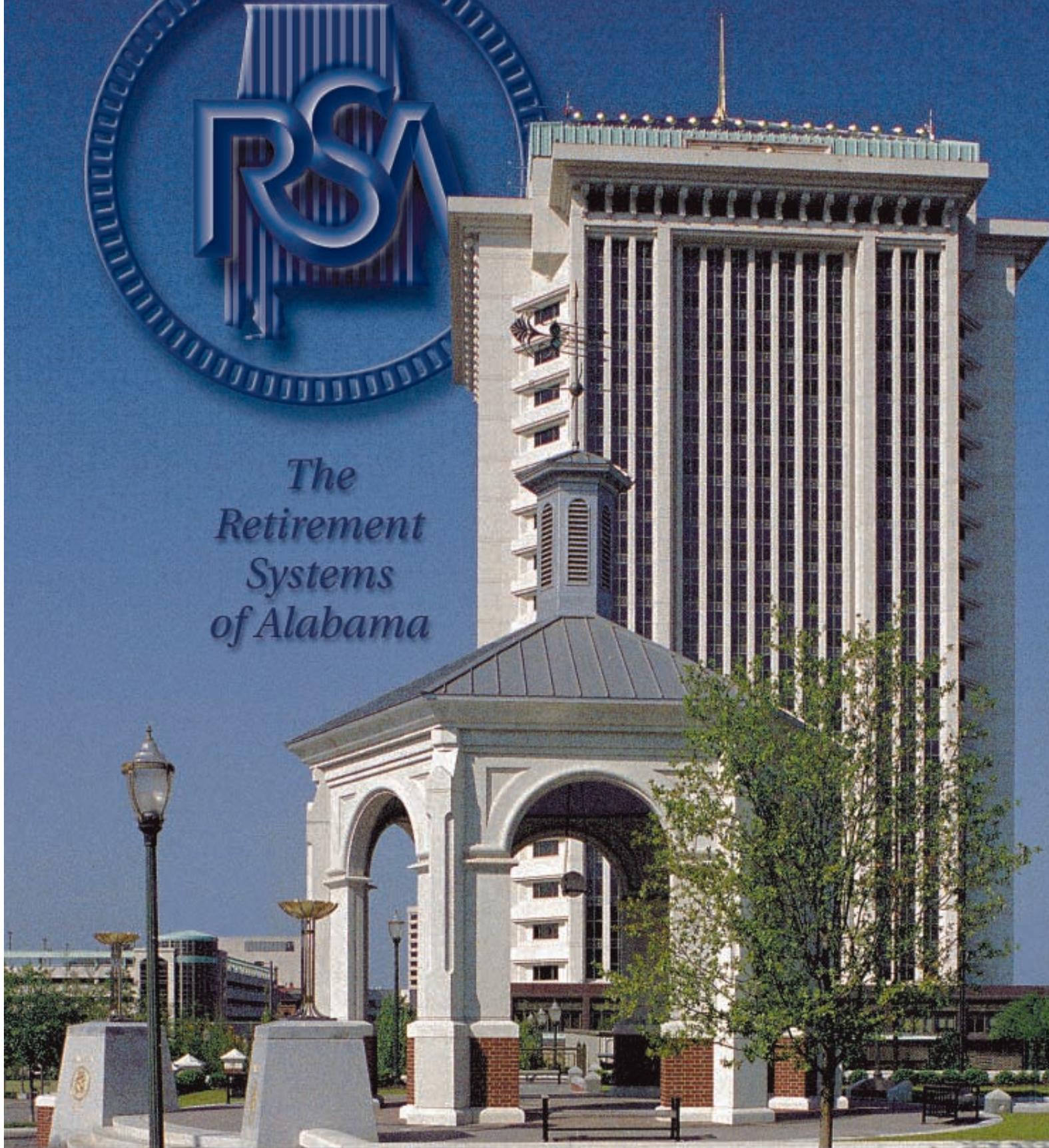




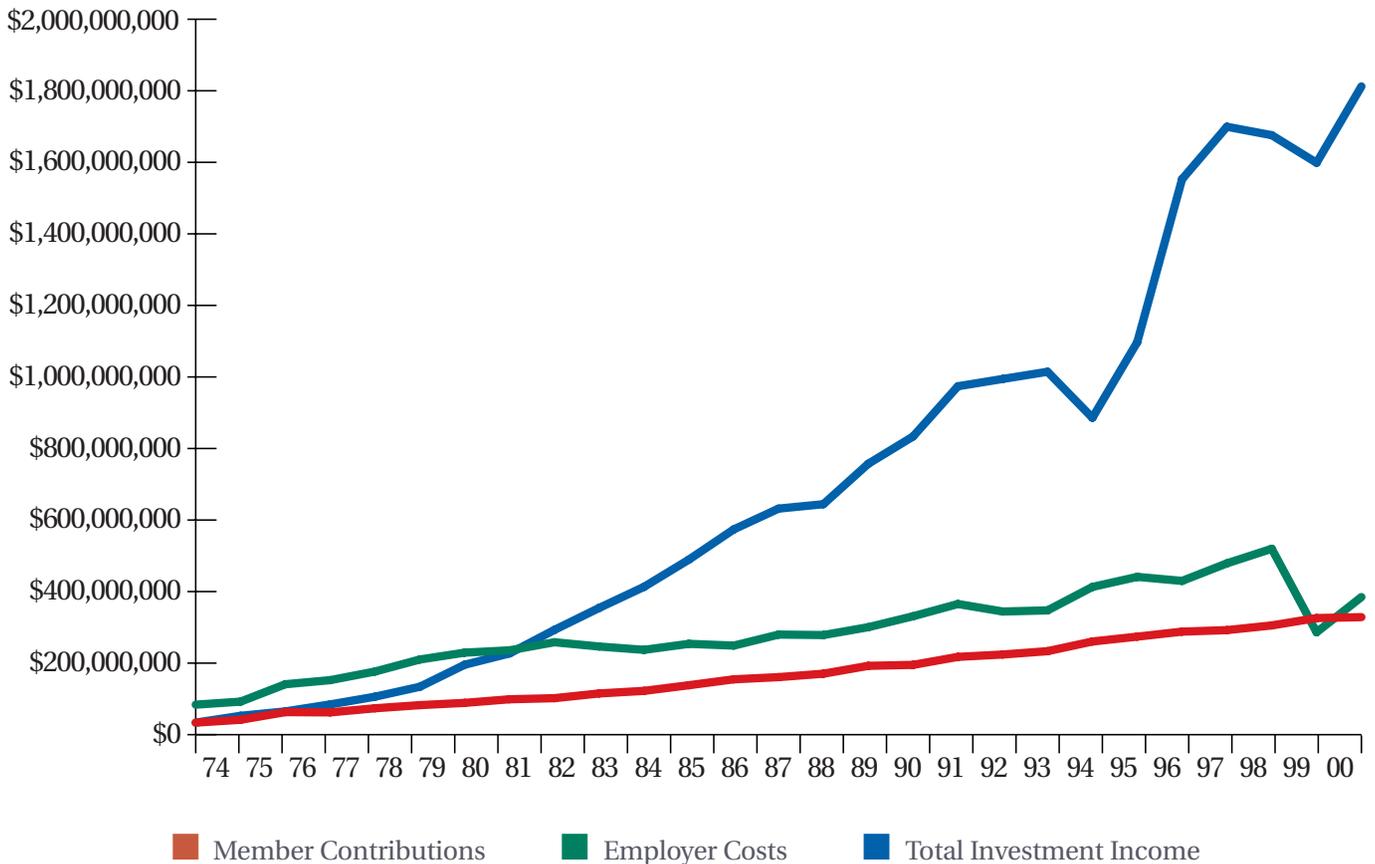
*The
Retirement
Systems
of Alabama*



2000 ANNUAL REPORT

The Retirement Systems of Alabama

Portfolio Growth



Under Dr. Bronner's tenure, the Retirement Systems has grown from a 25% funded, \$500 million organization to a fully funded, \$26.3 billion organization.

FUNDS UNDER MANAGEMENT

	Assets (In Thousands)
Teachers' Retirement System (TRS)	\$ 16,997,298
Employees' Retirement System (ERS)	7,799,691
Judicial Retirement Fund (JRF)	250,998
Alabama Cultural Resources Preservation Trust Fund	10,297
Alabama Education Foundation for K-12	279
Division of Wildlife and Freshwater Fisheries	10,226
Alabama Heritage Trust Fund	473,943
Alabama Nongame Wildlife Endowment Trust	12
Alabama Underground and Aboveground Storage Tank Trust Fund	17,694
Clerks' & Registers' Supernumerary Fund	5,170
Alabama Senior Services Trust Fund	1,691
Alabama State Employees' Health Insurance Programs	65,225
PEIRAF - Deferred Compensation Plan (RSA-1)	572,555
Public Education Employees' Health Insurance Plan Fund (PEEHIP)	50,672
Public Employees' Individual Retirement Account Fund (PEIRAF)	69,837
State Docks Pension Plans	4,340
TOTAL ASSETS UNDER MANAGEMENT*	\$ 26,329,928

* Includes cash, investments at fair value, buildings net of depreciation, and land.

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Executive



Exploration and Settlement
John Scott
1773-1839

One of the founders of Montgomery, John Baytop Scott, a native Virginian who served in the Revolutionary War, moved to the Broad River area of Georgia after Independence. A planter and a political leader, Scott was also a designer, receiving credit for the 1805 capitol at Milledgeville.

When the Alabama Territory opened for settlement in 1817, Scott and other investors purchased a parcel of land on the Alabama River for the establishment of a village to serve as a trade and transportation center for the developing cotton farms and plantations in the region. Although the first hamlet, Alabama Town, was not successful, the entrepreneurial Scott and his fellows acquired another quarter section. East Alabama Town was established near another small village, New Philadelphia. The Alabama Territorial Legislature incorporated both in 1819 as the town of Montgomery.

Scott had wide farming interests and is reputedly buried on his plantation in Lowndes County. He donated land for Oakwood Cemetery, the Court Street Methodist Church (where the Federal Building now stands) and St. John's Episcopal Church. He also assisted a number of those less fortunate in acquiring homesteads.



Antebellum Prosperity
Abner McGehee
1770-1855

A native of Virginia, Abner McGehee was a prosperous planter in the Broad River area of Georgia before coming to Alabama when the area opened for settlement.

Sensing the opportunities open to enterprising men, McGehee moved to south Montgomery County and established a plantation in the area of Hope Hull. Another entrepreneurial spirit, McGehee built one of Montgomery's first large hotels, the Planter's Hotel on Court Square. One of his major undertakings was the building of a railroad to Georgia, linking the growing Alabama heartland to the Northeast and Midwest by rail, a project which got underway in the late 1830s. Although there were many problems and delays, the railroad reached Georgia in 1851.

In addition to being a developer and builder, McGehee was also a devout Methodist who founded the Alabama Bible Society.

Letter from the CEO



Photograph by Robert Sutton

Dear Member:

The Boards of Control and the staff are pleased to present the twenty-fifth *Annual Report* of the Retirement Systems of Alabama (RSA) for the fiscal year ended September 30, 2000. This year's *Annual Report* highlights the William C. Walsh Park, located in downtown Montgomery, which pays tribute to the city's history and six unsung heroes who played an important role in shaping the city of Montgomery.

The RSA currently manages 16 funds with aggregate assets of \$26.3 billion. Assets increased \$1.7 billion during the year, representing a 7% increase from the previous year. During fiscal year 2000, the annualized return for the fixed income and equity portfolio combined was 9.37% for the Teachers' Retirement System (TRS) and 9.77% for the combined Employees' Retirement System (ERS) and Judicial Retirement Fund (JRF) in a year of volatile financial markets, continued strong domestic growth and only slightly higher inflation.

During the fiscal year, the RSA staff was honored once again for its contributions to the state of Alabama with the *Montgomery Advertiser's* "Citizen of the Year" award. This

award recognizes the impact of the RSA's investments in downtown Montgomery, the potential impact on tourism and the economy from the Robert Trent Jones Golf Trail and the support given for improving education and modernizing government. In addition, the Association of Government Accountants National Awards Committee presented the RSA staff with its "Excellence in Government Leadership" award. This award recognizes government professionals who exemplify and promote excellence in government, outstanding leadership and high ethical standards.

The Robert Trent Jones Golf Trail continues to have a positive impact on Alabama as nearly 5,000 articles have been written from Asia to Europe. The courses have become an important part of Alabama's tourism industry and they will be an important part of the State's growing retirement industry. "The Trail" is now being linked to one of the world's best-known computer software companies. Microsoft Corporation has filmed "The Links" in Opelika and "The Judge" in Prattville for use in its *Links LS 2000* golf game. "The Judge" is expected to be the cover photo for the 2002 version of the game.

