Financial Section

INDEPENDENT AUDITOR'S REPORT

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The Board of Trustees
Missouri State Employees' Retirement System

We have audited the accompanying *Statement of Plan Net Assets* 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, 2012, as listed in the accompanying table of contents. 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 funds, at June 30, 2012, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

U.S. generally accepted accounting principles require that the *Management Discussion and Analysis* on pages 22-26 and the *Schedules of Funding Progress and Employer Contributions* on pages 49-50 be presented to supplement the *Basic Financial Statements*. Such information, although not a part of the *Basic Financial Statements*, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the *Basic Financial Statements* in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise MOSERS financial statements as a whole. The *Introductory, Investment, Actuarial* and *Statistical Sections* and the *Additional Financial Information* on pages 53-60 are presented for purposes of additional analysis and are not a required part of the financial statements. The *Required Supplementary Information* on pages 49-52 is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the financial statements 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 do not express an opinion or provide any assurance on them.

Williams Keepers LLC

October 29, 2012

American Institute of Certified Public Accountants
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MANAGEMENT DISCUSSION AND ANALYSIS

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

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

The ***Statements of Changes in Plan Net Assets*** which summarize the pension trust funds' 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 funds is similar to the *Statements of Plan Net Assets* in that it is also a snapshot of the financial position of the internal service funds where Net Assets + Liabilities = Assets.

The ***Statements of Revenues, Expenses, and Changes in Net Assets*** of the internal service funds is similar to the *Statements of Changes in Plan Net Assets* in that it also reports a summary of 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 ***Statements of Cash Flows*** of the internal service funds report the financial transactions of the fiscal year of the internal service funds on a cash basis. It is similar to the *Statements 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 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.

The required supplementary *Management Discussion and Analysis* information, the *Required Supplementary Information,* and *Additional Financial Information* following the *Notes to the Financial Statements* provide detailed historical information considered useful in evaluating the condition of the plans administered by MOSERS.

MOSERS' overall pension fund financial condition declined during the fiscal year ended June 30, 2012 (FY12). Pension fund net assets decreased by $185,197,840 during the fiscal year, primarily as result of a decrease in investment values and their associated income. The investments of the pension trust funds generated a 2.2% return for the year, down from the prior year's return of 21.0%.

The MSEP plan experienced a decrease in its funded status from 79.2% to 73.2% and the Judicial Plan experienced an decrease in its funded status from 25.0% to 24.7%. The change in the valuation asset market corridor adopted by the MOSERS Board of Trustees in 2009 returned to +/- 20% for FY11 and remained +/- 20% for FY12. In July 2012, the board voted to reduce the nominal investment return assumption from 8.5% to 8% and to adopt assumptions for wage inflation and price inflation of 3% and 2.5%, respectively.

The internal service funds net assets decreased by $159,275. The goals of the internal service funds are to maintain the funds at a level that enables it to meet its obligations of contracting the premiums for the life and long-term disability insurance benefits for state employees; maintain the membership data necessary to track the premiums due from the state and its employees and payable to the insurance carrier; and manage the state employees deferred compensation program.

The following schedules present summary comparative financial statements of the pension trust funds and internal service funds for FY12 and FY11. For each schedule there is a brief summary of the significant changes noted in those schedules.

Pension Trust Funds

Summary Comparative Statements of Plan Net Assets Analysis

The largest components of the net assets of the pension trust funds are the investments, cash and short-term investments, and securities lending collateral.

The decrease in the fair value of investments is primarily attributable to the unfavorable market conditions experienced during FY12, as evidenced by a decrease in MOSERS' total investment return from 21.0% last year to 2.2% this year. MOSERS invests in a portfolio dominated by risk assets and during the fiscal year ended June 30, 2012, the markets experienced extreme volatility. Detailed information regarding MOSERS' investment portfolio is included in the *Investment Section* of this report.

Investment income payable and investment purchases payable decreased as a result of the timing of investment funding.

The increase in securities lending collateral is primarily attributable to higher utilization rates in the lending portfolio at fiscal year end. Margins were similar to the previous fiscal year resulting in similar income generation. As of fiscal year end, approximately 2% of the collateral received has been invested in asset-backed and corporate bonds, down from 10% the prior year. The invested collateral went from a shortfall of $0.8 million at the end of last fiscal year to $2 million above the liability in FY12.

Cash and short-term investments increased due to multiple factors including the timing of investment funding and gains that have occurred in the beta cash program that remained in cash account throughout the year.

Pension Trust Funds — Summary Comparative Statements of Plan Net Assets

	As of June 30, 2012	As of June 30, 2011	Amount of Change	Percentage Change
Cash and short-term investments	$ 891,202,655	$ 807,270,837	$ 83,931,818	10.40%
Receivables	59,162,673	27,244,113	31,918,560	117.16
Investments	6,757,240,840	7,073,472,800	(316,231,960)	(4.47)
Invested securities lending collateral	692,476,483	643,085,121	49,391,362	7.68
Capital assets	3,064,311	3,061,064	3,247	0.11
Other assets	41,772	50,454	(8,682)	(17.21)
Total assets	8,403,188,734	8,554,184,389	(150,995,655)	(1.77)
Administrative expense payables	1,674,515	2,901,861	(1,227,346)	(42.30)
Investment purchase payables	12,932,642	16,139,126	(3,206,484)	(19.87)
Foreign currency payable	0	863,785	(863,785)	(100.00)
Investment income payable	0	8,218,700	(8,218,700)	(100.00)
Securities lending collateral	690,440,025	643,842,013	46,598,012	7.24
Other liabilities	16,421,986	15,301,498	1,120,488	7.32
Total liabilities	721,469,168	687,266,983	34,202,185	4.98
Net assets	$7,681,719,566	$7,866,917,406	$(185,197,840)	(2.35)

Summary Comparative Statements of Changes in Plan Net Assets Analysis

The slight increase in contributions received is primarily attributable to an increase in the contribution rate for the general employees group from 13.81% to 13.97% and a full year of contributions received by members who contributed 4% as part of the MSEP 2011 tier.

The decrease in investment income in FY12 from FY11 is attributable to the generally unfavorable market conditions experienced by the investments of the fund. The slight increase in securities lending income is primarily due to increased utilization rates in the lending portfolio at fiscal year end. Margins were similar to the previous fiscal year resulting in similar income generation. The *Investment Section* of this report contains additional information regarding investments and securities lending activity.

The total benefit payments increase is due to a net increase in the number of benefit recipients plus cost-of-living adjustments provided to existing benefit recipients. Detailed schedules of these changes can be found on pages 116-121 of the *Actuarial Section* of this report.

Service transfers are dependent on the number of members electing to transfer their service out of MOSERS. Refunds are dependent on the number of members of the MSEP 2011 tier who have terminated employment and are eligible to request a refund, and members prior to September 1, 1972 that MOSERS locates who have contributions remaining in the system. In FY12, service transfers and refunds decreased due to a one-time transfer of $17,609,276 for those members electing to transfer under HB 1868, enacted in FY11. In FY12, 106 members (including 4 transfers to MoDOT and Patrol Employees' Retirement System) elected to transfer their service out of MOSERS.

Pension Trust Funds — Summary Comparative Statements of Changes in Plan Net Assets

	Year Ended June 30, 2012	Year Ended June 30, 2011	Amount of Change	Percentage Change
Contributions	$ 300,348,132	$ 294,737,248	$ 5,610,884	1.90%
Investment income - investing activities	158,626,338	1,411,602,826	(1,252,976,488)	(88.76)
Investment income - securities lending activities	1,537,701	1,534,523	3,178	0.21
Miscellaneous income	454,312	667,724	(213,412)	(31.96)
Total additions	460,966,483	1,708,542,321	(1,247,575,838)	(73.02)
Benefits	638,343,863	622,913,485	15,430,378	2.48
Service transfers and refunds	711,889	17,745,828	(17,033,939)	(95.99)
Administrative expenses	7,108,571	7,142,834	(34,263)	(0.48)
Total deductions	646,164,323	647,802,147	(1,637,824)	(0.25)
Net increase (decrease)	(185,197,840)	1,060,740,174	(1,245,938,014)	(117.46)
Net assets beginning of year	7,866,917,406	6,806,177,232	1,060,740,174	15.58
Net assets end of year	$7,681,719,566	$7,866,917,406	$ (185,197,840)	(2.35)

Internal Service Funds

Summary Comparative Balance Sheets Analysis

The decrease in premiums receivable is attributable to normal fluctuations in the month-end balance of life and long-term disability insurance premiums receivable during the year, which are dependent on the number of members participating and amount of their coverage.

The decrease in accounts receivable-other is due to the change in the deferred compensation plan record keeper during FY12 where the quarterly credit from the record keeper and reimbursements from plan investment options now reside in an account for MOSERS with the plan record keeper. FY11 includes one quarter of revenue from the ING Stable Income investment option which MOSERS collected prior to the change to ICMA-RC.

The increase in investments is attributable to normal fluctuations in the investment in overnight repurchase agreements of the funds held pending transmission to the life and long-term disability insurance company.

The increase in premiums payable is attributable to normal fluctuations in the month-end balances of premiums payable for the year, similar to the fluctuations of the premiums receivable.

Other liabilities decreased primarily as a result of the decrease in reimbursements due to the pension trust funds for the internal service fund's portion of shared expenses which had not been transferred at year end.

Internal Service Funds — Summary Comparative Balance Sheets

	As of June 30, 2012	As of June 30, 2011	Amount of Change	Percentage Change
Cash	$ 0	$ 8	$ (8)	(100.00)%
Premiums receivable	959,003	982,915	(23,912)	(2.43)
Accounts receivable - other	0	124,998	(124,998)	(100.00)
Investments	3,532,260	3,443,331	88,929	2.58
Fixed assets	5,026	0	5,026	100.00
Total assets	4,496,289	4,551,252	(54,963)	(1.21)
Premiums payable	3,346,314	3,220,853	125,461	3.90
Other liabilities	359,313	380,462	(21,149)	(5.56)
Total liabilities	3,705,627	3,601,315	104,312	2.90
Unrestricted net assets	790,662	949,937	(159,275)	(16.77)
Total liabilities and net assets	$4,496,289	$4,551,252	$ (54,963)	(1.21)

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

Premium receipts and premium disbursements decreased slightly due to normal fluctuations in the amount of optional life insurance coverage selected by state employees.

The decrease in deferred compensation receipts and disbursements is attributable to multiple factors including a change in collection process where the third party administrator now collects deferred compensation contributions from employers directly instead of through MOSERS, and a decreased number in the workforce contributing to the plan as a result of the decline in overall economic conditions. Total participants (both active and terminated) decreased by 2,041 during the fiscal year. The state of Missouri has not contributed an employer match since March 2010.

Miscellaneous income decreased as a result of lower receipts collected directly by MOSERS from the revenue sharing arrangement with the deferred compensation plan administrator.

Premium refunds decreased slightly as a result of timing differences resulting from changes in insurance coverage.

Administrative expenses decreased primarily as a result of the decrease in 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
Internal Service Funds

	Year Ended June 30, 2012	Year Ended June 30, 2011	Amount of Change	Percentage Change
Premium receipts	$28,578,326	$28,829,638	$ (251,312)	(0.87)%
Deferred compensation receipts	17,500,476	54,221,226	(36,720,750)	(67.72)
Miscellaneous income	608,187	981,404	(373,217)	(38.03)
Total operating revenue	46,686,989	84,032,268	(37,345,279)	(44.44)
Premium disbursements	28,556,036	28,804,638	(248,602)	(0.86)
Deferred compensation disbursements	17,500,476	54,221,226	(36,720,750)	(67.72)
Premium refunds	22,291	24,999	(2,708)	(10.83)
Administrative expenses	778,529	826,809	(48,280)	(5.84)
Total operating expenses	46,857,332	83,877,672	(37,020,340)	(44.14)
Net operating income (loss)	(170,343)	154,596	(324,939)	(210.19)
Investment income	11,068	11,071	(3)	(0.03)
Net revenues over expenses	(159,275)	165,667	(324,942)	(196.14)
Net assets beginning of year	949,937	784,270	165,667	21.12
Net assets end of year	$ 790,662	$ 949,937	$ (159,275)	(16.77)

Summary Comparative Statements of Cash Flows Analysis

The decrease in cash flows from operating activities is primarily attributable to a decrease in cash payments received from employers and members over that of FY11.

