

Colorado Public Employees' Retirement Association

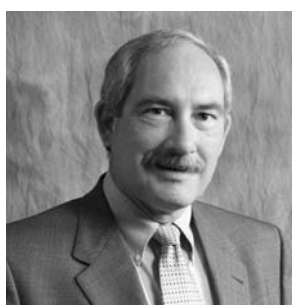


COLORADO PERA®

1300 Logan Street • Denver, Colorado
303-832-9550 • 1-800-759-7372 (PERA)

Comprehensive Annual Financial Report Summary to Members

From the Executive Director



Dear Colorado PERA Members:

I am pleased to present the summary report of Colorado PERA's *Comprehensive Annual Financial Report* (CAFR) for the fiscal year ended December 31, 2002.

During a year that was marked with corporate scandals and a sinking stock market, many of you were concerned about the soundness and viability of the PERA fund. Put quite simply, your retirement is safe and it is guaranteed to be there when you retire.

While the investment markets will always have ups and downs, PERA is a long-term investor and we can ride out the bad times the market experiences. As you can see from the graph in this summary, PERA does not solely invest in stocks, but also in bonds, real estate, private equity, and timber. This variety of investments diversifies the entire PERA portfolio, making it less vulnerable to overall losses.

Along the same line, an asset/liability study of the Fund was completed by Barclays Global Investors in the summer of 2002 per a directive from the Board of Trustees. Periodically, a pension fund will conduct such a study to thoroughly review the fund's investment profile and benefit costs. The Board approved the following new asset allocation policy that reflects the portfolio's increased bond investments to meet the Fund's future liabilities:

Domestic Equity: 45%; International Equity: 14%;
Alternative Investments: 8%; Timber Investments:
1%; Real Estate: 7%; and Fixed Income: 25%.

Implementation of this new asset allocation model will have all asset classes in their target ranges by early 2005.

Throughout 2002, it was impossible not to hear about the various corporate scandals, which inadvertently thrust many pension plans in the media spotlight, and Colorado PERA was no exception.

PERA's management takes responsibility for the accuracy and completeness of the financial data, all Trustees serve as fiduciaries who protect the assets of the PERA trust funds. Trustees, as fiduciaries, must pursue policies and make investment decisions that exclusively benefit

all participants in the fund regardless from which Division or Category they are elected.

In addition, Colorado state law requires that the State Auditor perform an annual audit of PERA in conjunction with an independent auditor. The audit of the 2002 financial statements was performed by the Denver office of PricewaterhouseCoopers LLP under the control and oversight of the State Auditor. PERA continues to maintain strong internal controls in all operational areas.

We are proud of PERA's achievements during the year, and will continue to implement changes that will improve service to our members and benefit recipients in the future.

I hope you'll take a moment to review this summary and, if you have any questions about the information, please call or e-mail us through our Web site at www.copera.org.

Meredith Williams
Colorado PERA Executive Director

Colorado PERA Membership

	Active Members	Average Age	Average Years of Service	Average Annual Salary
State Category	53,983	44.3	8.2	\$39,585
School Category	105,997	43.3	7.4	\$29,639
Municipal Division	12,509	42.2	7.1	\$37,953
Judicial Division	272	54.7	12.9	\$96,903

About this Summary Report...

This summary annual report is derived from the information contained in Colorado PERA's Comprehensive Annual Financial Report (CAFR). This summary does not present our financial information in a manner to conform with Generally Accepted Accounting Principles (GAAP). However, the Financial Section in Colorado PERA's CAFR is produced to conform with GAAP, and you may request a copy of the CAFR by calling PERA's Customer Service Center or ordering it through our Web site at www.copera.org.

Funding of Colorado PERA

The bottom line for a retirement system is its level of funding. If the funding level is adequate, the ratio of total accumulated assets to total liabilities will be larger and more funds will be available for investment purposes. Also, an adequate funding level assures members that their future pension benefits are secure.

The Colorado PERA funding objective is to be able to pay long-term benefit promises through contributions that remain approximately level from year to year as a percent of salaries earned by members. In this way, members and employers in each year pay their fair share for retirement service earned in that year by PERA members. If the retirement system follows level contribution rate financing principles—as PERA does (with current service financed on a current basis)—the system will be able to pay all promised benefits when due. This is the ultimate test of financial soundness.

