FINANCIAL SECTION

FINANCIAL SECTION

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

MOSERS®
Missouri State Employees' Retirement System

Mailing Address
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Jefferson City, MO 65102-0209

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Jefferson City, MO 65109

October 17, 2006

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 U.S. 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, Williams-Keepers LLC, have conducted an independent audit of the basic financial statements in accordance with U.S. 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 Finance Officer

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INDEPENDENT AUDITOR'S REPORT

WILLIAMS KEEPERS LLC
105 E Ash • PO Box 938 • Columbia, MO 65205 • 573/442-6171 • 573/449=5196 fax
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS
COLUMBIA
JEFFERSON CITY
MEXICO

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, 2006, 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, 2006, as displayed in MOSERS' basic financial statements. These financial statements are the responsibility of MOSERS' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits 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 that our audits provide a reasonable basis for our opinion.

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, 2006, and the respective changes in financial position and cashflows, where applicable, for the year then ended, in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis and the schedules of funding progress and employer contributions as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. 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 for the year ended June 30, 2006. However, we did not audit the information and express no opinion on it. Limited procedures were applied by other auditors to the required supplementary information for the years ended June 30, 2005, 2004, 2003, 2002, and 2001.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The additional financial information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of MOSERS. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

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.

Williams Keepers LLC

August 17, 2006

MANAGEMENT DISCUSSION AND ANALYSIS

Required Supplementary Information

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

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

The ***Statements of Changes in Plan Net Assets*** which summarize the pension fund financial transactions that have 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 *Statements of Plan Net Assets*.

The ***Balance Sheet*** of the internal service fund is similar to the *Statements of Plan Net Assets* in that it also is a snapshot of the financial position of the internal service fund where Assets = Liabilities + Net Assets.

The ***Statement of Revenues, Expenses, and Changes in Net Assets*** of the internal service fund is similar to the *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, 2006. Pension funds net assets increased by $561,899,007 during the fiscal year ended June 30, 2006, primarily as result of the investment earnings of the funds. The investments of the pension trust funds generated a 11.5% return for the year. The funded status of the pension plans increased by .4% for the MSEP and 1.6% for the Judicial Plan.

The internal service funds net assets increased by $33,926. The goal of the internal service fund is to maintain the fund at a level that enables it to meet its obligations of contracting the premiums for the life and long-term disability benefits for state employees at a reasonable cost and maintaining the membership data necessary to track the premiums due from the state and its employees and payable to the insurance carrier.

The following schedules present comparative summary financial statements of the pension trust funds and internal service fund for FY05 and FY06. 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, 2006	As of June 30, 2005	Amount of Change	Percentage Change
Cash and short-term investments	$ 688,443,267	$ 560,860,102	$ 127,583,165	22.75%
Receivables	196,389,135	574,826,045	(378,436,910)	(65.84)
Investments	6,399,798,514	5,954,341,320	445,457,194	7.48
Invested securities lending collateral	1,152,399,706	1,099,841,751	52,557,955	4.78
Capital assets	3,275,118	3,456,840	(181,722)	(5.26)
Other assets	53,673	43,815	9,858	22.50
Total assets	8,440,359,413	8,193,369,873	246,989,540	3.01
Administrative expense payables	1,949,676	2,063,202	(113,526)	(5.50)
Investment purchase payables	224,570,235	588,670,755	(364,100,520)	(61.85)
Securities lending collateral	1,152,189,688	1,099,608,477	52,581,211	4.78
Other liabilities	20,183,196	23,459,828	(3,276,632)	(13.97)
Total liabilities	1,398,892,795	1,713,802,262	(314,909,467)	(18.37)
Net assets	$7,041,466,618	$6,479,567,611	$ 561,899,007	8.67%

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, 2006, the month-end balance of short-term investments ranged from a low of $514,808,037 in September 2005, to a high of $804,198,182 in May 2006, with an average balance of $672,749,764 for the year.

The decrease in receivables is attributable to normal fluctuations in investment sales receivables during the year. For the year ended June 30, 2006, the month-end balance of investment sales receivables ranged from a low of $151,185,380 in February 2006, to a high of $427,659,195 in September 2005, with an average investment sales receivable balance of $279,368,190.

The increase in the fair value of investments is primarily attributable to the generally favorable market conditions experienced during FY06 as evidenced by MOSERS' total investment return for the year of 11.5%. Detailed information regarding MOSERS' investment portfolio is included in the Investment Section of this report.

The increase in security lending collateral is due to normal fluctuations in the lending program. The month-end collateral balances ranged from a low of $1,101,895,337 in August 2005, to a high of $1,256,340,531 in February 2006, with an average balance of $1,187,517,914 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 capital assets was primarily due to the sale of equipment that had exceeded its estimated useful life.

The increase in other assets is primarily due to the fluctuation in the amount maintained in prepaid postage. For the year ended June 30, 2006, the month-end balance of prepaid postage ranged from a low of $4,484 in September 2005, to a high of $89,697 in October 2005, with an average month-end balance in prepaid postage of $48,852.

The decrease in administrative expense payables is primarily attributable to the normal fluctuation in the investment fees payable. During the year, the month-end balance of investment manager fees payable ranged from a low of $1,354,675 in November 2005, to a high of $2,221,857 in April 2006, with an average month-end balance of $1,772,252 for the year.

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, 2006, the month-end balances of the investment purchase payables ranged from a low of $141,759,161 in February 2006, to a high of $467,189,709 in August 2005, with an average balance of $300,969,330 for the year.

The decrease in other liabilities is primarily attributable to the adjustment in the amount due for the investment manager incentive fees during the year. The amount represents the portion of the incentive fee calculated as earned through June 30, 2006, to be paid in the future subject to the investment managers' attainment of certain long-term performance measures.

Summary Comparative Statements of Changes in Plan Net Assets

	Year Ended June 30, 2006	Year Ended June 30, 2005	Amount of Change	Percentage Change
Contributions	$ 252,868,692	$ 221,653,366	$ 31,215,326	14.08%
Investment income				
Investing activities	730,783,761	731,556,657	(772,896)	(0.11)
Investment income				
Securities lending activities	3,676,741	3,251,139	425,602	13.09
Miscellaneous income	505,597	1,244,302	(738,705)	(59.37)
Total additions	987,834,791	957,705,464	30,129,327	3.15
Benefits	419,261,150	386,576,891	32,684,259	8.45
Contribution refunds	1,341	0	1,341	100.00
Service transfers	133,866	199,201	(65,335)	(32.80)
Administrative expenses	6,539,427	6,292,548	246,879	3.92
Total deductions	425,935,784	393,068,640	32,867,144	8.36
Net increase (decrease)	561,899,007	564,636,824	(2,737,817)	(0.48)
Net assets beginning of year	6,479,567,611	5,914,930,787	564,636,824	9.55
Net assets end of year	$7,041,466,618	$6,479,567,611	$561,899,007	8.67%

Summary Comparable 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 10.64% to 12.59%.