The increase in cash flows from noncapital financing activities is primarily attributable to a increase in the amount of life and long-term disability premium refund checks that remained outstanding at year end.

The increase in cash flows from investing activities is primarily attributable to the decrease in outflows for net purchase and maturities of overnight repurchase agreements of $251,331, offset by the increase in purchase of capital assets for the deferred compensation plan of $5,476.

Summary Comparative Statements of Cash Flows
Internal Service Funds

	Year Ended June 30, 2012	Year Ended June 30, 2011	Amount of Change	Percentage Change
Cash flows from operating activities	$ 81,794	$ 329,505	$(247,711)	(75.18)%
Cash flows from noncapital financing activities	1,086	(318)	1,404	(441.51)
Cash flows from investing activities	(82,888)	(329,187)	246,299	(74.82)
Net change in cash	(8)	0	(8)	
Cash balances beginning of year	8	8	0	
Cash balances end of year	$ 0	$ 8	$ (8)	

Request for Information

This financial report is designed to provide a general overview of the system's finances for all those interested in the system. Questions concerning any of the information provided in this report or request for additional information should be addressed to MOSERS at P.O. Box 209, Jefferson City, MO 65102.

Statements of Plan Net Assets

Pension Trust Funds - As of June 30, 2012

	MSEP	Judicial Plan	Total
Assets			
Cash and short-term investments	$ 879,729,514	$ 11,473,141	$ 891,202,655
Receivables			
State contributions	10,618,866	1,095,345	11,714,211
Investment sales	8,909,852	116,199	9,026,051
Investment income receivable	37,582,532	490,139	38,072,671
Other	345,238	4,502	349,740
Total receivables	57,456,488	1,706,185	59,162,673
Investments at fair value			
U.S. treasury securities	712,349,270	9,290,224	721,639,494
Corporate bonds	100,036,101	1,304,638	101,340,739
Convertible bonds	4,042,073	52,715	4,094,788
Government bonds & gov't mortgage-backed securities	64,233,914	837,717	65,071,631
Common stock	614,462,389	8,013,615	622,476,004
Preferred stock	4,757,365	62,044	4,819,409
Limited partnerships	3,777,665,741	49,267,067	3,826,932,808
Bank loans	74,047,490	965,703	75,013,193
Collateralized mortgage obligations	132,882,346	1,733,008	134,615,354
Foreign currency	3,388,289	44,189	3,432,478
Real estate investment trust	4,948,061	64,531	5,012,592
International equities	1,153,398,626	15,042,243	1,168,440,869
U.S. dollar-denominated international corporate bonds	24,037,986	313,495	24,351,481
Total investments	6,670,249,651	86,991,189	6,757,240,840
Invested securities lending collateral	683,561,697	8,914,786	692,476,483
Capital assets			
Land	263,845	3,441	267,286
Building and building improvements	3,623,261	47,253	3,670,514
Furniture, fixtures, and equipment	1,643,331	21,432	1,664,763
Software	123,021	1,604	124,625
Total capital assets	5,653,458	73,730	5,727,188
Accumulated depreciation	(2,628,596)	(34,281)	(2,662,877)
Net capital assets	3,024,862	39,449	3,064,311
Prepaid expenses and other	41,234	538	41,772
Total assets	8,294,063,446	109,125,288	8,403,188,734
Liabilities			
Administrative expenses payable	1,652,958	21,557	1,674,515
Investment purchases payable	12,766,150	166,492	12,932,642
Securities lending collateral	681,551,456	8,888,569	690,440,025
Investment incentive fees payable	15,649,293	204,093	15,853,386
Employee vacation and overtime liability	561,280	7,320	568,600
Total liabilities	712,181,137	9,288,031	721,469,168
Net assets held in trust for pension benefits	$7,581,882,309	$ 99,837,257	$7,681,719,566

See accompanying *Notes to the Financial Statements.*

Statements of Changes in Plan Net Assets

Pension Trust Funds - Year Ended June 30, 2012

	MSEP	Judicial Plan	Total
Additions			
Contributions			
State contributions	$ 263,373,924	$26,324,526	$ 289,698,450
Employee contributions	4,955,399	149,859	5,105,258
Member purchases of service credit	2,869,085	0	2,869,085
Service transfer contributions	2,675,339	0	2,675,339
Total contributions	273,873,747	26,474,385	300,348,132
Investment income			
From investing activity:			
Net appreciation in fair value of investments	173,455,684	2,262,152	175,717,836
Interest	39,312,807	512,705	39,825,512
Dividends	29,569,523	385,636	29,955,159
Swap income (loss)	(18,073,497)	(235,709)	(18,309,206)
Other	43,599,213	568,607	44,167,820
Total investing activity income	267,863,730	3,493,391	271,357,121
Investing activity expenses:			
Management fees	(106,123,597)	(1,384,029)	(107,507,626)
Custody fees	(407,301)	(5,312)	(412,613)
Consultant fees	(892,694)	(11,642)	(904,336)
Performance measurement fees	(437,883)	(5,711)	(443,594)
Internal investment activity expenses	(3,418,037)	(44,577)	(3,462,614)
Total investing activity expenses	(111,279,512)	(1,451,271)	(112,730,783)
Net income from investing activity	156,584,218	2,042,120	158,626,338
From securities lending activity:			
Securities lending income	1,833,002	23,905	1,856,907
Securities lending expenses:			
Borrower rebates	(44,706)	(583)	(45,289)
Management fees	(270,391)	(3,526)	(273,917)
Total securities lending activity expenses	(315,097)	(4,109)	(319,206)
Net income from securities lending activity	1,517,905	19,796	1,537,701
Total net investment income	158,102,123	2,061,916	160,164,039
Miscellaneous income	448,463	5,849	454,312
Total additions	432,424,333	28,542,150	460,966,483
Deductions			
Benefits	547,548,517	26,821,412	574,369,929
BackDROP & lump sum benefits	63,973,934	0	63,973,934
Service transfer payments	588,180	0	588,180
Contribution refunds	123,709	0	123,709
Administrative expenses	7,017,057	91,514	7,108,571
Total deductions	619,251,397	26,912,926	646,164,323
Net increase (decrease)	(186,827,064)	1,629,224	(185,197,840)
Net assets held in trust for pension benefits:			
Beginning of year	7,768,709,373	98,208,033	7,866,917,406
End of year	$7,581,882,309	$99,837,257	$7,681,719,566

See accompanying *Notes to the Financial Statements.*

Balance Sheets

Internal Service Funds - As of June 30, 2012

	Life & LTD	Deferred Compensation	Total
Assets			
Premiums receivable	$ 959,003	$ 0	$ 959,003
Due to (due from)	(844,728)	844,728	0
Investments at fair value	3,532,260	0	3,532,260
Capital assets			
(net of $450 accumulated depreciation)	0	5,026	5,026
Total assets	$3,646,535	$849,754	$4,496,289
Liabilities and net assets			
Liabilities			
Premiums payable	$3,346,314	$ 0	$3,346,314
Checks outstanding net of deposits	2,626	0	2,626
Other	356,687	0	356,687
Total liabilities	3,705,627	0	3,705,627
Unrestricted net assets (deficit)	(59,092)	849,754	790,662
Total liabilities and net assets	$3,646,535	$849,754	$4,496,289

See accompanying *Notes to the Financial Statements*.

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

Internal Service Funds - Year Ended June 30, 2012

	Life & LTD	Deferred Compensation	Total
Operating revenues			
Premium receipts	$28,578,326	$ 0	$28,578,326
Deferred compensation receipts	0	17,500,476	17,500,476
Miscellaneous income	480,120	128,067	608,187
Total operating revenues	29,058,446	17,628,543	46,686,989
Operating expenses			
Premium disbursements	28,556,036	0	28,556,036
Deferred compensation disbursements	0	17,500,476	17,500,476
Premium refunds	22,291	0	22,291
Administrative expenses	433,500	345,029	778,529
Total operating expenses	29,011,827	17,845,505	46,857,332
Operating revenues over (under) operating expenses	46,619	(216,962)	(170,343)
Non-operating revenues			
Investment income	11,025	43	11,068
Net revenues over (under) expenses	57,644	(216,919)	(159,275)
Net assets (deficit) July 1, 2011	(116,736)	1,066,673	949,937
Net assets (deficit) June 30, 2012	$ (59,092)	$ 849,754	$ 790,662

See accompanying *Notes to the Financial Statements*.

Statements of Cash Flows

Internal Service Funds - Year Ended June 30, 2012

	Life & LTD	Deferred Compensation	Total
Cash flows from operating activities			
Cash received from employer and members	$ 29,080,711	$ 17,753,540	$ 46,834,251
Payments to outside carriers	(28,430,575)	(17,550,862)	(45,981,437)
Refunds of premiums to members	(22,291)	0	(22,291)
Cash payments to employees for services	(87,895)	(211,024)	(298,919)
Cash payments to other suppliers of goods and services	(211,951)	(237,859)	(449,810)
Net cash provided (used) by operating activities	327,999	(246,205)	81,794
Cash flows from noncapital financing activities			
Implicit funding of checks outstanding net of deposits	2,626	0	2,626
Implicit repayment of prior years checks outstanding net of deposits	(1,540)	0	(1,540)
Net cash provided by noncapital financing activities	1,086	0	1,086
Cash flows from investing activities			
Purchase of investment securities	(907,278,951)	(4,085,555)	(911,364,506)
Proceeds from sale and maturities of investment securities	906,938,841	4,336,735	911,275,576
Cash received from investment income	11,025	43	11,068
Purchase of capital assets	0	(5,026)	(5,026)
Net cash provided (used) by investing activities	(329,085)	246,197	(82,888)
Net increase (decrease) in cash	0	(8)	(8)
Cash balances June 30, 2011	0	8	8
Cash balances June 30, 2012	$ 0	$ 0	$ 0
Reconciliation of operating revenues over (under) operating expenses to net cash provided by operating activities			
Operating revenues over (under) operating expenses	$ 46,619	$ (216,962)	$ (170,343)
Adjustments to reconcile operating revenues over (under) operating expenses to net cash provided (used) by operating activities			
Change in assets and liabilities:			
Increase in operational accounts receivable	23,912	124,996	148,908
Increase (decrease) in operational accounts payable	257,468	(154,239)	103,229
Total adjustments	281,380	(29,243)	252,137
Net cash provided (used) by operating activities	$ 327,999	$ (246,205)	$ 81,794

See accompanying *Notes to the Financial Statements*.

NOTES TO THE FINANCIAL STATEMENTS

Year Ended June 30, 2012

(1) PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION

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, which are administered by the Missouri State Employees' Retirement System (MOSERS) in accordance with Sections 104.010 and 104.312 to 104.1215 of the Revised Statutes of Missouri (RSMo). As established under Section 104.320, RSMo, MOSERS is a body corporate and an instrumentality of the state. In the system are vested the powers and duties specified in Sections 104.010 and 104.312 to 104.1215, RSMo and such other powers as may be necessary or proper to enable it, its officers, employees, and agents to carry out fully and effectively all the purposes of Sections 104.010 and 104.312 to 104.1215, RSMo.

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

The board intends to follow a financing pattern which computes and requires contribution amounts which, expressed as a percent of active member payroll, will remain approximately level from year-to-year and from one generation of citizens to the next generation.

