compares to benefit payments of $3.1 billion during FY 2003. Investment expenses increased $12.2 million from $179.1 million during FY 2003 to $191.3 million during FY 2004 primarily due to the increase in investments under management. Investment expenses are reported as a reduction in net investment income on the Statement of Changes in Plan Net Assets. Administrative expenses totaled $49.2 million during FY 2004 compared to $42.3 million during FY 2003. The increase was largely due to the planned second-year expenditures for the NPAS project and vendor administrative fees for the self-insured drug program implemented on January 1, 2004.

Total PSERS' Benefits and Expenses
Fiscal Year Ended June 30, 2004



Statements of Plan Net Assets

June 30, 2004 and 2003

(Dollar Amounts in Thousands)

	2004			
		Postemployment Healthcare		
	Pension	Premium Assistance	Health Options Program	Totals
Assets:				
Receivables:				
Members	$ 214,599	$ 834	$ 20	$ 215,453
Employers	102,982	25,484	-	128,466
Investment income	169,050	621	163	169,834
Investment proceeds	568,987	-	-	568,987
Miscellaneous	2,157	203	9	2,369
Total Receivables	1,057,775	27,142	192	1,085,109
Investments, at fair value:				
Short-term	3,138,767	118,107	71,759	3,328,633
Fixed income	12,105,157	-	15,170	12,120,327
Common and preferred stock	26,688,099	-	-	26,688,099
Real estate	2,209,767	-	-	2,209,767
Alternative investments	4,684,853	-	-	4,684,853
Total Investments	48,826,643	118,107	86,929	49,031,679
Securities lending collateral pool	4,505,428	-	-	4,505,428
Capital assets (net of accumulated depreciation of $9,687)	1,514	-	-	1,514
Total Assets	54,391,360	145,249	87,121	54,623,730
Liabilities:				
Accounts payable and accrued expenses	33,192	281	8,212	41,685
Benefits payable	168,013	64	12,881	180,958
Participant premium advances	-	-	13,435	13,435
Investment purchases and other liabilities	1,345,078	47	-	1,345,125
Obligations under securities lending	4,505,428	-	-	4,505,428
Total Liabilities	6,051,711	392	34,528	6,086,631
Net assets held in trust for pension and postemployment healthcare benefits: (A schedule of funding progress is presented on Required Supplemental Schedule 1)	$ 48,339,649	$ 144,857	$ 52,593	$ 48,537,099

These financial statements should be read only in connection with the accompanying notes to financial statements.

Statements of Plan Net Assets

June 30, 2004 and 2003

(Dollar Amounts in Thousands)

	2003			
		Postemployment Healthcare		
	Pension	Premium Assistance	Health Options Program	Totals
Assets:				
Receivables:				
Members	$ 190,922	$ 650	$ 36	$ 191,608
Employers	7,421	29,344	-	36,765
Investment income	151,801	574	42	152,417
Investment proceeds	899,329	-	-	899,329
Miscellaneous	2,246	26	42	2,314
Total Receivables	1,251,719	30,594	120	1,282,433
Investments, at fair value:				
Short-term	1,745,381	100,198	62,242	1,907,821
Fixed income	12,372,930	-	-	12,372,930
Common and preferred stock	23,768,325	-	-	23,768,325
Real estate	1,993,188	-	-	1,993,188
Alternative investments	3,677,740	-	-	3,677,740
Total Investments	43,557,564	100,198	62,242	43,720,004
Securities lending collateral pool	3,387,690	-	-	3,387,690
Capital assets (net of accumulated depreciation of $8,921)	2,428	-	-	2,428
Total Assets	48,199,401	130,792	62,362	48,392,555
Liabilities:				
Accounts payable and accrued expenses	29,287	250	2,911	32,448
Benefits payable	175,331	95	5,542	180,968
Participant premium advances	-	-	12,817	12,817
Investment purchases and other liabilities	2,290,714	-	-	2,290,714
Obligations under securities lending	3,387,690	-	-	3,387,690
Total Liabilities	5,883,022	345	21,270	5,904,637
Net assets held in trust for pension and postemployment healthcare benefits: (A schedule of funding progress is presented on Required Supplemental Schedule 1)	$ 42,316,379	$ 130,447	$ 41,092	$ 42,487,918

These financial statements should be read only in connection with the accompanying notes to financial statements.

Statements of Changes in Plan Net Assets

Years ended June 30, 2004 and 2003

(Dollar Amounts in Thousands)

	2004			
		Postemployment Healthcare		
	Pension	Premium Assistance	Health Options Program	Totals
Additions:				
Contributions:				
Members	$ 783,691	$ -	$ 160,731	$ 944,422
Employers	321,091	85,631	-	406,722
Total contributions	1,104,782	85,631	160,731	1,351,144
Investment income:				
From investing activities:				
Net appreciation (depreciation) in fair value of investments	6,874,420	(3,003)	-	6,871,417
Short-term	29,616	4,627	379	34,622
Fixed income	619,346	-	626	619,972
Common and preferred stock	556,984	-	-	556,984
Real estate	205,229	-	-	205,229
Alternative investments	132,984	-	-	132,984
Total investment activity income	8,418,579	1,624	1,005	8,421,208
Investment expenses	(191,267)	(33)	-	(191,300)
Net income from investing activities	8,227,312	1,591	1,005	8,229,908
From securities lending activities:				
Securities lending income	46,075	-	-	46,075
Securities lending expense	(31,379)	-	-	(31,379)
Net income from securities lending activities	14,696	-	-	14,696
Total net investment income	8,242,008	1,591	1,005	8,244,604
Total Additions	9,346,790	87,222	161,736	9,595,748
Deductions:				
Benefits	3,252,424	71,098	142,761	3,466,283
Refunds of contributions	14,767	-	-	14,767
Net transfer to State Employees' Retirement System	16,315	-	-	16,315
Administrative expenses	40,014	1,714	7,474	49,202
Total Deductions	3,323,520	72,812	150,235	3,546,567
Net increase (decrease)	6,023,270	14,410	11,501	6,049,181
Net assets held in trust for pension and postemployment healthcare benefits:				
Balance, beginning of year	42,316,379	130,447	41,092	42,487,918
Balance, end of year	$48,339,649	$ 144,857	$ 52,593	$48,537,099

These financial statements should be read only in connection with the accompanying notes to financial statements.

Statements of Changes in Plan Net Assets

Years ended June 30, 2004 and 2003

(Dollar Amounts in Thousands)

	2003			
		Postemployment Healthcare		
	Pension	Premium Assistance	Health Options Program	Totals
Additions:				
Contributions:				
Members	$ 752,110	$ -	$ 145,197	$ 897,307
Employers	20,831	95,625	-	116,456
Total contributions	772,941	95,625	145,197	1,013,763
Investment income:				
From investing activities:				
Net appreciation (depreciation) in fair value of investments	(170,101)	(2,405)	-	(172,506)
Short-term	26,016	3,566	596	30,178
Fixed income	655,861	-	-	655,861
Common and preferred stock	480,735	-	-	480,735
Real estate	140,774	-	-	140,774
Alternative investments	51,449	-	-	51,449
Total investment activity income	1,184,734	1,161	596	1,186,491
Investment expenses	(179,033)	(23)	-	(179,056)
Net income from investing activities	1,005,701	1,138	596	1,007,435
From securities lending activities:				
Securities lending income	43,870	-	-	43,870
Securities lending expense	(28,838)	-	-	(28,838)
Net income from securities lending activities	15,032	-	-	15,032
Total net investment income	1,020,733	1,138	596	1,022,467
Total Additions	1,793,674	96,763	145,793	2,036,230
Deductions:				
Benefits	2,890,192	67,688	118,745	3,076,625
Refunds of contributions	13,943	-	-	13,943
Net transfer to State Employees' Retirement System	12,116	-	-	12,116
Administrative expenses	34,293	1,932	6,053	42,278
Total Deductions	2,950,544	69,620	124,798	3,144,962
Net increase (decrease)	(1,156,870)	27,143	20,995	(1,108,732)
Net assets held in trust for pension and postemployment healthcare benefits:				
Balance, beginning of year	43,473,249	103,304	20,097	43,596,650
Balance, end of year	$42,316,379	$ 130,447	$ 41,092	$42,487,918

These financial statements should be read only in connection with the accompanying notes to financial statements.

Notes To Financial Statements

June 30, 2004 and 2003

(1)
Organization and Description of the Public School Employees' Retirement System

(a) Organization

The System was established on July 18, 1917, under the provisions of Pamphlet Law 1043, No. 343 as a governmental cost-sharing multiple-employer plan that provides retirement allowances and other benefits to members. Membership in the System is mandatory for nearly all qualifying public school employees in the Commonwealth of Pennsylvania (Commonwealth). In certain instances, qualifying employees of charter schools may retain membership in other retirement plans. At June 30, 2004, there were 733 participating employers, generally school districts. Membership as of June 30, 2003, the most recent year for which actual amounts are available, consisted of:

Currently employed members:		
Vested	164,000	
Nonvested	83,000	
Total currently employed members		**247,000**
Retirees and beneficiaries currently receiving benefits	146,000	
Inactive members and vestees entitled to but not receiving benefits	65,000	
Total retirees and other members		**211,000**
Total number of members		**458,000**

All members are fully vested in their individual balance in the Members' Savings Account which is described in Note 3.

The System is established by state law as an independent administrative board of the Commonwealth, which is directed by the Public School Employees' Retirement Board (the Board) that exercises control and management of the System, including the investment of its assets. The System's board has fifteen members including the Commonwealth's Secretary of Education, the State Treasurer, the Executive Director of the Pennsylvania School Boards Association, two members appointed by the Governor, six elected members (three from among the System's certified members, one from among the System's non-certified members, one from among the System's annuitants, and one from among school board members in Pennsylvania), two members from the Senate, and two members from the House of Representatives.

The State Treasurer is the custodian of the System's fund. The retirement plan of the System is a contributory defined benefit plan for which the benefit payments to members and contribution rates by employers and employees are specified in state law. Changes in benefit and contribution provisions for each retirement plan must be made by legislation. Pursuant to state law, all legislative bills and amendments proposing to change the System's retirement plan are to be accompanied with an actuarial note prepared by an enrolled pension actuary providing an estimate of the cost and actuarial effect of the proposed change.

Notes to Financial Statements (Continued)

Based upon the criterion of financial accountability as defined by governmental accounting standards, the System is considered a component unit of the Commonwealth of Pennsylvania financial reporting entity and is included in the Comprehensive Annual Financial Report of the Commonwealth of Pennsylvania.

(b) Pension Benefits

Under the provisions of the 1975 revision of the Pennsylvania Public School Employees' Retirement Code (the Code) by the Pennsylvania General Assembly, members are eligible for monthly retirement benefits upon reaching (a) age 62 with at least 1 year of credited service: (b) age 60 with 30 or more years of credited service; or (c) 35 or more years of service regardless of age.

Benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service. In most cases after completion of five years of service, a member's right to the defined benefit is vested and early retirement benefits may be elected. Under certain features of the System, active members may purchase credit for various types of prior school and non-school service on a lump-sum, installment purchase basis, or through an actuarially calculated benefit reduction.

In addition to regular retirement benefits, the System also provides for disability retirement benefits and death benefits. Participants are eligible for disability retirement benefits after completion of five years of credited service. Such benefits are generally equal to 2% or 2.5%, depending upon membership class, of the member's final average salary (as defined in the Code) multiplied by the number of years of credited service, but not less than one-third of such salary nor greater than the benefit the member would have had at normal retirement age. Members over normal retirement age may apply for disability benefits. Certain exceptions apply to normal disability retirements.

Death benefits are payable upon the death of an active member who has reached age 62 or who has at least five years of credited service. Such benefits are actuarially equivalent to the benefit that would have been effective if the member had retired on the day before death.

Members with credited service in the Commonwealth of Pennsylvania State Employees' Retirement System (SERS) may elect to transfer service to the Public School Employees' Retirement System upon commencement of employment in the public school system. Similarly, a member with credited service in the System may transfer such service to SERS upon becoming a member of that system.

Upon termination of a member's employment in the public school sector, the member's accumulated contributions plus interest are refundable from the Members' Savings Account which is described in Note 3.

(c) Postemployment Healthcare Benefits

The System provides a health insurance premium assistance program (premium assistance) for all eligible annuitants who elect to participate. Under this program, employer contribution rates for premium assistance are established to provide reserves in the Health Insurance Account that are sufficient for the payment of premium assistance benefits. Effective January 1, 2002, under the provisions of Act 9 of 2001, participating eligible annuitants are entitled to receive premium assistance payments equal to the lesser of $100 per month or their out-of-pocket monthly health

Notes to Financial Statements (Continued)

The HOP is a PSERS-sponsored voluntary health insurance program for the sole benefit of PSERS retirees, survivor annuitants, and the spouse, surviving spouse and dependents of retirees or survivor annuitants. Benefits are provided by insurance carriers, health maintenance organizations or by third-party administrators. All retirees are eligible to participate in the High or Standard Options (indemnity plans) regardless of their residence. The HMO, POS and PPO Options (managed care plans) are available to retirees residing in the plans' service areas. The HOP is funded exclusively by the premiums paid by its participants for the benefit coverage they elect. The hospital, medical/surgical and major medical benefits of the High and Standard Options are self-funded with aggregate stop-loss insurance. PSERS uses a third-party administrator to process these claims. An independent actuarial consulting firm sets the rates for the self-funded benefits so that the combination of contributions and the claims fluctuation reserve equal 125% of expected annual incurred claims. Aggregate stop-loss insurance is purchased to pay claims in excess of 125% of expected annual incurred claims up to the limit of the policy. The HOP maintains a reserve for claims that are incurred but not reported (IBNR). At June 30, 2004, PSERS recorded $10,000,000 in IBNR which is included in benefits payable. The prescription drug benefits of the High Option became self-funded during the fiscal year ended June 30, 2004. The PSERS pension fund assets are not available to fund or satisfy obligations of the HOP.

(d) Contributions

The funding of the System is governed by the Code and requires contributions by active members, employers, and the Commonwealth. The System's funding policy provides for periodic employer and Commonwealth contributions at actuarially determined rates, expressed as a percentage of annual covered payroll, such that they, along with employee contributions and an actuarially determined rate of investment return, are adequate to accumulate assets to pay retirement benefits when due. Level percentage of payroll employer contribution rates are determined using the entry age normal actuarial funding method. This method determines the amount of contributions necessary to (1) fully fund all current costs, which represents the estimated amount necessary to pay for the benefits earned by the employees during the current service year; and (2) liquidate the prior service cost for service earned prior to the current service year and subsequent benefit increases, which represents the amount necessary to fund accrued liabilities over a period of ten years as required by the Code.

Contribution rates for active members are set by law (redefined with the provisions of Act 9 of 2001) and are dependent upon members' class. In most cases, the contribution rates based on qualified member compensation are as follows:

Membership Class T-C	Active members hired before July 22, 1983	5.25%
Membership Class T-C	Active members hired on or after July 22, 1983	6.25%
Membership Class T-D	Active members hired before July 22, 1983	6.50%
Membership Class T-D	Active members hired on or after July 22, 1983	7.50%

Active members newly hired after July 1, 2001, the effective date of Act 9 of 2001, are automatically Class T-D. The contribution rates for all members in Membership Class T-D were effective January 1, 2002.

Notes to Financial Statements (Continued)

The total contribution rate for the employers and the Commonwealth was 3.37% and 1.15% of qualified compensation for the years ended June 30, 2004 and 2003, respectively. According to requirements established in Act 29 of 1994, the Commonwealth reimburses school entity employers a portion of the employer contributions paid to the System. The Commonwealth remits employer contributions for employers other than school entities directly to the System. All contributions from employers and the Commonwealth are shown as employer contributions on the Statements of Changes in Plan Net Assets.

A portion of each employer and Commonwealth contribution to the System is set aside for the funding of the health insurance premium assistance program. The premium assistance contribution rate is set at a level necessary to establish reserves sufficient to provide premium assistance payments for all participating eligible members for the subsequent fiscal year. The portion of the total contribution rate for employers and the Commonwealth used to fund premium assistance was .79% and .97% for the years ended June 30, 2004 and 2003, respectively.

(2)
Summary of Significant Accounting Policies

(a) Basis of Accounting

The financial statements of the System are prepared on the accrual basis of accounting under which expenses are recorded when the liability is incurred, revenues are recorded in the accounting period in which they are earned and become measurable, and investment purchases and sales are recorded as of their trade date. Member and employer contributions are recognized in the period for which employees' salaries are reported. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The accounting and reporting policies of the System conform to accounting principles generally accepted in the United States of America (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions in plan net assets during the reporting period. Actual results could differ from those estimates.

The System follows Governmental Accounting Standards Board (GASB) guidance as applicable to proprietary funds and applies only those Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, that do not conflict with or contradict GASB pronouncements.

(b) Investments

The System's investments are reported at fair value. Fair value is the amount that the System can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale. Short-term securities are carried at cost, which approximates fair value, unless they have a published market price or quotation from national security exchanges and securities pricing services, in which case they are valued at the published market price. Fixed income securities and common and preferred stocks are generally valued based on published market prices and quotations from national security exchanges or securities pricing services. Securities which are not traded on a national security exchange are valued by the respective fund manager or other third parties based on similar sales.

Real estate owned investments are primarily valued based on appraisals performed by independent appraisers or, for properties not appraised, at cost or the present value of the projected future net income stream. Real estate owned investments are reported net of related debt borrowed against the market value of the property. As of June 30, 2004, $132,000,000 in line of credit advances were netted against the related property valuation. The line of credit balance is due on March 17, 2006. The line is payable at an interest rate equivalent to the lender's commercial paper rate plus 30 basis points and is collateralized by certain fixed income investments of the System.

Effective April 30, 2004, the System entered into a contract to purchase a 25% share in one of its venture capital investments from another limited partner. The complete purchase price of $15,364,000 is not payable until December 15, 2004 and includes no interest charges. On that same date, the System will sell a 5% share in the investment to a third limited partner for $3,073,000. The payment terms, negotiated by the System with the other party, are common in the secondary alternative investment market and allow the System to obtain the benefits of any increases in the valuations of the partnership's portfolio holdings from the effective date of the contract until the payment date at no additional cost. As of June 30, 2004, the net payable of $12,291,000 has been netted against the market value of the related investment for purposes of financial reporting.

Private equity, private debt, venture capital and equity real estate investments are primarily valued based on amounts established by valuation committees. The values for private equity, private debt, venture capital and equity real estate investments are reported on a one-quarter lag (March 31) adjusted for cash flows and significant unrealized losses through June 30. Futures contracts, foreign exchange contracts, and options are marked-to-market daily with changes in market value recognized as part of net appreciation/depreciation in the fair value of investments. Initial margin requirements for such financial instruments are provided by investment securities pledged as collateral or by cash.

Collective trust fund investments (CTF) consist primarily of domestic and international institutional funds. The funds do not pay interest or dividends to shareholders and reinvest all income earned on securities held by the fund. The fair value of CTF is based on the reported share value of the respective fund. CTF are managed by state chartered banks for which various state banking departments have regulatory oversight and investment advisors for which the Securities and Exchange Commission has regulatory oversight.

Investment expenses consist of investment manager fees and those administrative expenses directly related to the System's investment operations. Unsettled investment sales are reported as investment proceeds receivable and unsettled investment purchases are included in investment purchases and other liabilities.

(c) Capital Assets

Capital assets, consisting primarily of data processing equipment, are recorded at historical cost. The System depreciates capital assets using the straight-line method over an estimated useful life of seven years.

Notes to Financial Statements (Continued)

(d) Benefits Payable

Benefits payable identifies the obligations of the System, on an accrual basis, for the estimated retirement and death benefits payable to PSERS' members or members' beneficiaries at the end of the fiscal year. It also includes the HOP $10,000,000 IBNR claims reserve and a $2,900,000 prescription drug benefit payable at June 30, 2004.

(e) Compensated Absences

The System uses the accrual basis of accounting for measuring vacation leave, sick leave, and other compensated absences liabilities. Employees of the System are paid for accumulated vacation leave upon termination or retirement. Retiring employees of the System that meet service, age, or disability requirements are paid between 30% and 100% of sick days available at retirement, up to 163 maximum days paid. As of June 30, 2004 and 2003, $3,032,000 and $3,023,000, respectively, was accrued for unused vacation and sick leave for the System's employees.

(f) Participant Premium Advances

Participant premium advances are for HOP premiums paid in advance in 2004 and 2003 related to health care coverage to be provided in 2005 and 2004, respectively.

(g) Federal Income Taxes

The Internal Revenue Service (IRS) issued a determination letter dated March 3, 1978 which stated that the plan and its underlying trust qualify under the provisions of Section 501(a) of the *Internal Revenue Code* (IRC) and therefore are exempt from federal income taxes. The plan has been amended since receiving that determination letter. Additionally, the IRS issued a 1982 ruling which concluded that the fund and the board are integral parts of the Commonwealth, and are therefore not subject to federal income tax. In the opinion of the System, the plan has operated within the terms of the plan and remains qualified under the applicable provisions of the IRC.

Federal tax legislation was enacted in 2001 that modified the rules for making rollovers to or from pension systems and also established maximum amounts of retirement benefits that can be paid from pension systems. The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) expanded the opportunity for members to roll over funds received from PSERS at retirement to a wider variety of plans including, but not limited to, 403(b) tax sheltered annuities and government sponsored 457 deferred compensation plans. The Act permits the rollover of after-tax contributions from PSERS. EGTRRA provided for periodic increases in the annual compensation limits for qualified retirement plans. The annual compensation limits for 2003 and 2004 were $200,000 and $205,000, respectively. EGTRRA also provided for periodic increases in the annual benefit limits for qualified defined benefit plans. The maximum annual defined benefit limits at age 62 for 2003 and 2004 were $160,000 and $165,000, respectively.

(h) Risk Management

The System is exposed to various liabilities and risks of loss, including, without limitation, the ordinary risks of investment losses, risks related to theft or destruction of assets, liabilities resulting from injuries to employees, and liabilities resulting from court challenges to fiduciary decisions. As an administrative agency of the Commonwealth of Pennsylvania, the System is accorded sovereign immunity. For claims not shielded by sovereign immunity, the System participates in certain Commonwealth pooled insurance programs and requires asset managers to carry certain insurance coverage for the protection of the System. The System has implemented a self-insurance program for fiduciary and director and officer liability coverage. During the past three fiscal years, insurance settlements did not exceed insurance coverage.

(i) Reclassifications

Certain 2003 balances have been reclassified to conform with 2004 presentation.

(j) Members Receivables

Members receivables include an amount for members' obligations to the System for the purchase of service credit in the amount of $136,800,000. Members have a variety of options to remit purchase of service payments:

- Remit a lump sum payment.
- Request an installment plan from one to seven years in which case the member's employer establishes a payroll deduction process. The member's employer then forwards quarterly payments of the withheld amounts to PSERS.
- Accept an actuarial reduction debt through which the amount of the purchase plus accumulated interest will reduce the member's retirement or death benefit.
- Rollover funds from an eligible distribution.

Because members have control over the timing of their remittances to the System, many purchases of service receivables extend beyond one year. An estimated $115,900,000 of the $214,599,000 members pension receivables at June 30, 2004 are expected to be collected by the System subsequent to June 30, 2005.

(3)
Description of Accounts

The Code requires the System to maintain the following accounts which represent reserves held for future and current benefit payments as follows:

(a) State Accumulation Account

The State Accumulation Account is credited with the contributions of the Commonwealth and the employers. Additionally, interest earnings of the System (after crediting the Members' Savings Account with 4% interest and the reserve for retirement with 5.50% statutory interest) are credited

Notes to Financial Statements (Continued)

to this account. Each year, the necessary amounts, as determined by the actuary for the payment of retirement, disabilities, and death benefits, are transferred from the State Accumulation Account to the Reserve for Retirement Account increasing the reserve credit to the 8.5% valuation assumption rate determined by the actuary. All administrative expenses necessary for the operation of the System, except for premium assistance and HOP expenses, are paid from the State Accumulation Account.

