



...TO REST AND RELAX?



INDEPENDENT AUDITORS' REPORT



1000 Walnut, Suite 1600
P.O. Box 13127
Kansas City, MO 64199

The Board of Trustees
Missouri State Employees' Retirement System
907 Wildwood Drive
Jefferson City, MO 65109

Dear Board Members:

We have audited the financial statements of the Missouri State Employees' Retirement System, a component unit of the state of Missouri, as of and for the year ended June 30, 2001, as listed in the accompanying table of contents. These financial statements are the responsibility of the retirement system's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements of the Missouri State Employees' Retirement System's pension trust funds present fairly, in all material respects, the plan net assets as of June 30, 2001, and the related changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the financial statements of the Missouri State Employees' Retirement System's internal service fund present fairly, in all material respects, its financial position as of June 30, 2001, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary management discussion and analysis on pages 19-21 and the supplementary schedules of funding progress and employer contributions on pages 36-40 are not a required part of the basic financial statements of the Missouri State Employees' Retirement System, but are required by the Governmental Accounting Standards Board. The supplementary information included on pages 41-47 is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Missouri State Employees' Retirement System. Such information, included on pages 19-21 and 36-47 has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

August 31, 2001

KPMG LLP



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REQUIRED SUPPLEMENTARY INFORMATION

Management Discussion and Analysis

The basic financial statements contained in this section of the Comprehensive Annual Financial Report consist of:

The Statements of Plan Net Assets, which reports the pension trust funds assets, liabilities, and resultant net assets where Assets - Liabilities = Net Assets available at the end of the fiscal year. It can be thought of as a snapshot of the financial position of the pension trust funds of MOSERS at that specific point in time.

The Statements of Changes in Plan Net Assets, which reports the pension fund transactions that occurred during the fiscal year where Additions - Deductions = Net Change in net assets. It can be thought of as a movie that has recorded the action that occurred over the specified time period of a fiscal year, and supports the change that has occurred to the prior year's net asset value on the Statement of Plan Net Assets.

The Balance Sheet of the Internal Service Fund is similar to the statement of net assets, in that it also is a snapshot of the financial assets of the Internal Service Fund where Assets = Liabilities + Retained Earnings.

The Statement of Revenues, Expenses, and Changes in Retained Earnings of the Internal Service Fund is similar to the Statement of Changes in Plan Net Assets, in that it also reports the activity that occurred over the period of the fiscal year where Revenues - Expenses = Net Income and supports the change to the prior year's retained earnings.

The Statement of Cash Flows of the Internal Service Fund reports the transactions for the year of the Internal Service Fund on a cash basis. It is similar to the Statement of Revenues, Expenses, and Changes in Retained Earnings, however, the focus of this statement is on the change to cash balances with accrued income and expense items eliminated.

The notes to the financial statements are an integral part of the financial statements and include additional information (including this management discussion and analysis) not readily evident in the statements themselves. The required supplementary information and other schedules following the notes to the financial statements provide historical and additional detailed information considered useful in evaluating the condition of the plans administered by MOSERS.

The following are summary comparative statements of MOSERS' pension trust funds and internal service fund.

Pension Trust Funds

Summary Comparative Statements of Plan Net Assets

	As of June 30, 2001	As of June 30, 2000	Percentage Change
Cash and short-term investments	\$ 84,964,687	\$ 80,861,253	5.07%
Receivables	105,896,105	234,586,014	(54.86)
Investments	5,370,228,746	5,473,755,988	(1.89)
Invested securities lending collateral	1,177,002,348	868,041,382	35.59
Fixed assets	4,004,611	4,078,336	(1.81)
Other	59,898	62,420	(4.04)
Total assets	6,742,156,395	6,661,385,393	1.21
Administrative expense payable	2,729,761	2,596,486	5.13
Investment purchases	95,205,011	213,054,331	(55.31)
Securities lending collateral	1,177,016,421	868,041,382	35.59
Other	265,520	266,341	(0.31)
Total liabilities	1,275,216,713	1,083,958,540	17.64
Net assets	\$ 5,466,939,682	\$ 5,577,426,853	(1.98)%

Summary Comparative Statements of Changes in Plan Net Assets

	Year Ended June 30, 2001	Year Ended June 30, 2000	Percentage Change
Contributions	\$ 241,385,199	\$ 228,586,148	5.60%
Investment net income (loss) - investing activities	(122,732,036)	403,147,082	(130.44)
Investment net income - securities lending activities	9,903,408	1,562,503	533.82
Miscellaneous	421,143	632,787	(33.45)
Total additions	128,977,714	633,928,520	(79.65)
Benefits	233,649,373	193,738,584	20.60
Service transfers and refunds	31,482	19,498	61.46
Administrative expenses	5,784,030	5,512,469	4.93
Total deductions	239,464,885	199,270,551	20.17
Net increase (decrease)	(110,487,171)	434,657,969	(125.42)
Net assets beginning of year	5,577,426,853	5,142,768,884	8.45
Net assets end of year	\$ 5,466,939,682	\$ 5,577,426,853	(1.98)%

The fiscal year ended June 30, 2001, for the pension trust funds, was most notably marked by an overall downturn in the investment markets. For the year ended June 30, 2001, MOSERS total investment fund reported a negative 2.2% return. Receivables were down at the end of the year primarily as a result of a decrease in accrued investment income and a decrease in pending investment sales. Likewise, payables for pending investment purchases were also down from the previous year. An increase in security lending activity during the year helped to offset some of the negative impacts of the market downturn. The increase in benefits payments was primarily due to the benefit adjustments initiated in fiscal year 2000, which increased the monthly benefits paid during fiscal year 2001.

Internal Service Fund

Summary Comparative Balance Sheets

	As of June 30, 2001	As of June 30, 2000	Percentage Change
Premiums receivable	\$ 2,023,864	\$ 1,666,963	21.41%
Investments	722,700	633,539	14.07
Total assets	2,746,564	2,300,502	19.39
Premiums payable	2,258,796	1,324,158	70.58
Other	248,399	872,137	(71.52)
Total liabilities	2,507,195	2,196,295	14.16
Retained earnings	239,369	104,207	129.71
Total liabilities and retained earnings	\$ 2,746,564	\$ 2,300,502	19.39%

Summary Comparative Statements of Revenues, Expenses, and Changes in Retained Earnings

	Year Ended June 30, 2001	Year Ended June 30, 2000	Percentage Change
Premium receipts	\$ 23,185,529	\$ 20,119,784	15.24%
Miscellaneous income	464,351	436,488	6.38
Total operating revenues	23,649,880	20,556,272	15.05
Premium disbursements	22,480,704	20,049,507	12.13
Premium refunds	704,825	70,277	902.92
Administrative expenses	410,906	519,271	(20.87)
Total operating expenses	23,596,435	20,639,055	14.33
Net operating income (loss)	53,445	(82,783)	(164.56)
Investment income	81,717	68,349	19.56
Net revenues over (under) expenses	135,161	(14,434)	(1036.41)
Retained earnings beginning of year	104,207	118,641	(12.17)
Retained earnings end of year	\$ 239,369	\$ 104,207	129.70%

Summary Comparative Statements of Cash Flows

	Year ended June 30, 2001	Year ended June 30, 2000	Percentage Change
Cash flows from operating activities	\$ (418)	\$ (96,057)	(99.56)%
Cash flows from noncapital financing activities	7,863	(741)	(1161.13)
Cash flows from investing activities	(7,445)	96,798	(107.69)
Net change in cash	0	0	0.0
Cash balances beginning of year	0	0	0.0
Cash balances end of year	\$ 0	\$ 0	0.0

During fiscal year 2001, in conjunction with the state of Missouri's conversion to a new lag payroll system, the internal service fund converted the collection of premiums from a collection-in-advance of coverage to a collection-in-arrears of coverage. As groups of departments were converted, the premiums deducted were to be converted to an arrears basis. However, the first group converted was not put on an arrears basis, and therefore refunds were issued to those employees affected. This accounts for the abnormally high volume of premium refunds issued during the fiscal year ended June 30, 2001. In addition, on January 1, 2001, the coverage provided to members in the basic life insurance program was increased from \$15,000 of coverage to an amount equal to one-times their annual salary subject to a floor of \$15,000 of coverage. The employer paid premium for this increase in coverage increased from \$4.38 per month per employee to \$8.72 per month per employee.

