Secretary of State

State of Oregon

PUBLIC EMPLOYEES RETIREMENT SYSTEM

July 1, 1998 to June 30, 1999

Audits Division

Secretary of State

State of Oregon

PUBLIC EMPLOYEES RETIREMENT SYSTEM

July 1, 1998 to June 30, 1999

Audits Division

No. 2000-16

April 17, 2000

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Auditing for a Better Oregon

The Honorable John Kitzhaber, M.D.
Governor of Oregon
State Capitol
Salem, Oregon 97310

The Board of Trustees
Oregon Public Employees Retirement System
11410 SW 68th Parkway
Tigard, Oregon 97223

This report presents the results of our annual audit of the Oregon Public Employees Retirement System (PERS).

As required by auditing standards, we performed the audit to obtain reasonable assurance about whether the financial statements and accompanying notes have been presented fairly by management. Our Independent Auditor's Report and the financial statements for the year ended June 30, 1999, are included in the Financial Section of this report. We concluded that the financial statements are fairly presented in accordance with generally accepted accounting principles.

Auditing standards require us to review PERS' internal control and compliance with applicable laws and regulations. Our report on the results of those reviews is included in the Audit Results section of this report. We noted no instances of noncompliance that are required to be reported under government auditing standards. Similarly, we did not note any material weaknesses in internal control over financial reporting.

We appreciate the cooperation and assistance of PERS' management and staff during the course of the audit.

OREGON AUDITS DIVISION

John N. Lattimer
Director

Fieldwork Completion Date:
December 3, 1999

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T A B L E O F C O N T E N T S

SUMMARY

BACKGROUND

The Oregon Public Employees Retirement System (PERS) is a statewide defined benefit retirement plan for units of state government, political subdivisions, community colleges, and school districts. As of June 30, 1999, there were 816 PERS employers including 115 state agencies, 469 political subdivisions, 17 community colleges, and 215 school districts. There are more than 78,000 retirees and beneficiaries currently receiving PERS benefits and more than 194,000 current and former employees who are members but are not yet receiving benefits.

PERS is funded through member and employer contributions and investment earnings. For the fiscal year ended June 30, 1999, contributions and investment income of $4,339.9 million were reported. Deductions, which include benefits, refunds, administrative expenses and insurance premium subsidies, totaled $1,453.7 million for the fiscal year ended June 30, 1999.

AUDIT PURPOSE

The audit was conducted for the purpose of reporting on PERS' financial statements for the year ended June 30, 1999, and on PERS' internal control over financial reporting and its compliance with applicable laws and regulations.

AUDIT RESULTS

This audit concludes that PERS' financial statements for the year ended June 30, 1999, which are included in this report, are fairly presented. Additionally, our tests disclosed no instances of noncompliance required to be reported herein under *Government Auditing Standards*, nor did we note matters involving internal control over financial reporting that we consider to be material weaknesses. Our report on compliance with applicable laws and regulations and internal control over financial reporting is included herein.

INTRODUCTION

ORGANIZATION AND FUNCTIONS

The Oregon Public Employees Retirement System (PERS) is a statewide defined benefit retirement plan for units of state government, political subdivisions, community colleges, and school districts. For state agencies, community colleges, and school districts, PERS is a cost-sharing, multiple-employer system. It is an agent multiple-employer system for political subdivisions. While participation by state government units, school districts, and community colleges is mandatory, participation by most political subdivisions is optional but irrevocable if elected.

The Public Employees Retirement Board (board) administers PERS under *Oregon Revised Statutes* (ORS) Chapter 238. The board consists of eleven members, all of whom were appointed by the Governor and confirmed by the state Senate. The board appoints a director and employs staff to administer PERS' activities. PERS' principal administrative office is located in Tigard, Oregon.

PERS, through its Customer Service Division, provides counseling services to members at an external counseling center, as well as in the Tigard office. The Processing and Data Quality Division provides services to employers and calculates member's retirement, death, or disability benefits. PERS also has a Fiscal Services Division and an Information Systems Division that provide administrative support for the agency. The Deferred Compensation plan, which is authorized under Internal Revenue Code Section 457 and ORS 243.400 to 243.507, is also administered through the board.

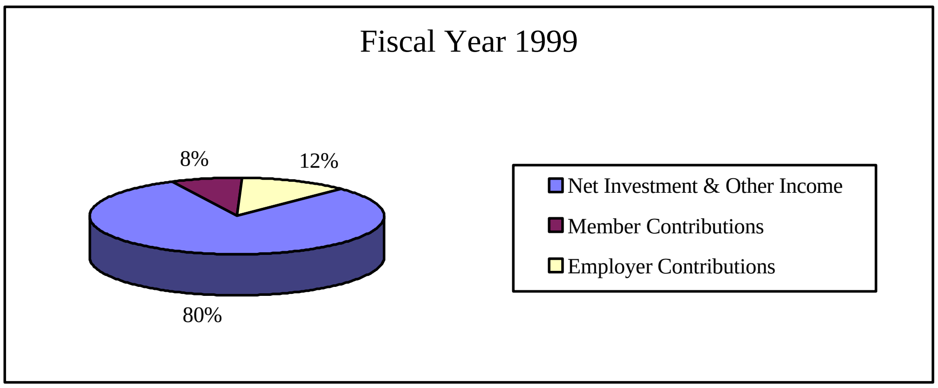
The board contracts for medical and hospital insurance on behalf of retired members. Members and their dependents are eligible for PERS' health coverage if the member is receiving a retirement allowance or benefit under the PERS system. There are two health insurance subsidy programs, the Retirement Health Insurance Account (RHIA) that is available to all qualifying PERS retirees and dependents, and the Retirement Health

Insurance Premium Account (RHIPA) that is available only for qualifying *state* retirees and dependents. These accounts subsidize qualifying retirees' and dependents' health insurance premiums.

FINANCIAL ACTIVITIES

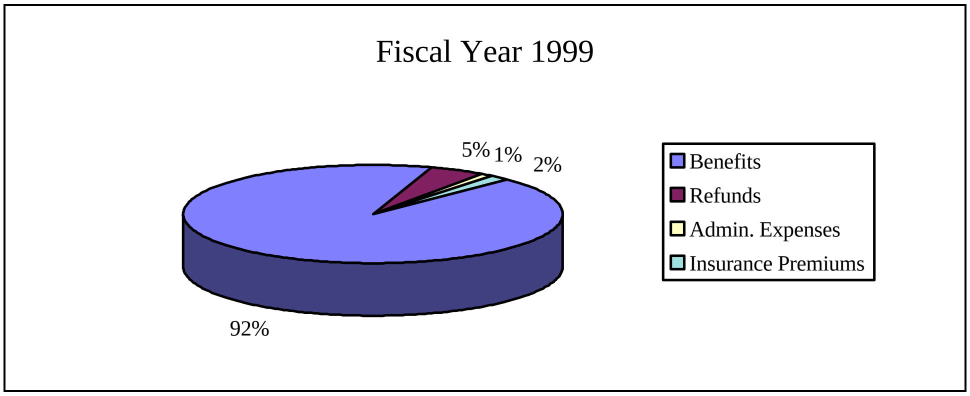
PERS' financial activities are accounted for in a Pension Trust Fund. The primary sources of additions to the fund are member and employer contributions and investment earnings.

Additions to Plan Net Assets



Member contributions totaled $338.9 million for fiscal year 1999. Employer contributions for the same period totaled $510.4 million. Investment earnings include interest earned on fixed-income securities, gains and losses on the disposal of investments, and changes in the market value of equity investments. Net income from investments for fiscal year 1999 totaled $3,473.1 million.

Deductions from Plan Net Assets



PERS benefits include service retirements, death, disability, and post-retirement health care benefits. Deductions from the fund for retirement, death, and disability benefits paid to retirees in fiscal year 1999 totaled $1,343.2 million. PERS also paid out approximately $70.0 million in refunds to members who decided to withdraw their accounts from PERS. Administration expenses were $17.5 million. Insurance premium subsidies paid by PERS for fiscal year 1999 were approximately $23.1 million.

AUDIT RESULTS

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

We have audited the financial statements of the Oregon Public Employees Retirement System (PERS), as of and for the year ended June 30, 1999, and have issued our report thereon dated December 3, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether PERS' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards.*

Internal Control Over Financial Reporting

In planning and performing our audit, we considered PERS' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the

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risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over financial reporting, which we have reported to the management of PERS in a separate letter dated December 3, 1999.

This report is intended solely for the information and use of the Board of Trustees of the Oregon Public Employees Retirement System, the Retirement System's management, the governor of the state of Oregon, and the Oregon Legislative Assembly and is not intended to be and should not be used by anyone other than those specified parties.

OREGON AUDITS DIVISION

Sharron E. Walker, CPA, CFE
Deputy Director

Fieldwork Completion Date:
December 3, 1999

COMMENDATION

The courtesies and cooperation extended by management and staff of the Oregon Public Employees Retirement System during the course of our audit were very commendable and sincerely appreciated.