(b) Members' Savings Account

The Members' Savings Account is credited with all contributions made by active members of the System. Interest is added to the member's individual account at an annual rate of 4%.

Upon death or retirement of a member, the accumulated contributions plus interest are transferred to the Reserve for Retirement Account for subsequent payment of benefits.

(c) Reserve for Retirement Account

The Reserve for Retirement Account represents the amounts transferred from the Members' Savings and State Accumulation Accounts, plus additional contributions made by the Commonwealth and employers for the payment of supplemental annuities and cost-of-living increases. All death, disability, and retirement benefits are paid from this account. Annual interest of 5.50% is credited to the Reserve for Retirement Account.

(d) Health Insurance Account

The Health Insurance Account is credited with contributions of the Commonwealth and the employers for the health insurance premium assistance program. Effective January 1, 2002, under the provisions of Act 9 of 2001, participating eligible annuitants are entitled to receive premium assistance payments equal to the lesser of $100 per month or their out-of-pocket monthly health insurance premium. The Health Insurance Account pays all administrative expenses necessary to operate the health insurance premium assistance program.

(e) Health Insurance Program Account

The Health Insurance Program Account is credited with contributions from members of the HOP. All benefits related to the HOP (premium payments to the insurance companies and self-funded benefits) are paid from this account. The Health Insurance Program Account pays all administrative expenses necessary to operate the HOP.

Notes to Financial Statements (Continued)

(f) Pension and Postemployment Healthcare Net Assets

Net assets held in trust for pension and postemployment healthcare benefits at June 30 follows:

	(Dollar Amounts in Thousands) 2004	2003
Pension:		
State accumulation account	**$ 14,371,977**	$ 11,318,193
Members' savings account	**8,755,109**	8,282,753
Reserve for retirement account	**25,212,563**	22,715,433
	$ 48,339,649	$ 42,316,379
Postemployment healthcare:		
Health insurance account	**$ 144,857**	$ 130,447
Health insurance program account	**52,593**	41,092

(4)
Investments

(a) Summary of Investments

The Board has the responsibility to invest and reinvest available funds of the System, in accordance with the guidelines and limitations set forth in the Code and other applicable state law. The Board accomplishes the daily management of the System's investments through investment advisors who act as agents for the System and through internal investment managers. The Board invests the funds of the System using the "prudent person" standard which allows the Board to consider the probable safety of investments, avoid speculative investments, and invest as people of prudence, discretion, and intelligence would manage their own affairs. The Board has adopted its investment policy to formally document investment objectives and responsibilities.

Notes to Financial Statements (Continued)

A summary of the fair value of investments at June 30 follows:

	(Dollar Amounts in Thousands)	
	2004	2003
Pension investments:		
Short-term:		
Pennsylvania Treasury Domestic Short-Term Investment Fund	**$ 2,608,896**	$ 1,352,515
Other domestic short-term	**406,662**	324,702
International short-term	**123,209**	68,164
	3,138,767	1,745,381
Fixed Income:		
Domestic mortgage-backed securities	**4,856,812**	5,745,057
U.S. government and agency obligation	**2,176,793**	1,013,771
Domestic corporate and taxable municipal bonds	**2,880,925**	3,519,398
Miscellaneous domestic fixed income	**407,476**	325,203
Collective trust funds	**303,563**	380,408
International fixed income	**1,479,588**	1,389,093
	12,105,157	12,372,930
Common and preferred stock:		
Domestic common and preferred stock	**18,143,777**	15,737,452
Collective trust funds	**335,911**	539,600
International common stock	**8,208,411**	7,491,273
	26,688,099	23,768,325
Real estate:		
Equity real estate	**1,810,972**	1,570,835
Real estate owned	**398,795**	422,353
	2,209,767	1,993,188
Alternative investments:		
Private equity	**3,004,550**	2,275,253
Private debt	**1,314,044**	1,094,075
Venture capital	**366,259**	308,412
	4,684,853	3,677,740
Pension investments at fair value	**$ 48,826,643**	$ 43,557,564
Postemployment Healthcare investments:		
Premium Assistance:		
Pennsylvania Treasury Domestic Short-Term Investment Fund	**$ 30,872**	$ 27,154
Other domestic short-term	**87,235**	73,044
	118,107	100,198
Health Options Program:		
Pennsylvania Treasury Domestic Short-Term Investment Fund	**25,222**	30,431
Other domestic short-term	**46,537**	31,811
Domestic fixed income	**15,170**	-
	86,929	62,242
Postemployment Healthcare investments at fair value	**$ 205,036**	$ 162,440

During the fiscal years ended June 30, 2004 and 2003, the System owned no securities issued by and made no loans to school districts, the Commonwealth, or any related parties.

(b) Governmental Accounting Standards Board Statement No. 3

The System's investments are categorized below to give an indication of the level of credit (counterparty) risk assumed by the System at June 30, 2004 and 2003. In accordance with a contractual relationship between the Commonwealth's Treasury Department and a custodial agent, substantially all investments subject to categorization are held in book-entry form in the Commonwealth's name. Therefore, all such investments are reflected in Category 1, which is defined as insured or registered investments for which the securities are held by the System or its agent in the System's name.

Investments may also be categorized as Category 2, which is defined as uninsured or unregistered investments for which the securities are held by the counterparty's trust department or agent in the System's name, and Category 3, which is defined as uninsured or unregistered investments for which the securities are held by the broker or dealer or by its agent but not in the System's name. The System has no investments that would be classified in Categories 2 or 3. The System does have investments that are not in any of the three defined categories because the securities are not used as evidence of the investment. Such investments are separately identified.

Notes to Financial Statements (Continued)

Governmental Accounting Standards Board Statement No. 3
Summary of Categorized Investments
As of June 30, 2004 and 2003
(Dollar Amounts in Thousands)

	Fair Value	
	2004	2003
Investments - Category 1		
Domestic mortgage-backed securities	**$ 4,605,426**	$ 5,510,242
U.S. government and agency obligations (1)	**475,252**	300,975
Domestic corporate and taxable municipal bonds	**2,620,707**	3,225,505
Miscellaneous domestic fixed income	**407,476**	325,203
International fixed income	**1,362,950**	1,189,225
Domestic common and preferred stock	**17,246,856**	15,080,959
International common stock	**7,076,125**	6,329,856
International short-term (2)	**123,209**	68,164
Other domestic short-term (3)	**540,434**	429,557
Subtotal	**34,458,435**	32,459,686
Investments - not categorized		
Investments held by broker dealers under securities loans:		
Domestic mortgage-backed securities	**251,386**	234,815
U.S. government and agency obligations	**1,716,711**	712,796
Domestic corporate and taxable municipal bonds	**260,218**	293,893
International fixed income	**116,638**	199,868
Domestic common and preferred stock	**896,921**	656,493
International common stock	**1,132,286**	1,161,417
Collective trust funds - fixed income and equity	**639,474**	920,008
Equity real estate	**1,810,972**	1,570,835
Real estate owned	**398,795**	422,353
Private equity	**3,004,550**	2,275,253
Private debt	**1,314,044**	1,094,075
Venture capital	**366,259**	308,412
Pennsylvania Treasury Short-Term Investment Fund (4)	**2,664,990**	1,410,100
Total Pension and Postemployment Healthcare investments	**$ 49,031,679**	$ 43,720,004

(1) Includes $15,170 and $0 of Postemployment Healthcare Domestic fixed income investments at June 30, 2004 and 2003, respectively.

(2) International short-term investments consist of foreign currency holdings.

(3) Includes $133,772 and $104,855 of Postemployment Healthcare investments at June 30, 2004 and 2003, respectively. The remaining other domestic short-term investments consist primarily of U.S. Treasury Bills and certain government and agency obligations.

(4) Includes $56,094 and $57,585 of Postemployment Healthcare investments at June 30, 2004 and 2003, respectively.

Notes to Financial Statements (Continued)

(c) Securities Lending

In accordance with a contract between the Commonwealth and its custodial agent, the System participates in a securities lending program. Under this program, the custodian, acting as the lending agent, loans securities (equities, fixed income issues and money market instruments) to independent brokers and dealers in exchange for collateral in an amount not less than 102% of the fair value of any securities loaned except for non-U.S. corporations for which 105% of the fair value is required. For Euro fixed income debt issues, for which the Commonwealth receives Euros as collateral and international fixed income debt issues denominated in U.S. dollars, the collateral required to be exchanged is in an amount not less than 102% of the fair value of any securities loaned. Collateral is marked-to-market daily. If the fair value of the collateral held falls below the minimum guidelines for securities loaned, additional collateral is obtained. In lieu of certain approved securities or cash, the borrower may deliver to the lending agent irrevocable bank letters of credit as collateral. If the collateral obtained consists in whole or in part of cash, the lending agent may use or invest the cash in accordance with reinvestment guidelines approved by the Commonwealth.

As of June 30, 2004 and 2003, the System had no credit risk exposure to borrowers because the amounts the System owed the borrowers exceeded the amounts the borrowers owed the System. Under the securities lending program, the lending agent provides indemnification to the Commonwealth if the same borrowers fail to return the underlying securities (and the collateral is inadequate to replace the loaned securities) or fail to pay income distributions on them. There were no losses during the fiscal years ended June 30, 2004 and 2003 resulting from a default of the borrowers or the lending agent.

All securities loans can be terminated on demand by either the System or the borrower, although the average term of the loan is one day. There were no term loans as of June 30, 2004 and 2003.

Cash collateral is invested in the lending agent's short-term investment pool. The System's income from securities lending represents its pro-rata share from participating in the program. The weighted-average maturity of the investments in the pool was 35 days and 18 days at June 30, 2004 and 2003, respectively. The relationship between the maturities of the investment pool and the System's loans is affected by the maturities of the securities loans made by other entities that use the lending agent's pool, which the System cannot determine. The System cannot pledge or sell collateral securities received unless the borrower defaults. In the event of a default, the lending agent may use the collateral to replace the loaned securities.

As of June 30, 2004, the fair value of loaned securities was $4,641,206,000 which includes $267,045,000 of loaned securities which are collateralized by securities and irrevocable letters of credit that are not included in the Statement of Plan Net Assets. The fair value of the associated collateral was $4,781,103,000 of which $4,505,428,000 was cash. As of June 30, 2003, the fair value of loaned securities was $3,439,882,000 which includes $180,600,000 of loaned securities which were collateralized by securities and irrevocable letters of credit that are not included in the Statement of Plan Net Assets. The fair value of the associated collateral was $3,569,998,000 of which $3,387,690,000 was cash. The securities lending collateral pool is not categorized as to credit risk because securities are not used as evidence of the investment.

Notes to Financial Statements (Continued)

(5)
Derivative and Other Similar Investments

The System enters into a variety of financial contracts, which include options and futures. The System also enters into foreign exchange positions, such as forward and spot contracts to obtain or hedge foreign currency exposure; collateralized mortgage obligations (CMOs); other forward contracts, and U.S. Treasury strips. The System is not a dealer, but an end-user of these instruments. The contracts are used primarily to enhance performance and reduce the volatility of the portfolio. Short-term investments and cash equal to or greater than performance obligations under these contracts is maintained at all times. The System is exposed to credit risk in the event of nonperformance by counterparties to financial instruments. As the System generally enters into transactions only with high quality institutions, no losses associated with counterparty nonperformance on derivative financial instruments have been incurred. Legal risk is mitigated through selection of executing brokers and review of all documentation. The System is exposed to market risk, the risk that future changes in market conditions may make an instrument less valuable. Exposure to market risk is managed in accordance with risk limits set by senior management, through buying or selling instruments or entering into offsetting positions

The notional or contractual amounts of derivatives indicate the extent of the System's involvement in the various types and uses of derivative financial instruments and do not measure the System's exposure to credit or market risks and do not necessarily represent amounts exchanged by the parties. The amounts exchanged are determined by reference to the notional amounts and the other terms of the derivatives.

The following table summarizes the aggregate notional or contractual amounts for the System's derivative financial instruments at June 30, 2004 and 2003 (in thousands):

	2004	2003
Futures contracts - long	**$6,307,135**	$5,067,677
Futures contracts - short	**$2,316,670**	$2,727,179
Foreign exchange forward and spot contracts, gross	**$2,671,009**	$2,792,438
Options - calls purchased	**$58,171**	$85,070
Options - puts purchased	**-**	$66,213
Options - calls sold	**$58,691**	$96,320
Options - puts sold	**$25,791**	$1,523,489

Futures contracts are contracts in which the buyer agrees to purchase and the seller agrees to make delivery of a specific financial instrument at a predetermined date and price. Gains and losses on futures contracts are settled daily based on a notional (underlying) principal value and do not involve an actual transfer of the specific instrument. Futures contracts are standardized and are traded on exchanges. The exchange assumes the risk that a counterparty will not pay and generally requires margin payments to minimize such risk. In addition, the System enters into short sales, sales of securities it does not presently own, to neutralize the market risk of certain equity positions. Initial margin requirements on futures contracts and collateral for short sales are provided by investment securities pledged as collateral or by cash held in segregated accounts by the System's custodial bank or short sale broker. Although the System has the right to access individual pledged securities, it must maintain the amount pledged by substituting other securities for those accessed. The value of securities pledged and the amount of cash held at June 30, 2004 and 2003 represent a restriction on the amount of assets available as of year-end for other purposes.

Notes to Financial Statements (Continued)

Option contracts provide the option purchaser with the right, but not the obligation, to buy or sell the underlying security at a set price during a period or at a specified date. The option writer is obligated to buy or sell the underlying security if the option purchaser chooses to exercise the option. The System generally uses exchange listed currency, index, stock, and futures options. The System has authorized an investment manager to write covered call stock index option spreads up to a notional amount of $500,000,000.

Foreign exchange contracts involve an agreement to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. The contracts reported above primarily include forwards. The $2,671,009,000 of foreign currency contracts outstanding at June 30, 2004 consist of "buy" contracts, which represent the U.S. dollar equivalents of commitments to purchase foreign currencies of $1,757,164,000 and "sell" contracts, which represent U.S. dollar equivalents of commitments to sell foreign currencies of $913,845,000. The $2,792,438,000 of foreign currency contracts outstanding at June 30, 2003 consist of "buy" contracts of $1,766,479,000 and "sell" contracts of $1,025,959,000. The unrealized (loss) / gain on contracts of $(144,000) and $3,234,000 at June 30, 2004 and 2003, respectively, is included in the System's net assets and represents the fair value of the contracts.

The System also invests in mortgage-backed securities (MBS) such as CMOs and MBS forwards to maximize yields. These securities are sensitive to prepayments of mortgages, which may result from a drop in interest rates. The MBS forwards are subject to credit risk in the event of nonperformance by counterparties. The fair value of CMOs at June 30, 2004 and 2003 is $1,903,901,000 and $2,325,381,000, respectively.

The System invests in U.S. Treasury strips which essentially act as zero coupon bonds and are subject to market volatility from a rise or drop in interest rates.

Through certain collective trust funds, the System also indirectly holds various derivative financial instruments. The collective trust funds invest in futures and options thereon; forward foreign currency contracts; options; interest rate, currency, equity, index, and total return swaps; interest-only strips; and CMOs, to enhance the performance and reduce the volatility of their portfolios.

Swap agreements are used to modify investment returns or interest rates on investments in the collective trust funds. Swap transactions involve the exchange of investment returns or interest rate payments without the exchange of the underlying principal amounts. These swaps expose the collective trust funds entering into these types of arrangements to credit risk in the event of nonperformance by counterparties.

(6)
Pension Plan for Employees of the System

The System contributes to the Commonwealth's State Employees' Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, death, and disability benefits to plan members and beneficiaries according to Commonwealth statute. SERS issues a publicly available financial report that can be obtained by writing to SERS, 30 N. Third Street, P. O. Box 1147, Harrisburg, Pennsylvania 17108-1147.

The contribution requirements of plan members and the System are mandated by Commonwealth statute. Most SERS plan members are required to contribute 5% or 6.25% of their annual covered payroll depending upon service class. The System is required to contribute at an actuarially determined rate. The rates applied to annual covered payroll were 0.50%

Notes to Financial Statements (Continued)

at June 30, 2004, 0.18% at June 30, 2003 and 0% at June 30, 2002. The System's contributions to SERS for the year ending June 30, 2004, 2003 and 2002 were $84,000, $10,000 and $0 respectively, which were equal to the required contributions each year.

(7)
Litigation and Contingencies

The System is subject to various threatened and pending lawsuits. These lawsuits include issues related to benefit calculations and eligibility including challenges to amendments to the Public School Employees' Retirement Code which increased retirement benefits for certain active public school employees but did not provide for increased benefits for employees who retired before the effective date of the amendments It is the opinion of management that the ultimate liability arising from such threatened and pending litigation will not have a material effect on the financial position of the System. The System is exposed to various other liabilities and risks related to fiduciary responsibilities of directors and officers.

(8)
Pension Plan Amendments

(a) Act 38 of 2002 provided a two-phase Cost-of-Living Adjustment (COLA) for retirees. The first phase provided a COLA ranging from 8% to 25% depending on the annuitant's date of retirement. The first phase of the COLA was effective July 2002 for approximately 51,000 eligible annuitants who retired prior to July 2, 1990. The second phase provided a COLA ranging from 2.27% to 9% depending on the annuitant's date of retirement. The second phase of the COLA was effective July 2003 for approximately 58,000 eligible annuitants who retired on or after July 2, 1990.

(b) Act 234 of 2002 permits school districts, intermediate units, area vocational schools and charter schools to hire retired members of PSERS as coaches, directors, instructors, or sponsors of an extracurricular school activity without suspension of their monthly annuity, provided the following conditions are met:

- The retiree is hired by the school employer for an extracurricular position that is outside of regular instructional hours and that is not part of the school's mandated curriculum
- The retiree is employed under a separate written contract with the school employer
- The written contract contains a waiver by the retiree of any potential retirement benefits that could result from post-retirement employment
- The written contract contains a release of both the employer and PSERS from any liability for benefits related to the post-employment

(c) Act 40 of 2003 amended the actuarial cost method in three areas that affect employer contribution rates.

Act 40 changed the amortization period from 10 years to 30 years for:

- Unfunded liabilities accrued as a result of Act 9 of 2001
- Outstanding balances of net actuarial losses the fiscal years ended June 30, 2001 and 2002
- Net gains and losses in future years

Notes to Financial Statements (Continued)

Act 40 of 2003 continued the 10-year amortization for:

- Unfunded liabilities accrued prior to Act 9 of 2001.
- Any future active member improvements
- Any retiree cost-of-living adjustments (COLA)

Act 40 of 2003 established an employer contribution rate floor of 4%, exclusive of the premium assistance contribution rate, beginning July 1, 2004.

Required Supplemental Schedule 1
Schedule of Funding Progress*

(Unaudited - see accompanying auditors' report)
(Dollar Amounts in Millions)

Valuation as of June 30	(1) Actuarial accrued liabilities (AAL)	(2) Actuarial value of assets	(3) (Funded) Unfunded actuarial accrued liabilities (FAAL) or UAAL (1) – (2)	(4) Ratio of assets to AAL (2) / (1)	(5) Covered payroll	(6) (FAAL) or UAAL as a percentage of covered payroll (3) / (5)
2003	# $ 54,443.8	$ 52,900.5	$ 1,543.3	97.2%	$ 9,652.9	16.0%
2002	# 51,796.5	54,296.4	(2,499.9)	104.8%	9,378.9	(26.7)%
2001	# 47,917.3	54,830.3	(6,913.0)	114.4%	9,414.9	(73.4)%
2000	39,822.8	49,293.0	(9,470.2)	123.8%	8,939.6	(105.9)%
1999	37,499.1	44,606.5	(7,107.4)	119.0%	8,247.6	(86.2)%
1998	36,136.2	39,969.0	(3,832.8)	110.6%	8,091.5	(47.4)%

* The amounts reported in the Schedule of Funding Progress do not include assets or liabilities for Premium Assistance and HOP.

\# Includes the effects of Act 9 of 2001 and Act 38 of 2002.

See accompanying notes to required supplemental schedules.

Required Supplemental Schedule 2
Schedule of Employer Contributions*

(Unaudited - see accompanying auditors' report)
(Dollar Amounts in Thousands)

Year ended June 30	Annual required contributions	Percentage contributed
2004	$ 321,091	100%
2003	20,831	100%
2002	539	100%
2001	158,193	100%
2000	390,504	100%
1999	513,940	100%

The Board adopted all contribution rates as recommended by the Actuary pursuant to the prevailing provisions of the Retirement Code for each year.

* The amounts reported in the Schedule of Employer Contributions do not include premium assistance contributions.

See accompanying notes to required supplemental schedules.

Notes to Required Supplemental Schedules

June 30, 2004 and 2003

(Unaudited - see accompanying auditors' report)

(1)
Description of Schedule of Funding Progress

Each time a new benefit is added which applies to service already rendered, an "unfunded accrued liability" is created. The laws governing PSERS require that these additional liabilities be financed systematically over a period of future years. Also, if actual financial experiences are less favorable than assumed financial experiences, the difference is added to unfunded accrued liabilities.

In an inflationary economy, the value of the dollar is decreasing. In this environment, employees pay in greater dollar amounts, resulting in a dollar increase in unfunded accrued liabilities. This occurs at a time when the actual substance of these items may be decreasing. Looking at just the dollar amounts of unfunded accrued liabilities can be misleading. Unfunded accrued liabilities divided by active employee payroll provides an index which clarifies understanding. The smaller the ratio of unfunded liabilities to covered payroll, the stronger the system. Observation of this relative index over a period of years will give an indication of whether the system is becoming financially stronger or weaker.

(2)
Actuarial Assumptions and Methodologies

(a) Funding Method

An entry-age normal actuarial cost method of valuation is used in determining benefit liabilities and normal cost. The outstanding balance of the June 30, 2001 unfunded accrued liability is being amortized over a 10-year period commencing July 1, 2002, with level dollar funding. Changes in the unfunded accrued liability, including actuarial gains and losses, subsequent to June 30, 2001 are being amortized over a period of 10 years from the first day of July next following the change, with level dollar funding.

(b) Asset Valuation Method

For actuarial purposes, assets are valued using a five-year moving market average value that will recognize the 8.5% actuarial expected investment return immediately and spread the difference between actual and expected investment return (beginning with fiscal year ending June 30, 2001) over a period of five years (adopted as of June 30, 2001). Previously, PSERS immediately recognized interest and dividends when earned, and recognized realized and unrealized gains and losses on the market value of assets over a three-year period.

Notes to Required Supplemental Schedules (Continued)

(c) Actuarial Assumptions

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2003, the date of the most recent actuarial valuation include:

- Investment return – 8.5%, includes inflation at 3.5%
- Salary increases – 6.25%, which reflects an allowance for inflation of 3.5%, national productivity of 1%, and merit or seniority increases of 1.75%
- Amortization method – level dollar funding
- Remaining amortizations period – 10 years and 30 years in accordance with Act 40 of 2003
- Benefit payments – no postretirement benefit increases assumed in the future
- Multiple Decrement Tables – mortality, vesting, retirement age, and withdrawal estimates are based upon tables provided by the actuary

The System's actuarial values are calculated separately for retirees and beneficiaries and for active and inactive members.

The actuarial present value of benefits to be paid to retirees and beneficiaries currently receiving benefits and deferred survivor beneficiaries, whose benefits have been determined, is calculated using the assumptions noted above. The Reserve for Retirement Account with interest credited thereon at an annual rate of 5.50% is compared to the actuarial accrued liability for the remaining lifetimes of the retirees and beneficiaries and any deficiency is then funded by a transfer from the State Accumulation Account. Consequently, all such determined benefits are fully funded.

The actuarial accrued liability for active and inactive members is calculated on the projected benefit basis using the entry-age normal actuarial cost method under which the present value of each member's expected benefit payable at retirement or death is determined. The assets of the Members' Savings Account, State Accumulation Account and the fair value adjustment are subtracted from this present value to arrive at the funded or unfunded actuarial accrued liability.