Complete recognition of the year-to-year swings in the market value of system assets would produce contribution rate changes that would run counter to the "approximately level" goal. To address that issue, a common actuarial practice referred to as asset smoothing is used. Application of that practice results in full recognition of returns at the assumed rate and recognizing any annual investment return gain or loss relative to the assumed rate over a period of five years.

At any point in time, the actuarial value of assets will be more or less than the market value but, if the smoothing method is prudent and properly constructed, those values will converge over time.

As of June 30, 2012, and 2011, the actuarial value of assets was 104% and 103%, respectively of the market value for the MSEP.

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). Full-time state employees hired after July 2000, and before January 2011, are eligible for membership in the MSEP 2000. Employees hired for the first time on or after January 2011 are eligible for membership in the MSEP 2011 tier of the MSEP 2000. MOSERS participates as an employer in the MSEP and MSEP 2000.

As of the June 30, 2012 valuation, membership in the MSEP consisted of the following:		
Retirees and beneficiaries currently receiving benefits		37,308
Terminated employees entitled to, but not yet receiving benefits		18,034
Active		
Vested	35,883	
Nonvested	15,449	51,332
Total membership		106,674

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 percentage increase in the average consumer price index (CPI) from one year to the next, 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 percentage increase in the average CPI from one year to the next, 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.

Contributions are determined through annual actuarial valuations. Administration of the MSEP is financed through contributions to this plan from the state of Missouri and investment earnings.

MSEP 2000

General state employees are fully vested for benefits upon receiving 5 years of credited service. Under the MSEP 2000, 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 percentage increase in the average CPI from one year to the next, 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 and investment earnings.

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.

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, refer to the *Summary of Plan Provisions* contained in the *Actuarial Section* of this report.

MSEP 2011 Tier

On July 19, 2010, a new tier defined benefit plan was signed into law for members of the Missouri State Employees' Retirement System (MOSERS) and the MoDOT and Patrol Employees' Retirement System (MPERS). This tier (MSEP 2011) includes all new employees first hired on or after January 1, 2011.

Under the MSEP 2011, general employees may retire with full benefits upon the earliest of attaining:

- Age 67 with 10 years of service; or
- Age 55 with age and service equaling 90 or more - "Rule of 90."

General employees may retire early at age 62 with at least 10 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 90," 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 percentage increase in the average CPI from one year to the next, up to a maximum rate of 5%.

Member contributions are 4% of pay. Employer contributions are determined through annual actuarial valuations. Administration of the MSEP 2000 is financed through contributions to this plan from the member, state of Missouri, and investment earnings.

For a more detailed summary of benefits for general employees and a description of benefits available to legislators and elected officials under the MSEP 2011 tier, refer to the *Summary of Plan Provisions* contained in the *Actuarial Section* of this report.

The MSEP 2011 does not impact employees employed by the state prior to January 1, 2011.

Service Transfer Contributions

On July 8, 2011, HB 282 was enacted which allowed MOSERS and MPERS to transfer funds between the two systems in connection with service credit transfers occurring on or after September 1, 2011. The legislation also included provisions that made any full-time employee of the Missouri Development Finance Board (MDFB) who is employed on or after September 1, 2011, a state employee and member of MOSERS. Provisions further allowed MDFB employees to purchase credited service toward retirement based on their employment with MDFB prior to September 1, 2011.

Judicial Plan

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

Judges and commissioners of the supreme court or the court of appeals, judges of the circuit court, probate court, magistrate court, court of common pleas, court of criminal corrections, justices of the peace, or commissioners or deputy commissioners of the circuit court appointed after February 29, 1972, commissioners of the juvenile division of the circuit court appointed pursuant to Section 211.023, RSMo, commissioners of the drug court pursuant to Section 478.466, RSMo, or commissioners of the family court are eligible for membership in the Judicial Plan.

As of the June 30, 2012, valuation membership in the Judicial Plan consisted of the following:		
Retirees and beneficiaries currently receiving benefits		488
Terminated employees entitled to, but not yet receiving benefits		41
Active		
Vested	398	
Nonvested	0	398
Total membership		927

The Judicial Plan provides retirement, survivor, 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 percentage increase in the average CPI from one year to the next, 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 percentage increase in the average CPI from one year to the next, 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.

Funding of the Judicial Plan on an actuarial basis began on July 1, 1998. Contributions are determined through annual actuarial valuations. 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 and investment earnings.

Judicial 2011 Tier

On July 19, 2010, a new tier defined benefit plan was signed into law for members of the Judicial Plan. This tier (Judicial Plan 2011) includes all new judicial members first hired on or after January 1, 2011.

Under the Judicial Plan 2011, members may retire with full benefits upon the earliest of attaining:

- Age 67 with 12 years of service; or
- Age 62 with 20 years of service; or

Judicial members may retire early at age 67 with less than 12 years of service with reduced benefits; or age 62 with less than 20 years of service with a reduced benefit based on years of service.

Schedule of Funded Status

	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)
MSEP	06/30/2012	$7,897,167,203	$10,793,651,577	$2,896,484,374	73.2%	$1,864,069,493	155.4%
Judges	06/30/2012	102,266,706	413,332,538	311,065,832	24.7	45,835,501	678.7

	MSEP	Judicial Plan
Valuation date	6/30/2012	6/30/2012
Actuarial cost method	Entry age	Entry age
Amortization method	Level percent	Level percent
Remaining amortization period	30 years open	30 years open
Asset valuation method	5-year smoothed market +/- 20% market corridor	5-year smoothed market +/- 20% market corridor
Actuarial assumptions:		
Investment rate of return	8.00%	8.00%
Projected salary increases	3.2-5.9%	3.0-5.2%
COLAs	4%*	4%**
Price inflation	2.50%	2.50%

* *On a compound basis, 4% for the first 12 years, 3.06% for the 13th year, and 2.0% per year thereafter.*
** *On a compound basis, 4% for the first 12 years, 3.06% for the 13th year, and 2.0% per year thereafter.*

In July 2012, the board voted to reduce the nominal investment return assumption from 8.5% to 8% and to adopt assumptions for wage inflation and price inflation of 3% and 2.5%, respectively. See the *Actuarial Section* for detail in change in assumptions.

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 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.

Multi-year trend information related to the table above demonstrates whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits can be found in the required supplementary information following the *Notes to the Financial Statements*.

Missouri State Insured Defined Benefit Insurance Plan

The Missouri State Insured Defined Benefit 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, MSEP 2000 (except employees of the Missouri Department of Conservation and certain state colleges and universities), MSEP 2011, 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 Insured Defined Benefit 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 Insured Defined Benefit Insurance Plan is financed through contributions to this plan from the state of Missouri.

State of Missouri's Deferred Compensation Plan

The State of Missouri's Deferred Compensation Plan is accounted for as an internal service fund and is administered by MOSERS.

Investment Option Reimbursements

	Employee Charges	Investment Option Reimbursements	Total
ING	$ 600,391	$ 572,719	$1,173,110
ICMA-RC	427,073	1,047,939	1,475,012
Total	$1,027,464	$1,620,658	$2,648,122

The record keeping of individual accounts and the management of investment options are handled by external providers and paid from charges to the participants and investment option reimbursement arrangements. Participants in the plan manage individual accounts by choosing investment options from the available fund line-up. MOSERS' role is to oversee the plan, choose external providers and investment options, and develop communication to plan participants. The State of Missouri Deferred Compensation Plan receives reimbursements from the plan's investment option managers which are used to cover plan administration costs and a portion of participant fees. The table above illustrates actual participant charges and funds collected from investment option reimbursements under the plan record keepers during the past fiscal year.

On November 10, 2011, participant account records in the deferred compensation plan were transitioned from ING Retirement Plans (ING) to ICMA-RC. This transition to the new record keeper led to a number of plan improvements including, but not limited to, lower fees for plan participants and the addition of a Roth 457 savings option.

Due to legislation passed during the 2011 session of the Missouri State Legislature, automatic enrollment of new permanent full-time and part-time employees at 1% of pay into the State of Missouri Deferred Compensation Plan became effective July 1, 2012.

Audited financial statements for the State of Missouri Deferred Compensation Plan can be viewed on MOSERS website at *www.mosers.org.*

Prospective Deferred Compensation Plan Changes

As of July 31, 2012, the MOSERS trust will be converted to a master trust and unitized to provide participants in the State of Missouri Deferred Compensation 457(b) Plan for public employees and the State of Missouri Deferred Compensation Incentive 401(a) Plan for public employees with an opportunity to invest in MOSERS' investment portfolio (MIP).

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN ASSET MATTERS

Basis of Accounting

The financial statements of the MSEP, the Judicial Plan, the Missouri State Insured Defined Benefit Insurance Plan and state of Missouri's Deferred Compensation Plan were prepared using the accrual basis of accounting.

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.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of net assets held in trust for pension benefits at June 30, 2012. Actual results could differ from those estimates.

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 funds are reported on the basis of fair market value. The schedule on page 43 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 funds. 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. Certain limited partnerships reflect values on a quarter lag basis due to the nature of those investments and the time it takes to value them. Fair value of the commingled funds is 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.

Cash

Custodial credit risk for cash deposits and investments is the risk that, in the event of a bank failure, the system and plan deposits may not be returned to them. The board adopted the following policy on June 18, 2009:

The executive director shall require that banks managing demand deposit accounts for any retirement plan associated with MOSERS (MOSERS' defined benefit plan and the deferred compensation plan/state incentive compensation plan) to hold, at minimum, collateral security in either MOSERS' name or the state of Missouri Deferred Compensation Plan and in an amount equal to or more than the amount on deposit that exceeds the Federal Deposit Insurance Corporation (FDIC) insured amount. The types of collateral security shall be included on a list maintained by the State Treasurer's office in accordance with Section 30.270 RSMo, but in no case may a bank pledge collateral that does not specifically allow MOSERS to release the collateral or pledge collateral that represents securities of the pledging banks.

Cash balances represent both demand deposit accounts held at the bank and investment cash on deposit with the investment custodian. To maximize investment income, the float caused by outstanding checks is invested in an internally managed short-term investment account, 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 bottom of this page is a schedule of the aggregate book and bank balances of all cash accounts.

Effective July 1, 2009, a repurchase agreement was amended to remove the bank's right to substitute other appropriate securities under this agreement. Central Trust Bank pledged the following securities to MOSERS on June 30, 2012, as collateral for overnight repurchase agreements:

- $2,539,902 Small Business Administration Pool #509077 | *maturity date - 06/25/2019 / fair value - $2,722,089*
- $2,782,326 Small Business Administration Pool #521710 | *maturity date - 10/25/2022 / fair value - $3,060,697*
- $2,963,427 Small Business Administration Pool #508195 | *maturity date - 08/25/2032 / fair value - $3,217,393*
- $3,131,831 Small Business Administration Pool #508851 | *maturity date - 05/25/2035 / fair value - $3,408,716*
- $3,974,224 Small Business Administration Pool #509193 | *maturity date - 04/25/2037 / fair value - $4,469,478*

Aggregate Book and Bank Balances

	Cash Balances	
	Book	Bank/Investment Custodian
Pension Trust Funds - investment custodian	$(41,902,633)	$(41,902,633)
Pension Trust Funds - demand deposits	(9,825,971)	27,497
Internal Service Fund - insurance plan demand deposits	2,626	73
Internal Service Fund - deferred compensation plan	0	0

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, 2012, MOSERS' fixed income assets that are not government guaranteed represented 54% 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 tables below summarize MOSERS' fixed income portfolio credit quality, exposure levels, and market value of credit rating levels.

As a matter of practice, there are no overarching limitations for credit risk exposures within the overall fixed income portfolio. Each individual portfolio within fixed income 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. MOSERS is notified by the investment manager when an investment with a quality rating of CC or lower is purchased and in those circumstances of downgrades subsequent to purchase, in which case 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 but may include situations in which the investment manager believes that worst case recovery values exceed market pricing.

