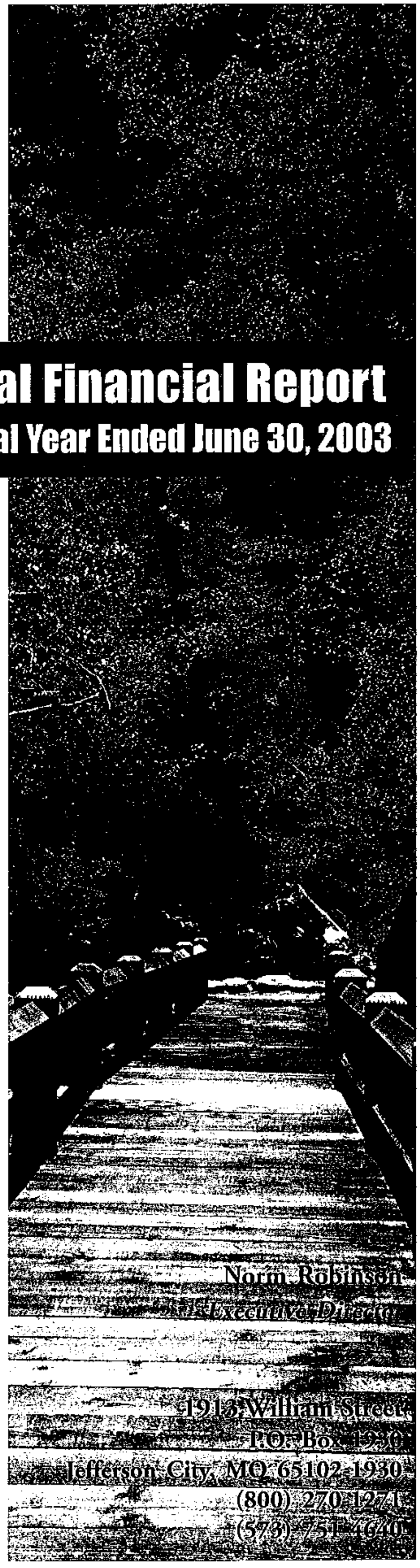
Highway and Transportation Employees' and Highway Patrol Retirement System

Comprehensive Annual Financial Report

For The Fiscal Year Ended June 30, 2003



Norm Robinson
Executive Director

1913 William Street
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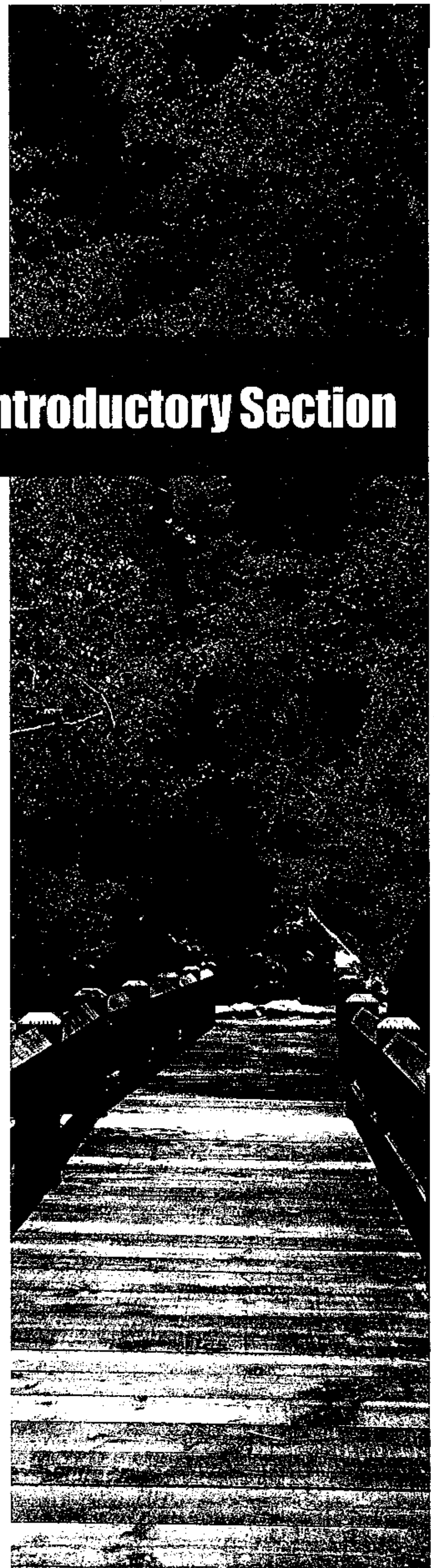


In This Section

LETTER OF TRANSMITTAL

Highway and Transportation Employees' and Highway Patrol Retirement System

Norm Robinson
Executive Director

Susie Dahl
Assistant Executive Director

October 15, 2003

Board of Trustees Highway & Transportation
Employees' and Highway Patrol Retirement System
Jefferson City, MO 65101

Dear Board Members:

It is again with great pleasure that I submit this year's annual report of the Highway and Transportation Employees' and Highway Patrol Retirement System (HTEHPRS).

