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Financial Section

Management's Responsibility for Financial Reporting

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MOSERS®
Missouri State Employees' Retirement System

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October 17, 2005

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 Auditors' Report on page 20. 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

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, 2005, 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, 2005, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MOSERS' internal control over financial reporting. Accordingly, we express no such opinion. 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, 2005, 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The management discussion and analysis on pages 21-25 and the supplementary schedules of funding progress and employer contributions on pages 44-48 are not a required part of the basic financial statements of MOSERS, but are supplementary information required by accounting principles generally accepted in the United States of America. The supplementary information included on pages 49-56 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 49-56 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 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
October 7, 2005

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 year's 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 22-25 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

MOSERS overall financial condition improved during the fiscal year ended June 30, 2005. Pension funds net assets increased by $564,636,824 during the fiscal year ended June 30, 2005, primarily as a result of the investment earnings of the funds. The investments of the pension trust funds generated a 12.6% return for the year. The funded status of the pension plans increased by .3% for the MSEP and 1.1% for the Judicial Plan.

The internal service fund's net assets increased by $19,284. The goal of the internal service fund is to maintain the fund at a level that enables it to meet its financial obligations of providing life and long-term disability benefits to the state for its employees at a reasonable cost. In the prior year, the fund's net assets decreased by $13,198, primarily due to reduced interest income earned during that period. The increase in interest earnings during fiscal year 2005 brought the fund back to its pre-fiscal year 2004 level.

The following schedules present comparative summary financial statements of the pension trust funds and internal service fund for FY04 and FY05. Following each schedule is a brief summary of the significant changes noted in those schedules.

Pension Trust Funds
Summary Comparative Statements of Plan Net Assets

	As of June 30, 2005	As of June 30, 2004	Amount of Change	Percentage Change
Cash and short-term investments	$ 560,860,102	$ 277,416,406	$ 283,443,696	102.17%
Receivables	574,826,045	176,080,273	398,745,772	226.46
Investments	5,954,341,320	5,659,545,870	294,795,450	5.21
Invested securities lending collateral	1,099,841,751	1,188,833,864	(88,992,113)	(7.49)
Capital assets	3,456,840	3,615,140	(158,300)	(4.38)
Other assets	43,815	24,732	19,083	77.16
Total assets	8,193,369,873	7,305,516,285	887,853,588	12.15
Administrative expense payables	2,063,202	2,225,818	(162,616)	(7.31)
Investment purchase payables	588,670,755	179,856,429	408,814,326	227.30
Securities lending collateral	1,099,608,477	1,188,424,688	(88,816,211)	(7.47)
Other liabilities	23,459,828	20,078,563	3,381,265	16.84
Total liabilities	1,713,802,262	1,390,585,498	323,216,764	23.24
Net assets	$ 6,479,567,611	$ 5,914,930,787	$ 564,636,824	9.55

Summary Comparable Statements of Plan Net Assets Analysis

The increase in cash and short-term investments is primarily attributable to normal fluctuations in the short-term investments. For the year ended June 30, 2005, the month-end balance of short-term investments ranged from a low of $277,551,768 in August 2004 to a high of $660,886,829 in September 2004 with an average balance of $505,023,959 for the year.

The increase in receivables is attributable to normal fluctuations in investment sales receivables during the year. For the year ended June 30, 2005, the month-end balance of investment sales receivables ranged from a low of $163,438,366 in December 2004 to a high of $547,083,629 in June 2005 with an average investment sales receivable balance of $288,315,192.

The increase in the fair value of investments is primarily attributable to the favorable market conditions experienced during FY05 as evidenced by MOSERS' total investments return for the year of 12.6%. 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 $840,501,273 in September 2004 to a high of $1,185,162,662 in July 2004 with an average balance of $1,044,807,248 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 increase 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, 2005 the month end balances of the investment purchase payables ranged from a low of $166,497,533 in December 2004 to a high of $588,670,755 in June 2005 with an average balance of $328,580,816 for the year.

The increase in other liabilities is primarily attributable to the additional accrual of the investment manager incentive fees during the year. The amount represents the portion of the incentive fee calculated as earned through June 30, 2005 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

	Year Ended June 30, 2005	Year Ended June 30, 2004	Amount of Change	Percentage Change
Contributions	$ 221,653,366	$ 189,866,977	$ 31,786,389	16.74%
Investment income (loss) investing activities	731,556,657	877,901,329	(146,344,672)	(16.67)
Investment income securities lending activities	3,251,139	4,036,654	(785,515)	(19.46)
Miscellaneous income	1,244,302	474,339	769,963	162.32
Total additions	957,705,464	1,072,279,299	(114,573,835)	(10.69)
Benefits	386,576,891	385,909,723	667,168	0.17
Service transfers and refunds	199,201	537,762	(338,561)	(62.96)
Administrative expenses	6,292,548	5,747,154	545,394	9.49
Total deductions	393,068,640	392,194,639	874,001	0.22
Net increase (decrease)	564,636,824	680,084,660	(115,447,836)	(16.98)
Net assets beginning of year	5,914,930,787	5,234,846,127	680,084,660	12.99
Net assets end of year	$ 6,479,567,611	$ 5,914,930,787	$ 564,636,824	9.55

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 9.35% to 10.64%, and an approximate 3% increase in payroll.

Investment income decreased primarily as a result of a general pullback in the market conditions over that of the previous fiscal year. Security lending income decreased primarily due to a decrease 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 114-119 of the actuarial section of this report.

Service transfers decreased primarily due to normal fluctuations in the amount of transfers dependent on the number of members electing to transfer their service.

Administration expenses increased primarily due to increased salary and fringe benefits cost of $456,466 and increased consulting service expenses of $94,602 related to an investment benchmark study.

Internal Service Fund
Summary Comparative Balance Sheets

	As of June 30, 2005	As of June 30, 2004	Amount of Change	Percentage Change
Premiums receivable	$ 1,036,597	$ 1,065,315	$ (28,718)	(2.70)%
Investments	1,942,452	1,762,813	179,639	10.19
Total assets	2,979,049	2,828,128	150,921	5.34
Premiums payable	2,496,903	2,387,345	109,558	4.59
Other liabilities	145,501	123,422	22,079	17.89
Total liabilities	2,642,404	2,510,767	131,637	5.24
Unrestricted Net Assets	336,645	317,361	19,284	6.08
Total liabilities and net assets	$ 2,979,049	$ 2,828,128	$ 150,921	5.34

Summary Comparative Balance Sheets Analysis

Premiums receivable decreased due to less premiums remaining uncollected at the end of FY05. Premiums 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 as a result of the reimbursements due to the pension trust funds for the internal service fund's portion of shared expenses.