The decrease in investment income in FY06 over FY05 is attributable to general fluctuations in the overall returns of the investments of the fund. The increase in security lending income was primarily attributed to the increased utilization of MOSERS' domestic equity securities. The average utilization in FY05 was 31.9% while 2006 utilization was 44% due to attractiveness of these particular securities from a borrower standpoint. In addition, the average lendable assets increased across all asset classes due to some portfolio restructuring and overall growth of the total fund. 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 changes can be found on pages 108-113 of the Actuarial Section of this report.

Service transfers decreased primarily due to normal fluctuations in the amount of transfers processed, which are dependent on the number of members electing to transfer their service and the cost of that service transferred.

Administration expenses increased primarily due to increased salary and fringe benefits cost of $104,482, increased professional services of $74,774, and increased communication costs of $72,004.

Internal Service Fund
Summary Comparative Balance Sheets

	As of June 30, 2006	As of June 30, 2005	Amount of Change	Percentage Change
Premiums receivable	$ 972,669	$1,036,597	$ (63,928)	(6.17)%
Investments	2,051,203	1,942,452	108,751	5.60
Total assets	$3,023,872	$2,979,049	$ 44,823	1.50
Premiums payable	$2,410,331	$2,496,903	$ (86,572)	(3.47)
Other liabilities	242,970	145,501	97,469	66.99
Total liabilities	2,653,301	2,642,404	10,897	0.41
Unrestricted net assets	370,571	336,645	33,926	10.08
Total liabilities and net assets	$3,023,872	$2,979,049	$ 44,823	1.50%

Summary Comparative Balance Sheets Analysis
Premiums receivable decreased due to a reduction in premium rates and less premiums remaining uncollected at the end of FY06.

Investments increased over the previous year-end balance as a function of less premiums remaining uncollected at year end plus the increase in fund balance from the additional earnings on the funds throughout the year.

Premiums payables decreased due to a reduction in the premium rates.

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, 2006	Year Ended June 30, 2005	Amount of Change	Percentage Change
Premium receipts	$26,415,236	$27,305,305	$(890,069)	(3.26)%
Miscellaneous income	436,501	436,489	12	0.00
Total operating revenue	26,851,737	27,741,794	(890,057)	(3.21)
Premium disbursements	26,379,919	27,271,948	(892,029)	(3.27)
Premium refunds	35,317	33,357	1,960	5.88
Administrative expenses	487,699	466,531	21,168	4.54
Total operating expenses	26,902,935	27,771,836	(868,901)	(3.13)
Net operating income (loss)	(51,198)	(30,042)	(21,156)	70.42
Investment income	85,124	49,326	35,798	72.57
Net revenues over expenses	33,926	19,284	14,642	75.93
Net assets beginning of year	336,645	317,361	19,284	6.08
Net assets end of year	$ 370,571	$ 336,645	$ 33,926	10.08

Summary Comparative Statements of Revenues, Expenses, and Changes in Net Assets Analysis
Premium receipts and disbursements decreased due a reduction in premium rates and normal fluctuations in the amount of optional life insurance coverage selected by state employees.

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

Administrative expenses increased primarily due to an increase in salary and fringes of $20,838.

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, 2006	Year Ended June 30, 2005	Amount of Change	Percentage Change
Cash flows from operating activities	$ 21,465	$ 132,574	$(111,109)	83.81%
Cash flows from noncapital financing activities	2,162	(2,261)	4,423	195.62
Cash flows from investing activities	(23,627)	(130,313)	106,686	(81.87)
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 the decrease in premiums received and disbursed to the insurance company.

The increase in cash flows from noncapital financing activities is primarily attributable to an increase in the amount premium refund checks that remained outstanding at the end of FY06 over that of FY05.

The increase in cash flows from investing activities is primarily attributable to an increase in the cash flows from net purchase and maturities of overnight repurchase agreements of $70,888 plus an increase in the investment income received of $35,798.

STATEMENTS OF PLAN NET ASSETS

Pension Trust Funds - As of June 30, 2006

	MSEP	Judicial Plan	Total
Assets			
Cash and short-term investments	$ 682,881,497	$ 5,561,770	$ 688,443,267
Receivables			
State contributions	10,329,992	933,596	11,263,588
Investment income	11,283,853	91,902	11,375,755
Investment sales	172,110,080	1,401,761	173,511,841
Other	236,029	1,922	237,951
Total receivables	193,959,954	2,429,181	196,389,135
Investments at fair value			
U.S. treasury securities	712,356,345	5,801,829	718,158,174
Corporate bonds	490,928,768	3,998,399	494,927,167
Convertible bonds	7,323,768	59,649	7,383,417
Government bonds & gov't mortgage-backed securities	218,135,308	1,776,616	219,911,924
Real estate equity	728,105	5,930	734,035
Common stock	802,732,033	6,537,900	809,269,933
Preferred stock	8,474,269	69,019	8,543,288
Limited partnerships	2,633,772,539	21,450,920	2,655,223,459
Real estate investment trust	110,640,377	901,117	111,541,494
Collateralized mortgage obligations	10,102,554	82,281	10,184,835
Foreign currency	96,865,366	788,926	97,654,292
International equities	1,215,793,960	9,902,107	1,225,696,067
U.S. dollar-denominated international corporate bonds	40,242,670	327,759	40,570,429
Total investments	6,348,096,062	51,702,452	6,399,798,514
Securities lending collateral	1,143,089,743	9,309,963	1,152,399,706
Capital assets			
Land	265,127	2,159	267,286
Building and building improvements	3,337,245	27,180	3,364,425
Furniture, fixtures, and equipment	1,606,565	13,085	1,619,650
Total capital assets	5,208,937	42,424	5,251,361
Accumulated depreciation	(1,960,277)	(15,966)	(1,976,243)
Net capital assets	3,248,660	26,458	3,275,118
Prepaid expenses and other	53,239	434	53,673
Total assets	8,371,329,155	69,030,258	8,440,359,413
Liabilities			
Administrative expense payables	1,933,925	15,751	1,949,676
Investment purchases payables	222,755,985	1,814,250	224,570,235
Securities lending collateral	1,142,881,421	9,308,267	1,152,189,688
Investment incentive fees payable	19,697,274	160,426	19,857,700
Employee vacation and overtime liability	322,866	2,630	325,496
Total liabilities	1,387,591,471	11,301,324	1,398,892,795
Net assets held in trust for pension benefits	$6,983,737,684	$57,728,934	$7,041,466,618

(A schedule of funding progress for each plan is presented on page 43.)
See accompanying *Notes to the Financial Statements*.