Supplemental Schedule 1
Schedule of Operating Expenses
Fiscal Year Ended June 30, 2004

(Dollar Amounts in Thousands)

	Administrative expenses (1)	Investment expenses (2)	Total
Personnel costs:			
Salaries and wages	$ 12,233	$ 2,771	$ 15,004
Social security contributions	933	206	1,139
Retirement contributions	67	17	84
Employees' insurance contributions	2,832	501	3,333
Other employee benefits	146	402	548
Total personnel costs	16,211	3,897	20,108
Operating costs:			
Investment managers' fees	-	182,860	182,860
Custodian fees	-	338	338
Specialized services	22,688	191	22,879
Rental of real estate, electricity	1,698	115	1,813
Consultant and legal fees	1,675	2,360	4,035
Treasury and other Commonwealth services	912	79	991
Postage	1,125	-	1,125
Contracted maintenance and repair services	415	14	429
Office supplies	341	3	344
Rental of equipment and software	1,224	76	1,300
Printing	726	-	726
Travel and training	205	54	259
Telecommunications	714	1	715
Equipment (not capitalized)	202	150	352
Miscellaneous expenses	241	1,162	1,403
Total operating expenses	32,166	187,403	219,569
Fixed charges:			
Furniture and fixtures	(20)	-	(20)
Depreciation	845	-	845
Total fixed charges	825	-	825
Total operating expenses	$ 49,202	$ 191,300	$ 240,502

(1) Includes administrative expenses of $1,714 related to Postempoyment Healthcare Premium assistance and $7,474 related to Postemployment Healthcare Health Options Program for the fiscal year ended June 30, 2004.

(2) Does not include $20,905 in capitalized broker commissions for the fiscal year ended June 30, 2004.

Supplemental Schedule 2
Summary of Investment Expenses
Fiscal Year Ended June 30, 2004

(Dollar Amounts in Thousands)

	Assets under management*	Fees
External management		
Short-term **	$ -	$ 585
Domestic equity	5,294,000	20,651
International equity	7,987,000	23,743
Fixed income	7,726,000	13,847
Real estate	2,898,000	28,946
Private equity and debt	4,318,000	79,304
Venture capital	366,000	15,784
Total external management	28,589,000	182,860
Total internal management	19,836,000	5,258
Total investment management	$ 48,425,000	188,118
Custodian fees		338
Consultant and legal fees		2,360
Miscellaneous expenses		484
Total investment expenses		$ 191,300

* Net asset value at June 30, 2004.

** Short-term investments with a fair value of $2,665,000 are included in the other external and internal management assets under management amounts.

Supplemental Schedule 3
Schedule of Payments to Non-Investment Consultants
Fiscal Year Ended June 30, 2004

(Payment amounts greater than $50,000)

Consultant		Fees	Services Provided
Tier Technologies, Inc.	$	7,467,810	NPAS project development
CoreSource, Inc.		6,045,119	Postemployment healthcare benefits administration and claims adjudication
Mellon Consultants, Inc.		565,452	Pension benefit actuarial services
AON		435,843	HOP Communication, open enrollment and consulting services
Benecard Services, Inc.		385,264	Postemployment healthcare benefits administration
The Segal Company		294,522	HOP consulting
Akin Gump Straus Hauer & Feld LLP		108,433	Legal services
Clifton Gunderson LLP		82,168	Financial audit of pension system and postemployment healthcare programs
L.R. Wechsler Ltd.		80,819	Information technology consulting

Public School Employees' Retirement System

Manor Street Elementary School, Lancaster County

Investment Section

COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

ALAN H. VAN NOORD, CFA
Chief Investment Officer

Investment Overview

Authority

The PSERS Board of Trustees has the responsibility to invest funds of the System in accordance with guidelines and limitations set forth in the Code and other applicable state law. Act 29 of 1994 authorizes the Board to invest the funds of the System using the "prudent person" standard which allows the Board to consider the probable safety of investments, avoid speculative investments, and invest as people of prudence, discretion, and intelligence would manage their own affairs.

Policy and Objectives

The Board is responsible for the formulation of investment policy for the System. The overall investment objectives of the System are to: (i) preserve capital in real terms; (ii) maximize total returns while limiting the risk of volatility through diversification; (iii) achieve returns in excess of the policy benchmark (the policy benchmark is a custom index created based on the Board established asset allocation structure to generate a return that meets the actuarial rate of return assumption); (iv) to achieve a real rate of return over CPI over time; and (v) provide sufficient liquidity to meet the current operating needs of the System. To achieve these objectives, the Board meets at least once per year to establish an overall asset allocation plan and investment policies for the System. Implementation of the investment policies is accomplished through external investment management firms who act as agents for the System and through internal investment managers. The Board also retains various investment consultants to assist with the formulation and implementation of investment policy.

Operations

The Board provides oversight of investment activities through the Finance Committee that makes recommendations to the Board. The Finance Committee generally conducts eight meetings per year and may meet more frequently as needed. Investment Office staff, as well as outside investment advisors, internal investment managers, and Investment Accounting office staff, assist the Board in achieving investment objectives and monitoring compliance with investment policy. For the fiscal year ended June 30, 2004, Wilshire Associates Incorporated (Wilshire) served as the overall investment consultant to assist the Board in formalizing investment objectives, establishing an asset allocation plan, conducting investment advisor searches, reviewing performance, and commenting on compliance with investment policy. In addition, the Board utilized Russell Real Estate Advisors as a real estate consultant and Portfolio Advisors, LLC as an alternative investment consultant. Alternative investments generally consist of investments in private debt, private equity, and venture capital limited partnerships. Investment Office staff implements the investment decisions within the stated policy regarding asset allocation, security selection, or other objectives directed by the Board.

The Board employs both external investment management firms and internal investment managers to manage the investment portfolio of the System. At year end, 28 external investment management firms were managing $21.8 billion in assets of the System, $19.8 billion in assets were managed by the System's internal investment managers, and the remaining $7.4 billion in assets were managed by numerous developmental, alternative investment, and real estate managers. The performance of each external investment management firm and each internal manager is monitored annually against a pre-established benchmark as well as the performance of its peers.

Asset Allocation

The Board reviews the long-term asset allocation targets of the System at least annually, usually in the first quarter of the calendar year. In establishing the asset allocation plan, the Board will consult with its actuary, consultants, Investment Office staff, and other sources of information it deems appropriate in formulating this plan. The purpose of the asset allocation plan is to meet the long-term financial needs and investment objectives of the System.

The long-term target allocation for FY 2004 included an equity target allocation of **60.0%** consisting of publicly traded stocks. Specific targets have been established for U.S. equity exposure (42.0%) and international equity exposure (18.0%). Within the U.S. equity target, the portfolios are diversified between large and small capitalization investment managers and growth and value investment managers. The international equity exposure includes both developed and emerging markets portfolios.

The fixed income target allocation of **22.0%** consisted of U.S. core fixed income exposure (10.4%), Treasury Inflation-Protected Securities exposure (5.0%), specialty fixed income exposure (3.3%), and global fixed income exposure (3.3%). Within these categories, all sectors of the bond market are represented. Specialty fixed income includes high yield and mortgage-backed portfolios.

The real estate target allocation of **7.0%** consists primarily of opportunistic limited partnerships and publicly traded real estate investment trusts (REITs).

Alternative investments have a target of **11.0%**. The primary vehicle used to invest funds in this asset class is the limited partnership. The partnerships are established by individual management groups that have been selected by the System for the purpose of investing in and managing private equity and unlisted subordinated debt positions on behalf of PSERS and other limited partners.

Finally, unallocated cash of the System has an asset allocation target of 0% since cash historically represents the lowest returning asset class over time.

Investment Results

As of June 30, 2004, the fair value of the investment portfolio was $49.0 billion. The market value increased approximately $5.3 billion over last year's value. This increase came primarily from net investment income ($8.2 billion), which was partially offset by benefit payments in excess of member and employer contributions ($2.1 billion) and net changes in other investment assets and liabilities ($0.8 billion). The investment portfolio, as invested, was composed of 61.6% of common and preferred stocks (equity), 22.1% of fixed income investments, 6.7% real estate, and 9.6% of alternative investments at June 30, 2004. The table on page 73 illustrates a more detailed description of the investment portfolio's asset classes in dollars and as a percent of the total investment portfolio.

The first half of the past fiscal year was very strong for the global equity markets as both the Federal Reserve's accommodative Federal Funds rate (1.00%) and the massive fiscal stimulus package passed by Congress in the latter half of FY 2003 led to significant amounts of liquidity in the markets. This liquidity, combined with increases in both business and consumer spending, improving durable goods orders, low inflation, and strong Gross Domestic Product growth continued to fuel a significant rally in the global equity markets while the fixed income markets remained relatively flat. The second half of the past fiscal year saw the equity markets continue to advance while the fixed income markets remained flat. During this period, the markets had to deal with increased inflation fears as there were a couple of strong U.S. jobs reports, rising oil prices, and geopolitical uncertainties, including the upcoming presidential election in the U.S., the on-going war in Iraq, and terrorism concerns. In addition, on June 30, 2004, the Federal Reserve increased the Federal Funds rate by 25 basis points to 1.25%.

Strong domestic and international equity markets drove the System's returns for the fiscal year. In the U.S., the Dow Jones Wilshire 5000 Index, a domestic equity index, was up 21.24% during the fiscal year, driven by improved economic prospects and significant liquidity generated by the accommodative fiscal and monetary policies. The Morgan Stanley Capital International (MSCI) All-Country World Index Free Ex. U.S., an international equity index, was up 32.50% during the fiscal year, driven by the same factors driving the U.S. equity markets and a weakening U.S. dollar. In the corporate bond market, credit spreads continued to tighten during the fiscal year as improved economic conditions led to fewer defaults which resulted in continued strength in the high yield bond market as evidenced by the 11.74% return in the Credit Suisse First Boston High Yield Bond Index during the fiscal year.

Strong returns in the System's equity portfolios overcame the weakness in both the domestic and international investment grade bond portfolios. With the improved economic prospects, fixed income markets around the globe struggled as the prospects for further Federal Reserve tightening hung over the markets. The Lehman Brothers Aggregate Index, a U.S. investment-grade bond index, was up a modest 0.32% while the Lehman Brothers Global Aggregate Index, a global investment-grade bond index, was up 4.61%.

As a result of the strong returns from the equity portfolios, the System was able to generate a total return of 19.67% for the one-year period ended June 30, 2004. This return exceeded the total fund policy benchmark return of 16.34% by 333 basis points. Annualized total returns for the three- and five-year periods ended June 30, 2004 were 5.21% and 3.88%, respectively. These returns exceeded the total fund policy benchmark returns for the three- and five-year periods ended June 30, 2004 of 4.18% and 2.45%, respectively.

Wilshire calculates the total investment return of the System as well as the performance of each external investment management firm and each internal investment manager employed by the Board to invest the System's assets. All performance measurement calculations are conducted in accordance with the presentation standards of the Association of Investment Management and Research.

The following table provides the System's total investment return for each major asset class and the total portfolio, including, where applicable and available, respective benchmark indices used by asset class and median performance by asset class:

	Annualized Total Returns (%) Net of Fees Ended June 30, 2004		
	1 Year	**3 Years**	**5 Years**
PSERS TOTAL PORTFOLIO	**19.67**	**5.21**	**3.88**
Total Fund Policy Benchmark	16.34	4.18	2.45
Median Public Defined Benefit Plan (DBP) Fund Universe (Wilshire Database)	16.47	4.31	3.17
PSERS DOMESTIC STOCK PORTFOLIOS	**22.30**	**2.06**	**1.89**
Dow Jones Wilshire 5000 Index	21.24	0.79	(1.04)
Median Public DBP Fund Universe - Domestic Equities (Wilshire Database)	21.23	0.62	(0.65)
PSERS INTERNATIONAL STOCK PORTFOLIOS	**32.14**	**5.48**	**2.68**
MSCI All-Country World Index Free Ex. U.S.	32.50	5.25	0.96
Median Public DBP Fund Universe - International Equities (Wilshire Database)	30.95	3.93	1.28
PSERS DOMESTIC FIXED INCOME PORTFOLIOS	**3.31**	**7.74**	**7.49**
Lehman Brothers Aggregate Index	0.32	6.36	6.95
Median Public DBP Fund Universe - Domestic Bonds (Wilshire Database)	1.88	6.81	6.89
PSERS GLOBAL FIXED INCOME PORTFOLIOS	**4.89**	**11.80**	**6.63**
Lehman Brothers Global Aggregate Index	4.61	11.33	6.67
Median Public DBP Fund Universe - Global Bonds (Wilshire Database)	7.31	11.80	6.30
PSERS REAL ESTATE*	**23.59**	**10.83**	**11.02**
Blended Real Estate Index**	12.51	8.94	10.23
Median Public DBP Fund Universe - Real Estate (Wilshire Database)	15.92	9.87	10.86
PSERS ALTERNATIVE INVESTMENTS*	**20.63**	**2.82**	**5.67**
Venture Economics Median Return, Vintage Year Weighted***	6.33	(1.49)	(0.54)

* Returns reported on a one-quarter lag, except for publicly traded REIT investments.

** Returns presented are a blend of the Wilshire REIT Index (16%) and the NCREIF Index (84%). The NCREIF Index is reported on a one-quarter lag.

*** Returns presented are on a one-quarter lag.

The System also is involved in a securities lending program administered by Mellon Bank N.A. This program provides incremental income to the System by lending securities in the System's portfolio to securities dealers in exchange for either cash collateral, which can be reinvested to generate income, or non-cash collateral plus a cash fee. This program generated approximately $14.7 million in additional net income during the year.

Accomplishments

The System's returns during the fiscal year ended June 30, 2004 not only exceeded its total fund policy benchmark, but also placed the System in the top quartile of all public defined benefit pension funds in the country as measured by Wilshire. Strong returns such as these can be attributed to the combined efforts of the Board, the System's Investment Office and Investment Accounting staff, and its external consultants and investment advisors. Without their efforts, accomplishments such as this would not be possible.

The System continued its multi-year project to implement an independent accounting book of record for the System's investment transactions and holdings. In FY 2004, the domestic and international equity portfolios were converted to the System's internal investment accounting software provided by Financial Control Systems, Inc. In FY 2005, the domestic and international fixed income portfolios will be converted to the internal accounting software.

Summary

The System had a tremendous fiscal year ended June 30, 2004, as the returns generated by the System were in the top quartile of all public defined benefit pension plan returns. Strong returns generated in the domestic and international equity markets outweighed the weaker returns produced by the domestic and global fixed income portfolios. For the fiscal year ended June 30, 2004, the System exceeded its targeted actuarial rate of return of 8.5%. In addition, we continue to believe that the System's asset allocation is structured to generate a long-term return that meets the actuarial rate of return assumption of the System for years to come.

Alan H. Van Noord, CFA
Chief Investment Officer

Portfolio Summary Statistics
Asset Allocation
As of June 30, 2004

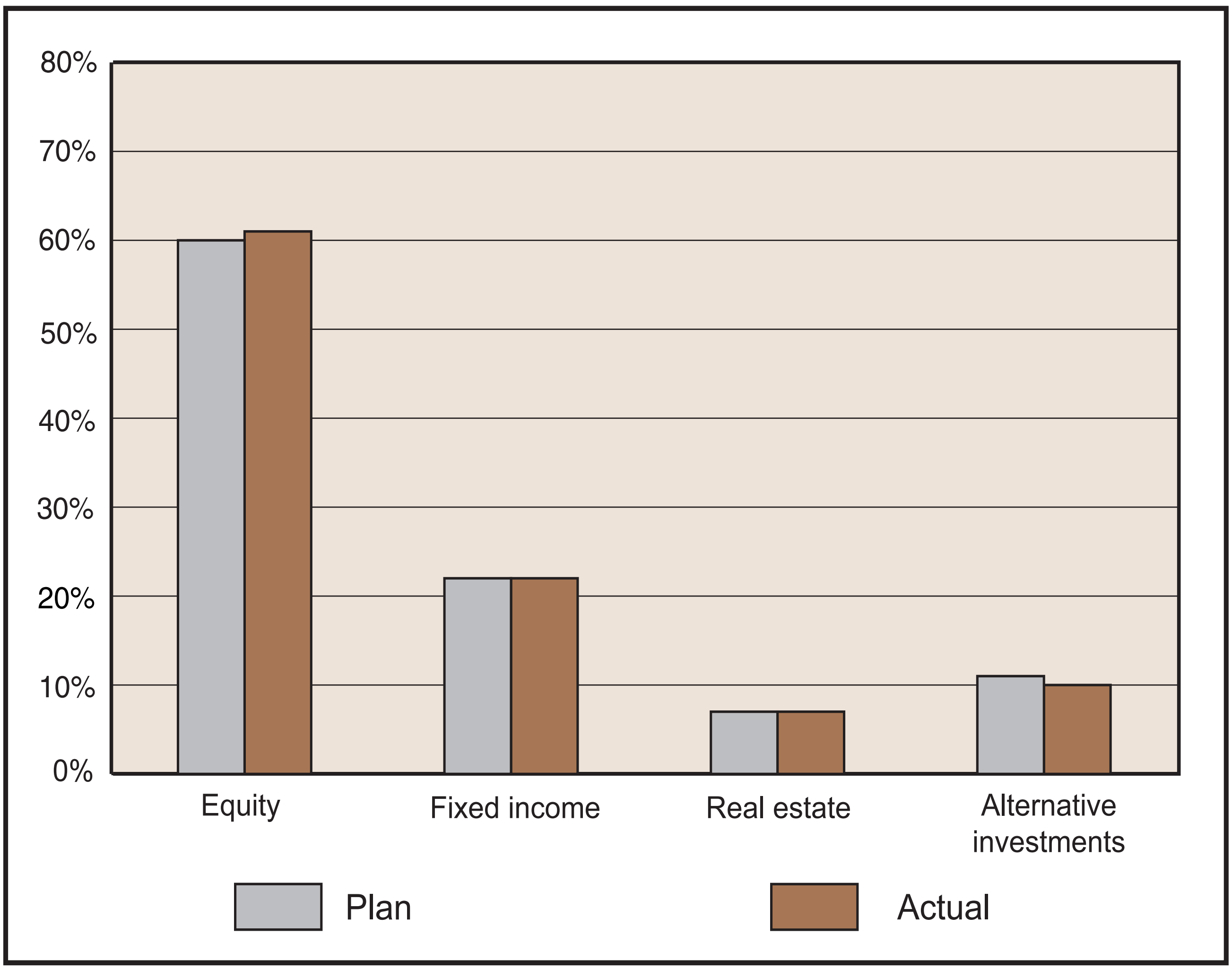
(Dollar Amounts in Thousands)

Pension investments	Fair Value ($)	% Fair Value
Common and preferred stock (Equity):		
Domestic common and preferred stock	$ 18,143,777	37.2%
Collective trust funds	335,911	0.7%
International common stock	8,208,411	16.8%
Subtotal per Statement of Plan Net Assets	26,688,099	54.7%
Short-term *	481,358	1.0%
Enhanced S&P 500 Index *	3,974,209	8.1%
Publicly and privately traded REITs *	(1,059,746)	(2.2%)
Total Common and preferred stock - Asset Allocation Basis	**30,083,920**	**61.6%**
Fixed income:		
Domestic mortgage-backed securities	4,856,812	10.0%
U.S. government and agency obligations	2,176,793	4.5%
Domestic corporate and taxable municipal bonds	2,880,925	5.9%
Miscellaneous domestic fixed income	407,476	0.8%
Collective trust funds	303,563	0.6%
International fixed income	1,479,588	3.0%
Subtotal per Statement of Plan Net Assets	12,105,157	24.8%
Short-term *	2,657,409	5.4%
Enhanced S&P 500 Index *	(3,974,209)	(8.1)%
Total Fixed income - Asset Allocation Basis	**10,788,357**	**22.1%**
Real estate:		
Equity real estate	1,810,972	3.7%
Real estate owned	398,795	0.8%
Subtotal per Statement of Plan Net Assets	2,209,767	4.5%
Publicly and privately traded REITs *	1,059,746	2.2%
Total Real estate - Asset Allocation Basis	**3,269,513**	**6.7%**
Alternative investments:		
Private equity	3,004,550	6.2%
Private debt	1,314,044	2.7%
Venture capital	366,259	0.7%
Total Alternative investments - Asset Allocation Basis	**4,684,853**	**9.6%**
Pension investments - Asset Allocation Basis	**$ 48,826,643**	**100.0%**
Postemployment Healthcare investments	**$ 205,036**	**100.0%**

* - For asset allocation purposes, Short-term investments are included with the asset class of the investment manager which holds them, Publicly and privately traded REIT portfolios are reclassified from Common and preferred stock (Equity) to Real estate, and Enhanced S&P 500 Index portfolios are reclassified from Fixed income to Common and preferred stock (Equity). See the table and graph which follow.

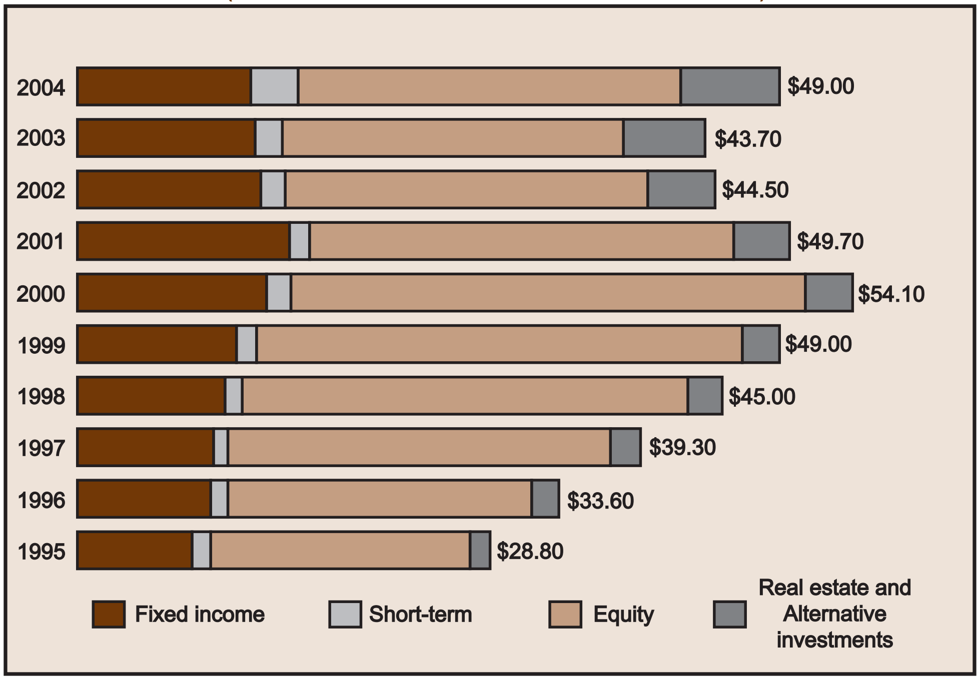
Comparison of Actual Portfolio Distribution to Asset Allocation Plan As of June 30, 2004

Asset Category	Plan	Actual
Common and preferred stock (Equity)	60%	61%
Fixed income	22%	22%
Real estate	7%	7%
Alternative investments	11%	10%
Total	100%	100%



Portfolio Distribution 10 Year Trend

(Fair Value - Dollar Amounts in Billions)



The following lists of portfolio detail statistics present the ten largest holdings by descending order of fair value for the largest asset classes. Information on the complete holdings of the System is available by writing to the Public School Employees' Retirement System, Office of Financial Management, P. O. Box 125, Harrisburg, PA 17108.