Fiscal Year 2003 Highlights
Several provisions of Senate Bill 248, enacted this year, affected our retirement system. Those provisions dealt with the issues of retirement incentive, age 48 minimum for Rule of 80, subsidized purchase of service for uniformed patrol officers, the transfer of service for Public Safety employees, and some administrative clarifications. The details of these legislative provisions are further explained in the Actuarial Section of this report under "Legislative Changes".

A significant milestone was reached this year as we purchased and moved into our own building facility at 1913 William Street. (We have come a long way since our early days when we occupied temporary space in a conference room at the MoDOT general headquarters building). Our goal with the new facility was to develop a customer friendly environment which would facilitate workflow, provide pleasant surroundings for employees, meet our space needs, and allow for future expansion. Our move to 1913 William Street, in August of 2002, was the culmination of several years of planning and review of existing buildings available for purposes such as ours.

Report Contents and Structure
This Comprehensive Annual Financial Report of the Highway and Transportation Employees' and Highway Patrol Retirement System for the fiscal year ended June 30, 2003, has been prepared to enhance knowledge and understanding of the retirement system. The material has been prepared in a manner to be useful and informative to the members, to the management of the Missouri Department of Transportation and Missouri State Highway Patrol, and to the elected officials of the state of Missouri.

Management of the retirement system is responsible for the accuracy and completeness of the information in this report. To the best of our knowledge and belief, the information presented is accurate in all material respects and is reported in a manner designed to fairly present the financial position of the fund. The report is also designed to comply with the reporting requirements of Sections 104.480, 104.1006, and 105.661 of the Revised Statutes of Missouri (RSMo) as amended. The report is divided into the following five sections:

- The **Introductory Section**, which contains general information regarding the operations of HTEHPRS.

- The **Financial Section**, which contains an in-depth explanation of the financial position of the plan, as well as the auditor's opinion of the system's financial records.
- The **Investment Section**, which outlines the value of the system's assets and the historical returns of the portfolio.
- The **Actuarial Section**, which certifies the recommended contribution rates and presents the assumptions used to arrive at those rates.
- The **Statistical Section**, which provides a statistical profile of our active, terminated vested, and retired members.

Background Information

The Highway and Transportation Employees' and Highway Patrol Retirement System was established by state statute in 1955. Under that legislation, employees of the Missouri Department of Transportation and Missouri State Highway Patrol became members of the retirement system on September 1, 1955. The system initially provided only regular retirement and disability benefits and required the employees to share in the cost of the plan.

While the participating employers in the system, the Missouri Department of Transportation and the Missouri State Highway Patrol, have remained the same since 1955, the plan provisions have changed many times. Today, at no cost to the employees, the system offers not only enhanced retirement and disability benefits, but also benefits for survivors of active and retired members, benefits for qualified terminated vested members, and death benefits.

Financial Information

Accounting System

This report has been prepared in accordance with generally accepted accounting principles for governmental accounting and reporting. Assets, liabilities, revenues, and expenses are reported on the accrual basis. Internal controls have been established by management to reasonably protect the assets from loss, theft, or misuse.

Revenues

Two sources of revenue are used to finance retirement, survivor, and long-term disability benefits: employer contributions and income on investments. During Fiscal Year 2003, revenues from those two sources totaled $118,928,226. The Missouri Department of Transportation and the Missouri State Highway Patrol contributed $79,390,570. Investment income for the year was $39,537,656.

Expenses

Expenses of the system totaled $148,797,853 in Fiscal Year 2003. Benefit payments represent the major expense of the retirement system. Expenses incurred to administer the plan include personal services provided by the staff and professional services for (1) investing the system's funds, (2) monitoring the system's investment guidelines, (3) providing actuarial information, and (4) auditing.

During Fiscal Year 2003, benefit payments totaled $144,334,345. Administrative expenses during this period were $4,463,508. During fiscal year 2003, expenses exceeded employer contributions and investment income by $29,869,627.

Investments

The state statutes allow the system to make investments using the same care, skill, and diligence that a prudent person acting in a similar capacity would use. In keeping with this prudent person rule, the Board of Trustees has established investment guidelines. The system's investment managers are allowed full discretion in investment decisions within the confines of those guidelines and the statutory investment authority.

Our investment portfolio experienced a 3.2% time-weighted rate of return for the 2003 fiscal year. Over the last five fiscal years through June 30, 2003, our portfolio earned a time-weighted rate of 1.85%.

Funding
The Board of Trustees certifies to the Missouri Department of Transportation and the Missouri State Highway Patrol the actuarially determined percentages of payroll necessary to meet the system's obligations. Realizing the importance of maintaining a financially sound system, the participating employers have never failed to contribute the amounts certified by the Board of Trustees.

Legislation Enacted During the 2003 Legislative Session
On June 19, 2003, Governor Bob Holden signed into law Senate Bill 248 which primarily dealt with retirement and medical incentives. Details of this legislation are discussed in the section as noted above **"Fiscal Year 2003 Highlights"**.