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 on pages 41-42 of these notes.

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

Average Credit Quality and Exposure Levels of Nongovernment Guaranteed Securities

Fixed Income Security Type	Market Value June 30, 2012	Percent of all Fixed Income Assets	Weighted Average Credit Quality	Ratings Dispersion Requiring Further Disclosure
Collateralized mortgage obligations	$ 63,409,498	2.3%	CCC	See table below
Non-U.S. sovereign	75,354,805	2.8	BBB+	See table below
Asset backed securities	25,471,449	0.9	A	See table below
Corporate bonds	214,527,551	7.9	A-	See table below
Bank loans	75,591,386	2.8	B+	See table below
Bank deposits	275,068,752	10.1	FDIC Insured	None
Repurchase agreements	645,004,766	23.8	Not Rated	None
Pooled investments	90,596,562	3.3	AAA	None
Total nongov't guaranteed securities	$1,465,024,769	53.9%		
Total fixed income securities	$2,715,630,412			

Ratings Dispersion Detail - Market Value

Credit Rating Level	Collateralized Mortgage Obligations	Non-U.S. Sovereign	Asset-Backed Securities	Corporate Bonds	Bank Loans	Pooled Investments
Agency	$ 1,629,128		$15,102,324	$ 83,772,946		
AAA		$ 1,292,072				$90,596,562
AA				15,693,534		
A	786,036	25,682,389	2,194,534	25,676,028		
BBB	191,331	37,928,797		7,940,817	$ 879,869	
BB	403,209	10,096,507	972,753	24,453,087	27,175,259	
B	8,166,230	249,562	1,449,248	40,691,555	44,056,541	
CCC	26,915,616		3,836,714	14,191,309	1,286,489	
CC	9,608,697		1,915,876			
C	9,147,237			931,483		
D	6,562,014					
Not Rated		105,478		1,176,792	2,193,228	
	$63,409,498	$75,354,805	$25,471,449	$214,527,551	$75,591,386	$90,596,562

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. 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. Within the investment policy, operational guidelines specify the degree of interest rate risk taken within the system's fixed income portfolios, with the exception of some portfolios in which credit risk is the predominant factor and is also controlled by specific guidelines. 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.

MOSERS invests in mortgage-backed securities, which are reported at fair value in the *Statement of Plan Assets* of the pension trust funds. Such securities have embedded within them the risk of being called, whereby the issuer has the option to keep the debt outstanding in rising interest rate environments or repay the debt in declining interest rate environments, a factor that advantages the issuer. MOSERS invests in these securities to diversify the portfolio with high quality and liquid investments, which capture a significant yield premium that is intended to compensate for the call risk. This risk is incorporated within the effective duration calculation used in the interest rate risk analysis.

Effective Duration of Fixed Income Assets by Security Type

Fixed Income Security Type	Market Value June 30, 2012	Percent of all Fixed Income Assets	Weighted Average Effective Duration (Years)	Interest Rate Risk Requiring Further Disclosure
U.S. treasuries	$ 725,703,693	26.7%	5.2	See below
U.S. gov't guaranteed mortgages	190,526	0.0	1.8	None
Collateralized mortgage obligations	63,409,498	2.3	0.1	None
Non-U.S. sovereign	75,354,805	2.8	4.6	None
Asset backed securities	25,471,449	0.9	0.0	None
Corporate bonds	214,527,551	7.9	0.9	None
Bank loans	75,591,386	2.8	0.3	None
Bank deposits	275,068,752	10.1	0.0	None
Repurchase agreements	1,169,716,190	43.1	0.0	None
Pooled investments	90,596,562	3.3	0.0	None
	$2,715,630,412	100.0%	1.6	

Effective Duration Analysis of U.S. Treasuries

Maturity	Market Value June 30, 2012	Average Effective Duration of the Security Type	Contribution to Effective Duration
Less than 1 year to maturity	$ 16,396,790	0.2	0.0
1- to 10-year maturities	449,585,524	2.6	1.6
Long coupon treasuries	253,685,412	10.1	3.5
Long stripped treasuries	6,035,967	15.2	0.1
	$725,703,693		5.2

Repurchase Agreements by Collateral Type

Collateral Type	Market Value of Collateral June 30, 2012	Market Value of Repurchase Agreement June 30, 2012	Percent Over Collateralized
U.S. Treasuries	$ 535,205,814	$ 524,711,424	2.0%
Money market instruments	110,274,551	105,000,000	5.0
Investment grade corporates	41,080,073	40,000,000	2.7
Common stock	537,000,209	500,004,766	7.4
	$1,223,560,647	$1,169,716,190	4.6%

Repurchase Agreements

Repurchase agreements (repos) are a secured loan with the collateral held at a custodian bank. Typical collateral for repos include treasury securities, agency securities, mortgage-backed securities, investment grade corporate bonds, commercial paper, and common stock. Repos are typically done for an overnight term; however, they can be done for a longer term. MOSERS enters into repo transactions to earn interest on short-term funds.

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 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, 2012, is highlighted in the table below:

Currency Exposures by Asset Class

Currency	Cash & Cash Equivalents	Equities	Fixed Income	Alternatives	Total
Argentine Peso		$ 2	$ 178,337		$ 178,339
Australian Dollar		6,909,563			6,909,563
Brazilian Real	$ 35,163	33,445,155	8,509,123		41,989,441
Canadian Dollar	24,254	15,109			39,363
Chilean Peso	1,502	2,662,556	105,873		2,769,931
Chinese Renminbi	19,497	1,351,177			1,370,674
Colombian Peso		1,447,015	4,540,809		5,987,824
Czech Koruna		2,611,715			2,611,715
Danish Krone		3,561,601			3,561,601
Egyptian Pound		2,709,014			2,709,014
Euro	117,744	147,974,108	6,491,953	$80,531,194	235,114,999
Hong Kong Dollar	83,193	69,683,759			69,766,952
Hungarian Forint		805,199	1,853,401		2,658,600
Indian Rupee	114,654	17,336,446			17,451,100
Indonesian Rupiah	94,502	11,472,650	5,657,381		17,224,533
Israeli Shekel		8			8
Japanese Yen	3,516,715	333,982,133			337,498,848
Malaysian Ringgit		7,384,319	8,453,972		15,838,291
Mexican Peso	229,074	15,328,398	7,884,008		23,441,480
Moroccan Dirham		276,633			276,633
Nigerian Naira		57,092			57,092
Norwegian Krone		3,972,743			3,972,743
Peruvian New Sol		95,691	385,386		481,077
Philippine Peso	8,984	3,251,720			3,260,704
Polish Zloty	(4,464)	4,566,210	7,893,072		12,454,818
Russian Ruble		906,676	5,078,007		5,984,683
Singapore Dollar		27,267,624			27,267,624
South African Rand	7,056	17,293,527	8,900,088		26,200,671
South Korean Won	4,443	42,012,419	2,033,049		44,049,911
Sri Lankan Rupee	833	112,560			113,393
Swedish Krona		1,554,954			1,554,954
Swiss Franc	87	89,909,867			89,909,954
Taiwan New Dollar	35	33,977,522			33,977,557
Thai Baht	(62,981)	18,255,393	4,280,460		22,472,872
Turkish Lira	38,302	9,165,135	8,261,950		17,465,387
Ukranian Hryvnia		58			58
British Pound Sterling	6,087	68,959,013	2,236,237		71,201,337
Venezuelan Bolivar	53,623				53,623
Total	$4,288,303	$980,314,764	$82,743,106	$80,531,194	$1,147,877,367

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. The tables below summarize the various contracts in the portfolio as of June 30, 2012.

Futures Contracts

Futures Contract	2012 Expiration Date	Long/Short	Notional/Fair Value	Exposure
U.S. Long Treasury Bond	September	Long	$ 29,889,688	$ (371,375)
U.S. 10-year Treasury Notes	September	Long	226,737,500	(924,766)
U.S. 2-year Treasury Notes	September	Long	234,499,688	(32,984)
U.S. Ultra Bond	September	Long	59,062,688	(1,004,531)
S&P 500 EMini Index	September	Long	546,086,640	13,688,400
S&P 500 EMini Index	September	Long	9,698,260	100,265
Gold 100 Oz	August	Long	25,667,200	860,800
Total			$1,131,641,664	$12,315,809

Swap Contracts

MOSERS Receives	Maturity Date	Notional Value	Exposure	Index Counterparty	Counterparty Credit Rating*
S&P 100 Total Return	03/28/2013	$ 234,099,204	$ (4,911,244)	Barclays Bank	A2/A+
S&P 500 Financials	10/31/2012	49,104,628	(2,349,951)	Goldman Sachs	A3/A-
S&P 500 Consumer Discretionary Total Return	01/31/2013	(60,331,661)	(1,127,820)	Goldman Sachs	A3/A-
Dow Jones U.S. Select REIT Total Return	08/09/2012	95,175,569	800,260	Goldman Sachs	A3/A-
S&P GSCI Total Return	09/28/2012	84,064,195	989,200	Goldman Sachs	A3/A-
S&P GSCI Total Return	09/28/2012	83,862,971	983,457	Goldman Sachs	A3/A-
S&P 100 Technology Total Return	10/31/2012	95,491,811	(4,551,637)	JP Morgan Chase	Aa3/A+
S&P 100 Consumer Staples Total Return	10/31/2012	95,909,506	2,884,950	JP Morgan Chase	Aa3/A+
S&P 100 Health Care Total Return	10/31/2012	97,676,993	3,493,673	JP Morgan Chase	Aa3/A+
S&P 100 Energy Total Return	10/31/2012	81,761,905	(3,075,237)	JP Morgan Chase	Aa3/A+
MSCI EAFE Total Return	08/31/2012	56,347,092	3,691,739	Deutsche Bank	A2/A+
MSCI EAFE ex-Japan Total Return	08/27/2012	120,363,782	6,317,956	Deutsche Bank	A2/A+
MSCI EAFE ex-Japan Total Return	09/17/2012	92,942,472	2,984,558	Deutsche Bank	A2/A+
MSCI EAFE ex-Japan Total Return	08/31/2012	113,786,303	7,979,331	Deutsche Bank	A2/A+
Three Month LIBOR Quarterly	12/10/2014	(10,000,000)	(508,093)	Deutsche Bank	A2/A+
Three Month LIBOR Quarterly	06/16/2014	(10,000,000)	(290,273)	Deutsche Bank	A2/A+
Total		$1,220,254,770	$13,310,869		

** Ratings obtained from Moody's/S&P*

Foreign Currency Forward Contracts at June 30, 2012

Currency	Net Notional Long/(Short)	Exposure
Brazilian Real	$ 715,886	$ 11,737
Columbian Peso	(952,690)	(2,226)
Euro	(118,724,434)	(262,982)
British Pound Sterling	(2,154,188)	34,304
Hong Kong Dollar	(57,476)	(13)
Japanese Yen	19,942,258	(145,410)
Philippine Peso	163,230	5,636
Polish Zloty	519,382	6,258
Russian Ruble	2,554,650	(148,292)
U.S. Dollar	97,492,394	0
Foreign currency forward contract asset (liability)	$ (500,988)	$(500,988)

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 enters into forward foreign exchange contracts primarily to hedge foreign currency exposure.

The notional values associated with these derivative instruments are generally not recorded on the financial statements; however, the amounts for the exposure on these instruments are recorded in the *Statement of Net Plan Assets* and the total changes in fair value for the year are included as investment income in the *Statement of Changes in Plan Net Assets*. For the year ending June 30, 2012, the change in fair value in the swap contracts resulted in a loss of $18.3 million of investment income. The change in fair value in the future contracts resulted in $119.4 million of investment income and the change in fair value of the foreign exchange contracts resulted in $9.5 million of investment income. 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.

