

**The Report of the
Fifty-Third Annual Actuarial Valuation**

**of the
City of Sioux Falls Employee's Retirement System
December 31, 2003**

**Submitted to
The Board of Trustees**

**City of Sioux Falls Employee's Retirement System
Sioux Falls, South Dakota**

Gabriel, Roeder, Smith & Company

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GABRIEL, ROEDER, SMITH & COMPANY

Consultants & Actuaries

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

May 12, 2004

The Board of Trustees
City of Sioux Falls Employee's Retirement System
Sioux Falls, South Dakota

Ladies and Gentlemen:

Submitted in this report are the results of the Fifty-Third Annual Actuarial Valuation of the assets, actuarial values and contribution requirements associated with benefits (pensions and post-retirement health insurance) provided by the City of Sioux Falls Employee's Retirement System. The purpose of the valuation was to measure the System's funding progress and to determine contribution rates for the second following calendar year.

The date of the valuation was December 31, 2003.

The valuation was based upon information, furnished by your Secretary, concerning Retirement System benefits, financial transactions, and individual members, terminated members, retirees and beneficiaries. Data was checked for year-to-year consistency but was not otherwise audited.

To the best of our knowledge this report is complete and accurate and was made in accordance with Standards of Practice prescribed by the Actuarial Standards Board and in compliance with the statutes governing the Retirement System. The actuarial assumptions used for the valuation produce results which we believe are reasonable.


Respectfully submitted,


Louise M. Gates, ASA


W. James Koss, ASA, EA

LMG/WJK:dm

Section A



**Valuation Results, Comments,
Recommendations and Conclusions**

FINANCIAL OBJECTIVE

The financial objective of the Retirement System is to establish and receive contributions, expressed as percents of active member payroll, which will remain approximately level from year-to-year and will accumulate reserves during members' working lifetimes which will be sufficient to pay promised benefits throughout retirement.

CONTRIBUTION RATES

The Retirement System is supported by member contributions, City contributions and investment income from Retirement System assets.

Contributions which satisfy the financial objective are determined by an annual actuarial valuation and are sufficient to:

- (1) cover the actuarial present value of benefits assigned to the current year by the actuarial cost methods described in Section C (the normal cost); and
- (2) amortize over a period of future years the actuarial present value of benefits not covered by valuation assets and anticipated future normal costs (unfunded actuarial accrued liability).

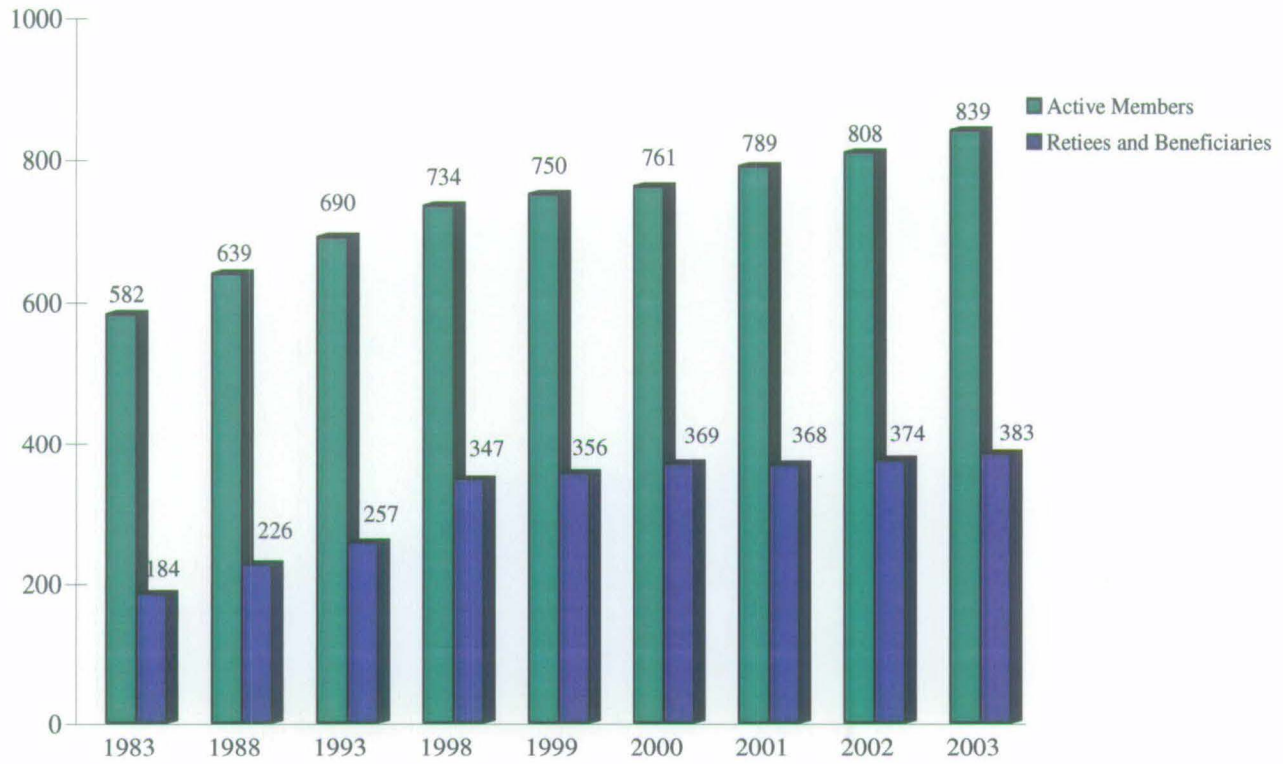
Contribution requirements for the year beginning January 1, 2005 are shown on page A-2.

**PENSION CONTRIBUTIONS COMPUTED TO MEET THE FINANCIAL
OBJECTIVE OF THE RETIREMENT SYSTEM
FOR THE YEAR BEGINNING JANUARY 1, 2005**

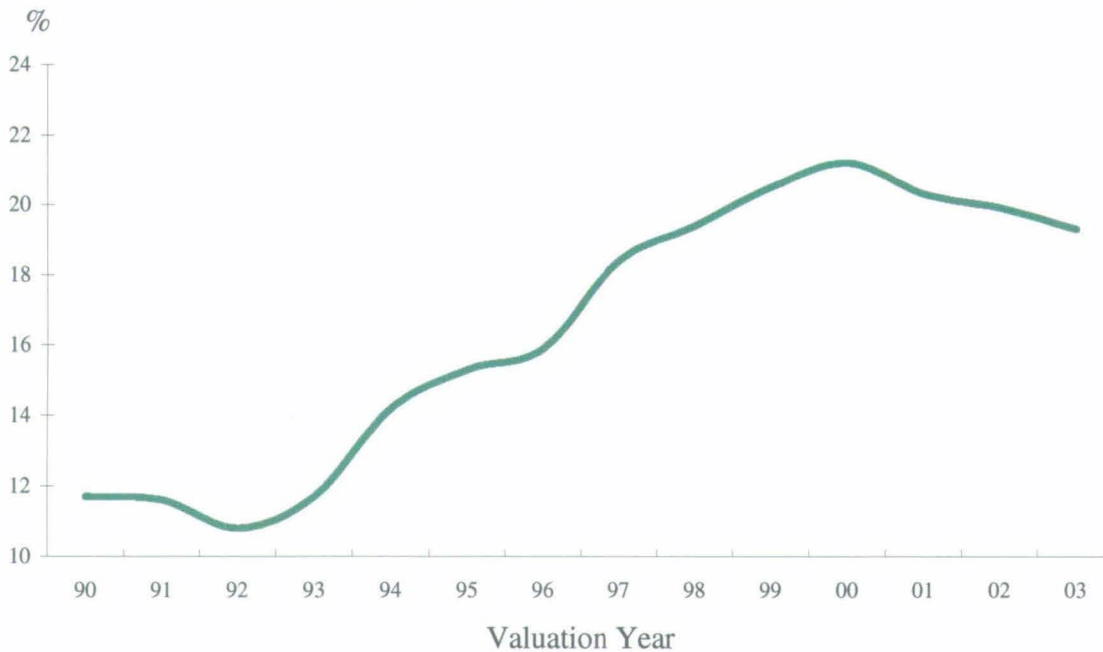
Contributions for	Contributions Expressed As Percents of Payroll	
	General	Police
Normal Cost		
Age & service benefits	9.70%	15.96%
Death and Disability benefits	1.07	1.38
Termination benefits		
Deferred age & service benefits	0.50	0.20
Refunds of member contributions	0.26	0.86
Total Normal Cost	11.53%	18.40%
Unfunded Actuarial Accrued Liabilities (1)	0.90%	3.56%
Total Contribution Requirement	12.43%	21.96%
Member portion	3.00%	8.00%
City-State portion	9.43%	13.96%