AUDIT TEAM

Joel E. Leming, CPA, Audit Administrator
Craig M. Stroud, CPA
Janice I. Richards, CPA
Stanley Y. Mar
Benjamin M. Wilson

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying general-purpose financial statements of the Oregon Public Employees Retirement System (PERS), an agency of the state of Oregon, as of and for the year ended June 30, 1999. These financial statements are the responsibility of PERS' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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 audit provides a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial status of the defined benefit pension plan, the postemployment healthcare plan, and the health insurance administration fund; and the financial position of the deferred compensation fund of PERS as of June 30, 1999, and the changes in the financial status of the defined benefit pension plan, the postemployment healthcare plan, and the health insurance administration fund; and the results of operations of the deferred compensation fund for the year then ended in conformity with generally accepted accounting principles.

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Our audit was made for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The accompanying financial information listed as supporting schedules in the foregoing table of contents is presented for purposes of additional analysis and is not a required part of the general-purpose financial statements of PERS. Such information has been subjected to the auditing procedures applied in the audits of the general-purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general-purpose financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 1999, on our consideration of PERS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is separately presented in the Audit Results section of this report.

OREGON AUDITS DIVISION

Sharron E. Walker, CPA, CFE
Deputy Director

Fieldwork Completion Date:
December 3, 1999

Statement of Plan Net Assets - Defined Benefit Pension Plan and Postemployment Healthcare Plan and Balance Sheet - Other Fiduciary Funds
June 30, 1999

			Expendable Trust Fund	Agency Fund	Memorandum Only	
	Defined Benefit Pension Plan	Post-employment Healthcare Plan	Deferred Compensation Plan	Health Insurance Administration Fund	1999	1998
Assets:						
Cash and Cash Equivalents	$ 921,002,477	$ 26,020,752	$ 2,222,343	$ 23,837,430	$ 973,083,002	$ 731,472,237
Receivables						
Employer	35,487,173	2,593,548	---	---	38,080,721	30,953,274
Employee	22,560,036	---	---	---	22,560,036	16,753,434
Interest and Dividends	141,314,517	---	---	---	141,314,517	149,714,893
Investment Sales	235,158,226	---	---	---	235,158,226	184,062,070
Total Receivables	434,519,952	2,593,548	---	---	437,113,500	381,483,671
Due from Other Funds	891,934	3,717,075	264	---	4,609,273	5,002,334
Investments:						
U.S. Government Obligations	2,468,615,875	---	---	---	2,468,615,875	2,385,127,594
Domestic Corporate Bonds	2,171,722,615	---	---	---	2,171,722,615	2,391,661,273
Domestic Stocks and Mutual Funds	15,687,249,057	---	---	---	15,687,249,057	13,746,172,050
International Government and Corporate Obligations	1,440,178,579	---	---	---	1,440,178,579	1,631,118,046
International Stocks and Mutual Funds	6,531,953,537	---	---	---	6,531,953,537	5,712,125,168
Asset-Backed Securities	236,081,301	---	---	---	236,081,301	11,107,785
Mortgages	10,963,632	---	---	---	10,963,632	12,541,076
Real Estate	1,790,713,583	---	---	---	1,790,713,583	1,969,475,950
Limited Partnerships	1,788,135,634	---	---	---	1,788,135,634	1,154,872,654
Venture Capital	10,771,499	---	---	---	10,771,499	10,516,077
Leveraged Buy-Outs	1,846,209,615	---	---	---	1,846,209,615	2,308,833,930
Total Investments	33,982,594,927	---	---	---	33,982,594,927	31,333,551,603
Securities Lending Cash Collateral	2,702,989,258	---	---	---	2,702,989,258	2,559,048,088
Deferred Compensation Investments	---	---	544,667,882	---	544,667,882	465,598,205
Prepaid Expenses	41,316	---	---	---	41,316	42,046
Equipment and Fixtures, Cost Net of Accumulated Depreciation at 1999: $1,557,431; at 1998: $1,337,958	416,560	---	---	---	416,560	335,818
Land and Buildings, Cost Net of Accumulated Depreciation at 1999: $375,547; at 1998: $196,902	7,779,424	---	---	---	7,779,424	8,266,389
Office Supplies Inventory, Cost	4,975	---	---	---	4,975	4,860
Total Assets	38,050,240,823	32,331,375	546,890,489	23,837,430	38,653,300,117	35,484,805,251
Liabilities and Fund Balance						
Liabilities:						
Investment Purchases and Accrued Expenses	236,327,510	125,678	---	2,065,052	238,518,240	211,874,185
Deposits and Other Liabilities	88,211,336	---	1,437,661	21,772,378	111,421,375	77,562,536
Due to Other Funds	3,804,557	715,240	89,476	---	4,609,273	5,002,334
Bonds Payable	56,325,000	---	---	---	56,325,000	57,200,000
Securities Lending Collateral Due Borrowers	2,702,989,258	---	---	---	2,702,989,258	2,559,048,088
Total Liabilities	3,087,657,661	840,918	1,527,137	23,837,430	3,113,863,146	2,910,687,143
Net Assets held in trust for pension and postemployment benefits (Schedule of funding progress on Page 31)	$34,962,583,162	$ 31,490,457			$ 35,539,436,971	$ 32,574,118,108
Fund Balance						
Deferred Compensation Restricted			544,668,147	---		
Deferred Compensation Unrestricted			695,205	---		
Total Fund Balance			545,363,352	---		
Total Liabilities and Fund Balance			$ 546,890,489	$ 23,837,430		

The accompanying notes are an integral part of the financial statements.

Statement of Changes in Plan Net Assets
Defined Benefit Pension Plan and Postemployment Healthcare Plan
For the Year Ended
June 30, 1999

	Defined Benefit Pension Plan	Post-employment Healthcare Plan	Memorandum Only 1999	Memorandum Only 1998
Additions				
Contributions				
Employer	$ 473,096,323	$ 37,282,630	$ 510,378,953	$ 491,957,385
Plan Member	338,859,319	---	338,859,319	322,378,126
Other Sources	17,502,513	---	17,502,513	17,957,113
Total Contributions	829,458,155	37,282,630	866,740,785	832,292,624
Investment Income				
Net Appreciation (Depreciation) in Fair Value of Investments	2,788,326,220	---	2,788,326,220	4,248,138,231
Interest, Dividends and Other Investment Income	952,608,575	1,034,425	953,643,000	856,013,148
Total Investment Income	3,740,934,795	1,034,425	3,741,969,220	5,104,151,379
Less Investment Expense	268,692,790	178,960	268,871,750	257,076,323
Net Investment Income	3,472,242,005	855,465	3,473,097,470	4,847,075,056
Other Income	38,276	---	38,276	420,239
Total Additions	4,301,738,436	38,138,095	4,339,876,531	5,679,787,919
Deductions				
Benefits	1,331,868,381	---	1,331,868,381	1,564,089,565
Death Benefits	11,349,273	---	11,349,273	11,434,045
Refunds of Contributions	69,978,826	---	69,978,826	70,003,190
Administrative Expense	15,666,811	1,789,977	17,456,788	16,606,402
Healthcare Premium Subsidies	---	23,090,627	23,090,627	22,437,919
Total Deductions	1,428,863,291	24,880,604	1,453,743,895	1,684,571,121
Net Increase	**2,872,875,145**	**13,257,491**	**2,886,132,636**	**3,995,216,798**
Net Assets held in trust for pension and postemployment healthcare benefits				
Beginning of Year	32,089,708,017	18,232,966	32,107,940,983	28,112,724,185
End of Year	**$ 34,962,583,162**	**$ 31,490,457**	**$ 34,994,073,619**	**$ 32,107,940,983**

The accompanying notes are an integral part of the financial statements.

Statement of Revenues, Expenditures, and Changes in Fund Equity Expendable Trust Fund For the Years Ended June 30, 1999 and 1998

	Deferred Compensation Plan 1999	Deferred Compensation Plan 1998
Revenues:		
Participant Contributions, Transfers and Deferrals	$ 34,550,787	$ 51,781,886
Investment Income	60,457,748	62,542,638
Less Investment Charges	2,030,381	1,154,199
Net Investment Income	58,427,367	61,388,439
Other Income	729,753	762,881
Total Revenues	93,707,907	113,933,206
Expenditures:		
Benefit Payments to Participants	14,045,802	36,226,625
Administrative Expenditures	475,878	546,537
Total Expenditures	14,521,680	36,773,162
Excess of Revenues over Expenditures	**79,186,227**	**77,160,044**
Fund Balance:		
Beginning of year	466,177,125	389,017,081
End of year	**$ 545,363,352**	**$ 466,177,125**

Statement of Changes in Assets and Liabilities Agency Fund For the Year Ended June 30, 1999

Health Insurance Administration Agency Fund	Balance 7/1/1998	Additions	Deductions	Balance 6/30/1999
Assets				
Cash	$ 16,527,985	$ 84,866,173	$ 77,556,728	$ 23,837,430
Accrued Interest	76,039	---	76,039	---
Total Assets	**16,604,024**	**84,866,173**	**77,632,767**	**23,837,430**
Liabilities				
Accounts Payable	1,070,547	2,065,052	1,070,547	2,065,052
Trust Funds Payable	15,533,477	132,089,517	125,850,616	21,772,378
Total Liabilities	**$ 16,604,024**	**$ 134,154,569**	**$ 126,921,163**	**$ 23,837,430**

The accompanying notes are an integral part of the financial statements.