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 the following page. On June 30, 2012, MOSERS had no credit risk exposure to borrowers because the collateral amounts received exceeded amounts out on loan.

As of June 30, 2012, Deutsche Bank AG, New York Branch, 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 Deutsche Bank to lend these securities to a diverse group of dealers on behalf of MOSERS. Indemnification against dealer default is provided by Deutsche Bank AG, an "A-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 a 90/10 basis between MOSERS and Deutsche Bank respectively.

Daily monitoring of securities that are on loan ensures proper collateralization levels and mitigates counterparty risk. Cash collateral from all three programs is commingled and invested in a separately managed short-term investment account for MOSERS. This cash collateral account is managed by Deutsche Bank. On June 30, 2012, the cash collateral account had a market value of $692,476,483 and a weighted average maturity of 1 day. 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 Deutsche Bank.

Investments as of June 30, 2012

	Pension Trust Funds		Internal Service Funds	
	Investments at Cost Value	Investments at Fair Value	Investments at Cost Value	Investments at Fair Value
Common stocks				
Out on loan	$ 89,113,941	$ 127,301,450		
Not on securities loan	466,656,042	495,174,554		
Total	555,769,983	622,476,004		
Real estate investment trusts				
Out on loan	993,678	1,169,628		
Not on securities loan	3,674,636	3,842,964		
Total	4,668,314	5,012,592		
International equities				
Out on loan	67,115,437	68,525,850		
Not on securities loan	699,248,734	1,099,915,019		
Total	766,364,171	1,168,440,869		
International corporate bonds				
Out on loan	2,663,804	2,570,081		
Not on securities loan	45,787,461	21,781,400		
Total	48,451,265	24,351,481		
Preferred stocks				
Out on loan	3,358,883	2,220,066		
Not on securities loan	2,979,751	2,599,343		
Total	6,338,634	4,819,409		
Treasury bonds, notes and bills				
Out on loan	395,055,837	462,617,957		
Not on securities loan	227,862,873	259,021,537		
Total	622,918,710	721,639,494		
Corporate bonds				
Out on loan	11,275,921	11,262,389		
Not on securities loan	104,754,886	106,694,328		
Total	116,030,807	117,956,717		
Convertible bonds				
Out on loan	128,228	113,163		
Not on securities loan	4,342,555	3,981,625		
Total	4,470,783	4,094,788		
Government bonds and gov't mortgage-backed securities	67,897,364	65,071,631		
Repurchase agreements	9,887,144	9,887,144	$3,532,260	$3,532,260
Short-term investment funds	1,608,879,642	1,608,879,642		
Collateralized mortgage obligations	131,376,607	134,615,354		
Foreign currencies	4,028,124	3,432,478		
Limited partnerships	2,899,946,070	3,826,932,808		
Bank Loans	75,022,981	75,013,193		
Total Investments				
Out on loan	569,705,729	675,780,584		
Not on securities loan	6,352,344,870	7,716,843,020	3,532,260	3,532,260
Total	$6,922,050,599	$8,392,623,604	$3,532,260	$3,532,260
Reconciliation to investments on *Statements of Plan Net Assets*				
Total from above		$8,392,623,604		
Less short-term investments				
Repurchase agreements		(9,887,144)		
Short-term investment funds		(933,019,137)		
Less invested securities lending collateral				
Short-term investment funds		(675,860,505)		
Corporate bonds		(16,615,978)		
Investments on *Statements of Plan Net Assets*		$6,757,240,840		

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.

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, 2012, MOSERS had contracts with over 89 limited partnerships across various types of alternative investments. These partnerships collectively represent 50% of the total fund. A schedule of limited partnerships is presented below.

Limited Partnerships

Partnership Name	Style	Investments at Fair Value as of June 30, 2012
Actis Emerging Markets III	Emerging markets	$ 43,006,719
Actis Emerging Markets IV	Emerging markets	917,398
African Development Partners I, LLC	Emerging markets	27,070,862
Alinda Infrastructure Fund I, LP	Corporate buyout	28,076,317
American Industrial Partners Capital Fund V, LP	Corporate buyout	1,784,013
AQR Absolute Return Institutional Fund, LP	Multi-strategy	53,067,559
AQR DELTA Sapphire Fund, LP	Multi-strategy	122,736,958
Axiom Asia Private Capital Fund II, LP	Emerging markets	15,555,657
Axxon Brazil Private Equity Fund II B, LP	Emerging markets	3,458,272
Bayview Opportunity Domestic LP - high yield	Distressed real estate debt	54,959,456
Blackstone Hedged Equity Fund, LP	Long/short - fund-of-funds	102,291,812
Blackstone Real Estate Partners IV	Active real estate	42,562,067
Blackstone Real Estate Partners V	Active real estate	104,753,877
Blackstone Real Estate Partners VI	Active real estate	86,387,682
Blackstone Real Estate Partners VII	Active real estate	15,707,424
Blackstone Topaz Fund, LP	Multi-strategy - fund-of-funds	300,314,854
Blakeney Onyx, LP	Emerging markets	126,023,793
Brevan Howard, LP	Global macro	79,972,926
Brevan Howard Emerging Markets Strategies Fund, LP	Global macro	52,100,557
Bridgepoint Europe III A, LP	Corporate buyout	23,643,445
Bridgepoint Europe IV B, LP	Corporate buyout	26,744,790
Bridgewater Associates - Diamond Ridge Fund, LLC	Global macro	73,166,167
Campbell Timber Fund II-A, LP	Timberland	40,183,156
CarVal Investors CVI Global Value Fund A, LP - private debt	Distressed real estate debt	41,200,000
CarVal Investors CVI Global Value Fund A, LP - real estate	Distressed real estate debt	41,200,000
Catalyst Fund Limited Partnership III	Canadian distressed debt	24,245,160
Catterton Partners V, LP	Corporate buyout	21,225,585
Catterton Partners VI, LP	Corporate buyout	28,226,864
Claren Road Credit Partners, LP	Long/short - credit	101,867,403
COMAC Global Macro Fund, LP	Global macro	48,725,327
CQS Feeder Fund Limited	Long/short - credit	78,569,262
Davidson Kempner Institutional Partners, LP	Event driven	85,606,841
DDJ Capital Management - B IV Capital Partners, LP	Distressed debt	5,817,878
Diamondback Partners, LP	Long/short - equity	85,625,239
DRI Capital - LSRC	Intellectual property	22,934,318
DRI Capital - LSRC II	Intellectual property	2,649,892
Elliott International Ltd.	Multi-strategy	82,778,485
Eminence Fund, Ltd.	Long/short - equity	87,081,648
Empyrean Capital Fund, LP	Event driven	47,688,146
Eton Park Fund, LP	Multi-strategy	72,648,072
Farallon Capital Institutional Partners, LP	Multi-strategy	7,240,000
Fortress Mortgage Opportunities Fund Series 2	Distressed real estate debt	24,862,908
Garnet Sky Investors Company Ltd.	Timberland	87,260,935
Glenview Institutional Partners, LP	Long/short - equity	37,953,520

Continued on page 45

Limited Partnerships continued from page 44

Limited Partnerships

Partnership Name	Style	Investments at Fair Value as of June 30, 2012
Global Forest Partners GTI7 Institutional Investors Company Ltd.	Timberland	83,166,704
HBK Offshore Fund, Ltd.	Multi-strategy	85,494,379
JLL Partners Fund V, LP	Corporate buyout	22,647,518
JLL Partners Fund VI, LP	Corporate buyout	15,813,621
King Street Capital, LP	Credit driven	81,218,181
King Street Capital, Ltd.	Credit driven	1,119,114
Linden Capital Partners II, LP	Corporate buyout	6,181,607
Mast Credit Opportunities I, LP	Credit driven	72,401,199
Merit Energy Partners F-II, LP	Energy - oil & gas	9,047,469
MHR Institutional Partners IIA, LP	Distressed debt	41,997,046
MHR Institutional Partners III, LP	Distressed debt	63,053,739
Millennium Technology Value Partners II, LP	Direct secondaries	7,510,162
Millennium Technology Value Partners Co-investment	Direct secondaries	5,082,161
Moon Capital Global Equity Offshore Fund, Ltd.	Long/short - equity	822,179
New Mountain Partners III, LP	Corporate buyout	33,245,233
Oaktree European Credit Opportunities Fund, LP	European loans	3,072,097
OCM Opportunities Fund IVB, LP	Distressed debt	12,941
OCM Opportunities Fund VIIB, LP	Distressed debt	61,402,184
OCM Opportunities Fund VIIIB, LP	Distressed debt	10,322,304
OCM Real Estate Opportunities Fund III, LP	Active real estate	19,792,942
OCM/GFI Power Opportunities Fund II, LP	Corporate buyout	2,727,295
OCM Power Opportunities Fund III, LP	Corporate buyout	5,330,083
PAAMCO - Newport Pioneer, LLC	Multi-strategy - fund-of-funds	6,106,986
Parish Capital Buyout Fund I, LP	Corporate buyout - fund-of-funds	15,466,500
Parish Capital Buyout Fund II, LP	Corporate buyout - fund-of-funds	17,435,727
Parish Opportunities Fund II, LP	Private equity co-investment	8,191,970
Perry Partners, LP	Multi-strategy	316,091
Pershing Square, LP	Long/short - equity	43,369,744
Pharo Macro Fund, LTD	Global macro	71,090,827
Resource Management Service - Wildwood Timberlands, LLC	Timberland	116,844,633
Silver Creek Special Opportunities Fund I, LP	Special situations - fund-of-funds	24,621,085
Silver Creek Special Opportunities Fund II, LP	Special situations - fund-of-funds	32,962,898
Silver Lake Partners II, LP	Corporate buyout	19,529,976
Silver Point Capital Fund, LP	Credit driven	4,596,519
TCW Energy Fund XIV, LP	Energy - mezzanine	39,971,443
TCW Energy Fund XV, LP	Energy - mezzanine	27,396,222
TCW Energy Partners, LLC	Energy - diversified	30,744,741
The Veritas Capital Fund III, LP	Corporate buyout	32,851,037
The Veritas Capital Fund IV, LP	Corporate buyout	22,790,411
TPG Airline Credit Opportunities II, LP	Special situations	17,625,216
TPG - Axon Partners (Offshore) Ltd.	Long/short - equity	47,653,510
Viking Global Equities III, Ltd.	Long/short - equity	103,543,758
Visium Balanced Fund, LP	Long/short - equity	50,574,697
Wellington Management - Spindrift Investors (Bermuda)	Long/short - equity	944,903
Other Misc.	Misc.	950,512
		$3,826,932,808

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 also 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
- 5 years for software and licensing

Below is a schedule of the capital asset account balances for the Pension Trust Funds and the Internal Service Funds – Deferred Compensation Plan as of June 30, 2011, and June 30, 2012, and changes to those account balances during the year ended June 30, 2012.

Capital Asset Account - *Pension Trust Funds*

Capital Assets	Land	Building and Building Improvements	Furniture, Fixtures, and Equipment	Software and Licensing	Total Capital Assets
Balances June 30, 2011	$267,286	$3,568,255	$1,653,197	$ 34,326	$5,523,064
Additions	0	102,259	38,709	90,299	231,267
Deletions	0	0	(27,143)	0	(27,143)
Balances June 30, 2012	267,286	3,670,514	1,664,763	124,625	5,727,188
Accumulated depreciation:					
Balances June 30, 2011	0	1,092,548	1,363,425	6,027	2,462,000
Depreciation expense	0	88,972	123,960	15,088	228,020
Deletions	0	0	(27,143)	0	(27,143)
Balances June 30, 2012	0	1,181,520	1,460,242	21,115	2,662,877
Net capital assets June 30, 2012	$267,286	$2,488,994	$ 204,521	$103,510	$3,064,311

Capital Asset Account - *Internal Service Funds*

Capital Assets	Furniture, Fixtures, and Equipment	Software and Licensing	Total Capital Assets
Capital assets			
Balances June 30, 2011	$ 0	$ 0	$ 0
Additions	2,828	2,648	5,476
Deletions	0	0	0
Balances June 30, 2012	2,828	2,648	5,476
Accumulated depreciation:			
Balances June 30, 2011	0	0	0
Depreciation expense	112	338	450
Deletions	0	0	0
Balances June 30, 2012	112	338	450
Net capital assets June 30, 2012	$2,716	$2,310	$5,026

(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 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. MSEP 2011 employees are required to contribute 4% of their pay. Costs of administering the plans are financed from the contributions to the pension trust funds and investment earnings.