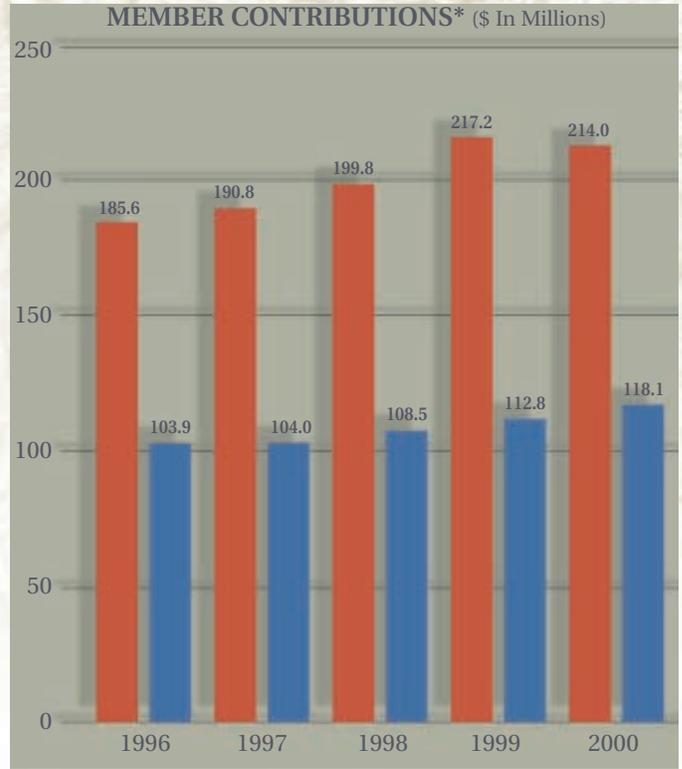
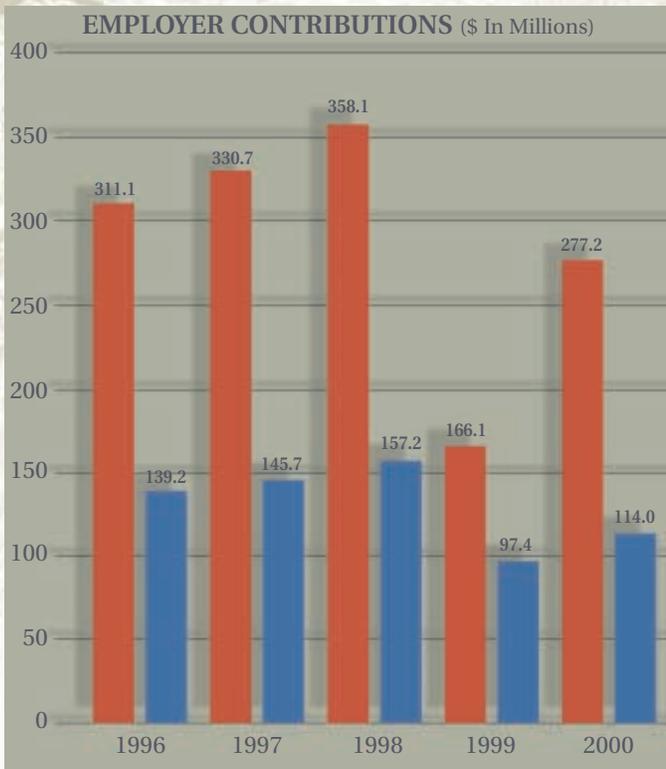
The RSA's media investments continued to grow during the fiscal year. Community Newspaper Holdings, Incorporated, one of the nation's largest newspaper companies, expanded during the year and now owns and operates over 350 newspapers throughout the United States. Raycom Media owns 34 television stations in 19 states as well as Puerto Rico and has broadcast coverage over approximately 12% of the nation's population. These investments now provide approximately \$40 million in free advertising to promote the state of Alabama.

The staff will continue to purchase and develop investments that will facilitate the mission of the RSA and serve the interests of our members by preserving the excellent benefits and soundness of the Systems at the least expense to the state of Alabama and all Alabama taxpayers. With the continued cooperative efforts of the Boards of Control, the RSA staff and the Legislature, this goal will be achieved.

Sincerely,

David G. Bronner
Chief Executive Officer

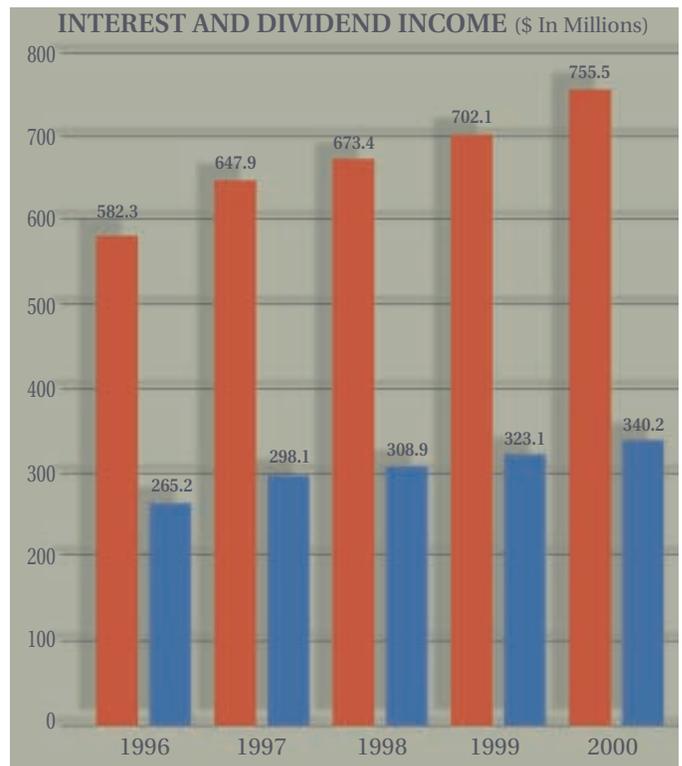
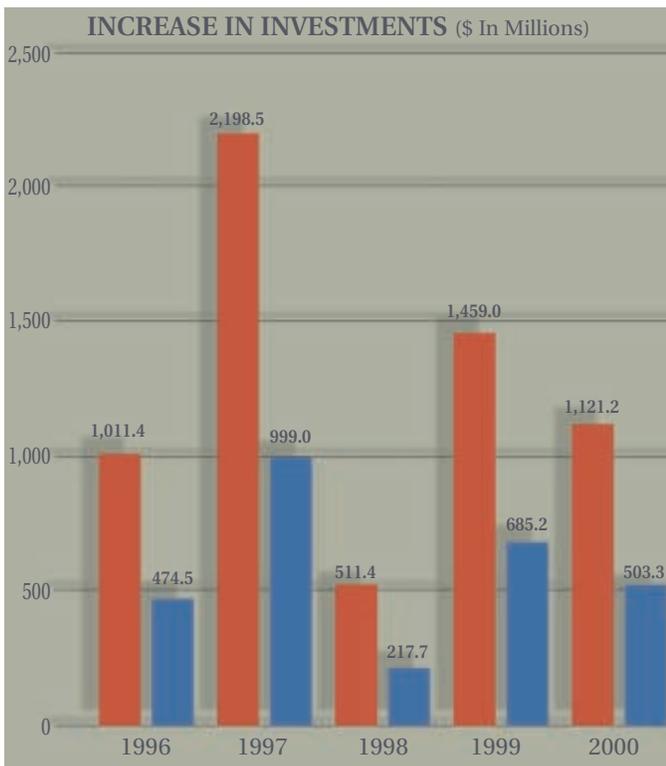
Five Year Highlights



TRS

ERS

*Includes transfers between systems.



Teachers' Retirement System Board of Control

EX OFFICIO MEMBERS



Hon. Lucy Baxley
State Treasurer



Chairman
Dr. Paul R. Hubbert
Executive Secretary
AEA



Dr. Henry C. Mabry, III
State Finance Director



Dr. Edward R. Richardson
State Superintendent
of Education

ELECTED MEMBERS



Ms. Elizabeth Andress
Postsecondary Position



Mrs. Patricia Buchanan
Teacher Position



Mr. Dwain Hargett
Teacher Position



Dr. John R. Key
Superintendent Position



Dr. John Landers
Principal Position



Dr. George L. Layton
Retired Teacher
Position



Mrs. Rebecca Lee
Support Personnel
Position



Mrs. Kathy McVay
Teacher Position



Mrs. Sharon Saxon
Support Personnel
Position



Vice-Chairman
Mrs. Sarah Swindle
Retired Teacher
Position

Employees' Retirement System Board of Control

EX OFFICIO MEMBERS



Hon. Lucy Baxley
State Treasurer



Hon. Thomas G. Flowers
State Personnel Director



Dr. Henry C. Mabry, III
State Finance Director



Chairman
Hon. Don E. Siegelman
Governor

ELECTED MEMBERS



Mr. Clyde A. Sellers
Retired Local Employee



Mrs. Ann Gant
Active Local Employee



Mr. T. M. Jones
Active Local Employee



Ms. Mary Lou Foster
Retired State Employee



Ms. Alice Thornton
Active State Employee



Mr. Stephen C. Walkley
Active State Employee

APPOINTED MEMBERS



Lieutenant Rector Johnson



Ms. Donna Mulcahy



Vice-Chairman
Mr. John H. Wilkerson, Jr.

Staff, Advisors and Medical Board

Chief Executive Officer
David G. Bronner, Ph.D., J.D.

Deputy Director and Counsel
William T. Stephens, J.D.

ADMINISTRATIVE STAFF

*Director of Information
Technology Services*
Peggi L. Douglass,
M.B.A.

*Chief Accountant and
Fiscal Officer*
Norman D. Turnipseed,
M.B.A., C.P.A.

*Legislative
Liaison*
Marcus H. Reynolds, Jr.,
J.D.

*General
Counsel*
William F. Kelley, Jr.,
J.D.

*Director of
Field Services*
Pamela T. Galluzzi,
M.B.A.

*Teachers'
Retirement Executive*
Donald L. Yancey,
M.P.A., J.D.

*Employees' & Judicial
Retirement Executive*
R. Donald Nelson,
M.S.

*Director of
Teachers' Health Insurance*
Lee M. Hayes,
M.B.A.

INVESTMENT STAFF

Acting Director of Investments
Darren J. Schulz,
M.B.A., C.F.A.

Director of Fixed Income
M. Hunter Harrell,
M.B.A., J.D., C.F.A.

Director of International
Gary T. Partridge,
M.B.A., C.F.A.

Director of Equities
R. Marc Green,
M.B.A., C.F.A.

Assistant Director of Fixed Income/Public Bonds
Julie S. Barranco,
M.B.A.

Chief Economist
John P. Cunningham,
M.B.A.

Assistant Director of Equities
Steven R. Lambdin,
M.B.A., C.P.A.

Fixed Income Analyst
C. Lance Lachney,
B.S.

Equity Analyst
G. Allan Carr, Jr.,
B.S.

Equity Analyst
John R. Givens,
M.B.A.

Cash Management and Operations
Nancy H. Sprayberry

ADVISORS

Certified Public Accountants
KPMG

AmSouth Bank, N.A.
Mr. Brian Sullivan

George B. Buck Consulting Actuaries
Mr. Edward A. Macdonald

Attorney General
Honorable Bill Pryor

Chief Examiner
Mr. Ronald L. Jones

MEDICAL BOARD



Thomas Nickles, M.D.



Chairman
Neil Stronach, M.D.



A. S. Zdanis, M.D.

Administrative



Civil War and Reconstruction
Henry Washington Hilliard
1808-1892

Henry Washington Hilliard, born in North Carolina in 1808, received his education at South Carolina College and read law in offices of lawyers in that state and Georgia. He came to Alabama as a professor at The University of Alabama in 1831 but resigned to practice law in Montgomery in the mid-1830s. He was also a lay reader and minister in the Methodist Church. A strong Whig, Hilliard received an appointment from John Tyler as Charge d'affaires to Belgium from 1842 to 1844 and returned to earn a seat in Congress for three terms. He supported the Compromise of 1850 and opposed the extreme states' rights policies of the South, debating William Lowndes Yancey on his secessionist philosophy.

When secession and war came, Hilliard supported his native South by raising Hilliard's Legion in 1862 but resigned his commission shortly thereafter. He practiced law in Augusta and Atlanta, Georgia. He was appointed U.S. Minister to Belgium by President Rutherford B. Hayes from 1877 to 1881 and was instrumental in assisting in the emancipation movement in that country. He died in 1892 in Atlanta.



The Age of Advancement
William Burns Paterson
1850-1913

An educator, William Burns Paterson was a native of Tullibody, Scotland, and came to the United States in 1869. He went to work on the railroad that was being built out of Selma. Concerned with the plight of former slaves and their desire for education, he opened a school in 1870 near Greensboro, naming it Tullibody Academy.

When he moved to Marion, Alabama, he became president of the Lincoln Normal School. Understanding the need for State support, Mr. Paterson worked diligently for this help and recognition. Finally, in 1889, Paterson received an appropriation and legislative approval for the establishment of a State Normal School for African-American students in Montgomery, which is now known as Alabama State University.