Portfolio Detail Statistics as of June 30, 2004

Domestic common and preferred stock

10 Largest Holdings in Descending Order by Fair Value

(Dollar Amounts and Shares in Thousands)

Description	No. of Shares	Fair Value ($)
General Electric Company	11,363	368,154
Microsoft Corporation	11,657	332,913
Exxon Mobil Corporation	7,047	312,959
Security Capital Preferred Growth	9,674	304,621
Pfizer Inc.	8,243	282,576
Citigroup Inc.	5,576	259,272
Wal-Mart Stores, Inc.	4,304	242,898
American International Group, Inc.	2,832	201,892
Intel Corporation	6,971	192,391
Bank of America Corporation	2,209	186,908
Total of 10 Largest Holdings		**2,684,584**
Total System Holdings - Domestic common and preferred stock		**18,143,777**

Portfolio Detail Statistics as of June 30, 2004

International common stock

10 Largest Holdings in Descending Order by Fair Value

(Dollar Amounts and Shares in Thousands)

Description	No. of Shares	Fair Value ($)
Vodafone Group PLC	59,299	129,853
Nestle SA	376	100,248
Glaxosmithkline PLC	4,814	97,431
Royal Bank of Scotland	3,376	97,230
UBS AG	1,123	79,158
BP PLC	8,314	73,428
Takeda Pharmaceutical Company Ltd.	1,601	70,291
Canon, Inc.	1,266	66,693
Barclays PLC	7,778	66,260
Total SA	332	63,241
Total of 10 Largest Holdings		**843,833**
Total System Holdings - International common stock		**8,208,411**

Portfolio Detail Statistics as of June 30, 2004

Domestic and international fixed income

10 Largest Holdings in Descending Order by Fair Value

(Dollar Amounts and Shares in Thousands)

Description	Maturity Date	Interest Rate (%)	Par Value($) or No. of Shares	Fair Value ($)
U.S. Treasury - Inflation Index	04/15/28	3.625	164,108	200,264
U.S. Treasury - Inflation Index	07/15/12	3.000	167,529	181,200
U.S. Treasury - Inflation Index	01/15/11	3.500	129,472	143,795
U.S. Treasury - Inflation Index	01/15/08	3.625	131,018	143,219
U.S. Treasury - Inflation Index	07/15/13	1.875	133,212	131,627
U.S. Treasury - Inflation Index	01/15/12	3.375	95,015	105,288
U.S. Treasury - Inflation Index	01/15/10	4.250	78,434	89,807
U.S. Treasury - Inflation Index	01/15/07	3.375	77,299	82,831
Pyramid High Yield Fixed Income Fund	-	-	36,169	77,655
U.S. Treasury - Inflation Index	01/15/14	2.000	71,036	70,639
Total of 10 Largest Holdings				**1,226,325**
Total System Holdings - Domestic and international fixed income				**12,105,157**

Portfolio Detail Statistics as of June 30, 2004

Postemployment Healthcare investments

10 Largest Holdings in Descending Order by Fair Value

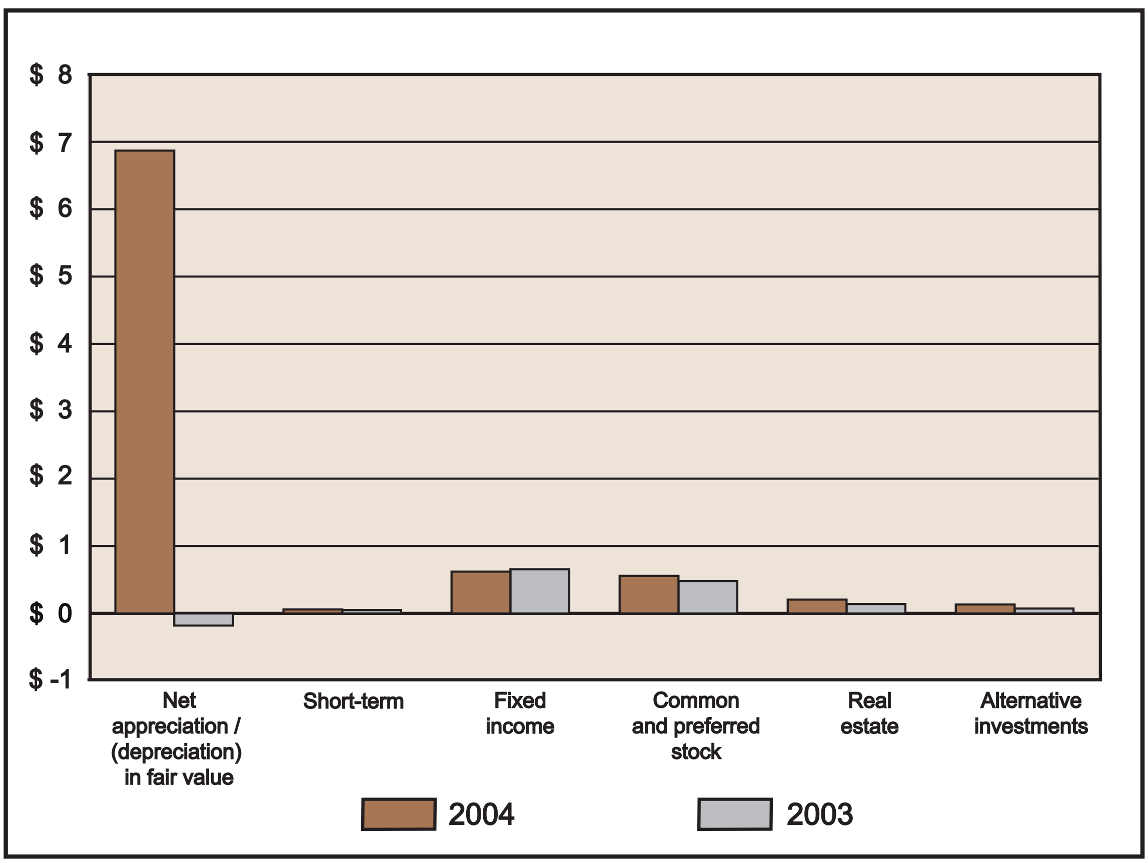
(Dollar Amounts in Thousands)

Description	Maturity Date	Interest Rate (%)	Par Value ($)	Fair Value ($)
PA Treasury Short-Term Investment Fund	Various	Various	56,094	56,094
M & T Bank Repurchase Agreement	07/01/04	0.875	16,353	16,353
U.S. Treasury - Inflation Index	07/15/13	1.875	15,353	15,170
M & T Bank Repurchase Agreement	07/01/04	0.731	15,000	15,000
FHLMC Multiclass 1465 Class G	12/15/07	7.000	6,697	6,785
FHLMC Multiclass 2562 Class PA	12/15/06	4.500	3,738	3,736
FHLMC Multiclass 2782 Class HD	09/15/06	4.000	3,524	3,533
FHLMC Multiclass 2332 Class VL	04/15/12	6.500	3,121	3,152
Toyota Auto Owner Trust 2001-C Class A4	09/15/08	4.720	2,117	2,139
Ford Credit Auto Owner Trust 2001-E Class A4	03/15/06	4.010	2,052	2,069
Total of 10 Largest Holdings				**124,031**
Total System Holdings - Postemployment Healthcare investments				**205,036**

Comparison of Investment Activity Income
For Fiscal Years Ended June 30, 2004 and 2003
(Dollar Amounts in Thousands)

Investing Activities	2004	2003
Net appreciation (depreciation) in fair value of investments	$ 6,871,417	$ (172,506)
Short-term	34,622	30,178
Fixed income	619,972	655,861
Common and preferred stock	556,984	480,735
Real estate	205,229	140,774
Alternative investments	132,984	51,449
Total investment activity income	$ 8,421,208	$ 1,186,491

(Dollar Amounts in Billions)



Brokers' fees on equity investment transactions for the fiscal year ended June 30, 2004 were $20.9 million. The System has commission recapture contracts with several brokers. These contracts generally stipulate that the brokers rebate a percentage of commissions earned on investment transactions directly to the System. During the fiscal year ended June 30, 2004, the System earned $3.9 million from a commissions recapture program. A list of the brokers receiving fees in excess of $100,000 during the fiscal year follows.

Summary Schedule of Brokers' Fees

(Cumulative Fiscal Year Amounts Exceeding $100,000)
Fiscal Year Ended June 30, 2004

Broker Name	Fees Paid ($)	Broker Name	Fees Paid ($)
Merrill Lynch	1,627,111	ABN AMRO	309,835
UBS Warburg	1,303,547	Susquehanna Financial Group	288,029
Goldman Sachs and Company	1,287,427	Status Securities	268,188
J. P. Morgan, Inc.	1,252,217	Union Bank	264,120
Citigroup	1,114,003	Lynch, Jones & Ryan	254,584
Morgan Stanley and Company	1,022,940	Weeden and Company	230,956
Deutsche Bank	848,865	Nomura Securities International	229,132
Bear, Stearns and Company	845,689	Jefferies and Company Inc.	205,712
Credit Suisse First Boston	748,066	Legg Mason Wood Walker	204,166
Lehman Brothers	681,105	Execution Services Ltd.	180,370
Dresdner Kleinwort Wasserstein	535,961	Knight Securities	175,868
Instinet Corp.	436,290	ING Barings	170,364
Jones & Associates	382,028	BNP Paribas	158,984
Credit Lyonnais Securities	360,460	RBC Dominion	127,175
Investment Technology Group	343,398	HSBC Securities	124,983
Tradition Asiel Securities Inc.	336,643	Cathay Financial Corp.	114,891
Cantor, Fitzgerald & Company	329,019	L H Friend	107,589

Professional Consultants

External Investment Advisors

Domestic Enhanced Equity Index

- Acorn Derivatives Management Corp.
- Pacific Investment Management Company
- Smith Breeden Associates, Inc.

Domestic Small Cap Equity

- The Boston Company Asset Management, LLC
- Duncan-Hurst Capital Management, LP
- Emerald Advisors, Inc.
- First Pacific Advisors, Inc.
- Longwood Investment Advisors, Inc.
- Mellon Equity Associates
- NorthPointe Capital
- Wellington Management Company, LLP

Publicly Traded REIT

- Morgan Stanley Investment Management, Inc.
- Security Capital Global Capital Management Group, Inc.

International Large Cap Equity

- Baillie Gifford Overseas Ltd.
- Bank of Ireland Asset Management
- The Boston Company Asset Management, LLC
- Marathon Asset Management Limited
- Martin Currie, Inc.
- Mercator Asset Management, LP

International Emerging Market Equity

- The Boston Company Asset Management, LLC
- Templeton Investment Counsel, Inc.

Short-Term Investment Funds

- Evergreen Investment Management Co., LLC

Domestic Fixed Income

- BlackRock Financial Management, Inc.
- Deutsche Asset Management, Inc.
- Pacific Investment Management Company

Professional Consultants (Continued)

Treasury Inflation - Protected Securities

- Bridgewater Associates, Inc.
- Brown Brothers Harriman & Co.

Specialty Fixed Income

- MacKay-Shields Financial Corporation
- W.R. Huff Asset Management Company, LLC
- Wellington Management Company, LLP

Global Fixed Income

- Deutsche Asset Management, Inc.
- Fischer Francis Trees & Watts, Inc.
- Rogge Global Partners

Real Estate

- ArCap REIT, Inc.
- Berwind Property Group, Inc.
- Carlyle Group (The)
- Charter Oak Advisors, Inc.
- Credit Suisse First Boston Advisory Partners, LLC
- Fortress Investment Fund, LP
- GF Management, Inc.
- Goldman Sachs Asset Management
- Hines U.S. Office Value Added Fund, LLC
- L&B Realty Advisors
- Laureate Capital, LLC
- Lazard Freres Real Estate Investors, LLC
- Legg Mason Real Estate Capital, Inc.
- Legg Mason Real Estate Services
- Lehman Brothers
- Lubert-Adler Partners
- Morgan Stanley Investment Management, Inc.
- Paladin Realty Partners, LLC
- Peabody Group (The)
- Prudential Agricultural Group
- RREEF America, LLC
- Security Capital Global Capital Management Group, Inc.
- Stockbridge Capital Group, LLC
- Westbrook Partners, LLC

Professional Consultants (Continued)

Private Equity

- ABS Capital Partners
- BG Media Investors
- Bastion Capital Corporation
- Bear Stearns Merchant Banking Partners II, LP
- Blue Point Capital Partners, LLC
- Bridgepoint Capital Limited
- Bruckmann, Rosser, Sherrill & Company, Inc.
- Catterton Partners V Management Company, LLC
- Clarity Partners, LP
- Credit Suisse First Boston Advisory Partners, LLC
- Deutsche Asset Management, Inc.
- Dubin Clark & Company, Inc.
- Goldman Sachs Asset Management
- Gordon Management, Inc.
- Graham Partners Investments, LP
- Greenwich Street Capital Partners
- Halifax Group (The)
- Heritage Partners, Inc.
- Houlihan, Lokey, Howard & Zukin Investment Fund
- ING Barings
- KRG Capital Partners, LLC
- Landmark Advisors, Inc.
- Lehman Brothers
- Leonard Green & Partners, Inc.
- Lexington Capital Partners, Inc.
- Lindsay, Goldberg & Bessemer, LP
- Morgan Stanley Investment Management, Inc.
- New Mountain Capital, LLC
- New York Life Capital Partners, LP
- PAI Management
- PNC Equity Management Corp.
- Palladium Equity Partners II, LLC
- Platinum Equity Advisors, LLC
- Quadrangle Capital Partners, LP
- SC Partners, LP
- TPG Partners, LP
- Wasserstein & Co.
- Wicks Communications & Media Partners, LP
- Willis Stein & Partners

Professional Consultants (Continued)

Venture Capital

- Adams Capital Management, Inc.
- Apax Partners
- Cross Atlantic Capital Partners, Inc.
- Edison Venture Funds
- Franklin Capital Associates III, LP
- Grotech Capital Group, Inc.
- Jefferson Partners
- KBL Healthcare Ventures, LP
- LLR Equity Partners, LP
- Landmark Advisors, Inc.
- Lehman Brothers
- Mid-Atlantic Venture Funds
- Pennsylvania Early Stage Partners, LP
- Perseus-Soros BioPharmaceutical Fund, LP
- Philadelphia Ventures, Inc.
- Quaker BioVentures Capital, LP
- SCP Private Equity Partners, LP
- Spectrum Equity Partners
- StarVest Management, Inc.
- Sterling Venture Partners, LLC
- TDH III, LP
- Technology Leaders, LP

Private Debt

- Avenue Capital Management, LLC
- Cerberus Institutional Associates , LLC
- Gleacher & Co., LLC
- Greenwich Street Capital Partners
- New York Life Capital Partners, LP

Developmental Fund

- Charter Financial Group, Inc.
- Connors Investor Services, Inc.
- EDMP, Inc.
- Global Capital Management, Inc.
- Hanseatic Management Services, Inc.
- John Hsu Capital Group, Inc.
- Piedra Capital, Inc.
- Roll & Ross Asset Management, LP
- Smithbridge Asset Management, Inc.
- Snow Capital Management, LP
- Tanaka Capital Management, Inc.
- Tucker Hargrove Management, Inc.
- West Chester Capital Advisors

Professional Consultants (Continued)

Investment Accounting Application Service Provider

- Financial Control Systems, Inc.

Custodian and Securities Lending Agent

- Mellon Bank N.A.

Investment Evaluator

- Wilshire Associates Inc.

Real Estate Consultant

- Russell Real Estate Advisors

Alternative Investment Consultant

- Portfolio Advisors, LLC

Proxy Voting Agent

- Institutional Shareholder Services

Public School Employees' Retirement System

Old Brown's Mill School, Franklin County

Actuarial Section

Mellon

Human Resources & Investor Solutions

January 30, 2004

The Retirement Board
Public School Employees'
Retirement System of Pennsylvania
P.O. Box 125
Harrisburg, Pennsylvania 17108

Ladies and Gentlemen:

This report presents the results of the annual actuarial valuation of the Public School Employees' Retirement System of Pennsylvania as of June 30, 2003.

The valuation takes into account all of the promised benefits to which members are entitled, including pension and survivor benefits and establishes the contribution rate for the 2004/2005 fiscal year in conformance with the Retirement Code.

The valuation was based on the actuarial assumptions and methods as adopted by the Board of Trustees, including a valuation interest rate of 8½% per annum compounded annually. The actuarial assumptions are unchanged from the prior valuation. The method for determining the liability for vestees has been changed due to improved data reporting.

The actuarial cost method has changed in accordance with Act 40. The outstanding balance of the unfunded accrued liability as of June 30, 2001 and the decrease in the unfunded accrued liability due to the actuarial asset method change provided by Act 38 continue to be amortized over a 10-year period, with level dollar funding, beginning July 1 2002. The increases in the unfunded accrued liability due to the July 1, 2002 and July 1, 2003 cost-of-living adjustments provided by Act 38 continue to be amortized over a 10-year period, with level dollar funding, starting on July 1, 2003 and July 1, 2004, respectively. All other changes in the unfunded accrued liability at June 30, 2001, June 30, 2002, and June 30, 2003 – including the Act 9 benefit changes – are amortized over a 30-year period, with level dollar funding, starting on July 1, 2002, July 1, 2003, and July 1, 2004, respectively. Future benefit improvements for active members and retirees will be amortized over a 10-year period with level dollar funding. Future gains and losses will be amortized over a 30-year period with level dollar funding. Act 40 also provides a 4.00% floor on the employer pension rate.

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Assets and Membership Data

The Retirement System reported the individual data for members of the System as of the valuation date to the actuary. While we did not verify the data at their source, we did perform tests for internal consistency and reasonableness. The amount of assets in the trust fund taken into account in the valuation was based on statements prepared for us by the Retirement System.

Funding Adequacy

The valuation results determine that the employer contribution rate for fiscal year 2004/2005 is 4.23%. The funded status of the plan determined as of June 30, 2003 based on the accrued liability and the actuarial value of assets is 97.2%.

Financial Results and Membership Data

Detailed summaries of the financial results of the valuation and membership data used in preparing the valuation are shown in the valuation report. The actuary prepared supporting schedules included in the Actuarial and Statistical Section of PSERS Comprehensive Annual Financial Report. The actuary prepared the trend data schedules included in the Financial Section of PSERS Comprehensive Annual Financial Report.

Qualified actuaries completed the valuations in accordance with accepted actuarial procedures as prescribed by the Actuarial Standards Board. The qualified actuaries are members of the American Academy of Actuaries and are experienced in performing actuarial valuations of public employee retirement systems. To the best of our knowledge, this report is complete and accurate and has been prepared in accordance with generally accepted actuarial principles and practice.

Respectfully submitted,

Kim M. Nicholl, F.S.A.
Principal, Consulting Actuary

S. Lynn Hill
Director, Retirement Consulting

Executive Summary

This report presents the actuarial valuation as of June 30, 2003 for the Public School Employees' Retirement System of Pennsylvania.

The principal valuation results include:

- The employer contribution rate for fiscal year 2004/2005 which is 4.23%.
- The funded status of the plan determined as of June 30, 2003 based on the accrued liability and the actuarial value of assets as of that date which is 97.2%.
- The determination of the actuarial gain or loss as of June 30, 2003 which is a loss of $3.8 billion.
- Annual disclosure as of June 30, 2003 as required by Statement No. 25 of the Governmental Accounting Standards Board.

The valuation was completed based upon membership and financial data submitted by the Retirement System. Detailed summaries of the financial results of the valuation and membership data used in preparing the valuation are included in the valuation report. The actuary prepared supporting schedules included in the Actuarial and Statistical Section of PSERS Comprehensive Annual Financial Report. The actuary prepared the trend data schedules included in the Financial Section of PSERS Comprehensive Annual Financial Report.

Changes Since Last Year

Legislative and Administrative Changes

Act 38 provided for a split COLA to be paid commencing July 1, 2002 for members retired before July 2, 1990 and commencing July 1, 2003 for members retired from July 2, 1990 through July 1, 2003. The liability for both COLAs was recognized in the prior valuation. Funding for the COLAs will commence July 1 following each effective date.

The benefit provisions and contribution provisions are summarized in Table 13.

Actuarial Assumptions and Methods

The actuarial assumptions are unchanged from the prior valuation with the exception of the method of determining the liabilities for inactive members entitled to deferred benefits and the actuarial cost method which has been revised in accordance with Act 40 of 2003.

The method for determining the liability of the vestees has been changed for this valuation. Under the prior method the liabilities were estimated based on the member contribution account balances. Under the new method, the liabilities are based on the deferred benefits payable, which were calculated using additional information provided for the first time for this valuation.

Act 40 of 2003 amended the actuarial cost method. Under Act 40, the outstanding balance of the unfunded accrued liability as of June 30, 2001 and the decrease in the unfunded accrued liability due to the actuarial asset method change provided by Act 38 continue to be amortized over a 10-year period, with level dollar funding, beginning July 1 2002. The increases in the unfunded accrued liability due to the July 1, 2002 and July 1, 2003 cost-of-living adjustments provided by Act 38 continue to be amortized over a 10-year period, with level dollar funding, starting on July 1, 2003 and July 1, 2004, respectively. All other changes in the unfunded accrued liability at June 30, 2001, June 30, 2002, and June 30, 2003 – including the Act 9 benefit changes – are amortized over a 30-year period, with level dollar funding, starting on July 1, 2002, July 1, 2003, and July 1, 2004, respectively. Future benefit improvements for active members and retirees will be amortized over a 10-year period with level dollar funding. Future gains and losses will be amortized over a 30-year period with level dollar funding. Act 40 also provides a 4.00% floor on the employer pension rate.

The actuarial assumptions and methods are outlined in Table 12.

Contribution Rates

The results of the valuation as of June 30, 2003 determine the employer contribution rate for fiscal year 2004/2005. The total contribution rate payable by the employer is 4.23% of payroll. This includes 4.00% of payroll for pension benefits plus 0.23% of payroll for the health insurance premium assistance program.

The average contribution rate payable by the members is 7.12%. Effective January 1, 2002 the employee contribution rate for members who elect to have prior school service and intervening military service converted to Class T-D service increased by 1.25%. The average member contribution rate of 7.12% represents an average of the member rates that vary based on date of hire and Class T-D election.

Reasons for Change in the Rate

The employer contribution rate increased from 3.77% for fiscal year 2003/2004 to 4.23% for fiscal year 2004/2005. The increase of 0.46% is due to the following reasons:

· Increase due to change in normal rate	.23
· Decrease due to method change for valuing the liability for vestees	(.36)
· Increase due to payroll growth	.19
· Increase due to July 1, 2003 COLA under Act 38	1.22
· Decrease due to 1.15% floor on 2002/2003 employer contribution rate under Act 38	(.46)
· Increase due to actuarial loss on assets	5.69
· Decrease due to actuarial gain on liabilities	(.03)
· Decrease due to change in health insurance contribution rate	(.56)
· Decrease due to Act 40	(5.46)
· Total	.46%

Summary of Principal Results

Summarized below are the principal financial results for the Public School Employees' Retirement System based upon the actuarial valuation as of June 30, 2003. Comparable results from the June 30, 2002 valuation are also shown.