Notes to the Financial Statements
June 30, 1999
(1) Description of Plan
A. Plan Membership

The Oregon Public Employees Retirement System (PERS or "the System") provides a statewide defined benefit retirement plan for units of state government, political subdivisions, community colleges, and school districts. PERS is administered under Oregon Revised Statutes (ORS) Chapter 238 by the Public Employees Retirement Board (PERB). For state agencies, community colleges, and school districts, PERS is a cost-sharing, multiple-employer system. It is an agent multiple-employer system for political subdivisions. Participation by state government units, school districts, and community colleges is mandatory. Participation by most political subdivisions is optional but irrevocable if elected. All system assets accumulated for the payment of benefits may legally be used to pay benefits to any of the plan members or beneficiaries of the system.

Employee and Retiree Members

Retirees and beneficiaries currently receiving benefits:

	6/30/99
General	74,189
Police and Fire	4,670
Total	78,859

Current employees and terminated employees entitled to benefits but not yet receiving them:

Vested:	
General	125,924
Police and Fire	8,894
Nonvested:	
General	55,421
Police and Fire	4,072
Total	194,311

Employer Members

	6/30/99
State Agencies	115
Political Subdivisions	469
Community Colleges	17
School Districts	215
Total	816

For many years, retirement programs for Oregon judges were administered by special legislation and programs under the Judges Retirement Fund (JRF), established in 1963 under ORS 1.314 to 1.380. Effective August 1, 1991, the Judges Retirement Fund was merged into the Public Employees Retirement Fund.

The 1995 Legislature enacted Chapter 654, Section 3, Oregon Laws 1995 which has been codified into ORS 238.435. This legislation created a second tier of benefits for persons who established membership on or after January 1, 1996. The second tier provides a lower benefit structure than is available to Tier One members. Any potential reductions in employer contribution rates will not be realized until turnover has occurred and Tier Two members replace Tier One members. As of December 31, 1998, there were 34,122 Tier Two members in the system.

B. Plan Benefits

a. Pension Benefits

The PERS retirement allowance is payable monthly for life. It may be selected from 12 retirement benefit options. These options include survivorship benefits and lump-sum refunds. The basic benefit is based on years of service and final average salary. A percentage (2.00 percent for police and fire employees, 1.67 percent for general service employees) is multiplied by the number of years of service and the final average salary. Benefits may also be calculated under either a formula plus annuity (for members who were contributing before August 21, 1981) or a money match computation, if a greater benefit results. Monthly payments must be a minimum of $30 per month or the member will receive a lump-sum payment of the actuarial equivalence of benefits to which they are entitled.

Police and fire members may purchase increased benefits that are payable between the date of retirement and age 65.

A member is considered vested and will be eligible at minimum retirement age for a service retirement allowance if he or she has had a contribution in each of five calendar years or has reached at least 50 years of age before ceasing employment with a participating employer (age 45 for police and fire members). General service employees may retire after reaching age 55. Police and fire members are eligible after reaching age 50. Members with 30 years of service (25 years for police and fire members at age 50) receive unreduced benefits. Tier One general service employee benefits are reduced if retirement occurs prior to age 58 with less than 30 years of service. Police and fire member benefits are reduced if retirement occurs prior to age 55 with less than 25 years of service. Tier Two members are eligible for full benefits at age 60.

A judge member who has made contributions to the PERS Fund during each of five calendar years shall receive a retirement allowance, payable monthly, for life. Before reaching age 60, judge members must choose the calculation formula under which they will retire. The election is irrevocable after the member attains age 60. The two formulas, A and B, are described below.

The Plan A retirement allowance for judge members is computed by multiplying 2.8125 percent by the final average salary for the first 16 years of service, and 1.67 percent of the final average salary multiplied by the number of years of service as a judge in excess of 16. For most judge members the maximum amount is limited to 65 percent of final average salary.

The Plan B retirement allowance for judge members is computed by multiplying 3.0 percent by the final average salary for the first 16 years of service, and 1.75 percent of the final average salary multiplied by the number of years of service as a judge in excess of 16. For most judge members the maximum amount is limited to 65 percent of final average salary. Plan B requires a judge to serve up to 35 days per year for a period of five years as a pro-tem judge. There is no actuarial reduction for retirement prior to age 65.

Judges Retirement System (JRS) members were entitled to a monthly amount equal to one-twelfth of final average salary upon reaching age 65 with 16 years of service or at age 70 with 12 years of service.

b. Death Benefits

Upon the death of a non-retired member, the beneficiary receives a lump-sum refund of the member's account balance (accumulated contributions and interest). In addition, the beneficiary will receive a lump-sum payment from employer funds equal to the account balance, provided that one or more of the following is true:

- The member was employed by a PERS employer at the time of death;
- The member died within 120 days after termination of PERS-covered employment;
- The member died as a result of injury sustained while employed in a PERS-covered job;
- The member is on an official leave of absence from a PERS-covered job at the time of death.

A member's beneficiary may choose a monthly payment for life instead of the lump sum, or a combination of lump sum and monthly payments, if eligible. The monthly payment must be a minimum of $30 per month.

Surviving spouses of JRS members and judge members of PERS receive benefits as provided in ORS 238.055 and ORS 238.565.

c. Disability Benefits

A member with ten or more years of creditable service who becomes disabled from other than duty-connected causes may receive a non-duty disability benefit. A disability resulting from a job-incurred injury or illness qualifies a member (including judge members of PERS) for disability benefits regardless of the length of PERS-covered service. Upon qualifying for either a non-duty or duty disability, service time is computed to age 58 (55 for police and fire members) when determining the monthly benefit.

Judge members of PERS who have served a minimum of six consecutive years and who become physically or mentally incapacitated are entitled to benefits as provided in ORS 238.555.

d. Benefit Changes After Retirement

Members may choose to continue participation in a "variable" stock investment account after retiring, and may experience annual benefit fluctuations due to changes in the market value of equity investments.

Monthly benefits are adjusted annually for cost-of-living changes. Two percent per year is the maximum cost-of-living adjustment. Periodically, the Oregon Legislature has granted *ad hoc* increases to post-retirement benefits.

e. Postemployment Healthcare Benefits

Under ORS 238.410 the PERB contracts for medical and hospital insurance on behalf of retired members. Members and their dependents are eligible for PERS healthcare coverage if the member is receiving a retirement allowance or benefit under the system. A surviving spouse of a PERS retiree is eligible to participate if he or she was covered under the health plan at the time of the retiree's death.

ORS 238.420 established the PERS Retirement Health Insurance Account (RHIA) and authorizes a payment of up to $60 from RHIA toward the monthly cost of health insurance for eligible PERS members.

To be eligible to receive this monthly payment toward the premium cost, the member must: (l) have eight years or more of qualifying service in the PERS system at the time of retirement, or receive a disability allowance as if the member had eight years or more of creditable service in the PERS system, (2) receive both Medicare Parts A and B coverage, and (3) enroll in a PERS-sponsored health plan.

A surviving spouse or dependent of a deceased PERS retiree who was eligible to receive the subsidy is eligible to receive the subsidy if he or she (1) is receiving a retirement benefit or allowance from PERS, or (2) was insured at the time the member died and the member retired before May 1, 1991.

All PERS employers currently contribute 0.65 percent of PERS-covered salaries to fund RHIA benefits. This is included in the employer contribution rates listed on page 17. The employer contribution rate covers the normal cost payment and an amount to amortize the unfunded actuarial accrued liability over a 30-year period.

The employers' contributions are advance-funded on an actuarially determined basis. Employers' actual contributions for the fiscal year ended June 30, 1999, were $34.9 million. The inflation assumption for RHIA postemployment benefits is 0 percent because the payment amount is set by statute and is not adjusted for increases in healthcare costs. The number of active plan RHIA participants was 31,163 for the fiscal year ended June 30, 1999.

ORS 238.415 established the Retirement Health Insurance Premium Account (RHIPA) and requires the PERB on or before January 1 of each year to calculate the average difference between the health insurance premiums paid by retired state employees under contracts entered into by the PERB and health insurance premiums paid by state employees who are not retired. ORS 238.415 authorizes payment of this average difference to qualified retired state employees. Retired state employees are qualified to receive this benefit if they had eight or more years of qualifying service in the system at the time of retirement or are receiving a disability pension calculated as if they had eight or more years of qualifying service, but are not eligible for federal Medicare coverage.

A surviving spouse or dependent of a deceased retired state employee is eligible to receive the subsidy if he or she (1) is receiving a retirement benefit or allowance from PERS, or (2) was insured at the time the member died and the member retired on or after September 29, 1991.

For the year ended June 30, 1999, state agencies contribute 0.16 percent of PERS-covered salaries to fund RHIPA benefits, based on the December 31, 1995 actuarial valuation.

The number of active plan RHIPA participants was 865 for the fiscal year ended June 30, 1999.