Mr. Paterson was also a horticulturist and founded Rosemont Gardens while continuing his position as president of the Normal School.

Legal Developments

In 2000, the RSA was involved in litigation in state and federal courts involving benefit issues, investment matters, RSA properties and administrative matters. The RSA also participates in numerous securities class action suits simply as a member of a class and, on occasion, actively participates in these cases when necessary to protect the RSA's interests.

One of the most significant cases concluded in 2000 was *Williford v. ERS Board of Control* which involved a beneficiary's challenge to her deceased husband's retirement benefit election. After receiving adverse rulings in both the Circuit Court and the Court of Civil Appeals, the ERS was ultimately successful in the Supreme Court of Alabama. In a unanimous decision, the Supreme Court held that the ERS is entitled to rely on clear, unambiguous benefit elections and correctly concluded that "to permit a surprised, disappointed or disgruntled beneficiary to change an ERS member's retirement benefits election that is clear on its face, after events have made the election undesirable, would wreak havoc on the retirement system."

The RSA was, and is, a nominal party in several lawsuits that do not challenge the operation or administration of the RSA. Some of these lawsuits challenge actions of employers participating in the RSA such that the remedy requested by the plaintiffs could affect the plaintiffs' retirement benefits. In one case, the RSA is a party simply because the RSA invests the funds that are the subject of the lawsuit. Additionally, in 2000, RSA was added as a party in several divorce actions involving RSA members where the spouse of a member was seeking an award of a member's RSA benefits which are protected by law.

While litigation is ongoing in cases involving various issues, all cases concluded in 2000 were resolved in the RSA's favor.



Recognizing excellence in government, outstanding leadership and high ethical standards, the Association of Government Accountants National Awards Committee presented the RSA staff with the "Excellence in Government Leadership" award. (Photograph by George Pudzis.)

Legislation

During the 2000 Regular Session, the Alabama Legislature enacted a number of laws impacting the RSA.

Continuing the recent trend of abolishing supernumerary positions on a county by county basis through the enactment of local constitutional amendments, the following counties enacted laws that, if ratified, will place their elected officials under the ERS: Chilton, Clay, Dale, Greene, Henry, Lamar, Lawrence, Marion, Perry, Pickens, Pike, Russell, Sumter and Tallapoosa counties.

A four percent cost-of-living adjustment for both retired teachers and employees was provided under Acts 2000-741 and 2000-809. The increase was effective October 1, 2000.

Act 2000-669 gives credit for hazardous duty service to firefighters, law enforcement officers and correctional officers. The members' contribution will increase from five percent to six percent effective January 1, 2000, to partially fund the cost of this new benefit.

The postretirement earnings limit for retired members of the TRS and ERS that was eliminated when Social Security removed its earnings limitation on persons over 65 years of age was reinstated under Act 2000-713. The earnings limitation of \$17,000 per year is indexed and will automatically be adjusted for inflation each year.

A retired member of the TRS or ERS who selects a monthly survivor option may change the beneficiary in the event of death or upon divorce from that beneficiary under the provisions of Act 2000-454. If a retired member elects to make this change, the retirement benefit will be adjusted to reflect the actuarial cost of the new designation.

TRS members may purchase credit for service as a full-time employee with the Department of Industrial Relations under the CETA program under Act 2000-276.

Act 2000-235 allows an active, vested member of the TRS to purchase credit for up to eight years of service with the Federal Bureau of Mines. TRS members may again purchase maternity leave under Act 2000-45.

Under Act 2000-450, members of the ERS may purchase credit for service as an official court reporter.

All of the Acts passed during the 2000 Regular Session allowing members to purchase service credit require that the member pay the full actuarially determined cost of the claimed service credit.

Communications

The *Summary Plan Description* presents an overview of mandatory participation, creditable service, vesting, disability and service retirement, preretirement death benefits and postretirement employment. Members also receive a Statement of Account annually.

Approximately 142,000 copies of the RSA newsletter, the *Advisor*, are distributed monthly to each member agency, RSA retiree and any interested member or person upon request. The *Advisor* informs recipients of important topics regarding the TRS, ERS, RSA-1, PEIRAF, PEEHIP, legislation, investments and counseling schedules. Comparisons of insurance and retirement benefits provided by other states and current information regarding Social Security, taxes and Alabama's economic and political climate are also featured.

A *Speaking of Retirement* column providing information about retirement benefits, deferred compensation and insurance is distributed for publication to the Alabama Education Association, the Public Health Department, the Association of County Commissions of Alabama, the Alabama State Employees' Association, the Department of Public Safety, the Forestry Commission, the Alabama League of Municipalities, the Alabama Retired State Employees' Association and all public four-year universities in Alabama.

The RSA's Web page (www.rsa.state.al.us) publishes RSA's *Summary Plan Descriptions*, *Advisors*, *Annual Reports* and information about the ERS, TRS, PEIRAF, RSA-1 and PEEHIP benefits. *News from RSA* features updates on policies, procedures, new legislation, federal laws and other late breaking events. The Web site also offers links to AlaWeb, Alabama Retired State Employees' Association, Alabama State Employees' Insurance Board, Alabama Governor's Office, Alabama State Legislature, ALALINC, Internal Revenue Service, the Robert Trent Jones Golf Trail, Social Security Online, PEEHIP at Blue Cross Blue Shield of Alabama, and Alabama state agencies. The National Council on Teacher Retirement (NCTR's) LIFEPLAN link offers information on retirement planning, life issues, retirement transitions, financial matters and investment basics.

A new feature, *Legislative Updates*, keeps members informed about legislative news, current legislation, and archive legislation. Another new feature, a *Retirement Benefits Estimate Calculator*, allows members to estimate retirement benefits under the Maximum allowance and three other options.

Office of Field Services

The Office of Field Services provides information about the benefits of the TRS, ERS, the Public Education Employees' Health Insurance Plan (PEEHIP), the Public Employees' Individual Retirement Account Fund (PEIRAF) and the RSA-1 Deferred Compensation Plan to all members and retirees. During fiscal year 2000, the Field Services' staff served more than 25,700 members by representing the RSA in a total of 304 seminars, orientations, meetings, workshops, faculty meetings, institute days, individual counseling sessions and conventions.

Attending conventions hosted by 16 different Alabama organizations, the Field Services' staff disseminated retirement information to over 13,000 convention attendants. During 117 seminars and meetings, the staff presented retirement information to approximately 10,500 members.

In cooperation with 31 satellite locations and the ERS and TRS Benefits Administration Divisions, the Office of Field Services prepares a schedule of over 170 counseling days offering over 2,200 appointments for members who wish to discuss retirement information directly with a counselor. The RSA representatives accommodate members by traveling to these various satellite locations from October through April. A counseling schedule is distributed each fall to district offices of state agencies, public school principals, city and county superintendents of education and public agencies that participate in the RSA.

The following table summarizes the activities of the Office of Field Services for the fiscal year 2000:

Activity	Member Services		
	Number Conducted	Number Served	
		ERS	TRS
Conventions/Conferences	16	4,097	8,922
Counseling Sessions	171	338	1,861
Seminars/Meetings	<u>117</u>	<u>2,818</u>	<u>7,674</u>
Total	<u>304</u>	<u>7,253</u>	<u>18,457</u>

Representatives of the Office of Field Services are available upon request to present a general overview of the RSA administered benefits: ERS, TRS, PEEHIP, PEIRAF and RSA-1.

The Office of Field Services also publishes the *ERS*, *TRS* and *JRF Summary Plan Descriptions*, the *Annual Report* and the *Speaking of Retirement* for the Web site and printed publications.

ERS Benefits Administration

The ERS Benefits Division, which is composed of 10 counselors and a support staff of 16, serves as the liaison between the ERS and its members. The staff disseminates information to members, employers and prospective agencies during telephone calls, office visits, field counseling appointments and group presentations.

The ERS staff processed a total of 1,589 retirement applications between October 1999 and September 2000. In addition to retirement application processing, the ERS staff provides retirement estimates, estimates for replacement beneficiary changes, calculations for military, withdrawn, out-of-state, public agency and prior non-contributing service purchases, refund requests, and death benefit claims. Utilizing computer imaging, a state-of-the-art technology, enables the staff to provide prompt and accurate service to all inquiries. Historical and current documents contained in each member's account can be viewed instantly through a personal computer monitor.

In addition to appointments at RSA headquarters, the ERS counselors meet with members individually from October through April each year at four different satellite locations throughout the state. Approximately 85,000 telephone inquiries are received annually precipitated by the utilization of the toll-free telephone number. To guarantee the accuracy of current and future benefits to the membership and compliance with state laws, the staff audits and reviews member accounts, participating agency accounts, retiree payments, postretirement employment and the status of disability retirees.



The 12th hole of the "Judge," one of three 18-hole championship golf courses featured at Capitol Hill. (Photograph courtesy of the Robert Trent Jones Golf Trail.)

The ERS offers electronic transfer of the monthly retirement benefit and the deduction of Federal Income Taxes. For state retired employees, the ERS will deduct state health insurance premiums, association membership dues and miscellaneous insurance premiums. Benefit recipient accounts are periodically adjusted to include ad hoc cost-of-living increases granted by the Alabama Legislature. Effective October 1, 2000, retired state employees and certain retired public employees received an increase in retirement benefits under the provisions of Act 2000-809.

Act 2000-669, provides firefighters, correctional officers and law enforcement officers of the ERS, not covered as a state policeman, with one year of additional service credit for each five years of employment as a full-time firefighter, correctional officer or law enforcement officer provided certain conditions are met. To fund the cost of the additional service, the contribution rate increases from 5% to 6% for the affected member when the act becomes effective on January 1, 2001.

Under the provisions of Section 36-27-6, Code of Alabama 1975, public agencies in the state are eligible to participate in the ERS. The staff provides benefits and cost data to prospective member agencies upon request. Cost data includes actuarial valuations prepared by Buck Consultants of Atlanta, Georgia. The ERS staff presented retirement information to 75 prospective member agencies during fiscal year 2000.

In addition to state agencies, a total of 738 public agencies participate in the ERS. Of those, 64 are counties, 247 are cities or towns, and 427 are miscellaneous public agencies. The following agencies began participation in the ERS during fiscal year 2000:

Cities and Towns: City of Columbiana, Town of Fyffe, Town of Nectar, City of Slocomb, and Town of Shorter.

Public Agencies: Anniston Calhoun County Fort McClellan Development Joint Powers Authority, Calhoun County Community Punishment and Corrections Authority, Coosa Valley Youth Services, CWM Water Authority, Dauphin Island Park and Beach Board, Etowah County Community Punishment and Corrections, Hackleburg Water Board, Leeds Water Works Board, Ozark-Dale County E-911, Incorporated, Pike County Water Authority, Remlap-Pine Mountain Water Authority, Saint Claire County Industrial Development Board, Incorporated, Shelby County Work Release Commission, Slocomb Waterworks and Sewer Board, Star-Mindingall Water and Fire Protection Authority and West Barbour County Water Authority.

TRS Benefits Administration

The staff of the Teachers' Benefits Division is composed of 15 professional staff members with approximately an equal number of support staff. The Benefits staff processes retirement applications, refunds on member contributions, enrollments, beneficiary changes and address changes. The division also maintains and updates active and retired member records; calculates retirement benefits; provides estimates of benefits; disburses death benefit payments to beneficiaries; and calculates costs for various types of service. The Benefits Division serves as the liaison between the TRS, its participating agencies and its active and retired membership by communicating specific and general information about the benefits and policies of the TRS.