STATEMENTS OF PLAN NET ASSETS

Pension Trust Funds

As of June 30, 2001

	Missouri State Employees' Plan	Administrative Law Judges and Legal Advisors' Plan	Judicial Plan	Total (Memorandum Only)
Assets				
Cash and short-term investments	\$ 84,464,286	\$ 205,868	\$ 294,533	\$ 84,964,687
<u>Receivables</u>				
State contributions	17,635,978	88,817	1,806,996	19,531,791
Investment income	14,197,186	34,603	49,507	14,281,296
Investment sales	67,839,090	165,346	236,560	68,240,996
Other	3,819,394	9,309	13,318	3,842,022
Total receivables	103,491,648	298,075	2,106,381	105,896,105
<u>Investments at fair value</u>				
U.S. Treasury securities	751,087,638	1,830,651	2,619,095	755,537,384
Corporate bonds	261,915,197	638,375	913,317	263,466,888
Convertible bonds	3,374,147	8,224	11,766	3,394,137
Government bonds & gov't mortgage-backed securities	336,214,775	819,468	1,172,404	338,206,647
Real estate equity	164,200,362	400,211	572,578	165,173,151
Common stock	2,450,089,335	5,971,685	8,543,633	2,464,604,653
International EAFE index fund	319,567,469	778,893	1,114,354	321,460,716
Preferred stock	7,727,879	18,835	26,948	7,773,662
Venture capital	146,228	356	510	147,094
Collateralized mortgage obligation	78,752,842	191,947	274,617	79,219,406
Foreign currency	13,316,755	32,457	46,436	13,395,649
International equities	940,838,159	2,293,137	3,280,768	946,412,064
U.S. dollar-denominated international corporate bonds	11,369,935	27,712	39,648	11,437,295
Total investments	5,338,600,721	13,011,951	18,616,074	5,370,228,746
Securities lending collateral	1,170,070,379	2,851,852	4,080,117	1,177,002,348
<u>Fixed assets</u>				
Land	265,713	648	927	267,287
Building and building improvements	3,187,935	7,770	11,117	3,206,822
Furniture, fixtures, and equipment	1,940,640	4,730	6,767	1,952,137
	5,394,288	13,148	18,811	5,426,246
Accumulated depreciation	(1,413,262)	(3,445)	(4,928)	(1,421,635)
Total fixed assets	3,981,026	9,703	13,883	4,004,611
Prepaid expenses and other	59,545	145	208	59,898
Total assets	6,700,667,605	16,377,594	25,111,196	6,742,156,395
Liabilities				
Administrative expense payables	2,713,684	6,614	9,463	2,729,761
Investment purchases	94,644,300	230,680	330,031	95,205,011
Securities lending collateral	1,170,084,369	2,851,886	4,080,166	1,177,016,421
Real estate security deposits	34,040	83	119	34,242
Employee vacation and overtime liability	229,916	560	802	231,278
Total liabilities	1,267,706,309	3,089,823	4,420,581	1,275,216,713
Net assets held in trust for pension benefits	\$ 5,432,961,296	\$ 13,287,771	\$ 20,690,615	\$ 5,466,939,682

(A schedule of funding progress for each plan is presented on page 36.)
See accompanying *Notes to the Financial Statements*.

STATEMENTS OF CHANGES IN PLAN NET ASSETS

Pension Trust Funds

Year Ended June 30, 2001

	Missouri State Employees' Plan	Administrative Law Judges and Legal Advisors' Plan	Judicial Plan	Total (Memorandum Only)
Additions				
<u>Contributions</u>				
State contributions	\$ 215,750,128	\$ 1,074,946	\$ 22,473,913	\$ 239,298,987
Member purchases of service credit	1,918,572	0	0	1,918,572
Service transfer contributions	167,640	0	0	167,640
Total contributions	217,836,340	1,074,946	22,473,913	241,385,199
<u>Investment income</u>				
<i>From investing activities</i>				
Net depreciation in fair value of investments	(242,360,710)	(590,714)	(845,129)	(243,796,553)
Interest	69,698,209	169,878	243,043	70,111,129
Dividends	59,309,772	144,558	206,817	59,661,147
Other	497,810	1,213	1,736	500,759
Total investing activity loss	(112,854,919)	(275,065)	(393,533)	(113,523,518)
Investing activity expenses				
Management fees	(6,810,712)	(16,600)	(23,749)	(6,851,061)
Custody fees	(767,749)	(1,871)	(2,677)	(772,297)
Consultant fees	(264,326)	(644)	(922)	(265,892)
Performance measurement fees	(62,952)	(153)	(220)	(63,325)
Portfolio transition/rebalancing cost	(154,588)	(377)	(539)	(155,504)
Internal investment activity expenses	(1,093,958)	(2,666)	(3,815)	(1,100,439)
Total investing activity expenses	(9,154,285)	(22,311)	(31,922)	(9,208,518)
Net loss from investing activities	(122,009,204)	(297,376)	(425,455)	(122,732,036)
<i>From securities lending activities</i>				
Securities lending income	22,648,799	55,203	78,978	22,782,980
Securities lending expenses				
Borrower rebates	(11,760,009)	(28,663)	(41,008)	(11,829,680)
Management fees	(1,043,709)	(2,544)	(3,639)	(1,049,892)
Total securities lending activities expenses	(12,803,718)	(31,207)	(44,647)	(12,879,572)
Net income from securities lending activities	9,845,081	23,996	34,331	9,903,408
Total net investment loss	(112,164,123)	(273,380)	(391,124)	(112,828,628)
Miscellaneous income	418,663	1,020	1,460	421,143
Total additions	106,090,880	802,586	22,084,249	128,977,714
Deductions				
Benefits	216,728,590	776,422	15,010,098	232,515,110
Benefit adjustments	1,134,263	0	0	1,134,263
Service transfer payments	31,482	0	0	31,482
Administrative expenses	5,749,965	14,015	20,051	5,784,030
Total deductions	223,644,300	790,437	15,030,149	239,464,885
Net increase (decrease)	(117,553,420)	12,149	7,054,100	(110,487,171)
Net assets held in trust for pension benefits				
Beginning of year	5,550,514,716	13,275,622	13,636,515	5,577,426,853
End of year	\$ 5,432,961,296	\$ 13,287,771	\$ 20,690,615	\$ 5,466,939,682

See accompanying Notes to the Financial Statements.

BALANCE SHEET

Internal Service Fund

As of June 30, 2001

Assets	
Premiums receivable	\$ 2,023,864
Investments at fair value	722,700
Total assets	2,746,564
Liabilities and retained earnings	
<i>Liabilities</i>	
Premiums payable	2,258,796
Checks outstanding net of deposits	10,122
Other	238,277
Total liabilities	2,507,195
<i>Retained earnings</i>	
Total liabilities and retained earnings	\$ 2,746,564

See accompanying *Notes to the Financial Statements*.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS

Internal Service Fund

Year Ended June 30, 2001

Operating revenues	
Premium receipts	\$ 23,185,529
Miscellaneous income	464,351
Total operating revenues	23,649,880
Operating expenses	
Premium disbursements	22,480,704
Premium refunds	704,825
Administrative expenses	410,906
Total operating expenses	23,596,435
Operating revenues over operating expenses	53,445
Nonoperating revenues	
Investment income	81,717
Net revenues over expenses	135,161
Retained earnings July 1, 2000	104,207
Retained earnings June 30, 2001	\$ 239,369

See accompanying *Notes to the Financial Statements*.