(4) OTHER POSTEMPLOYMENT BENEFITS (OPEB)

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

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, 2012, 20,715 retirees were eligible and participating in the program. This insured defined benefit coverage is financed on a percent of payroll (.115%) and is purchased as a group policy through competitive bids and is currently administered through The Standard insurance company. The cost for year ended June 30, 2012, was $1,808,152. 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, 2012, 311 retirees were eligible and participating in the program. The coverage for 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 ($37,586 for the year ended June 30, 2012). 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 long-term disability coverage for eligible members. Membership generally includes those active members of MOSERS' retirement plans who do not have other disability coverage and are not yet eligible to receive normal (unreduced) retirement benefits. As of June 30, 2012, 35,295 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, 2012, was $7,810,953. Premiums are contributed by the state as provided for by Section 104.515, RSMo.

Postemployment Retiree Health Care

MOSERS participates in a cost-sharing multiple-employer defined benefit post-employment health care plan administered by the Missouri Consolidated Health Care Plan (MCHCP). The plan provides medical benefits to retirees of participating governmental entities. Retirees who had medical insurance coverage for six months immediately prior to termination or state-sponsored medical coverage since the effective date of the last enrollment period (or since first eligible), before they are eligible to retire, may continue coverage into retirement.

MCHCP issues a publicly available financial report that includes financial statements and required supplementary information for the postemployment health care plan. The report may be obtained by calling (800) 487-0771 or writing to MCHCP, 832 Weathered Rock Court, P.O. Box 104355, Jefferson City, MO 65110-4355.

Plan funding requests are actuarially determined, approved by the MCHCP Board of Trustees, and subject to appropriation by the Missouri General Assembly. MOSERS contributed $277,645 in FY10, $240,307 in FY11 and $233,820 in FY12 in accordance with the state's funding policy toward the annual required contributions for postemployment retiree health care, which equaled MOSERS' required contribution each year.

(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.

On April 26, 2005, Senate Bill 202 was enacted, which terminated the Administrative Law Judges and Legal Advisors' Plan (ALJLAP) for new hires only. 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. For fiscal years 2005 and after, all liabilities and assets of the ALJLAP were transferred and combined with the MSEP. Membership totals for ALJLAP members are combined with the MSEP in all relevant sections of this report.

(6) COMMITMENTS

As of June 30, 2012, MOSERS has $546,700,462 and €24,694,959 unfunded commitments in the alternative investments asset class.

(7) CONTINGENCIES

MOSERS is a defendant in one lawsuit that, in management's opinion, will not have a material effect on the financial statements.

The Internal Revenue Service (IRS) audited the tax qualified status of MOSERS. In a discussion draft dated August 9, 2007, the IRS raised two qualification issues but no further action has been taken by the IRS on those matters. MOSERS does not anticipate material liability for any taxes or penalties.

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]
06/30/2007	$7,377,289,283	$ 8,500,428,641	$1,123,139,358	86.8%	$1,846,643,330	60.8%
06/30/2008	7,838,495,768	9,128,347,470	1,289,851,702	85.9	1,916,527,398	67.3
06/30/2009	7,876,079,342	9,494,806,715	1,618,727,373	83.0	2,002,402,087	80.8
06/30/2010	7,923,377,393	9,853,155,445	1,929,778,052	80.4	1,945,095,321	99.2
06/30/2011	8,022,481,408	10,123,544,043	2,101,062,635	79.2	1,875,569,816	112.0
06/30/2012	7,897,167,203	10,793,651,577	2,896,484,374	73.2	1,864,069,493	155.4

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]
06/30/2007	$ 61,903,516	$326,666,373	$264,762,857	19.0%	$40,846,581	648.2%
06/30/2008	73,194,379	354,796,453	281,602,074	20.6	44,542,530	632.2
06/30/2009	81,337,881	369,106,841	287,768,960	22.0	45,505,512	632.4
06/30/2010	88,976,738	382,012,773	293,036,035	23.3	46,112,730	635.5
06/30/2011	98,398,628	393,484,589	295,085,961	25.0	45,888,020	643.1
06/30/2012	102,266,706	413,332,538	311,065,832	24.7	45,835,501	678.7

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

Schedules of Employer Contributions

Pension Trust Funds - Last Six Years

MSEP

	Annual Required Contribution		
Year Ended June 30	Percent	Dollar Amount	Percentage Contributed
2007	12.78%	$239,488,751	100%
2008	12.84	249,770,156	100
2009	12.53	252,105,008	100
2010	12.75	251,226,187	100
2011	13.81	263,418,048	100
2012	13.97	263,373,924	100

Judicial Plan

	Annual Required Contribution		
Year Ended June 30	Percent	Dollar Amount	Percentage Contributed
2007	58.48%	$23,745,467	100%
2008	58.65	26,215,309	100
2009	60.07	27,725,882	100
2010	58.48	27,029,198	100
2011	60.03	27,702,682	100
2012	57.30	26,324,526	100

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

REQUIRED SUPPLEMENTARY INFORMATION

NOTES TO THE SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

Pension Trust Funds - Last Six Years

Actuarial Methods and Assumptions for Valuations Performed June 30, 2012

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, 2012, valuations. The actuarial value of assets is based on a method that fully recognizes expected investment returns and averages unanticipated market returns over a 5-year period.

In September 2009, the board, in light of the severely negative market conditions, adopted a temporary change to the market corridor limit of the valuation assets from +/- 20% to +/- 30% for the June 30, 2009, valuation. The limit was decreased to +/- 25% for the June 30, 2010, valuation and returned to +/- 20% in FY11. The investment return rate assumption used was decreased from 8.5% to 8.0% per year, compounded annually (net of investment expenses) for June 30, 2012. The price inflation assumption used was decreased from 3.2% to 2.5% per year in 2012. Projected salary increase assumption decreased from 4% to 3% in 2012 and thereafter. The assumption used for annual post-retirement benefit increases (COLA) is 4% (on a compound basis) when a minimum COLA is in effect. When no minimum COLA is in effect, price inflation is assumed to be 2.5% and the annual COLA is assumed to be (80% of 2.5%), on a compound basis.

2007 The actuarial valuations as of June 30, 2007 reflected the following changes to the computed contribution rates for fiscal year ending June 30, 2009.

	Amount	Percent of Payroll
MSEP		
Change in benefit assumptions or methods	$ (369,329)	(0.02)%
Experience and nonrecurring items	(5,355,266)	(0.29)
Judicial Plan		
Change in benefit assumptions or methods	(273,672)	(0.67)
Experience and nonrecurring items	853,694	2.09

2008 The actuarial valuations as of June 30, 2008 reflected the following changes to the computed contribution rates for fiscal year ending June 30, 2010.

	Amount	Percent of Payroll
MSEP		
Change in benefit assumptions or methods	$4,791,318	0.25%
Experience and nonrecurring items	(574,958)	(0.03)
Judicial Plan		
Change in benefit assumptions or methods	(547,873)	(1.23)
Experience and nonrecurring items	(160,353)	(0.36)

2009

The actuarial valuations as of June 30, 2009 reflected the following changes to the computed contribution rates for fiscal year ending June 30, 2011.

	Amount	Percent of Payroll
MSEP		
State of Missouri general pay freeze	$ (4,405,285)	(0.22)%
Experience and nonrecurring items	55,466,538	2.77
Change in valuation asset corridor from +/- 20% to +/- 30%	(29,835,791)	(1.49)
Judicial Plan		
State of Missouri general pay freeze	350,392	0.77
Experience and nonrecurring items	496,010	1.09
Change in valuation asset corridor from +/- 20% to +/- 30%	(141,067)	(0.31)

2010

The actuarial valuations as of June 30, 2010 reflected the following changes to the computed contribution rates for fiscal year ending June 30, 2012.

	Amount	Percent of Payroll
MSEP		
State of Missouri general pay freeze	$ (2,528,624)	(0.13)%
Addition of new tier of benefits effective 1-1-2011	(17,311,348)	(0.89)
Experience and nonrecurring items	25,480,749	1.31
Change in timing of contributions	(2,528,624)	(0.13)
Judicial Plan		
State of Missouri general pay freeze	(308,955)	(0.67)
Addition of new tier of benefits effective 1-1-2011	(493,406)	(1.07)
Experience and nonrecurring items	438,071	0.95
Change in timing of contributions	(894,587)	(1.94)

2011

The actuarial valuations as of June 30, 2011 reflected the following changes to the computed contribution rates for fiscal year ending June 30, 2013.

	Amount	Percent of Payroll
MSEP		
State of Missouri general pay freeze	$ (6,376,937)	(0.34)%
Experience and nonrecurring items	17,630,356	0.94
Change in normal cost due to increased participants in MSEP2011	(2,250,684)	(0.12)
Judicial Plan		
State of Missouri general pay freeze	(293,683)	(0.64)
Experience and nonrecurring items	289,095	0.63
Change in normal cost due to increased participants in MSEP2011	(169,786)	(0.37)

2012

The actuarial valuations as of June 30, 2012 reflected the following changes to the computed contribution rates for fiscal year ending June 30, 2014.

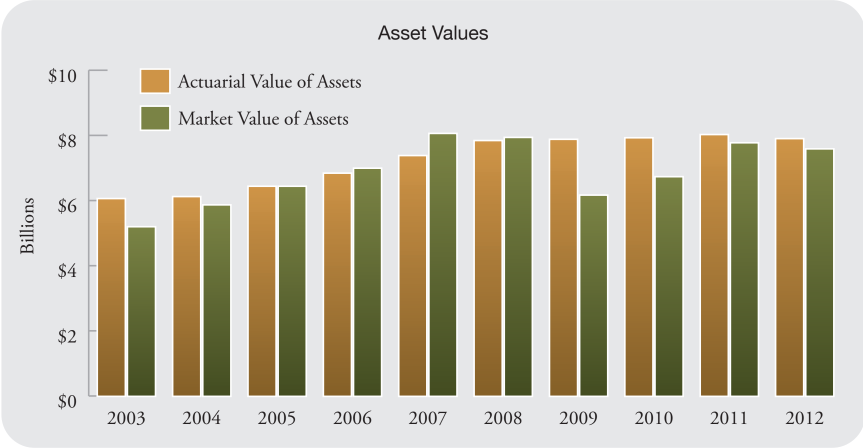
	Amount	Percent of Payroll
MSEP		
Change in assumptions or methods	$21,623,206	1.16%
Experience and nonrecurring items	25,537,752	1.37
Judicial Plan		
Change in assumptions or methods	948,795	2.07
Experience and nonrecurring items	320,849	0.70