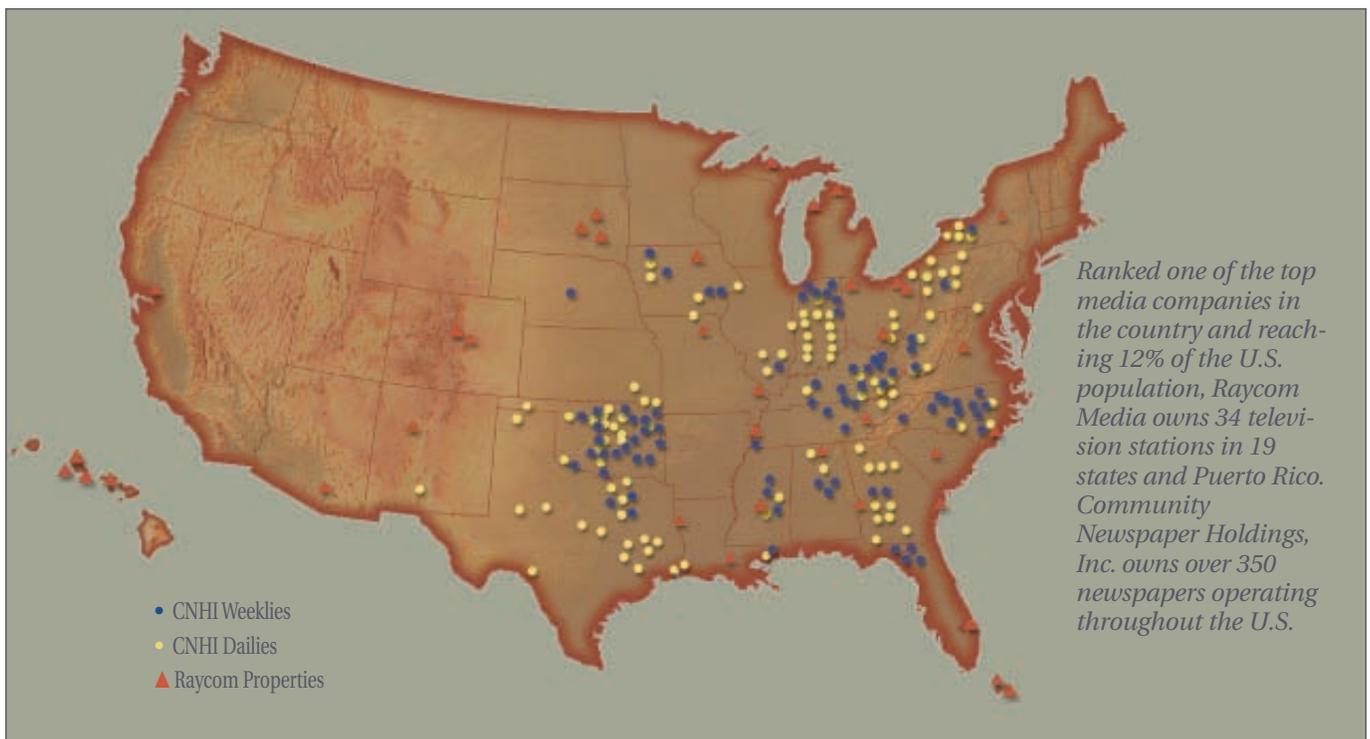
The division receives over 150,000 telephone inquiries annually through the toll-free telephone number, 1-800-214-2158. In addition to responding to the telephone inquiries, the professional staff also represents the TRS at various conventions, conferences and seminars throughout the state. The division responds to written inquiries and provides individual counseling at 27 different locations throughout the state. The Benefits staff processed over 4,300 Applications for Retirement during the fiscal year 2000. The annual retirement payroll totals approximately \$800 million and is projected to exceed \$1 billion within the next few years.

Member accounts are audited to guarantee accuracy of current and future benefits. Benefit recipient accounts

were adjusted in October 2000 to include a four percent ad hoc cost-of-living increase granted by the Alabama Legislature. Act 2000-669 adopted by the Alabama Legislature allows certain members of the TRS who are firefighters, correctional officers or law enforcement officers to contribute to the TRS at a higher percentage of salary and in return to receive credit for one year of additional retirement service for each five years of employment in one of those capacities. Additionally, information on RSA administered programs such as PEIRAF, RSA-1, PEEHIP and the group term life insurance benefit was provided to members and employers.

Computer imaging technology allows the RSA to have the tools necessary to offer members superior service into the twenty-first century. This technology provides RSA and its members with the most comprehensive imaging and operational management system available in the pension industry. The staff has instant access to member files to respond to inquiries or to update members on the status of pending applications or other retirement matters. This technology improves productivity while reducing overall operational cost.

The Information Technology Division is developing a comprehensive database scheduled for release during the 2000-2001 fiscal year. This new and expanded database will allow member agencies to more efficiently report information and will enable the TRS to quantify a broad variety of data for strategic planning purposes.



Retirement Benefits

Benefits distributed by the Retirement Systems totaled \$1,073,000,000 during fiscal year 2000, a 5% increase from fiscal 1999 payments of \$1,020,000,000. Benefit payments during fiscal 2000 averaged \$2,940,000 per day. Social Security benefits for TRS, ERS and JRF retirees are in addition to this amount. State Police are excluded from Social Security benefits on State Police service.

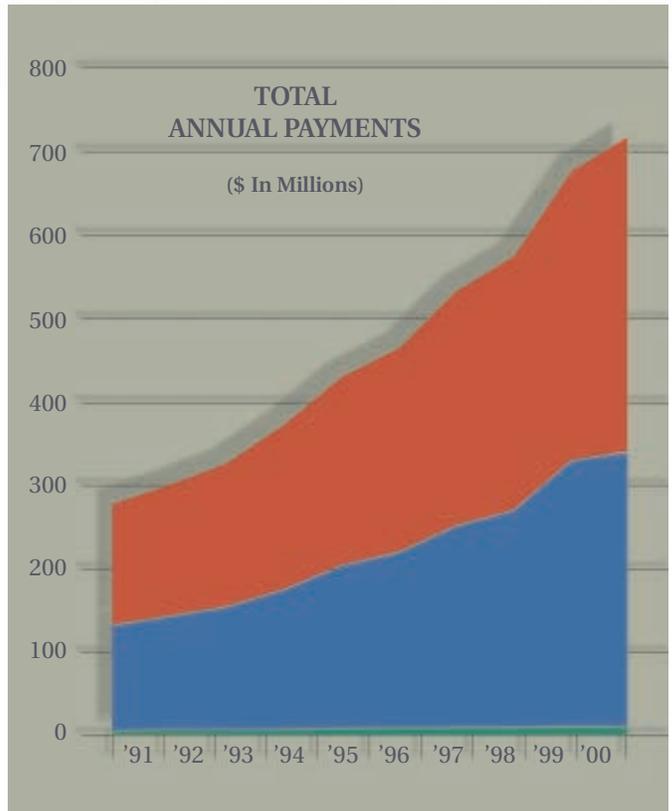
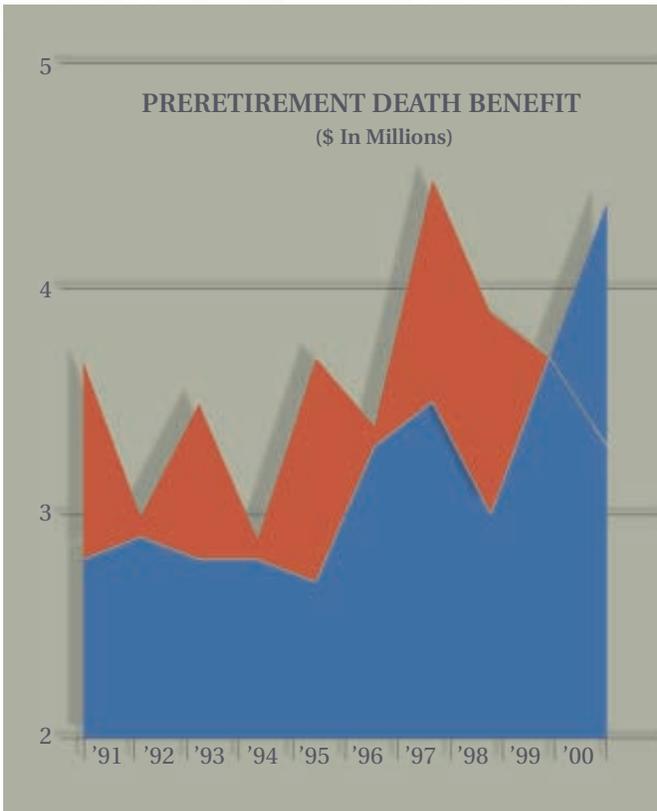
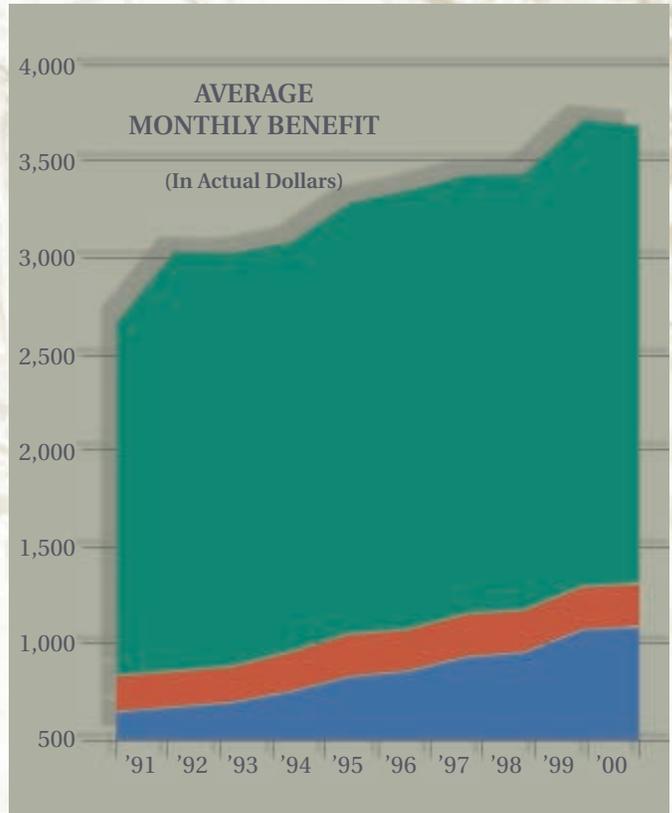
Service retirement benefits are calculated by two methods with the member receiving payments under the method which yields the highest monthly benefit: minimum guaranteed or formula.

A preretirement death benefit is paid in addition to the return of accumulated contributions and interest in accordance with state statutes upon the death of a member. Preretirement death benefit payments, average monthly benefits and total annual payments are reflected in the following graphs.

TRS

ERS

JRF



Revenue Sources

Public employee retirement systems are established by law to pay retirement benefits and to accumulate the resources with which to pay such benefits. The RSA accumulates its resources through collection of member and employer contributions and income earned on investments. Contributions and investment income for fiscal year 2000 totaled \$2.8 billion.

Income from investments continues to be a large share of the total revenue of the Systems. Investment income totaled \$2.1 billion in the 2000 fiscal year representing approximately 74% of the total revenue of the Systems. Employer contributions, which comprised 14% of 2000 RSA revenue sources, increased \$130.6 million from fiscal year 1999. Member contributions during fiscal year 2000 increased \$2.2 million over the prior fiscal year representing 12% of the total revenues of the Systems.

REVENUE SOURCES (\$ In Millions)

	<u>1999</u>	<u>2000</u>
Member Contributions	\$ 331.6	\$ 333.8
Employer Contributions	266.3	396.9
Investment Income	<u>2,715.1</u>	<u>2,094.7</u>
	<u>\$ 3,313.0</u>	<u>\$ 2,825.4</u>

MEMBER CONTRIBUTIONS (\$ In Millions)

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
TRS	\$185.6	\$190.8	\$199.8	\$217.2	\$214.0
ERS	103.9	104.0	108.5	112.8	118.1
JRF	1.5	1.7	1.5	1.6	1.7

EMPLOYER CONTRIBUTIONS (\$ In Millions)

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
TRS	\$311.1	\$330.7	\$358.1	\$166.1	\$277.2
ERS	139.2	145.7	157.2	97.4	114.0
JRF	6.2	5.4	5.4	2.9	5.7

EMPLOYER RATE (% Of Covered Payroll)

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
TRS	9.23%	9.23%	9.66%	4.03%	6.38%
ERS					
-State Employees	6.99	6.99	7.56	3.11	4.08
-State Police	15.22	15.17	15.74	6.85	9.45
JRF	23.05	19.71	19.71	9.16	21.19

INVESTMENT INCOME (\$ In Millions)

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
TRS	\$1,086.7	\$2,313.4	\$564.3	\$1,829.9	\$1,414.6
ERS	501.8	1,056.3	254.3	857.4	655.1
JRF	14.7	36.3	17.4	27.8	25.1

TOTAL REVENUES BY FUND (\$ In Millions)

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
TRS	\$1,583.4	\$2,834.9	\$1,122.2	\$2,213.2	\$1,905.8
ERS	744.9	1,306.0	520.0	1,067.5	887.2
JRF	22.4	43.4	24.3	32.3	32.4

Contributions were made in accordance with actuarially determined contribution requirements. The employer cost rate expressed as a percent of payroll is determined annually by reviewing a variety of factors including benefits promised, member contributions, investment earnings, mortality and withdrawal experience. Changes in any of these factors can have a direct impact on employer cost rates. The employer rates for fiscal year 2001 are set at 6.38% for TRS, 4.08% for State Employees, 21.19% for JRF, and 9.45% for the State Police. Rates for local agencies participating in the ERS under Section 36-27-6, Code of Alabama 1975, differ for each agency.

Public Education Employees' Health Insurance Plan

The RSA manages the Public Education Employees' Health Insurance Plan (PEEHIP) for approximately 92,000 active and 38,000 retired public education employees.