- (1) Accrued liabilities were amortized as a level percent of active member payroll over a period of 20 years.

Active and Retired Members



Pension Benefits as a Percent of Payroll



**COMPUTED AND ACTUAL CITY CONTRIBUTIONS
COMPARATIVE STATEMENT**

Fiscal Year	Valuation Date December 31	Actual Dollar Contrib.	Valuation Payroll	Projected Payroll*	% of Payroll Contributions		Weighted Average
					General	Police	
1991	1989 @#	\$1,396,023	\$16,570,850	\$17,399,392	6.8	7.58	6.97 %
1992	1990 @#	1,774,429	17,211,716	18,072,302	9.03	9.59	9.16
1993	1991 #	2,263,003	19,100,960	20,056,008	9.37	11.03	9.75
1994	1992 @#	2,907,613	21,155,752	22,213,540	10.26	17.20	11.85
1995	1993	2,894,831	22,272,331	23,385,947	9.50	17.36	11.20
1996	1994	3,035,778	23,186,822	24,346,163	9.69	17.57	11.37
1997	1995	3,004,970	24,295,495	25,510,270	9.25	16.92	11.09
1998	1996	3,398,714	25,525,258	26,801,520	9.29	17.27	11.20
1999	1997 #	3,467,147	25,830,779	26,993,164	10.33	18.09	12.14
2000	1998 @	3,382,633	27,295,184	28,523,467	9.68	16.85	11.42
2001	1999	3,187,191	27,623,182	28,866,225	8.47	13.90	9.80
2002	2000 **	3,273,019	29,068,666	30,376,756	7.60	15.60	9.67
2003	2001 **	3,557,438	31,751,356	33,180,167	7.77	14.42	9.45
2004	2002		33,718,220	35,235,540	8.68	15.68	10.48
2005	2003		36,244,556	38,718,384	9.43	13.96	10.65

@ After changes in actuarial assumptions or methods.

After changes in benefit provisions.

* The valuation payroll is projected from the valuation date to the appropriate fiscal year. The current projection factor is equal to 1.045.

** Reflects full funding credit.

ACTUARIAL BALANCE SHEET - DECEMBER 31, 2003

Present Resources and Expected Future Resources

	General	Police	Total
A. Valuation assets	\$115,967,827	\$59,923,858	\$175,891,685
B. Actuarial present value of expected future employer contributions			
1. For normal costs	21,096,612	11,217,641	32,314,253
2. For unfunded actuarial accrued liabilities	3,647,147	5,343,632	8,990,779
3. Total	24,743,759	16,561,272	41,305,031
C. Actuarial present value of expected future member contributions	7,548,032	8,598,124	16,146,156
D. Total Actuarial Present Value of Present and Expected Future Resources	\$148,259,618	\$85,083,255	\$233,342,873

Actuarial Present Value of Expected Future Benefit Payments and Reserves

A. To retirees and beneficiaries	\$ 50,769,264	\$35,155,147	\$ 85,924,411
B. To vested terminated members	2,528,056	154,173	2,682,229
C. To present active members			
1. Allocated to service rendered prior to valuation date	66,317,653	29,958,170	96,275,823
2. Allocated to service likely to be rendered after valuation date	28,644,645	19,815,765	48,460,410
3. Total	94,962,298	49,773,935	144,736,233
D. Reserves			
1. Allocated to retirants and beneficiaries	0	0	0
2. Unallocated investment income	0	0	0
3. Total	0	0	0
E. Total Actuarial Present Value of Expected Future Benefit Payments and Reserves	\$148,259,618	\$85,083,255	\$233,342,873

**DERIVATION OF ACTUARIAL GAIN (LOSS)
YEAR ENDED DECEMBER 31, 2003**

The actuarial gains or losses realized in the operation of the Retirement System provide an experience test. Gains and losses are expected to cancel each other over a period of years (in the absence of double-digit inflation) and sizable year-to-year fluctuations are common. Details of the derivation of the actuarial gain (loss) are shown below.

	<u>General</u>	<u>Police</u>
(1) UAAL* at start of year	\$ 902,684	\$6,838,191
(2) Normal cost	2,232,146	1,015,982
(3) Actual contributions	2,125,450	1,431,988
(4) Interest accrual	76,483	530,415
(5) Expected UAAL before changes	1,085,862	6,952,600
(6) Change from benefit increases	none	none
(7) Change from revised actuarial methods	none	none
(8) Expected UAAL after changes	1,085,862	6,952,600
(9) Actual UAAL at end of year	3,647,147	5,343,632
(10) Gain (loss) (8) - (9)	(2,561,285)	1,608,968
(11) Gain (loss) as percent of AAL at start of year	(2.1)%	2.20%

* *Unfunded actuarial accrued liability.*

**POST-RETIREMENT HEALTH INSURANCE
CITY'S COMPUTED CONTRIBUTIONS FOR THE FISCAL YEAR
BEGINNING JANUARY 1, 2005**

Contributions for	<u>Level Contribution as % of Active Payroll</u>	
	General	Police
Normal Cost	1.20 %	1.95 %
UAAL Contribution	1.35	2.68
TOTAL COMPUTED CITY RATE	2.55 %	4.63 %
DOLLAR CONTRIBUTION BASED ON VALUATION PAYROLL*	\$720,435	\$484,577

* *Projected to coming fiscal year.*

Unfunded actuarial accrued liabilities (UAAL) were amortized as a level percent of active member payroll over a period of 20 years.

