
Every penny counts

# Management's Responsibility for Financial Reporting

MOSERS

October 1, 2003

Management has prepared the basic financial statements of the Missouri State Employees' Retirement System (MOSERS), and is responsible for the integrity and fairness of the information presented. Some amounts included in the financial statements may be based on estimates and judgments. These estimates and judgments were made utilizing the best business practices available. The accounting policies followed in the preparation of these basic financial statements conform with generally accepted accounting principles. Financial information presented throughout the annual report is consistent with the basic financial statements.

Ultimate responsibility for the basic financial statements and annual report rests with the board of trustees. The executive director and the rest of MOSERS staff assist the board in its responsibilities. Systems of internal control and supporting procedures are maintained to provide assurance that transactions are authorized, assets are safeguarded, and proper records are maintained. These controls include standards in hiring and training of employees, the establishment of an organizational structure, and the communication of policies and guidelines throughout the organization. These internal controls are reviewed by internal audit programs. All internal audit reports are submitted to the board of trustees.

The system's external auditors, KPMG LLP, have conducted an independent audit of the basic financial statements in accordance with generally accepted auditing standards. This audit is described in their Independent Audit Report on page 18. Management has provided the external auditors with full and unrestricted access to MOSERS' staff to discuss their audit and related findings as to the integrity of the plan's financial reporting and the adequacy of internal controls for the preparation of financial statements.

Gary Findlay
Executive Director

Gary Irwin
Chief Finance Officer

## Independent Auditors' Report

KPMG

1000 Walnut, Suite 1600
PO Box 13127
Kansas City, MO 64199

August 22, 2003

The Board of Trustees
Missouri State Employees' Retirement System

We have audited the accompanying basic 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, 2003, 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 opinions 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 opinions.

In our opinion, the financial statements of the Missouri State Employees' Retirement System present fairly, in all material respects, the plan net assets as of June 30, 2003, 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, 2003, and the changes in its financial position 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 conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary management discussion and analysis on pages 19-23 and the supplementary schedules of funding progress and employer contributions on pages 37-40 are not a required part of the basic financial statements of the Missouri State Employees' Retirement System, but are supplementary information required by accounting principles generally accepted in the United States of America. 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 19-23 and 37-47, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

# 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 *Statements 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 position of the Internal Service Fund where Assets = Liabilities + Net Assets.

The ***Statement of Revenues, Expenses, and Changes in Net Assets*** of the Internal Service Fund is similar to the *Statements 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 Revenues over Expenses and supports the change to the prior year's net assets.

The ***Statement of Cash Flows*** of the Internal Service Fund reports the transactions for the fiscal year of the Internal Service Fund on a cash basis. It is similar to the *Statement of Revenues, Expenses, and Changes in Net Assets*; however, the focus of this statement is on the change to cash balances with noncash items such as depreciation, accrued income and accrued expense items eliminated.

The ***Notes to the Financial Statements*** are an integral part of the above financial statements and include additional information not readily evident in the statements themselves.

This *Required Supplementary Information and the required Supplementary Information and Schedules* following the *Notes to the Financial Statements*, provide added historical and detailed information considered useful in evaluating the condition of the plans administered by MOSERS.

Pages 20-23 contain summary comparative statements of MOSERS' pension trust funds and Internal Service Fund and provide additional analysis of the changes noted on those schedules.

# Pension Trust Funds

## Summary Comparative Statements of Plan Net Assets

| | As of June 30, 2003 | As of June 30, 2002 | Amount of Change | Percentage Change |
|---|---|---|---|---|
| Cash and short-term investments | $ 305,694,180 | $ 378,842,984 | $ (73,148,804) | (19.31)% |
| Receivables | 180,555,167 | 103,682,194 | 76,872,973 | 74.14 |
| Investments | 4,995,925,367 | 4,881,498,067 | 114,427,300 | 2.34 |
| Invested securities lending collateral | 1,257,555,834 | 1,008,874,150 | 248,681,684 | 24.65 |
| Capital assets | 3,611,242 | 3,901,893 | (290,651) | (7.45) |
| Other assets | 47,143 | 58,594 | (11,451) | (19.54) |
| Total assets | 6,743,388,933 | 6,376,857,882 | 366,531,051 | 5.75 |
| Administrative expense payables | 2,128,236 | 3,065,142 | (936,906) | (30.57) |
| Investment purchase payables | 248,794,828 | 301,053,151 | (52,258,323) | (17.36) |
| Securities lending collateral | 1,257,336,137 | 1,010,179,520 | 247,156,617 | 24.47 |
| Other liabilities | 283,605 | 277,423 | 6,182 | 2.23 |
| Total liabilities | 1,508,542,806 | 1,314,575,236 | 193,967,570 | 14.76 |
| **Net assets** | $ 5,234,846,127 | $ 5,062,282,646 | $ 172,563,481 | 3.41 |

## Summary Comparative Statements of Plan Net Assets Analysis

- The decrease in cash balances is primarily attributable to the build up of cash in fiscal year 2002 to fund the new allocation model, which MOSERS began implementing at the end of fiscal year 2002. As the implementation of the new allocation model continued into fiscal year 2003, the cash and short-term investments month-end balances ranged from a low of $165 million in July to a high of $400 million in October with an average month-end balance of $287 million.

- The increase in receivable balances is primarily attributable to the receivables from investment sales at the end of each fiscal year. At June 30, 2003 the receivable from investment sales was $140 million whereas at June 30, 2002 it was $65 million. During the fiscal year ended June 30, 2003, the month-end receivable balances from investment sales ranged from a low of $36 million in November to a high of $181 million in May with an average month-end balance of $98 million.

- The increase in the invested securities lending collateral reflects the general increase in lending activity that occurred during the second half of the fiscal year. The month-end balance of the invested collateral ranged from a low of $892 million in September to a high of $1.3 billion in May with an average month-end balance of $1 billion. The liability for the securities lending collateral likewise increased over the prior year; however, the liability is less than the invested collateral due to a portion of the invested collateral in corporate bonds which fair value fluctuates with market conditions.

- The decrease in administrative expense payables is primarily due to a reduction in the investment manager fees remaining unpaid at the end of fiscal year 2003 over those that remained unpaid at the end of fiscal year 2002.

- Although the amount payable for investment purchases at the end of June 2003 was lower than the amount at the end of June 2002, investment activity picked up during the second half of the fiscal year as the economy showed signs of improvement. Month-end payables for security purchases ranged from a low of $57 million in January to a high of $248 million in June with an average month-end balance of $111 million during the year.

## Summary Comparative Statements of Changes in Plan Net Assets

| | Year Ended June 30, 2003 | Year Ended June 30, 2002 | Amount of Change | Percentage Change |
|---|---|---|---|---|
| Contributions | $ 182,073,252 | $ 236,638,339 | $ (54,565,087) | (23.06)% |
| Investment income (loss) - investing activities | 331,739,686 | (351,502,117) | 683,241,803 | 194.38 |
| Investment income - securities lending activities | 3,956,537 | 841,245 | 3,115,292 | 370.32 |
| Miscellaneous income | 441,249 | 450,746 | (9,497) | (2.11) |
| **Total additions** | 518,210,724 | (113,571,787) | 631,782,511 | 556.28 |
| Benefits | 337,451,395 | 285,261,239 | 52,190,156 | 18.30 |
| Service transfers and refunds | 2,191,487 | 27,970 | 2,163,517 | 7735.13 |
| Administrative expenses | 6,004,361 | 5,796,040 | 208,321 | 3.59 |
| **Total deductions** | 345,647,243 | 291,085,249 | 54,561,994 | 18.74 |
| **Net increase (decrease)** | 172,563,481 | (404,657,036) | 577,220,517 | 142.64 |
| **Net assets beginning of year** | 5,062,282,646 | 5,466,939,682 | (404,657,036) | (7.40) |
| **Net assets end of year** | $ 5,234,846,127 | $ 5,062,282,646 | $ 172,563,481 | 3.41 |

## Summary Comparative Statements of Changes in Plan Net Assets Analysis

- The decrease in contributions in fiscal year 2003 as compared to those of fiscal year 2002 is primarily attributed to a 27% reduction in the actuarially required retirement contribution rate of the MSEP plan from 11.59% to 8.51% of covered payroll.