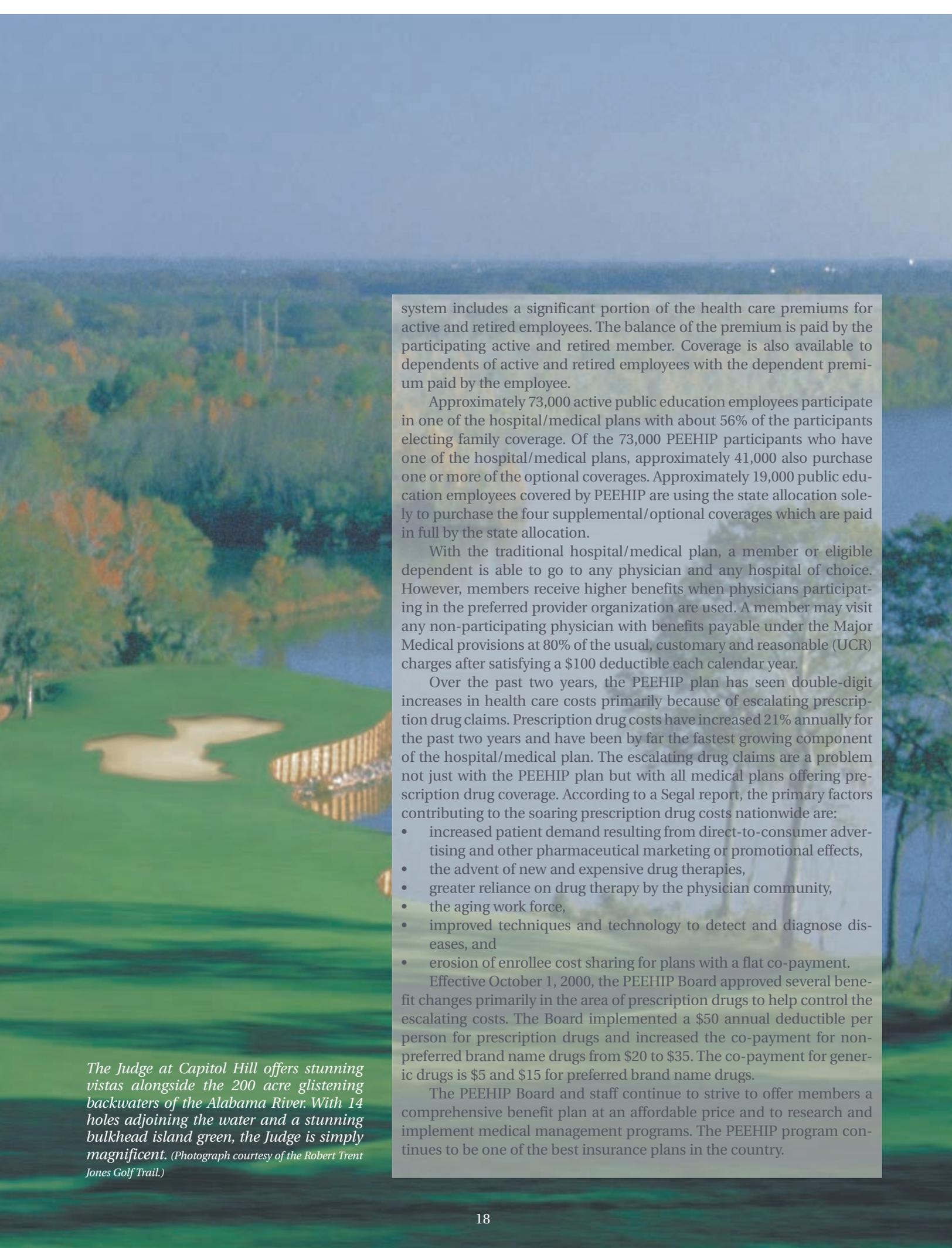
The plan was established in 1983 under the provisions of Act 83-455 of the Alabama Legislature to provide health insurance benefits for active and retired employees of Alabama's public educational institutions which provide (or provided) instruction at any combination of grades K-14, exclusively under the auspices of the State Board of Education. PEEHIP is a self-funded plan with the benefits and rates being determined by a 14-member Board.

The Board also employs a third party administrator to properly pay claims within the scope of benefits determined by the Board. The third party administrator has no financial risk for the plan but simply pays claims with PEEHIP funds. Blue Cross & Blue Shield of Alabama has been the claims administrator for the hospital/medical plan since October 1, 1992. Southland National Corporation has been the third party claims administrator for the supplemental/optional coverages since the inception of PEEHIP in 1983.

The PEEHIP offers a traditional hospital/medical plan which provides generous basic medical coverage for 365 days of care during each hospital confinement. The plan also provides for physicians' benefits, outpatient care, prescription drugs and mental health benefits. The supplemental/optional coverages that may be chosen in addition to or in lieu of the hospital/medical benefits are Hospital Indemnity, Cancer, Dental and Vision.

Since October 1, 1987, public education active and retired members in certain service areas have had the option of enrolling in the Health Maintenance Organization (HMO), United HealthCare, in lieu of the traditional hospital/medical plan. Since October 1, 1995, a second HMO, Health Partners, Inc., has been offered to public education employees and since October 1, 1998, a third HMO, Viva Health Plan, has been offered to active and retired members in certain service areas. These HMO plans provide certain dental and vision benefits, as well as hospital/medical benefits. Of the total members enrolled in hospital/medical coverage, approximately 6% are enrolled in one of the HMO plans.

The monthly premiums for employee and dependent coverage are determined annually by the Board after reviewing the plan's actuarial recommendations and projections of anticipated claims for the upcoming year while considering the available reserve balances. The State previously paid directly from the Special Education Trust Fund substantially all the premium for active employees enrolled in PEEHIP. However, for fiscal year 1996, the method of funding PEEHIP was changed in accordance with Act 95-537, whereby the appropriation is now paid to each educational institution and school system. Accordingly, each system is responsible for paying the insurance cost directly to PEEHIP at the time premiums are submitted each month. The appropriation paid to each



The Judge at Capitol Hill offers stunning vistas alongside the 200 acre glistening backwaters of the Alabama River. With 14 holes adjoining the water and a stunning bulkhead island green, the Judge is simply magnificent. (Photograph courtesy of the Robert Trent Jones Golf Trail.)

system includes a significant portion of the health care premiums for active and retired employees. The balance of the premium is paid by the participating active and retired member. Coverage is also available to dependents of active and retired employees with the dependent premium paid by the employee.

Approximately 73,000 active public education employees participate in one of the hospital/medical plans with about 56% of the participants electing family coverage. Of the 73,000 PEEHIP participants who have one of the hospital/medical plans, approximately 41,000 also purchase one or more of the optional coverages. Approximately 19,000 public education employees covered by PEEHIP are using the state allocation solely to purchase the four supplemental/optional coverages which are paid in full by the state allocation.

With the traditional hospital/medical plan, a member or eligible dependent is able to go to any physician and any hospital of choice. However, members receive higher benefits when physicians participating in the preferred provider organization are used. A member may visit any non-participating physician with benefits payable under the Major Medical provisions at 80% of the usual, customary and reasonable (UCR) charges after satisfying a \$100 deductible each calendar year.

Over the past two years, the PEEHIP plan has seen double-digit increases in health care costs primarily because of escalating prescription drug claims. Prescription drug costs have increased 21% annually for the past two years and have been by far the fastest growing component of the hospital/medical plan. The escalating drug claims are a problem not just with the PEEHIP plan but with all medical plans offering prescription drug coverage. According to a Segal report, the primary factors contributing to the soaring prescription drug costs nationwide are:

- increased patient demand resulting from direct-to-consumer advertising and other pharmaceutical marketing or promotional effects,
- the advent of new and expensive drug therapies,
- greater reliance on drug therapy by the physician community,
- the aging work force,
- improved techniques and technology to detect and diagnose diseases, and
- erosion of enrollee cost sharing for plans with a flat co-payment.

Effective October 1, 2000, the PEEHIP Board approved several benefit changes primarily in the area of prescription drugs to help control the escalating costs. The Board implemented a \$50 annual deductible per person for prescription drugs and increased the co-payment for non-preferred brand name drugs from \$20 to \$35. The co-payment for generic drugs is \$5 and \$15 for preferred brand name drugs.

The PEEHIP Board and staff continue to strive to offer members a comprehensive benefit plan at an affordable price and to research and implement medical management programs. The PEEHIP program continues to be one of the best insurance plans in the country.

Public Employees' Individual Retirement Account Fund

PEIRAF - DEDUCTIBLE EMPLOYEE CONTRIBUTION PLAN

The PEIRAF, the only plan of its kind in the U. S., was created by the Alabama Legislature (Act 82-776) to allow public employees to conveniently and economically receive the fullest benefits offered by the Economic Recovery Tax Act (ERTA) of 1981 as it relates to individual retirement accounts. ERTA allowed an employee to deduct, for income tax purposes, voluntary employee contributions to a government plan, such as PEIRAF.

PEIRAF has operated as a fixed income portfolio since its creation in 1982. Funds are invested in fixed income investments such as corporate bonds, U.S. agency obligations, government national mortgage association securities and commercial paper.

The Tax Reform Act of 1986 prohibits contributions to deductible voluntary employee contribution plans, such as PEIRAF, for years after 1986. Accordingly, the PEIRAF Board of Control discontinued receiving contributions to this plan after December 31, 1986. However, the PEIRAF continues to reinvest the interest earnings of existing PEIRAF member accounts.

PEIRAF - DEFERRED COMPENSATION PLAN (RSA-1)

Act 86-685 of the Alabama Legislature provided for the establishment of the RSA-1 Deferred Compensation Plan (RSA-1) as described in Section 457 of the Internal Revenue Code.

The RSA-1 allows members of the RSA and certain other eligible public employees to defer receipt of salary, thereby deferring payment of taxes on that income. In 2000, eligible employees were allowed to defer annually the lesser of \$8,000 or 25% of salary. Effective January 1, 2001, the annual deferral limit will increase to \$8,500. The salary used to determine the percentage limit does not include retirement contributions picked-up by the employer or any other salary not includable as federal wages but does include the salary to be deferred. Since January 1, 1997, RSA-1 deferrals are not taxed for Alabama Income Tax purposes.

Since its creation in 1986, RSA-1 funds have been invested in fixed income investments such as corporate bonds, U.S. agency obligations, government national mortgage association securities and commercial paper. RSA-1 was not intended to compete with the stock market or liquid cash accounts. RSA-1 has generated higher yields than comparable bond funds. However, in an effort to give RSA-1 members more flexibility within their portfolios, members are being offered the opportunity to invest in an S&P 500 Index Fund effective January 1, 2000.

The funds of RSA-1 participants have been held in trust since October 1, 1997. Beginning October 1998, accounts are valued monthly at market with interest posted monthly to member accounts based on daily average account balances. Member statements are issued semi-annually.

RSA-1 highlights shown below reflect the income yield, market value change, total return, total assets and number of participating members at each fiscal year end.

RSA-1 HIGHLIGHTS

12-Month Period Ending	Income Yield* (In %)	Market Value Change* (In %)	Total Return* (In %)	Total Assets* (in \$)	Participating Members
September 30, 1987	13.74			3,426,417	1,931
September 30, 1988	16.74			12,528,575	3,029
September 30, 1989	13.29			27,006,789	4,404
September 30, 1990	12.44			46,225,862	5,702
September 30, 1991	11.68			72,976,574	7,471
September 30, 1992	11.41			106,992,250	9,269
September 30, 1993	10.68			146,812,159	10,945
September 30, 1994	9.86			192,710,264	12,680
September 30, 1995	9.35			247,264,015	15,054
September 30, 1996	8.96			308,584,100	17,089
September 30, 1997	8.93			376,357,423	19,293
September 30, 1998	8.90			451,813,800	21,166
September 30, 1999	8.84	1.55	10.39	536,609,859	23,490
September 30, 2000	8.43	- 3.24	5.19	586,876,397	24,336

* Assets are valued at cost through September 30, 1998, and at market thereafter.

Investments



The World At War
William Adams Gunter
1872-1940

A noted Montgomery political leader, William Adams Gunter, born in 1872, became the first mayor of the city in 1910. Within the next year, the form of government changed to that of City Commission with Gunter as president of the Commission. Playing a leading role in the reorganization process, he served in the office until 1915. In 1919, he was elected state senator but the following year, he became president of the City Commission, remaining in the office until his death in 1940.

Gunter was active in many areas of community, regional and national life. Throughout his administrations, Montgomery made great strides. One of his many accomplishments was the opening of the city's first municipal airport which during World War II the federal government bought for \$1.00. Named Gunter Field, it was a facility for the Army Air Corps and today remains an active Air Force base, now a part of the Air University.



The Civil Rights Movement
Edgar Daniel Nixon
1899-1987

A Pullman car porter, E. D. Nixon practiced a restrained leadership that paved the way for the Civil Rights Movement. He served as president of local and state NAACP chapters and was a coordinator of the Montgomery Bus Boycott. He was also a staunch advocate of voter registration.

When Rosa Parks was arrested on December 1, 1955, her mother called Nixon who with Clifford and Virginia Durr posted Mrs. Parks' bond at the jail. Nixon then began contacting other black leaders, issuing a call for a boycott of city buses for December 5, the day of the trial. He also initiated a meeting at the Dexter Avenue Baptist Church to discuss the boycott idea. This meeting resulted in the organization of the Montgomery Improvement Association which elected Dr. Martin Luther King as president.