(2) Summary of Significant Accounting Policies and Investment Valuation Method

A. Basis of Presentation

The accompanying financial statements are prepared in accordance with Governmental Accounting Standards Board Statements 25 and 26, as well as generally accepted accounting principles that apply to governmental accounting for fiduciary funds. Fiduciary funds are used to account for assets held by a governmental unit in a trustee capacity (trust funds) or as an agent for another entity (agency funds).

The activities of PERS are accounted for in three fund types.

Pension Trust Fund
- Public Employees Retirement Fund

Expendable Trust Fund
- State Deferred Compensation Plan

Agency Fund
- Retirement Health Insurance Administration Agency Fund

B. Basis of Accounting

The accrual basis of accounting is used for Pension Trust Funds. Revenues are recognized when earned. Contributions are recognized as of the date in which members' salaries are paid by employers. Expenses are recognized when incurred. Benefits and refunds are recognized in the month they are due and payable.

The modified accrual basis is used to record assets and liabilities of the agency fund and the expendable trust fund. The expendable trust fund recognizes revenues when they are both available and measurable, and expenditures when incurred. Agency funds are custodial in nature and do not measure the results of operations.

C. Budgetary Data

Only administrative expenses are subject to biennial legislative budget control. The Legislature exercises this control at the agency level. Any unobligated balance lapses at the end of each biennium.

Encumbrance accounting is allowed only during the biennium. All encumbrances lapse at the end of the biennium except capital construction, capital improvements, and contested claims.

Budgetary accounting is not consistent with generally accepted accounting principles (GAAP) because the measurement focus is on decreases in financial resources rather than net income determination.

The accompanying schedule reconciles administrative expenses on the budgetary basis to administrative expenses presented on the Statements of Changes in Plan Net Assets. The Legislatively Approved Budget includes increases approved by the Legislative Emergency Board through June 1999.

	Legislatively Approved Budget	Actual	Unobligated Balance at June 30, 1999
1997-1999 Biennium:			
Personal Services	$ 17,067,621	$ 17,266,234	$ (198,613)
Services and Supplies	16,724,699	15,272,454	1,452,245
Capital Outlays	145,159	176,061	(30,902)
1997-1999 Totals	$ 33,937,479	$32,714,749	$ 1,222,730
Total Expenses July 1, 1997 - June 30, 1999 Budgetary Basis (non GAAP)			$ 32,714,749
Biennium Adjustments to Administrative Expenses			
Add:			
Depreciation Expense			802,921
Decrease in Prepaid Expenses			89,976
Decrease in Accounts Receivable			1,025
Decrease in Supplies Inventory			132
Increases in Compensated Absences			218,514
Voucher Adjustments			951,546
Amounts expended in Capital Construction			385,520
Payments for prior biennium not accrued at June 30, 1997			542,586
Deduct:			
Decrease in Accounts Payables			247,109
Capitalization of COP Building Costs			216,301
Capital Outlay, July 1, 1998 - June 30, 1999			157,954
Expenses, July 1, 1997 - June 30, 1998			17,152,939
Financial Statement Total for the Year Ended June 30, 1999			$ 17,932,666
Statement of Changes in Plan Net Assets - Defined Benefit Pension Plan and Postemployment Healthcare Plan			$ 17,456,788
Statement of Revenues, Expenditures, and Changes in Fund Equity - Expendable Trust Fund			475,878
Financial Statement Total for the year ended June 30, 1999			$ 17,932,666

D. Valuation of Investments

Investments are recognized at fair value, which is the amount at which financial instruments could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Open-end mutual funds, debt securities, equity securities, option contracts, stock warrants, and stock rights are valued at the last reported sales price if there is an active market for the investment. If there is not an active market for investments, PERS relies on the Oregon Investment Council's consultants to establish the fair value of these investments. When attempting to value investments without active markets, the consultant determines if there is a market for similar investments. If a market price is not available, a forecast of expected cash flows may be used in estimating fair value, discounted at a rate commensurate with the risk involved.

E. Distribution of Earnings

Earnings distribution to members, by law, is made on a calendar year basis. Members in Tier One are guaranteed to receive at least the assumed earnings rate used in the most recent actuarial valuation. At this time that rate is 8.00 percent. Members participating in the Variable Account and Tier Two members receive actual earnings or losses.

(3) Contributions and Reserves

A. Contributions

a. Member Contributions

Member contributions are set by statute at four to seven percent of salary, and are remitted by participating employers. The contributions are either deducted from member salaries or paid by the employers. The Member Reserve represents member contributions and earnings allocations less refunds and amounts transferred to reserves for retirement and disability.

b. Employer Contributions

Employer contribution rates are determined by an actuarial formula known as the "entry age cost method." Under this method, a "normal cost" rate for each member is calculated. Normal cost is a level percentage of salary. Beginning at the member's entry into the system, the calculated normal cost should accumulate an amount sufficient to provide the member's retirement benefit. After the unfunded supplemental present value created by this method has been determined, the employer contribution rates are established as a level percentage of salary. The rates are set to cover the normal cost and amortize the unfunded amount over a 30-year period, commencing on the actuarial valuation date.

Based on the 1995 actuarial valuation, the Board decided to implement recommended contribution rate decreases, beginning July 1, 1997. Where contribution rate increases were required beyond increases scheduled for July 1997, implementation is effective July 1, 1999.

PERS funding policy provides for monthly employer contributions at actuarially determined rates. These contributions, expressed as a level percentage of annual covered payroll, coupled with employee contributions, accumulate sufficient assets to pay benefits when due.

	State Agencies and Community Colleges	Schools	Political Subdivisions Police and Fire	Political Subdivisions General	Judiciary
Employee Normal Cost	6.00%	6.00%	6.00%	6.00%	7.00%
Employer Normal Cost	6.42%	8.28%	8.91%	4.27%	14.25%
Unfunded Actuarial Liability	0.97	1.00	2.78	2.78	5.41
Healthcare Benefits	0.81	0.65	0.65	0.65	0.81
Total Employer Rates	8.20%	9.93%	12.34%	7.70%	20.47%

Separate contribution rates are adopted by the Retirement Board for all state agencies and community colleges combined, all school districts combined, the state judiciary, and each individual political subdivision employer. The rates adopted by the Board and actually paid by the employers were those recommended by the actuary after each valuation and after legislative changes enacted subsequent to the valuations.

Employer aggregate contributions to the PERF for the calendar year ended December 31, 1998, were $488.0 million less $.3 million for integration of prior plan assets by employers merging into the System and $2.5 million pertaining to prior year's salaries, for a total of $485.2 million attributable to calendar year 1998 activity. Employer contributions attributable to the period were equivalent to 9.36 percent of the members' aggregate annual salaries of $5,185.3 million. Employee contributions for the calendar year ended December 31, 1998, were $318.4 million less $5.5 million for integration of prior plan assets of employees merging into the system and $1.0 million of contributions pertaining to prior year's salaries for a total of $311.9 million of employee contributions attributable to calendar year 1998 activity.

Employer contributions for the calendar year ended December 31, 1998, consisted of $370.2 million normal cost, $79.0 million amortization of the unfunded actuarial accrued liability, and $33.7 million to fund the Retirement Health Insurance Account and $2.3 million to fund the Retirement Health Insurance Premium Account.

Based on the actuarial valuation as of December 31, 1995, state agencies and certain political subdivisions received a lower employer contribution rate. The schools, judiciary, and other political subdivisions experienced an increase in their employer contribution rate. The PERB practice has been to implement the new employer contribution rates for those employers who experienced a decrease and to delay implementation of the new employer contribution rate for those employers who experienced an increase in their employer contribution rate, in order to provide employers an opportunity to budget the increases.

The employer contribution rate for state agencies and community colleges is 8.20 percent and judiciary is 20.47 percent of PERS-covered salaries, effective July 1, 1997.

Amounts actually contributed by employers were in accordance with actuarially computed funding requirements of the December 31, 1995 actuarial valuation. Employer contributions consist of three components: a normal cost rate, an unfunded actuarial accrued liability rate, and a rate for postemployment healthcare benefits. Actual employer rates varied among the employer groups.

The rates for political subdivisions are presented in the aggregate. Actual rates for political subdivisions vary by employer.

B. Actuarial Cost Method and Assumptions

Employer contribution rates are set using the entry age actuarial cost method. This method produces an employer contribution rate consisting of (1) an amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year), (2) an amount for amortization of the unfunded actuarial accrued liability over a period of 30 years, and (3) an actuarially determined amount for funding postemployment healthcare subsidies.

C. Reserves and Designations

a. Member Reserve

The Member Reserve of $8,271.0 million as of June 30, 1999, represents member contributions and earnings allocations less refunds and amounts transferred to reserves for retirements and disabilities.

b. Employer Reserve

The Employer Reserve of $8,268.2 million as of June 30, 1999, represents employer contributions and earnings allocations less amounts transferred to reserves for retirements and disabilities.

c. Benefit Reserve

The Benefit Reserve of $12,281.1 million as of June 30, 1999, is the amount set aside to pay future benefits. The amount needed is determined by the PERS actuary. It includes funds initially included in the Employer and Member Reserves.

d. Undistributed Investment Earnings Reserve

The Undistributed Investment Earnings Reserve may be credited with investment earnings in excess of required minimum distributions. As of June 30, 1999, the balance of this reserve was $3,464.6 million.