- The increase in the investment income over the amount reported last year is primarily attributed to the favorable market conditions experienced during the second half of the fiscal year as the economy began showing signs of improvement.

- As noted in last year's report, an error was discovered in the amount recorded as securities lending rebates for the fiscal year ended June 30, 2001, which caused the amount recorded as rebates to be understated in fiscal year 2001 and overstated in fiscal year 2002 by $4,068,350. Although this error was not deemed to be material to the financial statements as a whole, when comparing the total net income from securities lending activities for fiscal years 2002 and 2003, the amounts would have been $4,909,595 and $3,956,537, respectively, resulting in a 19% decrease.

- The increase in benefit payments over last fiscal year is primarily attributable to the Deferred Retirement Option Provision (BackDROP) and changes in the monthly benefit rolls for the year. The BackDROP became available to general state employees on January 1, 2002 and payments under this benefit provision increased by $21 million in fiscal year 2003 primarily as a result of this being the first full year of availability to the members. The remainder of the increase, $31 million, can be attributed to the change in the monthly benefit rolls for the year. Detailed schedules of the changes in the monthly benefit rolls can be found on pages 110-117 of the Actuarial section of this report.

- The increase in service transfer payments is primarily attributable to a $2,050,813 transfer in pension liabilities from MOSERS to the Highway Transportation Employees' and Highway Patrol Retirement System in December 2002 for 40 employees electing to transfer to the Missouri Department of Transportation under the provisions of Senate Bill 1202 enacted in fiscal year 2002.

# Internal Service Fund

## Summary Comparative Balance Sheets

| | As of June 30, 2003 | As of June 30, 2002 | Amount of Change | Percentage Change |
|---|---|---|---|---|
| Premiums receivable | $ 1,031,950 | $ 1,187,571 | $ (155,621) | (13.10)% |
| Investments | 1,749,617 | 1,606,156 | 143,461 | 8.93 |
| Total assets | 2,781,567 | 2,793,727 | (12,160) | (0.44) |
| Premiums payable | 2,338,210 | 2,343,733 | (5,523) | (0.24) |
| Other liabilities | 112,798 | 165,601 | (52,803) | (1.89) |
| Total liabilities | 2,451,008 | 2,509,334 | (58,326) | (2.32) |
| Net assets | 330,559 | 284,393 | 46,166 | 16.23 |
| Total liabilities and net assets | $ 2,781,567 | $ 2,793,727 | $ (12,160) | (0.44) |

## Summary Comparative Balance Sheets Analysis

- The decrease in receivable balances at the end of fiscal year 2003 over those at the end of fiscal year 2002 was primarily attributable to normal fluctuations in the receipt of premiums. Likewise, the amount of funds invested was higher at the end of fiscal year 2003 than was the amount invested at the end of fiscal year 2002.

- The decrease in other payables was primarily attributable to the timing of the reimbursement to the pension plans for those administration expenses charged to the operation of the internal service fund.

## Summary Comparative Statements of Revenues, Expenses, and Changes in Net Assets

| | Year Ended June 30, 2003 | Year Ended June 30, 2002 | Amount of Change | Percentage Change |
|---|---|---|---|---|
| Premium receipts | $ 25,223,043 | $ 24,753,708 | $ 469,335 | 1.90% |
| Miscellaneous income | 436,494 | 436,489 | 5 | 0.00 |
| Total operating revenue | 25,659,537 | 25,190,197 | 469,340 | 1.86 |
| Premium disbursements | 25,169,883 | 24,675,520 | 494,363 | 2.00 |
| Premium refunds | 53,160 | 78,188 | (25,028) | (32.01) |
| Administrative expenses | 421,507 | 439,232 | (17,725) | (4.04) |
| Total operating expenses | 25,644,550 | 25,192,940 | 451,610 | 1.79 |
| Net operating income (loss) | 14,987 | (2,743) | 17,730 | (646.37) |
| Investment income | 31,179 | 47,767 | (16,588) | (34.73) |
| Net revenues over expenses | 46,166 | 45,024 | 1,142 | 2.54 |
| Net assets beginning of year | 284,393 | 239,369 | 45,024 | 18.81 |
| Net assets end of year | $ 330,559 | $ 284,393 | $ 46,166 | 16.23 |

## Summary Comparative Statements of Revenues, Expenses and Changes in Net Assets Analysis

- The increase in premium receipts and disbursements reflected a general change in the amount of premiums collected and remitted to the insurance company retained to provide the life and long-term disability coverage to eligible employees of the state. There were no changes in the premium rates during the fiscal year.

- The decrease in premium refunds is primarily attributable to the continued improvement in the processing of employee deductions by the various payroll clerks throughout the state of Missouri following the implementation of the state's new payroll/accounting system in fiscal year 2001.

- The decrease in administrative expenses is attributable to normal fluctuations in the amounts charged to the internal service fund to cover costs associated with the collection and remittance of the life and long-term disability premiums.

- The decrease in the investment income is primarily attributed to the general decline in the 90-day T-Bill rates during the period.

## Summary Comparative Statements of Cash Flows

| | Year Ended June 30, 2003 | Year Ended June 30, 2002 | Amount of Change | Percentage Change |
|---|---|---|---|---|
| Cash flows from operating activities | $ 114,783 | $ 840,291 | $ (725,508) | (86.34)% |
| Cash flows from noncapital financing activities | (2,500) | (4,602) | 2,102 | (45.68) |
| Cash flows from investing activities | (112,283) | (835,689) | 723,406 | (86.56) |
| Net change in cash | 0 | 0 | 0 | 0.0 |
| Cash balances beginning of year | 0 | 0 | 0 | 0.0 |
| Cash balances end of year | $ 0 | $ 0 | $ 0 | 0.0 |

## Summary Comparative Statements of Cash Flows Analysis

- The decrease in cash flows from operating activities and increase in cash flows from investing activities is primarily attributable to the net change in cash flows from premium receipts versus premium disbursements during the period.

# Statements of Plan Net Assets

## Pension Trust Funds - As of June 30, 2003

| | MSEP | ALJLAP | Judicial Plan | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and short-term investments | $ 303,148,797 | $ 785,308 | $ 1,760,075 | $ 305,694,180 |
| Receivables | | | | |
| State contributions | 7,594,853 | 39,215 | 870,828 | 8,504,896 |
| Investment income | 31,140,713 | 80,670 | 180,802 | 31,402,185 |
| Investment sales | 139,368,062 | 361,033 | 809,168 | 140,538,263 |
| Other | 108,909 | 282 | 632 | 109,823 |
| Total receivables | 178,212,537 | 481,200 | 1,861,430 | 180,555,167 |
| Investments at fair value | | | | |
| U.S. Treasury securities | 1,023,746,156 | 2,652,018 | 5,943,848 | 1,032,342,022 |
| Corporate bonds | 293,075,743 | 759,214 | 1,701,591 | 295,536,548 |
| Convertible bonds | 1,363,601 | 3,532 | 7,917 | 1,375,050 |
| Government bonds & gov't mortgage-backed securities | 139,917,189 | 362,456 | 812,356 | 141,092,001 |
| Real estate equity | 6,339,550 | 16,423 | 36,807 | 6,392,780 |
| Common stock | 1,255,179,671 | 3,251,547 | 7,287,546 | 1,265,718,764 |
| International EAFE index fund | 196,473,382 | 508,965 | 1,140,720 | 198,123,067 |
| Preferred stock | 15,767,270 | 40,845 | 91,544 | 15,899,659 |
| Limited partnerships | 983,747,166 | 2,548,401 | 5,711,615 | 992,007,182 |
| Real estate investment trust | 155,318,528 | 402,353 | 901,776 | 156,622,657 |
| Collateralized mortgage obligation | 47,377,244 | 122,731 | 275,071 | 47,775,046 |
| Foreign currency | 30,685,797 | 79,492 | 178,161 | 30,943,450 |
| International equities | 780,973,713 | 2,023,115 | 4,534,317 | 787,531,145 |
| U.S. dollar-denominated international corporate bonds | 24,361,446 | 63,108 | 141,442 | 24,565,996 |
| Total investments | 4,954,326,456 | 12,834,200 | 28,764,711 | 4,995,925,367 |
| Securities lending collateral | 1,247,084,710 | 3,230,577 | 7,240,547 | 1,257,555,834 |
| Capital assets | | | | |
| Land | 265,060 | 687 | 1,539 | 267,286 |
| Building and building improvements | 3,304,855 | 8,561 | 19,188 | 3,332,604 |
| Furniture, fixtures, and equipment | 1,898,662 | 4,918 | 11,024 | 1,914,604 |
| | 5,468,577 | 14,166 | 31,751 | 5,514,494 |
| Accumulated depreciation | (1,887,405) | (4,889) | (10,958) | (1,903,252) |
| Total capital assets | 3,581,172 | 9,277 | 20,793 | 3,611,242 |
| Prepaid expenses and other | 46,751 | 121 | 271 | 47,143 |
| Total assets | 6,686,400,423 | 17,340,683 | 39,647,827 | 6,743,388,933 |
| **Liabilities** | | | | |
| Administrative expense payables | 2,110,515 | 5,467 | 12,254 | 2,128,236 |
| Investment purchases | 246,723,221 | 639,137 | 1,432,470 | 248,794,828 |
| Securities lending collateral | 1,246,866,842 | 3,230,013 | 7,239,282 | 1,257,336,137 |
| Real estate security deposits | 30,988 | 80 | 180 | 31,248 |
| Employee vacation and overtime liability | 250,256 | 648 | 1,453 | 252,357 |
| Total liabilities | 1,495,981,822 | 3,875,345 | 8,685,639 | 1,508,542,806 |
| Net assets held in trust for pension benefits | $ 5,190,418,601 | $ 13,465,338 | $ 30,962,188 | $ 5,234,846,127 |