Item	June 30, 2003	June 30, 2002
Demographics		
Active Members		
• Number	246,700	242,616
• Average Annual Pay	$ 39,128	$ 38,658
Annuitants		
• Number	145,693	141,414
• Average Annual Benefit Payment	$ 17,469	$ 15,899
Contribution Rates (as a Percentage of Payroll)	(Fiscal Year 2004/2005)	(Fiscal Year 2003/2004)
Employer Contribution Rate:		
• Total Pension Contribution Rate	4.00%	2.98%
• Health Insurance Contribution Rate	0.23	0.79
• Total	4.23%	3.77%
Member Average Contribution Rate	7.12	7.08
• Total Rate	11.35%	10.85%
Actuarial Funded Status		
• Accrued Liability	$ 54,443.8 Mil	$ 51,796.5 Mil
• Actuarial Value of Assets	52,900.5	54,296.4
• Unfunded Accrued Liability	$ 1,543.3	$ (2,499.9)
• Funded Ratio	97.2%	104.8%

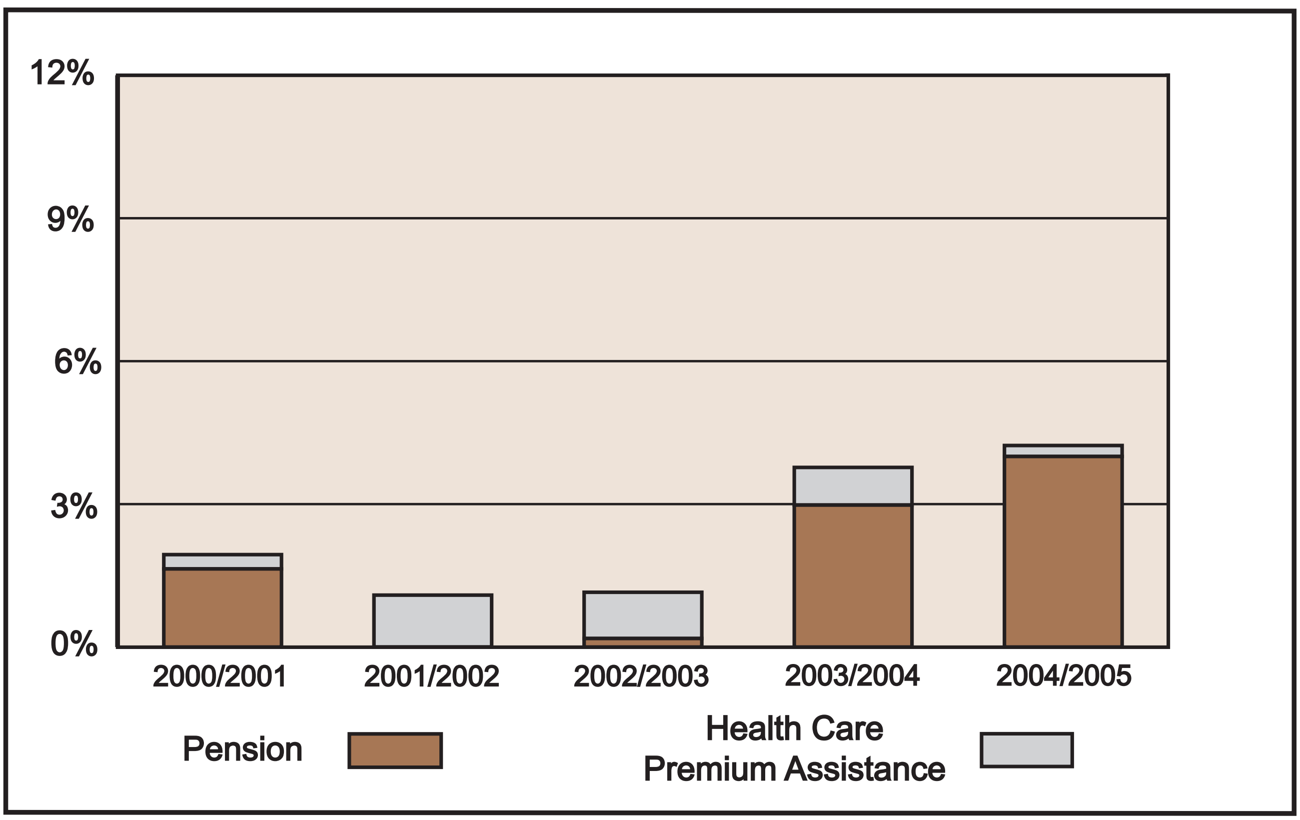
Five-Year History of Principal Financial Results

Five-Year History of Contribution Rates

(As a % of Payroll)

Fiscal Year	Member Contributions	Employer Contributions			
		Normal Cost	Unfunded Accrued Liability	Health Care	Total
2004/2005	7.12%	7.48%	(7.10)%	.23%	4.23%
2003/2004	7.08	7.25	(4.27)	.79	3.77
2002/2003	7.10	7.20	(10.03)	.97	1.15
2001/2002	6.43	5.63	(6.05)	1.09	1.09
2000/2001	5.77	6.29	(4.65)	.30	1.94

The following chart shows a five-year history of employer contribution rates:



Funded Ratio

The financing objective of the System is to:

- Fully fund all current costs based on the normal contribution rate determined under the funding method; and
- Liquidate the unfunded accrued liability based on the amortization schedules as required by the retirement code, i.e., a schedule of 10 or 30 years for each change in the unfunded accrued liability according to Act 40.

The total contribution rate of 4.23% of payroll payable by employers, when taken together with the contributions payable by the members and asset returns, is sufficient to achieve the financing objective.

The System's funded status on the funding basis is measured by comparing the actuarial value of assets (based on a 5-year moving average market value) with the accrued liability. The accrued liability is the present value of benefits accumulated to date under the System's funding method and reflects future pay increases for active employees.

On this basis, the System's funded ratio is 97.2% as of June 30, 2003. The funded ratio is based on an actuarial value of assets of $52.9 billion and an accrued liability of $54.4 billion.

Reasons for Change in the Funded Ratio

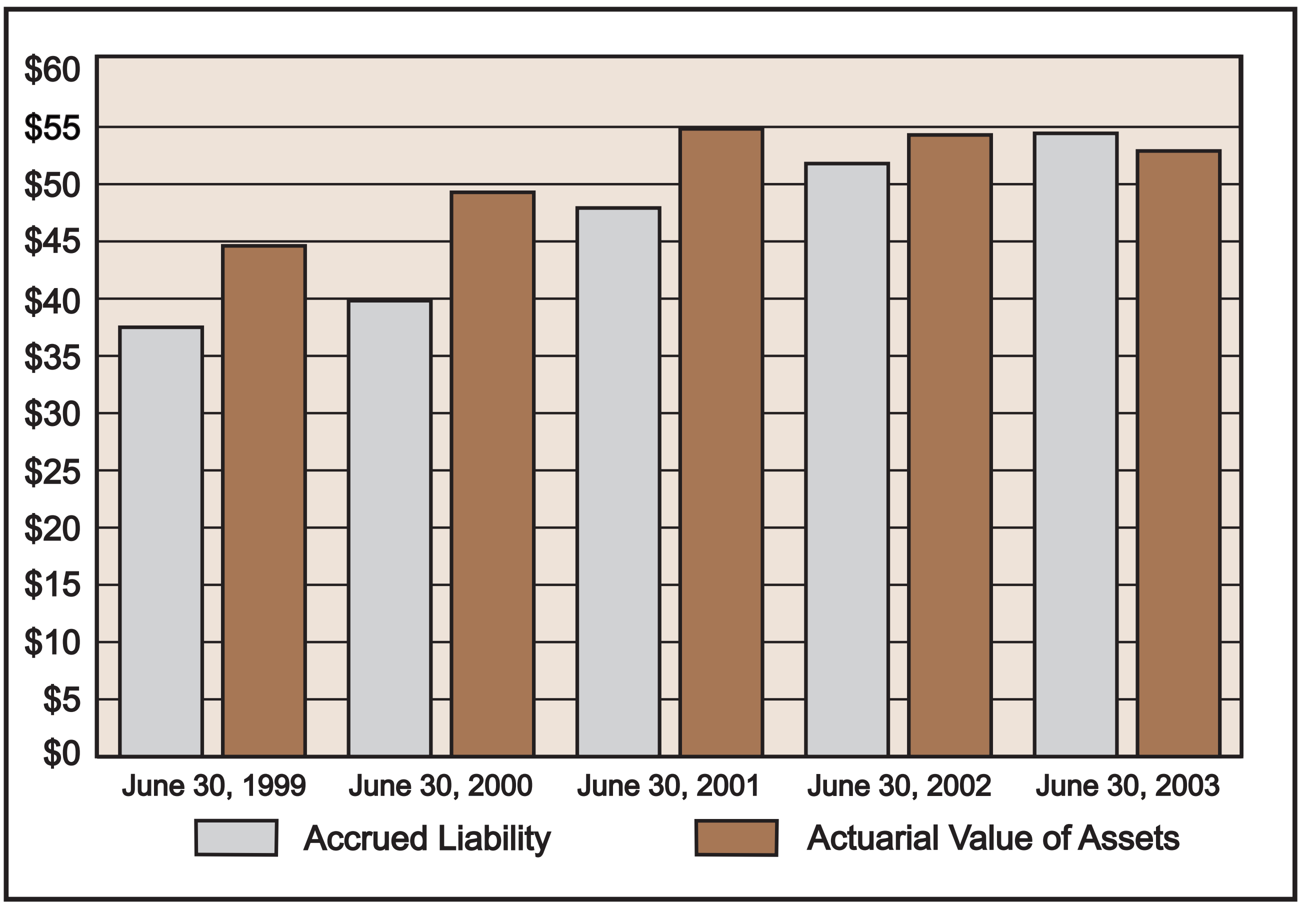
The funded ratio decreased from 104.8% as of June 30, 2002 to 97.2% as of June 30, 2003. The decrease is due to the net effect of the asset loss and liability gain.

Five-Year History of Funded Ratio
(Dollar Amounts in Millions)

Valuation as of June 30	Accrued Liability	Actuarial Value of Assets	Unfunded Accrued Liability	Funded Ratio
2003	$ 54,443.8	$ 52,900.5	$ 1,543.3	97.2%
2002	51,796.5	54,296.4	(2,499.9)	104.8
2001	47,917.3	54,830.3	(6,913.0)	114.4
2000	39,822.8	49,293.0	(9,470.2)	123.8
1999	37,499.1	44,606.5	(7,107.4)	119.0

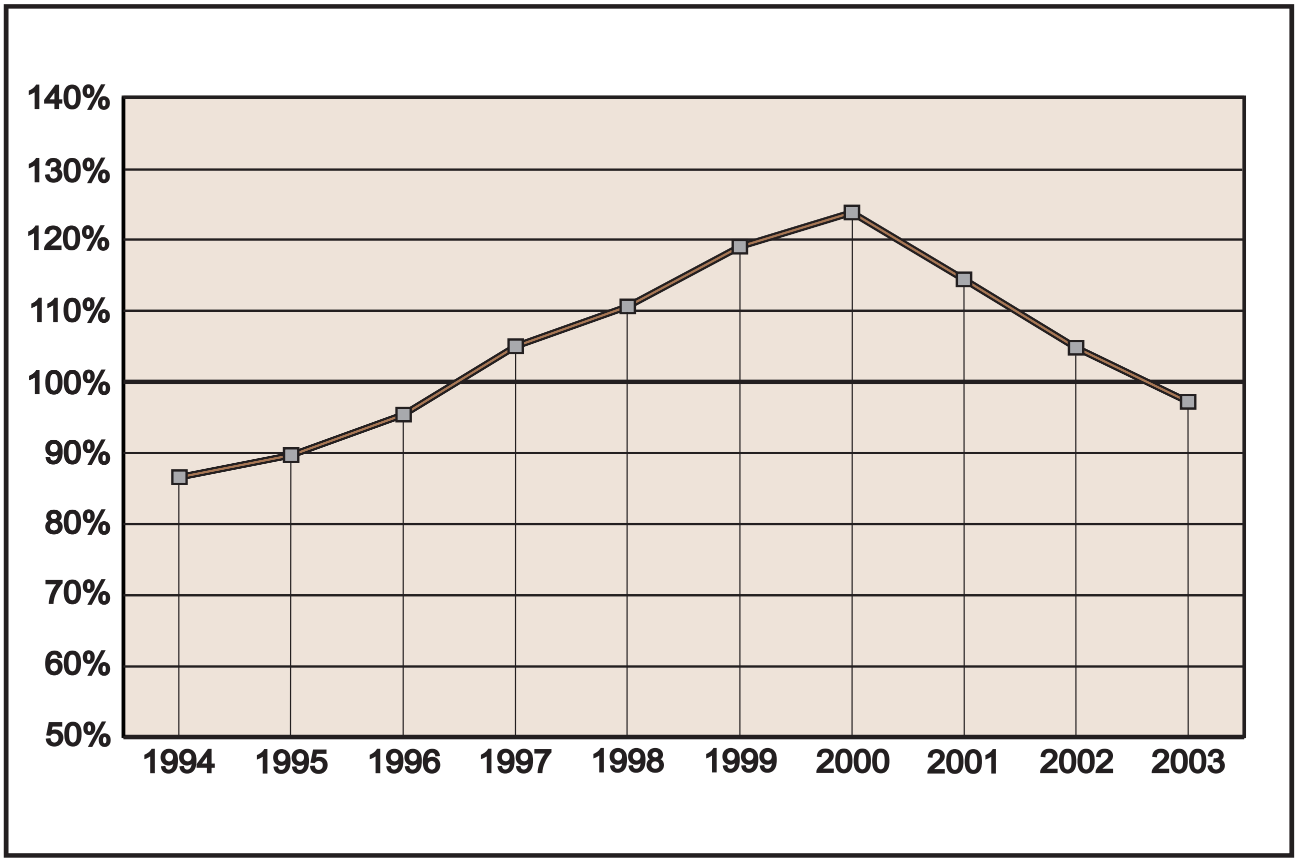
The following chart shows a five-year history of the accrued liability and the actuarial value of assets:

Five-Year History of Accrued Liability and Actuarial Value of Assets
(Dollar Amounts in Billions)



The following chart shows a ten-year history of the funded ratio:

Ten-Year History of Funded Ratio
(1994 - 2003)



GASB No. 25 Disclosure

Statement No. 25 of the Governmental Accounting Standards Board established reporting standards for the annual financial reports of defined benefit pension plans. The System complied with Statement No. 25 beginning with the June 30, 1996 valuation. The statement requires disclosure of the "schedule of funding progress" and the "schedule of employer contributions" in the System's financial statements.

The "schedule of funding progress" shows historical trend information about the System's actuarial value of assets, the actuarial accrued liability and the unfunded actuarial accrued liability. The actuarial funded status is measured by comparing the actuarial value of assets (based on a 5-year moving average market value) with the accrued liability. The accrued liability is the present value of benefits accumulated to date under the System's funding method and reflects future pay increases for active employees. On this basis, the System's funded ratio is 97.2% as of June 30, 2003. The funded ratio is based on an actuarial value of assets of $52.9 billion and an accrued liability of $54.4 billion.

The "schedule of employer contributions" shows historical trend information about the annual required contributions (ARC) of the employer and the percentage of the ARC contributed to the System. The ARC is equal to the normal cost plus amortization of the unfunded actuarial accrued liability. The maximum period of amortizing the unfunded actuarial accrued liability permitted by GASB No. 25 is 40 years. The maximum amortization period decreases to 30 years in 2006. The employer contributions to the System are equal to the normal cost plus a payment towards each change in the unfunded accrued liability, which are amortized over 10 or 30-year periods. The employer contributions to the System for the six fiscal years ending June 30, 2003 are equal to 100% of the ARC.

Rate of Return

The investment return of the trust fund (i.e. total return including both realized and unrealized gains and losses) for fiscal years 1998/1999 through 2002/2003 is shown in the table below. The return based on the actuarial value of assets used for determining annual contribution rates is also shown.

The rate of return on market value reflects the investment earnings on the market value of assets from the beginning of the fiscal year to the end of the fiscal year. The actuarial assets are the assets recognized for valuation purposes. Actuarial assets are based on a smoothed market value that spreads the difference between the actual and expected return (beginning with the 2000/2001 fiscal year) over a period of five years. The rate of return on the actuarial value of assets is a measure of the increase in the actuarial value of assets from the beginning of the fiscal year to the end of the fiscal year.

Fiscal Year	Rate of Return Based on	
	Market Value	Actuarial Value
2002/2003*	2.7%	1.4%
2001/2002*	(5.3)	2.7
2000/2001	(7.4)	14.3
1999/2000	11.9	13.6
1998/1999	12.2	15.1

* Market rate of return provided by Wilshire

Table 1
Summary of Results of Actuarial Valuation
As of June 30, 2003
(Dollar Amounts in Thousands)

Item	Amount
Member Data	
1. Number of Members	
a) Active Members	246,700
b) Inactive Members and Vestees	65,453
c) Annuitants, Beneficiaries and Survivor Annuitants	145,693
d) Total	457,846
2. Annualized Salaries	$ 9,652,881
3. Annual Annuities	$ 2,545,135
Valuation Results	
4. Present Value of Future Pension Benefits	
a) Active Members	$ 45,155,912
b) Inactive Members and Vestees	710,846
c) Annuitants, Beneficiaries and Survivor Annuitants	21,963,662
d) Total	$ 67,830,420
5. Present Value of Future Pension Normal Cost	
a) Active Members	$ 6,591,897
b) Employer	6,925,195
c) Total	$ 13,517,092
6. Pension Accrued Liability	
a) Active Members (4a) - (5c)	$ 31,638,820
b) Inactive Members and Vestees	710,846
c) Annuitants, Beneficiaries and Survivor Annuitants	21,963,662
d) Total	$ 54,313,328
7. Health Care Premium Assistance Payments	$ 130,447
8. Total Accrued Liability (6) + (7)	$ 54,443,775
9. Actuarial Value of Assets	$ 52,900,465
10. Unfunded Accrued Liability (8) - (9)	$ 1,543,310
11. Total Normal Cost Rate	14.60 %
12. Member Contribution Rate	7.12 %
13. Employer Normal Cost Rate (11) - (12)	7.48 %
Employer Annual Funding Requirement for Fiscal 2004/2005	
14. Employer Contribution Rate	
a) Normal	7.48 %
b) Unfunded Accrued Liability	(7.10)
c) Preliminary Pension Rate	0.38 %
d) Preliminary Pension Rate with 4% Floor	4.00
e) Health Insurance Premium Assistance	0.23
f) Total Rate	4.23 %

Table 2
Summary of Sources of Employer Contribution Rate
As of June 30, 2003
(Dollar Amounts in Thousands)

	Funding Period	Funding Period Beginning July 1	Initial Amount of Liability	Outstanding Balance as of July 1, 2003	Annual Payment Amount	Annual Payment Percent
1. Amortization of:						
a) July 1, 2001 Fresh Start Unfunded Base	10 Years	2002	$ (9,137,130)	$ (9,245,520)	$ (1,510,937)	(13.66)%
b) Asset Method Change at July 1, 2001 due to Act 38	10 Years	2002	(4,638,306)	(4,693,328)	(767,001)	(6.94)%
c) 2001 Changes	30 Years	2002	7,570,507	7,660,313	668,111	6.04 %
d) 2002 Changes	30 Years	2003	3,014,171	3,270,376	286,101	2.59 %
e) 2002 COLA	10 Years	2003	463,795	503,218	76,694	0.70 %
f) 2003 COLA	10 Years	2004	754,524	818,658	135,375	1.22 %
g) 2003 Changes	30 Years	2004	3,229,593	3,229,593	326,059	2.95 %
Total Amortization Payments				1,543,310	(785,598)	(7.10)%
2. Employer Normal Cost Rate						7.48 %
3. Preliminary Pension Rate (1) + (2)						0.38 %
4. Preliminary Pension Rate with 4% Floor -- Maximum of (3) and 4%						4.00 %
5. Health Insurance Premium Assistance Rate						0.23 %
6. Final Total Employer Contribution Rate (4) and (5)						4.23 %

Table 3
Determination of Health Insurance Contribution Rate For Fiscal Year 2004/2005
(Dollar Amounts in Thousands)

Item	Amount
1. Estimated Number of Eligible Annuitants in FiscalYear 2005/2006	102,300
2. Estimated Number of Eligible Annuitants Who Elect Coverage	66,495
3. Estimated Annual Health Insurance Premium Assistance Payments During Fiscal Year 2005/2006 (2) x $100 x 12	$ 79,794
4. Estimated Health Insurance Premium Assistance Administrative Expenses During Fiscal Year 2005/2006	2,063
5. Total Estimated Health Insurance Premium Assistance Account Disbursements During Fiscal Year 2005/2006 (3) + (4)	$ 81,857
6. Estimated Balance in Health Insurance Premium Assistance Account for Prior Fiscal Year 2004/2005	$ 56,549
7. Estimated Shortfall in Health Insurance Premium Assistance Account (5) - (6)	$ 25,308
8. Required Health Insurance Premium Assistance Contribution Rate	
(a) Estimated 2004/2005 Payroll	$ 11,059,845
(b) Required Health Insurance Premium Assistance Contribution Rate (7) / (8a) (rounded up)	0.23%

Table 4
Summary of Market Value of Plan Assets
As of June 30, 2003
(Dollar Amounts in Thousands)

Market Value	
1. Market Value of Assets as of June 30, 2002	$ 43,576,553
2. Contributions During Fiscal Year 2002/2003	868,566
3. Disbursements During Fiscal Year 2002/2003	2,983,939
4. Investment Return During Fiscal Year 2002/2003	
a) Net Investment Return	$ 1,021,871
b) Administrative Expenses	36,225
c) Investment Return After Expenses (a) - (b)	$ 985,646
5. Market Value of Assets as of June 30, 2003	
(1) + (2) - (3) + (4c)	$ 42,446,826
6. Rate of Return (per Wilshire)	2.74 %
Asset Allocation by Account	
1. Members' Savings Account	$ 8,282,753
2. Annuity Reserve Account	21,963,662
3. State Accumulation Account	12,069,964
4. Health Care Account	130,447
5. Total (1) + (2) + (3) + (4)	$ 42,446,826

Table 5
Derivation of Actuarial Value of Assets
As of June 30, 2003
(Dollar Amounts in Thousands)

1. Market Value of Assets as of June 30, 2003 — $ 42,446,826

2. Determination of Deferred Gain (Loss)

Year	Return on Assets: Actual	Return on Assets: Expected	Return on Assets: Difference	% Deferred	Deferred Amount
2002/2003	$ 985,646	$ 4,525,288	$ (3,539,642)	80%	$ (2,831,714)
2001/2002	(2,555,630)	4,575,102	(7,130,732)	60%	(4,278,439)
2000/2001	(3,877,769)	4,480,947	(8,358,716)	40%	(3,343,486)
					$ (10,453,639)

3. Actuarial Value of Assets (1) - (2) — $ 52,900,465

4. Actuarial Rate of Return * — 1.35%

* The actuarial rate of return is the investment return on the increase in the actuarial value of the assets from the June 30, 2002 valuation to the June 30, 2003 valuation.

Table 6
Analysis of Change in Unfunded Accrued Liability
As of June 30, 2003
(Dollar Amounts in Thousands)

Item	Amount
1. Unfunded Accrued Liability at June 30, 2002	$ (2,499,857)
2. Interest Credit at 8.50% to June 30, 2003	(212,488)
3. Contributions Toward Unfunded Accrued Liability	(1,026,062)
4. Change due to 1.15% Floor on Total Employer Rate for Contribution due on 7/1/2003 Under Act 38	(307,836)
5. Change in Methodology Used to Value Vestees	(243,377)
6. Expected Unfunded Accrued Liability at June 30, 2003 (1) + (2) - (3) + (4) + (5)	$ (2,237,496)
7. Actual Unfunded Accrued Liability at June 30, 2003	$ 1,543,310
8. Increase (Decrease) from Expected (6) - (7)	$ 3,780,806
9. Reasons for Increase (Decrease)	
(a) Experience (Gains) Losses	
(i) Loss from Investment Return on Actuarial Value of Assets	$ 3,805,818
(ii) Gain from Salary Increases Less than Expected	(126,576)
(iii) Loss from Retirement and Other Separation Experience	(139,098)
(iv) Loss from Annuitants' Mortality Experience	240,662
Subtotal	$ 3,780,806
(b) Change in Assumptions	$ -
(c) Grand Total	$ 3,780,806

Table 7
Schedule of Funding Progress
GASB Statement No. 25 Disclosure
(Dollar Amounts in Thousands)

Valuation as of June 30	Actuarial Value of Assets	Actuarial Accrued Liability	Funded (Unfunded) Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Accrued Liability as a Percentage of Covered Payroll
2003	$ 52,900,465	$ 54,443,775	$ (1,543,310)	97.2 %	$ 9,652,881	(16.0) %
2002	54,296,368	51,796,511	2,499,857	104.8	9,378,944	26.7
2001	54,830,300	47,917,294	6,913,006	114.4	9,414,884	73.4
2000	49,293,047	39,822,832	9,470,215	123.8	8,939,598	105.9
1999	44,606,526	37,499,115	7,107,411	119.0	8,247,602	86.2
1998	39,968,957	36,136,163	3,832,794	110.6	8,091,481	47.4

Table 8
Schedule of Employer Contributions
GASB Statement No. 25 Disclosure
(Dollar Amounts in Thousands)

Fiscal Year Ended June 30	Annual Required Contribution	Percentage Contributed
2003	$ 20,831	100 %
2002	539	100 %
2001	158,193	100 %
2000	390,504	100 %
1999	513,940	100 %
1998	718,431	100 %

The information presented above was determined as part of the actuarial valuation as of two years prior to the dates indicated (i.e. the contribution determined by the valuation completed as of June 30, 2001 was contributed in the fiscal year ending June 30, 2003).