STATEMENT OF CASH FLOWS

Internal Service Fund

Year Ended June 30, 2001

<i>Cash flows from operating activities</i>	
Cash received from employer and members	\$ 23,301,953
Premium payments to outside carriers	(22,183,743)
Refunds of premiums to members	(704,825)
Cash payments to employees for services	(223,120)
Cash payments to other suppliers of goods and services	(190,683)
Net cash used in operating activities	(418)
<i>Cash flows from noncapital financing activities</i>	
Implicit funding of checks outstanding net of deposits	\$10,122
Implicit repayment of prior years checks outstanding net of deposits	(2,259)
Net cash provided by noncapital financing activities	\$7,863
<i>Cash flows from investing activities</i>	
Purchase of investment securities	(414,644,329)
Proceeds from sale and maturities of investment securities	414,555,168
Cash received from investment income	81,716
Net cash used in investing activities	(7,445)
Net increase in cash	0
Cash balances June 30, 2000	0
Cash balances June 30, 2001	\$ 0
<i>Reconciliation of operating revenues over operating expenses to net cash used in operating activities</i>	
Operating revenues over operating expenses	\$ 53,445
Adjustments to reconcile operating revenues over operating expenses to net cash used in operating activities	
Change in assets and liabilities	
Increase in operational accounts receivable	(356,082)
Increase in operational accounts payable	302,219
Total adjustments	(53,863)
Net cash used in operating activities	\$ (418)

See accompanying *Notes to the Financial Statements*.

NOTES TO THE FINANCIAL STATEMENTS

As of June 30, 2001

(1) Plan Descriptions

Missouri State Employees' Plan

The Missouri State Employees' Plan (MSEP) is a single-employer, public employee retirement plan administered in accordance with Sections 104.010 and 104.312 to 104.1093 of the Revised Statutes of Missouri (RSMo). As established under Section 104.320, RSMo, the Missouri State Employees' Retirement System is a body corporate and an instrumentality of the state. In the system are vested the powers and duties specified in sections 104.010 and 104.312 to 104.1093 and such other powers as may be necessary or proper to enable it, its officers, employees, and agents to carry out fully and effectively all the purposes of sections 104.010 and 104.312 to 104.1093.

Responsibility for the operation and administration of the system is vested in the Missouri State Employees' Retirement System (MOSERS) Board of Trustees. Due to the nature of MOSERS' reliance on funding from the state of Missouri and the overall control of the plan document by the legislative and executive branches of state government, the MSEP is considered a component unit of the state of Missouri financial reporting entity and is included in the state's financial reports as a pension trust fund.

Generally, all full-time state employees who are not covered under another state-sponsored retirement plan are eligible for membership in the MSEP. On June 30, 2001, membership consisted of the following:

Retirees and beneficiaries		
currently receiving benefits		20,237
Terminated employees entitled to,		
but not yet receiving benefits		11,750
Active:		
Vested	34,880	
Nonvested	23,551	58,431
Total membership		90,418

The MSEP provides retirement, survivor, and disability benefits to its members. Benefits for general state employees are fully vested after five years of credited service (completion of one, four-year term of office for elected state officials and three full biennial assemblies for members of the general assembly). General employees may retire with full benefits upon the earliest of attaining (1) age 65 and active with 4 years of service, (2) age 65 with 5 years of service, (3) age 60 with 15 years of service, or (4) age 50 with age and service equaling 80 or more. General employees may retire early on or after age 55 with at least 10 years of service with reduced benefits. The base benefit in the general employee plan is equal to 1.6% of final average pay (FAP) times years of credited service. For members hired prior to August 28, 1997, cost-of-living adjustments (COLAs) are provided annually based on 80% of the change in the consumer price index (CPI) with a minimum of 4%, and maximum of 5%, until the cumulative amount of COLAs equals 65% of the original benefit. Thereafter, the 4% minimum is eliminated. For members hired on or after August 28, 1997, COLAs are provided annually based on 80% of the change in the CPI. Qualified, terminated-vested members may make a one-time election to receive the present value of their benefit in a lump sum payment. To qualify, a member must have terminated with at least five, but less than ten years of service, be less than age 60, and have a benefit present value of less than \$10,000.

The state of Missouri is required to make all contributions to the MSEP. Prior to September 1, 1972, contributions by members were required. Accumulated employee contributions made prior to that time, plus interest through August 28, 1997, are refundable to the member or designated beneficiaries.

Administrative Law Judges and Legal Advisors' Plan

The Administrative Law Judges and Legal Advisors' Plan (ALJLAP) is a single-employer, public employee retirement plan administered in accordance with Sections 287.812 to 287.856, RSMo. Responsibility for the operation and administration of the system is vested in the MOSERS' Board of Trustees. Due to the nature of MOSERS' reliance on funding from the state of Missouri and the overall control of the plan document by the legislative and executive branches of state government, the ALJLAP is considered a component unit of the state of Missouri financial reporting entity and is included in the state's financial reports as a pension trust fund.

Individuals appointed or employed as administrative law judges or legal advisors in the Division of Workers' Compensation, members of the Labor and Industrial Relations Commission and their attorneys, the chairperson of the State Board of Mediation, and administrative hearing commissioners are eligible for membership in the ALJLAP. On June 30, 2001, membership consisted of the following:

Retirees and beneficiaries		
currently receiving benefits	24	
Terminated employees entitled to,		
but not yet receiving benefits	19	
Active:		
Vested	57	
Nonvested	0	57
Total membership		100

The ALJLAP provides retirement, death, and disability benefits to its members. Employees who retire on or after (1) age 65 with 12 or more years of credited service, (2) age 60 with 15 or more years of credited service, or (3) age 55 with 20 or more years of credited service are eligible for a monthly retirement benefit equal to one-half of the average, highest, 12 consecutive months of salary received during the period of service. Employees with less than 12 years of service are eligible for a reduced benefit upon retirement. COLAs are provided annually based on 80% of the change in the CPI with a minimum of 4% (for members hired prior to August 28, 1997), and maximum of 5%, until the cumulative amount of COLAs equals 65% of the original benefit. Thereafter, the 4% minimum is eliminated. Qualified, terminated-vested members may make a one-time election to receive the present

value of their benefit in a lump sum payment. To qualify, a member must have terminated with at least five, but less than ten years of service, be less than age 60, and have a benefit present value of less than \$10,000. The state of Missouri is required to make all contributions to the ALJLAP.

Judicial Plan

The Judicial Plan is a single-employer, public employee retirement plan administered in accordance with Sections 476.445 to 476.690, RSMo. Responsibility for the operation and administration of the Judicial Plan is vested in the MOSERS' Board of Trustees. Due to the nature of MOSERS' reliance on funding from the state of Missouri and the overall control of the plan document by the legislative and executive branches of state government, the Judicial Plan is considered a component unit of the state of Missouri financial reporting entity and is included in the state's financial reports as a pension trust fund.

Judges are eligible to retire at (1) age 62 with 12 years of credited service, (2) age 60 with 15 years of credited service, or (3) age 55 with 20 years of credited service with benefits equal to one-half of the average monthly compensation of the highest judicial position held during the period of service. COLAs are provided annually based on 80% of the change in the CPI with a minimum of 4% (for members hired prior to August 28, 1997), and maximum of 5%, until the cumulative amount of COLAs equals 65% of the original benefit. Thereafter, the 4% minimum is eliminated. Qualified, terminated-vested members may make a one-time election to receive the present value of their benefit in a lump sum payment. To qualify, a member must have terminated with at least five, but less than ten years of service, be less than age 60, and have a benefit present value of less than \$10,000. On June 30, 2001, membership consisted of the following:

Retirees and beneficiaries currently		
receiving benefits	381	
Terminated employees entitled to,		
but not yet receiving benefits	68	
Active:		
Vested	381	
Nonvested	0	381
Total membership		830

The Judicial Plan provides retirement, death, and disability benefits to those serving as judges in the state of Missouri. Funding of the Judicial Plan on an actuarial basis began on July 1, 1998, and the state of Missouri is required to make all contributions to the Judicial Plan.

Missouri State Insurance Plan

The Missouri State Insurance Plan is accounted for as an internal service fund of the state of Missouri and is administered by MOSERS. It provides basic life insurance for eligible members of the MSEP (except employees of the Missouri Department of Conservation, and the state colleges and universities), members of the Judicial Plan, members of the ALJLAP, and certain members of the Public School Retirement System; a duty-related death benefit; optional life insurance for active employees and retirees who are eligible for basic coverage; and a long-term disability plan for certain eligible members. Due to the nature of MOSERS' reliance on funding from the state of Missouri and the overall control of the plan document by the legislative and executive branches of state government, the Missouri State Insurance Plan is considered a component unit of the state of Missouri financial reporting entity and is included in the state's financial reports as an internal service fund.