(A schedule of funding progress for each plan is presented on page 37.)
See accompanying *Notes to the Financial Statements.*

# Statements of Changes in Plan Net Assets
## Pension Trust Funds - Year Ended June 30, 2003

| | MSEP | ALJLAP | Judicial Plan | Total |
|---|---|---|---|---|
| **Additions** | | | | |
| Contributions | | | | |
| State contributions | $ 156,576,150 | $ 951,023 | $ 20,802,140 | $ 178,329,313 |
| Member purchases of service credit | 3,690,820 | 0 | 0 | 3,690,820 |
| Service transfer contributions | 53,119 | 0 | 0 | 53,119 |
| Total contributions | 160,320,089 | 951,023 | 20,802,140 | 182,073,252 |
| Investment income | | | | |
| *From investing activities* | | | | |
| Net appreciation in fair value of investments | 193,731,688 | 501,863 | 1,124,802 | 195,358,353 |
| Interest | 109,235,454 | 282,975 | 634,218 | 110,152,647 |
| Dividends | 35,940,974 | 93,105 | 208,673 | 36,242,752 |
| Other | 8,367,641 | 21,676 | 48,582 | 8,437,899 |
| Total investing activity income | 347,275,757 | 899,619 | 2,016,275 | 350,191,651 |
| Investing activity expenses: | | | | |
| Management fees | (15,369,616) | (39,815) | (89,236) | (15,498,667) |
| Custody fees | (915,391) | (2,371) | (5,315) | (923,077) |
| Consultant fees | (383,176) | (993) | (2,225) | (386,394) |
| Performance measurement fees | (247,538) | (641) | (1,437) | (249,616) |
| Portfolio transition/rebalancing cost | (161,013) | (417) | (935) | (162,365) |
| Internal investment activity expenses | (1,221,588) | (3,165) | (7,093) | (1,231,846) |
| Total investing activity expenses | (18,298,322) | (47,402) | (106,241) | (18,451,965) |
| Net income from investing activities | 328,977,435 | 852,217 | 1,910,034 | 331,739,686 |
| *From securities lending activities:* | | | | |
| Securities lending income | 18,884,058 | 48,919 | 109,641 | 19,042,618 |
| Securities lending expenses: | | | | |
| Borrower rebates | (14,112,689) | (36,559) | (81,938) | (14,231,186) |
| Management fees | (847,777) | (2,196) | (4,922) | (854,895) |
| Total securities lending activities expenses | (14,960,466) | (38,755) | (86,860) | (15,086,081) |
| Net income from securities lending activities | 3,923,592 | 10,164 | 22,781 | 3,956,537 |
| Total net investment income | 332,901,027 | 862,381 | 1,932,815 | 335,696,223 |
| Miscellaneous income | 437,574 | 1,134 | 2,541 | 441,249 |
| Total additions | 493,658,690 | 1,814,538 | 22,737,496 | 518,210,724 |
| **Deductions** | | | | |
| Benefits | 279,075,848 | 969,918 | 16,870,011 | 296,915,777 |
| Benefit adjustments | 40,535,618 | 0 | 0 | 40,535,618 |
| Service transfer payments | 2,191,487 | 0 | 0 | 2,191,487 |
| Administrative expenses | 5,954,365 | 15,425 | 34,571 | 6,004,361 |
| Total deductions | 327,757,318 | 985,343 | 16,904,582 | 345,647,243 |
| Net increase | 165,901,372 | 829,195 | 5,832,914 | 172,563,481 |
| Net assets held in trust for pension benefits: | | | | |
| Beginning of year | 5,024,517,229 | 12,636,143 | 25,129,274 | 5,062,282,646 |
| End of year | $ 5,190,418,601 | $ 13,465,338 | $ 30,962,188 | $ 5,234,846,127 |

See accompanying *Notes to the Financial Statements*.

# Balance Sheet

## Internal Service Fund - As of June 30, 2003

| | |
|---|---|
| Assets | |
| Premiums receivable | $ 1,031,950 |
| Investments at fair value | 1,749,617 |
| Total assets | $ 2,781,567 |
| | |
| Liabilities and net assets | |
| *Liabilities* | |
| Premiums payable | $ 2,338,210 |
| Checks outstanding net of deposits | 3,020 |
| Other | 109,778 |
| Total liabilities | 2,451,008 |
| Net assets-unrestricted | 330,559 |
| Total liabilities and net assets | $ 2,781,567 |

See accompanying *Notes to the Financial Statements*.

# Statement of Revenues, Expenses, and Changes in Net Assets

## Internal Service Fund - Year Ended June 30, 2003

| | |
|---|---|
| Operating revenues | |
| Premium receipts | $ 25,223,043 |
| Miscellaneous income | 436,494 |
| Total operating revenues | 25,659,537 |
| | |
| Operating expenses | |
| Premium disbursements | 25,169,883 |
| Premium refunds | 53,160 |
| Administrative expenses | 421,507 |
| Total operating expenses | 25,644,550 |
| Operating revenues over operating expenses | 14,987 |
| | |
| Nonoperating revenues | |
| Investment income | 31,179 |
| Net revenues over expenses | 46,166 |
| Net assets June 30, 2002 | 284,393 |
| Net assets June 30, 2003 | $ 330,559 |

See accompanying *Notes to the Financial Statements*.

# Statement of Cash Flows

## Internal Service Fund - Year Ended June 30, 2003

| | |
|---|---|
| **Cash flows from operating activities** | |
| Cash received from employer and members | $ 25,815,891 |
| Premium payments to outside carriers | (25,175,131) |
| Refunds of premiums to members | (53,160) |
| Cash payments to employees for services | (264,578) |
| Cash payments to other suppliers of goods and services | (208,233) |
| Miscellaneous income | (6) |
| Net cash provided by operating activities | 114,783 |
| **Cash flows from noncapital financing activities** | |
| Implicit funding of checks outstanding net of deposits | 3,020 |
| Implicit repayment of prior years checks outstanding net of deposits | (5,520) |
| Net cash used in noncapital financing activities | (2,500) |
| **Cash flows from investing activities** | |
| Purchase of investment securities | (494,936,907) |
| Proceeds from sale and maturities of investment securities | 494,793,445 |
| Cash received from investment income | 31,179 |
| Net cash used by investing activities | (112,283) |
| Net increase in cash | 0 |
| Cash balances June 30, 2002 | 0 |
| Cash balances June 30, 2003 | $ 0 |
| **Reconciliation of operating revenues over operating expenses to net cash provided by operating activities** | |
| Operating revenues over operating expenses | $ 14,987 |
| Adjustments to reconcile operating revenues over operating expenses to net cash provided by operating activities | |
| Change in assets and liabilities: | |
| Decrease in operational accounts receivable | 155,622 |
| Decrease in operational accounts payable | (55,826) |
| Total adjustments | 99,796 |
| Net cash provided by operating activities | $ 114,783 |

See accompanying *Notes to the Financial Statements*.