**POST-RETIREMENT HEALTH INSURANCE
COMPARATIVE STATEMENT**

Fiscal Year	Valuation Date December 31	Actual Dollar Contrib.	Valuation Payroll	Projected Payroll*	Computed City Contributions As % of Payroll		
					General	Police	Weighted Average
1991	1989 @	\$ 149,466	\$16,570,850	\$17,399,392	0.72 %	1.47 %	0.90 %
1992	1990 @	227,797	17,211,716	18,072,302	1.03	2.07	1.26
1993	1991	248,137	19,100,960	20,056,008	1.02	1.97	1.24
1994	1992	256,785	21,155,752	22,213,540	0.95	1.85	1.16
1995	1993	296,373	22,272,331	23,385,948	1.06	2.02	1.27
1996	1994	333,542	23,186,822	24,346,163	1.12	2.31	1.37
1997	1995	336,736	24,295,495	25,510,270	1.10	2.03	1.32
1998	1996	324,620	25,525,258	26,801,521	1.03	1.79	1.21
1999	1997 @	278,993	25,830,779	26,993,164	0.73	1.92	1.01
2000	1998	234,897	27,295,184	28,523,467	0.71	1.75	0.96
2001	1999	309,197	27,623,182	28,866,225	0.96	1.81	1.16
2002	2000 @	381,459	29,068,666	30,376,756	1.59	2.60	1.85
2003	2001 @	450,714	31,751,356	33,180,167	1.97	3.01	2.23
2004	2002		33,718,220	35,235,540	2.18	3.58	2.54
2005	2003		36,244,556	38,718,384	2.55	4.63	3.11

* The valuation payroll is projected from the valuation date to the appropriate fiscal year.

@ After changes in actuarial assumptions or methods.

COMMENTS, RECOMMENDATIONS AND CONCLUSIONS

Comment A: General division pension plan experience was overall unfavorable during the year ended December 31, 2003. Police division pension plan experience was overall favorable during the year ended December 31, 2003. Investment income on a funding value basis was lower than the long-term assumed rate, due to the delayed recognition of prior year's investment losses. This was the primary source of the unfavorable experience. In the General division, this experience was offset in part by more deaths (and other removals) among current benefit recipients. In the Police division, this investment experience was completely offset by the favorable retiree experience. In addition, the actual post-retirement COLA payments were lower than expected. The funding value yield on System assets for the period ending December 31, 2003 was 5.5% versus 26.3% on a market value basis.

Comment B: During the year ended December 31, 2003, there were no plan provision changes reported to the actuary.

Comment C: The results of an actuarial valuation will be only as meaningful as the information it is based on. We are using the conventional premiums provided in connection with the valuation as the measure of the cost of providing retiree health benefits currently. This year they appeared to be reasonable. In order to perform next year's valuation, we will need additional information related to the development of the premium rates. This additional information will be needed to comply with new actuarial standards of practice applicable to retiree health programs and new Governmental Accounting Standards. We will contact the City in the near future to discuss a procedure for collecting this information.

Comment D: In recognition of recent changes in the medical plan options offered to retirees, the method used in this valuation to develop premiums recognized the change in utilization of medical plans among retirees. The premiums used are shown in Section C of this report. This method recognized a weighted average of premiums from both the indemnity and managed care plans in developing retiree health contribution rates. In addition, the indemnity plan premiums used in the valuation of the health plan recognize the higher level (i.e., unsubsidized) of pre-65 retiree health premiums. This increased total valuation premiums by 36% for the General division and 40% for the Police division.

**CONTRIBUTIONS COMPUTED TO MEET THE FINANCIAL OBJECTIVE
OF THE RETIREMENT SYSTEM
FOR THE YEAR BEGINNING JANUARY 1, 2005
GENERAL/MANAGEMENT**

Contributions for	Contributions Expressed As Percents of Payroll		
	Pension	Health	Total
Normal Cost			
Age & service benefits	9.70%	1.04%	10.74%
Death and Disability benefits	1.07	0.16	1.23
Termination benefits			
Deferred age & service benefits	0.50	0.00	0.50
Refunds of member contributions	0.26	0.00	0.26
Total Normal Cost	<u>11.53%</u>	<u>1.20%</u>	<u>12.73%</u>
Unfunded Actuarial Accrued Liabilities (1)	0.90%	1.35%	2.25%
Total Contribution Requirement	12.43%	2.55%	14.98%
Member portion	<u>3.00%</u>	<u>0.00%</u>	<u>3.00%</u>
City-State portion	<u>9.43%</u>	<u>2.55%</u>	<u>11.98%</u>

(1) Pension and retiree health accrued liabilities were amortized as a level percent of active member payroll over a period of 20 years.

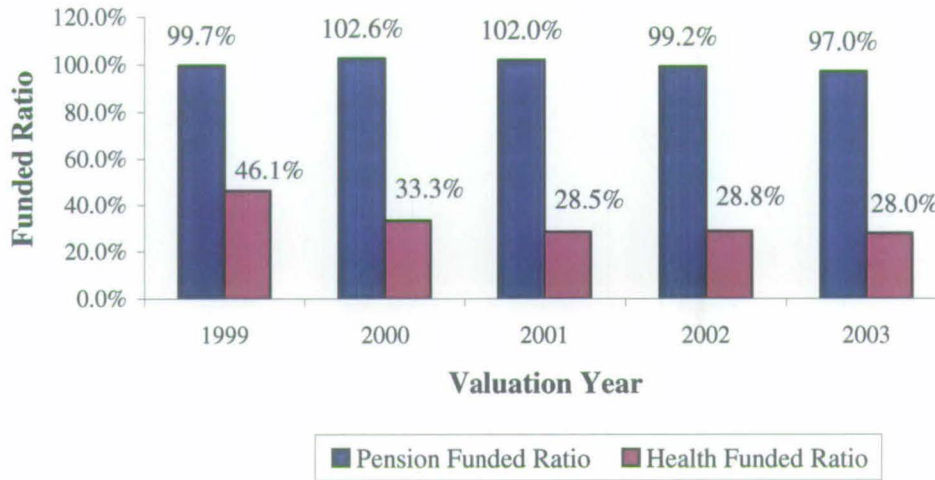
**CONTRIBUTIONS COMPUTED TO MEET THE FINANCIAL OBJECTIVE
OF THE RETIREMENT SYSTEM
FOR THE YEAR BEGINNING JANUARY 1, 2005
POLICE**

Contributions for	Contributions Expressed As Percents of Payroll		
	Pension	Health	Total
Normal Cost			
Age & service benefits	15.96%	1.78%	17.74%
Death and Disability benefits	1.38	0.17	1.55
Termination benefits			
Deferred age & service benefits	0.20	0.00	0.20
Refunds of member contributions	0.86	0.00	0.86
Total Normal Cost	18.40%	1.95%	20.35%
Unfunded Actuarial Accrued Liabilities (1)	3.56%	2.68%	6.24%
Total Contribution Requirement	21.96%	4.63%	26.59%
Member portion	8.00%	0.00%	8.00%
City-State portion	13.96%	4.63%	18.59%

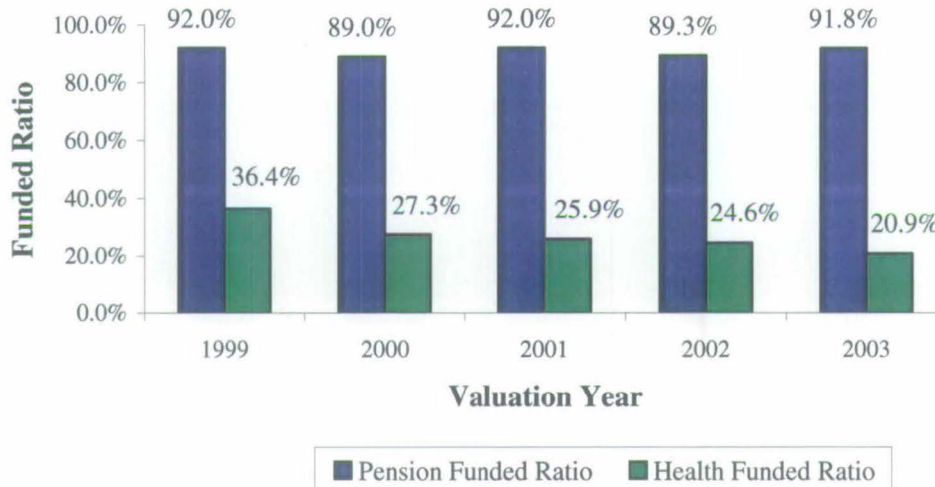
- (1) Unfunded actuarial accrued liabilities for pensions and retiree health benefits were amortized as a level percent of active member payroll over a period of 20 years.