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

	Year Ended June 30, 2005	Year Ended June 30, 2004	Amount of Change	Percentage Change
Premium receipts	$ 27,305,305	$ 25,771,703	$ 1,533,602	5.95%
Miscellaneous income	436,489	436,489	0	0.00
Total operating revenue	27,741,794	26,208,192	1,533,602	5.85
Premium disbursements	27,271,948	25,736,083	1,535,865	5.97
Premium refunds	33,357	35,620	(2,263)	(6.35)
Administrative expenses	466,531	474,040	(7,509)	(1.58)
Total operating expenses	27,771,836	26,245,743	1,526,093	5.81
Net operating income (loss)	(30,042)	(37,551)	7,509	(20.00)
Investment income	49,326	24,353	24,973	102.55
Net revenues over expenses	19,284	(13,198)	32,482	(246.11)
Net assets beginning of year	317,361	330,559	(13,198)	(3.99)
Net assets end of year	$ 336,645	$ 317,361	$ 19,284	6.08

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 a result of normal fluctuations in the amount of premium refunds issued to correct processing errors.

Administrative expenses decreased primarily due to a general decrease in the majority of categories of administrative expenses of $26,162 and an increase in personnel services of $18,653.

Investment income increased primarily due to the increase in the 90-day Treasury bill rates during the fiscal year.

Summary Comparative Statements of Cash Flows

	Year Ended June 30, 2005	Year Ended June 30, 2004	Amount of Change	Percentage Change
Cash flows from operating activities	$ 132,574	$ (10,695)	$ 143,269	1339.59%
Cash flows from non-capital financing activities	(2,261)	(462)	(1,799)	(389.39)
Cash flows from investing activities	(130,313)	11,157	(141,470)	(1267.99)
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 increase in cash flows from operating activities is primarily attributable to the increase in premiums received and disbursed to the insurance company and a reduction in the cash payments made to other suppliers of goods and services.

The decrease in cash flows from noncapital financing activities is primarily attributable to a reduction in the amount premium refund checks that remained outstanding at the end of the FY05 over that of FY04.

The decrease in cash flows from investing activities is primarily attributable to a decrease in the cash flows from net purchase and maturities of overnight repurchase agreements of $166,443 offset by an increase in the investment income received of $24,973.

Statements of Plan Net Assets
Pension Trust Funds - As of June 30, 2005

	MSEP	Judicial Plan	Total
Assets			
Cash and short-term investments	$ 556,731,467	$ 4,128,635	$ 560,860,102
Receivables			
State contributions	9,447,186	912,668	10,359,854
Investment income	17,109,959	126,885	17,236,844
Investment sales	543,056,406	4,027,223	547,083,629
Other	144,645	1,073	145,718
Total receivables	569,758,196	5,067,849	574,826,045
Investments at fair value			
U.S. treasury securities	700,900,365	5,197,769	706,098,134
Corporate bonds	487,831,970	3,617,687	491,449,657
Convertible bonds	16	0	16
Government bonds & gov't mortgage-backed securities	273,291,124	2,026,685	275,317,809
Real estate equity	728,632	5,403	734,035
Common stock	764,658,075	5,670,587	770,328,662
International EAFE index fund	126,381,693	937,227	127,318,920
Preferred stock	10,159,197	75,339	10,234,536
Limited partnerships	2,263,769,035	16,787,764	2,280,556,799
Real estate investment trust	126,372,878	937,162	127,310,040
Collateralized mortgage obligations	56,290,317	417,440	56,707,757
Foreign currency	13,289,872	98,556	13,388,428
International equities	1,033,618,283	7,665,154	1,041,283,437
U.S. dollar-denominated international corporate bonds	53,218,430	394,660	53,613,090
Total investments	5,910,509,887	43,831,433	5,954,341,320
Securities lending collateral	1,091,745,534	8,096,217	1,099,841,751
Capital assets			
Land	265,318	1,968	267,286
Building and building improvements	3,326,822	24,671	3,351,493
Furniture, fixtures, and equipment	1,942,532	14,406	1,956,938
Total capital assets	5,534,672	41,045	5,575,717
Accumulated depreciation	(2,103,279)	(15,598)	(2,118,877)
Net capital assets	3,431,393	25,447	3,456,840
Prepaid expenses and other	43,492	323	43,815
Total assets	8,132,219,969	61,149,904	8,193,369,873
Liabilities			
Administrative expense payables	2,048,014	15,188	2,063,202
Investment purchases payables	584,337,399	4,333,356	588,670,755
Securities lending collateral	1,091,513,977	8,094,500	1,099,608,477
Investment incentive fees payable	22,977,353	170,397	23,147,750
Employee vacation and overtime liability	309,781	2,297	312,078
Total liabilities	1,701,186,524	12,615,738	1,713,802,262
Net assets held in trust for pension benefits	$ 6,431,033,445	$ 48,534,166	$ 6,479,567,611

(A schedule of funding progress for each plan is presented on page 44.)
See accompanying *Notes to the Financial Statements*.

Statements of Changes in Plan Net Assets

Pension Trust Funds - Year Ended June 30, 2005

	MSEP	ALJLAP	Judicial Plan	Total
Additions				
Contributions				
State contributions	$ 194,524,059	$ 1,124,924	$ 21,852,985	$ 217,501,968
Member purchases of service credit	4,122,001	0	0	4,122,001
Service transfer contributions	29,397	0	0	29,397
Total contributions	198,675,457	1,124,924	21,852,985	221,653,366
Investment income				
From investing activities				
Net appreciation in fair value of investments	604,566,490	1,710,092	4,496,054	610,772,636
Interest	93,644,599	264,885	696,418	94,605,902
Dividends	25,866,720	73,167	192,366	26,132,253
Other	54,775,405	154,939	407,355	55,337,699
Total investing activity income	778,853,214	2,203,083	5,792,193	786,848,490
Investing activity expenses:				
Management fees	(51,542,561)	(145,795)	(383,313)	(52,071,669)
Custody fees	(779,491)	(2,205)	(5,797)	(787,493)
Consultant fees	(402,696)	(1,139)	(2,995)	(406,830)
Performance measurement fees	(318,314)	(900)	(2,367)	(321,581)
Portfolio transition/rebalancing cost	(42,367)	(120)	(315)	(42,802)
Internal investment activity expenses	(1,610,878)	(4,557)	(11,980)	(1,627,415)
Miscellaneous expense	(33,697)	(95)	(251)	(34,043)
Total investing activity expenses	(54,730,004)	(154,811)	(407,018)	(55,291,833)
Net income from investing activities	724,123,210	2,048,272	5,385,175	731,556,657
From securities lending activities:				
Securities lending income	26,120,130	73,884	194,251	26,388,265
Securities lending expenses:				
Borrower rebates	(22,206,218)	(62,813)	(165,144)	(22,434,175)
Management fees	(695,808)	(1,968)	(5,175)	(702,951)
Total securities lending activities expenses	(22,902,026)	(64,781)	(170,319)	(23,137,126)
Net income from securities lending activities	3,218,104	9,103	23,932	3,251,139
Total net investment income	727,341,314	2,057,375	5,409,107	734,807,796
Miscellaneous income	1,231,658	3,484	9,160	1,244,302
Total additions	927,248,429	3,185,783	27,271,252	957,705,464
Deductions				
Benefits	339,300,671	749,197	18,396,397	358,446,265
Benefit adjustments	28,130,626	0	0	28,130,626
Service transfer payments	199,201	0	0	199,201
Administrative expenses	6,228,609	17,618	46,321	6,292,548
Total deductions	373,859,107	766,815	18,442,718	393,068,640
Net increase before transfer	553,389,322	2,418,968	8,828,534	564,636,824
Transfer per Senate Bill No. 202	18,157,148	(18,157,148)	0	0
Net assets held in trust for pension benefits:				
Beginning of year	5,859,486,975	15,738,180	39,705,632	5,914,930,787
End of year	$ 6,431,033,445	$ 0	$ 48,534,166	$ 6,479,567,611

See accompanying *Notes to the Financial Statements*.