# Notes to the Financial Statements

**June 30, 2003**

## (1) Plan Descriptions

### Missouri State Employees' Plan (MSEP)

The MSEP is a single-employer, public employee retirement plan with two benefit structures known as the MSEP (closed plan) and MSEP 2000 (new plan) which are administered by the Missouri State Employees' Retirement System (MOSERS) in accordance with Sections 104.010 and 104.312 to 104.1215 of the Revised Statutes of Missouri (RSMo). As established under Section 104.320, RSMo, MOSERS 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 104.1215, RSMo, 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 104.1215, 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 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 hired before July 1, 2000 who were not covered under another state-sponsored retirement plan are eligible for membership in the MSEP (closed plan). All full-time state employees hired on or after July 1, 2000 are eligible for membership in the MSEP 2000 (new plan).

As of June 30, 2003, membership in the MSEP consisted of the following:

| | | |
|---|---|---|
| Retirees and beneficiaries currently receiving benefits | | 22,872 |
| Terminated employees entitled to, but not yet receiving benefits | | 12,974 |
| Active: | | |
| Vested | 35,588 | |
| Nonvested | 21,970 | 57,558 |
| Total membership | | 93,404 |

The MSEP provides retirement, survivor, and disability benefits.

### MSEP (closed plan)

General state employees are fully vested for benefits upon receiving five years of credited service. Under the MSEP (closed plan), general employees may retire with full benefits upon the earliest of attaining:

- Age 65 and active with 4 years of service;
- Age 65 with 5 years of service;
- Age 60 with 15 years of service; or
- Age 50 with age and service equaling 80 or more (Rule of 80).

General employees may retire early at 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% multiplied by the final average pay multiplied by 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 rate of 4%, and maximum rate of 5%, until the cumulative amount of COLAs equals 65% of the original benefit. Thereafter, the 4% minimum rate is eliminated. For members hired on or after August 28, 1997, COLAs are provided annually based on 80% of the change in the CPI up to a maximum rate of 5%.

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 5, but less than 10 years of service, be less than age 60, and have a benefit present value of less than $10,000.

### MSEP 2000 (new plan)

General state employees are fully vested for benefits upon receiving five years of credited service. Under the MSEP 2000 (new plan), general employees may retire with full benefits upon the earliest of attaining:

- Age 62 with 5 years of service; or
- Age 50 with age and service equaling 80 or more (Rule of 80).

General employees may retire early at age 57 with at least 5 years of service with reduced benefits.

The base benefit in the general employee plan is equal to 1.7% multiplied by final average pay multiplied by years of credited service. For those retiring under Rule of 80, an additional temporary benefit equivalent to 0.8% multiplied by final average pay multiplied by years of credited service is payable until age 62.

COLAs are provided annually based on 80% of the change in the CPI up to a maximum rate of 5%.

For a more detailed summary of benefits for general employees and a description of benefits available to legislators and elected officials under the MSEP (closed plan) and the MSEP 2000 (new plan), refer to the Summary of Plan Provisions contained in the Actuarial Section of this report.

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 (for refunds pending), are refundable to the member or designated beneficiaries.

### Administrative Law Judges and Legal Advisors' Plan (ALJLAP)

The 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, 2003, membership in the ALJLAP consisted of the following:

| | | |
|---|---|---|
| Retirees and beneficiaries currently receiving benefits | | 27 |
| Terminated employees entitled to, but not yet receiving benefits | | 25 |
| Active: | | |
| Vested | 57 | |
| Nonvested | 0 | 57 |
| Total membership | | 109 |

The ALJLAP provides retirement, death, and disability benefits. Members are immediately vested.

Under the ALJLAP, members may retire with full benefits upon the earliest of attaining:

- Age 62 with 12 years of service;
- Age 60 with 15 years of service; or
- Age 55 with 20 years of service.

Employees may retire early at age 65 with less than 12 years of service with a reduced benefit that is based upon years of service relative to 12 years.

In the ALJLAP, the base benefit for members with 12 or more years of service is equivalent to 50% of the average highest 12 consecutive months of salary.

For members hired prior to August 28, 1997, COLAs are provided annually based on 80% of the change in the CPI with a minimum rate of 4%, and maximum rate of 5%, until the cumulative amount of COLAs equals 65% of the original benefit. Thereafter, the 4% minimum rate is eliminated. For members hired on or after August 28, 1997, COLAs are provided annually based on 80% of the change in the CPI up to a maximum rate of 5%.

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 5, but less than 10 years of service, be less than age 60, and have a benefit present value of less than $10,000.

For a more detailed summary of benefits for members of the ALJLAP, refer to the Summary of Plan Provisions contained in the Actuarial Section of this report.

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 and commissioners of the supreme court or the court of appeals, judges of the circuit court, probate court, magistrate court, court of common pleas, court of criminal corrections, or a justice of the peace, or a commissioner or deputy commissioner of the circuit court appointed after February 29, 1972 are eligible for membership in the Judicial Plan.

On June 30, 2003, membership in the Judicial Plan consisted of the following:

| | | |
|---|---|---|
| Retirees and beneficiaries currently receiving benefits | | 393 |
| Terminated employees entitled to, but not yet receiving benefits | | 74 |
| Active: | | |
| Vested | 392 | |
| Nonvested | 0 | 392 |
| Total membership | | 859 |

The Judicial Plan provides retirement, death, and disability benefits. Members are immediately eligible for benefits.

Under the Judicial Plan, members may retire with full benefits upon the earliest of attaining:

- Age 62 with 12 years of service;
- Age 60 with 15 years of service; or
- Age 55 with 20 years of service.

Employees may retire early at age 62 with less than 12 years of service or age 60 with less than 15 years of service with a reduced benefit that is based upon years of service relative to 12 or 15 years.

In the Judicial Plan, the base benefit for members with 12 or more years of service is equivalent to 50% of the highest annual salary earned while active.

For members hired prior to August 28, 1997, COLAs are provided annually based on 80% of the change in the CPI with a minimum rate of 4%, and maximum rate of 5%, until the cumulative amount of COLAs equals 65% of the original benefit. Thereafter, the 4% minimum rate is eliminated. For members hired on or after August 28, 1997, COLAs are provided annually based on 80% of the change in the CPI up to a maximum rate of 5%.

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 5, but less than 10 years of service, be less than age 60, and have a benefit present value of less than $10,000.

For a more detailed summary of benefits for members of the Judicial Plan, refer to the Summary of Plan Provisions contained in the Actuarial Section of this report.

Funding of the Judicial Plan on an actuarial basis began on July 1, 1998. 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 in an amount equal to one-times annual salary while actively employed (with a $15,000 minimum) to:

- Eligible active members of the MSEP and MSEP 2000 (except employees of the Missouri Department of Conservation, and the state colleges and universities);
- Active members of the ALJLAP;
- Active members of the Judicial Plan; and
- Certain active members of the Public School Retirement System

The plan also provides duty-related death benefits, optional life insurance for active employees and retirees who are eligible for basic coverage, and a long-term disability plan for certain eligible members. For a more detailed description of insurance benefits, refer to Life Insurance Plans contained in the Summary Plan Provisions on page 128 of this report.

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 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.

### 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. Negative book balances are reflected in the liabilities section of the balance sheet of the internal service fund and 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 Central Trust Bank pledged the following securities to MOSERS on June 30, 2003, as collateral for overnight repurchase agreements:

- $719,207 Small Business Association Pool # 504555 *Maturity Date 11/25/2011*
- $1,112,490 Small Business Association Pool # 506161 *Maturity Date 12/25/2014*
- $912,553 Small Business Association Pool # 504234 *Maturity Date 04/25/2012*
- $535,500 Small Business Association Pool # 505227 *Maturity Date 06/25/2012*
- $687,643 Small Business Association Pool # 505430 *Maturity Date 08/25/2019*

| | Cash Balances | |
|---|---|---|
| | Book | Banks and Investment Custodian |
| Pension Trust Funds | $52,722,490 | $61,023,788 |
| Internal Service Fund | (3,020) | 298 |

## 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 33 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 limited partnership investments are based on valuations of the underlying companies of the limited partnerships as reported by the general partner. 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, 2003, 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 person rule. The prudent person 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 above categories, 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.

