The Corps of Discovery

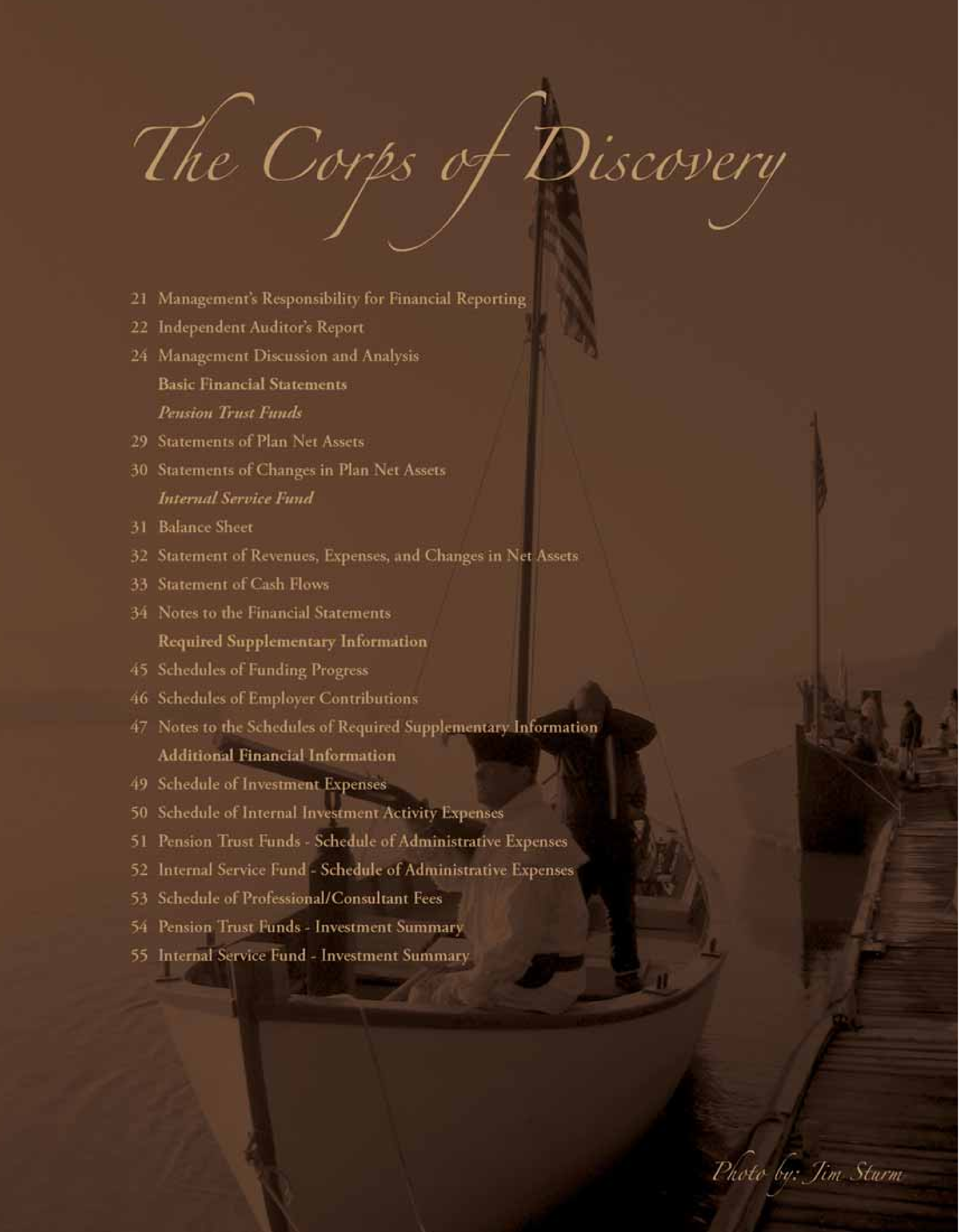

Photo by: Jim Sturm

Management's Responsibility for Financial Reporting

MOSERS®

September 30, 2004

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 safeguarded, and proper records maintained. These controls include standards in hiring and training of employees, the establishment of an organizational structure, and the communications 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 pages 22-23. 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 Financial Officer

Independent Auditors' Report

KPMG LLP
Suite 1000
1000 Walnut Street
Kansas City, MO 64106-2162

Independent Auditors' Report

The Board of Trustees
Missouri State Employees' Retirement System

We have audited the accompanying basic financial statements of the Missouri State Employees' Retirement System (MOSERS), a component unit of the state of Missouri, as of and for the year ended June 30, 2004, as listed in the accompanying table of contents. We have also audited the financial statements of MOSERS' Internal Service Fund as of and for the year ended June 30, 2004, as displayed in MOSERS' basic financial statements. These financial statements are the responsibility of MOSERS' 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 referred to above present fairly, in all material respects, the financial position of MOSERS, as well as MOSERS Internal Service Fund, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 2, MOSERS adopted the provisions of Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*.

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 24-28 and the supplementary schedules of funding progress and employer contributions on pages 45-48 are not a required part of the basic financial statements of the MOSERS, but are supplementary information required by accounting principles generally accepted in the United States of America. The supplementary information included on pages 49-55 is presented for purposes of additional analysis and is not a required part of the basic financial statements of MOSERS.

The information included on pages 49-55 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. For the supplementary management discussion and analysis and supplementary schedules of funding progress and employer contributions, we have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. The introductory, investment, actuarial, and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

Kansas City, Missouri
September 3, 2004

KPMG LLP, a U.S. Limited liability partnership, in the U. S. member firm of KPMG International, a Swiss cooperative.

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 snap shot 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 summarizes the pension fund financial transactions that occurred during the fiscal year where Additions – Deductions = Net Change in Net Assets. It 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 Plan Net Assets* in that it also is a snap shot 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 *Statement of Changes in Plan Net Assets* in that it also reports the financial activity that occurred over the period of the fiscal year where Revenues – Expenses = Net Revenue and supports the change to the prior years net assets.

The ***Statement of Cash Flows*** of the Internal Service Fund reports the financial 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 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 Management Discussion and Analysis* information and the required supplementary information and other schedules following the *Notes to the Financial Statements* provide historical and detailed information considered useful in evaluating the condition of the plans administered by MOSERS.

Pages 25-28 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, 2004	As of June 30, 2003	Amount of Change	Percentage Change
Cash and short-term investments	$ 277,416,406	$ 305,694,180	$ (28,277,774)	(9.25)%
Receivables	176,080,273	180,555,167	(4,474,894)	(2.48)
Investments	5,659,545,870	4,995,925,367	663,620,503	13.28
Invested securities lending collateral	1,188,833,864	1,257,555,834	(68,721,970)	(5.46)
Capital assets	3,615,140	3,611,242	3,898	0.11
Other assets	24,732	47,143	(22,411)	(47.54)
Total assets	7,305,516,285	6,743,388,933	562,127,352	8.34
Administrative expense payables	2,225,818	2,128,236	97,582	4.59
Investment purchase payables	179,856,429	248,794,828	(68,938,399)	(27.71)
Securities lending collateral	1,188,424,688	1,257,336,137	(68,911,449)	(5.48)
Other liabilities	20,078,563	283,605	19,794,958	6979.76
Total liabilities	1,390,585,498	1,508,542,806	(117,957,308)	(7.82)
Net assets	$ 5,914,930,787	$ 5,234,846,127	$ 680,084,660	12.99

Summary Comparative Statements of Plan Net Assets Analysis

The decrease in cash and short-term investments is primarily attributable to normal fluctuations in the short-term investments. For the year ended June 30, 2004, the month-end balance of short-term investments ranged from a low of $238,716,850 in July 2003 to a high of $362,149,803 in April 2004 with an average balance of $287,059,249 for the year.