Oregon law requires individual accounts for Tier One members to be credited at the assumed rate of return on investments adopted by the PERB for use in actuarial valuations.

e. Unallocated Earnings Designation

The Unallocated Earnings Designation represents January through June investment earnings less administrative expenses which will be distributed after member accounts have been credited with contributions. This distribution takes place in March of the following year after Employer Annual Reports have been reconciled and contributions posted to individual member and employer accounts. As of June 30, 1999, the balance of this designation was $2,677.7 million.

f. Retirement Health Insurance Account

The RHIA plan net assets balance represents the program's accumulation of employer contributions and interest earnings less premiums paid and administrative expenses. As of June 30, 1999, the balance of this account was $29.3 million.

g. Retirement Health Insurance Premium Account

The RHIPA plan net assets balance represents the program's accumulation of employer contributions and interest earnings, less premiums and administrative and interest expenses. As of June 30, 1999, the balance of this account was $2.2 million.

D. Administrative Costs

Costs for administering the System are funded from investment earnings and are allocated to all plans and programs administered by the System.

(4) Reporting Entity

The Public Employees Retirement Board is the governing authority of the System. It consists of eleven people appointed by the Governor and subject to confirmation by the State Senate. The Board appoints an executive director to act as the principal administrative officer of the System. The Board has independence in the operation and management of the System. The State Legislature has significant ability to influence funding, approve the System's budget, and pass laws governing the System.

PERS' financial statements are prepared on the basis of a fiscal year ended June 30. The Oregon State Treasury has statutory responsibility for custody and investment of PERS assets. As a result of this fiduciary responsibility, PERS is included as part of the primary government in the *State of Oregon Comprehensive Annual Financial Report.*

(5) Assets Used in Plan Operations

A. Building and Improvements

Capital construction of PERS headquarters in Tigard, Oregon was completed May 31, 1997. Land and buildings plus improvements are recorded at cost. The depreciation of the building/improvements is computed on the straight-line method over the estimated useful life of 40 years.

B. Equipment and Fixtures

Equipment and fixtures are recorded at cost. These are items which are not consumed in the normal course of operations, have a useful life of more than two years, and whose value is $5,000 or more. Depreciation is computed using the straight-line method over the assets' estimated useful lives. Useful lives range from three to ten years.

C. Office Supplies Inventory

Office supplies inventory is reflected at cost, using the first-in/first-out (FIFO) method.

(6) Deposits and Investments

A. Cash

PERS cash and cash equivalents are considered to be cash on hand, demand deposits and deposits in the Oregon Short Term Fund, and are carried at cost. The carrying amount is separately displayed on the balance sheet as cash and cash equivalents. Statutes require that all monies received by the pension trust fund be deposited with the State Treasurer.

PERS deposits are classified in three categories of credit risk to give an indication of the level of risk assumed by PERS as of year end. The three categories of credit risk are:

1. Insured or collateralized with securities held by the State Treasurer or its custodian in the name of the state of Oregon,
2. Collateralized with securities held by the pledging financial institution's trust department or custodian in the name of the state of Oregon, and
3. Uncollateralized.

As of June 30, 1999, all PERS deposits held by the State Treasurer were in credit risk category "1," except for $48.7 million of reinvested cash collateral in U.S. Government and agency securities, repurchase agreements, and commercial paper, which are classified as investment risk category "3."

Deposits	Carrying Amount	Bank Balance
Investment Managers with Custodian Banks	$ 511,129,616	$ 511,129,616
State Treasury	461,450,977	562,205,238
Other Banks	502,409	504,278
	$ 973,083,002	$1,073,839,132

Investment managers' deposits with custodian banks consist of cash and cash equivalents that represent buying reserves. There is $294.4 million on deposit for the accounts of the Oregon Equity Fund, Real Estate Investment Fund, and Alternative Equity Fund investment managers and $216.7 million on deposit for the accounts of the International Equity Fund and Global Fixed Income investment managers. These deposits, with State Street Bank, are classified as uncollateralized, category "3."

B. Investments

By statute, the Oregon Investment Council (OIC) is responsible for investment policy. The State Treasurer is the investment officer. The law allows any kind of investment that is prudent. Common stock acquisitions are limited to 50 percent of the monies contributed. The State Treasurer is prohibited from investing in common stock. OIC common stock investments are made by independent investment managers selected and evaluated by the Council.

GASB Statement No. 3 requires that investments be categorized to give an indication of the level of risk assumed at year end. Certain investment types in the PERS portfolio, such as equity real estate, mutual funds, leveraged buyouts, and deferred compensation investments, cannot be categorized within the guidelines established by GASB Statement No. 3. These investments total approximately $18,652.5 million in carrying value.

In accordance with state investment policies, several outside investment managers retained by the Council may invest in the following types of derivative securities: futures contracts, forwards, option contracts, collateralized mortgages obligations, mortgage-backed securities, interest rate and currency swaps, or other financial instruments with similar characteristics. PERS holds asset-backed securities, a type of derivative, with a fair value of $236.1 million as of June 30, 1999. The bulk of these are rate reduction bonds issued through the California Infrastructure and Economic Development Bank. The remainder are collateralized mortgage obligations, real estate mortgage investment conduits, and securities issued by a major finance company. Investments in derivatives are generally made to manage the overall risk of the individual managers' portfolios to a level satisfactory to the investment management firm and in accordance with their contract with the Council. For the year ended June 30, 1999, the credit risk, market risk, and legal risk for these investments are not above and beyond those risks that are apparent in the financial statements or are otherwise disclosed in the notes to the financial statements. Information regarding the derivative holdings of mutual funds, which may be held by certain investment management firms as a component of their portfolio, is not available.

PERS investments are classified in three categories of credit risk to give an indication of the level of risk assumed by PERS as of year end. The three categories of credit risk are:

1) Insured or registered, or securities held by the state of Oregon or its agent in the state of Oregon's name for PERS;

2) Uninsured and unregistered with securities held by the counterparty's trust department or agent in the state of Oregon's name for PERS; and

3) Uninsured and unregistered with securities held by the counterparties, or by its trust department or agent but not in the state of Oregon's name for PERS.

The schedule that follows presents the carrying value and fair value of the investments that were held by the state of Oregon for PERS as of June 30, 1999.

	Risk Category 1	Risk Category 2	Risk Category 3	Total Carrying Amount	Total Fair Value Amount
Pension Trust Fund Investments					
Investment Type:					
U.S. Government Obligations	$ 1,650,038,879	$ ---	$ ---	$ 1,650,038,879	$ 1,650,038,879
Domestic Corporate Obligations	2,132,707,108	---	---	2,132,707,108	2,132,707,108
Domestic Stocks	6,552,885,625	---	---	6,552,885,625	6,552,885,625
International Government and Corporate Obligations	1,359,794,412	---	---	1,359,794,412	1,359,794,412
International Stocks	3,547,590,864	---	---	3,547,590,864	3,547,590,864
Asset-Backed Securities	236,081,301	---	---	236,081,301	236,081,301
Real Estate Securities	352,415,779	---	---	352,415,779	352,415,779
Investments on securities loan for securities and tri-party agreement collateral:					
Domestic Stocks	1,730,343	---	---	1,730,343	1,730,343
International Stocks	9,030,318	---	---	9,030,318	9,030,318
International Government and Corporate Obligations	32,479,970	---		32,479,970	32,479,970
Unclassified as to Risk:					
Real Estate	---	---	---	1,790,713,583	1,790,713,583
Real Estate Mortgages	---	---	---	10,963,632	10,963,632
Annuity Contracts	---	---	---	10,604,266	10,604,266
Leveraged Buy-outs	---	---	---	1,846,209,615	1,846,209,615
Venture Capital	---	---	---	10,771,499	10,771,499
Limited Partnerships	---	---	---	1,788,135,634	1,788,135,634
Domestic Mutual Funds	---	---	---	7,933,988,777	7,933,988,777
Global Mutual Funds	---	---	---	2,136,734,498	2,136,734,498
Investments held by broker-dealers under securities loans with cash collateral:					
U.S. Government Obligations	---	---	---	818,576,996	818,576,996
Domestic Stocks	---	---	---	846,228,532	846,228,532
Domestic Corporate Obligations	---	---	---	28,411,241	28,411,241
International Stocks	---	---	---	838,597,858	838,597,858
International Government and Corporate Obligations	---	---	---	47,904,197	47,904,197
Total Pension Plan Investments	$ 15,874,754,599	---	---	$33,982,594,927	$33,982,594,927
Deferred Compensation Plan Unclassified as to Risk:	---	---	---	544,667,882	544,667,882
Total PERS Investments	$ 15,874,754,599			$ 34,527,262,809	$ 34,527,262,809

C. Securities Lending

In accordance with state investment policies, the Oregon Public Employees Retirement Fund (OPERF) participates in securities lending transactions. The Oregon State Treasury has, through Securities Lending Authorization Agreements, authorized its custodian to lend its securities pursuant to a form of loan agreement. Both OPERF and the borrowers maintained the right to terminate all securities lending transactions on demand. There were no significant violations of the provisions of securities lending agreements during the period of these financial statements.