PERA directs its efforts at keeping the funding ratio (the ratio of assets to accrued liabilities) for the three divisional retirement funds at a minimum of 80 percent. A funding ratio over 80 percent is considered good. On December 31, 2002, PERA's overall funding ratio equaled 88.3 percent.

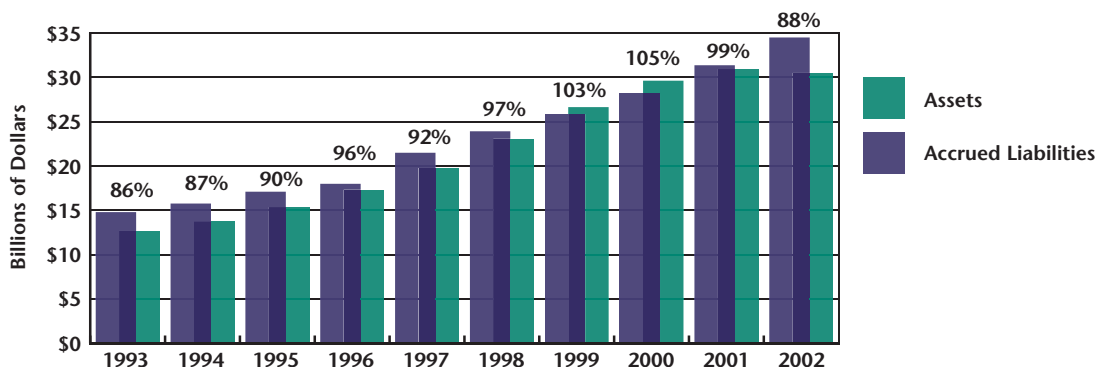
Funding Status as of December 31, 2002

As of December 31, 2002

	Funding Ratio	Amortization Period
State and School Division	87.9%	Infinite
Municipal Division	93.6%	Infinite
Judicial Division	98.3%	13 years
Health Care Trust Fund	19.9%	20 years

Assets as a Percent of Accrued Liabilities

As of December 31, 2002



Investment Summary

Investment portfolio income is a major source of revenue to Colorado PERA. The Investment Committee of the PERA Board oversees the Fund's portfolio, managers, and performance. It also receives information on potential and actual investment opportunities from PERA staff.

In 2002, there was a net investment loss of \$3,414,851,000 and total contributions by members and employers of \$613,654,000 and \$498,951,000, respectively.

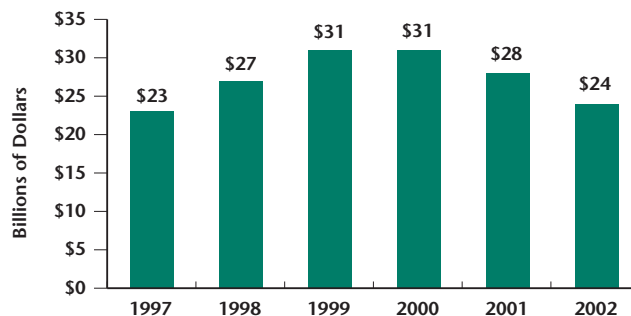
For the year ended December 31, 2002, the total fund had a rate of return of (11.8) percent on a market value basis. PERA's annualized rate of return over the last three years was (6.6) percent, and over the last five years it was 2.3 percent. The average annualized market rate of return over the last 10 years was 8.3 percent. PERA assumes an investment return of 8.75 percent over the long term.

Proper funding and healthy investment returns are important to the financial soundness of Colorado PERA.

An integral part of the overall investment policy is the strategic asset allocation policy. The targeted strategic asset allocation is designed to provide an optimal diversification to reduce risk and maximize total rate of return relative to risk. This emphasizes a maximum diversification of the portfolio that protects the Fund from declines that a particular asset class may experience in a given period. Both traditional and nontraditional assets are incorporated into the asset allocation mix.

Net Assets Available for Benefits at Market

As of December 31, 2002



From the Board Chair



To All Colorado PERA Members,

On behalf of the Colorado PERA Board of Trustees, I am pleased to present this summary report of Colorado PERA's 2002 *Comprehensive Annual Financial Report*.