The decrease in receivables is attributable to normal fluctuations in investment income receivables during the year. For the year ended June 30, 2004, the month-end balance of investment income receivables ranged from a low of $15,852,060 in April 2004 to a high of $33,722,484 in July 2003 with an average receivable balance of $23,794,965.

The increase in the fair value of investments is primarily attributable to the favorable market conditions experienced during FY04 as evidenced by MOSERS' total investment return for the year of 17.1%. Detailed information regarding MOSERS' investment portfolio is included in the investment section of this report.

The decrease in security lending collateral is due to normal fluctuations in the lending program. The month-end collateral balances ranged from a low of $1,188,424,687 in July 2004 to a high of $1,463,944,295 in March 2004 with an average balance of $1,310,652,894 for the year. The investment of the collateral fluctuated in a similar manner except that, since a portion of the collateral is invested in corporate bonds, the invested collateral benefited from the market gains on those bonds.

The decrease in investment purchases payable is due to normal fluctuations in the amount of security purchases pending settlement at month-end. For the year ended June 30, 2004, the month-end balances of the investment purchase payables ranged from a low of $123,927,210 in April 2004 to a high of $219,926,893 in December 2003 with an average balance of $164,802,090.

The increase in other liabilities is primarily attributable to the accrual of the new investment manager incentive fees of $19,776,836. The amount represents the portion of the incentive fee calculated as earned through June 30, 2004, to be paid in the future subject to the investment manager's attainment of certain long-term performance measures.

Summary Comparative Statements of Changes in Plan Net Assets

	As of June 30, 2004	As of June 30, 2003	Amount of Change	Percentage Change
Contributions	$ 189,866,977	$ 182,073,252	$ 7,793,725	4.28%
Investment income (loss) investing activities	877,901,329	331,739,686	546,161,643	164.64
Investment income securities lending activities	4,036,654	3,956,537	80,117	2.02
Miscellaneous income	474,339	441,249	33,090	7.50
Total additions	1,072,279,299	518,210,724	554,068,575	106.92
Benefits	385,909,723	337,451,395	48,458,328	14.36
Service transfers and refunds	537,762	2,191,487	(1,653,725)	(75.46)
Administrative expenses	5,747,154	6,004,361	(257,207)	(4.28)
Total deductions	392,194,639	345,647,243	46,547,396	13.47
Net increase (decrease)	680,084,660	172,563,481	507,521,179	294.11
Net assets beginning of year	5,234,846,127	5,062,282,646	172,563,481	3.41
Net assets end of year	$ 5,914,930,787	$ 5,234,846,127	$ 680,084,660	12.99

Summary Comparative Statements of Changes in Plan Net Assets Analysis

The increase in contributions received is primarily attributable to an increase in the contribution rate for the general employees group from 8.51% to 9.35% offset by a reduction in the state's payroll of approximately $2,400,000.

Investment income increased primarily as a result of the continuation of the favorable market conditions that began towards the end of FY03 as the economy continued to show signs of improvement. Security lending income increased primarily due to an increase in lendable treasury securities.

Additional information regarding the security lending activity can be found in the investment section of this report.

Benefit payments increased due to changes in benefit rolls for the year. Detailed schedules of these changes can be found on pages 110-117 of the Actuarial Section of this report.

Service transfers decreased primarily due to a one-time transfer of $2,050,813 from MOSERS to the MoDOT & Patrol Employees' Retirement System (formally known as the Highway Transportation Employees' and Highway Patrol Retirement System of Missouri) that occurred in the fiscal year ended June 30, 2003.

Administration expenses decreased primarily due to a decrease in depreciation expense of $196,643. A portion of MOSERS' capital assets became fully depreciated last year, thus resulting in no depreciation expense recorded this year for those assets. Printing charges decreased by $66,453 primarily due to a reduction in the quantity of annual reports, brochures and handbooks that required printing this year.

Internal Service Fund

Summary Comparative Balance Sheets

	As of June 30, 2004	As of June 30, 2003	Amount of Change	Percentage Change
Premiums receivable	$ 1,065,315	$ 1,031,950	$ 33,365	3.23%
Investments	1,762,813	1,749,617	13,196	0.75
Total assets	2,828,128	2,781,567	46,561	1.67
Premiums payable	2,387,345	2,338,210	49,135	2.10
Other liabilities	123,422	112,798	10,624	9.42
Total liabilities	2,510,767	2,451,008	59,759	2.44
Unrestricted Net Assets	317,361	330,559	(13,198)	(3.99)
Total liabilities and net assets	$ 2,828,128	$ 2,781,567	$ 46,561	1.67

Summary Comparative Balance Sheet Analysis

Premium receivables and payables increased due to normal fluctuations in the amount of insurance coverage provided to state employees. Likewise, the investment of those premiums until paid to the insurance company also increased.

Other liabilities increased primarily due to reimbursements due to the pension trust funds for the internal service funds portion of shared expenses and for attorney fees related to long-term disability issues.

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

	As of June 30, 2004	As of June 30, 2003	Amount of Change	Percentage Change
Premium receipts	$ 25,771,703	$ 25,223,043	$ 548,660	2.18%
Miscellaneous income	436,489	436,494	(5)	0.00
Total operating revenue	26,208,192	25,659,537	548,655	2.14
Premium disbursements	25,736,083	25,169,883	566,200	2.25
Premium refunds	35,620	53,160	(17,540)	(32.99)
Administrative expenses	474,040	421,507	52,533	12.46
Total operating expenses	26,245,743	25,644,550	601,193	2.34
Net operating income (loss)	(37,551)	14,987	(52,538)	(350.56)
Investment income	24,353	31,179	(6,826)	(21.89)
Net revenues over expenses	(13,198)	46,166	(59,364)	(128.59)
Net assets beginning of year	330,559	284,393	46,166	16.23
Net assets end of year	$ 317,361	$ 330,559	$ (13,198)	(3.99)

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

Premium receipts and disbursements increased due to normal fluctuations in the amount of insurance coverage provided to state employees.

Refunds decreased as MOSERS continued to work with the state of Missouri to identify and resolve issues with the state's new payroll/accounting system implemented in FY01, taking advantage of some process improvements that resulted in a reduction in deduction errors requiring refunds.

Administrative expenses increased primarily due to increase in salaries of $34,059 and an increase of attorney fees in the amount of $15,957 related to long-term disability issues.

Investment income decreased primarily due to a decline in the interest earned on the overnight repurchase agreements, which is tied to the three-month Treasury note rate.

Summary Comparative Statements of Cash Flows

	As of June 30, 2004	As of June 30, 2003	Amount of Change	Percentage Change
Cash flows from operating activities	$ (10,695)	$ 114,783	$ (125,478)	(109.32)%
Cash flows from noncapital financing activities	(462)	(2,500)	2,038	(81.52)
Cash flows from investing activities	11,157	(112,283)	123,440	(109.94)
Net change in cash	0	0	0	
Cash balances beginning of year	0	0	0	
Cash balances end of year	$ 0	$ 0	$ 0	

Summary Comparative Statements of Cash Flows Analysis

The decrease in cash flows from operating activities is primarily attributable to an increase in cash flow premium payments to the insurance company over the cash receipt of premiums from the state during the year.

The increase in cash flows from noncapital financing activities is attributable to the lower volume of refund checks issued during the year, which resulted in a lower volume of checks that remained outstanding at the end of the year.

The increase in cash flows from investing activities is primarily attributable to the increase in the amount of premiums processed during the year, which resulted in an increase of $130,266 in the net cash flows from the overnight repurchase agreements. The increase was offset by a $6,826 reduction in the income earned on the overnight repurchase agreements.