STATEMENTS OF CHANGES IN PLAN NET ASSETS

Pension Trust Funds -Year Ended June 30, 2006

	MSEP	Judicial Plan	Total
Additions			
Contributions			
State contributions	$ 227,233,195	$22,401,569	$ 249,634,764
Member purchases of service credit	3,072,315	0	3,072,315
Service transfer contributions	161,613	0	161,613
Total contributions	230,467,123	22,401,569	252,868,692
Investment income			
From investing activities			
Net appreciation in fair value of investments	525,854,603	4,282,855	530,137,458
Interest	146,906,913	1,196,492	148,103,405
Dividends	39,728,768	323,573	40,052,341
Other	92,136,447	750,411	92,886,858
Total investing activity income	804,626,731	6,553,331	811,180,062
Investing activity expenses			
Management fees	(75,820,847)	(617,527)	(76,438,374)
Custody fees	(887,441)	(7,228)	(894,669)
Consultant fees	(692,679)	(5,642)	(698,321)
Performance measurement fees	(340,983)	(2,777)	(343,760)
Internal investment activity expenses	(2,004,848)	(16,329)	(2,021,177)
Total investing activity expenses	(79,746,798)	(649,503)	(80,396,301)
Net income from investing activities	724,879,933	5,903,828	730,783,761
From securities lending activities			
Securities lending income	53,139,780	432,800	53,572,580
Securities lending expenses			
Borrower rebates	(48,700,106)	(396,641)	(49,096,747)
Management fees	(792,636)	(6,456)	(799,092)
Total securities lending activities expenses	(49,492,742)	(403,097)	(49,895,839)
Net income from securities lending activities	3,647,038	29,703	3,676,741
Total net investment income	728,526,971	5,933,531	734,460,502
Miscellaneous income	501,512	4,085	505,597
Total additions	959,495,606	28,339,185	987,834,791
Deductions			
Benefits	365,456,615	19,091,587	384,548,202
BackDROP & lump sum benefits	34,712,948	0	34,712,948
Service transfer payments	133,866	0	133,866
Contribution refunds	1,341	0	1,341
Administrative expenses	6,486,597	52,830	6,539,427
Total deductions	406,791,367	19,144,417	425,935,784
Net increase	552,704,239	9,194,768	561,899,007
Net assets held in trust for pension benefits			
Beginning of year	6,431,033,445	48,534,166	6,479,567,611
End of year	$6,983,737,684	$57,728,934	$7,041,466,618

See accompanying *Notes to the Financial Statements*.

BALANCE SHEET

Internal Service Fund - As of June 30, 2006

Assets	
Premiums receivable	$ 972,669
Investments at fair value	2,051,203
Total assets	$3,023,872
Liabilities and net assets	
Liabilities	
Premiums payable	$2,410,331
Checks outstanding net of deposits	2,459
Other	240,511
Total liabilities	2,653,301
Unrestricted net assets	370,571
Total liabilities and net assets	$3,023,872

See accompanying *Notes to the Financial Statements*.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN PLAN NET ASSETS

Internal Service Fund - Year Ended June 30, 2006

Operating revenues	
Premium receipts	$26,415,236
Miscellaneous income	436,501
Total operating revenues	26,851,737
Operating expenses	
Premium disbursements	26,379,919
Premium refunds	35,317
Administrative expenses	487,699
Total operating expenses	26,902,935
Operating revenues under operating expenses	(51,198)
Nonoperating revenues	
Investment income	85,124
Net revenues over expenses	33,926
Net assets beginning of year	336,645
Net assets end of year	$ 370,571

See accompanying *Notes to the Financial Statements*.

STATEMENT OF CASH FLOWS

Internal Service Fund - Year Ended June 30, 2006

Cash flows from operating activities	
Cash received from employer and members	$ 26,915,775
Miscellaneous income	12
Premium payments to outside carriers	(26,466,491)
Refunds of premiums to members	(35,317)
Cash payments to employees for services	(225,316)
Cash payments to other suppliers of goods and services	(167,198)
Net cash provided by operating activities	21,465
Cash flows from noncapital financing activities	
Implicit funding of checks outstanding net of deposits	2,459
Implicit repayment of prior years checks outstanding net of deposits	(297)
Net cash provided by noncapital financing activities	2,162
Cash flows from investing activities	
Purchase of investment securities	(485,731,197)
Proceeds from sale and maturities of investment securities	485,622,446
Cash received from investment income	85,124
Net cash used in investing activities	(23,627)
Net increase in cash	0
Cash balances June 30, 2005	0
Cash balances June 30, 2006	$ 0
Reconciliation of operating revenues under operating expenses to net cash provided by operating activities	
Operating revenues under operating expenses	$ (51,198)
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	64,051
Increase in operational accounts payable	8,612
Total adjustments	72,663
Net cash provided by operating activities	$ 21,465

See accompanying *Notes to the Financial Statements*.

NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2006

(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.

Prospective Plan Termination
On April 26, 2005, Governor Matt Blunt signed into law Senate Bill 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 did not impact anyone serving in (or who had served in) a position covered by the ALJLAP prior to the effective date of the legislation. During FY05, all liabilities and assets of the ALJLAP were 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.

As of the June 30, 2006 valuation, membership in the MSEP consisted of the following:

Retirees and beneficiaries currently receiving benefits		27,052
Terminated employees entitled to, but not yet receiving benefits		15,764
Active		
Vested	36,858	
Nonvested	17,635	54,493
Total membership		97,309

The MSEP provides retirement, survivor, and disability benefits.

MSEP (closed plan)
General state employees are fully vested for benefits upon receiving 5 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 10 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 5 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%.

Contributions are determined through annual actuarial valuations. 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, 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.

As of the June 30, 2006 valuation, membership in the Judicial Plan consisted of the following:

Retirees and beneficiaries currently receiving benefits		398
Terminated employees entitled to, but not yet receiving benefits		65
Active		
Vested	394	
Nonvested	0	394
Total membership		857

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 Defined Contribution Insurance Plan

The Missouri State Defined Contribution 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 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 Defined Contribution 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 Defined Contribution 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 Judicial Plan, and the Missouri State Defined Contribution 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.

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 (above right) 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, 2006, as collateral for overnight repurchase agreements:

- $500,000 Federal Farm Credit Bank – callable Maturity Date 04/16/2008
- $500,000 Federal National Mortgage Assoc. Float Rate Note Maturity Date 12/11/2006
- $2,813,758 Small Business Association Pool #504192 Maturity date 04/25/2012
- $1,000,000 Small Business Association Pool #505430 Maturity Date 08/25/2019
- $1,000,000 Small Business Association Pool #505624 Maturity Date 09/25/2021
- $1,250,000 Small Business Association Pool #507184 Maturity Date 08/25/2018

	Cash Balances	
	Book	Bank/Investment Custodian
Pension Trust Funds	$22,622,754	$32,888,387
Internal Service Fund	(2,459)	297

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 40 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, 2006, MOSERS' fixed income assets that are not government-guaranteed represented 77.3% 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 on page 35 summarize MOSERS' fixed income portfolio exposure levels and credit qualities.

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 average credit quality of overall portfolios. A quality rating of D is not permissible in any of the guidelines except in those circumstances of downgrades subsequent to purchase (as is the case with the current exposure of $109,067), in which the investment manager has been given permission to hold the security usually due to mitigating circumstances such as a very short maturity or a much higher rating from one of the other ratings agencies, among others.