The custodian had the authority to loan short-term, fixed income, and equity securities and to receive as collateral U.S. dollar and foreign currency cash, U.S. government and agency securities, letters of credit, and foreign sovereign debt of Organization of Economic Cooperation and Development (OECD) countries. Borrowers were required to deliver collateral for each loan equal to not less than 102 percent of the market value of the loaned security, or 105 percent in the case of international securities. The custodian did not have the ability to pledge or sell collateral securities absent a borrower default and OPERF did not impose any restrictions during the fiscal year on the amount of the loans the custodian made on its behalf. OPERF is fully indemnified against losses due to borrower default by its current custodian. There were no losses during the year from the failure of borrowers to return loaned securities and no recoveries of amounts from prior losses.

The maturities of investments made with cash collateral did not generally match the maturities of the securities loaned. Since the securities loaned are callable on demand by either the lender or borrower, the life of the loans at June 30, 1999, is effectively one day. On June 30, 1999, OPERF had no credit risk exposure to borrowers. The fair values of the collateral received and the securities on loan from OPERF as of June 30, 1999, including accrued income, were $2,701.3 million and $2,623.0 million, respectively.

OPERF's cash balances held by the State Treasurer are invested in the Oregon Short Term Fund (OSTF), as is the cash of other state agencies. As of June 30, 1999, the fair values of the collateral received and the securities on loan, including accrued income, from the OSTF were $531.9 million and $514.8 million, respectively. OPERF's allocated portions of the collateral received and securities on loan were $48.7 million and $47.1 million respectively.

Securities Loaned Fair Value		
US Government Obligations	$ 818,576,996	
Domestic Equity	847,958,875	
Domestic Fixed Income	28,411,241	
International Equity	847,628,177	
International Fixed Income	80,384,167	
Total		$ 2,622,959,456
Collateral Fair Value		
Cash	$ 2,654,274,368	
Securities	47,039,613	
Total		$ 2,701,313,981

The total cash collateral of $2,703.0 million is not categorized as to risk.

(7) Leases

Operating leases are rental agreements where the payments are chargeable as rent and recorded in the services and supplies expense account. Should the Legislature disallow the necessary funding for particular leases, all lease agreements contain termination clauses which provide for cancellation of the lease as of the end of a fiscal year. Lease obligations decrease each year because of various lease expirations. It is expected that ongoing leases will be replaced with leases which have higher rental rates due to inflation.

The schedule to the right summarizes the minimum lease payments for operating leases in effect as of June 30, 1999.

	Operating Leases
2000	$ 52,080
2001	45,682
2002	26,648
2003	0
2004	0
Thereafter	0
Total Future Minimum Lease Payments	$ 124,410

(8) Deferred Compensation Plan

Deferred compensation plans are authorized under Internal Revenue Code Section 457. The Oregon Legislature enacted Chapter 179, Oregon Laws 1997 that established the Deferred Compensation Fund, also known as the Oregon Savings Growth Plan. ORS 243.400 to 243.507 established and provided for PERS to administer the Oregon Savings Growth Plan. The plan is accounted for in an expendable trust fund. The investments totaled approximately $544.7 million at fair value as of June 30, 1999.

The plan is a benefit available to all state employees wherein they may execute an individual agreement with the state deferring current earnings to be paid at a future date. Participants in the plan are not required to pay federal and state income taxes on the deferred contributions and earnings until the funds are received. Participants or their beneficiaries cannot receive the funds until at least one of the following circumstances occur: termination by reason of resignation, death, disability, or retirement; or unforeseeable emergency.

PERS administered a previous deferred compensation program known as the State of Oregon Deferred Compensation Program. Effective July 1, 1999, assets from the State of Oregon Deferred Compensation Program were transferred to the Deferred Compensation Fund to be held in trust for the exclusive benefit of the participants.

Beginning in November 1996, PERS contracted with State Street Bank to maintain the Oregon Savings Growth Plan participant records. The Oregon State Treasury, as custodian of the assets, also contracted with State Street Bank to provide financial services. There are nine asset classifications with varying degrees of market risk, with account balances totaling $503.1 million. Three or more financial institutions provide investment services for each asset classification. A participant receives a blend of these funds within the asset class. Account balances totaling $41.6 million remain with various financial institutions for participants who are receiving distributions, and who elected not to transfer their account balances to State Street Bank. The records for these participants are maintained by the various financial institutions responsible for their assets. The state has no liability for losses under the plan but does have the prudent investor responsibility of due care.

PERS may assess a charge to the participants not to exceed two percent on amounts deferred, both contributions and investment earnings, to cover costs incurred for administering the program. Actual charges to participants, including investment charges, for the year ended June 30, 1999, averaged 0.59 percent of amounts deferred.

The Oregon Revised Statute 243.505 established a Deferred Compensation Advisory Committee to provide input from participants. This committee is composed of five members who meet at least quarterly.

(9) Retirement Health Insurance Administration Agency Fund

Oregon Revised Statute 238.410 directs the PERS Board to provide healthcare insurance, collect premiums, and deliver premiums to carriers providing coverage. The Retirement Health Insurance Administration Agency Fund is established to allow for the monthly cost of the coverage to be deducted from the retirement benefit of eligible members who elect to participate in a healthcare insurance plan, and to pay the amount due the carrier providing the coverage.

(10) Long Term Debt

In 1992, PERF entered into an agreement to guarantee $50 million in taxable special revenue obligation bonds issued by the Port of Portland on behalf of a start-up aircraft maintenance company at Portland International Airport. The company ceased operations at the end of October 1993. Initial interest payments were made from a reserve fund established from bond sale proceeds. This reserve fund was depleted and interest payments from the retirement trust fund commenced in October 1994.

PERS has purchased a lease-hold interest in the facility. The value of any recovery cannot be estimated because it will depend on whether PERS can re-lease or sell the facility, and on what terms. In October 1996, the Attorney General filed a lawsuit against the owners of the company and the consulting firm that advised the investment. At the time of this report some claims are still pending. The value of any recovery from pending claims cannot be estimated at this time.

The first table describes taxable obligation revenue bonds issued and outstanding guaranteed by the retirement fund.

The second table summarizes the amounts necessary to pay all future long-term guaranteed debt principal and interest requirements as of June 30, 1999, for each fiscal year during the next five-year period ending June 30, 2004, and in total for the succeeding period July 1, 2004, to June 30, 2022.

Pamcorp Taxable Special Obligation Revenue Bonds Issued and Outstanding

	Amount Issued and Outstanding	Interest Rate	Due Date	Issue Date
Series "A"	$ 11,500,000	8.350%	May 15, 2010	June 1, 1992
Series "B"	9,800,000	8.875	May 15, 2015	June 1, 1992
Series "C"	27,000,000	9.200	May 15, 2022	June 1, 1992

Pamcorp Debt Service Requirements to Maturity

Fiscal Year	Series "A" Principal	Interest	Series "B" Principal	Interest	Series "C" Principal	Interest	Total Principal	Total Interest	Total Expenses
2000	$ 700,000	$ 960,250	$ -	$ 869,750	$ -	$ 2,484,000	$ 700,000	$ 4,314,000	$ 5,014,000
2001	700,000	901,800	-	869,750	-	2,484,000	700,000	4,255,550	4,955,550
2002	800,000	843,350	-	869,750	-	2,484,000	800,000	4,197,100	4,997,100
2003	900,000	776,550	-	869,750	-	2,484,000	900,000	4,130,300	5,030,300
2004	900,000	701,400	-	869,750	-	2,484,000	900,000	4,055,150	4,955,150
2005-2022	7,500,000	2,338,000	9,800,000	7,943,128	27,000,000	39,109,200	44,300,000	49,390,328	93,690,328
	$ 11,500,000	$ 6,521,350	$ 9,800,000	$ 12,291,878	$ 27,000,000	$ 51,529,200	$ 48,300,000	$ 70,342,428	$ 118,642,428

In 1996, PERF purchased the land and began construction on a new retirement system headquarters building in Tigard, Oregon. The construction was financed by the sale of certificates of participation. The certificates of participation were sold on March 16, 1996, for $8.6 million at a 5.45 percent interest rate with the final repayment due April 10, 2017. The table to the right summarizes all future certificates of participation payments of principal and interest as of June 30, 1999, for each fiscal year during the next five-year period, and the total for the succeeding period from July 1, 2004, to April 10, 2017.

PERS Building Debt Service Requirements to Maturity

Fiscal Year	Principal	Interest	Total Expenses
2000	$ 285,000	$ 424,542	$ 709,542
2001	300,000	412,003	712,003
2002	315,000	398,502	713,502
2003	325,000	384,327	709,327
2004	340,000	369,215	709,215
2005-2017	6,460,000	2,790,553	9,250,553
	$ 8,025,000	$ 4,779,142	$ 12,804,142

(11) Contingent Liabilities

Three local government employers have filed lawsuits seeking to reverse the PERS Board's order raising employer's contributions to the PERS fund. As the issues are the same in each case, the Marion County Circuit Court has consolidated the three cases into one. The local government employers are not seeking monetary damages. The claims are not covered by insurance. The PERS Board and the Oregon Department of Justice are vigorously contesting the case, and believe the local government employers will not prevail. The potential loss is the amount of the local government employers' unfunded actuarial liability, which was $143.6 million as of December 31, 1997.