Statements of Plan Net Assets

Pension Trust Funds - As of June 30, 2004

	MSEP	ALJLAP	Judicial Plan	Total
Assets				
Cash and short-term investments	$ 274,854,578	$ 737,395	$ 1,824,433	$ 277,416,406
Receivables				
State contributions	8,098,250	39,748	865,222	9,003,220
Investment income	26,309,267	70,584	174,636	26,554,487
Investment sales	139,108,233	373,207	923,374	140,404,814
Other	116,665	313	774	117,752
Total receivables	173,632,415	483,852	1,964,006	176,080,273
Investments at fair value				
U.S. treasury securities	1,040,394,634	2,791,228	6,905,943	1,050,091,805
Corporate bonds	404,529,923	1,085,295	2,685,193	408,300,411
Convertible bonds	15	0	0	15
Government bonds & gov't mortgage-backed securities	166,800,023	447,500	1,107,187	168,354,710
Real estate equity	6,333,745	16,993	42,042	6,392,780
Common stock	1,406,909,800	3,774,536	9,338,801	1,420,023,137
International EAFE index fund	169,498,988	454,741	1,125,102	171,078,831
Preferred stock	16,010,677	42,954	106,276	16,159,907
Limited partnerships	1,233,626,906	3,309,643	8,188,582	1,245,125,131
Real estate investment trust	153,730,062	412,436	1,020,431	155,162,929
Collateralized mortgage obligation	43,321,192	116,224	287,558	43,724,974
Foreign currency	7,469,966	20,041	49,584	7,539,591
International equities	922,041,643	2,473,705	6,120,338	930,635,686
U.S. dollar-denominated international corporate bonds	36,614,690	98,232	243,041	36,955,963
Total investments	5,607,282,264	15,043,528	37,220,078	5,659,545,870
Securities lending collateral	1,177,855,466	3,160,016	7,818,382	1,188,833,864
Capital assets				
Land	264,818	710	1,758	267,286
Building and building improvements	3,320,543	8,909	22,041	3,351,493
Furniture, fixtures, and equipment	1,880,277	5,045	12,481	1,897,803
Total capital assets	5,465,638	14,664	36,280	5,516,582
Accumulated depreciation	(1,883,883)	(5,054)	(12,505)	(1,901,442)
Net capital assets	3,581,755	9,610	23,775	3,615,140
Prepaid expenses and other	24,503	66	163	24,732
Total assets	7,237,230,981	19,434,467	48,850,837	7,305,516,285
Liabilities				
Administrative expense payables	2,205,264	5,916	14,638	2,225,818
Investment purchases payables	178,195,528	478,073	1,182,828	179,856,429
Securities lending collateral	1,177,450,069	3,158,928	7,815,691	1,188,424,688
Investment incentive fees payable	19,594,204	52,568	130,063	19,776,835
Real estate security deposits	30,959	83	206	31,248
Employee vacation and overtime liability	267,982	719	1,779	270,480
Total liabilities	1,377,744,006	3,696,287	9,145,205	1,390,585,498
Net assets held in trust for pension benefits	$5,859,486,975	$15,738,180	$39,705,632	$5,914,930,787

(A schedule of funding progress for each plan is presented on page 45.)
See accompanying *Notes to the Financial Statements*.

Statements of Changes in Plan Net Assets

Pension Trust Funds - As of June 30, 2004

	MSEP	ALJLAP	Judicial Plan	Total
Additions				
Contributions				
State contributions	$ 164,691,836	$ 945,950	$20,636,314	$ 186,274,100
Member purchases of service credit	3,426,367	0	0	3,426,367
Service transfer contributions	166,510	0	0	166,510
Total contributions	168,284,713	945,950	20,636,314	189,866,977
Investment income				
From investing activities				
Net appreciation in fair value of investments	780,183,787	2,093,120	5,178,712	787,455,619
Interest	106,701,476	286,265	708,264	107,696,005
Dividends	23,521,415	63,105	156,131	23,740,651
Other	14,223,178	38,159	94,410	14,355,747
Total investing activity income	924,629,856	2,480,649	6,137,517	933,248,022
Investing activity expenses:				
Management fees	(51,706,993)	(138,722)	(343,221)	(52,188,936)
Custody fees	(862,864)	(2,315)	(5,728)	(870,907)
Consultant fees	(444,390)	(1,192)	(2,950)	(448,532)
Performance measurement fees	(263,782)	(708)	(1,751)	(266,241)
Portfolio transition/rebalancing cost	(164,263)	(441)	(1,090)	(165,794)
Internal investment activity expenses	(1,382,029)	(3,708)	(9,174)	(1,394,911)
Miscellaneous expense	(11,267)	(30)	(75)	(11,372)
Total investing activity expenses	(54,835,588)	(147,116)	(363,989)	(55,346,693)
Net income from investing activities	869,794,268	2,333,533	5,773,528	877,901,329
From securities lending activities:				
Securities lending income	17,341,352	46,524	115,109	17,502,985
Securities lending expenses:				
Borrower rebates	(12,374,726)	(33,200)	(82,141)	(12,490,067)
Management fees	(967,249)	(2,595)	(6,420)	(976,264)
Total securities lending activities expenses	(13,341,975)	(35,795)	(88,561)	(13,466,331)
Net income from securities lending activities	3,999,377	10,729	26,548	4,036,654
Total net investment income	873,793,645	2,344,262	5,800,076	881,937,983
Miscellaneous income	469,959	1,261	3,119	474,339
Total additions	1,042,548,317	3,291,473	26,439,509	1,072,279,299
Deductions				
Benefits	317,554,338	1,003,355	17,658,269	336,215,962
Benefit adjustments	49,693,761	0	0	49,693,761
Service transfer payments	529,177	0	0	529,177
Contribution refunds	8,585	0	0	8,585
Administrative expenses	5,694,082	15,276	37,796	5,747,154
Total deductions	373,479,943	1,018,631	17,696,065	392,194,639
Net increase (decrease)	669,068,374	2,272,842	8,743,444	680,084,660
Net assets held in trust for pension benefits:				
Beginning of year	5,190,418,601	13,465,338	30,962,188	5,234,846,127
End of year	$5,859,486,975	$15,738,180	$39,705,632	$5,914,930,787

See accompanying *Notes to the Financial Statements*.

Balance Sheet

Internal Service Fund - As of June 30, 2004

Assets	
Premiums receivable	$ 1,065,315
Investments at fair value	1,762,813
Total assets	$ 2,828,128
Liabilities and net assets	
Liabilities	
Premiums payable	$ 2,387,345
Checks outstanding net of deposits	2,558
Other	120,864
Total liabilities	2,510,767
Unrestricted net assets	317,361
Total liabilities and net assets	$ 2,828,128

See accompanying *Notes to the Financial Statements*.

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

Internal Service Fund - As of June 30, 2004

Operating revenues	
Premium receipts	$ 25,771,703
Miscellaneous income	436,489
Total operating revenues	26,208,192
Operating expenses	
Premium disbursements	25,736,083
Premium refunds	35,620
Administrative expenses	474,040
Total operating expenses	26,245,743
Operating revenues under operating expenses	(37,551)
Non-operating revenues	
Investment income	24,353
Net revenues under expenses	(13,198)
Net assets July 1, 2003	330,559
Net assets June 30, 2004	$ 317,361

See accompanying *Notes to the Financial Statements*.