Additional information as of the latest actuarial valuation follows:

Valuation Date:	6/30/2003
Actuarial Cost Method:	Entry Age
Amortization Method:	Level percent closed
Remaining Amortization Period:	10 - 30 years
Asset Valuation Method:	5-year smoothed market
Actuarial Assumptions:	
- Investment Rate of Return *	8.50%
- Projected Salaried Increases *	6.25%
* Includes Inflation at:	3.50%

Table 9
Solvency Test
Comparative Summary of Accrued Liability and Actuarial Value of Assets
(Dollar Amounts in Thousands)

Valuation as of June 30	(1) Active Member Contributions	(2) Retirees and Beneficiaries	(3) Active Member Employer Financed	Actuarial Value of Assets	Portion of Accrued Liability Covered by Valuation Assets		
					(1)	(2)	(3)
2003	$ 8,282,753	$ 22,094,109	$ 24,066,913	$ 52,900,465	100%	100%	94%
2002	7,780,370	19,978,567	24,037,574	54,296,368	100%	100%	100%
2001	7,464,404	15,802,140	24,650,750	54,830,300	100%	100%	100%
2000	6,775,934	16,036,880	17,010,018	49,293,047	100%	100%	100%
1999	6,298,483	15,275,756	15,924,876	44,606,526	100%	100%	100%
1998	6,113,312	13,734,388	16,288,463	39,968,957	100%	100%	100%

Table 10
History of Contribution Rates

	Contribution Rates					
Fiscal Year	Member	Employer Normal Cost Rate	Unfunded Liability Rate	Preliminary Employer Pension Rate	Health Insurance Rate	Total Employer Rate
1995/1996	5.59	6.43	4.67	11.10	0.62	11.72
1996/1997	5.62	6.44	3.56	10.00	0.60	10.60
1997/1998	5.65	6.44	2.17	8.61	0.15	8.76
1998/1999	5.69	6.33	(0.44)	5.89	0.15	6.04
1999/2000	5.72	6.40	(2.04)	4.36	0.25	4.61
2000/2001	5.77	6.29	(4.65)	1.64	0.30	1.94
2001/2002	6.43	5.63	(6.05)	(0.42)	1.09	1.09
2002/2003	7.10	7.20	(10.03)	1.00	0.97	1.15
2003/2004	7.08	7.25	(4.27)	2.98	0.79	3.77
2004/2005	**7.12**	**7.48**	**(7.10)**	**4.00**	**0.23**	**4.23**

Table 11
History and Projection of Annuitants, Beneficiaries, Survivor Annuitants and Active Members

Valuation as of June 30	New Annuitants During the Year	Annuitant Deaths During the Year	Annuitants at End of Year	Beneficiaries and Survivor Annuitants at End of Year	Total Annuitants, Beneficiaries and Survivor Annuitants	Active Members
1994			109,813	5,218	115,031	206,540
1995			110,509	5,451	115,960	210,783
1996			113,007	5,719	118,726	213,906
1997			118,137	5,987	124,124	215,077
1998			120,665	6,149	126,814	220,703
1999			126,448	6,421	132,869	223,495
2000			127,404	6,654	134,058	234,210
2001			125,880	6,836	132,716	243,311
2002			134,300	7,114	141,414	242,616
2003			**138,383**	**7,310**	**145,693**	**246,700**
2004	11,125	4,158	145,350	7,785	153,135	246,700
2005	10,740	4,307	151,783	8,230	160,013	246,700
2006	11,247	4,463	158,567	8,633	167,200	246,700
2007	11,615	4,614	165,568	9,000	174,568	246,700
2008	11,864	4,778	172,654	9,342	181,996	246,700
2009	11,937	4,925	179,666	9,657	189,323	246,700
2010	11,881	5,083	186,464	9,951	196,415	246,700
2011	11,751	5,246	192,969	10,230	203,199	246,700
2012	11,660	5,389	199,240	10,491	209,731	246,700
2013	11,490	5,553	205,177	10,749	215,926	246,700

Table 12
Description of Actuarial Assumptions and Methods

ASSUMPTIONS

Interest Rate: 8½% per annum, compounded annually (adopted as of June 30, 1990). The components are 3½% for inflation and 5% for the real rate of return. Actuarial equivalent benefits are determined based on 4% (since 1960).

Separation From Service: Illustrative rates of assumed separation from service are as follows (adopted in 2000):

	Annual Rate of:						
		Vested Withdrawal*					
Age	Non-Vested Withdrawal	Less than 10 Years of Service	10 or More Years of Service	Death	Disability	Early Retirement**	Superannuation Retirement
				Males			
25	13.00 %	5.50 %	1.40 %	.05 %	.02 %		
30	11.00	3.00	1.40	.05	.02		
35	11.00	3.00	1.10	.05	.10		
40	11.00	3.00	.80	.07	.18	.13 %	
45	11.00	3.00	.50	.10	.18	.15	
50	9.00	3.00	1.78	.16	.28	1.56	24.00 %
55	9.00	3.00	3.50	.25	.43	10.00	24.00
60	9.00	2.40	4.50	.46	.58	10.00	28.00
65				.90			20.00
69				1.44			20.00
				Females			
25	13.00 %	9.50 %	4.00 %	.01 %	.04 %		
30	13.00	7.50	4.00	.02	.04		
35	13.00	5.50	2.00	.03	.08		
40	10.00	3.50	1.00	.04	.13	.60 %	
45	10.00	3.00	.55	.07	.18	.60	
50	10.00	3.00	1.50	.10	.25	1.74	10.00 %
55	10.00	3.00	3.00	.15	.35	10.00	10.00
60	10.00	3.50	5.90	.23	.45	15.00	25.00
65				.48			28.00
69				.88			20.00

* Vested Withdrawal - At least 5 years service but not eligible for Early or Superannuation retirement.
** Early Retirement - Age 55 with 25 years service, but not eligible for Superannuation retirement.

Description of Actuarial Assumptions and Methods (Continued)

Death After Retirement: The 1995 George B. Buck Mortality Tables, rated forward one year for males and unadjusted for females, adopted in 2000, are used to project mortality for healthy annuitants and for dependent beneficiaries. Special mortality tables based on PSERS' experience are used for disability retirements. (The 1995 George B. Buck Mortality Tables, rated forward one year for males and unadjusted for females, adopted in 2000, are used to determine actuarial equivalent benefits.)

Salary Increase: Effective average of 6 1/4% per annum, compounded annually. The components are 3 1/2% for inflation, 1% for real wage growth and 1 3/4% for merit or seniority increases (adopted as of June 30, 2000). Representative values are as follows:

Age	Annual Rate of Salary Increase
20	10.00 %
30	9.50
40	7.25
50	5.00
55	4.75
60	4.50
65	4.50
70	4.50

MISCELLANEOUS

Option 4 Elections: 100% of members are assumed to elect a refund of contributions and a reduced annuity.

Withdrawal Annuity: 90% of members are assumed to commence payment immediately and 10% are assumed to defer payment to superannuation age.

METHODS

Calculations: The actuarial calculations were performed by qualified actuaries in accordance with accepted actuarial procedures, based on the current provisions of the retirement system, and on actuarial assumptions that are internally consistent and reasonably based on the actual experience of the System.

Actuarial Cost Method: : Entry Age Normal Cost Method. The outstanding balance of the unfunded accrued liability as of June 30, 2001 and the decrease in the unfunded accrued liability due to the actuarial asset method change provided by Act 38 continue to be amortized over a 10-year period, with level dollar funding, beginning July 1 2002. The increases in the unfunded accrued liability due to the July 1, 2002 and July 1, 2003 cost-of-living adjustments provided by Act 38 continue to be amortized over a 10-year period, with level dollar funding, starting on July 1, 2003 and July 1, 2004, respectively.

Description of Actuarial Assumptions and Methods (Continued)

All other changes in the unfunded accrued liability at June 30, 2001, June 30, 2002, and June 30, 2003 – including the Act 9 benefit changes – are amortized over a 30-year period, with level dollar funding, starting on July 1, 2002, July 1, 2003, and July 1, 2004, respectively. Future benefit improvements for active members and retirees will be amortized over a 10-year period with level dollar funding. Future gains and losses will be amortized over a 30-year period with level dollar funding. Act 40 also provides a 4.00% floor on the employer pension rate.

Asset Valuation Method: A five-year moving market average value of assets that recognizes the 8½% actuarial expected investment return immediately and spreads the difference between the actual and expected return (beginning with the 2000/2001 fiscal year) over a period of five years (adopted as of June 30, 2001).

Determination of Health Care Contribution Rate: Rate necessary to establish reserves sufficient to provide postemployment healthcare insurance premium assistance payments for all participating eligible annuitants for the subsequent fiscal year.

DATA

Census and Assets: The valuation was based on members of the System as of June 30, 2003 and does not take into account future members. All census data was supplied by the System and was subject to reasonable consistency checks. Asset data was supplied by the System.

Table 13
Summary of Benefit and Contribution Provisions

MEMBERSHIP

For valuation purposes, all employees are considered to be full coverage. All employees who become members on and after January 1, 1966 are members of the dual coverage group. Dual coverage members contribute to both PSERS and to Social Security.

BENEFITS

Superannuation Annuity

Eligibility	Age 62, or age 60 with 30 years of service, or 35 years of service regardless of age.
Amount	2.5% of final average salary times years of school service and intervening military service. 2% of final average salary for non-school service and for members who do not elect Class T-D coverage. Minimum of $100 per year of service. “Final average salary” means the highest average annual salary for any 3 years of service. Annual salary is subject to a limit of $200,000, as adjusted under Section 401(a)(17). For members who elect coverage under Class T-D, the maximum benefit is equal to the limit established by Section 415 of the Internal Revenue Code.

Early Retirement Annuity

Eligibility	Age 55 with 25 years of service.
Amount	Accrued benefit as of date of retirement, reduced 1/4% for each month by which commencement of payments precedes Superannuation Age. For members who elect coverage under Class T-D, the maximum benefit is equal to the limit established by Section 415 of the Internal Revenue Code.

Withdrawal Annuity

Eligibility	5 years of service.
Amount	Accrued benefit deferred to superannuation retirement age or an actuarially reduced benefit payable immediately. Actuarially equivalent benefits are based on 4% interest and the 1995 George B. Buck mortality tables, rated forward one year for males and unadjusted for females.

Summary of Benefit and Contribution Provisions (Continued)

Disability Annuity

Eligibility	5 years of service.
Amount	The standard single life annuity if the total number of credited service is greater than 16.667, otherwise the standard single life annuity multiplied by the lesser of the following ratios: (Y*/Y) or (16.667/Y) where Y is the number of years of credited service and Y* is the total years of credited service if the member were to continue as a school employee until superannuation retirement age (or at current age, if later). Minimum of $100 per year of service.

Return of Contributions

Eligibility	Death or separation from service and member does not qualify for other benefits.
Amount	Refund of accumulated deductions includes interest (less annuity payments received prior to death in the case of a retired member).

Death Benefit

Eligibility	Death of an active member or vestee who was eligible to receive an annuity.
Amount	The present value of the annuity which would have been effective if the member retired on the day before death. Option 1 assumed payable if no other option elected.

Normal and Optional Forms of Benefits

Normal Form:	Life annuity with a guaranteed payment equal to member contributions with interest.
Option 1:	Reduced benefit with refund of balance of present value of annuity at retirement over payments received. If balance is less than $5,000, benefit is paid in lump sum; otherwise, beneficiary may elect annuity and/or lump sum.
Option 2:	Joint and 100% survivorship annuity.
Option 3:	Joint and 50% survivorship annuity.
Option 4:	Benefit of equivalent actuarial value, including lump sum payment of member contributions.

Summary of Benefit and Contribution Provisions (Continued)

Postemployment Health Care Insurance Premium Assistance

Eligibility	Retired members who: (a) have 24½ or more years of service, or (b) are disability annuitants, or (c) have 15 or more years of service and who both terminated school service and retired after attaining superannuation age and (d) participate in the PSERS Health Options Program or in an employer-sponsored health insurance program.
Amount	Participating eligible annuitants receive health insurance premium assistance payments from the Health Insurance Account equal to the lesser of $100 per month or the actual monthly premium. All administrative expenses necessary to operate the health insurance premium assistance program are to be funded by the Health Insurance Account. The Health Insurance Account is credited with contributions of the Commonwealth and the employers.

CONTRIBUTIONS

By Members	Members who elect coverage under Class T-D and who were hired prior to July 22, 1983 contribute at a rate of 6½% of compensation, while members who elect coverage under Class T-D who were most recently hired on or after July 22, 1983 contribute at a rate of 7½% of compensation. Members who do not elect coverage under Class T-D and who were hired prior to July 22, 1983 contribute at a rate of 5¼% of compensation, while members who do not elect coverage under Class T-D who were most recently hired on or after July 22, 1983 contributed at a rate of 6¼% of compensation. Reduction for a joint coverage member of 40% of Social Security tax, exclusive of disability and medical coverage portion.
By Commonwealth and employers	Balance of required contribution determined as normal contribution, accrued liability contribution, supplemental annuity contribution, experience adjustment factor and premium assistance contribution, is funded by the Commonwealth and the employers.

Table 14
Summary of Membership Data
As of June 30, 2003
(Dollar Amounts in Thousands)

Active Members *

Item	Male	Female	Total
Number of Members	69,282	177,418	246,700
Annual Salaries **	$ 3,183,286	$ 6,469,595	$ 9,652,881
Average Age	45.1	45.0	45.0
Average Service	13.5	11.2	11.9

* Excludes 65,453 inactive members and vestees.
** These salaries shown in the table above represent a rate of pay for members who were in active service on June 30, 2003.

Annuitants and Beneficiaries

Item	Number	Annual Annuities	Average Annuities	Average Age
Annuitants (Normal, Early and Withdrawal)	132,005	$ 2,400,584	$ 18,186	70.1
Survivors and Beneficiaries	7,310	54,580	7,466	76.0
Disabled Annuitants	6,378	89,971	14,106	62.3
Total	145,693	$ 2,545,135	17,469	70.0

Exhibit I

Active Membership Data as of June 30, 2003
Number and Average Annual Salary

Age	Years of Service									Total
	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 - 34	35 - 39	40 +	
Under 25	6,683	46								6,729
	$25,260	$27,237								$25,274
25 - 29	16,373	4,009	24							20,406
	$31,569	$39,665	$31,162							$33,159
30 - 34	10,786	11,048	2,668	44						24,546
	$28,557	$42,002	$47,511	$36,348						$36,682
35 - 39	10,007	5,894	6,158	2,054	60					24,173
	$21,627	$37,748	$49,042	$50,924	$38,724					$35,074
40 - 44	12,790	6,577	4,440	5,020	1,908	114				30,849
	$18,700	$30,478	$43,845	$53,986	$52,213	$36,170				$32,709
45 - 49	11,246	8,288	6,018	4,710	6,329	4,586	85			41,262
	$19,667	$28,718	$39,532	$50,239	$59,565	$60,924	$39,050			$38,617
50 - 54	7,001	6,146	6,406	5,644	4,383	11,638	9,431	47		50,696
	$21,147	$29,830	$38,458	$47,423	$56,709	$65,186	$66,670	$39,982		$48,983
55 - 59	4,121	3,167	3,725	4,033	3,452	3,419	7,345	1,596	11	30,869
	$19,875	$26,888	$34,550	$41,292	$48,445	$57,467	$68,180	$71,163	$35,207	$46,673
60 - 64	2,147	1,437	1,623	1,763	1,665	1,516	825	682	151	11,809
	$16,427	$22,017	$28,103	$35,221	$37,944	$44,852	$55,223	$70,805	$68,902	$34,722
Over 64	1,488	875	793	692	497	478	314	104	120	5,361
	$12,189	$16,454	$21,313	$25,007	$27,596	$33,138	$38,874	$47,547	$66,612	$22,652
Total	82,642	47,487	31,855	23,960	18,294	21,751	18,000	2,429	282	246,700
	$23,642	$33,689	$40,799	$47,054	$53,111	$60,801	$66,146	$69,448	$66,613	$39,128

Exhibit II

The Number and Average Annual Annuity
As of June 30, 2003

Retired on Account of Superannuation, Early Retirement and Those in Receipt of Withdrawal Annuities

Age	Years of Service									Total
	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 - 34	35 - 39	40 +	
Under 50	13	584	1,490	463	164	32				2,746
	$1,742	$745	$1,301	$3,400	$8,232	$13,835				$2,099
50 - 54	5	100	1,721	668	405	450	382	9		3,740
	$2,309	$1,528	$1,290	$3,532	$8,404	$18,734	$30,485	$27,977		$7,613
55 - 59	11	88	2,424	1,207	710	1,204	7,737	2,146	6	15,533
	$7,961	$2,023	$1,498	$4,150	$8,766	$23,061	$36,324	$50,159	$37,442	$27,799
60 - 64	111	264	2,060	1,894	1,618	2,315	7,899	4,725	226	21,112
	$1,964	$2,771	$2,911	$6,558	$12,128	$22,306	$34,163	$44,409	$50,676	$27,556
65 - 69	408	705	2,630	2,481	2,895	3,180	4,419	4,202	1,093	22,013
	$986	$2,212	$3,440	$6,653	$11,307	$18,597	$27,925	$36,512	$43,407	$20,154
70 - 74	561	1,060	2,746	2,772	3,036	3,293	3,839	2,326	1,777	21,410
	$1,187	$1,870	$3,380	$6,011	$10,747	$16,521	$24,623	$32,790	$41,098	$16,789
75 - 79	660	1,199	2,809	2,972	3,077	2,842	2,419	2,023	981	18,982
	$1,165	$1,669	$3,347	$6,089	$10,402	$15,854	$21,449	$27,449	$38,322	$13,294
80 - 84	481	1,034	2,324	2,301	1,928	1,782	1,340	1,398	476	13,064
	$1,193	$1,608	$3,320	$6,011	$9,599	$13,849	$18,674	$23,028	$31,351	$10,649
85 - 89	366	704	1,555	1,287	1,102	991	775	963	483	8,226
	$1,821	$1,823	$3,610	$6,225	$9,585	$13,386	$18,073	$22,290	$26,487	$10,657
Over 89	146	427	630	643	574	672	555	761	771	5,179
	$6,241	$2,466	$4,610	$7,583	$11,282	$13,966	$17,824	$21,048	$24,700	$13,624
Total	2,762	6,165	20,389	16,688	15,509	16,761	29,365	18,553	5,813	132,005
	$1,567	$1,790	$2,832	$5,953	$10,543	$17,553	$30,011	$36,254	$37,245	$18,186

Exhibit III
The Number and Average Annual Annuity
As of June 30, 2003

Beneficiaries and Survivor Annuitants

Age	Years of Service									Total
	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 - 34	35 - 39	40 +	
Under 50	1	19	47	40	43	33	18	14	10	225
	$240	$1,536	$1,567	$2,382	$4,805	$7,638	$11,283	$11,604	$15,172	$5,219
50 - 54	2	4	14	23	26	25	27	17	12	150
	$299	$581	$2,593	$3,208	$5,350	$10,098	$12,622	$13,798	$10,185	$8,014
55 - 59	3	6	27	23	34	44	91	56	18	302
	$3,413	$2,443	$2,004	$3,157	$5,263	$10,261	$13,195	$15,175	$9,384	$9,939
60 - 64	3	13	52	51	38	50	124	104	34	469
	$5,055	$1,461	$2,944	$3,958	$5,142	$9,989	$16,029	$16,263	$13,837	$11,158
65 - 69	13	23	91	75	73	72	137	122	60	666
	$2,270	$1,615	$2,668	$3,912	$6,631	$9,522	$12,219	$16,579	$17,256	$9,767
70 - 74	14	37	107	121	124	115	173	164	102	957
	$2,314	$1,449	$2,718	$3,909	$5,838	$7,484	$11,930	$13,261	$17,543	$8,843
75 - 79	24	77	186	182	151	186	195	244	101	1,346
	$877	$1,305	$2,338	$3,546	$6,049	$8,382	$9,659	$11,118	$14,655	$7,244
80 - 84	22	102	187	165	158	155	191	290	128	1,398
	$1,870	$1,146	$2,185	$3,298	$5,250	$6,926	$8,811	$9,909	$11,185	$6,439
85 - 89	14	84	140	119	121	97	130	217	177	1,099
	$1,494	$1,093	$1,941	$3,234	$4,569	$5,892	$6,950	$8,474	$9,662	$5,774
Over 89	15	31	65	58	47	50	80	151	200	697
	$4,570	$975	$1,852	$2,849	$4,265	$5,713	$6,187	$6,643	$7,677	$5,601
Total	111	396	916	857	815	827	1,166	1,379	842	7,309
	$2,161	$1,251	$2,278	$3,442	$5,428	$7,849	$10,665	$11,286	$11,752	$7,468

Exhibit IV

The Number and Average Annual Annuity
As of June 30, 2003

Retired on Account of Disability

Age	Years of Service									Total
	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 - 34	35 - 39	40 +	
Under 50	1	181	184	94	64	21	1			546
	$4,219	$8,605	$10,813	$15,283	$18,294	$26,891	$40,404			$12,388
50 - 54	1	169	175	137	177	240	44	1		944
	$15,795	$7,771	$10,364	$13,824	$21,823	$34,004	$47,187	$29,253		$20,303
55 - 59		187	236	202	271	300	124	1		1,321
		$7,608	$9,142	$12,809	$19,844	$30,113	$42,337	$42,631		$19,585
60 - 64	1	189	282	242	248	187	20			1,169
	$13,254	$5,613	$7,986	$10,678	$16,657	$25,677	$31,635			$13,238
65 - 69	2	154	232	182	149	98	16	3		836
	$9,470	$4,865	$7,013	$8,709	$13,846	$21,166	$27,266	$43,058		$10,386
70 - 74	5	131	168	139	136	58	11		1	649
	$9,776	$3,468	$5,969	$8,664	$12,987	$19,671	$27,641		$54,601	$9,208
75 - 79	2	92	120	78	81	53	11	1		438
	$4,728	$3,620	$5,925	$8,057	$11,960	$16,882	$22,557	$24,751		$8,718
80 - 84	4	64	73	48	49	33	22	1		294
	$6,930	$3,596	$6,128	$7,552	$10,428	$15,523	$20,936	$29,135		$8,778
85 - 89	1	14	39	29	17	15	15			130
	$2,664	$2,471	$5,225	$8,339	$9,608	$15,797	$19,190			$9,008
Over 89	3	1	15	16	6	6	4			51
	$12,951	$5,018	$6,621	$7,490	$11,177	$13,501	$13,311			$9,105
Total	20	1,182	1,524	1,167	1,198	1,011	268	7	1	6,378
	$8,989	$6,058	$8,073	$10,835	$16,763	$27,202	$36,527	$36,421	$54,601	$14,106

Exhibit V

The Number and Average Annual Annuity
As of June 30, 2003

Those in Receipt of a Refund Annuity

Age	Years of Service									Total
	0 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 - 34	35 - 39	40 +	
Under 50										
50 - 54										
55 - 59										
60 - 64										
65 - 69										
70 - 74										
75 - 79										
80 - 84										
85 - 89										
Over 89	1 $ 66									1 $ 66
Total	1 $ 66									1 $ 66

Exhibit VI

Annuitant and Beneficiary Membership Data
As of June 30, 2003

Number and Average Annual Benefit
Excludes Partial Lump Sum Payments

Age Last Birthday	Number	Annual Benefit (Dollars in Thousands)	Average Annual Benefit (Dollars)
Annuitants			
(Normal, Early and Withdrawal)			
Under 60	22,019	$ 466,034	$ 21,165
60 - 64	21,112	581,764	27,556
65 - 69	22,013	443,656	20,154
70 - 74	21,410	359,454	16,789
75 - 79	18,982	252,338	13,294
Over 79	26,469	297,338	11,233
Total	132,005	$ 2,400,584	$ 18,186
Survivors and Beneficiaries			
Under 60	677	$ 5,378	$ 7,944
60 - 64	469	5,233	11,158
65 - 69	666	6,505	9,767
70 - 74	957	8,462	8,842
75 - 79	1,346	9,750	7,244
Over 79	3,195	19,252	6,026
Total	7,310	$ 54,580	$ 7,466
Disabled Annuitants			
Under 60	2,811	$ 51,802	$ 18,428
60 - 64	1,169	15,476	13,239
65 - 69	836	8,683	10,386
70 - 74	649	5,776	9,208
75 - 79	438	3,818	8,717
Over 79	475	4,216	8,876
Total	6,378	$ 89,971	$ 14,106
Grand Total Average Annual Benefit	145,693	$ 2,545,135	$ 17,469