Average Credit Quality and Exposure Levels of Nongovernment Guaranteed Securities

Fixed Income Security Type	Market Value June 30, 2006	Percent of All Fixed Income Assets	Weighted Average Credit Quality	Ratings Dispersion Requiring Further Disclosure
Mortgages	$ 148,756,287	4.4%	Agency	See below
Agencies	164,500,276	4.9	Agency	None
Collateralized mortgage obligations	29,366,102	0.9	Agency	See below
Asset-backed securities	201,991,413	6.0	AAA	See below
Corporate bonds	1,584,836,714	47.3	A	See below
Bank loans	24,538,471	0.7	Not rated	None
Commercial paper	247,474,405	7.4	Tier 2	See below
Preferred stock	61,912,289	1.8	AAA	See below
Pooled investments	126,801,193	3.8	Not rated	None
Total nongov't guaranteed securities	$2,590,177,150	77.3%		
Total fixed income securities	$3,351,805,328			

Ratings Dispersion Detail – Market Value

Credit Rating Level	Collateralized Mortgage Obligations	Asset-Backed Securities	Corporate Bonds	Commercial Paper	Preferred Stock	Mortgages
Agency	$21,897,646	$ 13,996,264				$144,447,504
AAA	7,468,456	179,047,350	$ 350,475,972		$61,200,000	4,308,783
AA		7,452,378	405,925,281			
A			495,783,183			
BBB			35,250,323			
BB		1,495,421	106,014,407		704,250	
B			168,976,401			
CCC			15,438,930		8,039	
CC						
C						
D			109,067			
Tier 1				$ 14,596,351		
Tier 2				232,878,054		
Not rated			6,863,150			
Total	$29,366,102	$201,991,413	$1,584,836,714	$247,474,405	$61,912,289	$148,756,287

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 38-39 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% or more 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 by using the effective duration or option adjusted methodology. It is widely used in the management of fixed income portfolios by quantifying the risk of interest rate changes. This 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. The modified duration method is used for bank loans because the technology is not available to calculate effective duration. Considering the segment's minimal size, the different methodology has virtually no effect on overall results. All of the system's fixed income portfolios are managed in accordance with operational guidelines that specify the degree of interest rate risk taken. 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. Floating rate assets that are structurally complex and contain inappropriate coupon adjustment mechanisms are expressly forbidden by the guidelines and are not present in any of the portfolios.

Effective Duration of Fixed Income Assets by Security Type

Fixed Income Security Type	Market Value June 30, 2006	Percent of All Fixed Income Assets	Weighted Average Effective Duration (Years)	Interest Rate Risk Requiring Future Disclosure
U.S. treasuries	$ 761,566,265	22.7%	7.3	See below
Government guaranteed mortgages	61,914	0.0	2.9	None
Mortgages	148,756,287	4.4	4.5	None
Agencies	164,500,276	4.9	3.9	None
Collateralized mortgage obligations	29,366,102	0.9	2.2	None
Asset-backed securities	201,991,413	6.0	0.7	None
Corporate bonds	1,584,836,714	47.4	1.0	None
Bank loans	24,538,471	0.7	3.7	None
Commercial paper	247,474,405	7.4	0.1	None
Preferred stock	61,912,289	1.8	0.2	None
Pooled investments	126,801,193	3.8	0.1	None
	$ 3,351,805,329	100.0%	2.6	

Effective Duration Analysis of U.S. Treasuries

Fixed Income Security Type	Market Value June 30, 2006	Average Effective Duration of the Security Type	Contribution to Effective Duration
Less than 1 year to maturity	$ 64,271,164	0.3	0.0
1 to 10 year maturities	363,629,129	4.9	1.7
Long-coupon treasuries	246,681,705	10.6	3.4
Long-stripped treasuries	86,984,267	18.5	2.1
	$761,566,265		7.3

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, 2006, is highlighted in the table below.

Currency Exposures by Asset Class

Currency	Cash & Cash Equivalents	Equities	Fixed Income	Alternatives	Total
Argentine Peso	$ 27,934				$ 27,934
Australian Dollar	481,856	$ 17,782,904			18,264,760
Brazilian Real	88,709	22,276,986			22,365,695
Canadian Dollar	1,342,077	50,969,400			52,311,477
Chilean Peso	9				9
Czech Koruna	14				14
Danish Krone		13,196,935			13,196,935
Egyptian Pound	287	7			294
Euro	1,949,129	258,184,658		$1,601,453	261,735,240
Hong Kong Dollar	192,848	81,163,988			81,356,836
Hungarian Forint	784				784
Indian Rupee	8,884,177	4,414,245			13,298,422
Indonesian Rupiah	(1,299)	309,309			308,010
Israeli Shekel	1	901,499			901,500
Japanese Yen	169,058,205	287,521,577			456,579,782
Malaysian Ringgit	3,789,960	7,350,144			11,140,104
Mexican Peso	50	15,133,748			15,133,798
Norwegian Krone		19,264,777			19,264,777
Philippines Peso	18	752,437			752,455
Polish Zloty		168,826			168,826
Russian Ruble		18,181			18,181
Singapore Dollar	283,068	78,829,782			79,112,850
South African Rand	15	10,295,886	$ 74,384		10,370,285
South Korean Won	21,784,184	33,833,089	4,584,658		60,201,931
Sri Lankan Rupee		2,196			2,196
Swedish Krona		24,457,630			24,457,630
Swiss Franc	(1,270,335)	89,178,714	1,634,694		89,543,073
Taiwan Dollar	18,583,388	27,173,207			45,756,595
Turkish Lira	3,331	737,314			740,645
Maltese Lira		218,784			218,784
British Pound	(57,067,547)	236,177,047	924,775		180,034,275
China Renminbi	11,410,644				11,410,644
Colombian Peso	52,824				52,824
Thai Baht	401	6,216,301			6,216,702
Grand Total	$179,594,732	$1,286,529,571	$7,218,511	$1,601,453	$1,474,944,267

Futures Contracts

Futures Contract	2006 Expiration Date	Long/Short	Notional/ Fair Value	Exposure
U.S 5-year Treasury Notes	September	Short	$ (3,515,813)	$ (7,969)
U.S 2-year Treasury Notes	September	Short	(10,747,406)	(8,281)
U.S 10-year Treasury Notes	September	Long	2,411,766	10,422
Topix Index	September	Long	113,739,309	891,378
SPI 200 Index	September	Short	(14,530,616)	(228,237)
Natural Gas	July	Long	32,107,040	(163,060)
Heating Oil	July	Long	66,474,643	(710,506)
Gasoline NY UNLD	July	Long	73,153,836	(422,016)
Gas Oil	August	Long	43,140,150	16,650
FTSE 100 Index	September	Short	(45,680,186)	(202,959)
DJ Euro Stoxx 50	September	Short	(36,803,792)	(726,171)
Crude Oil	July	Long	146,307,470	811,390
Brent Crude Oil	August	Long	114,836,750	1,244,000
Total			$480,893,151	$ 504,641