Statement of Cash Flows

Internal Service Fund - Year Ended June 30, 2004

Cash flows from operating activities	
Cash received from employer and members	$ 26,174,772
Premium payments to outside carriers	(25,686,476)
Refunds of premiums to members	(35,620)
Cash payments to employees for services	(242,107)
Cash payments to other suppliers of goods and services	(221,264)
Net cash used in operating activities	(10,695)
Cash flows from noncapital financing activities	
Implicit funding of checks outstanding net of deposits	2,558
Implicit repayment of prior years checks outstanding net of deposits	(3,020)
Net cash used in noncapital financing activities	(462)
Cash flows from investing activities	
Purchase of investment securities	(499,097,692)
Proceeds from sale and maturities of investment securities	499,084,496
Cash received from investment income	24,353
Net cash provided by investing activities	11,157
Net increase in cash	0
Cash balances June 30, 2003	0
Cash balances June 30, 2004	$ 0
Reconciliation of operating revenues under operating expenses to net cash used in operating activities	
Operating revenues under operating expenses	$ (37,551)
Adjustments to reconcile operating revenues under operating expenses to net cash used in operating activities:	
Change in assets and liabilities:	
Increase in operational accounts receivable	(33,368)
Increase in operational accounts payable	60,224
Total adjustments	26,856
Net cash used in operating activities	$ (10,695)

See accompanying *Notes to the Financial Statements*.

Notes to the Financial Statements

June 30, 2004

(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 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 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 after July 2000 are eligible for membership in the MSEP 2000 (new plan). MOSERS participates as an employer in the MSEP plan.

As of June 30, 2004, membership in the MSEP consisted of the following:

Retirees and beneficiaries currently receiving benefits		24,757
Terminated employees entitled to, but not yet receiving benefits		13,796
Active:		
Vested	35,664	
Non-vested	20,250	55,914
Total membership		94,467

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 48 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 five, but less than ten 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 48 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, are refundable to the member or designated beneficiaries upon request.

Administrative Law Judges and Legal Advisors' Plan (ALJLAP)
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 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, 2004, membership in the ALJLAP consisted of the following:

Retirees and beneficiaries currently receiving benefits		25
Terminated employees entitled to, but not yet receiving benefits		29
Active:		
Vested	57	
Nonvested	0	57
Total membership		111

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

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 five, but less than ten 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 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, 2004, membership in the Judicial Plan consisted of the following:

Retirees and beneficiaries currently receiving benefits		397
Terminated employees entitled to, but not yet receiving benefits		73
Active:		
Vested	391	
Nonvested	0	391
Total membership		861

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 compensation on the highest court served.

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 members of the MSEP and MSEP 2000 (except employees of the Missouri Department of Conservation, and certain state colleges and universities);
- Members of the Judicial Plan;
- Members of the ALJLAP; and
- Certain 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 the *Summary of Plan Provisions- Life Insurance Plans* in the Actuarial Section 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 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 due to MOSERS when employee services have been performed and paid. Contributions are recognized as revenues when due, pursuant to statutory requirements. Benefits and refunds are recognized when due and payable 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.

The system opted for early implementation of GASB Statement No. 40, Deposit and Investment Risk Disclosures, issued in March 2003. This pronouncement requires additional disclosures presented in these notes but has no impact on the system's net assets. These disclosures address common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Included as an element of interest rate risk, Statement No. 40 requires disclosures of investments that have fair values that are highly sensitive to changes in interest rates.

Cash
Custodial credit risk for deposits is the risk that in the event of a bank failure, the system and plans' deposits may not be returned to them. The deposits are held in one financial institution with a balance of up to $100,000 insured by the Federal Deposit Insurance Corporation (FDIC). The system mitigates custodial credit risk for deposits by requiring the bank to pledge securities from an acceptable list in an amount over the FDIC insured amount of at least equal in market value to 100% of the aggregate amount of the deposits. These securities are required to be delivered to a third party institution mutually agreed upon by the bank and MOSERS.

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 table at the top of the following page is a schedule of the aggregate book and bank balances of all cash accounts. 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, 2004, as collateral for overnight repurchase agreements:

- $1,000,000 FHLMC Discount Note *Maturity Date 09/09/2004*
- $600,277 Small Business Association Pool # 505172 *Maturity Date 08/25/2014*
- $925,553 Small Business Association Pool # 505327 *Maturity Date 01/25/2021*
- $427,069 Small Business Association Pool # 504008 *Maturity Date 12/25/2022*

	Cash Balances	
	Book	Banks and Investment Custodian
Pension Trust Funds	$(7,251,796)	$7,082
Internal Service Fund	(2,558)	79

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 42 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 commingled funds are determined based on the underlying asset values. 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, 2004, 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.

Credit Risk
Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to MOSERS. As of June 30, 2004, MOSERS' fixed income assets that are not government guaranteed represented 66% of the fixed income portfolio. In preparing this report, credit risk associated with all fixed income holdings including collateral for repurchase agreements and securities lending collateral has been included. The following tables summarize MOSERS' fixed income portfolio exposure levels and credit qualities.

Average Credit Quality and Exposure Levels of Nongovernment Guaranteed Securities

Fixed Income Security Type	Market Value June 30, 2004	Percent of All Fixed Income Assets	Weighted Average Credit Quality	Ratings Dispersion Requiring Further Exposure
Mortgages	$ 99,885,251	3.2%	Agency	None
Agencies	41,468,701	1.3	Agency	None
Collateralized mortgage obligations	137,368,095	4.4	AAA	See below
Asset-backed securities	490,391,815	15.6	AAA	See below
Corporate bonds	914,319,090	29.0	BBB	See below
Commercial paper	327,145,568	10.4	Mid tier 1 & 2	See below
Preferred stock	942,700	0.0	CCC	None
Pooled investments	66,417,490	2.1	Not rated	None
Total	$2,077,938,710	66.0%		

Ratings Dispersion Detail

Credit Rating Level	Collateralized Mortgage Obligations	Asset-Backed Securities	Corporate Bonds	Commercial Paper
Agency	$ 9,415,886			
AAA	127,100,200	$458,979,249	$ 89,918,438	
AA			38,634,675	
A			431,123,517	
BBB		187,260		
BB			73,629,832	
B		2,621,829	192,425,041	
CCC			47,931,580	
CC			2,107,921	
Tier 1		28,603,477	30,000,133	$116,498,953
Tier 2				207,143,855
Not rated	852,009		8,547,951	3,502,760
Total	$137,368,095	$490,391,815	$914,319,088	$327,145,568

As a matter of practice, there are no overarching limitations for credit risk exposures within the portfolio. Each portfolio is managed in accordance with operational guidelines that are specific as to permissible credit quality ranges, exposure levels within individual quality tiers, and the average credit quality of the overall portfolios. CC is the only rating level from above that is not permissible in any of the guidelines. However, in circumstances where downgrades occurred subsequent to purchase (as is the case with the current exposure of $2.1 million), investment managers have been given permission to hold the security due to several mitigating circumstances such as a very short maturity or a much higher rating from other rating agencies, among others.

Credit risk for derivative instruments held by the system results from counterparty risk assumed by MOSERS. This is essentially the risk that the borrower will be unable to meet its obligation. Information regarding MOSERS' credit risk related to derivatives is found under the derivatives disclosures found on page 40-41 of these notes.

Policies related to credit risk pertaining to MOSERS' securities lending program is found under the securities lending disclosures found on page 42-43 of these notes.

Concentration of Credit Risk
Concentration of credit risk is the risk of loss that may be attributed to the magnitude of a government's investment in a single issue. MOSERS' operational guidelines for each specific portfolio limits investments in any corporate entity to no more than 5% of the market value of the account for both the internally- and externally-managed portfolios.