## Investments - As of June 30, 2003

| Type of Investment | Pension Trust Funds: Investments at Cost Value | Pension Trust Funds: Investments at Fair Value | Internal Service Fund: Investments at Cost Value | Internal Service Fund: Investments at Fair Value |
|---|---|---|---|---|
| *Category 1 Classification* | | | | |
| Common stocks not on securities loan | $1,137,879,138 | $1,079,229,990 | | |
| International equities not on securities loan | 675,714,166 | 757,242,860 | | |
| International corporate bonds | 23,483,396 | 24,565,996 | | |
| Preferred stocks not on securities loan | 12,287,978 | 14,597,381 | | |
| Treasury bonds, notes and bills not on securities loan | 53,354,536 | 54,960,913 | | |
| Government bonds and government mortgage backed securities | 135,794,273 | 141,092,001 | | |
| Corporate bonds not on securities loan | 886,131,022 | 897,879,114 | | |
| Convertible bonds | 1,289,398 | 1,375,050 | | |
| Subtotal | 2,925,933,907 | 2,970,943,305 | | |
| *Category 2 Classification* | | | | |
| Repurchase agreements | 415,676 | 415,676 | $1,749,617 | $1,749,617 |
| Subtotal | 415,676 | 415,676 | 1,749,617 | 1,749,617 |
| *Not Subject to Classification* | | | | |
| Investments held by broker-dealers under securities loans for cash collateral | | | | |
| Common stocks | 221,358,210 | 186,488,775 | | |
| International equities | 24,783,569 | 30,288,285 | | |
| Preferred stocks | 1,541,199 | 1,302,278 | | |
| Treasury bonds, notes and bills | 876,510,103 | 977,381,109 | | |
| Corporate bonds | 24,353,780 | 24,529,110 | | |
| Short-term investment funds | 883,240,171 | 883,240,171 | | |
| Collateralized mortgage obligations | 46,415,807 | 47,775,046 | | |
| Real estate equity holdings | 6,392,780 | 6,392,780 | | |
| Real estate investment trust | 153,508,871 | 156,622,657 | | |
| EAFE index fund | 288,791,742 | 198,123,067 | | |
| Foreign currencies | 30,699,813 | 30,943,450 | | |
| Limited partnerships | 886,945,719 | 992,007,182 | | |
| Subtotal | 3,444,541,764 | 3,535,093,910 | | |
| *Total Investments* | | | | |
| Out on loan | 1,148,546,861 | 1,219,989,557 | | |
| Not on securities loan | 5,222,344,486 | 5,286,463,334 | 1,749,617 | 1,749,617 |
| Total | $6,370,891,347 | $6,506,452,891 | $1,749,617 | $1,749,617 |

| *Reconciliation to investments on Statements of Net Assets* | |
|---|---|
| Total from above | $6,506,452,891 |
| Less short-term investments | |
| Repurchase agreements | (415,676) |
| Short-term investment funds | (252,556,014) |
| Less invested securities lending collateral | |
| Short-term investment funds | (630,684,156) |
| Corporate bonds | (626,871,678) |
| Investments on *Statement of Plan Net Assets* | $4,995,925,367 |

## 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 summarize the various contracts in the portfolio as of June 30, 2003, which are included in the fair value of investments reported in the Statements of Plan Net Assets of the Pension Trust Funds.

*Futures Contracts*

| Notional Amount | Exposure |
|---|---|
| $2,324,473,986 | $2,341,606 |

*Currency Forwards*

| Book Value | Fair Value | Gain/(Loss) |
|---|---|---|
| $4,048,061 | $4,072,583 | $24,522 |

*Swaps*

| Notional Amount | Exposure |
|---|---|
| $98,215,715 | $9,147,720 |

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, counterparty credit limits, and exposure monitoring procedures. MOSERS anticipates that the counterparties will be able to satisfy their obligations under the contracts. Investments in limited partnerships and index funds may include derivatives which are not shown in the underlying derivative totals.

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. Fixed income, international equity and domestic equity 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 33; securities on loan for noncash collateral are classified according to the category pertaining to the collateral. On June 30, 2003, MOSERS had no credit risk exposure to borrowers because the collateral amounts received exceeded amounts out on loan.

As of June 30, 2003, Credit Suisse/First Boston, New York Branch (CSFBNY), served as the agent for the fixed income and international equity securities lending programs. In this capacity, MOSERS reduces credit risk by allowing CSFBNY to lend these securities to a diverse group of dealers on behalf of MOSERS. Indemnification against dealer default is provided by CSFBNY, an "AA-rated" bank. With each of MOSERS' securities lending programs, the majority of loans are open loans and can be terminated on demand by either MOSERS or the borrower. Net income from the fixed income and international equity securities lending programs is split on an 85/15 basis between MOSERS and CSFBNY respectively.

As of June 30, 2003, Lehman Brothers, a broker-dealer, was the exclusive borrower of the MOSERS' domestic equity securities. In order to reduce credit risk in this exclusive agreement, MOSERS has placed a cap of $250 million on the amount of securities that can be on loan at any given time. In this program, MOSERS receives a monthly borrowing fee of 5 basis points on the market value of the lendable domestic equities multiplied by the following fraction: number of days in the given month divided by 360. The guaranteed fee is renegotiated on a periodic basis to adjust for changes in the securities lending business climate.

Daily monitoring of securities that are on loan ensure proper collateralization levels and mitigate counterparty risk. Cash collateral from all three programs is commingled and invested in a separately managed short-term investment fund for MOSERS. This cash collateral fund is managed by CSFBNY. On June 30, 2003, the cash collateral fund had a market value of $1,257,336,137 and a weighted average maturity of 30 days. For all of the securities lending operational services, the custodian is paid an annual fee, which is netted out against MOSERS' earnings in the securities lending programs managed by Lehman Brothers and CSFBNY.

## Capital Assets

Office building, furniture, fixtures and equipment costing $250 or more when acquired are capitalized at cost. Improvements, which increase the useful life of the property, are capitalized. Maintenance and repairs are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets according to the following schedule:

5 years for furniture, fixtures, and equipment
40 years for building

The table below is a schedule of the capital asset account balances as of June 30, 2002 and June 30, 2003 and changes to those account balances during the year ended June 30, 2003:

| Capital Assets | Land | Building and Building Improvements | Furniture, Fixtures and Equipment | Total Capital Assets |
|---|---|---|---|---|
| Balances June 30, 2002 | $267,286 | $3,309,192 | $2,067,178 | $5,643,656 |
| Additions | 0 | 23,413 | 155,802 | 179,215 |
| Deletions | 0 | 0 | (308,376) | (308,376) |
| Balances June 30, 2003 | 267,286 | 3,332,605 | 1,914,604 | 5,514,495 |
| **Accumulated Depreciation** | | | | |
| Balances June 30, 2002 | 0 | 318,426 | 1,423,336 | 1,741,762 |
| Depreciation expense | 0 | 83,077 | 357,276 | 440,353 |
| Deletions | 0 | 0 | (278,862) | (278,862) |
| Balances June 30, 2003 | 0 | 401,503 | 1,501,750 | 1,903,253 |
| Net Capital Assets June 30, 2003 | $267,286 | $2,931,102 | $ 412,854 | $3,611,242 |

### (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 32-year period. Costs of administering the plans are financed from the assets of the pension trust funds.

### (4) Other Post-employment 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, 2003, a total of 11,680 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 ($1,405,323 for the year ended June 30, 2003). 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, 2003, a total of 574 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 ($65,793 for the year ended June 30, 2003). 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 a 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 two lawsuits that, in management's opinion, will not have a material effect on the financial statements.