(2) Summary of Significant Accounting Policies and Plan Asset Matters

Basis of Accounting

The financial statements of the MSEP, the ALJLAP, the Judicial Plan, and the Missouri State Insurance Plan were prepared using the accrual basis of accounting. Contributions are recognized as revenues in the period in which employee services are performed, and expenses are recorded when the corresponding liabilities are incurred, regardless of when contributions are received or payment is made. The direct method of reporting cash flows is used. For its proprietary activities, MOSERS applies all Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989, except for those that conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements.

Cash

Cash balances represent both operating cash accounts held by the banks and investment cash on deposit with the investment custodian. To maximize investment income, the float caused by outstanding checks is invested, thus causing a possible negative book balance. The negative book balance has been reflected in the liabilities section of the balance sheet of the internal service fund. The negative book balance has been included in the cash and short-term investments on the statements of plan net assets of the pension trust funds. The following is a schedule of the aggregate book and bank balances of all cash accounts. All deposits are fully insured by the Federal Deposit Insurance Corporation (FDIC). In addition to the FDIC insurance coverage on the accounts of MOSERS, the bank pledged the following securities to MOSERS on June 30, 2001, as collateral for overnight repurchase agreements:

\$1,000,000 Federal Home Loan Bank Discount Note Maturity Date 07/05/2001
\$2,500,000 Federal Home Loan Bank Discount Note Maturity Date 07/11/2001
\$1,307,062 Small Business Association Pool #505410 7.375% Maturity Date 4/01/2014

	Cash Balances	
	Book	Bank
Pension Trust Funds	\$(3,920,085)	\$2,488,780
Internal Service Fund	\$ (10,122)	\$ 38,036

Method Used to Value Investments

Investments of the pension trust funds and the internal service fund are reported at fair value.

The schedule on page 31 provides a summary of the fair values of the investments as reported on the statements of plan net assets of the pension trust funds and balance sheet of the internal service fund. Fair values for the equity real estate investments are based on appraisals. Fair values of the venture capital investments are based on valuations of the underlying companies of the limited partnerships. Fair value of the EAFE index fund is determined based on the underlying assets in the fund. The remaining assets are primarily valued by the investment custodian using the last trade price information supplied by various pricing data vendors. On June 30, 2001, the system did not have investments in any one organization, other than those issued by the U.S. government, which represented greater than 5% of plan net assets.

Categories of Asset Risks

All investments are governed primarily by an investment doctrine known as the prudent expert rule. The prudent expert rule, as set forth by state statute, establishes a standard for all fiduciaries, which includes anyone who has authority with respect to the funds. The Governmental Accounting Standards Board Statement Number 3 requires disclosure of investment securities within the following three categories of custodial credit risk. Category 1 includes investments that are insured or registered or which are held by the system or its agent in the system's name. Category 2 includes uninsured and unregistered investments, which are held by the counterparty's trust departments or agent in the system's name. Category 3 includes uninsured and unregistered investments, which are held by the counterparty, its trust department, or agent, but not in the system's name.

A security, for purposes of classification in the categories of asset risks, is a transferable financial instrument that evidences ownership or creditorship. Securities do not include investments made with another party, real estate, or direct investments in mortgages and other loans. Investments in open-end mutual funds, annuity contracts, and guaranteed investment contracts are also not considered securities for purposes of custodial credit risk classification. Such investments are shown as not subject to classification.

Total Memorandum Only Columns

Total columns captioned (Memorandum Only) are to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial positions, results of operations, or cash flows in conformity with accounting principles general accepted in the United States of America. Such data are not comparable to a consolidation since interfund eliminations have not been made.

INVESTMENTS

As of June 30, 2001

	Pension Trust Funds' Investments at Fair Value	Internal Service Fund Investments at Fair Value	Total (Memorandum Only) Investments at Fair Value
Category 1 Classification			
Common stocks			
not on securities loan	\$ 2,195,233,542		\$ 2,195,233,542
International equities			
not on securities loan	846,223,403		846,223,403
International corporate bonds	11,437,295		11,437,295
Preferred stocks	7,773,662		7,773,662
Treasury bonds, notes, and bills			
not on securities loan	54,013,486		54,013,486
Government bonds and gov't mortgage-backed securities not on securities loan	312,972,979		312,972,979
Corporate bonds			
not on securities loan	761,325,860		761,325,860
Convertible bonds	3,394,137		3,394,137
Subtotal	4,192,374,363		4,192,374,363
Category 2 Classification			
Repurchase agreements	2,018,972	722,700	2,741,672
Subtotal	2,018,972	722,700	2,741,672
Not Subject to Classification			
Investments held by broker-dealers under securities loans for cash collateral			
Common stocks	269,371,112		269,371,112
International investments	100,188,661		100,188,661
Treasury bonds, notes, and bills	701,523,898		701,523,898
Corporate bonds	40,923,378		40,923,378
Government bonds	25,233,668		25,233,668
Short-term investment funds	725,085,796		725,085,796
Collateralized mortgage obligations	79,219,406		79,219,406
Real estate equity holdings	165,173,151		165,173,151
EAFE index fund	321,460,716		321,460,716
Foreign currencies	13,395,649		13,395,649
Venture capital limited partnerships	147,094		147,094
Subtotal	2,441,722,528		2,441,722,528
Total	\$ 6,636,115,864	\$ 722,700	\$ 6,636,838,564
Reconciliation to investments on Statements of Plan Net Assets			
Totals above	\$ 6,636,115,864		
Less short-term investments			
Repurchase agreements	(2,018,972)		
Short-term investment funds	(86,865,798)		
Less invested securities lending collateral			
Short-term investment funds	(638,219,998)		
Corporate bonds	(538,782,350)		
Investments on Statements of Plan Net Assets	\$ 5,370,228,746		

Derivatives

In accordance with its investment policy, MOSERS through its external investment managers, holds investments in futures contracts, swap contracts, and forward foreign currency exchange contracts. The tables below detail the various contracts in the portfolio as of June 30, 2001.

Futures Contracts

Type	Long/Short	Notional Amount	Exposure
MSCI Taiwan Index	Long	\$ 4,127,760	\$ 87,360
S&P 500 Index	Long	38,490,625	194,806
S&P 500 Index	Long	8,313,975	31,725
Russell 2000 Index	Long	1,683,237	35,350
UST 2- year note	Short	(28,924,827)	2,515
UST 5 -year note	Short	(29,142,927)	40,175
UST 5- year note	Long	9,817,656	(14,844)
UST 10 -year note	Short	(9,786,484)	48,000
UST 10 -year note	Short	(14,834,250)	72,000
UST Bond	Long	3,912,187	(32,906)
SPI 200 Index	Long	1,631,288	16,819
FTSE 100 Index	Long	6,278,577	(19,579)
Hang Seng Index	Long	1,421,152	21,904
TOPIX Index	Long	6,130,852	85,118
OMX Index	Long	1,079,478	
DJ Euro STOXX 50	Long	9,479,295	181,351
TOTAL		\$ 9,677,594	\$ 749,793

Swaps

Type	MOSERS Pays	MOSERS Receives	Notional Amount	Counterparty Exposure	Counterparty
India Index to LIBOR	LIBOR minus 2.75%	MSCI India Index in US\$	\$ 3,000,000	\$ (21,455)	Lehman
India Index to LIBOR	LIBOR minus 2.50%	MSCI India Index in US\$	2,000,000	(33,308)	Lehman
GSCI to T-bills	Treasury bills	GSCI return minus .65%	124,976,000	(10,202,092)	Goldman Sachs
T-bills to LIBOR	LIBOR	Treasury bills plus .72%	75,000,000	82,563	Bank America
TOTAL			\$ 204,976,000	\$ (10,174,292)	