FUNDED RATIO HISTORY PENSION LIABILITIES

General/Management



Police



Section B

**Summary of Benefit Provisions
and Valuation Data**

**BENEFIT PROVISIONS EVALUATED
AND/OR CONSIDERED
(DECEMBER 31, 2003)**

Regular Unreduced Retirement

Eligibility - General members: age 55 with 30 or more years service, or age 60 with 5 years service.

Police: age 50 with 25 years service, or age 60 with 15 years service.

Mandatory Retirement Age - Police: age 60 (age 65 with employer consent).

Annual Amount - General members: 1.8% of final average pay times years of service.

Police: final average pay times the sum of a) 2.5% times the first 25 years of service, plus b) 1.5% times service in excess of 25 years.

Type of Final Average Pay - Highest 3 consecutive years out of last 10. Some lump sums are included.

Early Reduced Retirement

Eligibility - 20 or more years of service.

Annual Amount - Same as regular retirement except that the benefit is actuarially reduced.

Deferred Retirement (vested benefit):

Eligibility - General Members: 5 years of service. Benefit commences at age 60.

Police: 15 years of service. Benefit commences at age 60.

Annual Amount - Computed as a regular retirement benefit based on service and final average pay at termination.

Duty Disability Retirement:

Eligibility - No age or service requirement.

Annual Amount - Computed as a regular retirement benefit. If disabled before eligible for regular retirement, additional service is credited for the period between disability and the time member would have been eligible for regular retirement if he had not been disabled. Minimum benefit is 12.5% of final average pay for general members and 20% of final average pay for police. Worker's Compensation payments are offset.

**BENEFIT PROVISIONS EVALUATED
AND/OR CONSIDERED
(DECEMBER 31, 2003)**

Non-Duty Disability Retirement:

Eligibility - 10 years of service.

Annual Amount - Computed as a regular retirement benefit based on service and final average pay at time of disability. Worker's Compensation payments are offset.

Duty Death Before Retirement:

Eligibility - No age or service requirement. Worker's Compensation must be payable.

Annual Amount - Refund of accumulated contributions. Spouse receives pension of 1/3 of final average pay until death. Unmarried children under age 18 or an eligible handicapped child each receive an equal share of 1/6 of final average pay (if no spouse each child receives 1/4 to a maximum of 1/2). If no spouse or eligible children, dependent parents each receive 1/6 of final average pay (each parent's pension limited to \$600 annually). Worker's Compensation payments are offset.

Non-Duty Death Before Retirement:

Eligibility - 10 years of service.

Annual Amount - Spouse (or some other dependent if an Option B election was in force) receives a benefit computed as regular retirement benefit but actuarially reduced in accordance with a 100% joint and survivor election. Minimum benefit is \$360 annually. If no Option B election is in force, each unmarried child under age 18 or an eligible handicapped child receives \$2,400 annually. If no Option B election is in force and there is no eligible spouse, member contributions are refunded.

Post-Retirement Cost-of-Living Adjustments: Annual increase equal to 100% of the CPI in June of each year (with a cap of 3%) applied to the member's current benefit. The first increase will be granted after 36 months of retirement.

Member Contributions: Police: 8% of compensation.
Elected officials, appointed officers and management employees: 3.0% of compensation.
Other members: 3.0% of compensation.

REPORTED FUND BALANCES (MARKET VALUE)

Reserves	Reported Fund Balances	
	December 31, 2002	December 31, 2003
Annuity Savings Fund		
General division	\$ 16,000,027	\$ 16,684,203
Police division	6,909,437	7,618,779
Totals	<u>22,909,464</u>	<u>24,302,982</u>
Employer Reserve Fund		
General division	(1,725,569)	(2,729,098)
Police division	(9,323,123)	(9,658,819)
Totals	<u>(11,048,692)</u>	<u>(12,387,917)</u>
Retirement Reserve Fund		
General division	32,766,916	35,219,101
Police division	30,351,484	32,369,695
Totals	<u>63,118,400</u>	<u>67,588,796</u>
Income Fund	83,497,007	92,397,543
Expense Fund	<u>23,004</u>	<u>66,476</u>
Total Balances	\$154,551,919	\$171,967,880

DERIVATION OF VALUATION ASSETS

	Pensions	Health	Grand Total
Assumed Interest	8.00%	8.00%	8.00%
A. Funding Value, 12/31/02	\$168,572,303	\$2,669,880	\$171,242,183
B. Market Value Beginning of Year			137,514,068
C. Non-Investment Net Cash Flow			(1,531,582)
D. Net Investment Income(Market total)			35,985,394
E. Market Value End of Year			171,967,880
F. Phase-in Factor			20%
G. Expected Income			13,638,111
H. Market Value Gain (Loss): [(D) – (G)]			22,347,283
I. Method Change:			
J. Recognition of Gain/(Loss)			
J1. Year One			4,469,457
J2. Year Two			(5,705,227)
J3. Year Three			(2,768,788)
J4. Year Four			(2,340,287)
J5. Year Five			2,079,724
J6. Total (J1...J5)			(4,265,121)
K. Funding Value, 12/31/03 [(A) + (C) + (G) + (J6)]			179,083,591
L. Net Funding Rate of Return			5.5%
Percent Allocation (A+C)/Total	98.2%	1.8%	100.0%
Funding Value of Assets	\$175,891,684	\$3,191,907	\$179,083,591

**SUMMARY OF
CURRENT ASSET INFORMATION
REPORTED FOR VALUATION**

Trust Assets

	December 31, 2003 Market Value
Cash & equivalents	\$ 340,994
Receivables & Accruals	314,805
Investments	171,370,254
Less accounts payable	58,173
Total Assets	\$171,967,880

Revenues and Expenditures of Trust

	2003	2002
Balance - January 1	\$137,514,068	\$154,551,919
Revenues		
Employee's contributions	1,593,939	1,442,154
Employer contributions	4,373,347	3,896,795
Investment income	36,238,185	(14,929,083)
Other income	0	0
Expenditures		
Benefit payments	6,915,649	6,600,911
Hospitalization Insurance	450,714	381,459
Refunds of member contributions	132,505	182,350
Operating expenses	252,791	282,997
Miscellaneous	0	0
Balance - December 31	\$171,967,880	\$137,514,068