# Required Supplementary Information
# Schedules of Funding Progress
## Pension Trust Funds

### MSEP

| 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] |
|---|---|---|---|---|---|---|
| 6/30/98 | $ 4,210,635,094 | $ 4,918,887,183 | $ 708,252,089 | 85.6% | $ 1,459,712,203 | 48.5% |
| 6/30/99 | 4,908,820,033 | 5,505,968,629 | 597,148,596 | 89.2 | 1,564,552,532 | 38.2 |
| 6/30/00 | 5,511,714,616 | 5,920,684,192 | 408,969,576 | 93.1 | 1,683,697,080 | 24.3 |
| 6/30/01 | 5,881,232,850 | 6,065,166,716 | 183,933,866 | 97.0 | 1,758,190,268 | 10.5 |
| 6/30/02 | 6,033,133,598 | 6,294,272,275 | 261,138,677 | 95.9 | 1,773,283,484 | 14.7 |
| 6/30/03 | 6,057,329,072 | 6,662,291,406 | 604,962,334 | 90.9 | 1,739,895,364 | 34.8 |

### ALJLAP

| 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] |
|---|---|---|---|---|---|---|
| 6/30/98 | $ 10,285,233 | $ 12,886,908 | $ 2,601,675 | 79.8% | $ 2,806,436 | 92.7% |
| 6/30/99 | 11,763,737 | 14,774,525 | 3,010,788 | 79.6 | 3,488,698 | 86.3 |
| 6/30/00 | 13,191,825 | 16,521,743 | 3,329,918 | 79.8 | 4,072,888 | 81.8 |
| 6/30/01 | 14,410,199 | 16,809,962 | 2,399,763 | 85.7 | 4,661,020 | 51.5 |
| 6/30/02 | 15,172,619 | 18,175,342 | 3,002,723 | 83.5 | 4,779,504 | 62.8 |
| 6/30/03 | 15,626,461 | 19,946,487 | 4,320,026 | 78.3 | 4,657,896 | 92.7 |

### 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] |
|---|---|---|---|---|---|---|
| 6/30/98 | $ 0 | $ 207,579,797 | $ 207,579,797 | 0.0% | $ 32,446,141 | 639.8% |
| 6/30/99 | 6,067,305 | 227,802,341 | 221,735,036 | 2.7 | 34,162,013 | 649.1 |
| 6/30/00 | 13,861,769 | 241,797,341 | 227,935,572 | 5.7 | 37,107,487 | 614.3 |
| 6/30/01 | 22,613,050 | 247,978,904 | 225,365,854 | 9.1 | 38,687,793 | 582.5 |
| 6/30/02 | 29,651,113 | 256,115,452 | 226,464,339 | 11.6 | 40,068,744 | 565.2 |
| 6/30/03 | 34,556,516 | 267,049,857 | 232,483,341 | 12.9 | 40,052,952 | 580.4 |

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

# Required Supplementary Information
# Schedules of Employer Contributions
## Pension Trust Funds

### MSEP

| Year Ended June 30 | Annual Required Contribution Percent | Annual Required Contribution Dollar Amount | Percentage Contributed |
|---|---|---|---|
| 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 |
| 2002 | 11.59 | 209,515,026 | 100 |
| 2003 | 8.81 | 156,576,150 | 100 |

### ALJLAP

| Year Ended June 30 | Annual Required Contribution Percent | Annual Required Contribution Dollar Amount | Percentage Contributed |
|---|---|---|---|
| 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 |
| 2002 | 22.32 | 1,072,562 | 100 |
| 2003 | 20.02 | 951,023 | 100 |

### Judicial Plan

| Year Ended June 30 | Annual Required Contribution Percent | Annual Required Contribution Dollar Amount | Percentage Contributed |
|---|---|---|---|
| 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 |
| 2002 | 55.30 | 22,088,485 | 100 |
| 2003 | 52.12 | 20,802,140 | 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, 2003**

## Actuarial Methods and Assumptions for Valuations Performed June 30, 2003

The entry-age 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 32-year amortization period was used for the June 30, 2003, 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% per year for wage inflation plus an additional 0% to 2.7% per year for the MSEP and 0% to 1.6% per year for the ALJLAP and the Judicial Plan (depending on age, attributable to seniority, and/or merit increases). In order to reflect the current general wage freeze in the state, the pay increase assumptions for fiscal year ending June 30, 2004 were adjusted accordingly (see page 40). The assumption used for annual post-retirement benefit increases is 4% (on a compound basis), when a minimum COLA of 4% is in effect, and 2.8% (on a compound basis), when no minimum COLA is in effect.

## Factors That Have Significantly Affected Trends

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.

| | Amount | Percent of Payroll |
|---|---|---|
| MSEP | | |
| Experience and nonrecurring items | $(9,780,072) | (0.67)% |
| ALJLAP | | |
| Experience and nonrecurring items | 39,290 | 1.40 |
| 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.

| | Amount | Percent of Payroll |
|---|---|---|
| MSEP | | |
| Change in benefits | $6,258,206 | 0.40% |
| Experience and nonrecurring items | (11,264,771) | (0.72) |
| ALJLAP | | |
| Change in benefits | 72,914 | 2.09 |
| Experience and nonrecurring items | 4,535 | .13 |
| 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.

| | Amount | Percent of Payroll |
|---|---|---|
| MSEP | | |
| Change in assumptions | $(5,051,091) | (.30)% |
| Experience and nonrecurring items | (10,438,922) | (.62) |
| ALJLAP | | |
| Change in assumptions | 36,656 | .90 |
| Experience and nonrecurring items | (51,726) | (1.27) |
| 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.

| | Amount | Percent of Payroll |
|---|---|---|
| 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 |
| 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 |
| Judicial Plan | | |
| Change in assumptions | (1,133,552) | (2.93) |
| Change in asset valuation method | (197,308) | (.51) |
| Plan experience | 441,041 | 1.14 |

2002 - The actuarial valuations as of June 30, 2002, reflected the following changes to the computed contribution rates for fiscal year ending June 30, 2004.

| | Amount | Percent of Payroll |
|---|---|---|
| MSEP | | |
| Recognizing state pay freeze FY03 | $(6,206,492) | (.35)% |
| Plan experience | 15,782,223 | .89 |
| ALJLAP | | |
| Recognizing state pay freeze FY03 | (20,074) | (.42) |
| Plan experience | 23,420 | .49 |
| Judicial Plan | | |
| Recognizing state pay freeze FY03 | (208,357) | (.52) |
| Plan experience | 32,055 | .08 |

2003 - The actuarial valuations as of June 30, 2003, reflected the following changes to the computed contribution rates for fiscal year ending June 30, 2005.

| | Amount | Percent of Payroll |
|---|---|---|
| MSEP | | |
| Reduction in projected across-the-board pay increases to 1.67% for the fiscal year ending June 30, 2005 | $(6,089,634) | (.35)% |
| Plan experience | 28,543,284 | 1.64 |
| ALJLAP | | |
| Recognizing state pay freeze for annual salaries above $40,000 | (18,632) | (.40) |
| Plan experience | 112,255 | 2.41 |
| Judicial Plan | | |
| Recognizing state pay freeze for annual salaries above $40,000 | (224,297) | (.56) |
| Plan experience | 1,357,795 | 3.39 |