Currency Forwards

Type	Long/Short	Book Value	Market Value	Counterparty Exposure	Counterparty
Australia dollar	Long	\$ 6,493,080	\$ 6,688,313	\$ 195,233	Bankers Trust NY
Australia dollar	Long	1,799,970	1,766,491	(33,479)	Lehman
Canada dollar	Long	679,130	679,574	444	Goldman Sachs
Euro	Long	49,919,927	47,474,117	(2,445,810)	Bankers Trust NY
Euro	Long	3,874,448	3,822,227	(52,221)	Goldman Sachs
Euro	Long	9,847,430	9,842,620	(4,810)	Lehman
Euro	Short	(123,898)	(123,731)	167	Mellon Bank NA London
Euro	Long	214,053	213,573	(480)	Mellon Bank NA London
Euro	Short	(62,497)	(62,187)	310	Mellon Bank NA London
Euro	Long	195,400	195,207	(193)	Mellon Bank NA London
Euro	Short	(221,065)	(221,333)	(268)	Mellon Bank NA London
Hong Kong dollar	Long	1,399,983	1,399,851	(132)	Lehman
Hong Kong dollar	Short	(51,937)	(6,658)	45,279	Mellon Bank
Israel Shekel	Short	(26,399)	(26,415)	(16)	Mellon Bank
Japan yen	Long	2,329,306	2,322,429	(6,877)	Goldman Sachs
Japan yen	Short	(2,068,158)	(2,068,788)	(630)	Goldman Sachs
Japan yen	Long	7,177,038	6,882,225	(294,813)	Lehman
Japan yen	Long	283,562	283,660	98	Mellon Bank NA London
South Africa rand	Short	(4,688)	(4,686)	2	Mellon Bank
Sweden krona	Long	1,319,538	1,287,588	(31,950)	Lehman
Switzerland franc	Long	123,898	123,450	(448)	Mellon Bank NA London
Turkish LIRA	Short	(4,671)	(5,932)	(1,261)	Mellon Bank
United Kingdom pound	Long	7,494,112	7,339,957	(154,155)	Bankers Trust NY
United Kingdom pound	Short	(64,053,007)	(62,299,369)	1,753,638	Bankers Trust NY
United Kingdom pound	Short	(2,566,776)	(2,554,595)	12,181	Goldman Sachs
United Kingdom pound	Long	6,423,307	6,371,659	(51,648)	Lehman
United Kingdom pound	Short	(335,053)	(336,024)	(971)	Mellon Bank NA London
United States dollar	Long	7,640,000	7,640,000		Bankers Trust NY
United States dollar	Long	4,634,934	4,634,934		Goldman Sachs
United States dollar	Long	42,411	42,411		Mellon Bank
United States dollar	Short	(7,494,112)	(7,494,112)		Bankers Trust NY
United States dollar	Short	(6,882,885)	(6,882,885)		Goldman Sachs
United States dollar	Short	(27,967,266)	(27,967,266)		Lehman
United States dollar	Short	(74,400)	(74,400)		Mellon Bank NA London
TOTAL		\$ (45,285)	\$ (1,118,095)	\$ (1,072,810)	

MOSERS does not anticipate additional significant market risk from the swap arrangements. Forward foreign currency exchange contracts are used primarily to hedge against changes in exchange rates related to foreign equities, primarily denominated in European and Asian currencies.

MOSERS could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. MOSERS' investment managers seek to control this risk through counterparty credit evaluations and approvals, collateral support agreements, counterparty credit limits, and exposure monitoring procedures. MOSERS anticipates that the counterparties will be able to satisfy their obligations under the contracts.

MOSERS invests in mortgage-backed securities, which are reported at fair value in the Statements of Plan Net Assets of Pension Trust Funds and are based on the cash flows from interest and principal payments by the underlying mortgages. As a result, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates, thereby reducing the value of these securities. MOSERS invests in mortgage-backed securities to diversify the portfolio and increase the return while minimizing the extent of risk.

Securities Lending Program

The board of trustees' investment policy permits the pension trust funds to participate in a securities lending program. Certain securities of the pension trust funds are loaned to participating brokers who provide collateral in the form of cash, U.S. Treasury or government agency securities, or letters of credit issued by approved banks. Collateral must be provided in the amount of 102% of market value for domestic loans and 105% of market value for international loans. MOSERS does not have the authority to pledge or sell collateral securities, without borrower default. Securities on loan at fiscal year end for cash collateral are presented as not subject to classification in the schedule on page 31; securities on loan for noncash collateral are classified according to the category pertaining to the collateral. In management's opinion, securities lending transactions do not expose the System to a material credit risk at June 30, 2001.

On June 30, 2001, the domestic equity lending program was managed by Lehman Brothers. In this program, Lehman Brothers functions as the exclusive borrower of MOSERS' domestic equities. MOSERS receives an annual fee from Lehman Brothers that is guaranteed. The guaranteed fee is renegotiated on a periodic basis to adjust for changes in the securities lending business climate. Daily monitoring of securities on loan ensure proper collateralization levels and mitigate counterparty risk. For all of the securities lending operational services, the custodian is paid an annual fee, which is netted out against the guaranteed fees paid by Lehman Brothers and Credit Suisse/First Boston (CSFB). Cash collateral from this program is invested in a separately managed short-term investment fund. This cash collateral fund, which only includes the cash collateral for MOSERS' securities lending programs, is managed by CSFB. On June 30, 2001, the cash collateral fund had a weighted average maturity of 31 days.

On June 30, 2001, the fixed income and international securities lending programs were managed by CSFB. The majority of fixed income and international loans are open loans and can be terminated on demand by either MOSERS or the borrower. Cash collateral from these loans is invested in a short-term investment fund managed by CSFB. The cash collateral investment pool had a weighted average maturity of 31 days as of June 30, 2001. Net income

derived from the fixed income and international equity lending programs is guaranteed by CSFB. CSFB, the "AA-rated" parent bank, also provides indemnification for broker default.

(3) Contributions and Reserves

The MSEP, the ALJLAP, and the Judicial Plan are pension plans covering substantially all state of Missouri employees, administrative law judges and legal advisors in the Division of Workers' Compensation, and judges. The state of Missouri is obligated by state law to make all required contributions to the plans. The required contributions are expressed as a level percentage of covered payroll and are actuarially determined using an individual entry-age actuarial cost method. The unfunded accrued liabilities are amortized over a closed 34-year period. Costs of administering the plans are financed from the assets of the pension trust funds.

(4) Other Postemployment Benefits (OPEB)

In addition to the retirement benefits provided through MOSERS, the state of Missouri also funds, either partially or in its entirety, OPEB for eligible retirees as follow:

Retiree Life Insurance

Members, who retire on or after October 1, 1985, are eligible for \$5,000 of state-sponsored, basic life insurance coverage if they retire directly from active employment. As of June 30, 2001, 9,834 retirees were eligible and participating in the program. The coverage is financed on a pay-as-you-go basis and is purchased as a group policy through competitive bids at a current cost of \$10.35 per month per eligible participant (\$1,085,956 for the year ended June 30, 2001). Premiums are paid entirely by the state as provided for by Section 104.515, RSMo.

Retirees of the Department of Labor and Industrial Relations (DOLIR), who retired prior to January 1, 1996, are eligible for state-sponsored life insurance coverage in the same amount of coverage they were receiving through the DOLIR. As of June 30, 2001, 652 retirees were eligible and participating in the program. The coverage is financed on a pay-as-you-go basis and is purchased as a group policy through competitive bids at a current cost of \$2.07 per

thousand dollars of coverage, per month, per eligible participant (\$73,265 for the year ended June 30, 2001). Premiums are paid entirely by the DOLIR as provided for by Section 228.225, RSMo. Retirees of the DOLIR who retired on or after January 1, 1996, are eligible for \$5,000 of state-sponsored life insurance coverage if they retire directly from active employment. They are included in the group described in the preceding paragraph.

(5) Plan Termination

MOSERS and its related plans are administered in accordance with Missouri statutes. The statutes do not provide for termination of the plans under any circumstances.

(6) Contingencies

Included in MOSERS' real estate investments is property located in Kansas City, Missouri, which has been found to have hazardous substance contamination. MOSERS is currently participating in the Petroleum Storage Tank Insurance Fund administered by the Missouri Department of Natural Resources in order to delineate the scope and magnitude of the contamination and determine what appropriate remedial action is needed. Based on the available information, the system's management believes it is not reasonably possible to predict the amount of additional expense MOSERS may incur. Accordingly, no provision has been made in the accompanying financial statements for this matter.