Balance Sheet

Internal Service Fund - As of June 30, 2005

Assets	
Premiums receivable	$ 1,036,597
Investments at fair value	1,942,452
Total assets	$ 2,979,049
Liabilities and net assets	
Liabilities	
Premiums payable	$ 2,496,903
Checks outstanding net of deposits	297
Other	145,204
Total liabilities	2,642,404
Unrestricted net assets	336,645
Total liabilities and net assets	$ 2,979,049

See accompanying *Notes to the financial Statements*.

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

Internal Service Fund - Year Ended June 30, 2005

Operating revenues	
Premium receipts	$ 27,305,305
Miscellaneous income	436,489
Total operating revenues	27,741,794
Operating expenses	
Premium disbursements	27,271,948
Premium refunds	33,357
Administrative expenses	466,531
Total operating expenses	27,771,836
Operating revenues under operating expenses	(30,042)
Non-operating revenues	
Investment income	49,326
Net revenues over expenses	19,284
Net assets July 1, 2004	317,361
Net assets June 30, 2005	$ 336,645

See accompanying *Notes to the Financial Statements*.

Statement of Cash Flows

Internal Service Fund - Year Ended June 30, 2005

Cash flows from operating activities	
Cash received from employer and members	$ 27,770,548
Premium payments to outside carriers	(27,163,151)
Refunds of premiums to members	(33,357)
Cash payments to employees for services	(254,840)
Cash payments to other suppliers of goods and services	(186,626)
Net cash provided by operating activities	132,574
Cash flows from noncapital financing activities	
Implicit funding of checks outstanding net of deposits	297
Implicit repayment of prior years checks outstanding net of deposits	(2,558)
Net cash used in noncapital financing activities	(2,261)
Cash flows from investing activities	
Purchase of investment securities	(499,246,789)
Proceeds from sale and maturities of investment securities	499,067,150
Cash received from investment income	49,326
Net cash used in investing activities	(130,313)
Net increase in cash	0
Cash balances June 30, 2004	0
Cash balances June 30, 2005	$ 0
Reconciliation of operating revenues under operating expenses to net cash provided by operating activities	
Operating revenues under operating expenses	$ (30,042)
Adjustments to reconcile operating revenues under operating expenses to net cash provided by operating activities	
Change in assets and liabilities:	
Decease in operational accounts receivable	31,106
Increase in operational accounts payable	131,510
Total adjustments	162,616
Net cash provided by operating activities	$ 132,574

See accompanying *Notes to the Financial Statements*.

Notes to the Financial Statements
Year Ended June 30, 2005

(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.

Prospective Plan Termination

On April 26, 2005, Governor Matt Blunt signed into law Senate Bill No. 202, et al that terminated the Administrative Law Judges and Legal Advisors' Plan (ALJLAP) for new hires only. 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 were previously eligible for membership in the ALJAP. Under this legislation, individuals who assume a position after April 26, 2005 who would have otherwise been covered by the ALJLAP will instead participate in the MSEP or the MSEP 2000, depending on when they initially became state employees. This legislation does not impact anyone serving in (or who had served in) a position covered by the ALJLAP prior to the effective date of the legislation. All liabilities and assets of the ALJLAP have been transferred and combined with the MSEP. Membership totals for ALJLAP members are reflected as combined with the MSEP in all relevant sections of this report.

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.

As of June 30, 2005, membership in the MSEP consisted of the following:

Retirees and beneficiaries currently receiving benefits		25,780
Terminated employees entitled to, but not yet receiving benefits		14,718
Active		
Vested	36,547	
Non-vested	19,397	55,944
Total membership		96,442

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.

Administration of the MSEP is financed through contributions to this plan from the state of Missouri.

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%.

Administration of the MSEP 2000 is financed through contributions to this plan from the state of Missouri.

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.

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, 2005, 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		71
Active		
Vested	392	
Nonvested	0	392
Total membership		860

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. Administration of the Judicial plan is financed through contributions to this plan from the state of Missouri.

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;
- 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. Administration of the Missouri State Insurance Plan is financed through contributions to this plan from the state of Missouri.

(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 adopted early implementation of GASB Statement No. 40, Deposit and Investment Risk Disclosures, issued in March 2003 during last fiscal year ending June 30, 2004. 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

The board has no formal policy specific to custodial credit risk. Custodial credit risk for cash deposits and investments is the risk that in the event of a bank failure, the system and plans' deposits may not be returned to them. The system mitigates custodial credit risk for deposits and investments 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. The deposits are held in one financial institution with a balance of up to $100,000 insured by the Federal Deposit Insurance Corporation (FDIC).

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, 2005, as collateral for overnight repurchase agreements:

- $600,000 Federal Home Loan Bank – callable Maturity Date 12/23/2008
- $275,000 Federal National Mortgage Assoc. Float Rate Note Maturity Date 02/17/2009
- $816,743 Small Business Association Pool #504192 Maturity date 04/25/2012
- $1,234,462 Small Business Association Pool #507184 Maturity Date 08/25/2018

	Cash Balances	
	Book	Bank/Investment Custodian
Pension Trust Funds	$(7,218,585)	$2,803,793
Internal Service Fund	(297)	315

Method Used to Value Investments

Section 104.440 RSMo allows the board of trustees to invest the trust fund assets in accordance with the prudent person rule. Investments of the pension trust funds and the internal service fund are reported at fair value.

The schedule on page 41 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.

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, 2005, MOSERS' fixed income assets that are not government guaranteed represented 77.9% 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 Non-government Guaranteed Securities

Fixed Income Security Type	**Market Value June 30, 2005**	**Percent of All Fixed Income Assets**	**Weighted Average Credit Quality**	**Rating Dispersion Requiring Further Exposure**
Mortgages	$ 286,590,199	8.7%	Agency	See following page
Agencies	114,969,289	3.5	Agency	None
Collateralized mortgage obligations	15,719,369	0.5	AAA	See following page
Asset backed securities	626,743,178	19.1	AAA	See following page
Corporate bonds	990,208,267	30.2	BBB	See following page
Commercial paper	385,874,894	11.8	Mid Tier 1 & Tier 2	See following page
Preferred stock	102,005,237	3.1	AAA	See following page
Pooled investments	35,692,566	1.1	Not rated	None
Total non-gov't guaranteed securities	$2,557,802,999	78.0%		

Ratings Dispersion Detail

Credit Rating Level	Collateralized Mortgage Obligations	Asset Backed Securities	Corporate Bonds	Commercial Paper	Preferred Stock	Mortgages
Agency	$ 7,842,532	$ 30,334,577				$ 284,516,742
AAA	7,876,837	564,489,617	$ 29,056,749		$ 102,000,000	2,073,457
AA		30,126,561	179,983,511			
A			427,668,781			
BBB			45,698,728			
BB			70,963,256			
B		1,792,423	157,275,678			
CCC			76,971,811			
CC			475,285		5,237	
Tier 1				$ 162,000,000		
Tier 2				223,874,894		
Not rated			2,114,469			
Total	$15,719,369	$626,743,178	$990,208,268	$ 385,874,894	$ 102,005,237	$ 286,590,199

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 $480,522), 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 counterparty to a MOSERS' transaction will be unable to meet its obligation. Information regarding MOSERS' credit risk related to derivatives is found under the derivatives disclosures found on pages 37-39 of these notes.