The U.S. economy remained weak last year, as concerns mounted over the threat of terrorism and the prospect of

war with Iraq. The stock market declined for the third consecutive year, with investor confidence severely shaken by corporate scandals. Despite a solid rally in the final months of 2002, all major equity indices ended the year with double-digit losses. The Standard & Poor's 500 Index plummeted 22.1 percent—its worst annual performance since 1974—and the Colorado PERA Fund declined 11.8 percent due to equity exposure in its diversified portfolio.

However, it is important to keep the past year's discouraging returns in perspective.

- Colorado PERA enjoyed double-digit positive returns in 14 of the last 23 years due to its outstanding stock investments. The PERA Fund's diversified investment mix is designed to optimize returns and minimize risk over a long-term time horizon.
- Since 1926, the U.S. stock market has gained 10.2 percent per year, on average. During this 77-year history, there were 43 years of positive double-digit returns. Domestic stock investments are expected to return to their historical range, though not at the unprecedented highs experienced from 1980 until 2000.

To ensure Colorado PERA's continued competitiveness in the years ahead, the PERA Board of Trustees developed a major Strategic Planning Initiative in 2001. One of the Initiative's components included a comprehensive Asset/Liability Study, which was completed last summer. Based on the Study, the PERA Board adopted a new asset allocation model with increased bond investments as outlined in the Executive Director's letter.

Also in 2002, the Colorado PERA Board of Trustees made the difficult but prudent decision to set the cost of purchasing service credit, effective November 1, 2003, closer to PERA's actuarial cost of service credit purchases. This action will assist in managing future Plan liabilities.

In closing, on behalf of the Colorado PERA Board, I extend appreciation for your continued support and interest in PERA. Our commitment as Trustees of the PERA Plan is to provide competitive benefits while ensuring that the integrity of the Fund remains strong.

Sincerely,

J. Kim Natale
Chair, Board of Trustees

Largest Stock Holdings (Market Value)

As of December 31, 2002

	Shares	Market Value
Microsoft Corp	6,000,180	\$310,209,306
General Electric Co	10,216,115	248,762,400
Pfizer Inc	7,271,371	222,285,811
Citigroup Inc	5,501,932	193,612,987
Exxon Mobil Corp	5,074,900	177,317,006
Johnson & Johnson	3,144,650	168,899,152
Wal-Mart Stores Inc	3,318,300	167,607,333
American International Group Inc	2,600,600	150,444,710
Merck & Co Inc	2,293,100	129,812,391
Procter & Gamble Co	1,380,100	\$118,605,794

• Mission

To promote long-term financial security for our membership while maintaining the stability of the fund.

• Vision

To become the retirement plan of choice for all Colorado public employees.



Colorado PERA Fund Compared to Benchmarks

For the periods ending December 31



Colorado PERA

R.V. Kuhns[†]

S&P 1500*

* S&P 1500 10-year returns not available

[†] R.V. Kuhns' Median Public Fund benchmark is comprised of 73 public pension benchmark funds with assets of approximately \$622 billion.

Summary Comparative Statement of Fiduciary Net Assets

(Includes all funds)

The chart below outlines what Colorado PERA owns and owes as of December 31, 2002.

	As of December 31, 2002	As of December 31, 2001
Total assets	\$26,877,002,000	\$30,620,261,000
Total payables	2,435,563,000	2,571,797,000
Net assets	\$24,441,439,000	\$28,048,464,000

Summary Comparative Statement of Changes in Fiduciary Net Assets

(Includes all funds)

The chart below shows the money that came in (additions) during 2002 and the money that went out (deductions) during the year.

	Year Ended December 31, 2002	Year Ended December 31, 2001
Total additions	(\$1,891,312,000)	(\$1,291,854,000)
Total deductions	1,715,713,000	1,510,673,000
Net decrease	(3,607,025,000)	(2,802,527,000)
Net assets beginning of year	28,048,464,000	30,850,991,000
Net assets end of year	\$24,441,439,000	\$28,048,464,000

2002 Legislative Review

SB 02-106: Conformance of PERA Law to Federal Changes

This bill conforms PERA law to 2001 federal legislation. It also allows 403(b) and 457 defined contribution account holders to have the court divide their accounts in case of divorce. The bill was signed by Governor Owens on March 27.

SB 02-145: Teachers Working After Retirement

The bill permits small school districts to declare a "critical shortage" of teachers and to employ PERA retirees full-time in teaching positions without a reduction in the retiree's PERA benefit. The bill was signed by the Governor on April 3. The following lists the rules a school district must follow.