MOSERS is a defendant in several lawsuits which, in management's opinion, will not have a material effect on the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULES OF FUNDING PROGRESS

Pension Trust Funds

Missouri State Employees' Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/1992	\$ 1,991,215,165	\$ 2,291,583,890	\$ 300,368,725	86.9%	\$ 1,030,240,894	29.2%
6/30/1993	2,236,558,738	2,447,222,059	210,663,321	91.4	1,063,246,615	19.8
6/30/1994	2,425,134,503	2,919,456,424	494,321,921	83.1	1,124,862,008	43.9
6/30/1995	2,649,077,133	3,150,796,579	501,719,446	84.1	1,198,938,042	41.8
6/30/1996	2,927,896,642	3,440,126,482	512,229,840	85.1	1,267,605,000	40.4
6/30/1997	3,580,974,502	4,484,047,800	903,073,299	79.9	1,359,656,666	66.4
6/30/1998	4,210,635,094	4,918,887,183	708,252,089	85.6	1,459,712,203	48.5
6/30/1999	4,908,820,033	5,505,968,629	597,148,596	89.2	1,564,552,532	38.2
6/30/2000	5,511,714,616	5,920,684,192	408,969,576	93.1	1,683,697,080	24.3
6/30/2001	5,881,232,850	6,065,166,716	183,933,866	97.0	1,758,190,268	10.5

Administrative Law Judges and Legal Advisors' Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/1992	\$ 5,247,546	\$ 7,483,415	\$ 2,235,869	70.1%	\$ 1,725,380	129.6%
6/30/1993	5,864,317	8,164,468	2,300,151	71.8	1,931,355	119.1
6/30/1994	6,229,224	8,766,732	2,537,508	71.1	2,094,062	121.2
6/30/1995	6,655,207	9,729,955	3,074,748	68.4	2,166,275	141.9
6/30/1996	7,258,814	10,276,363	3,017,549	70.6	2,706,314	111.5
6/30/1997	8,864,395	11,427,181	2,562,786	77.6	2,865,733	89.4
6/30/1998	10,285,233	12,886,908	2,601,675	79.8	2,806,436	92.7
6/30/1999	11,763,737	14,774,525	3,010,788	79.6	3,488,698	86.3
6/30/2000	13,191,825	16,521,743	3,329,918	79.8	4,072,888	81.8
6/30/2001	14,410,199	16,809,962	2,399,763	85.7	4,661,020	51.5

Judicial Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/1992	\$ 0	\$ 127,140,534	\$ 127,140,534	0.0%	\$ 26,402,164	481.6%
6/30/1993	0	132,441,964	132,441,964	0.0	26,641,236	497.1
6/30/1994	0	141,595,625	141,595,625	0.0	27,006,602	524.3
6/30/1995	0	153,646,982	153,646,982	0.0	27,984,008	549.1
6/30/1996	0	161,734,110	161,734,110	0.0	29,908,056	540.8
6/30/1997	0	197,472,573	197,472,573	0.0	31,663,101	623.7
6/30/1998	0	207,579,797	207,579,797	0.0	32,446,141	639.8
6/30/1999	6,067,305	227,802,341	221,735,036	2.7	34,162,013	649.1
6/30/2000	13,861,769	241,797,341	227,935,572	5.7	37,107,487	614.3
6/30/2001	22,613,050	247,978,904	225,365,854	9.1	38,687,793	582.5

See Notes to the Schedules of Required Supplementary Information.
See accompanying Independent Auditors' Report.

REQUIRED SUPPLEMENTARY INFORMATION SCHEDULES OF EMPLOYER CONTRIBUTIONS

Pension Trust Funds

Missouri State Employees' Retirement System

Year Ended June 30	Annual Required Contribution		Percentage Contributed
	Percent	Dollar Amount	
1992	9.65%	\$ 100,672,145	100%
1993	9.68	102,988,219	100
1994	9.49	106,681,308	100
1995	9.04	108,902,372	100
1996	10.69	137,007,112	100
1997	10.66	146,383,371	100
1998	10.40	152,090,687	100
1999	12.58	197,909,834	100
2000	11.91	202,330,547	100
2001	11.59	215,750,128	100

Administrative Law Judges and Legal Advisors' Plan

Year Ended June 30	Annual Required Contribution		Percentage Contributed
	Percent	Dollar Amount	
1992	25.51%	\$ 500,250	100%
1993	27.77	548,707	100
1994	24.18	502,019	100
1995	22.50	498,233	100
1996	21.16	548,276	100
1997	22.60	652,709	100
1998	19.66	564,295	100
1999	18.70	639,285	100
2000	20.10	807,022	100
2001	22.32	1,074,946	100

Judicial Plan

Year Ended June 30	Annual Required Contribution		Percentage Contributed
	Percent	Dollar Amount	
1992	37.78%	\$ 9,974,738	74%
1993	40.93	10,904,258	71
1994	40.12	10,835,049	76
1995	40.85	11,431,467	80
1996	43.14	12,902,335	77
1997	46.50	14,723,342	71
1998	45.91	14,896,023	77
1999	51.81	17,862,353	100
2000	53.92	19,988,676	100
2001	55.30	22,473,913	100

See *Notes to the Schedules of Required Supplementary Information*.
See accompanying *Independent Auditors' Report*.

NOTES TO THE SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2001

Actuarial Methods and Assumptions for Valuations Performed June 30, 2001

The entry-age normal actuarial cost method of valuation is used in determining liabilities and normal cost. Differences in the past between assumed experience and actual experience (actuarial gains and losses) become part of actuarial accrued liabilities. Unfunded, actuarial accrued liabilities are amortized to produce payments (principal and interest), which are expressed as a percent of payroll. A closed 34-year amortization period was used for the June 30, 2001, valuations. The actuarial value of assets is based on a method that fully recognizes expected investment return and averages unanticipated market return over a 5-year period. The investment return rate assumption used is 8.5% per year, compounded annually (net after investment expenses). The price inflation assumption used is 3.5% per year. Projected salary increase assumptions are based on 4.0% per year for wage inflation plus an additional 0.0% to 2.7% per year for the MSEP and 0.0% to 1.6% per year for the ALJLAP and the Judicial Plan (depending on age, attributable to seniority, and/or merit increases). The assumption used for annual postretirement benefit increases is 4.25% (on a compound basis), when a minimum COLA of 4% is in effect, and 3.6% (on a compound basis), when no minimum COLA is in effect.

Factors That Have Significantly Affected Trends

1992 - The actuarial valuations as of June 30, 1992, reflected the following changes to the computed contribution rates for fiscal year ending June 30, 1994.

	<u>Amount</u>	<u>Percent of Payroll</u>
MSEP		
Change in benefits and assumptions	\$(4,017,939)	(.39)%
Experience and nonrecurring items	2,060,482	.20
<hr/>		
ALJLAP		
Change in assumptions	(23,293)	(1.35)
Experience and nonrecurring items	(38,649)	(2.24)

1994 - The actuarial valuations as of June 30, 1994, reflected the following changes to the computed contribution rates for fiscal year ending June 30, 1996.

	<u>Amount</u>	<u>Percent of Payroll</u>
MSEP		
Change in benefits and assumptions	\$31,496,136	2.80%
Experience and nonrecurring items	(12,935,913)	(1.15)
<hr/>		
ALJLAP		
Change in benefits and assumptions	21,359	1.02
Experience and nonrecurring items	(49,420)	(2.36)

1996 - The actuarial valuations as of June 30, 1996, reflected the following changes to the computed contribution rates for fiscal year ending June 30, 1998.

	<u>Amount</u>	<u>Percent of Payroll</u>
MSEP		
Change in benefits and assumptions	\$(1,774,647)	(0.14)%
Experience and nonrecurring items	(1,521,126)	(0.12)
<hr/>		
ALJLAP		
Change in benefits and assumptions	(43,572)	(1.61)
Experience and nonrecurring items	(35,994)	(1.33)

1997 - During the year ended June 30, 1997, the MSEP experienced a net change of \$1,043,921,000 in the actuarial accrued liability. Of the change, \$660,195,000 was attributable to plan amendments, and \$53,365,000 was attributable to a change in actuarial assumptions.

During the year ended June 30, 1997, the ALJLAP experienced a net change of \$1,150,818 in the actuarial accrued liability. Of the change, \$1,055,550 was attributable to plan amendments.

During the year ended June 30, 1997, the Judicial Plan experienced a net change of \$35,738,463 in the actuarial accrued liability. Of the change, \$23,140,721 was attributable to plan amendments.