Swaps

Type	MOSERS Pays	MOSERS Receives	Maturity Date	Notional Value	Exposure	Counterparty
S&P 500 Total Return to Libor	Libor plus 5 bps	S&P 500 Total Return	10/31/06	$ 252,253,174	$ (741,874)	JP Morgan Chase
Russell 2000 to Libor	Libor minus 55 bps	Russell 2000 Total Return	04/30/07	43,617,998	114,055	JP Morgan Chase
S&P 100 Total Return to Libor	Libor plus 5 bps	S&P 100 Total Return	04/30/07	334,071,150	(1,957,800)	JP Morgan Chase
S&P 500 Total Return to Libor	Libor plus 5 bps	S&P 500 Total Return	10/31/06	84,969,092	(249,889)	JP Morgan Chase
Russell 2000 to Libor	Libor minus 55 bps	Russell 2000 Total Return	04/30/07	14,191,561	37,107	JP Morgan Chase
S&P 100 Total Return to Libor	Libor plus 7 bps	S&P 100 Total Return	08/31/06	33,516,606	(393,964)	JP Morgan Chase
S&P 100 Total Return to Libor	Libor plus 5 bps	S&P 100 Total Return	04/30/07	96,526,048	(568,772)	JP Morgan Chase
S&P 100 Total Return to Libor	Libor plus 10 bps	S&P 100 Total Return	01/31/07	19,566,657	(125,920)	JP Morgan Chase
Lehman U.S. Treasury to Libor	Libor minus 12 bps	Lehman U.S. Treasury Index	01/31/07	9,306,367	(9,004)	Lehman
Lehman U.S. Treasury to Libor	Libor minus 12 bps	Lehman U.S. Treasury Index	03/30/07	152,008,426	(147,940)	Lehman
Lehman U.S. Credit to Libor	Libor plus 15 bps	Lehman U.S. Credit Index	01/31/07	24,661,514	(70,197)	Lehman
Lehman U.S. MBS Index to Libor	Libor	Lehman U.S. MBS Index	03/30/07	41,932,701	(96,473)	Lehman
Lehman U.S. MBS Index to Libor	Libor	Lehman U.S. MBS Index	09/29/06	34,999,346	(81,200)	Lehman
Lehman U.S. MBS Index to Libor	Libor plus 2 bps	Lehman U.S. MBS Index	07/01/07	32,144,791	130,496	Lehman
Lehman U.S. Agency Index to Libor	Libor plus 5 bps	Lehman U.S. Agency Index	01/31/07	3,895,791	(9,267)	Lehman
Lehman U.S. Agency Index to Libor	Libor	Lehman U.S. Agency Index	04/30/07	11,347,982	(22,782)	Lehman
Lehman U.S. Agency Index to Libor	Libor plus 4 bps	Lehman U.S. Agency Index	07/01/07	58,252,760	235,393	Lehman
Crude Oil to T-Bills	T-Bills plus 7.5 bps	Crude Oil GSCI Index	11/30/06	75,845,972	(2,016,207)	JP Morgan Chase
Brent Crude Oil to T-Bills	T-Bills plus 7.5 bps	Brent Crude Oil GSCI Index	11/30/06	80,420,249	(2,361,584)	JP Morgan Chase
Gas Oil to T-Bills	T-Bills plus 7.5 bps	Gas Oil GSCI Index	11/30/06	32,292,138	(1,000,711)	JP Morgan Chase
Gasoline to T-Bills	T-Bills plus 7.5 bps	Gasoline GSCI Index	11/30/06	51,068,278	(3,122,172)	JP Morgan Chase
Heating Oil to T-Bills	T-Bills plus 7.5 bps	Heating Oil GSCI Index	11/30/06	48,297,764	81,458	JP Morgan Chase
Natural Gas to T-Bills	T-Bills plus 7.5 bps	Natural Gas GSCI Index	11/30/06	20,017,924	1,699,960	JP Morgan Chase
GSCI Non Energy to T-Bills	T-Bills plus 28 bps	GSCI Non Energy Index	06/30/07	56,131,635	0	AIG International
Total				$1,611,335,924	$(10,677,287)	

Derivatives

Derivative instruments are financial contracts whose values depend on the values of one or more underlying assets, reference rates, or financial indexes. They include futures contracts, swap contracts, options contracts, and forward foreign currency exchange. 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. MOSERS enters into these certain derivative instruments primarily to enhance the performance and reduce the volatility of its portfolio. It enters swaps and futures contracts to gain or hedge exposure to certain markets and to manage interest rate risk and forward foreign exchange contracts primarily to hedge foreign currency exposure. The tables on the proceeding page summarize the various contracts in the portfolio as of June 30, 2006. The notional values associated with these derivative instruments are generally not recorded on the financial statements; however, the amounts for the exposure (unrealized gains/losses) on these instruments are recorded. Interest risks associated with these investments are included the tables on page 35. MOSERS does not anticipate additional significant market risk from the swap arrangements.

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 *Statements of Plan Net Assets* of pension trust funds and are based on the cash flows from interest and principal payments by the underlying mortgages. As a result, they are sensitive to prepayments by mortgagees, which 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 noncash collateral are presented in the schedule on page 40. On June 30, 2006, MOSERS had no credit risk exposure to borrowers because the collateral amounts received exceeded amounts out on loan.

As of June 30, 2006, Credit Suisse/First Boston, New York Branch (CSFB), 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 CSFB to lend these securities to a diverse group of dealers on behalf of MOSERS. Indemnification against dealer default is provided by CSFB, 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 lending programs is split on an 85/15 basis between MOSERS and CSFB 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 CSFB. On June 30, 2006, the cash collateral fund had a market value of $1,152,399,706 and a weighted average maturity of 31 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 CSFB.

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, 2006, MOSERS had contracts with 32 limited partnerships across various types of alternative investments. These partnerships collectively represent 41.25% of the total fund. A schedule of limited partnerships is presented on page 41.

Investments as of June 30, 2006

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	$ 377,577,625	$ 349,681,834		
Not on securities loan	350,721,648	459,588,099		
Total	728,299,273	809,269,933		
International equities				
Out on loan	82,177,437	61,495,316		
Not on securities loan	760,974,855	1,164,200,751		
Total	843,152,292	1,225,696,067		
International corporate bonds	41,559,952	40,570,429		
Preferred stocks	8,406,115	8,543,288		
Treasury bonds, notes, and bills				
Out on loan	665,084,431	673,150,889		
Not on securities loan	36,345,656	45,007,285		
Total	701,430,087	718,158,174		
Government bonds and gov't mortgage-backed securities	222,544,305	219,911,924		
Corporate bonds				
Out on loan	103,666,818	37,124,007		
Not on securities loan	1,311,862,934	1,370,777,144		
Total	1,415,529,752	1,407,901,151		
Convertible bonds	7,103,792	7,383,417		
Repurchase agreements	578,835	578,835	$2,051,203	$2,051,203
Short-term investment funds	904,667,401	904,667,401		
Collateralized mortgage obligations	10,475,662	10,184,835		
Real estate equity holdings	734,035	734,035		
Real estate investment trusts	65,854,040	111,541,494		
Foreign currencies	98,384,743	97,654,292		
Limited partnerships	2,141,155,569	2,655,223,459		
Total investments				
Out on loan	1,228,506,310	1,121,452,046		
Not on securities loan	5,535,553,587	7,096,566,688	2,051,203	2,051,203
Total	$7,189,875,853	$8,218,018,734	$2,051,203	$2,051,203

Reconciliation to investments on *Statements of Plan Net Assets*	
Total from above	$8,218,018,734
Less short-term investments	
Repurchase agreements	(578,835)
Short-term investment funds	(665,241,678)
Less invested securities lending collateral	
Short-term investment funds	(239,425,723)
Corporate bonds	(912,973,984)
Investments on *Statements of Plan Net Assets*	$6,399,798,514

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 life of the related assets according to the following schedule:

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

The bottom table on the following page is a schedule of the capital asset account balances as of June 30, 2005, and June 30, 2006, and changes to those account balances during the year ended June 30, 2006.