Interest Rate Risk
Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. This risk is managed within the portfolio using the effective duration or option-adjusted methodology. It is widely used in the management of fixed income portfolios in that it quantifies to a much greater degree the risk of interest rate changes. The methodology takes into account optionality on bonds and scales the risk of price changes on bonds depending upon the degree of change in rates and the slope of the yield curve. All of the system's fixed income portfolios are managed in accordance with operational guidelines most of which are quite specific as to the degree of interest rate risk taken. In one instance in which guidelines are less specific as to interest rate risk, and rather implied in the guidelines, it is because credit risk is the predominant risk in the portfolio, and the guidelines are very specific to that point. It is believed that the reporting of effective duration found in the tables below quantifies to the fullest extent possible the interest rate risk of the system's fixed income assets. Floating rate assets that are structurally complex and contain inappropriate coupon adjustment mechanisms are expressly forbidden by the guidelines and are therefore not present in any of the portfolios. Interest rate risks associated with swaps and other derivative instruments are found in the derivatives disclosures on pages 40-41 of these notes.

Effective Duration of Fixed Income Assets by Security Type

Fixed Income Security Type	Market Value June 30, 2004	Percent of All Fixed Income Assets	Weighted Avg. Effective Duration (years)	Interest Rate Risk Requiring Further Exposure
U.S. treasuries	$1,060,768,636	33.7%	7.9	See below
Government guaranteed mortgages	9,928,006	0.3	3.1	None
Mortgages	99,885,251	3.2	4.0	None
Agencies	41,468,701	1.3	0.9	None
Collateralized mortgage obligations	137,368,095	4.4	0.3	None
Asset backed securities	490,391,815	15.6	0.3	None
Corporate bonds	914,319,090	29.0	2.0	None
Commercial paper	327,145,568	10.4	0.1	None
Preferred stock	942,700	0.0	2.6	None
Pooled investments	66,417,490	2.1	0.1	None
Total	$3,148,635,352	100.0%	3.5	

Effective Duration Analysis of U.S. Treasuries

Fixed Income Security Type	Market Value 6/30/04	Average Effective Duration of the Security Type	Contribution Effective Duration
Less than 1 year to maturity	$ 16,155,648	0.2	0.0
1 to 10 year maturities	714,400,584	5.1	3.4
Long coupon treasuries	224,259,660	11.8	2.5
Long stripped treasuries	105,952,744	19.5	2.0
	$1,060,768,636		7.9

Foreign Currency Risk
Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. MOSERS' currency risk exposures, or exchange rate risk, primarily reside within MOSERS' international equity investment holdings. From time to time, MOSERS' external managers may or may not hedge the portfolio's foreign currency exposures with currency forward contracts depending upon their views on a specific foreign currency relative to the U.S. dollar.

MOSERS' exposure to foreign currency risk in U.S. dollars as of June 30, 2004 is highlighted in the table below.

Currency Exposures by Asset Class

Currency	Cash	Equities	Fixed Income	Total
Argentina Peso	$ 0	$ 578,584	$ 0	$ 578,584
Australian Dollar	0	7,919,262	0	7,919,262
Brazilian Real	0	16,916,884	0	16,916,884
Canadian Dollar	0	19,038,986	0	19,038,986
Chilean Peso	0	3,628	0	3,628
Colombian Peso	0	25,082	0	25,082
Czech Koruna	0	582,076	0	582,076
Danish Krone	0	17,134,608	0	17,134,608
Egyptian Pound	0	538,304	0	538,304
Euro	33,405,538	244,675,267	845,436	278,926,241
Hong Kong Dollar	0	44,452,212	0	44,452,212
Hungarian Forint	0	972,771	0	972,771
Indian Rupee	0	3,479,458	0	3,479,458
Indonesian Rupiah	0	4,171,433	0	4,171,433
Israeli Shekel	0	1,593,786	0	1,593,786
Japanese Yen	21,560,972	255,641,767	1,461,446	278,664,185
Jordanian Dinar	0	32,841	0	32,841
Malysian Ringgit	0	5,048,397	0	5,048,397
Mexican Peso	0	13,724,215	51,211	13,775,426
New Zealand Dollar	0	357,407	919	358,326
Norwegian Krone	0	4,880,949	0	4,880,949
Pakistani Rupee	0	53,246	0	53,246
Peruvian Nuevo Sol	0	100,491	0	100,491
Philippines Peso	0	1,145,835	0	1,145,835
Polish Zloty	0	1,408,579	0	1,408,579
Russian Ruble	0	10,029	0	10,029
Singapore Dollar	0	22,453,582	0	22,453,582
South African Rand	0	15,065,795	0	15,065,795
South Korean Won	0	31,526,874	2,974,420	34,501,294
Sri Lanka Rupee	0	1,593	0	1,593
Swedish Krona	0	20,754,939	0	20,754,939
Swiss Franc	(27,415)	71,512,330	946	71,485,861
Taiwan New Dollar	0	14,049,497	0	14,049,497
Thai Baht	0	3,840,266	0	3,840,266
Turkish Lira	0	4,691,099	0	4,691,099
UK Pound Sterling	(51,332,889)	273,885,527	0	222,552,638
Total	$ 3,606,206	$1,102,267,599	$5,334,378	$1,111,208,183

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 on the following page summarize the various contracts in the portfolio as of June 30, 2004, which are included in the fair value of investments reported in the *Statement of Plan Net Assets*. As of June 30, 2004, there were no currency forwards in place for direct investments of the system. Interest risks associated with these investments are included in the tables on the following page.

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 commingled funds may include derivatives that are not shown in the derivative totals.

MOSERS invests in mortgage-backed securities, which are reported at fair value in the *Statement 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 is likely in declining interest rate environments, 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. Details regarding interest rate risks for these investments are included under the interest rate risk disclosures on page 39.

Futures Contracts

Contract	Expiration Date	Long/Short	Fair Value
S & P 500 Index	September 04	Long	$ 54,454,100
Russell 2000 Index	September 04	Long	10,958,475
U.S. treasury bond	September 04	Long	12,765,000
U.S. 10-year treasury notes	September 04	Long	14,103,328
U.S. 5-year treasury notes	September 04	Long	26,411,063
U.S. 2-year treasury notes	September 04	Long	32,003,125
Lead	August 04	Long	671,925
Gas oil	August 04	Long	8,070,850
Gasoline	August 04	Long	17,205,388
Lean hogs	August 04	Long	4,908,800
Coffee	September 04	Long	1,383,638
Cocoa	September 04	Long	509,580
Cattle feeder	August 04	Long	1,750,400
Live cattle	August 04	Long	7,717,500
Soybean	November 04	Long	4,716,450
Corn	September 04	Long	7,822,500
Wheat	September 04	Long	2,887,450
Cotton	December 04	Long	2,670,720
Crude oil	August 04	Long	51,351,300
Sugar	October 04	Long	2,764,709
Heating oil	August 04	Long	14,885,199
Brent crude oil	September 04	Long	24,428,250
Wheat	September 04	Long	6,771,800
Gold	August 04	Long	3,969,300
Natural gas	August 04	Long	22,219,550
Silver	September 04	Long	409,850
Copper (London Metal Exchange)	August 04	Long	4,783,625
Zinc	August 04	Long	1,033,200
Nickel	August 04	Long	2,016,960
Aluminum	August 04	Long	6,467,813
MSCI Taiwan Index	July 04	Long	3,469,060
Total			$ 355,580,908