REQUIRED SUPPLEMENTARY INFORMATION

Required Supplementary Information
Schedules of Funding Progress
(Dollar amounts in millions)

Valuation Date	Actuarial Liability	Valuation of Assets	Assets as a % of Actuarial Liabilities	Unfunded Accrued Liabilities (UAL)	Annual Active Member Payroll	UAL as a % of Annual Active Member Payroll
Pension Benefits						
12/31/97	$ 31,178.0	$ 29,097.2	93.3%	$ 2,080.8	$ 5,161.6	40.3%
12/31/95	22,794.0	20,963.6	92.0	1,830.4	4,848.1	37.8
12/31/93	18,614.7	17,560.1	94.3	1,054.6	4,466.8	23.6
12/31/91	14,378.7	14,679.4	102.1	(300.7)	3,887.5	(7.7)
Postemployment Healthcare Benefits - Retirement Health Insurance Account*						
12/31/97	$ 473.8	$ 10.7	2.3%	$ 463.1	$ 5,161.6	9.0%
12/31/95	428.1	(3.4)	(0.8)	431.5	4,848.1	8.9
12/31/93	360.7	(6.8)	(1.9)	367.5	4,466.8	8.2
12/31/91	263.2	(11.5)	(4.4)	274.7	3,887.5	7.1
Postemployment Healthcare Benefits - Retirement Health Insurance Premium Account**						
12/31/97	$ 13.1	$ 0.3	2.3%	$ 12.8	$ 1,399.8	0.9%
12/31/95	26.5	(2.6)	(9.8)	29.1	1,581.5	1.8
12/31/93	25.9	(1.3)	(5.0)	27.2	1,498.1	1.8
12/31/91	29.3	0.0	0.0	29.3	1,440.6	2.0

*The Retirement Health Insurance Account provides postemployment healthcare benefits for eligible members for all participating employers.

**The Retirement Health Insurance Premium Account provides postemployment benefits only for eligible members who retired from state of Oregon employers. Required annual contributions did not begin until July 1, 1995.

Required Supplementary Information
Schedules of Employer Contributions
(Dollar amounts in millions)

Year Ended	Annual Required Contribution	Percentage Contributed
Pension Benefits		
12/31/98	$ 452.1	100.0%
12/31/97	440.0	100.0
12/31/96	432.1	100.0
12/31/95	401.4	100.0
12/31/94	402.7	100.0
12/31/93	399.7	100.0
12/31/92	409.1	100.0
12/31/91	404.8	100.0
Postemployment Healthcare Benefits - Retirement Health Insurance Account*		
12/31/98	$ 33.7	100.0%
12/31/97	30.7	100.0
12/31/96	28.0	100.0
12/31/95	24.6	100.0
12/31/94	21.8	100.0
12/31/93	21.4	100.0
12/31/92	22.0	100.0
12/31/91	23.2	100.0
Postemployment Healthcare Benefits - Retirement Health Insurance Premium Account**		
12/31/98	$ 2.2	100.0%
12/31/97	2.3	100.0
12/31/96	2.4	100.0
12/31/95	1.2	100.0

*The Retirement Health Insurance Account provides postemployment healthcare benefits for eligible members for all participating employers.

**The Retirement Health Insurance Premium Account provides postemployment benefits only for eligible members who retired from state of Oregon employers. Required Annual Contributions did not begin until July 1, 1995.

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.

	PERS
Valuation Date	12/31/97
Actuarial cost method	Entry Age
Amortization method	Level percent of salary
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	4.0%
Consumer Price Inflation	3.5%
Health Cost Inflation	3.5%
Cost-of-living adjustments	2.0%
Method used to value assets	Fair Value
Amortization period	30 years
Selection of amortization approach	Open

SUPPORTING SCHEDULES

Schedule of Plan Net Assets
Defined Benefit Pension Plan
June 30, 1999

	Regular Account	Variable Account	Totals 1999	Totals 1998
Assets:				
Cash and Cash Equivalents	$ 887,490,928	$ 33,511,549	$ 921,002,477	$ 697,461,254
Receivables				
Employer	35,487,173	---	35,487,173	24,677,887
Employee	16,854,583	5,705,453	22,560,036	16,753,434
Interest and Dividends	140,019,195	1,295,322	141,314,517	149,555,321
Investment Sales	219,651,429	15,506,797	235,158,226	184,062,070
Total Receivables	412,012,380	22,507,572	434,519,952	375,048,712
Interaccount Receivables and Payables	29,827,046	(29,827,046)	---	---
Due from Other Funds	891,934	---	891,934	5,002,334
Investments:				
U.S. Government Obligations	2,467,844,537	771,338	2,468,615,875	2,385,127,594
Domestic Corporate Obligations	2,125,573,074	46,149,541	2,171,722,615	2,391,661,273
Domestic Stocks and Mutual Funds	13,954,989,248	1,732,259,809	15,687,249,057	13,746,172,050
International Government and Corporate Obligations	1,432,507,430	7,671,149	1,440,178,579	1,631,118,046
International Stocks and Mutual Funds	6,531,953,537	---	6,531,953,537	5,712,125,168
Asset-Backed Securities	234,775,801	1,305,500	236,081,301	11,107,785
Mortgages	10,963,632	---	10,963,632	12,541,076
Real Estate	1,789,184,268	1,529,315	1,790,713,583	1,969,475,950
Limited Partnerships	1,788,135,634	---	1,788,135,634	1,154,872,654
Venture Capital	10,771,499	---	10,771,499	10,516,077
Leveraged Buy-Outs	1,846,209,615	---	1,846,209,615	2,308,833,930
Total Investments	32,192,908,275	1,789,686,652	33,982,594,927	31,333,551,603
Securities Lending Cash Collateral	2,702,989,258	---	2,702,989,258	2,559,048,088
Prepaid Expenses	41,316	---	41,316	37,581
Equipment and Fixtures, Cost Net of Accumulated Depreciation at 1999: $ 1,557,431; at 1998: $ 1,337,958	416,560	---	416,560	335,818
Land and Buildings, Cost Net of Accumulated Depreciation at 1999: $ 375,547; at 1998: $196,902	7,779,424	---	7,779,424	8,266,389
Office Supplies Inventory, Cost	4,975	---	4,975	4,860
Total Assets	36,234,362,096	1,815,878,727	38,050,240,823	34,978,756,639
Liabilities:				
Investment Purchases and Accrued Expenses	222,120,079	14,207,431	236,327,510	210,771,475
Deposits and Other Liabilities	87,916,048	295,288	88,211,336	62,029,059
Due to Other Funds	3,804,557	---	3,804,557	---
Bonds Payable	56,325,000	---	56,325,000	57,200,000
Securities Lending Cash Collateral Due Borrowers	2,702,989,258	---	2,702,989,258	2,559,048,088
Total Liabilities	3,073,154,942	14,502,719	3,087,657,661	2,889,048,622
Net Assets held in trust for pension benefits	$ 33,161,207,154	$ 1,801,376,008	$ 34,962,583,162	$ 32,089,708,017

Schedule of Changes in Plan Net Assets
Defined Benefit Pension Plan
For the Year Ended
June 30, 1999

	Regular Account	Variable Account	Totals 1999	Totals 1998
Additions				
Contributions				
Employer	$ 473,096,323	$ ---	$ 473,096,323	$ 455,531,987
Plan Member	259,997,469	78,861,850	338,859,319	322,378,126
Other Sources	17,502,513	---	17,502,513	17,957,113
Total Contributions	750,596,305	78,861,850	829,458,155	795,867,226
Investment Income				
Net Appreciation (Depreciation) in Fair Value of Investments	2,521,077,950	267,248,270	2,788,326,220	4,248,138,231
Interest, Dividends, and Investment Income	952,608,575	---	952,608,575	855,355,911
Total Investment Income	3,473,686,525	267,248,270	3,740,934,795	5,103,494,142
Less Investment Expense	263,845,994	4,846,796	268,692,790	256,202,532
Net Investment Income	3,209,840,531	262,401,474	3,472,242,005	4,847,291,610
Other Income	38,276	---	38,276	420,239
Total Additions	3,960,475,112	341,263,324	4,301,738,436	5,643,579,075
Deductions				
Benefits	1,292,049,498	39,818,883	1,331,868,381	1,564,089,565
Death Benefits	11,349,273	---	11,349,273	11,434,045
Refunds of Contributions	66,214,972	3,763,854	69,978,826	70,003,190
Administrative Expense	14,711,147	955,664	15,666,811	15,183,982
Interaccount Transfers	(293,719,274)	293,719,274	---	---
Total Deductions	1,090,605,616	338,257,675	1,428,863,291	1,660,710,782
Net Increase	2,869,869,496	3,005,649	2,872,875,145	3,982,868,293
Net Assets held in trust for pension benefits				
Beginning of Year	30,291,337,658	1,798,370,359	32,089,708,017	28,106,839,724
End of Year	**$ 33,161,207,154**	**$ 1,801,376,008**	**$ 34,962,583,162**	**$ 32,089,708,017**