Limited Partnerships

Partnership Name	Style	Investments at Fair Value as of June 30, 2006
Blackstone Real Estate Partners IV	Active real estate	$ 57,267,639
Blackstone Real Estate Partners V	Active real estate	12,637,399
OCM Real Estate Opportunities Fund III	Active real estate	62,328,051
RH Fund 7	Activist equity	64,784,815
Stinson Capital Partners	Activist equity	57,120,725
Bridgepoint Europe III A	Corporate buyout	1,601,453
Catterton Partners V	Corporate buyout	18,991,528
JLL Partners Fund V	Corporate buyout	3,310,068
OCM/GFI Power Opportunities Fund II	Corporate buyout	7,416,635
Silver Lake Partners II	Corporate buyout	15,313,502
The Veritas Capital Fund III	Corporate buyout	0
Parish Capital Buyout Fund I	Corporate buyout - fund of funds	6,694,130
B IV Capital Partners	Distressed debt	43,862,645
Blackstone Distressed Securities Fund	Distressed debt	53,382,967
MHR Institutional Partners II	Distressed debt	51,936,793
OCM Opportunities Fund IV B	Distressed debt	8,486,616
Sapphire Special Opportunities Fund	Distressed debt	8,892,067
Onyx Partnership	Emerging markets	131,466,569
Merit Energy Partners F-II	Energy-oil & gas	3,382,682
Blackstone Hedged Equity Fund	Long/short	449,238,335
AQR Absolute Return Institutional Fund	Market neutral	178,480,457
BGI Global Market Neutral Fund	Market neutral	221,100,427
Blackstone Topaz Fund	Market neutral	290,888,167
Diamond Ridge	Market neutral	84,195,096
Jade Ridge	Market neutral	338,848,646
Newport Pioneer	Market neutral	330,615,290
TCW Energy Fund XD-NL	Mezzanine debt	25,136,357
TCW Energy Partners I	Mezzanine debt	9,999,643
Silver Creek Special Opportunities Fund I	Special situations - fund of funds	43,168,057
Global Timber Investors 7	Timberland	13,711,397
Wildwood Timberlands	Timberland	60,945,414
Brinson	Venture capital	19,889
		$ 2,655,223,459

Capital Asset Account

Capital Assets	Land	Building and Building Improvements	Furniture, Fixtures, and Equipment	Total Capital Assets
Balances June 30, 2005	$267,286	$3,351,493	$1,956,938	$5,575,717
Additions	0	12,932	51,195	64,127
Deletions	0	0	(388,483)	(388,483)
Balances June 30, 2006	267,286	3,364,425	1,619,650	5,251,361
Accumulated depreciation				
Balances June 30, 2005	0	570,073	1,548,804	2,118,877
Depreciation expense	0	84,285	157,214	241,499
Deletions	0	0	(384,133)	(384,133)
Balances June 30, 2006	0	654,358	1,321,885	1,976,243
Net capital assets June 30, 2006	$267,286	$2,710,067	$ 297,765	$3,275,118

(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 an open 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, 2006, 14,903 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, 2006, was $1,714,081. Premiums are contributed 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 insured defined benefit insurance coverage in the same amount of coverage they were receiving through the DOLIR. As of June 30, 2006, 466 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 ($54,640 for the year ended June 30, 2006). 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.

Long-Term Disability Insurance
MOSERS also provides for long-term disability coverage for eligible members. Membership generally includes those active members of MOSERS retirement plans that do not have other disability coverage or are not yet eligible to receive normal (unreduced) retirement benefits. As of June 30, 2006, 41,704 members were eligible and covered under the program. This insured defined benefit coverage is financed on a percentage of covered payroll (.55%) and is purchased as group policy through competitive bids and is currently administered through The Standard Insurance Company. The cost for the year ended June 30, 2006, was $7,903,568. Premiums are contributed by the state as provided for by Section 104.515, RSMo.

(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

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)	Annual Covered Payroll (c)	UAAL Percentage of Covered Payroll ((b-a)/c)
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
6/30/06	6,836,567,188	8,013,205,414	1,176,638,226	85.3	1,777,277,138	66.2

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)	Annual Covered Payroll (c)	UAAL Percentage of Covered Payroll ((b-a)/c)
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 FY05.

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)	Annual Covered Payroll (c)	UAAL Percentage of Covered Payroll ((b-a)/c)
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
6/30/06	51,652,867	309,002,752	257,349,885	16.7	40,270,535	639.1

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
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
2006	12.59	226,338,183	100

ALJLAP

Year Ended June 30	Annual Required Contribution Percent	Annual Required Contribution Dollar Amount	Percentage Contributed
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
2006*	21.79	895,012	100

* The ALJLAP was transitioned to the MSEP in FY05.
2006 is the last year for separate ALJLAP contributions; future contributions to be included in the MSEP rate.

Judicial Plan

Year Ended June 30	Annual Required Contribution Percent	Annual Required Contribution Dollar Amount	Percentage Contributed
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
2006	55.76	22,401,569	100

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

Required Supplementary Information

NOTES TO THE SCHEDULES

Pension Trust Funds - Last Six Years

Actuarial Methods and Assumptions for Valuations Performed June 30, 2006

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. An open 30-year amortization period was used for the June 30, 2006, 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 meeting on September 15, 2005, the MOSERS board considered the extreme volatility in the markets during the last 5 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 5-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.

	Amount	Percent of Payroll
MSEP		
Changes 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.

	Amount	Percent of Payroll
MSEP		
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.

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

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

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

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

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

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.

	Amount	Percent of Payroll
MSEP		
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.

	Amount	Percent of Payroll
MSEP		
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

2006 - The actuarial valuations as of June 30, 2006, reflected the following changes to the computed contribution rates for fiscal year ending June 30, 2008.