Policies related to credit risk pertaining to MOSERS' securities lending program is found under the securities lending disclosures found on page 39 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 issuer. There is no single issuer exposure within the MOSERS portfolio that comprises 5% of the overall portfolio and, therefore, there is no concentration of credit risk.

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 that specify the degree of interest rate risk allowed. In any circumstance where interest rate risk is implied it is specifically indicated in the guidelines that credit risk is more prominent in the portfolio. 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. Interest rate risks associated with swaps and other derivative instruments are found in the derivatives disclosures on pages 37-39 of these notes.

Effective Duration of Fixed Income Assets by Security Type

Fixed Income Security Type	Market Value June 30, 2005	Percent of All Fixed Income Assets	Weighted Average Effective Duration (Years)	Interest Rate Risk Requiring Future Exposure
U.S. treasuries	$ 724,509,059	22.1%	9.0	See below
Government guaranteed mortgages	675,456	0.0	2.0	None
Mortgages	286,590,199	8.7	3.3	None
Agencies	114,969,289	3.5	2.0	None
Collateralized mortgage obligations	15,719,369	0.5	1.3	None
Asset backed securities	626,743,178	19.1	0.3	None
Corporate bonds	990,208,267	30.1	1.5	None
Commercial paper	385,874,894	11.8	0.1	None
Preferred stock	102,005,237	3.1	0.0	None
Pooled investments	35,692,566	1.1	0.0	None
Total	$ 3,282,987,514	100.0%	2.8	

Effective Duration Analysis of U.S. Treasuries

Fixed Income Security Type	Market Value June 30, 2005	Average Effective Duration of the Security Type	Contribution Effective Duration
Less than 1 year to maturity	$ 15,803,661	0.0	0.0
1 to 10 year maturities	362,127,594	4.0	2.0
Long coupon treasuries	246,862,587	12.5	4.3
Long stripped treasuries	99,715,217	19.6	2.7
Total	$ 724,509,059		9.0

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. MOSERS' implementation policy is to allow MOSERS' external managers to decide what action to take regarding their respective portfolio's foreign currency exposures using currency forward contracts.

MOSERS' exposure to foreign currency risk in U.S. dollars as of June 30, 2005 is highlighted in the table on the following page.

Currency Exposures by Asset Class

Currency	Cash and Currency Forward Contracts	Equities	Fixed Income	Total
Argentine Peso		$ 246,223		$ 246,223
Australian Dollar		22,916,016		22,916,016
Brazilian Real	$ 852	22,273,181		22,274,033
Canadian Dollar		36,024,469		36,024,469
Chilean Peso		4,097		4,097
Czech Koruna		327,099		327,099
Danish Krone		23,812,421		23,812,421
Egyptian Pound		1,356,068		1,356,068
Euro	17,436,720	245,832,704	$ 2,554	263,271,978
Hong Kong Dollar		68,751,133		68,751,133
Hungarian Forint		603,840		603,840
Indian Rupee	366,845	3,115,852		3,482,697
Indonesian Rupiah		3,750,351		3,750,351
Israeli Shekel		1,557,584		1,557,584
Japanese Yen	32,342,216	239,704,423		272,046,639
Jordanian Dinar		260,808		260,808
Malaysian Ringgit	30,356	7,296,055		7,326,411
Mexican Peso		14,908,734	34,230	14,942,964
New Zealand Dollar		378,192		378,192
Norwegian Krone		39,667,144		39,667,144
Pakistani Rupee		141,180		141,180
Peruvian New Sol	683	95,627		96,310
Philippines Peso		1,390,643		1,390,643
Polish Zloty		1,464,049		1,464,049
Russian Ruble		5,364		5,364
Singapore Dollar	(9,443)	41,626,771		41,617,328
South African Rand		15,443,116	393	15,443,509
South Korean Won	21,522	43,864,975	3,441,009	47,327,506
Sri Lankan Rupee		2,290		2,290
Swedish Krona		18,748,338		18,748,338
Swiss Franc		70,931,114		70,931,114
New Taiwan Dollar	318,242	28,599,686		28,917,928
Thai Baht	(15,385)	3,865,977		3,850,592
New Turkish Lira		6,431,089		6,431,089
British Pound Sterling	(47,719,973)	217,630,925		169,910,952
Venezuelan Bolivar		253,599		253,599
Grand Total	$ 2,772,635	$1,183,281,137	$3,478,186	$1,189,531,958

Derivatives

While the board has no formal policy specific to derivatives, the MOSERS investment implementation program, through its external managers, holds investments in futures contracts, swap contracts, and forward foreign currency exchange. The tables on the following page summarize the various contracts in the portfolio as of June 30, 2005, which are included in the fair value of investments reported in the *Statement of Plan Net Assets*. As of June 30, 2005, 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.

Futures Contracts

Contract	Expiration Date	Long/Short	Notional Value	Exposure
U.S. 10-year treasury notes	September-05	Short	$ (10,439,125)	$ (18,687)
U.S. 5-year treasury notes	September-05	Long	14,046,891	20,156
Gas oil	August-05	Long	11,077,000	252,965
Gasoline	July-05	Long	18,216,517	(235,735)
Crude oil	July-05	Long	64,071,000	(906,152)
Heating oil	July-05	Long	19,325,775	170,334
Brent Crude oil	August-05	Long	31,979,000	(333,292)
Natural gas	July-05	Long	20,035,470	(319,116)
MSCI Taiwan Index	July-05	Long	3,751,150	7,250
SPI 200 Index	September-05	Long	3,094,240	12,792
FTSE 100 Index	September-05	Long	8,170,229	8,026
Dj Euro Stoxx 50	September-05	Long	8,982,248	57,943
Topix Index	September-05	Long	6,147,550	2,048
Total			$ 198,457,945	$ (1,281,468)