**MARKET VALUE OF ASSETS REPORTED FOR VALUATION
COMPARATIVE STATEMENT**

Year Ended Dec. 31	Assets Beginning of Year	Revenues			Expenses			Assets Year-End
		Employee Contrib.	Employer Contrib.	Investment Income	Retirement Benefits	Contrib. Refunds	Misc. Expenses	
1989	\$ 41,574,174	\$ 949,043	\$1,450,330	\$ 8,003,122	\$1,670,682	\$131,935	\$276,852	\$ 49,897,200
1990	49,897,200	987,508	1,529,071	(437,429)	1,877,163	100,727	300,798	49,697,662
1991	49,697,662	1,085,944	1,545,489	10,749,642	2,018,227	86,490	359,539	60,614,481
1992	60,614,481	1,120,093	2,002,226	4,717,981	2,208,203	76,968	416,011	65,753,599
1993	65,753,599	1,195,413	2,511,140	9,480,618	2,327,641	74,987	426,547	76,111,595
1994	76,111,595	1,270,016	3,164,398	209,322	2,727,077	77,774	379,964	77,570,516
1995	77,570,516	1,322,338	3,191,204	18,315,824	3,299,025	168,376	521,138	96,411,343
1996	96,411,343	1,485,256	3,369,320	12,535,654	3,782,793	83,772	510,740	109,424,268
1997	109,424,268	1,540,007	3,341,706	17,474,254	4,202,853	189,073	533,763	126,854,546
1998	126,854,546	1,462,159	3,723,334	14,571,870	4,998,076	114,099	504,691	140,995,043
1999	140,995,043	1,193,764	3,746,140	20,287,090	5,421,649	160,909	394,037	160,245,442
2000	160,245,442	1,249,943	3,667,166	(539,610)	5,847,524	177,771	438,219	158,159,427
2001	158,159,427	1,359,825	3,537,191	(1,535,524)	6,190,412	237,070	541,518	154,551,919
2002	154,551,919	1,442,154	3,896,795	(14,929,083)	6,600,911	182,350	664,456	137,514,068
2003	137,514,068	1,593,939	4,373,347	36,238,185	6,915,649	132,505	703,505	171,967,880

**RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS
COMPARATIVE STATEMENT**

Year Ended Dec. 31	Added to Rols		Removed from Rols		Rols End of Year		Average Annual Benefits	Present Value of Benefits	Expected Removals
	No.	Annual Benefits	No.	Annual Benefits	No.	Annual Benefits			
1989 #@	17	\$265,371	10	\$ 40,142	233	\$1,886,307	\$ 8,096	\$18,578,798	8
1990 #@	18	218,652	13	92,112	238	2,012,847	8,457	23,236,648	8.5
1991	17	242,488	11	46,615	244	2,208,720	9,052	26,080,427	9.0
1992	9	135,704	9	62,352	244	2,282,072	9,353	26,466,852	8.9
1993	22	381,517	9	49,328	257	2,614,261	10,172	30,495,388	9.4
1994 +	30	735,959	8	57,983	279	3,292,237	11,800	39,021,252	10.0
1995	30	541,105	13	115,481	296	3,717,861	12,560	44,353,632	10.6
1996	25	516,018	13	163,629	308	4,070,250	13,215	48,501,396	11.6
1997 #	29	761,054	10	89,454	327	4,741,850	14,501	59,459,496	11.6
1998	25	594,946	5	38,762	347	5,298,034	15,268	66,486,000	9.8
1999	25	507,219	16	133,245	356	5,672,008	15,933	71,686,116	7.8
2000	27	544,081	14	59,225	369	6,156,864	16,685	76,925,868	10.9
2001	22	561,207	23	274,403	368	6,443,668	17,510	80,195,604	11.3
2002	21	397,601	15	140,349	374	6,700,920	17,917	82,787,796	11.2
2003	37	566,899	28	280,190	383	6,987,629	18,244	85,924,411	11.2

After changes in actuarial assumptions or methods.

@ After changes in benefit provisions.

+ 2 years COLA.

**RETIREES AND BENEFICIARIES DECEMBER 31, 2003
TABULATED BY TYPE OF BENEFITS BEING PAID**

<u>Type of Benefits Being Paid</u>	<u>No.</u>	<u>Annual Benefits*</u>
Age and Service Retirement Benefits	293	\$5,913,886
Disability Retirement Benefits	21	310,915
Survivor Retirement Benefits	<u>69</u>	<u>762,828</u>
Total Retirement Benefits Being Paid	383	\$6,987,629

* *Benefits do not include 2003 COLA.*

**RETIRES AND BENEFICIARIES - BY ATTAINED AGES
DECEMBER 31, 2003**

Attained Ages	No.	Annual Benefits*
Under 40	9	\$ 43,495
40 - 44	2	29,386
45 - 49	9	104,230
50 - 54	18	482,477
55 - 59	48	1,420,313
60 - 64	74	1,826,345
65 - 69	58	965,478
70 - 74	60	963,298
75 - 79	50	626,019
80 - 84	29	306,152
85 - 89	19	180,436
90 & Over	7	40,000
Totals	383	\$6,987,629

* Benefits do not include 2003 COLA.

**VESTED FORMER MEMBERS DECEMBER 31, 2003
TABULATED BY ATTAINED AGES**

<u>Attained Ages</u>	<u>No.</u>	<u>Monthly Benefits</u>
Under 40	2	\$ 10,389
40 - 44	8	69,224
45 - 49	10	146,798
50 - 54	11	118,969
55 - 59	8	86,160
60 & Over	<u>1</u>	<u>2,801</u>
Totals	40	\$434,341

**ACTIVE MEMBERS DECEMBER 31, 2003
TABULATED BY VALUATION DIVISIONS**

Valuation Groups	No.	Annual Payroll	Age	Average Service	Pay
General/Management Members	636	\$26,447,233	44.5 yrs.	12.2 yrs.	\$41,584
Police Members	<u>203</u>	<u>9,797,323</u>	37.6	10.1	48,263
Total Active Members	839	\$36,244,556	42.8	11.7	\$43,200

ACTIVE MEMBERS INCLUDED IN VALUATION COMPARATIVE SCHEDULE

Valuation Date December 31	Active Members			Valuation Payroll	Average			
	General	Police	Totals		Age	Service	Pay	% Incr.
1989	515	133	648	\$16,570,850	40.8	11.1	\$25,572	2.9 %
1990	529	133	662	17,211,716	41.1	11.3	26,000	1.7
1991	547	139	686	19,100,960	41.2	11.4	27,844	7.1
1992	555	143	698	21,155,752	41.8	12.0	30,309	8.9
1993	552	138	690	22,272,331	42.1	12.3	32,279	6.5
1994	563	136	699	23,186,822	42.0	12.0	33,171	2.8
1995	568	155	723	24,295,495	43.0	11.9	33,604	1.3
1996	575	160	735	25,525,258	42.0	11.8	34,728	3.3
1997	571	158	729	25,830,779	42.2	11.8	35,433	2.0
1998	573	161	734	27,295,184	42.2	11.7	37,187	5.0
1999	588	162	750	27,623,182	42.4	11.7	36,830	(1.0)
2000	587	174	761	29,068,666	42.4	11.7	38,198	3.7
2001	611	178	789	31,751,356	42.6	11.7	40,243	5.4
2002	626	182	808	33,718,220	43.0	11.8	41,730	3.7
2003	636	203	839	36,244,556	42.8	11.7	43,200	3.5