Report Conclusion & Distribution
This report is a product of the combined efforts of the HTEHPRS' staff and advisors functioning under your leadership. It is intended to provide complete and reliable information, which will facilitate the management decision making process; serve as a means for determining compliance with legal requirements; and allow for the evaluation of responsible stewardship of the funds of the system.

Copies of this report are provided to the Governor, the State Auditor, and the Joint Committee on Public Employee Retirement. It is also being distributed to all Missouri Department of Transportation Division and District offices and Missouri State Highway Patrol General Headquarters and Troop offices. These offices form the link between HTEHPRS and its members, and their cooperation contributes significantly to the success of HTEHPRS. We hope all recipients of this report find it informative and useful. Copies to others will be furnished upon request.

Acknowledgments
The compilation of this comprehensive annual financial report reflects the combined effort of HTEHPRS staff under the leadership of the Board of Trustees. I commend their efforts on creating another outstanding report. In addition, I take this opportunity to express my gratitude to the staff, advisors, and the many other people and organizations who have worked so diligently to assure the successful operation of the system.

Respectfully submitted,

Norm Robinson

Norm Robinson
Executive Director

BOARD OF TRUSTEES

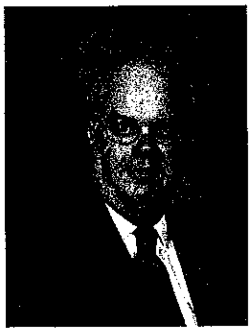
The Highway and Transportation Employees' and Highway Patrol Retirement System is governed by a Board of Trustees. As set out in Section 104.160 of the Revised Statutes of Missouri, the Board is comprised of the following ten members:

William McKenna

Board Chairman

Highway & Transportation Commissioner
Term Expires 3-1-2007

James B. Anderson



Board Vice-Chairman

Highway & Transportation Commissioner
Term Expires 3-1-2009

W.L. "Barry" Orscheln

Commission Member

Highway & Transportation Commissioner
Term Expires 12-1-2003

Senator Steve Stoll

State Senator

District 22
Appointed by President Pro-Tem of the Senate

Representative Larry Crawford

State Representative

District 117
Appointed by the Speaker of the House

Colonel Roger Stottlemyre

Superintendent of the Missouri State Highway Patrol

Ex-Officio Member

Henry Hungerbeeler

Director of the Missouri Department of Transportation

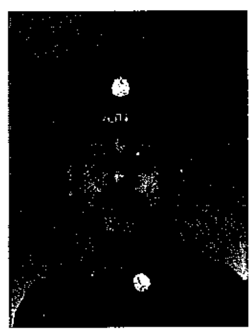
Ex-Officio Member

Harold Reeder

MoDOT Employees Representative

Elected by MoDOT Employees
Term Expires 7-1-2006

Lieutenant Juan Villanueva



Highway Patrol Employees Representative

Elected by Patrol Employees
Term Expires 7-1-2006

Bill Shaw

Retiree Representative

Elected by Retired Members of the System
Term expires 7-1-2006

CHAIRMAN'S LETTER

Highway and Transportation Employees' and Highway Patrol RETIREMENT SYSTEM

October 15, 2003

To the Members of the Highway and Transportation
Employees' and Highway Patrol Retirement System

On behalf of the Board of Trustees, we are pleased to present the Comprehensive Annual Financial Report of the Missouri Highway and Transportation Employees' and Highway Patrol Retirement System for the fiscal year ended June 30, 2003. This report provides information on the financial status of your retirement system while also highlighting significant changes that occurred during the year.

During the past year, the board's membership experienced some change due to the departure of appointed trustee Representative James O'Toole and elected trustees Major Ed Bliefnick and Mr. Larry Thompson. I would like to express the board's collective thanks to these departing members for their dedication and service to the system and our members. Several new additions were made to the board through the year. On behalf of the board, I am pleased to welcome Lt. Juan Villanueva and Harold Reeder who were both elected by the membership. In addition, we welcome newly appointed trustee, Representative Larry Crawford. We look forward to working with them.

Perhaps the most important duty of trustees is that of prudent investment fiduciaries for the HTEHPRS' trust fund. The board has worked diligently to develop a diversified investment program that will allow the system to meet or exceed our actuarial requirements, ensuring that retirement benefits for our members are properly funded with the lowest possible cost to participants and, ultimately, Missouri's taxpayers. Today's investment environment is more complex than ever, and requires more oversight and monitoring than ever before. As we move into the next fiscal year, a major priority will be the addition of a CIO to assist the board in the management and oversight of system assets. As trustees, we are constantly striving to better educate ourselves as to the prudent management of the assets to which we have been entrusted. The addition of a dedicated investment professional to assist in this process is a critical step towards fulfilling our fiduciary duties and will only improve our competence and the integrity of our investment program. The board policy of preserving system assets and maximizing the long-term growth of those assets through diversification will continue to be our primary focus as we move into the next fiscal year.

Our retirement system continues to grow in asset value and in the number of active members as well as benefit recipients. At the end of the fiscal year, our net asset value was $1,241,550,328 with 8,895 active members and 6,556 benefit recipients.