For a school district board of education to declare a critical shortage of teachers, it must:

- Be a school district that has fewer than 4,500 students.
- Not have offered an early retirement incentive during the current or either of the two previous calendar years.
- Post the vacancy for the teaching position for at least one month.

- Solicit applications through local and widely distributed newspapers, or through teacher education programs.
- Find that there is an insufficient number of eligible applicants for teacher positions.
- Pass a resolution declaring a critical shortage.

The resolution is effective for one year, and can be renewed. The entire critical shortage of teachers provision will sunset on July 1, 2005.

Once a school district declares the critical shortage:

PERA service retirees who teach for the district may work over 110 days per year without any reduction in PERA benefits. The district must pay the regular employer contribution to PERA on all salaries paid to all PERA retirees who are working as teachers and principals in the district.

HB 02-1420: The "Long Bill"

Funding for the PERA State and School Division employer contribution rate was set at 10.04 percent of salary, effective July 1, 2002.

**For an update on 2003 legislation,
go to PERA's Web site at
www.copera.org.**



Information About PERA's Asset Classes

An integral part of the overall investment policy is the strategic asset allocation policy, which basically means not putting all the eggs into one basket. By spreading out the investments and diversifying the portfolio, asset allocation protects the Fund from declines that a particular asset class may experience in a given period. PERA invests in a variety of asset classes, which are explained in detail below.

Fixed Income

Investments that have a steady rate of return—usually bonds. The revenue PERA receives from its fixed income investments is usually in the form of interest as well as revenue when it sells bonds that have increased in value. The various bonds include domestic corporate bonds (bonds issued by a U.S. corporation) and U.S. government obligations (the highest quality bonds issued by the U.S. government or other federal agency).

International Fixed Income

Similar to domestic fixed income except the bonds are selected sovereign and corporate bonds generally of western European countries. Recently, the euro bond market has been included in this asset class. It is another source of capital for European countries that facilitates corporate growth and expansion as opposed to more traditional financing from European banks.

Domestic Stocks

Stocks are shares of ownership in a corporation that are headquartered in the U.S. While stocks can be somewhat volatile, especially over short periods, stocks usually provide higher returns than other types of investments over the long-term. PERA makes money by selling stocks at higher prices than they were bought and through dividends received from the companies.

International Stocks

Similar to domestic stocks, except the headquarters for these corporations are outside of the U.S. PERA began investing in international stocks in 1987. Outside managers are used to handle these investments since they are more familiar with the economic climate overseas and the different international categories in which to invest.

Real Estate

While real estate investments cannot be converted to cash very quickly, real estate can enhance the long-term rate of return of the total PERA fund. Over time, real estate investments can provide steady returns. PERA invests in many different kinds of real estate—this includes owning property outright to owning an interest in a pool of properties along with other pension fund investors.

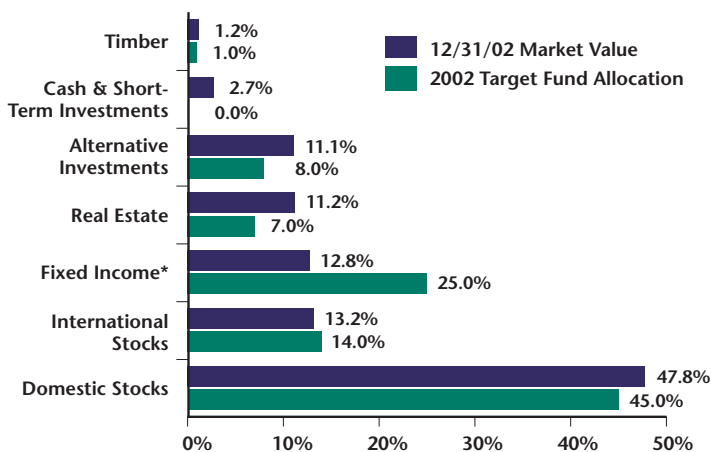
Alternative Investments

Broadly defined as investments that do not fit into public stocks, fixed income, or real estate, alternative investments include private equity and venture capital. PERA invests in this asset class to help enhance returns for the overall fund while also helping to diversify the overall fund. The diversification comes from the belief that private markets are less efficient than public markets and therefore investment professionals can find arbitrage opportunities (better prices or bargains, imperfect information, and less competition).