ADDITIONS TO AND REMOVALS FROM ACTIVE MEMBERSHIP ACTUAL AND EXPECTED NUMBERS

Year Ended Dec. 31	Number Added During Year		Normal Retirement		Disability Retirement		Died-In- Service		Other Terminations		Active Members End of Year
	A	E	A	E	A	E	A	E	A	E	
	1989	44	35	14	3.4	1	1.8	0	1.8	20	
1990	47	33	10	5.3	1	1.7	0	1.9	22	32.0	662
1991	51	27	13	5.5	1	1.8	2	1.9	11	32.9	686
1992	26	14	5	7.0	1	1.8	1	2.0	7	34.3	698
1993	27	35	20	8.9	0	1.8	0	2.1	15	30.8	690
1994	47	38	27	8.2	0	1.8	0	2.2	11	27.2	699
1995	66	42	20	8.2	3	1.8	0	2.2	19	27.2	723
1996	45	33	17	8.3	0	2.1	1	2.2	15	30.3	735
1997	38	44	21	8.3	1	2.1	0	2.2	22	30.3	729
1998	45	50	21	7.8	1	1.6	0	0.9	23	26.8	734
1999	56	46	14	7.5	1	1.6	2	0.9	23	27.5	750
2000	68	57	17	11.0	2	1.1	0	1.0	38	27.9	761
2001	64	36	11	10.0	1	1.2	1	1.0	23	29.2	789
2002	66	47	11	13.7	0	1.3	0	1.1	36	30.2	808
2003	74	43	19	15.3	2	1.3	0	1.1	22	31.5	839
5 Year Totals	328	229	72	57	6	7	3	5	142	146	

A represents actual number.

E represents expected number based on assumptions outlined in Section C.

GENERAL/MANAGEMENT ACTIVE MEMBERS - DECEMBER 31, 2003
BY ATTAINED AGE AND YEARS OF SERVICE

Attained Age	Years of Service to Valuation Date							Totals	
	0-4	5-9	10-14	15-19	20-24	25-29	30 Plus	No.	Valuation Payroll
20-24	11							11	\$ 314,553
25-29	42	6						48	1,498,708
30-34	32	18	1					51	1,872,050
35-39	32	25	16	1				74	2,993,628
40-44	32	19	20	22	13			106	4,379,541
45-49	25	19	23	26	15	26		134	5,590,626
50-54	14	16	17	17	11	23	7	105	4,769,250
55-59	10	11	9	10	10	19	12	81	3,758,655
60	1	3	2	3				9	469,407
61	1	1					2	4	162,702
62	2			1	1	1		5	271,487
63			1			1		2	97,606
64				1				1	33,998
65	1		1			2		4	193,574
66				1				1	41,448
Totals	203	118	90	82	50	72	21	636	\$26,447,233

While not used in the financial computations, the following group averages are computed and shown because of their general interest.

Age: 44.5 years.
 Service: 12.2 years.
 Annual Pay: \$41,584

**POLICE ACTIVE MEMBERS - DECEMBER 31, 2003
BY ATTAINED AGE AND YEARS OF SERVICE**

Attained Age	Years of Service to Valuation Date							Totals	
	0-4	5-9	10-14	15-19	20-24	25-29	30 Plus	No.	Valuation Payroll
20-24	6							6	\$ 221,314
25-29	26	3						29	1,051,375
30-34	24	22						46	1,978,793
35-39	10	16	13	8				47	2,311,900
40-44	1	3	5	14				23	1,231,890
45-49	2	4	8	9	3	5		31	1,677,327
50-54		1	3	3	2	7	2	18	1,131,520
55-59				2	1			3	193,204
Totals	69	49	29	36	6	12	2	203	\$9,797,323

While not used in the financial computations, the following group averages are computed and shown because of their general interest.

Age: 37.6 years.
Service: 10.1 years.
Annual Pay: \$48,263

Section C

**Financial Principles and
Actuarial Valuation Process**

ACTUARIAL COST METHODS USED FOR THE VALUATION

Normal cost and the allocation of actuarial present values between service rendered before and after the valuation date were determined using an individual entry-age actuarial cost method having the following characteristics:

- (i) the annual normal costs for each individual active member, payable from the member's actual date of employment to projected date of retirement, are sufficient to accumulate the actuarial present value of the member's benefit at the time of retirement;
- (ii) each annual normal cost is a constant percentage of the member's year-by-year projected covered pay.

Amortization of Unfunded Actuarial Accrued Liabilities. Unfunded actuarial accrued liabilities were amortized as a level percent of active member payroll over a period of 20 years.

Active payroll was assumed to increase 4.5% a year for the purpose of determining the level percent contributions.

ACTUARIAL ASSUMPTIONS IN THE VALUATION PROCESS

The actuary calculates contribution requirements and actuarial present values of a retirement system by applying actuarial assumptions to the benefit provisions and people information of the system, using the actuarial cost methods described on page C-1.

The principal areas of risk which require assumptions about future experience are:

- (i) long-term rates of investment return to be generated by the assets of the system
- (ii) patterns of pay increases to members
- (iii) rates of mortality among members, retirees and beneficiaries
- (iv) rates of withdrawal of active members
- (v) rates of disability among active members
- (vi) the age patterns of actual retirements.

In making a valuation, the actuary calculates the monetary effect of each assumption for as long as a present covered person survives - - - a period of time which can be as long as a century.

The employer contribution rate has been computed to remain level from year-to-year so long as benefits and the basic experience and make-up of members do not change. Examples of favorable experience which would tend to reduce the employer contribution rate are:

- (1) Investment returns in excess of 8% per year.
- (2) Member non-vested terminations at a higher rate than outlined on page C-6.
- (3) Mortality among retirees and beneficiaries at a higher rate than indicated by the 1983 Group Annuity Mortality Table.
- (4) Increases in the number of active members.

ACTUARIAL ASSUMPTIONS IN THE VALUATION PROCESS

Examples of unfavorable experience which would tend to increase the employer contribution rate are:

- (1) Pay increases in excess of the rates outlined on page C-4.
 - (2) An acceleration in the rate of retirement from the rates outlined on page C-7.
 - (3) A pattern of hiring employees at older ages than in the past.
-

Actual experience of the system will not coincide exactly with assumed experience, regardless of the choice of the assumptions, or the skill of the actuary and the precision of the calculations. Each valuation provides a complete recalculation of assumed future experience and takes into account all past differences between assumed and actual experience. The result is a continual series of adjustments (usually small) to the computed contribution rate.

From time-to-time one or more of the assumptions are modified to reflect experience trends (but not random or temporary year-to-year fluctuations).

Valuation assets are equal to reported market value of assets, except that all realized and unrealized gains and losses are spread over a period of years, with 20% recognition the first year. Such spreading reduces the fluctuation in the City's computed contribution rate which might otherwise be caused by market value fluctuations. The details of the spreading technique are shown on page B-4.

ACTUARIAL ASSUMPTIONS USED FOR THE VALUATION

Investment Return (net of administrative expenses).

8.0% per year, compounded annually. This rate consists of a net real rate of return of 3.5% a year plus a long-term rate of wage inflation of 4.5% a year.

This assumption is used to equate the value of payments due at different points in time and was first used for the December 31, 1997 valuation. Approximate rates of investment return, for the purpose of comparisons with assumed rates, are shown below. Actual average increases in active member pay are also shown for comparative purposes.