# Schedule of Investment Expenses
## Pension Trust Funds - Year Ended June 20, 2003

| | MSEP | ALJLAP | Judicial Plan | Total |
|---|---|---|---|---|
| Investing activity | | | | |
| *Investment management fees* | | | | |
| Americap Advisors | $ 230,121 | $ 596 | $ 1,336 | $ 232,053 |
| BlackRock Financial Management L.P. | 1,299,274 | 3,366 | 7,544 | 1,310,184 |
| Blackstone Hedged Equity | 1,264,428 | 3,276 | 7,341 | 1,275,045 |
| Blackstone Madison | 1,869,932 | 4,844 | 10,857 | 1,885,633 |
| Brinson Partners, Inc. | 1,022 | 3 | 6 | 1,031 |
| Capital Guardian Trust | 364,816 | 945 | 2,118 | 367,879 |
| DDJ Capital Management | 805,735 | 2,087 | 4,678 | 812,500 |
| Dimensional Fund Advisors Inc. | 399,787 | 1,036 | 2,321 | 403,144 |
| Hoisington Investment Management Company | 198,334 | 514 | 1,152 | 200,000 |
| Legg Mason | 826,261 | 2,140 | 4,798 | 833,199 |
| Mastholm Investment Managers | 1,402,538 | 3,633 | 8,143 | 1,414,314 |
| Merrill Lynch EAFE | 536,710 | 1,390 | 3,116 | 541,216 |
| Merrill Lynch Emerging Markets | 192,876 | 500 | 1,119 | 194,495 |
| MHR Institutional Partners II | 759,250 | 1,967 | 4,408 | 765,625 |
| NISA Corporate Bonds | 495,837 | 1,284 | 2,879 | 500,000 |
| NISA Investment Advisors, LLC | 428,199 | 1,109 | 2,486 | 431,794 |
| Oak Associates, Ltd. | 853,833 | 2,212 | 4,957 | 861,002 |
| Oakbrook Investments | 250,565 | 649 | 1,455 | 252,669 |
| Oaktree Capital Management | 500,216 | 1,296 | 2,904 | 504,416 |
| OCM Emerging Markets | 41,320 | 107 | 240 | 41,667 |
| OCM Opportunity Fund IV-B | 1,078,852 | 2,795 | 6,264 | 1,087,911 |
| CFSC Wayland Advisors, Inc. | 142,637 | 370 | 828 | 143,835 |
| Silchester International Investors | 1,427,073 | 3,696 | 8,286 | 1,439,055 |
| Total investment management fees | 15,369,616 | 39,815 | 89,236 | 15,498,667 |
| *Other investment fees* | | | | |
| *Investment consultant fees* | | | | |
| Summit Strategies, Inc. | 378,218 | 980 | 2,196 | 381,394 |
| Timberlink Consulting | 4,958 | 13 | 29 | 5,000 |
| *Investment custodial fees* | | | | |
| Mellon Bank | 915,391 | 2,371 | 5,315 | 923,077 |
| *Performance measurement fees* | | | | |
| Mellon Bank | 247,538 | 641 | 1,437 | 249,616 |
| *Portfolio rebalancing costs* | | | | |
| NISA Investment Advisors, LLC | 161,013 | 417 | 935 | 162,365 |
| *Internal investment activity expenses* | 1,221,588 | 3,165 | 7,093 | 1,231,846 |
| Total investing activity expenses | 18,298,322 | 47,402 | 106,241 | 18,451,965 |
| Securities lending activity | | | | |
| *Securities lending borrower rebates* | 14,112,689 | 36,559 | 81,938 | 14,231,186 |
| *Securities lending management fees* | | | | |
| Mellon Bank | 247,919 | 642 | 1,439 | 250,000 |
| Credit Suisse First Boston | 599,858 | 1,554 | 3,483 | 604,895 |
| Total securities lending activity expenses | 14,960,466 | 38,755 | 86,860 | 15,086,081 |
| Total investment expenses | $ 33,258,788 | $ 86,157 | $ 193,101 | $ 33,538,046 |

See accompanying *Independent Auditors' Report*.

# Schedule of Internal Investment Activity Expenses

## Pension Trust Funds - Year Ended June 30, 2003

| | MSEP | ALJLAP | Judicial Plan | Total |
|---|---|---|---|---|
| Personnel services | | | | |
| Salaries | $ 710,741 | $ 1,841 | $ 4,127 | $ 716,709 |
| Employee fringe benefits | 152,250 | 394 | 884 | 153,528 |
| Total personnel services | 862,991 | 2,235 | 5,011 | 870,237 |
| Professional services | | | | |
| Attorney services | 73,348 | 190 | 426 | 73,964 |
| Consulting services | 3,811 | 10 | 22 | 3,843 |
| Total professional services | 77,159 | 200 | 448 | 77,807 |
| Communications | | | | |
| Telephone | 1,307 | 3 | 8 | 1,318 |
| Total communications | 1,307 | 3 | 8 | 1,318 |
| Equipment | | | | |
| Maintenance | 37,809 | 98 | 220 | 38,127 |
| Total equipment | 37,809 | 98 | 220 | 38,127 |
| **Travel and meetings** | | | | |
| Staff travel and meetings | 56,949 | 148 | 331 | 57,428 |
| Total travel and meetings | 56,949 | 148 | 331 | 57,428 |
| **General** | | | | |
| Educational materials | 892 | 2 | 5 | 899 |
| Office supplies | 588 | 2 | 3 | 593 |
| Subscriptions and dues | 183,169 | 475 | 1,063 | 184,707 |
| Miscellaneous | 724 | 2 | 4 | 730 |
| Total general | 185,373 | 481 | 1,075 | 186,929 |
| Total administrative expenses | $ 1,221,588 | $ 3,165 | $ 7,093 | $ 1,231,846 |

See accompanying *Independent Auditors' Report*.

# Schedule of Administrative Expenses

## Pension Trust Funds - Year Ended June 30, 2003

| | MSEP | ALJLAP | Judicial Plan | Total |
|---|---|---|---|---|
| **Personnel services** | | | | |
| Salaries | $ 2,598,195 | $ 6,731 | $ 15,085 | $ 2,620,011 |
| Employee fringe benefits | 734,896 | 1,904 | 4,267 | 741,067 |
| Total personnel services | 3,333,091 | 8,635 | 19,352 | 3,361,078 |
| **Professional services** | | | | |
| Actuarial services | 214,247 | 555 | 1,244 | 216,046 |
| Attorney services | 24,927 | 65 | 145 | 25,137 |
| Auditing services | 38,040 | 99 | 221 | 38,360 |
| Banking services | 17,445 | 45 | 101 | 17,591 |
| Consulting services | 161,206 | 418 | 936 | 162,560 |
| Total professional services | 455,865 | 1,182 | 2,647 | 459,694 |
| **Communications** | | | | |
| Postage and mailing | 350,376 | 908 | 2,034 | 353,318 |
| Telephone | 36,687 | 95 | 213 | 36,995 |
| Printing | 208,485 | 540 | 1,211 | 210,236 |
| Video production | 557 | 1 | 3 | 561 |
| Total communications | 596,105 | 1,544 | 3,461 | 601,110 |
| **Building and grounds** | | | | |
| Depreciation | 82,385 | 213 | 479 | 83,077 |
| Utilities | 51,063 | 133 | 296 | 51,492 |
| Maintenance | 54,996 | 142 | 319 | 55,457 |
| Total building and grounds | 188,444 | 488 | 1,094 | 190,026 |
| **Equipment** | | | | |
| Depreciation | 354,301 | 918 | 2,057 | 357,276 |
| Maintenance | 200,397 | 519 | 1,164 | 202,080 |
| Rental | 105,862 | 274 | 615 | 106,751 |
| Loss on sale of equipment | 20,366 | 53 | 118 | 20,537 |
| Total equipment | 680,926 | 1,764 | 3,954 | 686,644 |
| **Travel and meetings** | | | | |
| Board travel and meetings | 27,398 | 71 | 159 | 27,628 |
| Staff travel and meetings | 217,447 | 563 | 1,263 | 219,273 |
| Vehicle maintenance and operation | 6,229 | 16 | 36 | 6,281 |
| Total travel and meetings | 251,074 | 650 | 1,458 | 253,182 |
| **General** | | | | |
| Educational materials | 24,480 | 63 | 142 | 24,685 |
| Office supplies | 173,440 | 449 | 1,007 | 174,896 |
| Subscriptions and dues | 145,278 | 376 | 843 | 146,497 |
| Insurance | 96,496 | 250 | 560 | 97,306 |
| Advertising | 3,138 | 8 | 18 | 3,164 |
| Temporary help | 3,014 | 8 | 17 | 3,039 |
| Miscellaneous | 3,014 | 8 | 18 | 3,040 |
| Total general | 448,860 | 1,162 | 2,605 | 452,627 |
| Total administrative expenses | $ 5,954,365 | $ 15,425 | $ 34,571 | $ 6,004,361 |

See accompanying *Independent Auditors' Report*.