Asset Allocation

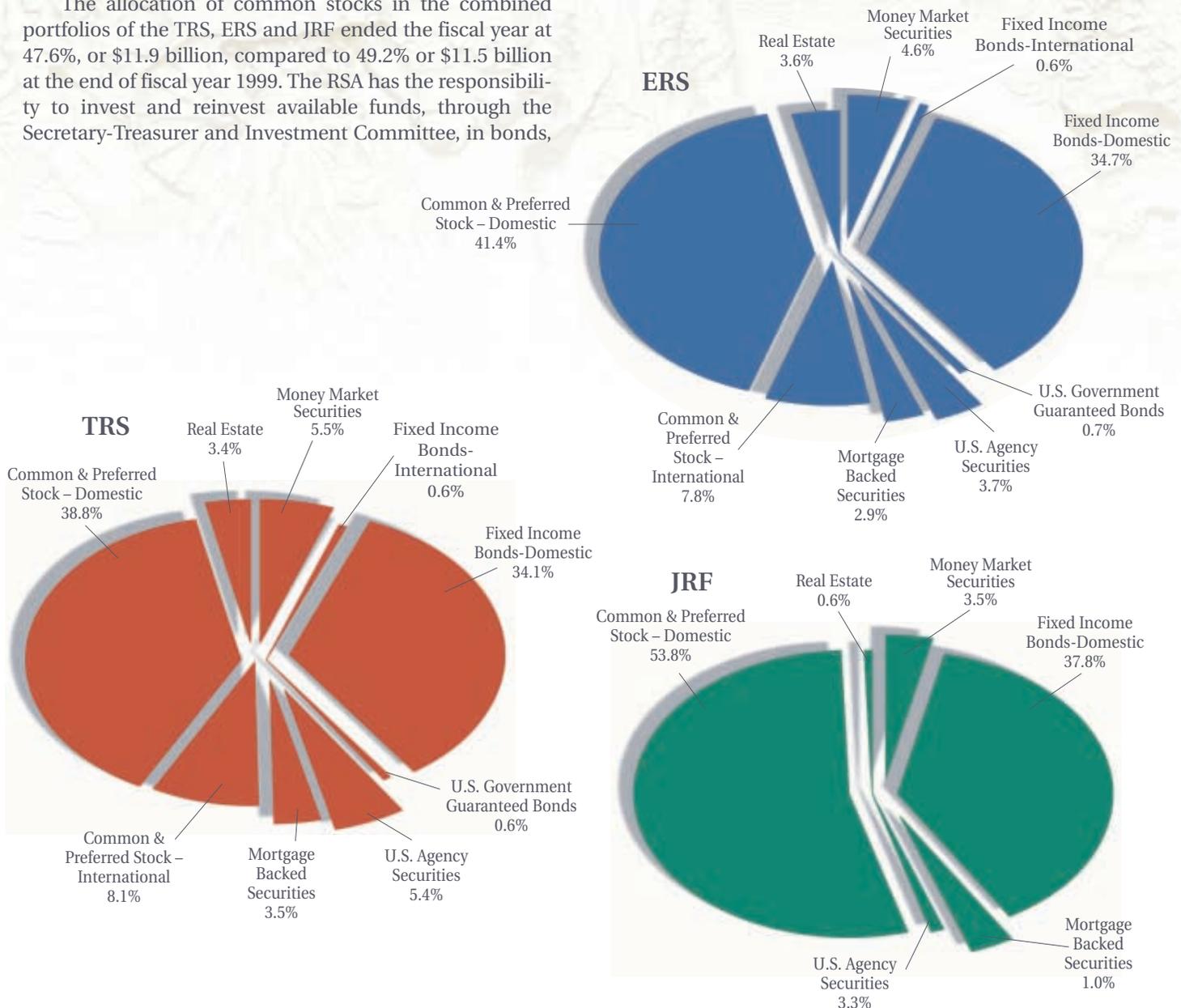
Asset allocation is a strategic long-term decision in the pension investment management process. The RSA is dedicated to preserving the sound financial position it has established over the years through a diversified investment program. The objective of the RSA is to allocate investments in the most effective way that reflects policy standards while maximizing returns.

The largest asset class for the RSA continues to be fixed income securities, which include corporate bonds, private placements, mortgages, U.S. government guaranteed securities, real estate and money market instruments. At fiscal year end, the RSA held 52.4%, or \$13.1 billion, of the combined portfolios of the TRS, ERS and JRF in these types of securities.

The allocation of common stocks in the combined portfolios of the TRS, ERS and JRF ended the fiscal year at 47.6%, or \$11.9 billion, compared to 49.2% or \$11.5 billion at the end of fiscal year 1999. The RSA has the responsibility to invest and reinvest available funds, through the Secretary-Treasurer and Investment Committee, in bonds,

mortgages, common and preferred stock or other investment vehicles with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use.

The combined fixed income and equity total returns for fiscal year 2000 were 9.37% for the TRS and 9.77% for the ERS and JRF combined. The five-year annualized return was 11.47% for the TRS and 11.94% for the ERS and JRF combined. The ten-year annualized return was 12.12% for the TRS and 11.91% for the ERS and JRF combined.

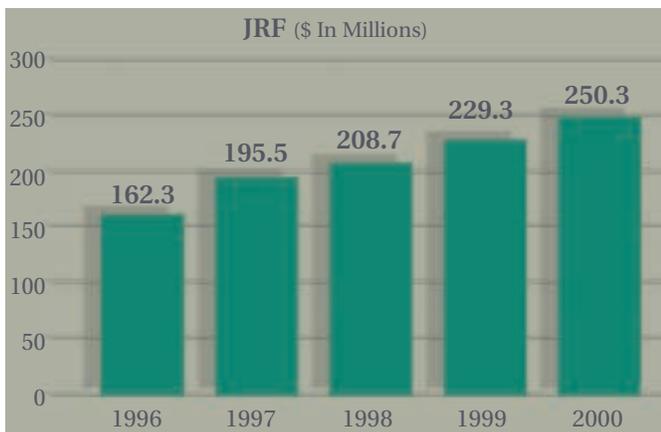
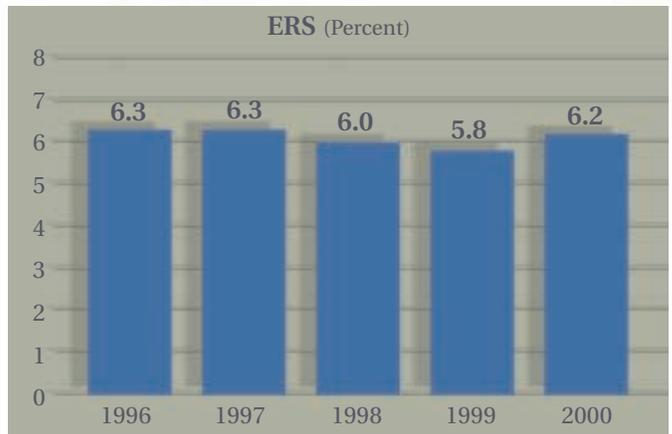
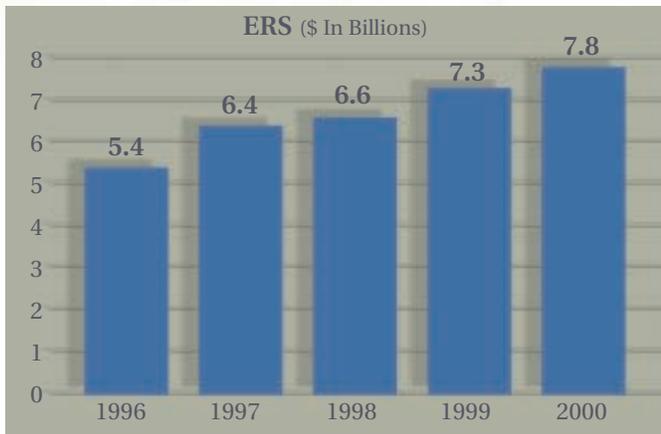
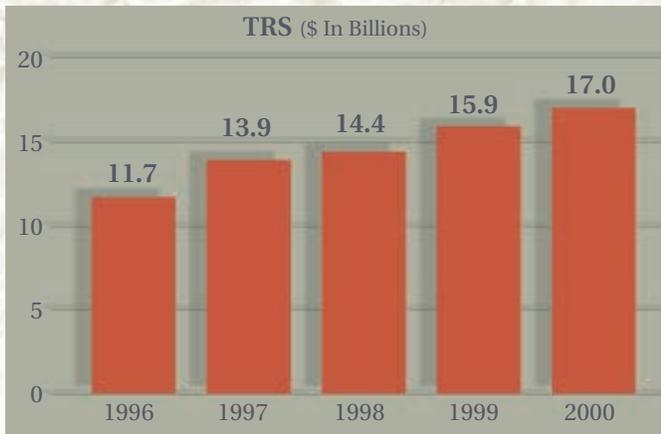


Portfolio Growth

Total assets of the TRS, ERS, and JRF portfolios continued to exhibit strong growth. The combined market value of these three portfolios on September 30, 2000, was approximately \$25.0 billion, a 6.8% increase from the balance at year end 1999.

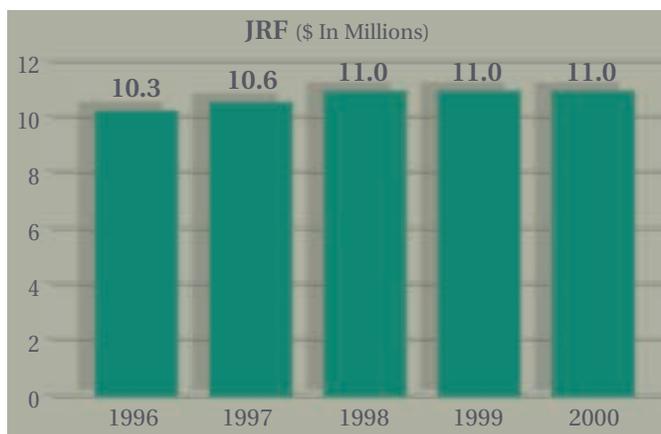
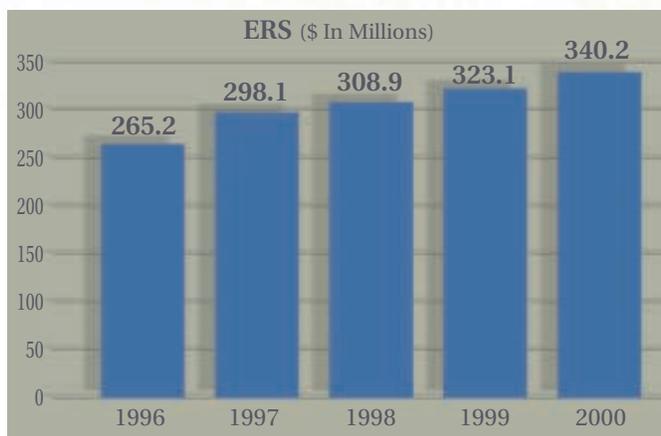
Average Yield

The average combined yield earned on stocks and bonds for 2000 was 6.2%, compared to 5.8% in 1999. The average yield rose during the fiscal year due to the higher interest rate environment.



Interest and Dividend Income

Interest and dividend income grew marginally during 2000. Interest and dividend income for the TRS and ERS increased 7.6% and 5.3%, respectively, while JRF was virtually flat from 1999 levels. These numbers reflect only income received during the fiscal year and do not include any net appreciation in the market value of the investments.



Fixed Income Activity

Fiscal year 2000 got off to a rocky start for the U.S. bond market. At the time, the U.S. equity markets were enjoying very strong performance. There was little evidence of the economy slowing from its 4% growth pace and global economies seemed to be rebounding from the slow pace encountered throughout 1999. These events were all cause for concern for the U.S. bond market. The Federal Reserve did not take any action during this time as the calendar year-end was approaching and there were liquidity concerns surrounding the arrival of the year 2000.

With Y2K proving to be a nonevent and economic data still coming in at strong levels, the Federal Reserve raised short-term rates by 25 basis points in February 2000. At this time, yields on government securities continued to rise and the Treasury curve began to invert, sending 10-year yields above 30-year yields. Large budget surplus estimates were announced by the CBO, while the Treasury announced that it would begin to buy back government debt, concentrating on the long end of the curve so as to reduce its cost of debt. At this point, the entire Treasury yield curve inverted as the shorter end was expecting more tightening and the longer end was expecting a shortage of bonds.

Economic data continued to come in strong and the Fed responded with more tightenings, the last one being a 50-basis point increase in May 2000. The fixed income market then drifted quietly throughout much of the summer. Evidence that the economy was finally slowing allowed bond investors to push up prices. This “quiet time” continued until August and September 2000 when low inventory levels of oil in the U.S. pushed up the price of oil to the high \$30s (per barrel). With oil firmly above \$30, the bond market sold off sharply in early September and yields then continued to creep higher throughout the month, flattening the entire yield curve.