Timber Investments

PERA invests in a diversified portfolio of timberland, which consists of living trees and the land underneath trees. Most of the PERA portfolio containing timber investments is made up of ownership of production forests, similar to agricultural land, in which trees are harvested for production into lumber and wood products and new trees are planted.

Target Fund Allocations vs. Market Value



* Includes International Fixed Income

Colorado PERA Contact Information

Denver Main Office:

1300 Logan Street
Denver, CO 80203

Denver Main Office Hours (Mountain time):

7:30 a.m.–4:30 p.m. Monday–Friday

Westminster Office:

1120 W. 122nd Avenue
Westminster, CO 80234

Westminster Office Hours (Mountain time):

Monday 7:30 a.m.–4:30 p.m.
Tuesday 7:30 a.m.–4:30 p.m.
Wednesday 1:00 p.m.–4:30 p.m.
Thursday 7:30 a.m.–4:30 p.m.
Friday 7:30 a.m.–4:30 p.m.

Customer Service Center Hours (Mountain time):

7:00 a.m.–5:30 p.m.
Monday–Thursday
7:00 a.m.–4:30 p.m. Friday

Phone:

303-832-9550 or
1-800-759-7372 (PERA)

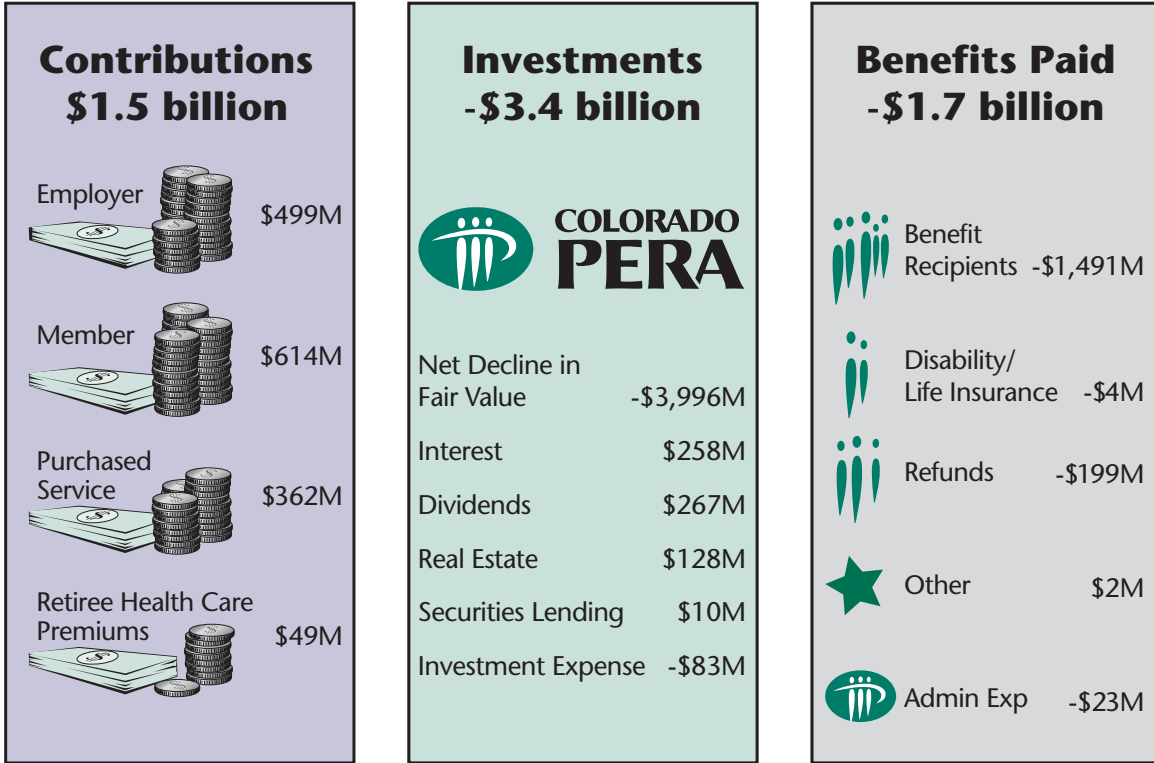
Web site:

www.copera.org

Investment Income and Contributions

(Includes all funds)

\$28 billion net assets as of 12/31/01



\$24 billion net assets as of 12/31/02

5/21 (REV 6-03) 180M



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