Swaps

Type	MOSERS Pays	MOSERS Receives	Maturity Date	Notional	Counterparty Exposure	Counterparty
Cheng Shin Rubber Equity	Libor minus 25 bps	Equity Price/TWD FX Rate	8/13/2004	$ 51,107	$ (2,748)	Morgan Stanley
India Index to Libor	Libor minus 145 bps	MSCI India Index in USD	5/10/2005	4,500,000	(692,462)	Morgan Stanley
EMF Index to Libor	Libor minus 75 bps	MSCI EMF Index in USD	5/10/2005	5,000,000	127,981	Morgan Stanley
EMF Index to Libor	Libor minus 75 bps	MSCI EMF Index in USD	5/20/2005	2,664,498	68,201	Morgan Stanley
Russia Index to Libor	Libor minus 250 bps	MSCI Russia Index in USD	7/1/2004	3,776,120	(611,577)	Lehman
Korea Index to Libor	Libor minus 125 bps	MSCI Korea Index in USD	8/10/2004	7,190,842	(688,028)	Lehman
Lite-On Equity	Libor minus 400 bps	Equity Price/TWD FX Rate	8/12/2004	408,840	(26,275)	Morgan Stanley
Mega Financial Equity	Libor minus 300 bps	Equity Price/TWD FX Rate	8/12/2004	780,279	(38,500)	Morgan Stanley
Sinopac Equity	Libor minus 400 bps	Equity Price/TWD FX Rate	8/12/2004	463,717	(6,836)	Morgan Stanley
BENQ Corp. Equity	Libor minus 400 bps	Equity Price/TWD FX Rate	8/12/2004	653,102	(120,340)	Morgan Stanley
Chile Index to Libor	Libor minus 100 bps	Equity Price/TWD FX Rate	9/14/2004	1,148,656	57,875	Morgan Stanley
International Bank	Libor minus 200 bps	Equity Price/TWD FX Rate	8/12/2004	50,159	(1,246)	Morgan Stanley
EMF Index to Libor	Libor minus 30 bps	MSCI EMF Index in USD	2/3/2005	21,368,642	(57,422)	Lehman
Total				$48,055,962	$(1,991,377)	

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 and on loan for non-cash collateral are presented in the schedule to the right. On June 30, 2004, MOSERS had no credit risk exposure to borrowers because the collateral amounts received exceeded amounts out on loan.

As of June 30, 2004, 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, a 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.

Investments as of June 30, 2004

	Pension Trust Funds		Internal Service Fund	
Type of Investment	**Investments at Cost Value**	**Investments at Fair Value**	**Investments at Cost Value**	**Investments at Fair Value**
Common stocks				
Out on loan	$ 110,386,943	$ 86,249,728		
Not on securities loan	1,179,812,144	1,333,773,409		
Total	**1,290,199,087**	**1,420,023,137**		
International equities				
Out on loan	85,916,141	58,653,479		
Not on securities loan	632,652,295	871,982,207		
Total	**718,568,436**	**930,635,686**		
International corporate bonds	**36,274,981**	**36,955,963**		
Preferred stocks				
Out on loan	29,440	20,640		
Not on securities loan	14,218,936	16,139,267		
Total	**14,248,376**	**16,159,907**		
Treasury bonds, notes and bills				
Out on loan	982,586,128	971,502,460		
Not on securities loan	67,818,688	78,589,345		
Total	**1,050,404,816**	**1,050,091,805**		
Government bonds and gov't mortgage backed securities	**166,903,812**	**168,354,710**		
Corporate bonds				
Out on loan	43,879,540	31,522,030		
Not on securities loan	1,267,334,412	1,283,133,675		
Total	**1,311,213,952**	**1,314,655,705**		
Convertible bonds	**1**	**15**		
Repurchase agreements	**468,843**	**468,843**	**$1,762,813**	**$1,762,813**
Short-term investment funds	**566,677,929**	**566,677,929**		
Collateralized mortgage obligations	**43,321,452**	**43,724,974**		
Real estate equity holdings	**6,392,780**	**6,392,780**		
Real estate investment trusts	**126,180,919**	**155,162,929**		
EAFE index fund	**179,656,081**	**171,078,831**		
Foreign currencies	**7,665,270**	**7,539,591**		
Limited partnerships	**1,063,326,954**	**1,245,125,131**		
Total investments				
Out on loan	1,222,798,192	1,147,948,337		
Not on securities loan	5,358,705,497	5,985,099,599	1,762,813	1,762,813
Total	**$ 6,581,503,689**	**$7,133,047,936**	**$1,762,813**	**$1,762,813**

Reconciliation to investments on *Statements of Net Assets*	
Total from above	$ 7,133,047,936
Less short-term investments	
Repurchase agreements	(468,843)
Short-term investment funds	(284,199,360)
Less invested securities lending collateral	
Short-term investment funds	(282,478,569)
Corporate bonds	(906,355,294)
Investments on *Statement of Plan Net Assets*	$ 5,659,545,870

As of June 30, 2004, Lehman Brothers, a broker-dealer, was the exclusive borrower of 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 3 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, 2004, the cash collateral fund had a market value of $1,188,833,864 and a weighted average maturity of 28 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, 2003, and June 30, 2004, and changes to those account balances during the year ended June 30, 2004.

Schedule of Capital Asset Account Balances

Capital Assets	Land	Building and Building Improvements	Furniture, Fixtures and Equipment	Total Capital Assets
Balances June 30, 2003	$267,286	$3,332,605	$1,914,604	$5,514,495
Additions	0	18,888	257,722	276,610
Deletions	0	0	(274,523)	(274,523)
Balances June 30, 2004	267,286	3,351,493	1,897,803	5,516,582
Accumulated Depreciation				
Balances June 30, 2003	0	401,503	1,501,750	1,903,253
Depreciation expense	0	84,285	160,633	244,918
Deletions	0	0	(246,729)	(246,729)
Balances June 30, 2004	0	485,788	1,415,654	1,901,442
Net capital assets June 30, 2004	$267,286	$2,865,705	$ 482,149	$3,615,140

(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 31-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, 2004, 13,291 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 ($1,606,341 for the year ended June 30, 2004). 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, 2004, 534 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 ($61,501 for the year ended June 30, 2004). 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 has participated in the Voluntary Cleanup Program and the Petroleum Storage Tank Insurance Fund administered by the Missouri Department of Natural Resources (DNR) in order to delineate the scope and magnitude of the contamination and determine what appropriate remedial action is needed. MOSERS has completed remedial action required by DNR, and DNR has issued a letter to MOSERS under each program indicating that MOSERS is no longer required to take any further remedial action with regard to the environmental issues identified on the property.

MOSERS is a defendant in one lawsuit 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 - Last Six Years

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)
6/30/99	$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
6/30/04	6,118,214,495	7,230,010,928	1,111,796,433	84.6	1,737,454,454	64.0

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)
6/30/99	$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
6/30/04	16,238,804	20,384,213	4,145,409	79.7	4,655,340	89.0

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)
6/30/99	$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	34,566,516	267,049,857	232,483,341	12.9	40,052,952	580.4
6/30/04	39,120,142	280,397,464	241,277,322	14.0	39,878,499	605.0

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

Required Supplementary Information

Schedules of Employer Contributions

Pension Trust Funds - Last Six Years

MSEP

Year Ended June 30	Annual Required Contribution Percent	Annual Required Contribution Dollar Amount	Percentage Contributed
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
2004	9.35	164,691,836	100

ALJLAP

Year Ended June 30	Annual Required Contribution Percent	Annual Required Contribution Dollar Amount	Percentage Contributed
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
2004	20.12	945,950	100

Judicial Plan

Year Ended June 30	Annual Required Contribution Percent	Annual Required Contribution Dollar Amount	Percentage Contributed
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
2004	51.68	20,636,314	100

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

Required Supplementary Information

Notes to the Schedules

June 30, 2004

Actuarial Methods and Assumptions for Valuations Performed June 30, 2004

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 31-year amortization period was used for the June 30, 2004, valuations. The actuarial value of assets is based on a method that fully recognizes expected investment returns and averages unanticipated market return over a 5-year period. The investment return rate assumption used is 8.5% per year, compounded annually (net of 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). The assumption used for annual post-retirement benefit increases is 4% (on a compound basis), for approximately the first 12 years, 3.1% for the 13th year and 2.8% per year thereafter or 2.8% per year, depending upon the date of hire and benefit election.