	Amount	Percent of Payroll
MSEP		
Change to an open 30-year amortization period	$(1,244,094)	(.07)%
Experience and nonrecurring items	2,310,460	.13
Judicial Plan		
Change to an open 30-year amortization period	(265,786)	(.66)
Experience and nonrecurring items	334,245	.83

SCHEDULE OF INVESTMENT EXPENSES

Pension Trust Funds - Year Ended June 30, 2006

	MSEP	Judicial Plan	Total
Investing activity			
Investment management fees			
Aetos Capital Management - alpha pool	$ 1,785,442	$ 14,542	$ 1,799,984
Americap Advisors - domestic all-cap	142,205	1,158	143,363
AQR Capital Management - alpha pool	10,978,807	89,416	11,068,223
Barclays Global Investors - alpha pool	3,306,000	26,926	3,332,926
BlackRock Financial Management L.P.-high yield	1,272,088	10,361	1,282,449
BlackRock Financial Management L.P.-MBS/ABS	230,814	1,880	232,694
Blackstone - distressed debt	1,379,172	11,233	1,390,405
Blackstone BREP V	90,874	740	91,614
Blackstone - hedged equity	4,328,818	35,256	4,364,074
Blackstone - market neutral	3,622,880	29,507	3,652,387
Blackstone - real estate	5,785,616	47,121	5,832,737
Blakeney - emerging markets	7,365,793	59,991	7,425,784
Blum Capital Stinson - private equity	3,419,269	27,848	3,447,117
Bridgewater Associates, Inc - alpha pool	2,933,528	23,892	2,957,420
Bridgepoint Capital - private equity	119,654	975	120,629
Brinson Partners, Inc. - private equity	(2,559)	(21)	(2,580)
Bush O'Donnell - real estate	92,993	757	93,750
Capital Guardian Trust - domestic all-cap	547,281	4,457	551,738
Catterton Partners - private equity	384,887	3,135	388,022
DDJ Capital Management - distressed debt	1,858,670	15,138	1,873,808
Dimensional Fund Advisors Inc.- domestic SMID-cap	247,980	2,020	250,000
Global Forest Partners - timber	26,073	212	26,285
GMO - emerging markets	1,364,508	11,113	1,375,621
Hoisington Investment Management Co. - U.S. treasuries	177,985	1,450	179,435
JLL Partners V	959,711	7,816	967,527
Legg Mason - domestic all-cap	385,027	3,136	388,163
Mastholm Investment Managers - int'l developed	929,289	7,569	936,858
Merrill Lynch - EAFE	205,037	1,670	206,707
Merrill Lynch - emerging markets	411,013	3,348	414,361
MHR Institutional Partners II - distressed debt	3,779,162	30,780	3,809,942
MOSERS Inc. - alpha pool	66	1	67
NISA Investment Advisors, LLC - commodities	994,348	8,099	1,002,447
NISA Investment Advisors, LLC - fixed income	203,404	1,657	205,061
NISA Investment Advisors, LLC - beta program domestic equity	260,999	2,126	263,125
NISA Investment Advisors, LLC - beta program hedged equity	13,774	112	13,886
NISA Investment Advisors, LLC beta program fixed income	(44,061)	(359)	(44,420)
Oaktree Capital Management - real estate	2,527,356	20,584	2,547,940
Oaktree Capital Management - distressed debt	(607,864)	(4,951)	(612,815)
Oaktree Capital Management GFI Power - private equity	379,581	3,092	382,673
Pacific Alternative Asset Management Co. - alpha pool	3,163,589	25,766	3,189,355
Parish Capital - private equity	204,926	1,669	206,595
Relational Investors, LLC. - private equity	1,188,869	9,683	1,198,552
Resource Management Service - timber	517,087	4,211	521,298
Silchester International Investors - int'l developed	2,523,030	20,549	2,543,579
Silver Lake Partners - private equity	307,106	2,501	309,607
Trust Company of the West Energy Fund - real estate	296,999	2,419	299,418
Veritas	443,871	3,615	447,486
Wayzata Investment Partners - distressed debt	5,319,750	43,327	5,363,077
Total investment management fees	75,820,847	617,527	76,438,374

Continued on page 48

SCHEDULE OF INVESTMENT EXPENSES

Pension Trust Funds - Year Ended June 30, 2006

Continued from page 47

	MSEP	Judicial Plan	Total
Other investment fees			
Investment consultant fees			
Summit Strategies Group	686,806	5,594	692,400
TimberLink Consulting	5,873	48	5,921
Investment custodial fees			
Mellon Bank	806,613	6,570	813,183
Partnership Fees	80,828	658	81,486
Performance measurement fees			
Mellon Bank	340,983	2,777	343,760
Internal investment activity expenses	2,004,848	16,329	2,021,177
Total investing activity expenses	79,746,798	649,503	80,396,301
Securities lending activity			
Securities lending borrower rebates	48,700,106	396,641	49,096,747
Securities lending management fees			
Mellon Bank	123,990	1,010	125,000
Credit Suisse First Boston	668,646	5,446	674,092
Total securities lending activity expenses	49,492,742	403,097	49,895,839
Total investment expenses	$129,239,540	$1,052,600	$130,292,140

See accompanying *Independent Auditors' Report*.

SCHEDULE OF INTERNAL INVESTMENT ACTIVITY EXPENSES

Pension Trust Funds - Year Ended June 30, 2006

	MSEP	Judicial Plan	Total
Personnel services			
Salaries	$1,093,618	$ 8,907	$1,102,525
Employee fringe benefits	307,367	2,503	309,870
Total personnel services	1,400,985	11,410	1,412,395
Professional services			
Attorney services	69,697	568	70,265
Consulting services	218,935	1,783	220,718
Total professional services	288,632	2,351	290,983
Communications			
Telephone	3,040	25	3,065
Total communications	3,040	25	3,065
Equipment			
Maintenance	119	1	120
Total equipment	119	1	120
Travel and meetings			
Staff travel and meetings	59,063	481	59,544
Total travel and meetings	59,063	481	59,544
General			
Educational materials	8,475	69	8,544
Office supplies	229	2	231
Subscriptions and dues	244,305	1,990	246,295
Total general	253,009	2,061	255,070
Total administrative expenses	$2,004,848	$16,329	$2,021,177

See accompanying *Independent Auditors' Report*.

SCHEDULE OF ADMINISTRATIVE EXPENSES

Pension Trust Funds - Year Ended June 30, 2006

	MSEP	Judicial Plan	Total
Personnel services			
Salaries	$2,961,016	$24,116	$2,985,132
Employee fringe benefits	1,070,778	8,721	1,079,499
Total personnel services	4,031,794	32,837	4,064,631
Professional services			
Actuarial services	162,709	1,325	164,034
Attorney services	75,084	612	75,696
Auditing services	34,717	283	35,000
Banking services	19,288	157	19,445
Consulting services	244,001	1,987	245,988
Total professional services	535,799	4,364	540,163
Communications			
Postage and mailing	358,214	2,917	361,131
Telephone	76,580	624	77,204
Printing	149,868	1,221	151,089
Total communications	584,662	4,762	589,424
Building and grounds			
Depreciation	83,604	681	84,285
Utilities	59,390	484	59,874
Maintenance	41,622	339	41,961
Total building and grounds	184,616	1,504	186,120
Equipment			
Depreciation	155,944	1,270	157,214
Maintenance	230,339	1,876	232,215
Rental	117,161	954	118,115
Loss on sale of equipment	3,391	28	3,419
Total equipment	506,835	4,128	510,963
Travel and meetings			
Board travel and meetings	29,479	240	29,719
Staff travel and meetings	207,496	1,690	209,186
Vehicle maintenance and operation	7,237	59	7,296
Total travel and meetings	244,212	1,989	246,201
General			
Educational materials	19,692	160	19,852
Office supplies	98,190	800	98,990
Subscriptions and dues	142,715	1,162	143,877
Insurance	116,903	952	117,855
Advertising	4,076	33	4,109
Miscellaneous	17,103	139	17,242
Total general	398,679	3,246	401,925
Total administrative expenses	$6,486,597	$52,830	$6,539,427