During fiscal 2000, 3-month Treasury rates ranged from a low of 4.79% and a high of 6.32% and ended the year at 6.21%. The 30-year Treasury bond rates ranged from a low of 5.65% to a high of 6.75% before closing the year at 5.88%. The slope of the yield curve, as measured by the 2-year Treasury/30-year Treasury spread, started the fiscal year at a spread of 44 basis points and then flattened and inverted to four basis points as the Fed was tightening and the Treasury announced its plans to buy back longer dated Treasuries.

In fiscal 2000, the RSA purchased approximately \$2.60 billion in additional securities for the fixed income portfolio. The average yields on the entire fixed income portfolio at year-end was 8.11%. As of September 30, 2000, the RSA's fixed income portfolio had a book value of \$13.14 billion, of which 9.86% is in money market securities. For the fiscal year, the total annual returns for the fixed income portfolios were 5.96% for the TRS and 6.40% for the ERS and JRF combined versus 6.91% for the Salomon Brothers Broad Investment Grade Index (SBBIG). The five-year annualized returns were 6.88% for the TRS and 6.97% for the ERS and JRF combined, comparing favorably to 6.47% for the SBBIG Index. The ten-year annualized returns were 8.83% for the TRS and 8.91% for the ERS and JRF combined versus 8.09% for the SBBIG Index.

Coupon Distribution

The primary objective of the RSA bond portfolio is to provide income to the funds and to maximize the income return of the portfolio. The RSA bond portfolio continues to own a significant portion of its assets in securities that provide excellent current income to the funds. These securities have contributed to the RSA's superior performance and helped to provide excellent benefits at a very low cost to the state.

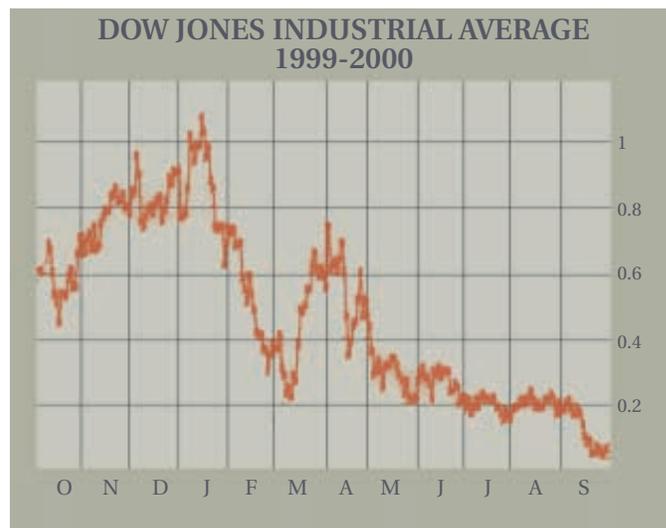
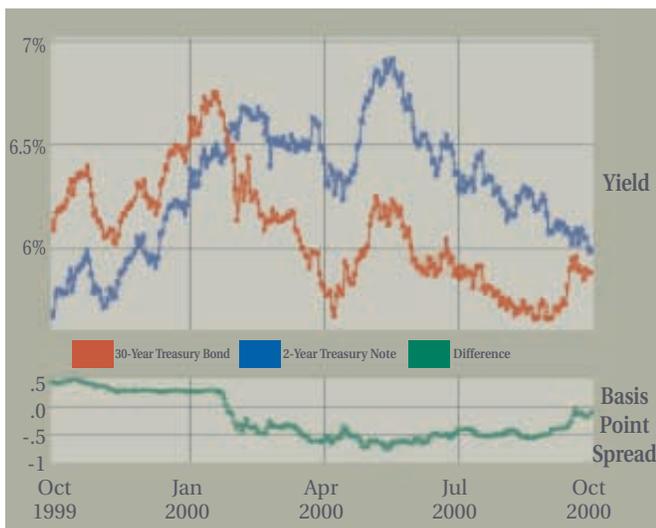
During 2000, the RSA made investments in high-quality corporate issues, private placements and Treasury bills, notes and bonds.

Coupon	TRS (In %)			ERS (In %)		
	2000	1999	1998	2000	1999	1998
0%	3	3	1	3	3	1
>0 and <5%	2	2	0	2	2	0
≥ 5 and <10%	75	72	68	71	68	64
≥ 10%	20	23	31	24	27	35

Maturity Structure

The management of maturities for the bond portfolio is an integral part of the RSA's objective of providing a stable cash flow to meet retirement benefit needs. The RSA has historically structured its purchases in longer-term securities with intermediate call protection or average lives in order to meet its retirement obligations.

Years to Maturity	TRS (In %)			ERS (In %)		
	2000	1999	1998	2000	1999	1998
0 to < 5	20	18	7	15	13	6
5 to < 10	10	7	7	9	8	5
10 to < 15	11	10	9	12	10	9
15 to < 20	33	34	35	39	39	41
20 to < 25	12	11	7	12	11	8
25 to < 30	10	16	30	8	14	25
≥ 30	4	4	5	5	5	6



Quality Evaluation

Equity Activity

The RSA continues its long-standing policy of investing in high-quality fixed income products. Bond ratings, however, provide only a starting point in the evaluation of the relative investment qualities of a bond. A thorough credit analysis is undertaken to determine if the investment is suitable for the RSA's portfolio. In addition, any bond that is subsequently downgraded is reviewed to ascertain the potential for further credit erosion.

Rating	TRS (In %)			ERS (In %)		
	2000	1999	1998	2000	1999	1998
Aaa	23	27	25	18	22	21
Aa	5	6	8	5	6	7
A	14	15	16	14	14	15
Baa & Below	21	19	19	21	20	20
Not Rated	37	33	32	42	38	37

Despite apocalyptic visions of falling airplanes, exploding power stations, rogue missiles and tumbling stock markets, Y2K turned out to be Y2OK. As so often in recent years, nerves on Wall Street quickly steadied amid continuing evidence of strong productivity growth, robust consumer spending and low inflation. In America, the split into two markets had been accelerating since the summer of 1998 but it became particularly pronounced in fiscal Q1 and Q2 as investors further extended the precipitate rush out of "old economy" shares into "new economy" ones. Although the Dow Jones Industrial Average, home to many an old-world stock despite being made more high-tech in November, reached a new high in January, that rise peaked only just above its previous high last August. Meanwhile, the Nasdaq, home of the high-flying tech stocks, had almost doubled in value since last August.

Markets notoriously overshoot, in both directions, and the market's stout advance would soon reverse by spring. Higher short-term interest rates, rising oil prices, increasing labor costs and stretched technology valuations culminated into a swift retrenchment in equity share prices, especially at their most speculative end in technology and telecom. Seeking refuge from the carnage, investors rotated into more modestly valued defensive sectors such as healthcare, consumer staples and utilities, as well as financials and energy.

Brushing off the spring sell-off, the S&P 500 advanced modestly through August, at which point slowing corporate profits growth, a falling Euro and blistering oil prices would take its toll. Similarly, after having fallen by some 40% from its highs, the Nasdaq staged a short-lived summer rally, only to succumb to warning noises coming from technology firms, which most investors thought would be unaffected by a cyclical downturn. When the September smoke had cleared, the S&P 500 had erased most of its summer gains.

For the year, the RSA domestic equity portfolios achieved FY 2000 returns of 15.52% and 15.69% for TRS and ERS/JRF funds, respectively, outpacing the S&P 500 benchmark return of 13.28%. Combined with international equity returns, the RSA global equity portfolios posted returns of 13.16% for TRS and 13.47% for ERS/JRF.

Reversing its healthy prior year gains, international equities turned in a disappointing performance in fiscal year 2000, largely due to a weak euro and softness in Japanese equities. The currency impact in FY 2000 was profound. In local terms, the Morgan Stanley Capital International's EAFE Index gained 15.87%, beating the S&P 500 by 2.59%; in dollar terms, however, the MSCI EAFE eked out a return of just 3.19%. By comparison, TRS and ERS international equity portfolios returned 3.10% and 3.19%, respectively, roughly in line with its benchmark.

As of September 30, 2000, the total book value of equity assets for the TRS was \$5.11 billion, representing 35.30% of total assets. Comprising 35.39% of total assets, the ERS/JRF book value amounted to \$2.40 billion. Market values of the TRS and ERS/JRF portfolios totaled \$7.66 billion and \$3.67 billion, representing 45.12% and 45.65% of total assets, respectively. Three-, five- and ten-year annualized returns were 12.25%, 17.34% and 17.63% for TRS and 12.38%, 17.43% and 17.63% for ERS/JRF, respectively.



The 2000 Investment Staff (Seated left to right: John Cunningham, Hunter Harrell, Julie Barranco, Nancy Sprayberry and Darren Schulz. Standing left to right: John Givens, Lance Lachney, Allan Carr, Jr., Steve Lambdin, Gary Partridge and Marc Green.) (Photograph by Paul Robertson, Jr.)

Financial Statements

Exploration and Settlement 1540-1820

In 1540, the Spanish explorer Hernando de Soto led his army into Alabama, camping near present-day Maxwell AFB. De Soto made the first European contact with the Native Americans but it was not until 1702 with the French settlement of Mobile that permanent changes began to take place.

By 1717, the French had built Ft. Toulouse where the Coosa and Tallapoosa Rivers join to form the Alabama River, only 12 miles from present-day Montgomery. French and English traders clashed over control of the area until the French defeat in 1763. In 1814, Andrew Jackson defeated the Creek Indians at the Battle of Horseshoe Bend, opening Alabama for settlement.

John Scott and Andrew Dexter each founded small villages which merged in 1819 to form the town of Montgomery. Alabama became a state in the same year.

Antebellum Prosperity 1820-1860

In this remarkable 40-year period, the frontier wilderness gave way to farms, plantations, and an urban community with cotton as its economic basis. Montgomery developed as a trade and transportation hub becoming the state capital in 1846. Principal transportation was by riverboat but in 1851, the Montgomery and West Point Railroad connected with lines in Georgia improving the movement of goods and people throughout the Northeast and Midwest. While large plantations utilized the labor of many slaves, only a third of Alabama households were slave owners.

Many African-Americans became skilled craftsmen who made significant contributions to the building environment. One of these was Horace King, a noted bridge builder who also received credit for the handsome cantilevered staircases in the State Capitol.

Civil War and Reconstruction 1860-1880

In 1860, Montgomerian William Lowndes Yancey emerged as the South's strongest advocate for secession. When war came, Montgomery served as the first capital of the Confederacy and its first president, Jefferson Davis, was inaugurated on the steps of Alabama's capitol. In April 1861, the Confederate government sent telegraphic orders to its forces in Charleston to remove the Federal troops from Fort Sumter, marking the start of the Civil War. After Richmond became the permanent Confederate capital, Montgomery continued to play a vital role in the war as the site of six military hospitals and a military prison.

Federal reconstruction brought social, economic and political upheaval to the South. During this period, Montgomerian James Hale, a former slave, became a wealthy contractor building and donating Hales Infirmary, the first facility of this kind in Montgomery, to the African-American community.

The Age of Advancement 1880-1914

This era held great promise for Montgomery as scientific advances marked the turn of the century. Montgomery's Lightening Route, which opened in 1886, became the first all-electric streetcar system in the nation. A city-wide water works brought Montgomery a new sense of urbanization.

In 1898, the L&N Railroad built the magnificent Union Station. As railroads expanded, the city became a major rail hub with over 40 passenger trains serving the city daily.

Montgomery's role in transportation history became more significant in 1910 when the Wright brothers opened the nation's first civilian flying school at the site of present-day Maxwell AFB.

In 1902, Dr. Luther L. Hill performed an amazing feat when he performed the world's first successful open-heart surgery.

The World at War 1917-1953

This turbulent era involved Montgomery in three wars, the Roaring Twenties and the Great Depression. During WWI, the U.S. Army opened the ARDMONT air repair depot on the site of the Wright Flying School, which was renamed Maxwell Field in 1922. Thousands of infantrymen trained at Chisholm's Camp Sheridan including the novelist F. Scott Fitzgerald who met and married Zelda Sayre, a local belle. The two became national symbols of the Jazz Age of the twenties.

In 1938, Hank Williams launched his country music career winning a musical contest at the Empire Theater. As WWII unfolded, Montgomerians witnessed the Flying Tigers training at Maxwell Field; sent its Dixie Division to the war front; and supported the war effort with rationing, war bonds and the donation of the municipal airport.

Before the end of the Korean War, Maxwell AFB became the home of the Air University.