Swaps

Type	MOSERS Pays	MOSERS Receives	Maturity Date	Notional Value	Exposure	Counterparty
Russell 2000 to Libor	Libor minus 50 bps	Russell 2000 Total Return	04/28/06	$ 46,945,904	$ 1,707,918	Goldman Sachs
Russell 2000 to Libor	Libor minus 50 bps	Russell 2000 Total Return	12/30/05	33,580,972	1,221,695	Goldman Sachs
S&P Total Return to Libor	Libor plus 5 bps	S&P 500 Total Return	11/30/05	301,509,089	(373,024)	JP Morgan Chase
S&P Total Return to Libor	Libor plus 5 bps	S&P 500 Total Return	07/31/06	217,281,598	(5,729,712)	JP Morgan Chase
Russell 2000 to Libor	Libor minus 50 bps	Russell 2000 Total Return	04/28/06	5,761,936	209,623	Goldman Sachs
Russell 2000 to Libor	Libor minus 50 bps	Russell 2000 Total Return	04/28/06	7,536,611	274,186	Goldman Sachs
Russell 2000 to Libor	Libor minus 50 bps	Russell 2000 Total Return	12/30/05	5,338,195	194,206	Goldman Sachs
S&P Total Return to Libor	Libor plus 5 bps	S&P 500 Total Return	11/30/05	48,416,336	(59,900)	JP Morgan Chase
S&P Total Return to Libor	Libor plus 5 bps	S&P 500 Total Return	07/31/06	40,563,513	(1,069,659)	JP Morgan Chase
Russell 2000 to Libor	Libor minus 50 bps	Russell 2000 Total Return	04/28/06	1,902,855	69,227	Goldman Sachs
GSCI to T-Bills	3-Month T-Bill plus 35 bps	GSCINETR Index	02/28/06	0	863,281	AIG Int'l
GSCI to T-Bills	3-Month T-Bill plus 35 bps	GSCINETR Index	03/31/06	0	(273,722)	AIG Int'l
GSCI to T-Bills	3-Month T-Bill plus 35 bps	GSCINETR Index	06/30/06	52,519,191	0	AIG Int'l
Lehman U.S. Treasury to Libor	Libor minus 15 bps	Lehman U.S. Treasury Index	12/30/05	148,630,290	544,516	Lehman
Lehman U.S. MBS to Libor	Libor minus 8 bps	Lehman U.S. MBS Index	09/30/05	45,617,575	50,180	Lehman
Lehman U.S. Agency to Libor	Libor plus 5 bps	Lehman U.S. Agency Index	04/28/06	5,550,984	10,391	Lehman
India Index to Libor	Libor minus 180 bps	MSCI India Index in USD	05/09/06	2,500,000	348,801	Morgan Stanley
EMF Index to Libor	Libor plus 75 bps	MSCI EMF Index in USD	05/09/06	6,407,975	217,693	Morgan Stanley
EMF Index to Libor	Libor minus 100 bps	MSCI EMF Index in USD	06/05/06	3,800,000	122,361	Morgan Stanley
Korea Index to Libor	Libor minus 65 bps	MSCI Korea Index in USD	08/11/05	7,739,610	183,576	Morgan Stanley
Lite-On Equity Swap	Libor minus 250 bps	Equity Price/TWD FX Rate	08/12/05	385,375	24,378	Morgan Stanley
Mega Financial Equity Swap	Libor minus 300 bps	Equity Price/TWD FX Rate	08/12/05	609,919	(4,094)	Morgan Stanley
Sinopac Equity Swap	Libor minus 350 bps	Equity Price/TWD FX Rate	08/12/05	331,659	(5,155)	Morgan Stanley
BENQ Corp. Equity Swap	Libor minus 400 bps	Equity Price/TWD FX Rate	08/12/05	295,515	7,065	Morgan Stanley
Chile Index to Libor	Libor minus 100 bps	Equity Price/TWD FX Rate	09/14/05	1,690,210	81,138	Morgan Stanley
International Bank Swap	Libor minus 200 bps	Equity Price/TWD FX Rate	08/12/05	350,223	(7,457)	Morgan Stanley
EMF Index to Libor	Libor minus 30 bps	MSCI EMF Index in USD	02/03/05	18,063,514	585,470	Lehman
Mexico Index to Libor	Libor minus 150 bps	MSCI Mexio Index in USD	08/04/05	1,437,766	147,018	Morgan Stanley
				$ 1,004,766,815	$ (660,000)	

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 are 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 35.

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 on page 41. On June 30, 2005, MOSERS had no credit risk exposure to borrowers because the collateral amounts received exceeded amounts out on loan.

As of June 30, 2005, Credit Suisse/First Boston, New York Branch (CSFBNY), served as the agent for the fixed income domestic equity, 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 three programs is split on an 85/15 basis between MOSERS and CSFBNY, respectively.

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, 2005, the cash collateral fund had a market value of $1,099,841,751 and a weighted average maturity of 24 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 CSFBNY.

Limited Partnerships

Many of MOSERS' alternative investments are organized in the form of limited partnerships. In these partnerships, the manager is the general partner, and the limited partners are the investors. As of June 30, 2005, MOSERS had contracts with 23 limited partnerships across various types of alternative investments. These partnerships collectively represent 38% of the total fund.

Partnership Name	**Style**	**Market Value of MOSERS Interest at June 30, 2005**
Jade Ridge	Market neutral	$ 142,581,188
AQR Absolute Return Institutional Fund	Market neutral	158,520,322
Brinson	Venture capital	77,428
BGI Global Market Neutral Fund	Market neutral	206,972,025
Blackstone Hedged Equity Fund	Long/short	485,502,589
Blackstone Madison Avenue Fund	Market neutral	313,400,225
Blackstone Real Estate Partners IV	Real estate	58,565,737
Onyx Partnership	Emerging markets	92,269,356
Stinson M	Activist equity	54,340,799
Diamond Ridge	Market neutral	96,370,658
Catterton Partners V	Corporate buyout	13,147,271
B IV Capital Partners	Private debt	37,249,970
MHR Institutional Partners II A	Private debt	33,149,771
OCM Real Estate Opportunites Fund III	Real estate	37,908,504
OCM Opportunities Fund IV B	Private debt	19,634,724
OCM/GFI Power Opportunities Fund II	Corporate buyout	3,617,736
Newport Pioneer	Market neutral	300,036,822
Parish Capital Buyout Fund I	Corporate buyout	3,101,645
RH Fund 7	Activist equity	61,889,772
Wildwood Timberlands	Timberland	54,906,025
Silver Lake Partners II	Corporate buyout	2,425,529
TCW Energy Fund X D	Mezzanine debt	13,845,471
Sapphire Special Opportunities Fund	Private debt	91,043,232
		$ 2,280,556,799