	Year Ended December 31,				
	2003	2002	2001	2000	1999
Rate of Investment Return	5.5 %	3.4 %	9.4 %	11.6 %	13.9 %
Average increase in Pay	3.5	3.7	5.4	3.7	(1.0)

The nominal rate of return was computed using the approximate formula $i = I$ divided by $1/2(A + B - I)$, where I is actual investment income net of expenses, A is the beginning of year asset value, and B is the end of year asset value.

These rates of return should not be used for measurement of an investment advisor's performance or for comparisons with other systems -- *to do so will mislead.*

Pay Projections. These assumptions are used to project current pays to those upon which benefits will be based.

Sample Ages	Annual Rate of Pay Increase for Sample Ages		
	Base	Merit and Longevity	Totals
	(Economic)	General	General
20	4.5 %	1.7 %	6.2 %
25	4.5	1.6	6.1
30	4.5	1.2	5.7
35	4.5	0.9	5.4
40	4.5	0.4	4.9
45	4.5	0.3	4.8
50	4.5	0.2	4.7
55	4.5	0.2	4.7
60	4.5	0	4.5
65	4.5	0	4.5

ACTUARIAL ASSUMPTIONS USED FOR THE VALUATION

If the number of active members remains constant, the total active member payroll will increase 4.5% annually, the base portion of the individual pay increase assumptions. This increasing payroll was recognized in amortizing unfunded actuarial accrued liabilities.

Changes actually experienced in average pay and total payroll have been as follows:

Increase in	Year Ended December 31,					December 31, 2003	
	2003	2002	2001	2000	1999	3 Year Average	5 Year Average
Average pay	3.5%	3.7%	5.4%	3.7%	(1.0)%	4.2%	3.1%
Total payroll	7.5	6.2	9.2	5.2	1.2	7.6	5.9

Mortality Table. The 1983 Group Annuity Mortality Table. This table was first used for the December 31, 1997 valuation. Sample values follow:

Sample Ages	Actuarial Present Value of		Future Life	
	\$1 Monthly for Life		Expectancy (Years)	
	Men	Women	Men	Women
55	\$124.57	\$134.74	24.82	30.24
60	115.04	127.24	20.64	25.67
65	103.26	117.61	16.69	21.29
70	90.18	105.53	13.18	17.13
75	76.40	91.57	10.15	13.37
80	62.65	77.16	7.64	10.20

This assumption is used to measure the probabilities of members dying before retirement and the probabilities of each benefit payment being made after retirement.

ACTUARIAL ASSUMPTIONS USED FOR THE VALUATION

Rates of separation from active membership. The rates do not apply to members eligible to retire and do not include separation on account of death or disability. This assumption measures the probabilities of members remaining in employment.

Sample Ages	Years of Service	Percent Separating Within Next Year	
		General	Police
ALL	0	18.00 %	15.00 %
	1	12.00	10.00
	2	10.00	8.00
	3	9.00	7.00
	4	8.00	6.00
25	5 & Over	5.00	3.50
30		4.50	2.90
35		3.55	1.50
40		1.45	0.60
45		0.75	0.50
50		0.75	0.50
55		0.75	0.50
60		0.75	0.50
65		0.00	0.50

These rates were first used for the December 31, 1997 valuation.

Rates of Disability. These assumptions represent the probabilities of active members becoming disabled.

Sample Ages	Percent Becoming Disabled within Next Year
20	0.08 %
25	0.08
30	0.08
35	0.08
40	0.20
45	0.26
50	0.49
55	0.89

These rates were first used for the December 31, 1976 valuation.

ACTUARIAL ASSUMPTIONS USED FOR THE VALUATION

Rates of Retirement. These rates are used to measure the probabilities of an eligible member retiring during the next year.

Retirement Ages	Regular Retirement		Early Retirement	
	Percent of Active Members Retiring within Next Year			
	General	Police	General	Police
50		40%	5%	5%
51		20	5	5
52		20	5	5
53		20	5	5
54		20	5	5
55	25%	20	5	5
56	25	20	5	5
57	20	20	5	5
58	20	20	5	5
59	20	20	5	5
60	25	100		
61	25	100		
62	30	100		
63	20	100		
64	20	100		
65	40	100		
66	30	100		
67	30	100		
68	30	100		
69	30	100		
70	100	100		

A General member was assumed to be eligible for regular retirement after attaining age 55 with 30 years of service, or age 60 with 5 years of service. General members were assumed to be eligible for early reduced retirement after completing 20 years of service and attaining age 50.

A Police member was assumed eligible for retirement after attaining age 50 with 25 years of service, or, after attaining age 60 with 15 or more years of service. Police members were assumed to be eligible for early reduced retirement after completing 20 years of service and attaining age 50.

Unused sick-leave redemption factor: 10%.

Active Member Group Size. The number of active members was assumed to remain constant. This assumption is unchanged from previous valuations.

POST-RETIREMENT HEALTH INSURANCE

The City supplied a current schedule of City-paid premiums and a list of current retirees indicating the type of coverage for each person. The premiums used in the valuation of the Retiree Health Plan are shown below:

Type	City Paid Monthly Premium		
	12/01	12/02	12/03
Retiree Only - General	\$148.09	\$176.38	\$209.30
Retiree Only - Police	138.39	163.99	219.86
Retiree & Spouse - General	310.85	370.93	443.68
Retiree & Spouse - Police	290.48	344.61	465.82

The above rates represent 50% of the total premium cost. Retired members pay the remaining portion (50%). Health insurance coverage terminates upon attainment of age 65.

Eighty percent of future retired members were assumed to be married.

Premiums shown above which represent coverage in the indemnity plan were assumed to increase in future years as follows:

Year	Rate (%)
1	9
2	8
3	7
4	6
5	5
6	4.5
7	4.5
8	4.5
9	4.5
10	4.5
11	4.5
12+	4.5

MISCELLANEOUS AND TECHNICAL ASSUMPTIONS

Marriage Assumption:	80% of participants are assumed to be married for purposes of death and retiree health benefits. In each case the male was assumed to be 3 years older than the female.
Pay Increase Timing:	Beginning of year.
Decrement Timing:	Decrements of all types are assumed to occur mid-year.
Eligibility Testing:	Eligibility for benefits is determined based upon the age nearest birthday and service nearest whole year on the date the decrement is assumed to occur.
Benefit Service:	Exact fractional service is used to determine the amount of benefit payable.
Early Retirement Reduction:	Reduction equals six percent per year for each year Early Retirement precedes normal retirement.
Other:	Disability and turnover decrements do not operate during retirement eligibility.
Miscellaneous Loading Factors:	The calculated normal retirement benefits were increased by 10% to account for the inclusion of unused sick leave, vacation time, and comp. time in the calculation of Average Compensation.
Disability Assumption:	Fifty percent of disabilities were assumed to be duty related. Fifty percent were assumed to be unrelated to duty. The recovery rate from disability was assumed to be 0 (i.e. no disabled individual was assumed to recover and return to work.
Death Assumption:	Fifty percent of deaths were assumed to be duty related. Fifty percent were assumed to be unrelated to duty.
Non-forfeiture Assumption:	All vested terminated members were assumed to elect a deferred retirement benefit.