Factors That Have Significantly Affected Trends

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.

MSEP	**Amount**	**Percent of Payroll**
Change in benefits	$6,258,206	.40%
Experience and nonrecurring items	(11,264,771)	(.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.

MSEP	**Amount**	**Percent of Payroll**
Changes 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.

MSEP	**Amount**	**Percent of Payroll**
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		
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.

MSEP	**Amount**	**Percent of Payroll**
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.

MSEP	**Amount**	**Percent of Payroll**
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

2004 - The actuarial valuations as of June 30, 2004, reflected the following changes to the computed contribution rates for fiscal year ending June 30, 2006.

MSEP	**Amount**	**Percent of Payroll**
Change in assumptions	$8,166,036	.47%
Experience and nonrecurring items	25,714,326	1.48
ALJLAP		
Change in assumptions	466	.01
Experience and nonrecurring items	(16,294)	(.35)
Judicial Plan		
Change in assumptions	(15,951)	(.04)
Experience and nonrecurring items	514,433	1.29

Schedule of Investment Expenses

Pension Trust Funds - Year Ended June 30, 2004

	MSEP	ALJLAP	Judicial Plan	Total
Investing activity				
Investment management fees				
Americap Advisors - domestic all-cap	$ 134,153	$ 360	$ 890	$ 135,403
BlackRock Financial Management L.P. - MBS/ABS	1,423,643	3,819	9,450	1,436,912
Blackstone - hedged equity	3,819,484	10,247	25,353	3,855,084
Blackstone - market neutral	4,140,881	11,109	27,487	4,179,477
Blackstone - real estate	852,408	2,287	5,658	860,353
Blackstone - relative value	848,708	2,277	5,634	856,619
Blakeney - emerging markets	1,589,844	4,265	10,553	1,604,662
Blum Capital Stinson - private equity	127,041	341	843	128,225
Brinson Partners, Inc. - private equity	1,070	3	7	1,080
Capital Guardian Trust - domestic all-cap	456,244	1,224	3,028	460,496
Catterton Partners - private equity	766,885	2,058	5,090	774,033
DDJ Capital Management - distressed debt	1,155,891	3,101	7,673	1,166,665
Dimensional Fund Advisors Inc. - domestic SMID-cap	385,002	1,033	2,556	388,591
GMO - emerging markets	1,226,281	3,290	8,140	1,237,711
Hoisington Investment Management Co. - U.S. treasuries	174,925	469	1,161	176,555
Legg Mason - domestic all-cap	4,398,990	11,802	29,200	4,439,992
Mastholm Investment Managers - int'l developed	1,457,408	3,910	9,674	1,470,992
Merrill Lynch - EAFE	413,490	1,109	2,745	417,344
Merrill Lynch - emerging markets	156,220	419	1,037	157,676
MHR Institutional Partners II - distressed debt	3,214,578	8,624	21,338	3,244,540
NISA Investment Advisors, LLC - commodities	1,137,912	3,053	7,553	1,148,518
NISA Investment Advisors, LLC - fixed income	292,023	784	1,938	294,745
Oak Associates, Ltd. - domestic all-cap	(3,606,377)	(9,675)	(23,938)	(3,639,990)
Oakbrook Investments - enhanced S&P 500	344,967	925	2,290	348,182
Oaktree Capital Management - real estate	608,382	1,632	4,038	614,052
Oaktree Capital Management - emerging markets	1,510,466	4,052	10,026	1,524,544
Oaktree Capital Management - distressed debt	17,673,435	47,415	117,313	17,838,163
Relational Investors, LLC - private equity	998,285	2,678	6,626	1,007,589
Silchester International Investors - int'l developed	1,838,421	4,932	12,203	1,855,556
Wayzata Investment Partners - distressed debt	4,166,334	11,178	27,655	4,205,167
Total investment management fees	51,706,994	138,721	343,221	52,188,936
Other investment fees				
Investment consultant fees				
Summit Strategies, Inc.	387,143	1,039	2,570	390,752
Timberlink Consulting	57,246	154	380	57,780
Investment custodial fees				
Mellon Bank	862,864	2,315	5,728	870,907
Performance measurement fees				
Mellon Bank	263,782	708	1,751	266,241
Portfolio rebalancing costs				
NISA Investment Advisors, LLC	164,263	441	1,090	165,794
Miscellaneous expense	11,267	30	75	11,372
Internal investment activity expenses	1,382,029	3,708	9,174	1,394,911
Total investing activity expenses	54,835,588	147,116	363,989	55,346,693
Securities lending activity				
Securities lending borrower rebates	12,374,726	33,200	82,141	12,490,067
Securities lending management fees				
Mellon Bank	247,691	665	1,644	250,000
Credit Suisse First Boston	719,558	1,930	4,776	726,264
Total securities lending activity expenses	13,341,975	35,795	88,561	13,466,331
Total investment expenses	$68,177,563	$182,911	$452,550	$68,813,024

See accompanying *Independent Auditors' Report.*

Schedule of Internal Investment Activity Expenses

Pension Trust Funds - Year Ended June 30, 2004

	MSEP	ALJLAP	Judicial Plan	Total
Personnel services				
Salaries	$ 821,489	$2,204	$ 5,453	$ 829,146
Employee fringe benefits	183,022	491	1,215	184,728
Total personnel services	1,004,511	2,695	6,668	1,013,874
Professional services				
Attorney services	42,812	115	284	43,211
Consulting services	19,927	53	132	20,112
Total professional services	62,739	168	416	63,323
Communications				
Telephone	1,312	4	9	1,325
Total communications	1,312	4	9	1,325
Equipment				
Maintenance	39,754	107	264	40,125
Total equipment	39,754	107	264	40,125
Travel and meetings				
Staff travel and meetings	60,429	162	401	60,992
Total travel and meetings	60,429	162	401	60,992
General				
Educational materials	1,382	4	9	1,395
Office supplies	507	1	3	511
Subscriptions and dues	208,742	560	1,386	210,688
Insurance	1,623	4	11	1,638
Miscellaneous	1,030	3	7	1,040
Total general	213,284	572	1,416	215,272
Total administrative expenses	$1,382,029	$3,708	$9,174	$1,394,911

See accompanying *Independent Auditors' Report*.

Schedule of Administrative Expenses

Pension Trust Funds - Year Ended June 30, 2004

	MSEP	ALJLAP	Judicial Plan	Total
Personnel services				
Salaries	$ 2,670,912	$ 7,166	$17,729	$2,695,807
Employee fringe benefits	800,416	2,147	5,313	807,876
Total personnel services	3,471,328	9,313	23,042	3,503,683
Professional services				
Actuarial services	204,966	550	1,361	206,877
Attorney services	29,234	78	194	29,506
Auditing services	41,275	111	274	41,660
Banking services	17,482	47	116	17,645
Consulting services	76,549	205	508	77,262
Total professional services	369,506	991	2,453	372,950
Communications				
Postage and mailing	349,164	937	2,318	352,419
Telephone	70,627	189	469	71,285
Printing	142,455	382	946	143,783
Video production	0	0	0	0
Total communications	562,246	1,508	3,733	567,487
Building and grounds				
Depreciation	83,507	224	554	84,285
Utilities	55,989	150	372	56,511
Maintenance	46,063	124	306	46,493
Total building and grounds	185,559	498	1,232	187,289
Equipment				
Depreciation	159,150	427	1,056	160,633
Maintenance	187,457	503	1,244	189,204
Rental	120,468	323	800	121,591
Loss on sale of equipment	24,009	64	159	24,232
Total equipment	491,084	1,317	3,259	495,660
Travel and meetings				
Board travel and meetings	22,941	62	152	23,155
Staff travel and meetings	222,335	596	1,476	224,407
Vehicle maintenance and operation	5,512	15	36	5,563
Total travel and meetings	250,788	673	1,664	253,125
General				
Educational materials	16,619	45	110	16,774
Office supplies	90,940	244	604	91,788
Subscriptions and dues	135,217	362	898	136,477
Insurance	112,880	303	749	113,932
Advertising	7,706	21	51	7,778
Temporary help	209	1	1	211
Total general	363,571	976	2,413	366,960
Total administrative expenses	$5,694,082	$15,276	$37,796	$5,747,154

See accompanying *Independent Auditors' Report*.