Investments as of June 30, 2005

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
Common stocks				
Out on loan	$ 243,171,953	$ 216,395,653		
Not on securities loan	397,091,206	553,933,009		
Total	**640,263,159**	**770,328,662**		
International equities				
Out on loan	18,728,621	22,382,526		
Not on securities loan	742,594,666	1,018,900,911		
Total	**761,323,287**	**1,041,283,437**		
International corporate bonds	54,061,823	53,613,090		
Preferred stocks	**6,734,580**	**10,234,536**		
Treasury bonds, notes and bills				
Out on loan	599,308,119	655,717,627		
Not on securities loan	34,617,617	50,380,507		
Total	**633,925,736**	**706,098,134**		
Government bonds and gov't mortgage backed securities	274,022,359	275,317,809		
Corporate bonds				
Out on loan	145,255,166	116,977,088		
Not on securities loan	1,093,222,365	1,124,402,200		
Total	**1,238,477,531**	**1,241,379,288**		
Convertible bonds	2	16		
Repurchase agreements	404,230	404,230	$ 1,942,452	$ 1,942,452
Short-term investment funds	917,586,578	917,586,578		
Collateralized mortgage obligations	56,334,781	56,707,757		
Real estate equity holdings	734,035	734,035		
Real estate investment trusts	84,179,310	127,310,040		
EAFE index fund	114,874,465	127,318,920		
Foreign currencies	14,096,354	13,388,428		
Limited partnerships	1,931,308,922	2,280,556,799		
Total investments				
Out on loan	1,006,463,859	1,011,472,894		
Not on securities loan	5,721,863,293	6,610,788,865	1,942,452	1,942,452
Total	**$ 6,728,327,152**	**$ 7,622,261,759**	**$ 1,942,452**	**$ 1,942,452**

Reconciliation to investments on *Statements of Net Assets*

Total from above	$ 7,622,261,759
Less short-term investments	
Repurchase agreements	(404,230)
Short-term investment funds	(567,674,458)
Less invested securities lending collateral	
Short-term investment funds	(349,912,120)
Corporate bonds	(749,929,631)
Investments on *Statement of Plan Net Assets*	**$ 5,954,341,320**

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, 2004, and June 30, 2005, and changes to those account balances during the year ended June 30, 2005.

Capital Assets	**Building and Land**	**Building and Building Improvements**	**Fixtures and Equipment**	**Total Capital Assets**
Balances June 30, 2004	$ 267,286	$ 3,351,493	$ 1,897,803	$ 5,516,582
Additions	0	0	109,882	109,882
Deletions	0	0	(50,747)	(50,747)
Balances June 30, 2005	267,286	3,351,493	1,956,938	5,575,717
Accumulated Depreciation				
Balances June 30, 2004	0	485,788	1,415,654	1,901,442
Depreciation expense	0	84,285	178,999	263,284
Deletions	0	0	(45,849)	(45,849)
Balances June 30, 2005	0	570,073	1,548,804	2,118,877
Net capital assets June 30, 2005	$ 267,286	$ 2,781,420	$ 408,134	$ 3,456,840

(3) CONTRIBUTIONS AND RESERVES

The MSEP 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 30-year period. Costs of administering the plans are financed from the contributions to 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, 2005, 14,004 retirees were eligible and participating in the program. This insured defined benefit coverage is financed on a percent of payroll (.12%) and is purchased as a group policy through competitive bids. The cost for year ended June 30, 2005 was $1,834,428. 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, 2005, 503 retirees were eligible and participating in the program. The coverage of this closed group 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 ($58,399 for the year ended June 30, 2005). 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. Plans can only be terminated by an amendment to these statutes by the Missouri Legislature.

(6) CONTINGENCIES

During the fiscal year, MOSERS sold the real estate investment property located in Kansas City, Missouri that was noted in last fiscal year as having environmental issues. As a result of this sale, MOSERS' interest in the property and any further liability with respect to the property has been released.

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)	Percent Funded (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
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
6/30/05	6,435,344,102	7,578,028,017	1,142,683,915	84.9	1,806,600,560	63.3

ALJLAP*

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Percent Funded (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
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

* Assets and liabilities of the ALJLAP were transferred to the MSEP during fiscal year 2005

Judicial Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Percent Funded (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
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
6/30/05	44,223,509	292,303,886	248,080,377	15.1	40,016,098	620.0

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
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
2005	10.64	194,524,059	100

ALJLAP

Year Ended June 30	Annual Required Contribution Percent	Annual Required Contribution Dollar Amount	Percentage Contributed
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
2005	22.13	1,124,924	100

Judicial Plan

Year Ended June 30	Annual Required Contribution Percent	Annual Required Contribution Dollar Amount	Percentage Contributed
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
2005	54.51	21,852,985	100

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

Required Supplementary Information
Notes to the Schedules
June 30, 2005

Actuarial Methods and Assumptions for Valuations Performed June 30, 2005

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 30-year amortization period was used for the June 30, 2005, 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. However, at their September 15, 2005 meeting, the MOSERS board considered the extreme volatility in the markets during the last five years and the statutory funding objective to employ methods which establish contribution rates that are likely to remain level from one period to another. As a result, the board elected to set the actuarial value of assets to market value as of June 30, 2005. Consequently, all remaining unrecognized investment gains or losses that would have otherwise been recognized over a period of years were fully recognized as of June 30, 2005. No change was made to the asset valuation method for future years, so it is anticipated that future investment gains or losses above or below the assumed investment return of 8.5% will continue to be recognized over discrete five-year periods. 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 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

2005 - The actuarial valuations as of June 30, 2005, reflected the following changes to the computed contribution rates for fiscal year ending June 30, 2007.

MSEP	**Amount**	**Percent of Payroll**
Mark to market asset valuation method adjustment	$(10,116,963)	(.56)%
Recognition of state pay freeze on across-the-board increases for FY06	(3,793,861)	(.21)
Experience and nonrecurring items including the addition of the assets and liabilities from the ALJLAP	17,162,705	.95
Judicial Plan		
Mark to market asset valuation method adjustment	28,011	.07
Recognition of state pay freeze on across-the-board increases or FY06	(136,055)	(.34)
Change in amortization factor to reflect the state pay freeze for fiscal year ending June 30, 2006	556,224	1.39
Experience and nonrecurring items	640,258	1.60