# Schedule of Administrative Expenses

## Internal Service Fund - Year Ended June 30, 2003

| | |
|---|---|
| **Personnel services** | |
| Salaries | $ 229,900 |
| Employee fringe benefits | 61,663 |
| Total personnel services | 291,563 |
| **Professional services** | |
| Attorney services | 1,513 |
| Auditing services | 2,643 |
| Banking services | 550 |
| Total professional services | 4,706 |
| **Communications** | |
| Postage and mailing | 1,627 |
| Telephone | 2,640 |
| Video production expense | 39 |
| Total communications | 4,306 |
| **Building and grounds** | |
| Building use charge | 8,308 |
| Utilities | 3,548 |
| Maintenance | 3,821 |
| Total building and grounds | 15,677 |
| **Equipment** | |
| Equipment use charge | 36,503 |
| Maintenance | 15,775 |
| Rental | 7,355 |
| Total equipment | 59,633 |
| **Travel and meetings** | |
| Board travel and meetings | 1,206 |
| Staff travel and meetings | 19,762 |
| Vehicle maintenance and operation | 433 |
| Total travel and meetings | 21,401 |
| **General** | |
| Educational materials | 1,763 |
| Office supplies | 12,091 |
| Subscriptions and dues | 2,976 |
| Insurance | 6,704 |
| Advertising | 218 |
| Temporary help | 209 |
| Miscellaneous | 260 |
| Total general | 24,221 |
| Total administrative expenses | $ 421,507 |

See accompanying *Independent Auditors' Report*.

# Schedule of Professional/Consultant Fees
## Year Ended June 30, 2003

| | | Pension Trust Funds | | | | Internal Service Fund |
|---|---|---|---|---|---|---|
| Professional/Consultant | Nature of Service | MSEP | ALJLAP | Judicial Plan | Total | Missouri State Insurance Plan |
| Gabriel, Roeder, Smith & Co. | Actuarial | $ 214,246 | $ 556 | $ 1,244 | $216,046 | $ 0 |
| Thompson Coburn | Legal counsel | 24,928 | 64 | 145 | 25,137 | 1,513 |
| KPMG LLP | Financial audit | 38,040 | 99 | 221 | 38,360 | 2,643 |
| Jack Pierce | Governmental pension consulting | 29,750 | 77 | 173 | 30,000 | 0 |
| Central Bank | Banking | 17,445 | 45 | 101 | 17,591 | 550 |
| Buck Consultants | Actuarial audit | 47,104 | 122 | 274 | 47,500 | 0 |
| Qflow Systems, LLC | Image system consulting | 595 | 2 | 3 | 600 | 0 |
| Charlesworth & Associates | Risk management consulting | 5,966 | 15 | 35 | 6,016 | 0 |
| Cortex Applied Research, Inc. | Governance consulting | 25,625 | 66 | 149 | 25,840 | 0 |
| Huber & Associates | AS400 hardware installation consulting | 14,875 | 39 | 86 | 15,000 | 0 |
| Malicoat-Winslow Engineers, PC | Building's air conditioner study | 198 | 1 | 1 | 200 | 0 |
| PeopleSoft | Accounting software consultant | 2,287 | 6 | 13 | 2,306 | 0 |
| Voice Retrieval & Information Services | Board election voting | 34,806 | 90 | 202 | 35,098 | 0 |
| Total professional/consultant fees | | $ 455,865 | $ 1,182 | $ 2,647 | $ 459,694 | $ 4,706 |

See accompanying *Independent Auditors' Report*.
Information on investment management and consulting fees can be found in the *Schedule of Investment Expenses* on page 41.

# Investment Summary
## Pension Trust Funds - Year Ended June 30, 2003

| | June 30, 2002 | | | | June 30, 2003 | | |
|---|---|---|---|---|---|---|---|
| Type of Investment | 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 | $ 668,345,531 | $ 741,830,188 | $ 1,339,281,748 | $ (1,077,762,640) | $ 929,864,639 | $ 1,032,342,022 | 21% |
| Govt. Bonds and govt. mortgage-backed securities | 338,270,568 | 349,522,964 | 1,239,487,651 | (1,441,963,946) | 135,794,273 | 141,092,001 | 3 |
| Corporate bonds | 572,603,067 | 570,744,962 | 767,664,704 | (1,056,434,948) | 283,832,823 | 295,536,548 | 6 |
| Convertible bonds | 150,000 | 204,750 | 2,672,991 | (1,533,593) | 1,289,398 | 1,375,050 | 0 |
| Collateralized mortgage obligations | 105,924,517 | 107,670,076 | 20,674,006 | (80,182,716) | 46,415,807 | 47,775,046 | 1 |
| International corporate bonds | 38,369,264 | 38,323,464 | 70,831,802 | (85,717,670) | 23,483,396 | 24,565,996 | 0 |
| Total fixed income | 1,723,662,947 | 1,808,296,404 | 3,440,612,902 | (3,743,595,513) | 1,420,680,336 | 1,542,686,663 | 31 |
| Common stock | 1,764,941,441 | 1,585,534,914 | 720,370,080 | (1,126,074,174) | 1,359,237,347 | 1,265,718,764 | 25 |
| Preferred stock | 6,423,300 | 4,709,567 | 10,454,772 | (3,048,894) | 13,829,178 | 15,899,659 | 0 |
| International investments | | | | | | | |
| International equities | 881,761,307 | 909,173,125 | 1,106,475,224 | (1,287,738,798) | 700,497,733 | 787,531,145 | 16 |
| Foreign currency | 14,698,099 | 19,428,087 | 30,699,813 | (14,698,099) | 30,699,813 | 30,943,450 | 1 |
| EAFE index fund | 386,341,377 | 294,028,371 | 0 | (97,549,634) | 288,791,743 | 198,123,067 | 4 |
| Total international investments | 1,282,800,783 | 1,222,629,583 | 1,137,175,037 | (1,399,986,531) | 1,019,989,289 | 1,016,597,662 | 20 |
| Real estate | | | | | | | |
| Equity holdings | 5,658,746 | 5,658,746 | 51,034,182 | (50,300,148) | 6,392,780 | 6,392,780 | 0 |
| REITs | 246,502,582 | 254,553,971 | 15,462,740 | (108,456,451) | 153,508,871 | 156,622,657 | 3 |
| Total real estate | 252,161,328 | 260,212,717 | 66,496,922 | (158,756,599) | 159,901,651 | 163,015,437 | 3 |
| Limited partnerships | 0 | 114,882 | 1,007,849,117 | (120,903,396) | 886,945,721 | 992,007,182 | 20 |
| Investments (per Statement of Plan Net Assets page 24) | 5,029,989,799 | 4,881,498,067 | 6,382,958,830 | (6,552,365,107) | 4,860,583,522 | 4,995,925,367 | 100% |
| Short-term investments | | | | | | | |
| Short-term investment funds | 383,864,683 | 383,864,684 | 3,282,169,186 | (3,413,477,855) | 252,556,014 | 252,556,014 | |
| Repurchase agreements | 2,284,402 | 2,284,401 | 153,171,537 | (155,040,263) | 415,676 | 415,676 | |
| Total short-term investments | 386,149,085 | 386,149,085 | 3,435,340,723 | (3,568,518,118) | 252,971,690 | 252,971,690 | |
| Invested securities lending collateral | | | | | | | |
| Corporate bonds | 435,655,120 | 434,349,750 | 457,121,749 | (266,124,890) | 626,651,979 | 626,871,678 | |
| Short-term investment funds | 574,524,399 | 574,524,400 | 67,118,302,100 | (67,062,142,343) | 630,684,156 | 630,684,156 | |
| Total invested securities lending collateral | 1,010,179,519 | 1,008,874,150 | 67,575,423,849 | (67,328,267,233) | 1,257,336,135 | 1,257,555,834 | |
| Total investments | $ 6,426,318,403 | $ 6,276,521,302 | $ 77,393,723,402 | $ (77,449,150,458) | $ 6,370,891,347 | $ 6,506,452,891 | |

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, 2003

| | June 30, 2002 | | | | June 30, 2003 | | |
|---|---|---|---|---|---|---|---|
| Type of Investment | Cost Value | Fair Value | Purchases and Capital Additions at Cost | Sales and Redemptions at Cost | Cost Value | Fair Value | Percentage of Total Fair Value |
| Repurchase agreements | $1,606,156 | $1,606,156 | $494,936,907 | $(494,793,446) | $1,749,617 | $1,749,617 | 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.

The word "penny" is derived from the British coin pence. Over 300 billion one-cent coins, with 11 different designs, have been minted since 1787. Today, the United States has four mints which produce coins. They are located in Philadelphia, PA; San Francisco, CA; Denver, CO; and West Point, NY. However; only Philadelphia and Denver produce coins for general circulation. The others make proof sets and perform specialty minting.