I am proud of the HTEHPRS and would like to take this opportunity to thank the members, retirees, advisors, and staff who assist the board in the operation of our retirement system. On behalf of the Board of Trustees, we will continue to prudently manage the system so as to provide for a secure retirement future for each of our members.

In closing, I would like to thank the retirement system staff for continuing to maintain a high level of commitment and service to our plan participants. If you have any questions regarding this report, please contact us a HTEHPRS, P. O. Box 1930, Jefferson City, MO 65102 or by calling 1-800-270-1271.

Sincerely,

Bill McKenna

William McKenna
Chairman

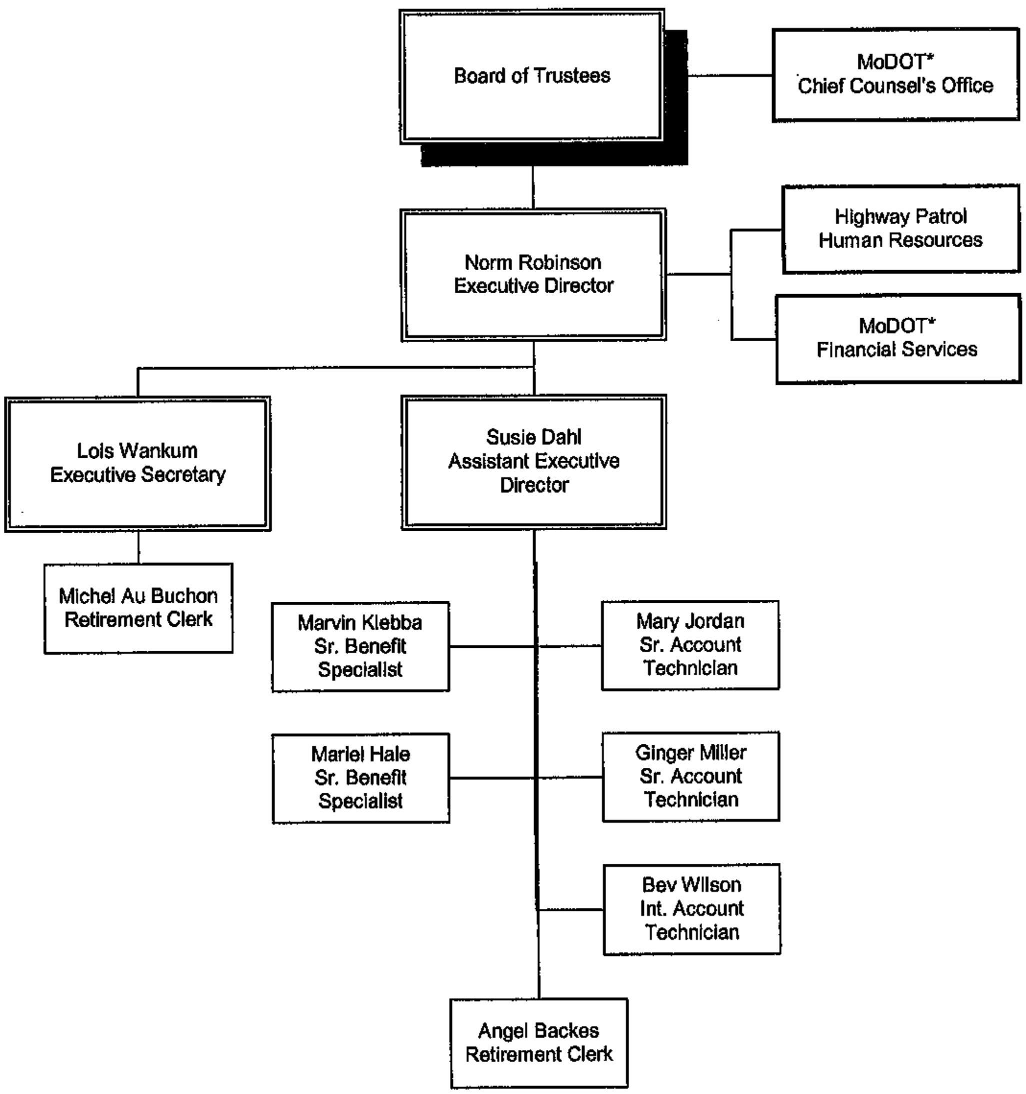
ADMINISTRATIVE ORGANIZATION

PERSONAL SERVICES

The Executive Director of the Highway and Transportation Employees' and Highway Patrol Retirement System has charge of the offices and records of the system and hires such employees deemed necessary, subject to the direction of the Board of Trustees. The system employs ten full-time staff.

The Chief Counsel of the Highway and Transportation Commission furnishes legal services and provides legal opinions of the retirement statutes as necessary for implementation.

Work assignments related to the Retirement System that are performed by Missouri Department of Transportation and Missouri State Highway Patrol personnel are considered duties in connection with their regular employment.