See accompanying *Independent Auditors' Report.*

SCHEDULE OF ADMINISTRATIVE EXPENSES

Internal Service Fund - Year Ended June 30, 2006

Personnel services	
Salaries	$281,640
Employee fringe benefits	95,728
Total personnel services	377,368
Professional services	
Attorney services	1,255
Auditing services	2,412
Banking services	627
Total professional services	4,294
Communications	
Postage and mailing	1,502
Telephone	5,531
Total communications	7,033
Building and grounds	
Building use charge	8,429
Utilities	4,125
Maintenance	2,891
Total building and grounds	15,445
Equipment	
Equipment use charge	15,900
Maintenance	15,829
Rental	8,138
Total equipment	39,867
Travel and meetings	
Board travel and meetings	2,048
Staff travel and meetings	18,515
Vehicle maintenance and operation	503
Total travel and meetings	21,066
General	
Educational materials	1,956
Office supplies	6,836
Subscriptions and dues	4,213
Insurance	8,120
Advertising	283
Miscellaneous	1,218
Total general	22,626
Total administrative expenses	$487,699

See accompanying *Independent Auditors' Report*.

SCHEDULE OF PROFESSIONAL/CONSULTANT FEES
Year Ended June 30, 2006

		Pension Trust Funds			Internal Service Fund
Professional/Consultant	**Nature of Service**	**MSEP**	**Judicial Plan**	**Total**	**MO State Insurance Plan**
Operation administrative expenses					
Central Bank	Banking	$ 19,288	$ 157	$ 19,445	$ 627
Charlesworth & Associates	Risk management consulting	6,511	53	6,564	0
Cortex Applied Research Inc.	Governance consulting	9,502	77	9,579	0
Gabriel, Roeder, Smith & Co.	Actuarial	162,709	1,325	164,034	0
Hubber & Associates	Information technology consulting	188	2	190	0
International Centre for Pension Management	Pension management research	18,502	151	18,653	0
Independent Fiduciary Services, Inc.	Fiduciary performance review	173,586	1,414	175,000	0
Interactive Solutions International, LLC	Phone system consulting	746	6	752	0
Jack Pierce	Governmental pension consulting	29,758	242	30,000	0
QFlow Systems, LLC	Image system consulting	5,208	42	5,250	0
Thompson Coburn LLP	Legal counsel	75,084	612	75,696	1,255
Williams-Keepers LLC	Financial audit	34,717	283	35,000	2,412
Operation administrative expenses subtotal		535,799	4,364	540,163	4,294
Internal investment administrative expenses					
CT Corporation	Legal services	288	2	290	0
Independent Fiduciary Services, Inc.	Fiduciary performance review	198,384	1,616	200,000	0
KPMG of Taiwan	Tax services	2,258	18	2,276	0
Perkins Coie	Legal counsel (credit)	(1,166)	(9)	(1,175)	0
Summit Strategies Group	Travel expenses	17,995	147	18,142	0
Thompson Coburn LLP	Legal counsel	70,575	575	71,150	0
Williams-Keepers LLC	Tax services	298	2	300	0
Internal investment administrative expenses subtotal		288,632	2,351	290,983	0
Total professional/consultant fees		$824,431	$6,715	$831,146	$4,294

See accompanying *Independent Auditors' Report*.
Information on investment management and consulting fees can be found in the *Schedule of Investment Expenses* on page 47-48.

INVESTMENT SUMMARY

Pension Trust Funds - Year Ended June 30, 2006

Type of Investment	June 30, 2005 Cost Value	June 30, 2005 Fair value	Purchases and Capital Additions at Cost	Sales and Redemptions at Cost	June 30, 2006 Cost Value	June 30, 2006 Fair Value	Percent of Total Fair Value
Fixed income							
Treasury bonds, notes, and bills	$ 633,925,736	$ 706,098,134	$ 109,263,185	$ (41,758,834)	$ 701,430,087	$ 718,158,174	11%
Government bonds and gov't mortgage-backed securities	274,022,359	275,317,809	160,415,227	(211,893,281)	222,544,305	219,911,924	3
Corporate bonds	488,781,175	491,449,657	167,172,435	(153,187,823)	502,765,787	494,927,167	8
Convertible bonds	2	16	8,291,486	(1,187,696)	7,103,792	7,383,417	0
Collateralized mortgage obligations	56,334,781	56,707,757	18,670,274	(64,529,393)	10,475,662	10,184,835	0
International corporate bonds	54,061,823	53,613,090	11,028,048	(23,529,919)	41,559,952	40,570,429	1
Total fixed income	1,507,125,876	1,583,186,463	474,840,655	(496,086,946)	1,485,879,585	1,491,135,946	23
Common stock	640,263,159	770,328,662	221,817,573	(133,781,459)	728,299,273	809,269,933	13
Preferred stock	6,734,580	10,234,536	10,287,557	(8,616,022)	8,406,115	8,543,288	0
International investments							
International equities	761,323,287	1,041,283,437	171,291,924	(89,462,919)	843,152,292	1,225,696,067	19
Foreign currency	14,096,354	13,388,428	193,228,416	(108,940,027)	98,384,743	97,654,292	2
EAFE index fund	114,874,465	127,318,920	0	(114,874,465)	0	0	0
Total international investments	890,294,106	1,181,990,785	364,520,340	(313,277,411)	941,537,035	1,323,350,359	21
Real estate							
Equity holdings	734,035	734,035	0	0	734,035	734,035	0
REITs	84,179,310	127,310,040	70,761,911	(89,087,181)	65,854,040	111,541,494	2
Total real estate	84,913,345	128,044,075	70,761,911	(89,087,181)	66,588,075	112,275,529	2
Limited partnerships	1,931,308,922	2,280,556,799	744,522,657	(534,676,010)	2,141,155,569	2,655,223,459	41
Investments (per *Statement of Plan Net Assets* page 26)	5,060,639,988	5,954,341,320	1,886,750,693	(1,575,525,029)	5,371,865,652	6,399,798,514	100%
Short-term investments							
Short-term investment funds	567,674,458	567,674,458	1,247,542,677	(1,149,975,457)	665,241,678	665,241,678	
Repurchase agreements	404,230	404,230	136,097,358	(135,922,753)	578,835	578,835	
Total short-term investments	568,078,688	568,078,688	1,383,640,035	(1,285,898,210)	665,820,513	665,820,513	
Invested securities lending collateral							
Corporate bonds	749,696,356	749,929,631	611,508,406	(448,440,797)	912,763,965	912,973,984	
Short-term investment funds	349,912,120	349,912,120	53,415,346,109	(53,525,832,506)	239,425,723	239,425,723	
Total invested securities lending collateral	1,099,608,476	1,099,841,751	54,026,854,515	(53,974,273,303)	1,152,189,688	1,152,399,707	
Total investments	$6,728,327,152	$7,622,261,759	$57,297,245,243	$(56,835,696,542)	$7,189,875,853	$8,218,018,734	

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, 2006

	June 30, 2005				June 30, 2006		
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	$1,942,452	$1,942,452	$485,731,197	$(485,622,446)	$2,051,203	$2,051,203	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.