Exhibit VII

10 Year History of Membership Data

Active Members

Valuation as of June 30	Number of Active Members	Percentage Change in Membership	Total Annual Payroll (Dollars in Thousands)	Percentage Change in Payroll
2003	246,700	1.68%	$ 9,652,881	2.92%
2002	242,616	(0.29)%	9,378,944	(0.38)%
2001	243,311	3.89%	9,414,884	5.32%
2000	234,210	4.79%	8,939,598	8.39%
1999	223,495	1.27%	8,247,602	1.93%
1998	220,703	2.62%	8,091,481	4.47%
1997	215,077	0.55%	7,745,001	1.69%
1996	213,906	1.48%	7,616,585	3.23%
1995	210,783	2.05%	7,378,342	7.16%
1994	206,540	4.31%	6,885,337	8.46%

Annuitant and Survivor Annuitant Members

Year Ended June 30	Number on roll	Additions	Deletions	Percentage Change in Membership	Annual Annuities (Dollars in Millions)	Percentage Change in Annuities
2003	145,693	9,079	4,800	3.03%	$ 2,545.1	13.20%
2002	141,414	13,003	4,305	6.55%	2,248.3	20.10%
2001	132,716	3,140	4,482	(1.00)%	1,872.0	0.00%
2000	134,058	5,923	4,734	0.89%	1,880.6	2.73%
1999	132,869	10,609	4,554	4.77%	1,830.6	10.77%
1998	126,814	7,132	4,442	2.17%	1,652.6	14.21%
1997	124,124	9,787	4,389	4.55%	1,447.0	11.74%
1996	118,726	7,047	4,281	2.39%	1,295.0	6.05%
1995	115,960	4,923	3,994	0.81%	1,221.1	2.99%
1994	115,031	4,866	3,047	1.61%	1,185.6	12.06%

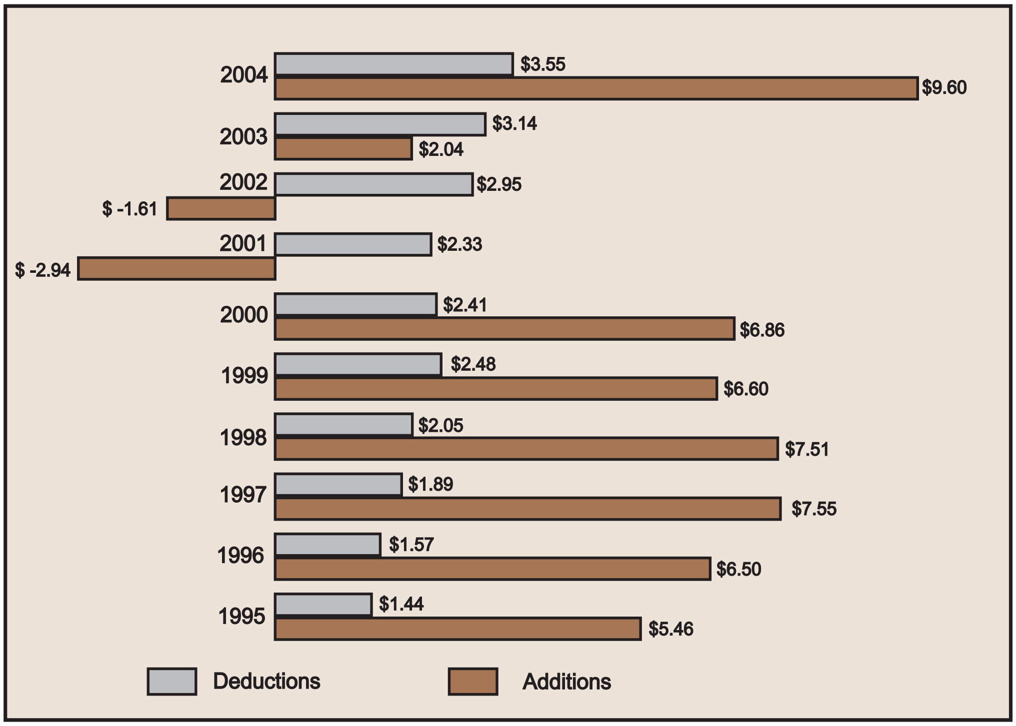
Public School Employees' Retirement System

Foster School, Allegheny County

Statistical Section

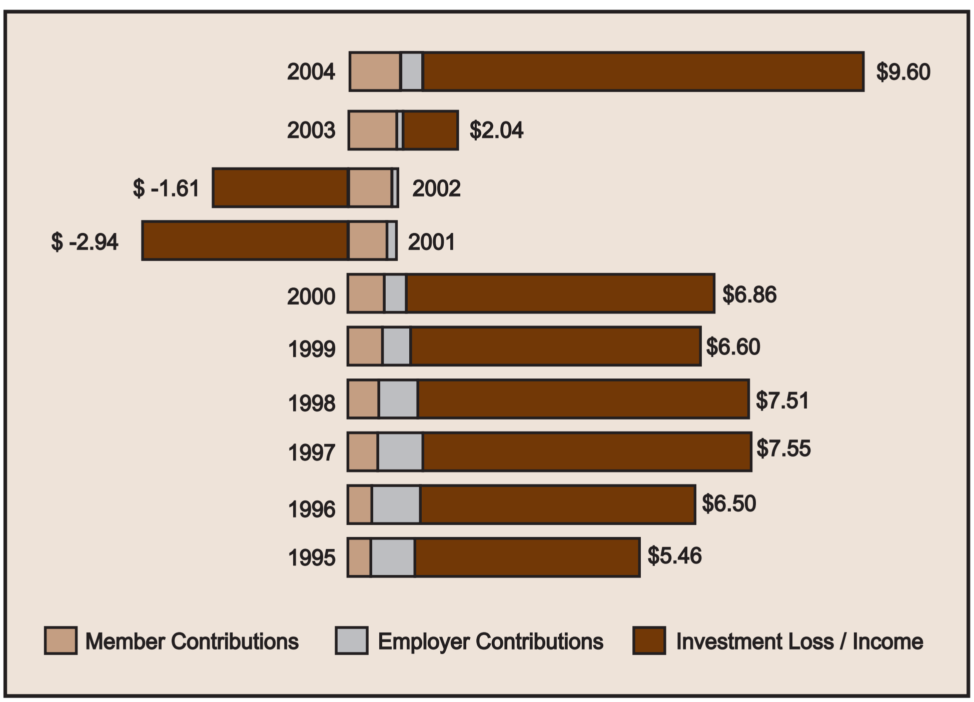
Changes in Plan Net Assets - 2004
Additions vs. Deductions - 10 Year Trend

(Dollar Amounts in Billions)



Additions to Plan Net Assets
10 Year Trend
(Dollar Amounts in Thousands)

Fiscal Year	Members Contributions	Employers and Commonwealth Contributions: Dollar Amount	Employers and Commonwealth Contributions: Percentage of Covered Payroll	Net Investment Income / (Loss)	Total Additions
2004	$ 944,422	$ 406,722	3.77 %	$ 8,244,604	$ 9,595,748
2003	897,307	116,456	1.15	1,022,467	2,036,230
2002	805,567	109,450	1.09	(2,523,025)	(1,608,008)
2001	721,725	185,716	1.94	(3,843,713)	(2,936,272)
2000	680,040	412,783	4.61	5,765,133	6,857,956
1999	646,507	526,960	6.04	5,428,659	6,602,126
1998	578,322	731,131	8.76	6,195,893	7,505,346
1997	559,070	844,599	10.60	6,147,462	7,551,131
1996	447,855	909,031	11.72	5,143,223	6,500,109
1995	428,584	825,446	11.06	4,205,763	5,459,793

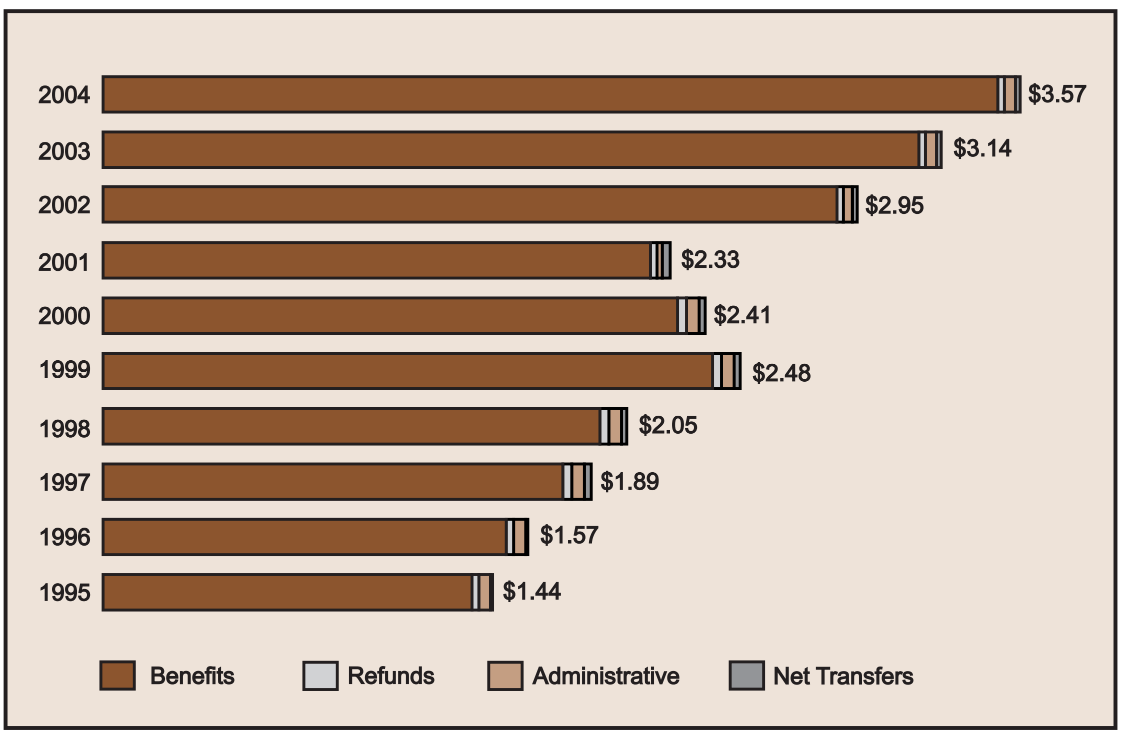


Deductions from Plan Net Assets
10 Year Trend
(Dollar Amounts in Thousands)

Fiscal Year	Benefits	Lump-Sum and Installment	Refunds	Administrative	Net Transfers*	Total Deductions
2004	$ 2,906,344	$ 559,939	$ 14,767	$ 49,202	$ 16,315	$ 3,546,567
2003	2,591,130	485,495	13,943	42,278	12,116	3,144,962
2002	2,293,687	595,184	14,858	35,373	9,434	2,948,536
2001	2,087,868	176,228	22,369	34,854	10,867	2,332,186
2000	2,048,792	306,329	22,446	29,333	4,710	2,411,610
1999	1,834,494	591,532	20,110	27,786	10,247	2,484,169
1998	1,611,137	376,575	20,503	29,947	7,094	2,045,256
1997	1,445,515	384,234	17,296	26,940	12,074	1,886,059
1996	1,274,235	258,298	14,124	22,643	1,630	1,570,930
1995	1,289,099	112,580	13,008	21,756	1,263	1,437,706

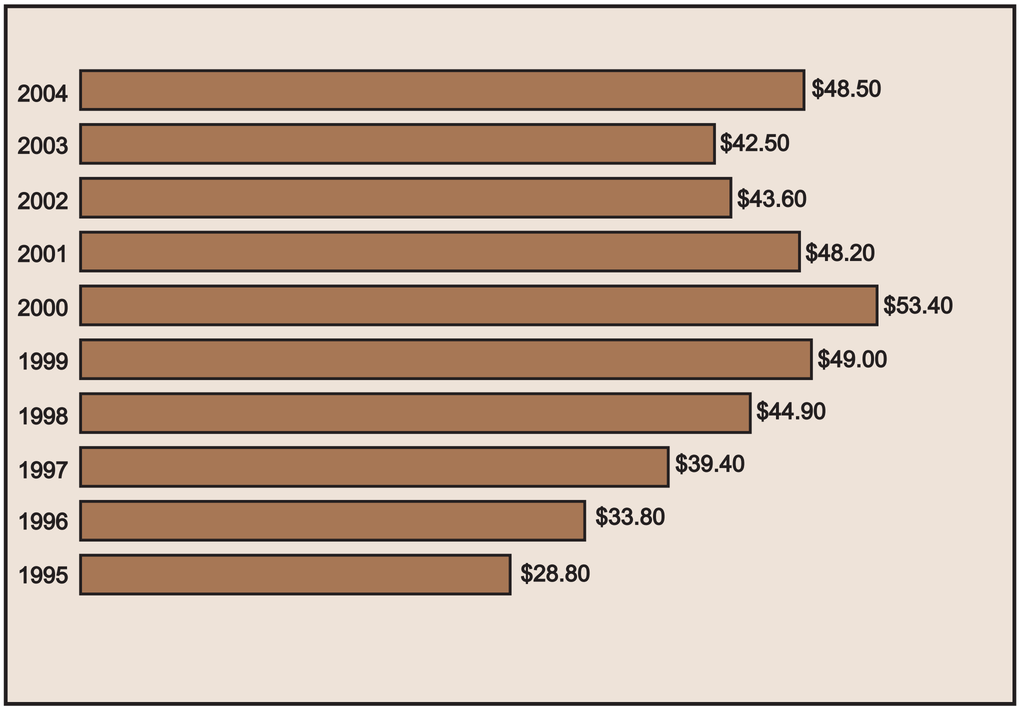
* Net transfers to the Commonwealth of Pennsylvania, State Employees' Retirement System.

(Dollar Amounts in Billions)



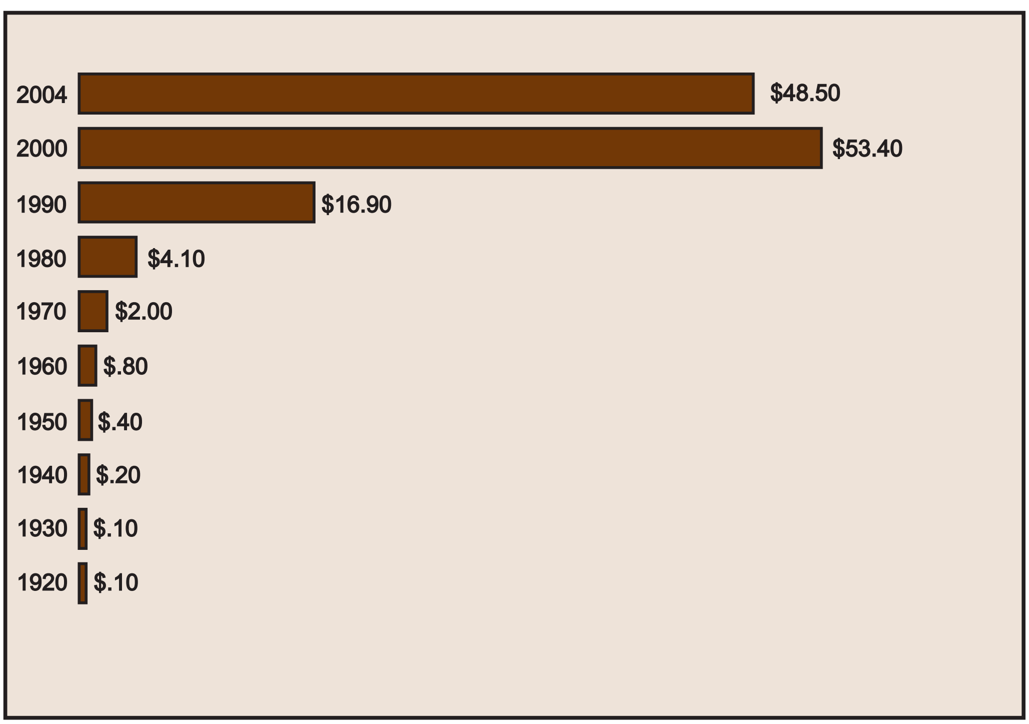
Total Net Assets 10 Year Trend

(Fair Value - Amounts in Billions)

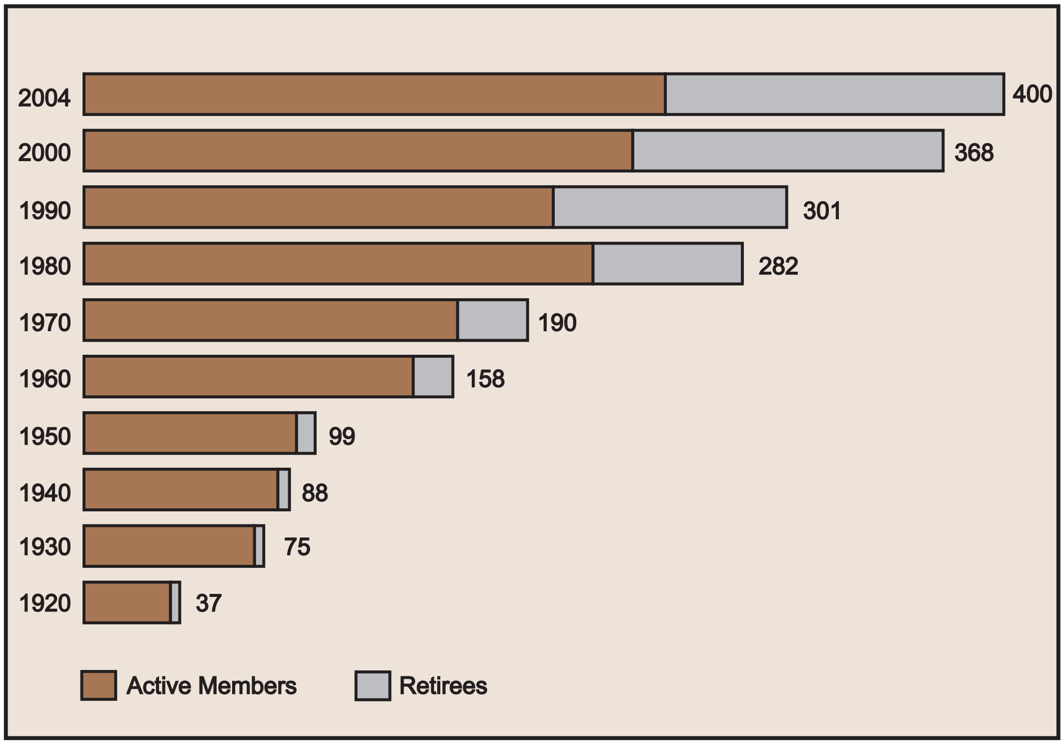


Total Net Assets - 1920 to June 30, 2004

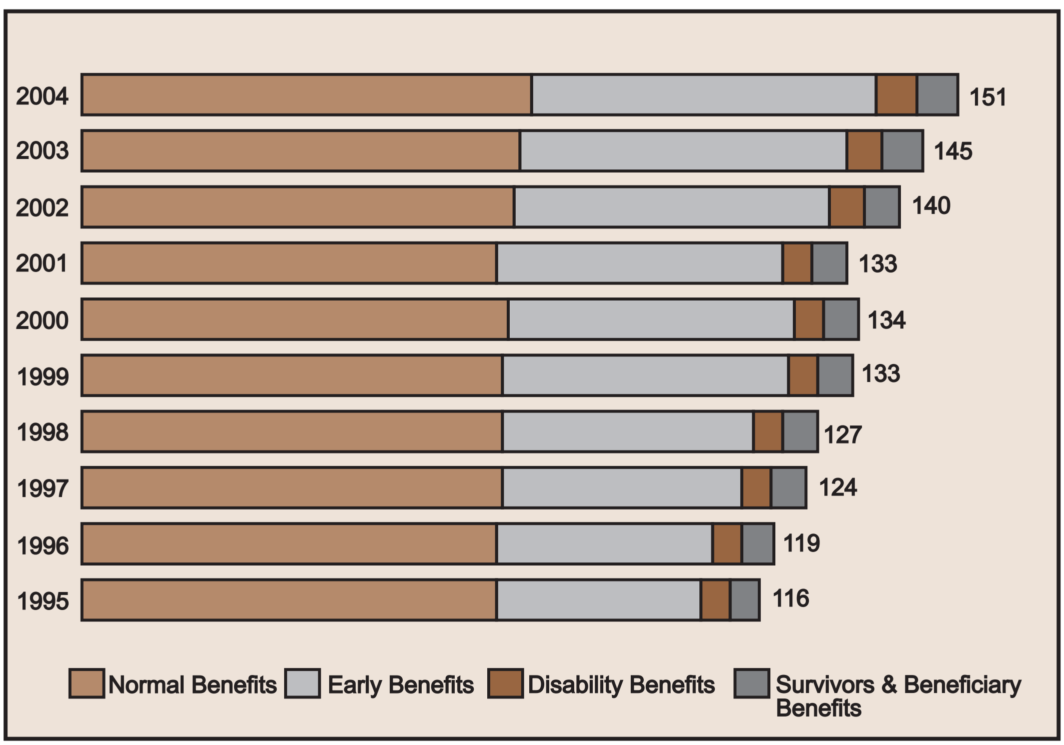
(Fair Value - Amounts in Billions)



Total Membership - Active & Retired
(In Thousands)



Retired Members - 10 Year Trend
(In Thousands)



Components of Total Contribution Rate

(In Percentages)

	Employer Contribution					
Fiscal Year	Normal Requirement (A)	(Funded) / Unfunded Accrued Liability (B)	Heath Insurance Premium Assistance Contribution (C)	Total Employer	Member Contribution (Average)	Total Contribution Rate
2004-2005	7.48	(7.10)	.23	4.23	7.12	11.35
2003-2004	7.25	(4.27)	.79	3.77	7.08	10.85
2002-2003	7.20	(10.03)	.97	1.15	7.10	8.25
2001-2002	5.63	(6.05)	1.09	1.09	5.80	6.89
2000-2001	6.29	(4.65)	.30	1.94	5.77	7.71
1999-2000	6.40	(2.04)	.25	4.61	5.72	10.33
1998-1999	6.33	(0.44)	.15	6.04	5.69	11.73
1997-1998	6.44	2.17	.15	8.76	5.65	14.41
1996-1997	6.44	3.56	.60	10.60	5.62	16.22
1995-1996	6.43	4.67	.62	11.72	5.59	17.31
1994-1995	6.43	4.18	.45	11.06	5.55	16.61
1993-1994	7.34	5.58	.25	13.17	5.51	18.68
1992-1993	7.90	5.84	.50	14.24	5.48	19.72
1991-1992	8.00	6.40	.50	14.90	5.46	20.36
1990-1991	8.28	10.90		19.18	5.69	24.87
1989-1990	8.44	11.24		19.68	5.53	25.21
1988-1989	8.63	10.64		19.27	5.37	24.64
1987-1988	8.72	10.82		19.54	5.34	24.88
1986-1987	9.13	10.77		19.90	5.29	25.19
1985-1986	9.16	10.88		20.04	5.27	25.31
1984-1985	8.35	10.95		19.31	5.25	24.56
1983-1984	8.75	8.31		17.06	5.25	22.31

The total contribution rate is the total of the employer and member rates actuarially required for the funding of PSERS' pension and postemployment health insurance premium assistance benefits.

The total employer rate is comprised of a normal requirement, an accrued liability requirement and a postemployment healthcare insurance premium assistance requirement.

(A) The normal requirement portion is the percentage of compensation necessary to fund any prospective pension benefits payable to the member.