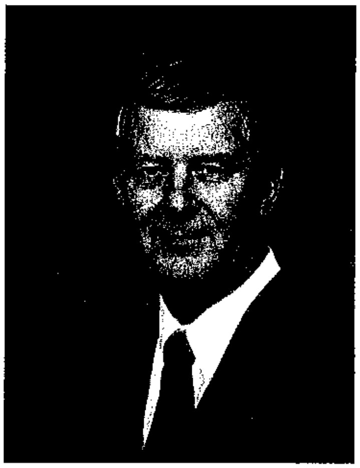


* *The Retirement System reimburses the department for time spent by these individuals in performing retirement related duties.*

RETIREMENT SYSTEM

DIRECTOR'S OFFICE

The goal of the Highway and Transportation Employees' and Highway Patrol Retirement System is to provide quality customer service to its members. The interests of the taxpayers of the State of Missouri are safeguarded by the staff's ongoing review of retirement policies, procedures, investments, and legislation--all in an effort to improve the day-to-day business of the system.



Norm Robinson
Executive Director

Susie Dahl
Assistant Executive Director

Lois Wankum
Executive Secretary

Michel Au Buchon
Retirement Clerk

RETIREMENT SYSTEM (CONTINUED)

BENEFIT SERVICES

This section is responsible for all contact with the membership regarding the benefit programs administered by HTEHPRS, which include retirement, member education and disability benefits. They are also responsible for establishing and maintaining all computerized membership records and obtaining and calculating prior state service credit. Duties also include balancing payroll deductions and entering the payroll, service, and leave data into the system's computerized database.

Marvin Klebba
Senior Benefit Specialist

Mariel Hale
Senior Benefit Specialist

Angel Backes
Retirement Clerk

Mary Jordan
Senior Account Technician

Ginger Miller
Senior Account Technician

Bev Wilson
Intermediate Account Technician

MISSOURI DEPARTMENT OF TRANSPORTATION

FINANCIAL SERVICES

The financial services section handles the accounting functions of the Retirement System in the Controller's Office of the Missouri Department of Transportation. These duties are performed by the Retirement System accountant, Mary Sue Fontana.

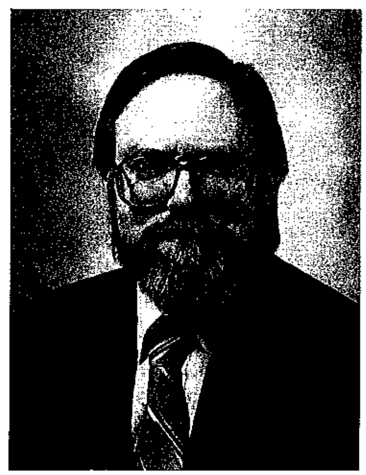
Mary Sue Fontana
Senior Business Specialist

LEGAL SERVICES

Chief Counsel Rich Tiemeyer heads up the team handling legal matters affecting the Retirement System. The team reviews changes in retirement law and questions of interpretation affecting policy and procedure.

Rich Tiemeyer
Chief Counsel

Paula Lambrecht
Assistant Chief Counsel
Human Resources



Dan Pritchard
Senior Assistant Counsel

MISSOURI STATE HIGHWAY PATROL

Human Resources employees of the Missouri State Highway Patrol assist retirement system staff in maintaining employment and prior service information for members of the system.

Captain Sandra K. Karsten
Director
Human Resources Division

Theresa M. Backes
Special Assistant

Brenda Thompson
Personnel Records
Clerk III

PROFESSIONAL SERVICES

The following firms are retained by the Board of Trustees to serve in professional capacities or provide consultant services:

Actuary

Gabriel, Roeder, Smith
& Company
Southfield, Michigan

Auditor

Evers & Company, CPA's
Jefferson City, Missouri

Investment Managers

Alliance Capital Management
New York, New York

Artisan Partners
Milwaukee, Wisconsin

Rockwood Capital Advisors, LLC
St. Louis, Missouri

Rothschild Asset Management
New York, New York

The Northern Trust
Chicago, Illinois

UMB Investment Advisors
Kansas City, Missouri

Wachovia Corporation
Winston-Salem, North Carolina

Wellington Management Co.
Atlanta, Georgia

Investment Consultant

Asset Consulting Group
St. Louis, Missouri

Legislative Consultant

Jack Pierce
Jefferson City, Missouri

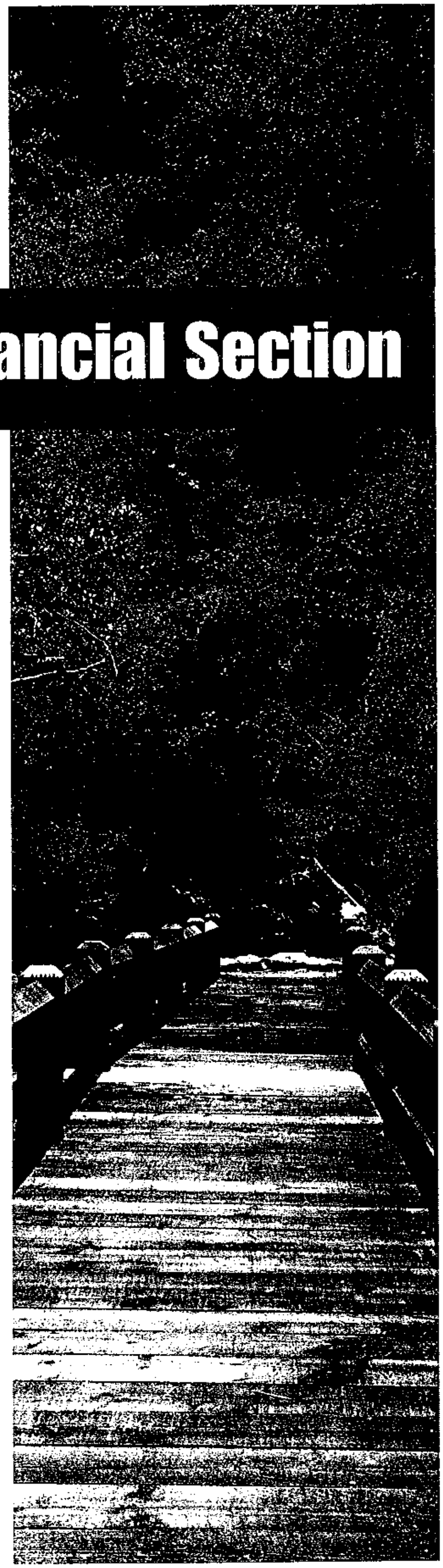
Master Trustee/Custodian

The Northern Trust
Chicago, Illinois

Insurance Consultant

Charlesworth Benefits
Overland Park, Kansas

Financial Section



In This Section

INDEPENDENT AUDITORS' REPORT

Evers & Company, CPA's, L.L.C.
Certified Public Accountants and Consultants

Elmer L. Evers
Jerome L. Kauffman
Richard E. Elliott
Dale A. Siebeneck
Keith L. Taylor
Lynn J. Graves
Jo L. Moore

To the Board of Trustees of the
Highway and Transportation Employees'
and Highway Patrol Retirement System
Jefferson City, Missouri:

We have audited the accompanying statements of plan net assets of the Highway and Transportation Employees' and Highway Patrol Retirement System (the Retirement System), a component unit of the State of Missouri, as of June 30, 2003 and 2002, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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 plan net assets of the Highway and Transportation Employees' and Highway Patrol Retirement System as of June 30, 2003 and 2002, and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD&A) on pages 17 through 21 is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary schedules of funding progress and employer contributions on pages 30 through 31 are not a required part of the basic financial statements of the System, but are required by the Governmental Accounting Standards Board (GASB). The supplementary information included on pages 32 through 33 are presented for purposes of additional analysis and is not a required part of the basic financial statements of the Retirement System. Such information, included on pages 30 through 33, have been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Evers & Company, CPA's, LLC

EVERS & COMPANY, CPA's, L.L.C.
Jefferson City, Missouri
October 28, 2003

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3938 Hwy. 54, Suite A • Osage Beach, Missouri 65065 • 573/348-4141 • FAX 573/348-0989

Member Affiliated Offices Worldwide

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Highway and Transportation Employees' and Highway Patrol Retirement System Board provides this discussion and analysis of the Retirement System's financial performance during fiscal year 2003 (FY03). Readers should consider this information in conjunction with the information that is furnished in the financial statements.

BASIC FINANCIAL STATEMENTS DESCRIPTIONS

As required by the GASB accounting standards, this annual report consists of management's discussion and analysis (this section), the basic financial statements, and notes to the financial statements.

Financial Statements report information about the System using accounting methods similar to those used by private-sector companies, by using the economic resources measurement focus and accrual basis of accounting. These statements provide both long-term and short-term information about the System's overall financial status.

- The *Statement of Plan Net Assets* includes all the System's assets and liabilities.
- The *Statement of Changes in Plan Net Assets* accounts for all the current year's revenues and expenses, regardless of when cash is received or paid.

Notes to the Financial Statements are included that interpret and explain some of the information in the financial statements and provide more detailed data. Other ***Required Supplementary Information*** follows the Statements and Notes and further explain and support the information in the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONDENSED FINANCIAL STATEMENTS

PLAN NET ASSETS

The System's combined net assets were $1.242 billion at the end of FY03, a decrease of $29 million over the beginning FY03 balance of $1.271 billion.

Plan investments represent the main component (98.6%) of total assets. These include holdings of stock, government obligations, bonds, mortgages, and timberland.

Accounts payable consists mainly of investment purchases in process at year-end and amounts payable to investment managers.