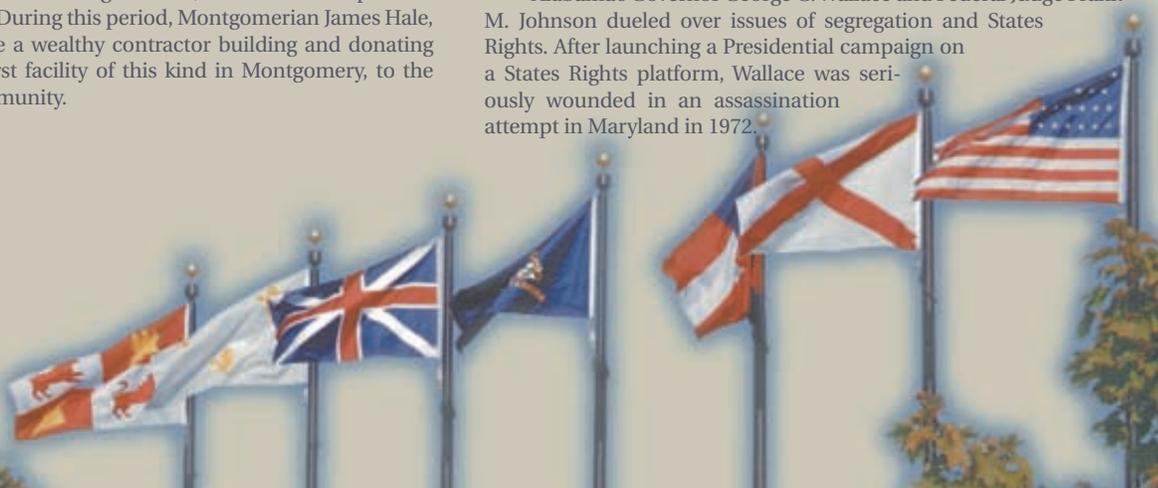
The Civil Rights Movement 1950-1980

The Civil Rights Movement, which originated in Montgomery, brought a turbulent era that resulted in the integration of schools and the opening of many doors to all races.

Civil Rights leaders emerged to create a national awareness that has changed the course of history. Edgar Daniel Nixon's leadership paved the way for Rosa Parks and the Montgomery Bus Boycott in 1955, from which Dr. Martin Luther King assumed national leadership of the Civil Rights Movement.

Television news came of age displaying the attack on the Freedom Riders in 1961 and the Selma-Montgomery March in 1965.

Alabama's Governor George C. Wallace and Federal Judge Frank M. Johnson duelled over issues of segregation and States Rights. After launching a Presidential campaign on a States Rights platform, Wallace was seriously wounded in an assassination attempt in Maryland in 1972.



Teachers' Retirement System of Alabama

STATEMENT OF PLAN NET ASSETS

September 30, 2000, with comparative figures for 1999

	2000	(In Thousands)	1999
Assets			
Cash (restricted to payment of administrative expenses)	\$ 14,310		12,674
Receivables			
Employee contributions	18,323		17,549
Employer contributions	23,492		14,232
Dividends and interest	<u>217,102</u>		<u>199,945</u>
Total receivables	<u>258,917</u>		<u>231,726</u>
Investments, at fair value	16,980,323		15,859,126
Securities lending collateral	1,012,015		488,308
Property and equipment, less accumulated depreciation	<u>3,734</u>		<u>3,624</u>
Total assets	<u>18,269,299</u>		<u>16,595,458</u>
Liabilities			
Accounts payable and other liabilities	8,259		1,984
Securities lending collateral	<u>1,012,015</u>		<u>488,308</u>
Total liabilities	<u>1,020,274</u>		<u>490,292</u>
Net assets held in trust for pension benefits	<u>\$ 17,249,025</u>		<u>16,105,166</u>

Separately issued, audited financial statements are available upon request.

Teachers' Retirement System of Alabama

STATEMENT OF CHANGES IN PLAN NET ASSETS

September 30, 2000, with comparative figures for 1999

	2000	(In Thousands)	1999
Additions			
Contributions			
Employee	\$ 212,049		215,531
Employer	277,180		166,100
Transfers from Employees' Retirement System	<u>1,954</u>		<u>1,674</u>
Total contributions	<u>491,183</u>		<u>383,305</u>
Investment income			
<i>From investing activities</i>			
Net increase in fair value of investments	658,975		1,130,761
Interest and dividends	<u>755,482</u>		<u>702,131</u>
Total investment income from investing activity	1,414,457		1,832,892
Less: Investment expense	<u>3,229</u>		<u>3,038</u>
Net investment income from investing activities	<u>1,411,228</u>		<u>1,829,854</u>
<i>From securities lending activities</i>			
Securities lending income	64,006		377
Securities lending expenses			
Borrower rebates	59,807		338
Management fees	<u>859</u>		<u>10</u>
Total securities lending expenses	<u>60,666</u>		<u>348</u>
Net income from securities lending activities	<u>3,340</u>		<u>29</u>
Total investment income	<u>1,414,568</u>		<u>1,829,883</u>
Total additions	<u>1,905,751</u>		<u>2,213,188</u>
Deductions			
Retirement allowance payments	720,576		678,740
Return of contributions and death benefits			
Resignation and other	24,178		22,757
Death before retirement	9,800		8,550
Transfer to Employees' Retirement System	1,530		1,781
Transfer to Judicial Retirement Fund	4		19
Administrative expense	5,639		6,563
Depreciation	<u>165</u>		<u>737</u>
Total deductions	<u>761,892</u>		<u>719,147</u>
Net increase	1,143,859		1,494,041
Net assets held in trust for pension benefits			
Beginning of year	<u>16,105,166</u>		<u>14,611,125</u>
End of year	<u>\$ 17,249,025</u>		<u>16,105,166</u>

Separately issued, audited financial statements are available upon request.

Employees' Retirement System of Alabama

STATEMENT OF PLAN NET ASSETS

September 30, 2000, with comparative figures for 1999

Assets	2000	(In Thousands)	1999
Cash (restricted to payment of administrative expenses)	\$ 5,198		3,186
Receivables			
Employee contributions	9,766		8,764
Employer contributions	9,720		6,902
Dividends and interest	<u>102,494</u>		<u>94,223</u>
Total receivables	<u>121,980</u>		<u>109,889</u>
Investments, at fair value	7,792,314		7,288,979
Securities lending collateral	510,757		460,339
Property and equipment, less accumulated depreciation	<u>2,510</u>		<u>2,718</u>
Total assets	<u>8,432,759</u>		<u>7,865,111</u>
Liabilities			
Accounts payable and other liabilities	3,417		1,242
Securities lending collateral	<u>510,757</u>		<u>460,339</u>
Total liabilities	<u>514,174</u>		<u>461,581</u>
Net assets held in trust for pension benefits	<u>\$ 7,918,585</u>		<u>7,403,530</u>

Separately issued, audited financial statements are available upon request.

Employees' Retirement System of Alabama

STATEMENT OF CHANGES IN PLAN NET ASSETS

September 30, 2000, with comparative figures for 1999

	2000	(In Thousands)	1999
Additions			
Contributions			
Employee	\$ 116,598		110,998
Employer	113,991		97,373
Transfers from Teachers' Retirement System	<u>1,530</u>		<u>1,781</u>
Total contributions	<u>232,119</u>		<u>210,152</u>
Investment income			
<i>From investing activities</i>			
Net increase in fair value of investments	314,458		535,674
Interest and dividends	<u>340,234</u>		<u>323,062</u>
Total investment income from investing activity	654,692		858,736
Less: Investment expense	<u>1,537</u>		<u>1,367</u>
Net investment income from investing activities	<u>653,155</u>		<u>857,369</u>
<i>From securities lending activities</i>			
Securities lending income	36,958		151
Securities lending expenses			
Borrower rebates	34,509		139
Management fees	<u>496</u>		<u>3</u>
Total securities lending expenses	<u>35,005</u>		<u>142</u>
Net income from securities lending activities	<u>1,953</u>		<u>9</u>
Total investment income	<u>655,108</u>		<u>857,378</u>
Total additions	<u>887,227</u>		<u>1,067,530</u>
Deductions			
Retirement allowance payments	341,145		330,231
Return of contributions and death benefits			
Resignation and other	19,300		19,096
Death before retirement	5,564		6,195
Transfer to Teachers' Retirement System	1,954		1,674
Transfer to Judicial Retirement Fund	31		—
Administrative expense	3,811		4,812
Depreciation	<u>367</u>		<u>333</u>
Total deductions	<u>372,172</u>		<u>362,341</u>
Net increase	515,055		705,189
Net assets held in trust for pension benefits			
Beginning of year	<u>7,403,530</u>		<u>6,698,341</u>
End of year	<u>\$ 7,918,585</u>		<u>7,403,530</u>

Separately issued, audited financial statements are available upon request.

Judicial Retirement Fund

STATEMENT OF PLAN NET ASSETS

September 30, 2000, with comparative figures for 1999

Assets	2000	(In Thousands)	1999
Cash (restricted to payment of administrative expenses)	\$ 680		867
Receivables			
Employee contributions	82		99
Employer contributions	198		85
Dividends and interest	<u>2,562</u>		<u>2,626</u>
Total receivables	<u>2,842</u>		<u>2,810</u>
Investments, at fair value	250,318		229,265
Securities lending collateral	<u>7,751</u>		<u>—</u>
Total assets	<u>261,591</u>		<u>232,942</u>
Liabilities			
Accounts payable and other liabilities	115		75
Securities lending collateral	<u>7,751</u>		<u>—</u>
Total liabilities	<u>7,866</u>		<u>75</u>
Net assets held in trust for pension benefits	\$ <u>253,725</u>		<u>232,867</u>

Separately issued, audited financial statements are available upon request.

Judicial Retirement Fund

STATEMENT OF CHANGES IN PLAN NET ASSETS

September 30, 2000, with comparative figures for 1999

	2000	(In Thousands)	1999
Additions			
Contributions			
Employee	\$ 1,608		1,575
Employer	5,696		2,870
Transfers from Teachers' Retirement System	4		19
Transfers from Employees' Retirement System	31		—
Total contributions	<u>7,339</u>		<u>4,464</u>
Investment income			
<i>From investing activities</i>			
Net increase in fair value of investments	14,106		16,856
Interest and dividends	10,970		10,968
Total investment income from investing activity	<u>25,076</u>		<u>27,824</u>
Less: Investment expense	23		24
Net investment income from investing activities	<u>25,053</u>		<u>27,800</u>
<i>From securities lending activities</i>			
Securities lending income	850		—
Securities lending expenses			
Borrower rebates	816		—
Management fees	6		—
Total securities lending expenses	<u>822</u>		<u>—</u>
Net income from securities lending activities	<u>28</u>		<u>—</u>
Total investment income	<u>25,081</u>		<u>27,800</u>
Total additions	<u>32,420</u>		<u>32,264</u>
Deductions			
Retirement allowance payments	11,256		11,150
Return of contributions			
Resignation and other	43		101
Administrative expense	263		226
Total deductions	<u>11,562</u>		<u>11,477</u>
Net increase	20,858		20,787
Net assets held in trust for pension benefits			
Beginning of year	<u>232,867</u>		<u>212,080</u>
End of year	<u>\$ 253,725</u>		<u>232,867</u>

Separately issued, audited financial statements are available upon request.

Commissions Paid Report

Fiscal Year 2000

	Volume of Business Private Placements, Agencies	Commissions Stock Transactions	Commissions Bond Transactions
Bank of New York	\$ 40mm		
Banc of America			\$ 538,220
Bear Stearns & Co.	4mm	\$ 116,183	74,740
Bell Microproducts	180mm		
Bradford, J. C. & Co., Inc.		32,415	39,000
Centennial Capital		10,000	
Chapman		22,605	
Chicago Corp.		3,750	
CIBC World Markets		394,143	
Community Newspaper Holdings, Inc.	460mm		
Comtech Telecommunications	40mm		
Concord Equity		8,135	
Credit Suisse First Boston Corp.		366,239	
Deutsche Bank Securities			104,250
Deutsche Morgan Grenfell		215,014	
Donaldson, Lufkin & Jenrette		523,703	
Edwards, A. G. & Sons		27,760	15,000
First Union National		20,377	
Gardner Rich		30,310	
Goldman Sachs & Co.	55mm	210,517	458,900
International Strategy & Investment		18,750	
Interstate Securities		36,950	52,500
J. P. Morgan	25mm		33,370
J. Roe Burton & Co.		16,950	4,000
Lazard Freres	130mm		93,750
Lehman Brothers		597,851	33,000
McDonald		61,584	
Merrill Lynch, Pierce, Fenner & Smith, Inc.	851mm	464,059	1,047,215
Morgan Keegan		20,925	
Morgan Stanley/Dean Witter	150mm	427,332	57,375
Morgan Stanley International Trust		706,817	
NBC Securities		36,180	47,625
Paine, Webber, Mitchell Hutchins, Inc.		201,594	
Prudential Bache		224,850	4,000
Quick & Reilly		8,750	
Raymond James		4,650	
Raycom Media	57mm		
Robert Thomas		9,100	
Robinson-Humphrey/American Express		22,938	7,500
Salomon Smith Barney	75mm	961,220	283,838
S. C. Bernstein		441,668	
Securities Capital		15,410	
Southwest		8,750	
Sterne, Agee & Leach, Inc.		18,750	11,500
Warburg Dillon Reed	30mm		3,000
Issuer Designated Brokers			229,870
TOTAL	\$ 2,097mm	\$ 6,286,229	\$ 3,138,653