Schedule of Plan Net Assets
Postemployment Healthcare Plan
June 30, 1999

	Retirement Health Insurance Account	Retirement Health Insurance Premium Account	Totals 1999	Totals 1998
Assets:				
Cash and Cash Equivalents	$ 23,271,224	$ 2,749,528	$ 26,020,752	$ 16,880,067
Receivables				
Employer	2,434,478	159,070	2,593,548	6,275,387
Employee	---	---	---	---
Interest and Dividends	---	---	---	83,533
Total Receivables	2,434,478	159,070	2,593,548	6,358,920
Due from Other Funds	3,717,075	---	3,717,075	---
Prepaid Expenses	---	---	---	---
Total Assets	29,422,777	2,908,598	32,331,375	23,238,987
Liabilities:				
Accounts Payable and Accrued Expenses	120,289	5,389	125,678	3,687
Deposits and Other Liabilities	---	---	---	---
Due to Other Funds	---	715,240	715,240	5,002,334
Total Liabilities	120,289	720,629	840,918	5,006,021
Net Assets held in trust for postemployment healthcare benefits	$ 29,302,488	$ 2,187,969	$ 31,490,457	$ 18,232,966

Schedule of Changes in Plan Net Assets
Postemployment Healthcare Plan
For the Year Ended
June 30, 1999

	Retirement Health Insurance Account	Retirement Health Insurance Premium Account	Totals 1999	Totals 1998
Additions				
Contributions				
Employer	$ 34,930,816	$ 2,351,814	$ 37,282,630	$ 36,425,398
Total Contributions	34,930,816	2,351,814	37,282,630	36,425,398
Investment Income				
Interest, Dividends, and Other Investment Income	871,629	162,796	1,034,425	657,237
Total Investment Income	871,629	162,796	1,034,425	657,237
Less Investment Expense	---	178,960	178,960	873,791
Net Investment Income	871,629	(16,164)	855,465	(216,554)
Total Additions	35,802,445	2,335,650	38,138,095	36,208,844
Deductions				
Healthcare Premium Subsidies	22,233,420	857,207	23,090,627	22,437,919
Administrative Expense	1,693,569	96,408	1,789,977	1,422,420
Total Deductions	23,926,989	953,615	24,880,604	23,860,339
Net Increase	11,875,456	1,382,035	13,257,491	12,348,505
Net Assets held in trust for postemployment healthcare benefits				
Beginning of Year	17,427,032	805,934	18,232,966	5,884,461
End of Year	$ 29,302,488	$ 2,187,969	$ 31,490,457	$ 18,232,966

Schedule of Administrative Expenses
For the Years Ended
June 30, 1999 and 1998

	1999	1998
Personal Services:		
Staff Salaries	$ 7,080,420	$ 6,192,428
Social Security	532,255	465,502
Retirement	945,001	826,484
Insurance	861,211	753,202
Assessments	129,047	112,863
Total Personal Services	9,547,934	8,350,479
Professional Services:		
Actuarial	123,384	223,450
Data Processing	3,136,733	2,200,811
Systems Study	---	32,500
Audit	96,064	97,667
Legal Counsel	238,724	96,536
Medical Consultant	40,965	32,247
Accounting Services	743,612	1,569,376
Health Care Fees	1,604,907	1,630,869
Total Professional Services	5,984,389	5,883,456
Communication:		
Printing	87,376	250,754
Telephone	223,502	375,735
Postage	369,074	377,478
Travel	85,467	83,460
Total Communication	765,419	1,087,427
Rentals:		
Office Space	66,640	73,694
Equipment	83,888	79,300
Total Rentals	150,528	152,994
Miscellaneous:		
Supplies	476,128	456,150
Maintenance	482,583	217,776
Office Moving Expenses	---	1,254
Non-Capitalized Equipment	137,586	589,120
Depreciation	388,099	414,283
Total Miscellaneous	1,484,396	1,678,583
Total Administrative Expenses	17,932,666	17,152,939
Statement of Changes in Plan Net Assets Defined Benefit Pension Plan and Postemployment Healthcare Plan	17,456,788	16,606,402
Statement of Revenues, Expenditures, and Changes in Fund Equity Expendable Trust Fund	475,878	546,537
Financial Statement Total for the Year Ended June 30:	$ 17,932,666	$ 17,152,939

Schedule of Payments to Consultants
For the Years Ended
June 30, 1999 and 1998

Individual or Firm	Commission / Fee 1999	Commission / Fee 1998	Nature of Service
Milliman & Roberts	$ 146,146	$ 223,450	Actuary
Oregon Department of Justice	218,432	96,536	Legal
Oregon Audits Division	96,064	97,667	Audit
Raymond Clarke and Assoc.	---	32,500	Information Systems Study
Melvin Smith	5,742	---	Health Insurance Consultant
Willis Corroon Corp.	45,775	55,428	Health Insurance Consultant
Lawrence Duckler, MD	8,580	9,240	Medical Advisor

Summary of Investment Fees, Commissions, and Expenses
For the Years Ended June 30, 1999 and 1998

	1999	1998
International Equity Fund Manager Fees		
Acadian	$ 1,825,853	$ 1,562,347
Barclay's Global Investors (EAFE)	1,035,402	1,473,464
Brandes Investment	1,775,167	574,945
Clay Finlay, Inc.	1,807,072	1,439,978
Cursitor-Eaton Asset Management	---	789,357
Driehaus Capital	2,828,921	834,941
Genesis Investment Management Ltd.	1,567,478	1,241,824
Marvin & Palmer Associates	2,114,925	1,539,346
Montgomery Asset	1,144,190	80,039
Nomura Capital Management	1,169,258	909,783
Rowe, Price-Fleming, Inc.	3,191,935	1,691,198
Sanford Berstein	1,890,216	1,686,097
Schroder Capital	1,288,720	668,041
TT International	1,421,725	108,397
Oregon Equity Fund Managers Fees		
Alliance Capital	2,112,859	1,392,027
Barclay's Global Investors (all funds)	911,603	1,120,166
Becker Capital	1,210,473	1,206,436
Brown Capital	1,147,130	831,265
Columbia Management	---	1,972,712
Equinox	2,489,255	1,870,132
Fiduciary Trust	1,568,905	1,333,026
Froley-Revy Investment Company	1,555,921	1,345,959
Nicholas Applegate	4,556,962	3,532,354
Oak Associates	1,250,832	864,799
Palisade Capital	1,691,018	1,475,420
RCB Trust Company	929,113	722,765
Sanford Bernstein	2,632,724	2,067,394
Thompson/Rubenstein Investors	1,716,163	1,177,788
Wanger	3,013,544	2,362,611
Wellington	1,852,643	1,763,219
Zesiger Capital Group	2,373,682	1,909,471
Global Fixed Income Managers Fees		
Mercury Asset Management	870,313	655,587
Rogge Global Partners	1,083,028	798,588
Real Estate Investment Fund		
La Salle Advisors (Alex Brown Realty)	1,149,915	1,016,683
Leveraged Buy-Out		
KKR	8,390,807	7,207,154
Custodial Fees for Investment Managers		
State Street Bank	51,627	207,871
Wells Fargo - Oregon Equity Fund	---	77,344
Morgan Stanley - Oregon Equity Fund	---	15,445
Alternative Equity Managers Fees		
Aurora Equity Partners	1,015,667	---
BCI Growth	724,227	---
Castle Harlan	1,745,839	3,721,828
CVC European	1,306,849	---
Doughty Hanson	3,637,382	396,404
Exxel Capital Partners	1,143,914	---
Hicks Muse	3,829,726	1,277,091
HSBC Equity	321,435	573,700
JLL Inc.	2,085,228	1,650,159
Penman Partners	415,265	491,271
Providence	2,349,250	---
Stonington Ptr	640,398	586,747
TCW/Crescent	1,076,207	---
TPG Partners	3,104,918	6,104,282
TSG Fund	1,557,277	426,492
Wellspring Capital	1,000,000	421,918
Other Alternative Equity Fees	1,321,357	170,026
Real Estate Fees and Expenses	11,947,406	11,472,477
Real Estate Bond	7,550,518	7,905,714
State Treasury Fees	4,194,905	4,621,642
Securities Lending	121,675,050	143,654,752
Brokerage Commissions	28,753,459	20,976,196
Other Investment Fees and Expenses	1,677,134	225,860
Total Investment Fees, Commissions, and Expenses - Defined Benefit Plan	$ 268,692,790	$ 256,202,532

FACTS ABOUT THE SECRETARY OF STATE AUDITS DIVISION

The mission of the Audits Division is to “Protect the Public Interest and Improve Oregon Government.” The Oregon Constitution provides that the Secretary of State shall be, by virtue of his office, Auditor of Public Accounts. The Audits Division exists to carry out this duty. The division reports to the elected Secretary of State and is independent of the Executive, Legislative, and Judicial branches of Oregon government. The division audits all state officers, agencies, boards, and commissions and oversees audits and financial reporting for local governments.

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Deputy Director	Catherine E. Pollino, CGFM
Deputy Director	Sharron E. Walker, CPA, CFE

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