Schedule of Investment Expenses
Pension Trust Funds - Year Ended June 30, 2005

	MSEP	ALJLAP	Judicial Plan	Total
Investing activity				
Investment management fees				
Aetos Capital Management - alpha pool	$742,372	$2,100	$5,521	$749,993
AmeriCap Advisors domestic all - cap	138,405	391	1,029	139,825
AQR Capital Management - alpha pool	2,226,468	6,298	16,558	2,249,324
Barclays Global Investors - alpha pool	1,475,176	4,173	10,971	1,490,320
BlackRock Financial Management - High Yield	1,291,170	3,652	9,602	1,304,424
BlackRock Financial Management - MBS/ABS	230,504	652	1,714	232,870
Blackstone Alternative Asset Management - hedged equity	4,217,609	11,930	31,366	4,260,905
Blackstone Alternative Asset Management - alpha pool	2,538,499	7,180	18,878	2,564,557
Blackstone Alternative Asset Management - market neutral	803,573	2,273	5,976	811,822
Blackstone Alternative Asset Management - real estate	2,009,937	5,685	14,948	2,030,570
Blackstone Alternative Asset Management - relative value	215,751	610	1,605	217,966
Blakeney Management - emerging markets	8,531,221	24,132	63,445	8,618,798
Blum Capital Partners - private equity	394,419	1,116	2,933	398,468
Bridgewater Associates - alpha pool	2,108,856	5,965	15,683	2,130,504
Brinson Partners - private equity	970	3	7	980
Bush O'Donnell - real estate	6,255	18	47	6,320
Capital Guardian Trust Company - domestic all-cap	502,399	1,421	3,736	507,556
Catterton Partners - private equity	559,349	1,582	4,160	565,091
DDJ Capital Management - private debt	840,246	2,377	6,249	848,872
Dimensional Fund Advisors Inc.- domestic SMID-cap	246,153	696	1,831	248,680
Grantham, Mayo, Van Otterloo & Co. - emerging markets	768,589	2,174	5,716	776,479
Hoisington Investment Management Co. - U.S. treasuries	169,652	480	1,262	171,394
Legg Mason Capital Management - domestic all-cap	2,428,629	6,870	18,061	2,453,560
Mastholm Investment Managers - int'l developed	980,651	2,774	7,293	990,718
Merrill Lynch Asset Management Group - EAFE	564,900	1,598	4,201	570,699
Merrill Lynch - emerging markets	202,292	572	1,504	204,368
MHR Fund Management - private debt	2,365,916	6,692	17,595	2,390,203
MOSERS Inc. - alpha pool	39	-	-	39
NISA Investment Advisors - commodities	750,984	2,124	5,585	758,693
NISA Investment Advisors - fixed income	222,644	630	1,656	224,930
NISA Investment Advisors - beta program domestic equity	102,793	291	764	103,848
NISA Investment Advisors - beta program hedged equity	46,616	132	347	47,095
NISA Investment Advisors - beta program fixed income	147,544	417	1,097	149,058
Oakbrook Investments enhanced S&P 500	93,469	264	695	94,428
Oaktree Capital Management - real estate	1,660,816	4,698	12,351	1,677,865
Oaktree Capital Management - emerging markets	1,057,771	2,992	7,866	1,068,629
Oaktree Capital Management - private debt	378,086	1,069	2,812	381,967
Oaktree Capital Management GFI Power - private equity	282,746	800	2,103	285,649
Pacific Alternative Asset Management Co. - alpha pool	1,122,466	3,175	8,348	1,133,989
Parish Capital Advisors - private equity	238,785	675	1,776	241,236
Relational Investors - private equity	436,953	1,236	3,250	441,439
Resource Management Service - timber	423,972	1,199	3,153	428,324
Silchester International Investors - int'l developed	2,199,833	6,223	16,360	2,222,416
Silver Lake Partners - private equity	105,896	300	788	106,984
Trust Company of the West - real estate	114,623	324	852	115,799
Wayzata Investment Partners - private debt	5,596,563	15,831	41,621	5,654,015
Total investment management fees	51,542,560	145,794	383,315	52,071,669

Continued on page 50

Schedule of Investment Expenses

Pension Trust Funds - Year Ended June 30, 2005

Continued from page 49

	MSEP	ALJLAP	Judicial Plan	Total
Other investment fees				
Investment consultant fees				
Summit Strategies, Inc.	398,738	1,128	2,965	402,831
Timberlink Consulting	3,959	11	29	3,999
Investment custodial fees				
Mellon Bank	779,491	2,205	5,797	787,493
Performance measurement fees				
Mellon Bank	318,314	900	2,367	321,581
Portfolio rebalancing costs				
NISA Investment Advisors, LLC	42,367	120	315	42,802
Miscellaneous expense	33,697	95	251	34,043
Internal investment activity expenses	1,610,878	4,557	11,980	1,627,415
Total investing activity expenses	54,730,004	154,810	407,019	55,291,833
Securities lending activity				
Securities lending borrower rebates	22,206,218	62,813	165,144	22,434,175
Securities lending management fees				
Mellon Bank	164,973	467	1,227	166,667
Credit Suisse First Boston	530,835	1,502	3,947	536,284
Total securities lending activity expenses	22,902,026	64,782	170,318	23,137,126
Total investment expenses	$77,632,030	$219,592	$577,337	$78,428,959

See accompanying *Independent Auditors' Report*.

Schedule of Internal Investment Activity Expenses

Pension Trust Funds - Year Ended June 30, 2005

	MSEP	ALJLAP	Judicial Plan	Total
Personnel services				
Salaries	$ 946,752	$ 2,678	$ 7,041	$ 956,471
Employee fringe benefits	255,219	722	1,898	257,839
Total personnel services	1,201,971	3,400	8,939	1,214,310
Professional services				
Attorney services	108,842	308	809	109,959
Consulting services	14,356	41	107	14,504
Total professional services	123,198	349	916	124,463
Communications				
Telephone	1,349	4	10	1,363
Total communications	1,349	4	10	1,363
Equipment				
Maintenance	34,219	97	254	34,570
Total equipment	34,219	97	254	34,570
Travel and meetings				
Staff travel and meetings	51,997	147	387	52,531
Total travel and meetings	51,997	147	387	52,531
General				
Educational materials	4,066	12	30	4,108
Office supplies	1,235	3	9	1,247
Subscriptions and dues	192,779	545	1,434	194,758
Miscellaneous	64	0	1	65
Total general	198,144	560	1,474	200,178
Total administrative expenses	$ 1,610,878	$ 4,557	$ 11,980	$ 1,627,415

See accompanying *Independent Auditors' Report*.

Schedule of Administrative Expenses

Pension Trust Funds - Year Ended June 30, 2005

	MSEP	ALJLAP	Judicial Plan	Total
Personnel services				
Salaries	$ 2,920,044	$ 8,260	$ 21,716	$ 2,950,020
Employee fringe benefits	999,865	2,828	7,436	1,010,129
Total personnel services	3,919,909	11,088	29,152	3,960,149
Professional services				
Actuarial services	148,009	419	1,101	149,529
Attorney services	53,987	153	401	54,541
Auditing services	46,028	130	342	46,500
Banking services	18,059	51	134	18,244
Consulting services	194,578	550	1,447	196,575
Total professional services	460,661	1,303	3,425	465,389
Communications				
Postage and mailing	298,527	844	2,220	301,591
Telephone	71,113	201	529	71,843
Printing	142,523	403	1,060	143,986
Total communications	512,163	1,448	3,809	517,420
Building and grounds				
Depreciation	83,429	236	620	84,285
Utilities	57,035	161	424	57,620
Maintenance	43,596	123	324	44,043
Total building and grounds	184,060	520	1,368	185,948
Equipment				
Depreciation	177,180	501	1,318	178,999
Maintenance	201,540	570	1,499	203,609
Rental	123,943	351	922	125,216
Gain on sale of equipment	(16,884)	(48)	(126)	(17,058)
Total equipment	485,779	1,374	3,613	490,766
Travel and meetings				
Board travel and meetings	16,802	48	125	16,975
Staff travel and meetings	227,607	644	1,693	229,944
Vehicle maintenance and operation	6,562	19	49	6,630
Total travel and meetings	250,971	711	1,867	253,549
General				
Educational materials	14,690	42	109	14,841
Office supplies	90,832	257	675	91,764
Subscriptions and dues	174,389	493	1,297	176,179
Insurance	116,390	329	866	117,585
Advertising	4,587	13	34	4,634
Miscellaneous	14,178	40	106	14,324
Total general	415,066	1,174	3,087	419,327
Total administrative expenses	$ 6,228,609	$ 17,618	$ 46,321	$ 6,292,548

See accompanying *Independent Auditors' Report*.