Summarized Statement of Plan Net Assets
(in thousands of dollars)

	June 30, 2003	June 30, 2002	Change
Cash and other assets	$17,321	$7,230	139.57%
Investments	1,245,166	1,269,330	-1.90%
Capital assets	688	693	-0.72%
Total assets	$1,263,175	$1,277,253	-1.10%
BackDROP payments payable	$0	$55	-100.00%
Other accounts payable	21,625	5,778	274.26%
Total liabilities	$21,625	$5,833	270.74%
Net assets	1,241,550	1,271,420	-2.35%
Total net assets	**$1,241,550**	**$1,271,420**	**-2.35%**

MANAGEMENT'S DISCUSSION AND ANALYSIS

CHANGES IN PLAN NET ASSETS

Net investment appreciation, a primary component of plan additions, resulted in a gain of $129 million. This is in direct contrast to the loss of almost $85 million in FY02. However, investment activities created a loss of almost $90 million, which results in a drastic change from the income of $500 thousand the prior year. Much of the loss may be attributed to the sale of investments in the large cap index fund during the transition to Northern Trust, the new custodian. We transitioned from an individual account with UMB to a commingled fund with Northern Trust. Most of the fund was moved in-kind; however, there were some sales and subsequent purchases of other equities.

Included in Contributions is a one-time $2 million transfer from the Missouri State Employees Retirement System for "one-stop shop" employees who chose to become part of the System.

Summarized Statement of Changes in Plan Net Assets
(in thousands of dollars)

	June 30, 2003	June 30, 2002	Change
Contributions	$79,391	$77,914	1.90%
Net investment income (loss)	(89,724)	527	-17125.43%
Net investment appreciation (depreciation)	129,261	(84,860)	-252.32%
Total additions	$118,928	($6,419)	-1952.75%
Benefits	$144,334	$133,499	8.12%
Net investment expenses	3,012	3,919	-23.14%
Administrative expenses	1,452	1,335	8.76%
Total deductions	$148,798	$138,753	7.24%
Change in net assets	**($29,870)**	**($145,172)**	**-79.42%**
Net assets-beginning	**1,271,420**	**1,416,592**	**-10.25%**
Net assets-ending	**$1,241,550**	**$1,271,420**	**-2.35%**

MANAGEMENT'S DISCUSSION AND ANALYSIS

ASSESSMENT OF OVERALL FINANCIAL POSITION AND RESULTS OF OPERATIONS

Overall, the financial position of the Retirement System decreased by $29.9 million, reported as the "change in net assets."

Losses on investment activities, as discussed in the previous section, and increases in benefit payments resulted in the System's current year loss.

Cash and Other Assets include $13 million in Investment Sales Receivable on June 30, 2003. This asset is entirely dependent on the timing of investment managers' activities and compares to only $4 million in receivables at the end of FY02.

Other Accounts Payable includes $21 million in Investment Sales Payable on June 30, 2003. This liability is entirely dependent on the timing of investment managers' activities and compares to only $4 million in payables at the end of FY02.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSET AND DEBT ADMINISTRATION

At the end of FY03, the System had invested $688 thousand in capital assets, net of depreciation.

Capital Assets Summary
(in thousands)

	7/1/02 Balance	Additions	Deletions/ Retirements	6/30/03 Balance
Land and Improvements	84	0	0	84
Buildings	562	0	0	562
Office Equipment	74	40	33	81
Depreciation	(27)	(28)	(16)	(39)
Total	**693**	**12**	**17**	**688**

The System has no outstanding long-term debt.

FUTURE CONDITIONS AFFECTING FINANCIAL POSITION OR RESULTS OF OPERATIONS

- The System will fill a Chief Investment Officer position during FY04. This position will be responsible for providing technical advice and analysis in the areas of investment and finance to the Executive Director and the Board of Trustees.
- The Board approved an increase in the required state contribution, effective July 1, 2003. The rate to be applied to MoDOT and non-uniformed MSHP payroll will increase from 23.29% to 25.54% and the rate for uniformed MSHP payroll will increase from 34.94% to 38.40%.
- Total fund investment returns have been below the actuarial investment return rate for the past four fiscal years. However, it is our expectation that this trend will be reversed beginning in FY04.

CONTACTING THE RETIREMENT SYSTEM'S MANAGEMENT

This financial report is designed to provide a general overview of the Retirement System's finances. Questions about this report or requests for additional financial information should be sent to the Highway and Transportation Employees' and Highway Patrol Retirement System, P.O. Box 1930, Jefferson City, MO 65102-1930.

STATEMENT OF PLAN NET ASSETS

Years Ended June 30, 2003 & 2002

	2003	2002
ASSETS:		
Cash	$ 555,862	$ 0
Receivables		
Contributions	3,559,835	3,182,708
Accrued Interest and Dividends	4,984,622	6,238,082
Investment Sales	13,203,330	4,031,944
Total Receivables	21,747,787	13,452,734
Investments, at Fair Value (Note 2)		
Common & Preferred Stocks	754,924,907	753,881,954
Government and Government Agency Securities	330,947,116	310,097,509
Corporate Bonds	86,737,524	109,618,851
Timberland	39,931,598	36,085,257
Short Term Investments	27,640,199	53,408,293
Total Investments	1,240,181,344	1,263,091,864
Prepaid Expenses	2,053	15,096
Capital Assets		
Land	84,000	84,000
Building	561,703	561,703
Office Equipment	81,630	74,607
Accumulated Depreciation	(39,237)	(27,310)
Net Capital Assets	688,096	693,000
TOTAL ASSETS	1,263,175,142	1,277,252,694
LIABILITIES:		
Cash Deficit	0	671,168
Accounts Payable	775,938	1,281,241
Accrued BackDROP Payments Payable	0	55,079
Investment Purchases	20,848,876	3,825,251
TOTAL LIABILITIES	21,624,814	5,832,739
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	$ 1,241,550,328	$ 1,271,419,955

(A schedule of funding progress is presented in the Supplemental Information.)
See accompanying notes to financial statements.