Schedule of Administrative Expenses

Internal Service Fund - Year Ended June 30, 2004

Personnel services	
Salaries	$ 263,959
Employee fringe benefits	73,918
Total personnel services	337,877
Professional services	
Attorney services	14,444
Auditing services	765
Banking services	517
Total professional services	15,726
Communications	
Postage and mailing	1,338
Telephone	5,504
Total communications	6,842
Building and grounds	
Building use charge	8,429
Utilities	4,286
Maintenance	3,476
Total building and grounds	16,191
Equipment	
Equipment use charge	16,197
Maintenance	27,419
Rental	8,985
Total equipment	52,601
Travel and meetings	
Board travel and meetings	1,684
Staff travel and meetings	21,596
Vehicle maintenance and operation	460
Total travel and meetings	23,740
General	
Educational materials	1,257
Office supplies	7,190
Subscriptions and dues	3,999
Insurance	7,963
Advertising	553
Temporary help	29
Miscellaneous	72
Total general	21,063
Total administrative expenses	$ 474,040

See accompanying *Independent Auditors' Report*.

Schedule of Professional/Consultant Fees

Year Ended June 30, 2004

		Pension Trust Funds				Internal Service Fund
Professional/Consultant	**Nature of Service**	**MSEP**	**ALJLAP**	**Judicial Plan**	**Total**	**MO State Insurance Plan**
Gabriel, Roeder, Smith & Co.	Actuarial	$204,966	$550	$1,361	$206,877	$ 0
Thompson Coburn	Legal counsel	29,234	78	194	29,506	14,444
KPMG LLP	Financial audit	41,275	110	275	41,660	765
Jack Pierce	Governmental pension consulting	29,723	80	197	30,000	0
Central Bank	Banking	17,481	47	116	17,644	517
Buck Consultants	Actuarial audit	975	3	6	984	0
Qflow Systems LLC	Image system consulting	372	1	2	375	0
Charlesworth & Associates	Risk management consulting	6,105	16	41	6,162	0
Cortex Applied Research Inc.	Governance consulting	18,032	48	120	18,200	0
Interactive Solutions International LLC	Phone system upgrade	10,362	28	69	10,459	0
Investment Training and Consulting Institute	Internal auditing review	8,801	24	58	8,883	0
Tom Terez Workplace Solutions, Inc.	Building a meaningful workplace workshop	2,180	6	14	2,200	0
Total professional/consultant fees		$369,506	$991	$2,453	$372,950	$15,726

See accompanying *Independent Auditors' Report*.
Information on investment management and consulting fees can be found in the *Schedule of Investment Expenses* on page 49.

Investment Summary

Pension Trust Funds - Year Ended June 30, 2004

Type of Investment	June 30, 2003 Cost Value	June 30, 2003 Fair value	Purchases and Capital Additions at Cost	Sales and Redemptions at Cost	June 30, 2004 Cost Value	June 30, 2004 Fair Value	Percent of Total Fair Value
Fixed income							
Treasury bonds, notes, and bills	$ 929,864,639	$1,032,342,022	$ 909,807,649	$ (789,267,472)	$1,050,404,816	$1,050,091,805	19%
Gov. Bonds and gov't mortgage-backed securities	135,794,273	141,092,001	1,945,425,516	(1,914,315,977)	166,903,812	168,354,710	3
Corporate bonds	283,832,823	295,536,548	441,927,961	(320,492,950)	405,267,834	408,300,411	7
Convertible bonds	1,289,398	1,375,050	4,896,914	(6,186,311)	1	15	0
Collateralized mortgage obligations	46,415,807	47,775,046	28,581,983	(31,676,338)	43,321,452	43,724,974	1
International corporate bonds	23,483,396	24,565,996	40,831,646	(28,040,061)	36,274,981	36,955,963	1
Total fixed income	1,420,680,336	1,542,686,663	3,371,471,669	(3,089,979,109)	1,702,172,896	1,707,427,878	31
Common stock	1,359,237,347	1,265,718,764	643,431,234	(712,469,494)	1,290,199,087	1,420,023,137	25
Preferred stock	13,829,178	15,899,659	16,960,341	(16,541,143)	14,248,376	16,159,907	0
International investments							
International equities	700,497,733	787,531,145	602,383,497	(584,312,794)	718,568,436	930,635,686	16
Foreign currency	30,699,813	30,943,450	253,459,672	(276,494,215)	7,665,270	7,539,591	0
EAFE index fund	288,791,743	198,123,067	48,500,000	(157,635,662)	179,656,081	171,078,831	3
Total international investments	1,019,989,289	1,016,597,662	904,343,169	(1,018,442,671)	905,889,787	1,109,254,108	19
Real estate							
Equity holdings	6,392,780	6,392,780	0	0	6,392,780	6,392,780	0
REITs	153,508,871	156,622,657	7,365,738	(34,693,690)	126,180,919	155,162,929	3
Total real estate	159,901,651	163,015,437	7,365,738	(34,693,690)	132,573,699	161,555,709	3
Limited partnerships	886,945,721	992,007,182	360,288,187	(183,906,954)	1,063,326,954	1,245,125,131	22
Investments (per *Statement of Plan Net Assets* page 29)	4,860,583,522	4,995,925,367	5,303,860,338	(5,056,033,061)	5,108,410,799	5,659,545,870	100%
Short-term investments							
Short-term investment funds	252,556,014	252,556,014	2,348,601,418	(2,316,958,072)	284,199,360	284,199,360	
Repurchase agreements	415,676	415,676	123,954,128	(123,900,961)	468,843	468,843	
Total short-term investments	252,971,690	252,971,690	2,472,555,546	(2,440,859,033)	284,668,203	284,668,203	
Invested securities lending collateral							
Corporate bonds	626,651,979	626,871,678	944,675,653	(665,381,514)	905,946,118	906,355,294	
Short-term investment funds	630,684,156	630,684,156	69,027,763,645	(69,375,969,232)	282,478,569	282,478,569	
Total invested securities lending collateral	1,257,336,135	1,257,555,834	69,972,439,298	(70,041,350,746)	1,188,424,687	1,188,833,863	
Total investments	$6,370,891,347	$6,506,452,891	$77,748,855,182	$(77,538,242,840)	$6,581,503,689	$7,133,047,936	

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 at the MOSERS' office.

Investment Summary

Internal Service Fund - Year Ended June 30, 2004

	June 30, 2003				June 30, 2004		
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**
Repurchase agreements	$1,749,617	$1,749,617	$499,097,692	$(499,084,496)	$1,762,813	$1,762,813	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 at the MOSERS' office.

Along the Missouri

Missouri was the launching pad for this great adventure, and the tempestuous lower portion of the Missouri River presented the first major test of leadership, character, and hardiness of the expedition. Travel up the Missouri was difficult and exhausting due to the extreme heat, bothersome insects, and turbulent river. For the first 600 miles of their journey, the expedition had to battle swift and dangerous currents. They used a keelboat and two smaller boats, called pirogues, to carry supplies and equipment on their journey, averaging only 15 miles a day.