The actuarial valuations as of June 30, 1997, reflected the following changes to the computed contribution rates for fiscal year ending June 30, 1999.

	<u>Amount</u>	<u>Percent of Payroll</u>
MSEP		
Change in benefits and assumptions	\$44,188,842	3.25%
Experience and nonrecurring items	(14,548,326)	(1.07)
<hr/>		
ALJLAP		
Change in benefits and assumptions	45,565	1.59
Experience and nonrecurring items	(73,076)	(2.55)
<hr/>		
Judicial Plan		
First year for funding of benefits previously paid on a pay-as-you-go basis	16,404,653	51.81

1998 - The actuarial valuations as of June 30, 1998, reflected the following changes to the computed contribution rates for fiscal year ending June 30, 2000.

	<u>Amount</u>	<u>Percent of Payroll</u>
MSEP		
Experience and nonrecurring items	\$(9,780,072)	(0.67)%
<hr/>		
ALJLAP		
Experience and nonrecurring items	39,290	1.40
<hr/>		
Judicial Plan		
Experience and nonrecurring items	684,614	2.11

1999 - The actuarial valuations as of June 30, 1999, reflected the following changes to the computed contribution rates for fiscal year ending June 30, 2001.

	<u>Amount</u>	<u>Percent of Payroll</u>
MSEP		
Change in benefits	\$ 6,258,206	0.40%
Experience and nonrecurring items	(11,264,771)	(0.72)
<hr/>		
ALJLAP		
Change in benefits	72,914	2.09
Experience and nonrecurring items	4,535	.13
<hr/>		
Judicial Plan		
Change in benefits	321,123	.94
Experience and nonrecurring items	150,313	.44

2000 - The actuarial valuations as of June 30, 2000, reflected the following changes to the computed contribution rates for fiscal year ending June 30, 2002.

	<u>Amount</u>	<u>Percent of Payroll</u>
MSEP		
Change in assumptions	\$ (5,051,091)	(.30)%
Experience and nonrecurring items	(10,438,922)	(.62)
<hr/>		
ALJLAP		
Change in assumptions	36,656	.90
Experience and nonrecurring items	(51,726)	(1.27)
<hr/>		
Judicial Plan		
Change in assumptions	(315,414)	(.85)
Experience and nonrecurring items	(352,521)	(.95)

2001 - The actuarial valuations as of June 30, 2001, reflected the following changes to the computed contribution rates for fiscal year ending June 30, 2003.

	<u>Amount</u>	<u>Percent of Payroll</u>
MSEP		
Change in assumptions	\$ (41,844,928)	(2.38)%
Release of asset funding margin	(15,647,893)	(.89)
Change in asset valuation method	(3,868,019)	(.22)
Plan experience	12,483,151	.71
<hr/>		
ALJLAP		
Change in assumptions	\$(105,339)	(2.26)
Change in amortization of UAAL	(88,559)	(1.90)
Change in asset valuation method	(4,195)	(.09)
Plan experience	49,873	1.07
<hr/>		
Judicial Plan		
Change in assumptions	(1,133,552)	(2.93)
Change in asset valuation method	(197,308)	(.51)
Plan experience	441,041	1.14

SCHEDULE OF INVESTMENT EXPENSES

Pension Trust Funds

Year Ended June 30, 2001

	Missouri State Employees' Plan	Administrative Law Judges and Legal Advisors' Plan	Judicial Plan	Total (Memorandum Only)
Investing activity				
<u>Investment management fees</u>				
Fixed income managers				
BlackRock Financial Management L.P.	\$ 334,021	\$ 814	\$ 1,165	\$ 336,000
Hoisington Investment Management Company	198,822	485	693	200,000
Equity managers				
<i>Domestic equities</i>				
Americap Advisors	436,452	1,064	1,522	439,038
Capital Guardian Trust	407,893	994	1,422	410,309
Dimensional Fund Advisors Inc.	562,194	1,370	1,960	565,524
Oak Associates, Ltd.	(1,295,853)	(3,158)	(4,519)	(1,303,530)
Oakbrook Investments	27,993	68	98	28,159
Lend Lease Rosen	19,882	48	70	20,000
Zak Capital, Inc.	1,775,352	4,327	6,191	1,785,870
<i>International equities</i>				
Merrill Lynch EAFE	684,633	1,669	2,387	688,689
Merrill Lynch Emerging Markets	192,813	470	672	193,955
Mastholm Investment Managers	1,487,567	3,626	5,187	1,496,380
Silchester International Investors	1,768,176	4,309	6,166	1,778,651
Other managers				
<i>Venture capital</i>				
Brinson Partners, Inc.	2,004	5	7	2,016
<i>Diversification pool</i>				
NISA Investment Advisors, LLC	208,763	509	728	210,000
Total investment management fees	6,810,712	16,600	23,749	6,851,061
<u>Other investment fees</u>				
<i>Investment consultant fees</i>				
Summit Strategies, Inc.	264,326	644	922	265,892
<i>Investment custodial fees</i>				
Deutsche Bank/Mellon Bank	767,749	1,871	2,677	772,297
<i>Performance measurement fees</i>				
Deutsche Bank/Mellon Bank	62,952	153	220	63,325
<i>Portfolio rebalancing costs</i>				
Deutsche Bank/Mellon Bank	154,588	377	539	155,504
<u>Internal Investment Activity Expenses</u>				
Total investing activity expenses	9,154,285	22,311	31,922	9,208,518
Securities lending activity				
Securities lending borrower rebates	11,760,009	28,663	41,008	11,829,680
<i>Securities lending management fees</i>				
Deutsche Bank/Mellon Bank	186,005	453	649	187,107
Credit Suisse First Boston	857,704	2,091	2,990	862,785
Total securities lending activity expenses	12,803,718	31,207	44,647	12,879,572
Total investment expenses	\$ 21,958,003	\$ 53,518	\$ 76,569	\$ 22,088,090

See accompanying Independent Auditors' Report.

SCHEDULE OF INTERNAL INVESTMENT ACTIVITY EXPENSES

Year Ended June 30, 2001

	Missouri State Employees' Plan	Administrative Law Judges and Legal Advisors' Plan	Judicial Plan	Total (Memorandum Only)
Personal services				
Salaries	\$ 612,858	\$ 1,494	\$ 2,138	\$ 616,490
Employee fringe benefits	143,278	349	500	144,127
Total personal services	756,136	1,843	2,638	760,617
Professional services				
Attorney services	8,336	20	29	8,385
Consulting services	5,476	13	19	5,508
Total professional services	13,812	33	48	13,893
Communications				
Telephone	1,483	4	5	1,492
Total communications	1,483	4	5	1,492
Equipment				
Maintenance	38,188	93	133	38,414
Total equipment	38,188	93	133	38,414
Travel and meetings				
Staff travel and meetings	50,174	122	175	50,471
Total travel and meetings	50,174	122	175	50,471
General				
Educational materials	4,887	12	17	4,916
Office supplies	328	1	1	330
Subscriptions and dues	228,950	558	798	230,306
Total general	234,165	571	816	235,552
Total internal investment activity expenses	\$ 1,093,958	\$ 2,666	\$ 3,815	\$ 1,100,439

See accompanying *Independent Auditors' Report*.