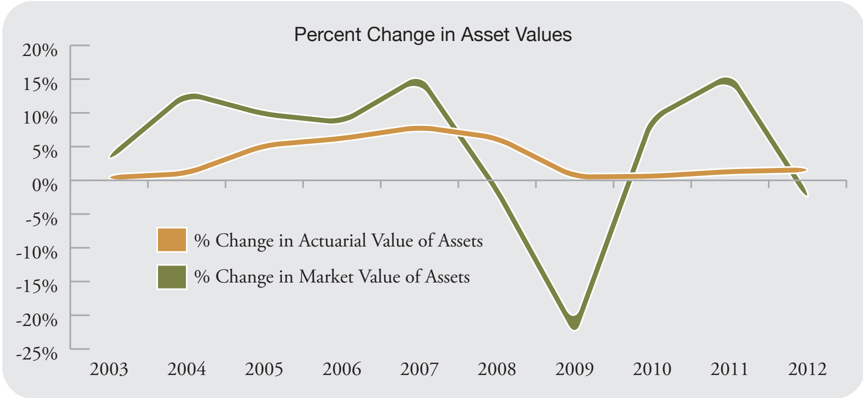
ADDITIONAL FINANCIAL INFORMATION

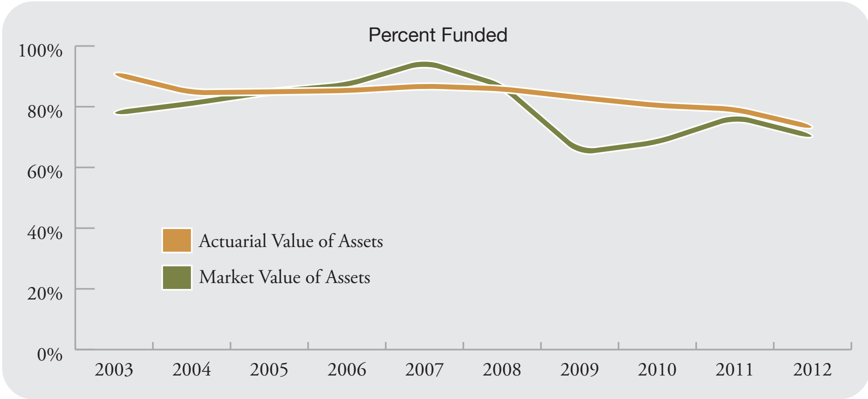
ACTUARIAL ASSET VALUE SMOOTHING

The financing objective of the vast majority of public retirement plans is to establish contribution rates and collect contributions which remain relatively level as a percent of active member payroll over decades of time. This concept is sometimes referred to as attempting to achieve intergenerational equity, meaning that future generations will not be expected to pay more or less (in inflation adjusted terms) than the present generation contributes to support the plan.

Some critics of smoothing the actuarial value of assets suggest that pension plans are not providing "transparency" in connection with operations. Actual practice suggests otherwise. The *Statements of Plan Net Assets and Changes in Plan Net Assets* in this section are prepared on the basis of market values. Beyond that, all information related to asset values and results of investment activity in the *Investment Section* of this report is prepared on the basis of market values. This is required by the accounting and reporting standards established by the Governmental Accounting Standards Board and by the Government Finance Officers Association's *Guidelines for the Preparation of a Comprehensive Annual Financial Report*. Both organizations have been long standing proponents of transparency in governmental accounting and reporting – public retirement plans commonly subscribe to the dictates of both.







Many public retirement plans have begun to emphasize use of asset classes that, by their nature, tend to be somewhat volatile in market value. This is being done with the objective of increasing long-term investment returns, thus providing increased benefit security for plan participants and lower contribution rates for taxpayers than would otherwise be the case. With market value accounting for contribution rate determination purposes, we could achieve more level contribution rates by employing lower volatility asset classes but the level contribution rate would be much higher than is the case with the higher return expectations we have as the result of taking on asset volatility risk.

When operating with a long-term time horizon, with contribution rate stability as a key objective, asset smoothing for actuarial purposes is simply a tool. Asset smoothing for actuarial purposes is a practical solution to responsibly achieving intergenerational equity, giving recognition to the fact that market cycles do not coincide with financial reporting periods. The use of the "market-related" value established through smoothing simply makes more sense for determining contribution rates than using market value. The charts above further illustrate the impact of smoothing volatility in actuarial computations.

Schedules of Investment Expenses

Pension Trust Funds - Year Ended June 30, 2012

	MSEP	Judicial Plan	Total
Investing activity			
Investment management and administrative fees			
Actis Emerging Markets III - private equity	$ 907,225	$11,832	$ 919,057
African Development Partners I, LLC - private equity	555,769	7,248	563,017
Alinda Infrastructure Fund I, LP - private equity	418,718	5,461	424,179
American Industrial Partners V - private equity	201,536	2,628	204,164
AQR Absolute Return Institutional Fund, LP - alpha pool	489,169	6,380	495,549
AQR DELTA Sapphire Fund, LP - alpha pool	1,209,383	15,772	1,225,155
Ashmore Investment Management, Ltd. - emerging markets	501,307	6,538	507,845
Axiom Asia Private Capital Fund II, LP - private equity	326,316	4,256	330,572
Axxon Group Brazil II - private equity	571,583	7,454	579,037
Baillie Gifford EAFE Plus - international equity	580,615	7,572	588,187
Bayview Opportunity Domestic, LP - high yield	2,257,053	29,436	2,286,489
Bayview Opportunity Domestic, LP - real estate	219,142	2,858	222,000
BlackRock Financial Management Bank Loans - high yield	339,883	4,433	344,316
BlackRock Financial Management High Yield - high yield	340,698	4,443	345,141
BlackRock Financial Management Mortgage Opportunity - high yield	301,354	3,930	305,284
Blackstone Real Estate Partners V - real estate	7,047,460	91,911	7,139,371
Blackstone Real Estate Partners VI - real estate	5,744,694	74,920	5,819,614
Blackstone Real Estate Partners VII - real estate	784,324	10,229	794,553
Blackstone Hedged Equity Fundy, LP - domestic equity	983,129	12,822	995,951
Blackstone Topaz Fund, LP - alpha pool	2,863,573	37,346	2,900,919
Blackstone Real Estate Partners IV - real estate	(1,434,786)	(18,712)	(1,453,498)
Blakeney Onyx, LP - emerging markets	2,194,260	28,617	2,222,877
Brevan Howard, LP - alpha pool	3,112,538	40,593	3,153,131
Brevan Howard Emerging Markets Strategies Fund, LP - hedge fund	594,512	7,753	602,265
Bridgewater Associates Diamond Ridge Fund, LLC - alpha pool	2,732,296	35,634	2,767,930
Bridgepoint Europe III A, LP - private equity	221,851	2,893	224,744
Bridgepoint Europe IV B, LP - private equity	471,603	6,150	477,753
Campbell Timber Fund II - A, LP - timber	463,998	6,051	470,049
Catterton Partners V, LP - private equity	410,885	5,359	416,244
Catterton Partners VI, LP - private equity	4,155,212	54,191	4,209,403
CarVal Investors CVI Global Value Fund A, LP - real estate	775,494	10,114	785,608
CarVal Investors CVI Global Value Fund A, LP - private debt	775,494	10,114	785,608
Catalyst Fund Limited Partnership III - distressed debt	1,321,788	17,238	1,339,026
Claren Road Credit Partners, LP - hedge funds	2,406,199	31,381	2,437,580
COMAC Global Macro Fund, LP - hedge funds	1,093,362	14,259	1,107,621
CQS ABS Feeder Fund, Ltd. - hedge funds	898,044	11,712	909,756
Davidson Kempner Institutional Partners, LP - alpha pool	3,529,468	46,030	3,575,498
Diamondback Partners, LP - alpha pool	1,086,256	14,167	1,100,423
DRI Capital LSRC - private equity	383,542	5,002	388,544
DRI Capital LSRC II - private equity	148,067	1,931	149,998
Elliott International, Ltd. - alpha pool	1,431,683	18,672	1,450,355
Eminence Fund, Ltd. - domestic equity	3,189,793	41,600	3,231,393
Empyrean Capital Fund, LP - hedge funds	1,162,003	15,154	1,177,157
Eton Park Fund, LP - alpha pool	806,892	10,523	817,415
Farallon Capital Institutional Partners, LP - alpha pool	440,821	5,749	446,570
Garnet Sky Investors Company Limited - timber	682,262	8,898	691,160
Glenview Institutional Partners, LP - hedge funds	711,798	9,283	721,081
Global Forest Partners GTI7 Institutional Investors Company, Ltd. - timber	572,363	7,465	579,828
Grantham, May and Van Otterloo & Co, LLC - emerging markets	1,157,499	15,096	1,172,595
Harvest Fund Advisors - real estate	1,624,076	21,181	1,645,257
HBK Offshore Fund, Ltd. - alpha pool	2,292,048	29,892	2,321,940
JLL Partners V, LP - private equity	(1,840)	(24)	(1,864)
JLL Partners VI, LP - private equity	2,217,029	28,914	2,245,943
King Street Capital, Ltd. - alpha pool	1,433,163	18,691	1,451,854

Continued on page 55

Schedule of Investment Expenses continued from page 54

	MSEP	Judicial Plan	Total
Legg Mason Opportunity Trust - domestic equity	449,996	5,869	455,865
Leuthold Weeden Capital Management - domestic equity	650,231	8,480	658,711
Linden Capital Partners II - private equity	387,014	5,047	392,061
Merit Energy Partners F-II, LP - real estate	137,259	1,790	139,049
MHR Institutional Partners IIA, LP - private debt	49,506	646	50,152
MHR Institutional Partners III, LP - private debt	1,175,011	15,324	1,190,335
Millennium Technology Partners II, LP - private equity	112,554	1,468	114,022
Morant Wright Investment Management - int'l developed equity	906,377	11,821	918,198
MOSERS Inc. - alpha pool	143	2	145
New Mountain Partners III, LP - private equity	565,624	7,377	573,001
Nippon Value Investors - int'l developed equity	804,779	10,496	815,275
NISA Investment Advisors, LLC - commodities	327,887	4,276	332,163
NISA Investment Advisors, LLC - beta program domestic equity	749,102	9,770	758,872
NISA Investment Advisors, LLC - beta program fixed income	346,514	4,519	351,033
NISA Investment Advisors, LLC - beta program international equity	420,689	5,486	426,175
NISA Investment Advisors, LLC - beta program real assets	23,828	311	24,139
OCM Real Estate Opportunities Fund III, LP - real estate	7,675,725	100,100	7,775,825
OCM Opportunities Fund IVB, LP - private debt	289	4	293
OCM/GFI Power Opportunities Fund II, LP - private equity	798,538	10,414	808,952
OCM/GFI Power Opportunities Fund III, LP - private equity	444,207	5,793	450,000
OCM Opportunities Fund VIIB, LP - private debt	1,778,875	23,200	1,802,075
OCM Opportunities Fund VIIIB, LP - private debt	219,186	2,859	222,045
PAAMCO - Newport Pioneer, LLC - alpha pool	132,035	1,722	133,757
Parish Capital Buyout Fund I, LP - private equity	887,642	11,576	899,218
Parish Capital Buyout Fund II, LP - private equity	227,548	2,968	230,516
Parish Opportunities Fund II, LP - private equity	137,784	1,797	139,581
Pershing Square, LP - hedge funds	1,146,024	14,946	1,160,970
Pharo Macro Fund, Ltd. - alpha pool	1,343,080	17,516	1,360,596
Resource Management Service Wildwood Timberlands, LLC - timber	95,057	1,240	96,297
Silchester International Investors - int'l developed equity	2,744,043	35,787	2,779,830
Silver Lake Partners II, LP - private equity	(437,791)	(5,710)	(443,501)
State Street Global Advisors - emerging markets	68,268	890	69,158
Stone Harbor Investment Partners, LP - emerging markets	390,571	5,094	395,665
TPG - Axon Partners (Offshore) Ltd. - domestic equity	672,649	8,772	681,421
TPG Airline Credit Opportunities - private equity	1,132,212	14,766	1,146,978
TCW Energy Partners, LLC - real estate	8,706	114	8,820
TCW Energy Fund XIV, LP - real estate	2,880,353	37,565	2,917,918
TCW Energy Fund XV, LP - private equity	1,539,192	20,074	1,559,266
The Veritas Capital Fund III, LP - private equity	841,167	10,970	852,137
The Veritas Capital Fund IV, LP - private equity	741,484	9,670	751,154
Viking Global Equities III, Ltd. - domestic equity	2,836,946	36,999	2,873,945
Visium Balanced Fund LP - hedge funds	1,010,689	13,181	1,023,870
Total investment management fees	106,123,597	1,384,029	107,507,626
Other investment fees			
Investment consultant fees			
Summit Strategies, Inc.	892,694	11,642	904,336
Investment custodial fees			
BNY Mellon	407,301	5,312	412,613
Performance and risk measurement fees			
BNY Mellon	437,883	5,711	443,594
Internal investment activity expenses	3,418,037	44,577	3,462,614
Total investing activity expenses	111,279,512	1,451,271	112,730,783
Securities lending activity			
Securities lending borrower rebates	44,706	583	45,289
Securities lending management fees			
BNY Mellon	123,391	1,609	125,000
Deutche Bank	147,000	1,917	148,917
Total securities lending activity expenses	315,097	4,109	319,206
Total investment expenses	$111,594,609	$1,455,380	$113,049,989