Schedule of Administrative Expenses
Internal Service Fund - Year Ended June 30, 2005

Personnel services	
Salaries	$ 269,157
Employee fringe benefits	87,373
Total personnel services	356,530
Professional services	
Attorney services	997
Auditing services	3,204
Banking services	704
Total professional services	4,905
Communications	
Postage and mailing	915
Telephone	4,617
Total communications	5,532
Building and grounds	
Building use charge	8,429
Utilities	3,714
Maintenance	2,916
Total building and grounds	15,059
Equipment	
Equipment use charge	17,915
Maintenance	16,315
Rental	8,624
Total equipment	42,854
Travel and meetings	
Board travel and meetings	1,103
Staff travel and meetings	19,246
Vehicle maintenance and operation	429
Total travel and meetings	20,778
General	
Educational materials	1,296
Office supplies	6,318
Subscriptions and dues	3,847
Insurance	8,102
Advertising	319
Miscellaneous	991
Total general	20,873
Total administrative expenses	$ 466,531

See accompanying *Independent Auditors' Report*.

Schedule of Professional/Consultant Fees

Year Ended June 30, 2005

Professional/Consultant	Nature of Service	Pension Trust Funds MSEP	Pension Trust Funds ALJLAP	Pension Trust Funds Judicial Plan	Pension Trust Funds Total	Internal Service Fund MO State Insurance Plan
Operation administrative expenses						
Gabriel, Roeder, Smith & Co.	Actuarial	$ 148,010	$ 419	$ 1,100	$ 149,529	$ 0
Deloitte & Touche LLP	Investment benchmark study	76,897	218	572	77,687	0
Thompson Coburn	Legal counsel	53,987	153	401	54,541	997
KPMG LLP	Financial audit	46,028	130	342	46,500	3,204
Cortex Applied Research Inc.	Governance consulting	45,038	127	335	45,500	0
Jack Pierce	Governmental pension consulting	29,695	84	221	30,000	0
Central Bank	Banking	18,059	51	134	18,244	704
University of Toronto	Governance research	16,744	47	124	16,915	0
Interactive Solutions International LLC	Phone system upgrade	15,303	43	114	15,460	0
Charlesworth & Associates	Risk management consulting	6,261	18	47	6,326	0
Klausner & Kaufman	Board presentation - fiduciary workshop	4,144	12	31	4,187	0
Media Masters, Inc.	Media consulting	495	1	4	500	0
Operation administrative expenses subtotal		460,661	1,303	3,425	465,389	4,905
Internal investment administrative expenses						
Thompson Coburn	Legal counsel	108,287	306	806	109,399	0
Summit Strategies Group	Travel expenses	12,025	34	89	12,148	0
KPMG of Taiwan	Tax services	2,332	7	17	2,356	0
CT Corp	Legal services	554	2	4	560	0
Internal investment administrative expenses subtotal		123,198	349	916	124,463	0
Total professional/consultant fees		$ 583,859	$ 1,652	$ 4,341	$ 589,852	$ 4,905

See accompanying *Independent Auditors' Report.*

Information on investment management and consulting fees can be found in the *Schedule of Investment Expenses* on page 49-50.

Investment Summary
Pension Trust Funds - Year Ended June 30, 2005

	June 30, 2004				June 30, 2005		
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	$1,050,404,816	$1,050,091,805	$364,736,539	$(781,215,619)	$633,925,736	$706,098,134	12%
Gov. Bonds and gov't. mortgage-backed securities	166,903,812	168,354,710	216,359,488	(109,240,941)	274,022,359	275,317,809	5
Corporate bonds	405,267,834	408,300,411	296,162,555	(212,649,214)	488,781,175	491,449,657	8
Convertible bonds	1	15	833,795	(833,794)	2	16	0
Collateralized mortgage obligations	43,321,452	43,724,974	32,752,767	(19,739,438)	56,334,781	56,707,757	1
International corporate bonds	36,274,981	36,955,963	32,112,431	(14,325,589)	54,061,823	53,613,090	1
Total fixed Income	1,702,172,896	1,707,427,878	942,957,575	(1,138,004,595)	1,507,125,876	1,583,186,463	27
Common stock	1,290,199,087	1,420,023,137	126,240,210	(776,176,138)	640,263,159	770,328,662	13
Preferred stock	14,248,376	16,159,907	4,022,929	(11,536,725)	6,734,580	10,234,536	0
International investments							
International equities	718,568,436	930,635,686	105,096,230	(62,341,379)	761,323,287	1,041,283,437	17
Foreign currency	7,665,270	7,539,591	105,807,374	(99,376,290)	14,096,354	13,388,428	0
EAFE index fund	179,656,081	171,078,831	-	(64,781,616)	114,874,465	127,318,920	2
Total international investments	905,889,787	1,109,254,108	210,903,604	(226,499,285)	890,294,106	1,181,990,785	19
Real estate							
Equity holdings	6,392,780	6,392,780	-	(5,658,745)	734,035	734,035	0
REITs	126,180,919	155,162,929	1,395,724	(43,397,333)	84,179,310	127,310,040	2
Total real estate	132,573,699	161,555,709	1,395,724	(49,056,078)	84,913,345	128,044,075	2
Limited partnerships	1,063,326,954	1,245,125,131	1,580,847,560	(712,865,592)	1,931,308,922	2,280,556,799	39
Investments (per *Statement of Plan Net Assets* page 26)	5,108,410,799	5,659,545,870	2,866,367,602	(2,914,138,413)	5,060,639,988	5,954,341,320	100%
Short-term investments							
Short-term investment funds	284,199,360	284,199,360	1,061,263,150	(777,788,052)	567,674,458	567,674,458	
Repurchase agreements	468,843	468,843	140,952,034	(141,016,647)	404,230	404,230	
Total short-term investments	284,668,203	284,668,203	1,202,215,184	(918,804,699)	568,078,688	568,078,688	
Invested securities lending collateral							
Corporate bonds	905,946,118	906,355,294	637,546,525	(793,796,287)	749,696,356	749,929,631	
Short-term investment funds	282,478,569	282,478,569	54,813,028,254	(54,745,594,703)	349,912,120	349,912,120	
Total invested securities lending collateral	1,188,424,687	1,188,833,863	55,450,574,779	(55,539,390,990)	1,099,608,476	1,099,841,751	
Total investments	$6,581,503,689	$7,133,047,936	$59,519,157,565	$(59,372,334,102)	$6,728,327,152	$7,622,261,759	

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, 2005

	June 30, 2004				June 30, 2005		
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	$1,762,813	$1,762,813	$499,246,789	$(499,067,150)	$1,942,452	$1,942,452	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.