SCHEDULE OF ADMINISTRATIVE EXPENSES

Year Ended June 30, 2001

	Missouri State Employees' Plan	Administrative Law Judges and Legal Advisors' Plan	Judicial Plan	Total (Memorandum Only)
Personal services				
Salaries	\$ 2,462,378	\$ 6,002	\$ 8,586	\$ 2,476,966
Employee fringe benefits	663,582	1,617	2,314	667,513
Total personal services	3,125,960	7,619	10,900	3,144,429
Professional services				
Actuarial services	181,203	442	632	182,277
Attorney services	77,114	188	269	77,571
Auditing services	34,595	84	121	34,800
Banking services	16,604	40	58	16,702
Consulting services	41,371	101	144	41,616
Total professional services	350,887	855	1,224	352,966
Communications				
Postage and mailing	329,754	804	1,150	331,708
Telephone	95,683	233	334	96,250
Printing	268,977	656	938	270,571
Video production	3,279	8	11	3,298
Total communications	697,693	1,701	2,433	701,827
Building and grounds				
Depreciation	78,376	191	273	78,840
Utilities	40,515	99	141	40,755
Maintenance	33,778	82	118	33,978
Total building and grounds	152,669	372	532	153,573
Equipment				
Depreciation	307,355	749	1,072	309,176
Maintenance	171,407	418	598	172,423
Rental	54,815	134	191	55,140
Loss on sale of equipment	(1,649)	(4)	(6)	(1,659)
Total equipment	531,928	1,297	1,855	535,080
Travel and meetings				
Board travel and meetings	36,711	89	128	36,928
Staff travel and meetings	269,596	657	940	271,193
Vehicle maintenance and operation	4,771	12	17	4,800
Total travel and meetings	311,077	758	1,085	312,921
General				
Educational materials	13,029	32	45	13,106
Office supplies	105,996	258	370	106,624
Subscriptions and dues	143,852	351	502	144,705
Insurance	77,301	188	270	77,759
Advertising	5,083	12	18	5,113
Temporary help	2,001	5	7	2,013
Miscellaneous	232,487	567	810	233,864
Total general	579,749	1,413	2,022	583,184
Total administrative expenses	\$ 5,749,964	\$ 14,015	\$ 20,051	\$ 5,784,031

See accompanying *Independent Auditors' Report*.

SCHEDULE OF ADMINISTRATIVE EXPENSES

Internal Service Fund

Year Ended June 30, 2001

Personal services	
Salaries	\$ 213,139
Employee fringe benefits	55,922
Total personal services	269,061
Professional services	
Attorney services	7,038
Auditing services	2,398
Banking services	2,500
Total professional services	11,936
Communications	
Postage and mailing	2,243
Telephone	6,734
Video production expense	227
Total communications	9,204
Building and grounds	
Building use charge	7,884
Utilities	2,808
Maintenance	2,341
Total building and grounds	13,033
Equipment	
Equipment use charge	31,053
Maintenance	14,391
Rental	3,799
Total equipment	49,243
Travel and meetings	
Board travel and meetings	2,544
Staff travel and meetings	22,163
Vehicle maintenance and operation	331
Total travel and meetings	25,038
General	
Educational materials	1,242
Office supplies	7,369
Subscriptions and dues	2,818
Insurance	5,358
Advertising	352
Temporary help	139
Miscellaneous	16,113
Total general	33,391
Total administrative expenses	\$ 410,906

See accompanying *Independent Auditors' Report*.

SCHEDULE OF PROFESSIONAL/CONSULTANT FEES

Year Ended June 30, 2001

Professional /Consultant	Nature of Service	Pension Trust Funds			Total	Internal Service Fund
		Missouri State Employees' Plan	Administrative Law Judges and and Legal Advisors' Plan	Judicial Plan	(Memorandum Only)	Missouri State Insurance Plan
Gabriel, Roeder, Smith & Co.	Actuarial service	\$ 181,203	\$ 442	\$ 632	\$ 182,277	\$ 0
Thompson Coburn	Legal counsel	77,114	188	269	77,571	7,038
KPMG LLP	Financial audit	34,595	84	121	34,800	2,398
Jack Pierce	Governmental pension consulting	24,853	61	86	25,000	0
Central Bank	Banking services	16,604	40	58	16,702	2,500
SONACOM IT Partners	Phone system consulting	8,824	21	31	8,876	0
Charlesworth & Associates	Risk consulting	5,964	15	21	6,000	0
Global Reach Internet Productions	Web site development	1,730	4	6	1,740	0
Total professional/consultant fees		\$ 350,887	\$ 855	\$ 1,224	\$ 352,966	\$ 11,936

See accompanying *Independent Auditors' Report*.

Information on investment management and consulting fees can be found in the Schedule of Investment Expenses on page 42.

INVESTMENT SUMMARY

Pension Trust Funds

Year Ended June 30, 2001

Type of Investment	June 30, 2000				June 30, 2001		
	Cost Value	Fair Value	Purchases and Capital Additions at Cost	Sales and Redemptions at Cost	Cost Value	Fair Value	Percent of Total Fair Value
Fixed income							
Treasury bonds, notes, and bills Gov. bonds and govt. mortgage-backed securities	\$ 702,639,823	\$ 717,526,931	\$ 558,567,468	\$ (578,262,572)	\$ 682,944,719	\$ 755,537,384	14%
Corporate bonds	288,953,521	286,935,104	491,361,388	(447,753,326)	332,561,583	338,206,647	6
Convertible bonds	244,304,566	242,917,765	1,188,847,329	(1,172,294,025)	260,857,870	263,466,888	5
Collateralized mortgage obligations	0	0	3,500,032	0	3,500,032	3,394,137	0
Total fixed income	33,301,039	33,246,723	77,686,096	(33,301,038)	77,686,097	79,219,406	2
	1,269,198,949	1,280,626,523	2,319,962,313	(2,231,610,961)	1,357,550,301	1,439,824,462	27
Common stock	2,232,419,345	2,683,887,291	1,941,812,633	(1,905,575,000)	2,268,656,978	2,464,604,653	46
Preferred stock	3,991	1,500	8,480,162	(166,379)	8,317,774	7,773,662	0
International investments							
International equities	959,626,837	1,027,587,931	1,142,475,676	(1,154,509,931)	947,592,582	946,412,064	18
International corporate bonds	31,477,178	31,183,355	54,630,638	(74,737,566)	11,370,250	11,437,295	0
Foreign currency	15,594,033	17,591,411	37,452,924	(37,854,801)	15,192,156	13,395,649	0
EAFE index fund	390,498,650	425,676,223	0	(4,157,273)	386,341,377	321,460,716	6
Total international investments	1,397,196,698	1,502,038,920	1,234,559,238	(1,271,259,571)	1,360,496,365	1,292,705,724	24
Real estate							
Equity holdings	7,330,533	6,810,001	157,899,345	(10,787,882)	154,441,996	165,173,151	3
Closed-end real estate fund	1,713,871	21,321	0	(1,713,871)	0	0	0
Total real estate	9,044,404	6,831,322	157,899,345	(12,501,753)	154,441,996	165,173,151	3
Venture capital limited partnerships	498,724	370,432	0	(498,724)	0	147,094	0
Investments (per Statement of Plan Net Assets page 22)	4,908,362,111	5,473,755,988	5,662,713,691	(5,421,612,388)	5,149,463,414	5,370,228,746	100%
Short-term investments							
Short-term investment funds	84,169,996	84,169,996	42,051,649,646	(42,048,953,844)	86,865,798	86,865,798	
Repurchase agreements	1,414,469	1,414,469	604,504	0	2,018,973	2,018,973	
Total short-term investments	85,584,465	85,584,465	42,052,254,150	(42,048,953,844)	88,884,771	88,884,771	
Invested securities lending collateral							
Corporate bonds			538,796,424		538,796,424	538,782,350	
Short-term investment funds	868,040,861	868,040,861	52,244,463,493	(52,474,284,357)	638,219,997	638,219,997	
Total invested securities lending collateral	868,040,861	868,040,861	52,783,259,917	(52,474,284,357)	1,177,016,421	1,177,002,347	
Total investments	\$5,861,987,437	\$6,427,381,314	\$100,498,227,758	\$(99,944,850,589)	\$6,415,364,606	\$6,636,115,864	

See accompanying Independent Auditors' Report.

Note: Due to space limitations and printing costs, a detailed listing of the investment holdings and transactions could not be provided in this annual report; however, the detailed reports are available for review as an appendix to this report at the MOSERS' office.

INVESTMENT SUMMARY

Internal Service Fund

Year Ended June 30, 2001

Type of Investment	June 30, 2000				June 30, 2001		Percent of Total Fair Value
	Book Value	Fair Value	Purchases	Sales and Redemptions	Book Value	Fair Value	
Repurchase agreements	\$ 633,539	\$ 633,539	\$ 414,644,329	\$ 414,555,168	\$ 722,700	\$ 722,700	100%

See accompanying *Independent Auditors' Report*.

Note: Due to space limitations and printing costs, a detailed listing of the investment holdings and transactions could not be provided in this annual report; however, the detailed reports are available for review as an appendix to this report at the MOSERS' office.

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