DEFINITIONS OF TECHNICAL TERMS

Accrued Service. Service credited under the system which was rendered before the date of the actuarial valuation.

Actuarial Accrued Liability. The difference between the actuarial present value of system benefits and the actuarial present value of future normal costs. Also referred to as “past service liability.”

Actuarial Assumptions. Estimates of future experience with respect to rates of mortality, disability, turnover, retirement, rate or rates of investment income and salary increases. Decrement assumptions (rates of mortality, disability, turnover and retirement) are generally based on past experience, often modified for projected changes in conditions. Economic assumptions (salary increases and investment income) consist of an underlying rate in an inflation-free environment plus a provision for a long-term average rate of inflation.

Actuarial Cost Method. A mathematical budgeting procedure for allocating the dollar amount of the “actuarial present value of future benefit” between future normal costs and actuarial accrued liability. Sometimes referred to as the “actuarial funding method.”

Actuarial Equivalent. One series of payments is said to be actuarially equivalent to another series of payments if the two series have the same actuarial present value.

Actuarial Gain (Loss). The difference between actual unfunded actuarial accrued liabilities and anticipated unfunded actuarial accrued liabilities -- during the period between two valuation dates. It is a measurement of the difference between actual and expected experience.

DEFINITIONS OF TECHNICAL TERMS

Actuarial Present Value. The amount of funds currently required to provide a payment or series of payments in the future. It is determined by discounting future payments at predetermined rates of interest, and by probabilities of payment.

Amortization. Paying off an interest-discounted amount with periodic payments of interest and (generally) principal -- as opposed to paying it off with a lump sum payment.

Normal Cost. The portion of the actuarial present value of future benefits that is assigned to the current year by the actuarial cost method. Sometimes referred to as "current service cost."

Unfunded Actuarial Accrued Liabilities. The difference between actuarial accrued liabilities and valuation assets. Sometimes referred to as "unfunded past service liability" or "unfunded supplemental present value."

Most retirement systems have unfunded actuarial accrued liabilities. They arise each time new benefits are added and each time an actuarial loss occurs. The existence of unfunded actuarial accrued liabilities is not in itself bad, any more than a mortgage on a house is bad. Unfunded actuarial accrued liabilities do not represent a debt that is payable today. What is important is the ability to amortize the unfunded actuarial accrued liabilities and the trend in their amount (after due allowance for devaluation of the dollar).

Section D

**Certain Disclosures Required By
Statements Nos. 25, 26, and 27
of the Governmental Accounting
Standards Board**

GASB STATEMENT NO. 25
REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Pension Funding Progress (Police & General Combined)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (\$ millions) (c)	UAAL as a
		Accrued Liability (AAL) -- Entry-Age -- (b)				% of Covered Payroll ((b-a)/c)
1994	\$ 80,712,283	\$ 93,026,776	\$12,314,493	86.8	\$23,186,822	53.1 %
1995	89,428,548	99,726,478	10,297,930	89.7	24,295,495	42.4
1996	96,807,905	107,879,698	11,071,793	89.7	25,525,258	43.4
1997	109,200,617	124,303,639	15,103,022	87.8	25,830,779	58.5
1998	122,549,700	134,514,381	11,964,681	91.1	27,295,184	43.8
1999	138,462,917	142,638,847	4,175,930	97.1	27,623,182	15.2
2000	152,796,352	156,540,695	3,744,343	97.6	29,068,666	12.9
2001	164,995,804	167,764,361	2,768,557	98.3	31,751,356	8.7
2002	168,572,303	176,313,178	7,740,875	95.6	33,718,220	23.0
2003	175,891,684	184,882,463	8,990,779	95.1	36,244,556	24.8

Schedule of Employer Pension Contributions

Valuation Year Ended Dec. 31	Fiscal Year Ended Dec. 31	Contribution Rates as % of Valuation Payroll			Computed Dollar Contribution Based on Valuation Payroll	Annual Required Contribution Based on Actual Payroll*	% Contributed
		General	Police	Wt. Avg.			
1993	1995	9.50	17.36	11.20	\$2,619,226	\$2,721,095	100 %
1994	1996	9.69	17.57	11.37	2,768,159	2,902,222	100
1995	1997	9.25	16.92	11.09	2,829,089	2,864,633	100
1996	1998	9.29	17.27	11.19	3,001,770	3,054,331	100
1997	1999	10.33	18.09	12.14	3,276,970	3,353,454	100
1998	2000	9.68	16.85	11.42	3,257,380	3,319,642	100
1999	2001	8.47	13.90	9.80	2,827,978	3,111,633	100
2000#	2002	7.60	15.60	9.67	2,936,546	3,273,019	100
2001#	2003	7.77	14.42	9.45	3,134,728	3,557,438	100
2002#	2004	8.68	15.68	10.48	3,693,299		
2003	2005	9.43	13.96	10.65	4,125,255		

* Employer contributions are based on computed percent and actual payroll as of December 31.

General contribution rate reflects the funding credit.

GASB STATEMENT NO. 25 REQUIRED SUPPLEMENTARY INFORMATION

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

Valuation date	December 31, 2003
Actuarial Cost Method	Entry-Age
Amortization Method	Level percent closed
Remaining amortization period	20 years
Asset valuation method	5 year smoothed market
Actuarial assumption:	
Investment rate of return	8.0%
Projected salary increases*	4.5% - 6.2%
* Includes inflation at	4.5%
Cost-of-living adjustments	Annual increase equal to CPI with a cap of 3% beginning 36 months after retirement.

Membership of the plan consisted of the following at December 31, 2003, the date of the latest actuarial valuation:

Retirees and Beneficiaries receiving benefits	383
Terminated plan members entitled to but not yet receiving benefits	40
Active plan members	<u>839</u>
Total	1,262

GASB STATEMENT NO. 26
REQUIRED SUPPLEMENTARY INFORMATION
STATEMENT OF PLAN NET ASSETS
(INCLUDES RETIREE HEALTH)
AS OF DECEMBER 31, 2003

Assets:

Cash and equivalents	\$ 340,994
Accruals and Receivables	314,805
Total	<u>655,799</u>

Investments, at market value:

Mutual Funds	83,131,193
STW	23,920,529
Northern Trust	64,318,532
Total Investments	<u>171,370,254</u>

Total Assets (market value)	<u>172,026,053</u>
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Less accounts payable	<u>58,173</u>
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Net assets held in trust for pension and health benefits	\$171,967,880
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GASB STATEMENT NO. 26
REQUIRED SUPPLEMENTARY INFORMATION
STATEMENT OF PLAN NET ASSETS
(INCLUDES RETIREE HEALTH)
AS OF DECEMBER 31, 2003

	Pension	Retiree Health	Total
Additions:			
Contributions			
Employer	\$3,557,438	\$815,909	\$ 4,373,347
Plan members	1,593,939		1,593,939
Total	5,151,377	815,909	5,967,286
Investment income			36,238,185
Miscellaneous			0
Total Additions			42,205,471
Deductions:			
Pension Benefits Paid	6,915,649		6,915,649
Refunds of Contributions	132,505		132,505
Health Premiums		450,714	450,714
Administrative Expenses	252,791		252,791
Total Deductions	7,300,945	450,714	7,751,659
Net Increase (Decrease)			\$ 34,453,812
Net assets held in Trust Fund:			
Beginning of year			\$137,514,068
End of year			\$171,967,880