(B) The total funded / unfunded accrued liability portion is the percentage of compensation necessary to fund past pension benefit enhancements, cost-of-living adjustments and other acturial gains and losses.

(C) The postemployment healthcare insurance premium assistance portion is the percentage of compensation necessary to fund the postemployment health insurance premium assistance program established under the provisions of Act 23 - 1991.

Schedule of Retired Members by Type of Benefit

Year	Retirement Type**	Option M*		Option 1*		Option 2, 3*	
		Number of Retirees	Average Mo. Benefit	Number of Retirees	Average Mo. Benefit	Number of Retirees	Average Mo. Benefit
2004	S	49,424	$1,648	9,706	$1,312	17,321	$1,842
	W	40,944	1,556	8,582	1,073	9,551	1,669
	D	5,327	1,154	9	656	1,304	1,508
	R	1	5	0	0	0	0
	B	324	899	2	1,072	6,502	648
		96,020		**18,299**		**34,678**	
2003	S	49,231	$1,560	8,999	$1,186	16,408	$1,725
	W	39,707	1,494	7,541	964	8,696	1,569
	D	5,170	1,105	9	656	1,156	1,459
	R	1	5	0	0	0	0
	B	258	881	11	542	6,348	614
		94,367		**16,560**		**32,608**	
2002	S	49,368	$1,431	8,422	$1,064	15,695	$1,572
	W	38,679	1,389	6,696	820	7,948	1,415
	D	5,049	1,017	11	700	1,015	1,305
	R	1	5	0	0	0	0
	B	232	814	11	557	6,206	586
		93,329		**15,140**		**30,864**	
2001	S	47,982	$1,241	7,681	$857	14,453	$1,334
	W	36,628	1,287	5,656	653	7,051	1,275
	D	4,864	909	13	567	895	1,167
	R	1	4	0	0	0	0
	B	175	790	7	426	6,029	562
		89,650		**13,357**		**28,428**	
2000	S	49,367	$1,225	7,923	$860	14,768	$1,326
	W	36,620	1,288	5,623	660	7,063	1,281
	D	4,740	886	14	545	847	1,141
	R	1	4	0	0	0	0
	B	144	762	3	435	5,879	544
		90,872		**13,563**		**28,557**	
1999	S	49,255	$1,183	8,046	$ 855	14,641	$1,309
	W	36,002	1,281	5,514	670	6,958	1,278
	D	4,587	854	14	545	782	1,105
	R	1	4	0	0	0	0
	B	120	754	1	1,160	5,655	519
		89,965		**13,575**		**28,036**	
1998	S	49,081	$1,151	8,134	$ 858	14,558	$1,293
	W	31,568	1,131	5,253	636	6,300	1,209
	D	4,439	828	15	541	724	1,074
	R	1	4	0	0	0	0
	B	84	792	1	1,160	5,421	493
		85,173		**13,403**		**27,003**	
1997	S	48,869	$1,011	8,185	$ 773	14,406	$1,162
	W	29,931	1,025	5,115	585	6,050	1,106
	D	4,334	733	16	439	694	974
	R	1	4	0	0	0	0
	B	54	766	1	1,160	5,275	475
		83,189		**13,317**		**26,425**	
1996	S	48,592	$977	8,210	$769	14,198	$1,135
	W	26,443	871	4,880	552	5,386	1,001
	D	4,198	702	18	465	628	907
	R	1	4	0	0	0	0
	B	34	812	0	0	5,040	455
		79,268		**13,108**		**25,252**	
1995	S	48,589	$952	8,256	$767	14,028	$1,116
	W	24,805	800	4,712	536	5,060	949
	D	4,044	676	21	454	605	866
	R	2	6	0	0	0	0
	B	21	751	0	0	4,813	436
		77,461		**12,989**		**24,506**	

*** OPTIONS:**

M - Maximum Option - Highest monthly allowance with guarantee of accumulated deductions only
1 - Option 1 - Maximum allowance reduced for Death Benefit protection
2, 3 - Option 2 & 3 - Joint and survivor annuities
SO - Special Option - Plan approved by actuary
BO - Beneficiary options - Life, 5 and 10 year certain annuity plans

Schedule of Retired Members by Type of Benefit (Continued)

Year	Retirement Type**	Option SO* Number of Retirees	Option SO* Average Mo. Benefit	Option BO* Number of Retirees	Option BO* Average Mo. Benefit	Total Retirees	% Increase of Retirees
2004	S	675	$3,135	0	$ 0	77,126	2.5%
	W	313	2,622	0	0	59,390	5.7%
	D	7	1,482	0	0	6,647	4.9%
	R	0	0	0	0	1	0.0%
	B	144	694	514	622	7,486	3.2%
		1,139		**514**		**150,650**	**3.9%**
2003	S	613	$2,984	0	$ 0	75,261	1.6%
	W	266	2,494	1	336	56,210	5.0%
	D	3	2,211	0	0	6,338	4.3%
	R	0	0	0	0	1	0.0%
	B	146	637	489	517	7,252	2.6%
		1,028		**490**		**145,062**	**6.0%**
2002	S	562	$2,727	0	$ 0	74,047	4.9%
	W	235	2,312	0	0	53,558	8.1%
	D	3	2,099	0	0	6,078	5.3%
	R	0	0	0	0	1	0.0%
	B	148	559	475	553	7,072	3.5%
		948		**475**		**140,756**	**6.0%**
2001	S	473	$2,412	0	$ 0	70,589	-2.7%
	W	202	2,186	1	336	49,538	0.1%
	D	2	2,151	0	0	5,774	3.1%
	R	0	0	0	0	1	0.0%
	B	149	513	476	517	6,836	2.6%
		826		**477**		**132,738**	**-1.2%**
2000	S	480	$2,389	0	$ 0	72,538	0.2%
	W	207	2,180	1	336	49,514	1.7%
	D	2	2,151	0	0	5,603	4.1%
	R	0	0	0	0	1	0.0%
	B	146	481	488	500	6,660	3.8%
		835		**489**		**134,316**	**1.1%**
1999	S	444	$2,379	0	$ 0	72,386	0.3%
	W	207	2,167	0	0	48,681	12.5%
	D	1	1,109	0	0	5,384	4.0%
	R	0	0	0	0	1	0.0%
	B	142	427	496	475	6,414	4.5%
		794		**496**		**132,866**	**4.8%**
1998	S	433	$2,365	0	$ 0	72,206	0.5%
	W	163	2,063	0	0	43,284	4.9%
	D	0	0	0	0	5,178	2.7%
	R	0	0	0	0	1	0.0%
	B	146	392	487	426	6,139	2.7%
		742		**487**		**126,808**	**2.2%**
1997	S	392	$2,125	0	$ 0	71,852	0.7%
	W	149	1,979	0	0	41,245	12.1%
	D	0	0	0	0	5,044	4.1%
	R	0	0	0	0	1	0.0%
	B	153	329	495	419	5,978	4.7%
		694		**495**		**124,120**	**4.6%**
1996	S	356	$2,046	0	$ 0	71,356	0.2%
	W	102	1,851	0	0	36,811	6.2%
	D	0	0	0	0	4,844	3.7%
	R	0	0	0	0	1	-50.0%
	B	149	302	485	400	5,708	4.9%
		607		**485**		**118,720**	**2.4%**
1995	S	353	$2,006	0	$ 0	71,226	-1.2%
	W	78	1,754	0	0	34,655	4.1%
	D	0	0	0	0	4,670	3.7%
	R	0	0	0	0	2	0.0%
	B	146	250	464	375	5,444	4.7%
		577		**464**		**115,997**	**0.8%**

**** RETIREMENT TYPE:**
- S - Superannuation or Normal Retirement
- W - Withdrawal or Early Retirement
- D - Disability Benefit
- R - Refund Annuity
- B - Beneficiaries Receiving Annuities

Schedule of Employers
School Districts

A

Abington
Abington Heights
Albert Gallatin
Aliquippa
Allegheny-Clarion Valley
Allegheny Valley
Allentown City
Altoona Area
Ambridge Area
Annville-Cleona
Antietam
Apollo-Ridge
Armstrong
Athens Area
Austin Area
Avella Area
Avon Grove
Avonworth

B

Bald Eagle Area
Baldwin-Whitehall
Bangor Area
Beaver Area
Bedford Area
Belle Vernon Area
Bellefonte Area
Bellwood-Antis
Bensalem Township
Benton Area
Bentworth
Berlin Brothers Valley
Bermudian Springs
Berwick Area
Bethel Park
Bethlehem Area
Bethlehem-Center
Big Beaver Falls Area
Big Spring
Blackhawk
Blacklick Valley
Blairsville-Saltsburg
Bloomsburg Area
Blue Mountain
Blue Ridge
Boyertown Area
Bradford Area
Brandywine Heights Area
Brentwood Boro
Bristol Boro
Bristol Township
Brockway Area
Brookville Area
Brownsville Area
Burgettstown Area
Burrell
Butler Area

C

California Area
Cambria Heights
Cameron County
Camp Hill
Cannon-McMillan
Canton Area
Carbondale Area
Carlisle Area
Carlynton
Carmichaels Area
Catasaqua
Centennial
Center Area
Central Bucks
Central Cambria
Central Columbia
Central Dauphin
Central Fulton
Central Greene
Central York
Chambersburg Area
Charleroi Area
Chartiers-Houston
Chartiers Valley
Cheltenham Township
Chester-Upland
Chestnut Ridge
Chichester
Clairton
Clarion Area
Clarion-Limestone Area
Claysburg-Kimmel
Clearfield Area
Coatesville Area
Cocalico
Colonial
Columbia Boro
Commodore Perry
Conemaugh Township Area
Conemaugh Valley
Conestoga Valley
Conewago Valley
Conneaut
Connellsville Area
Conrad Weiser Area
Cornell
Cornwall-Lebanon
Corry Area
Coudersport Area
Council Rock
Cranberry Area
Crawford Central
Crestwood
Cumberland Valley
Curwensville Area

D

Dallas
Dallastown Area
Daniel Boone Area
Danville Area
Deer Lakes
Delaware Valley
Derry Area
Derry Township
Donegal
Dover Area
Downingtown Area
DuBois Area
Dunmore
Duquesne City

E

East Allegheny
East Lycoming
East Penn
East Pennsboro Area
East Stroudsburg
Eastern Lancaster County
Eastern Lebanon County
Eastern York
Easton Area
Elizabeth Forward
Elizabethtown Area
Elk Lake
Ellwood City Area
Ephrata Area
Erie City
Everett Area
Exeter Township

F

Fairfield Area
Fairview
Fannett-Metal
Farrell Area
Ferndale Area
Fleetwood Area
Forbes Road
Forest Area
Forest City Regional
Forest Hills
Fort Cherry
Fort Le Boeuf
Fox Chapel Area
Franklin Area
Franklin Regional
Frazier
Freedom Area
Freeport Area

Schedule of Employers (Continued)

G

Galeton Area
Garnet Valley
Gateway
General McLane
Gettysburg Area
Girard
Glendale
Governor Mifflin
Great Valley
Greater Johnstown
Greater Latrobe
Greater Nanticoke Area
Greencastle-Antrim
Greensburg Salem
Greenville Area
Greenwood
Grove City Area

H

Halifax Area
Hamburg Area
Hampton Township
Hanover Area
Hanover Public
Harbor Creek
Harmony
Harrisburg City
Hatboro-Horsham
Haverford Township
Hazleton Area
Hempfield
Hempfield Area
Hermitage
Highlands
Hollidaysburg Area
Homer Center
Hopewell Area
Huntingdon Area

I

Indiana Area
Interboro
Iroquois

J

Jamestown Area
Jeannette City
Jefferson-Morgan
Jenkintown
Jersey Shore Area
Jim Thorpe Area
Johnsonburg Area
Juniata County
Juniata Valley

K

Kane Area
Karns City Area
Kennett Consolidated
Keystone
Keystone Central
Keystone Oaks
Kiski Area
Kutztown Area

L

Lackawanna Trail
Lake Lehman
Lakeland
Lakeview
Lampeter-Strasburg
Lancaster City
Laurel
Laurel Highlands
Lebanon
Leechburg Area
Lehighton Area
Lewisburg Area
Ligonier Valley
Line Mountain
Littlestown
Lower Dauphin
Lower Merion
Lower Moreland
Loyalsock Township

M

Mahanoy Area
Manheim Central
Manheim Township
Marion Center Area
Marple Newtown
Mars Area
McGuffey
McKeesport Area
Mechanicsburg Area
Mercer Area
Methacton
Meyersdale Area
Mid Valley
Midd-West
Middletown Area
Midland Boro
Mifflin County
Mifflinburg Area
Millcreek Township
Millersburg Area
Millville Area
Milton Area
Minersville Area
Mohawk Area
Monaca
Monessen
Moniteau
Montgomery Area
Montour
Montoursville Area
Montrose Area
Moon Area
Morrisville Boro
Moshannon Valley
Mount Carmel Area
Mount Lebanon
Mount Pleasant Area
Mount Union Area
Mountain View
Muhlenberg
Muncy

N

Nazareth Area
Neshaminy
Neshannock Township
New Brighton Area
New Castle Area
New Hope-Solebury
New Kensington-Arnold
Newport
Norristown Area
North Allegheny
North Clarion County
North East
North Hills
North Penn
North Pocono
North Schuylkill
North Star
Northampton Area
Northeast Bradford
Northeastern York County
Northern Bedford County
Northern Cambria
Northern Lebanon
Northern Lehigh
Northern Potter
Northern Tioga
Northern York County
Northgate
Northwest Area
Northwestern
Northwestern Lehigh
Norwin

O

Octorara Area
Oil City Area
Old Forge
Oley Valley

Schedule of Employers (Continued)

Oswayo Valley
Otto Eldred
Owen J. Roberts
Oxford Area

P

Palisades
Palmerton Area
Palmyra Area
Panther Valley
Parkland
Pen Argyl Area
Penn Cambria
Penn Crest
Penn Delco
Penn Hills
Penn Manor
Penn Trafford
Pennridge
Penns Manor
Penns Valley Area
Pennsbury
Pequea Valley
Perkiomen Valley
Peters Township
Philadelphia
Philipsburg-Osceola
Phoenixville Area
Pine Grove Area
Pine-Richland
Pittsburgh
Pittston Area
Pleasant Valley
Plum Boro
Pocono Mountain
Port Allegany
Portage Area
Pottsgrove
Pottstown
Pottsville Area
Punxsutawney Area
Purchase Line

Q

Quaker Valley
Quakertown Community

R

Radnor Township
Reading
Red Lion Area
Redbank Valley
Reynolds
Richland
Ridgway Area
Ridley
Ringgold
Riverside
Riverside Beaver County
Riverview
Rochester Area
Rockwood Area
Rose Tree Media

S

Saint Clair Area
Saint Marys Area
Salisbury-Elk Lick
Salisbury Township
Saucon Valley
Sayre Area
Schuylkill Haven Area
Schuylkill Valley
Scranton City
Selinsgrove Area
Seneca Valley
Shade-Central City
Shaler Area
Shamokin Area
Shanksville-Stonycreek
Sharon City
Sharpsville Area
Shenandoah Valley
Shenango Area
Shikellamy
Shippensburg Area
Slippery Rock Area
Smethport Area
Solanco
Somerset Area
Souderton Area
South Allegheny
South Butler County
South Eastern
South Fayette Township
South Middleton
South Park
South Side Area
South Western
South Williamsport Area
Southeast Delco
Southeastern Greene
Southern Columbia Area
Southern Fulton
Southern Huntingdon
Southern Lehigh
Southern Tioga
Southern York County
Southmoreland
Spring Cove
Spring-Ford Area
Spring Grove Area
Springfield
Springfield Township
State College Area
Steel Valley
Steelton-Highspire
Sto-Rox
Stroudsburg Area
Sullivan County
Susquehanna Community
Susquehanna Township
Susquenita

T

Tamaqua Area
Titusville Area
Towanda Area
Tredyffrin-Easttown
Tri-Valley
Trinity Area
Troy Area
Tulpehocken Area
Tunkhannock Area
Turkeyfoot Valley
Tuscarora
Tussey Mountain
Twin Valley
Tyrone Area

U

Union
Union Area
Union City Area
Uniontown Area
Unionville-Chadds Ford
United
Upper Adams
Upper Darby
Upper Dauphin Area
Upper Dublin
Upper Merion Area
Upper Moreland
Upper Perkiomen
Upper Saint Clair

V

Valley Grove
Valley View

W

Wallenpaupack Area
Wallingford Swarthmore
Warren County
Warrior Run
Warwick
Washington
Wattsburg Area
Wayne Highlands

Schedule of Employers (Continued)

Waynesboro Area
Weatherly Area
Wellsboro Area
West Allegheny
West Branch Area
West Chester Area
West Greene
West Jefferson Hills
West Middlesex Area
West Mifflin Area
West Perry
West Shore
West York Area
Western Beaver County
Western Wayne
Westmont Hilltop
Whitehall-Coplay
Wilkes-Barre Area
Wilkinsburg
William Penn
Williams Valley
Williamsburg Community
Williamsport Area
Wilmington Area
Wilson
Wilson Area
Windber Area
Wissahickon
Woodland Hills
Wyalusing Area
Wyoming Area
Wyoming Valley West
Wyomissing Area

Y

York
York Suburban
Yough

Area Vocational Technical Schools

Admiral Peary AVTS
Beaver County AVTS
Bedford County Technical Center
Berks Career and Technical Center
Bethlehem AVTS
Bucks County AVTS
Butler County AVTS
Carbon County AVTS
Career Institute of Technology
Central Montgomery County CTS
Central Westmoreland CTC
Central PA Institute for Science and Technology
Clarion County Career Center
Clearfield County CTC
Columbia-Montour AVTS
Crawford County AVTS
CTC of Lackawanna County
Cumberland-Perry AVTS
Dauphin County Technical School
Delaware County AVTS
Eastern Center for Arts and Technology
Eastern Westmoreland CTC
Erie County Technical School
Fayette County AVTS
Forbes Road Career and Technology Center
Franklin County CTC
Fulton County AVTS
Greater Altoona CTC
Greater Johnstown AVTS
Greene County AVTS
Huntingdon County CTC
Indiana County Technology Center
Jefferson County-DuBois AVTS
Juniata - Mifflin County AVTS
Lancaster County CTC
Lawrence County AVTS
Lebanon County AVTS
Lehigh Career and Technical Institute
LENAPE AVTS
Lycoming County Career Consortium
Mercer County AVTS
Middle Bucks Institute of Technology
Mon Valley CTC
Monroe County AVTS
Northern Tier Career Center
North Fayette County AVTS
North Montco Technical Career Center
North Westmoreland County AVTS
Northumberland County AVTS
Parkway West AVTS
Reading-Muhlenberg AVTS
Schuylkill County AVTS
Somerset County Technology Center
Steel Center AVTS
SUN Area CTC
Susquehanna County CTC
Upper Bucks County AVTS
Venango Technology Center
West Side AVTS
Western Area CTC
Western Center for Technical Studies
Wilkes-Barre AVTS
York County AVTS

Intermediate Units

Allegheny #3
Appalachia #8
Arin #28
Beaver Valley #27
Berks County #14
Blast #17
Bucks County #22
Capital Area #15
Carbon Lehigh #21
Central #10
Central Susquehanna #16
Chester County #24
Colonial Northampton #20
Delaware County #25
Intermediate Unit #1
Lancaster Lebanon #13
Lincoln #12
Luzerne #18
Midwestern #4
Montgomery County #23
Northeastern Education #19
Northwest Tri County #5
Pittsburgh Mt. Oliver #2
Riverview #6
Schuylkill #29
Seneca Highlands #9
Tuscarora #11
Westmoreland #7

Schedule of Employers (Continued)

Colleges / Universities

Bloomsburg University
Bucks County Community College
Butler County Community College
California University
Cheyney University
Clarion University
Community College of Allegheny County
Community College of Beaver County
Community College of Delaware County
Community College of Philadelphia
East Stroudsburg University
Edinboro University
Harrisburg Area Community College
Indiana University
Kutztown University
Lehigh Carbon Community College
Lock Haven University
Luzerne County Community College
Mansfield University
Millersville University
Montgomery County Community College
Northampton County Area Community College
Pennsylvania College of Technology
Pennsylvania State University
Reading Area Community College
Shippensburg University
Slippery Rock University
University of Pittsburgh
West Chester University
Westmoreland County Community College

Other

Berks County Earned Income Tax Bureau
Department of Corrections - Commonwealth of Pennsylvania
Department of Education - Commonwealth of Pennsylvania
Education Resource
Lancaster County Academy
Northern Area Special Purpose School
Overbrook School for the Blind
Pennsylvania School Boards Association
Pennsylvania School for the Deaf
Scotland School for Veterans Children
Scranton School for the Deaf
Thaddeus Stevens School of Technology
Washington County Alternative School
Western Pennsylvania School for the Blind
Western Pennsylvania School for the Deaf
York County High

Charter Schools (C.S.)

21st Century Cyber C.S.
Alliance for Progress C.S.
Architecture & Design C.S.
Avon Grove C.S.
Belmont C.S.
Bucks County Montessori C.S.
Career Connections C.S.
Center for Economics and Law C.S.
Center for Student Learning C.S. at Pennsbury
Central PA Digital Learning Foundation C.S.
Centre Learning Community C.S.
Chester C.S.
Chester County Family Academy C.S.
Christopher Columbus C.S.
City Charter High School
Collegium C.S.
Commonwealth Connections Academy C.S.
Crispus Attucks Youthbuild C.S.
Delaware Valley C.S.
Discovery C. S.
Erin Dudley Forbes C.S.
Eugenio Maria de Hostos Community Bilingual C.S.
Family C.S.
Fell C.S.
First Philadelphia C.S. for Literacy
Franklin Towne C.S.
Freire C.S.
GECAC Community C.S.
Germantown Settlement C.S.
Graystone Academy C.S.
Green Woods C.S.
Hope C.S.
Imani Education Circle C.S.
IMHOTEP Institute C.S.
Independence C.S.
Infinity C.S.
Keystone Education Center C.S.
KIPP Academy C.S.
La Academia: The Partnership C.S.
Laboratory C.S.
Lehigh Valley Academy Regional C.S.
Lehigh Valley C.S. for the Performing Arts
Leadership Learning PartnersC.S.
Lincoln C.S.
Manchester Academic C.S.
Mariana Bracetti Academy C.S.
Maritime Academy C.S.
Mastery Charter High School
MaST Community C.S.
Math, Civics & Sciences C.S.

Schedule of Employers (Continued)

Multi-Cultural Academy
New Foundations C.S.
Nittany Valley C.S.
Northside Urban Pathways C.S.
Northwest PA Collegiate Academy C.S.
Nueva Esperanza Academy C.S.
PA Learners Online Regional Cyber C.S.
Pennsylvania Global Academy C.S.
Pennsylvania Virtual C.S.
People for People C.S.
Philadelphia Academy C.S.
Philadelphia Community Academy of PA C.S.
Philadelphia Electrical & Technology Charter High School
Philadelphia Harambee Institute of Science and
Technology C.S.
Philadelphia Performing Arts C.S.
Preparatory Charter of Mathematics, Science, Technology
and Careers School
Propel C.S. - Homestead
Raising Horizons Quest C.S.
RAPAH - Edison C.S.
Renaissance C.S.
Renaissance Academy - Edison C.S.
Richard Allen Preparatory C.S.
Ridgeview Academy C.S.
Roberto Clemente C.S.
Ronald H. Brown C.S.
Russell Byers C.S.
School Lane C.S.
Souderton C.S. Collaborative
Spectrum C.S.
Sugar Valley C.S.
SUSQ-CYBER C.S.
Sylvan Heights Science C.S.
Tuscarora Blended Learning C.S.
Universal Institute C.S.
Urban League of Pittsburgh C.S.
Village C.S. of Chester-Upland
Wakisha C.S.
West Oak Lane C.S.
West Philadelphia Achievement Charter Elementary School
Western Pennsylvania Cyber C.S.
Wissahickon C.S.
Wonderland C.S.
World Communications C.S.
Young Scholars C.S.

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