Schedules of Internal Investment Activity Expenses

Pension Trust Funds - Year Ended June 30, 2012

	MSEP	Judicial Plan	Total
Personnel services			
Salaries	$2,339,543	$30,512	$2,370,055
Employee fringe benefits	662,061	8,634	670,695
Total personnel services	3,001,604	39,146	3,040,750
Professional services			
Attorney services	88,540	1,155	89,695
Consulting services	937	12	949
Total professional services	89,477	1,167	90,644
Communications			
Telephone	5,440	71	5,511
Total communications	5,440	71	5,511
Facilities			
Vehicle maintenance	172	2	174
Total facilities	172	2	174
Education, meetings and travel			
Staff travel and meetings	3,242	42	3,284
Sponsored programs	115	1	116
Due diligence	68,761	897	69,658
Total travel and meetings	72,118	940	73,058
General administrative			
Educational materials	3,485	45	3,530
Office supplies	965	13	978
Subscriptions and dues	240,056	3,131	243,187
Temporary help	4,720	62	4,782
Total general	249,226	3,251	252,477
Total administrative expenses	$3,418,037	$44,577	$3,462,614

Schedules of Administrative Expenses

Pension Trust Funds - Year Ended June 30, 2012

	MSEP	Judicial Plan	Total
Personnel services			
Salaries	$3,485,052	$45,449	$3,530,501
Employee fringe benefits	1,319,137	17,204	1,336,341
Total personnel services	4,804,189	62,653	4,866,842
Professional services			
Actuarial services	358,640	4,677	363,317
Attorney services	124,661	1,626	126,287
Auditing services	47,382	618	48,000
Banking services	27,832	363	28,195
Consulting services	79,960	1,043	81,003
Total professional services	638,475	8,327	646,802
Communications			
Postage and mailing	161,101	2,101	163,202
Telephone	39,365	513	39,878
Printing	43,267	564	43,831
Video production	2,878	38	2,916
Total communications	246,611	3,216	249,827
Facilities			
Depreciation	87,827	1,145	88,972
Utilities	63,385	827	64,212
Maintenance	58,165	759	58,924
Vehicle maintenance	7,963	104	8,067
Total facilities	217,340	2,835	220,175
Software and equipment			
Depreciation	137,259	1,790	139,049
Maintenance	259,981	3,391	263,372
Rental	142,356	1,857	144,213
Gain on sale of equipment	(250)	(3)	(253)
Total equipment	539,346	7,035	546,381
Education, meetings and travel			
Board travel and meetings	39,013	509	39,522
Staff travel and meetings	66,345	865	67,210
Sponsored programs	66,389	866	67,255
Due diligence	3,378	44	3,422
Total education, meetings and travel	175,125	2,284	177,409
General administrative			
Educational materials	18,800	245	19,045
Office supplies	60,540	790	61,330
Subscriptions and dues	178,222	2,324	180,546
Insurance	126,065	1,644	127,709
Advertising	12,344	161	12,505
Total general	395,971	5,164	401,135
Total administrative expenses	$7,017,057	$91,514	$7,108,571

Schedules of Administrative Expenses

Internal Service Funds - Year Ended June 30, 2012

	Life and LTD	Deferred Compensation	Total
Personnel services			
Salaries	$243,251	$162,700	$405,951
Employee fringe benefits	91,572	48,323	139,895
Total personnel services	334,823	211,023	545,846
Professional services			
Attorney services	1,538	110,985	112,523
Auditing services	3,307	0	3,307
Banking services	840	830	1,670
Total professional services	5,685	111,815	117,500
Communications			
Postage and mailing	510	0	510
Telephone	2,748	0	2,748
Video production expense	201	0	201
Total communications	3,459	0	3,459
Facilities			
Building use charge	8,897	0	8,897
Utilities	4,424	0	4,424
Maintenance	4,060	0	4,060
Total facilities	17,381	0	17,381
Software and equipment			
Depreciation	0	450	450
Equipment use charge	12,493	0	12,493
Maintenance	18,049	0	18,049
Rental	9,936	0	9,936
Total software and equipment	40,478	450	40,928
Education, meetings and travel			
Board travel and meetings	2,723	0	2,723
Staff travel and meetings	9,501	5,778	15,279
Vehicle maintenance and operation	556	0	556
Due diligence	0	1,653	1,653
Total education, meetings and travel	12,780	7,431	20,211
General administrative			
Educational materials	1,312	0	1,312
Office supplies	4,226	3,317	7,543
Subscriptions and dues	3,695	2,518	6,213
Software subscriptions	0	8,475	8,475
Insurance	8,799	0	8,799
Advertising	862	0	862
Total general administrative	18,894	14,310	33,204
Total administrative expenses	$433,500	$345,029	$778,529

Schedules Professional/Consultant Fees

Year Ended June 30, 2012

		Pension Trust Funds			Internal Service Funds		
Professional/Consultant	Nature of Service	MSEP	Judicial Plan	Total	Life and LTD	Deferred Compensation	Total
Operation administrative expenses							
Avtex Solutions, Inc.	Information technology consulting	$ 3,905	$ 51	$ 3,956	$ 0	$ 0	$ 0
Central Bank	Banking	26,240	342	26,582	676	830	1,506
Charlesworth & Associates	Risk management consulting	8,144	106	8,250	0	0	0
Collector Solutions, Inc.	Banking	1,592	21	1,613	164	0	164
DecideSmart, LLC	Strategic planning consulting	25,732	336	26,068	0	0	0
Excellence in Missouri Foundation	Quality assessment consulting	4,784	62	4,846	0	0	0
Gabriel, Roeder, Smith & Co.	Actuarial	358,640	4,677	363,317	0	0	0
Huber & Associates, Inc.	Information technology consulting	5,577	73	5,650	0	0	0
HyperGen, Inc.	Information technology consulting	2,018	26	2,044	0	0	0
Pension Benefit Information	Pension research services	1,974	26	2,000	0	0	0
Qflow Systems, LLC	Information technology consulting	22,112	288	22,400	0	0	0
Rose International	Human resources consulting	7,688	101	7,789	0	0	0
Thompson Coburn, LLP	Legal counsel	124,661	1,626	126,287	1,538	110,985	112,523
Williams Keepers, LLC	Financial audit	45,408	592	46,000	3,307	0	3,307
Operation administrative expenses subtotal		638,475	8,327	646,802	5,685	111,815	117,500
Internal investment administrative expenses							
CBIZ Benefits & Insurance Services, Inc.	Human resources consulting	296	4	300	0	0	0
Rose International	Human resources consulting	641	8	649	0	0	0
Thompson Coburn, LLP	Legal counsel	88,540	1,155	89,695	0	0	0
Internal investment administrative expenses subtotal		89,477	1,167	90,644	0	0	0
Total professional/consultant fees		$727,952	$9,494	$737,446	$5,685	$111,815	$117,500

Information on investment management and consulting fees can be found in the *Schedule of Investment Expenses* on pages 54-55.

Investment Summary
Pension Trust Funds - Year Ended June 30, 2012

Type of Investment	June 30, 2011 Cost Value	June 30, 2011 Fair Value	Purchases and Capital Additions at Cost	Sales and Redemptions at Cost	June 30, 2012 Cost Value	June 30, 2012 Fair Value	Percent of Total Fair Value
Fixed income							
Treasury bonds, notes, and bills	$ 709,365,052	$ 780,789,002	$ 132,143,099	$ (218,589,441)	$ 622,918,710	$ 721,639,494	11%
Government bonds and gov't mortgage-backed securities	74,209,989	74,632,638	28,789,187	(35,101,812)	67,897,364	65,071,631	1
Corporate bonds	105,211,867	105,279,509	33,152,333	(36,912,913)	101,451,287	101,340,739	2
Convertible bonds	2,438,350	2,495,537	3,771,390	(1,738,957)	4,470,783	4,094,788	0
Collateralized mortgage obligations	163,181,426	166,582,441	0	(31,804,819)	131,376,607	134,615,354	2
International corporate bonds	40,708,343	18,079,470	10,005,196	(2,262,273)	48,451,266	24,351,481	0
Bank loans	72,552,311	73,301,512	9,462,657	(6,991,987)	75,022,981	75,013,193	1
Total fixed income	1,167,667,338	1,221,160,109	217,323,862	(333,402,202)	1,051,588,998	1,126,126,680	17
Common stock	949,912,400	1,068,931,570	161,372,226	(555,514,643)	555,769,983	622,476,004	9
Preferred stock	3,217,445	3,284,643	7,325,769	(4,204,580)	6,338,634	4,819,409	0
International investments							
International equities	459,296,820	929,514,223	397,515,545	(90,448,194)	766,364,171	1,168,440,869	17
Foreign currency			40,226,281	(36,198,157)	4,028,124	3,432,478	0
Total int'l investments	459,296,820	929,514,223	437,741,826	(126,646,351)	770,392,295	1,171,873,347	17
Real estate							
Real estate investment trust	0	0	6,126,053	(1,457,739)	4,668,314	5,012,592	0
Venture capital limited partnerships	2,871,907,158	3,850,582,255	419,581,050	(391,542,138)	2,899,946,070	3,826,932,808	57
Investments (per *Statements of Plan Net Assets* page 27)	5,452,001,161	7,073,472,800	1,249,470,786	(1,412,767,653)	5,288,704,294	6,757,240,840	100%
Short-term investments							
Short-term investment funds	790,042,214	790,042,214	540,152,994	(397,176,071)	933,019,137	933,019,137	
Repurchase agreements	13,423,111	13,423,111	2,026,873,378	(2,030,409,345)	9,887,144	9,887,144	
Total short-term investments	803,465,325	803,465,325	2,567,026,372	(2,427,585,416)	942,906,281	942,906,281	
Invested securities lending collateral							
Corporate bonds	65,249,919	64,493,027	6,566,259	(57,236,658)	14,579,520	16,615,978	
Short-term investment funds	578,592,093	578,592,093	5,080,023,322	(4,982,754,910)	675,860,505	675,860,505	
Total invested securities lending collateral	643,842,012	643,085,120	5,086,589,581	(5,039,991,568)	690,440,025	692,476,483	
Total investments	$6,899,308,498	$8,520,023,245	$8,903,086,739	$(8,880,344,637)	$6,922,050,600	$8,392,623,604	

Investment Summary
Internal Service Funds - Year Ended June 30, 2012

Type of Investment	June 30, 2011 Cost Value	June 30, 2011 Fair Value	Purchases and Capital Additions at Cost	Sales and Redemptions at Cost	June 30, 2012 Cost Value	June 30, 2012 Fair Value	Percent of Total Fair Value
Repurchase agreements	$3,443,332	$3,443,332	$907,078,156	$(906,989,228)	$3,532,260	$3,532,260	100%

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.