STATEMENT OF CHANGES IN PLAN NET ASSETS

Years Ended June 30, 2003 & 2002

	2003	2002
ADDITIONS		
Contributions	$ 79,390,570	$ 77,913,492
Investment Income		
Net Appreciation (Depreciation)		
(Gains/Losses and Changes in Market Value)	4,530,384	(125,251,536)
Interest and Dividends	34,878,014	40,820,321
Securities Lending Net Income	129,258	98,402
Total Investment Income	39,537,656	(84,332,813)
Less Investment Expenses	3,011,653	3,919,587
Net Investment Income (loss)	36,526,003	(88,252,400)
Total Additions	115,916,573	(10,338,908)
DEDUCTIONS		
Monthly Benefits	144,334,345	133,498,818
Administrative Expenses	1,451,855	1,334,555
Total Deductions	145,786,200	134,833,373
NET INCREASE (DECREASE)	(29,869,627)	(145,172,281)
Net Assets Held in Trust for Pension Benefits		
Beginning of Year	1,271,419,955	1,416,592,236
End of Year	$ 1,241,550,328	$ 1,271,419,955

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

For the Years Ended June 30, 2003 & 2002

1. PLAN DESCRIPTION:

General

The Missouri Highway and Transportation Employees' and Highway Patrol Retirement System (the Retirement System) was established by, and is administered by, a Board of Trustees in accordance with the Revised Statutes of Missouri (RSMo). The Retirement System is a single-employer public employee retirement system which provides retirement, death, and disability benefits to full-time (defined as anticipating at least 1,000 hours to be worked annually) employees of the Missouri Highway and Transportation Commission and the Missouri State Highway Patrol. Due to the nature of the Retirement System, reliance on the funding from the State of Missouri and the overall control of policies by state officials, the Retirement System is considered a part of the State of Missouri financial reporting entity. The Retirement System is not subject to the provisions of the Employee Retirement Income Security Act of 1974.

Membership in the Retirement System at June 30, 2003 and 2002 consisted of the following:

	2003	2002
Retirees and beneficiaries currently receiving benefits	6,401	6,254
Disability recipients	75	85
Long-term disability recipients	80	71
Vested terminated employees	1,207	1,130
Active with vested benefits	6,160	6,159
Active without vested benefits	2,735	2,536
Total	16,658	16,235

Benefits

Benefits in the Retirement System currently vest after five years of creditable service. For members retiring prior to August 28, 1994, normal retirement age is 65 with four years of creditable service (55 for members of the uniformed patrol), with the retirement annuity based on a formula which considers average final compensation and number of years of creditable service. Nonuniformed employees were eligible for an unreduced annuity at age 65 with four years of creditable service, or age 60 with 15 years of creditable service, or age 55 with 30 years of creditable service. Nonuniformed employees could retire with a reduced annuity between the ages of 55 and 59 with at least 10 years and less than 30 years of creditable service. Uniformed employees were eligible for an unreduced annuity at age 55 with four years of creditable service. See "Amendments to the Retirement System" below for changes made in normal retirement age and other benefit changes effective August 18, 1994, January 1, 1995 or August 28, 2003.

State statutes provide for special consultant fees to be paid to certain retirees along with the normal retirement benefits. These retirees have been appointed by the Board of Trustees to serve as consultants on the problems of retirement, aging, and other State matters. For such services provided, special consultant fees are paid monthly in amounts equal to the incremental increases in retirement benefits that would have been received had those persons benefitted from changes in the law that affected increases in the retirement formula enacted since their retirement. Benefit provisions are established by State statute and may be amended only by action of the Missouri state legislature.

The Retirement System also provides survivor, disability, and lump-sum death benefits. Survivor benefits are payable to a surviving spouse or minor children of active employees who die after earning three years of creditable service. The annuity paid to the survivor is based on a percentage of the accrued benefit at the time of death. All disability benefits are offset by any workers' compensation benefits. Duty-related disability benefits are 50% (70% effective August 28, 1995) of salary of the time of disability. Non-duty-related disability benefits are based on the accrued annuity at the date of disability. Long-term disability benefits are 60% of salary immediately prior to the disability, less any Social Security benefit. Those who retire from active employment subsequent to September 28, 1985 with an immediate pension are provided a $5,000 lump-sum death benefit to be paid to a designated beneficiary.

Contributions

Contributions to the Retirement System are made by the Highway and Transportation Department and the Missouri State Highway Patrol. Employees do not contribute to the Retirement System. The Retirement System's funding policy provides for actuarially determined employer contributions using the entry-age normal cost method on a closed group basis (consisting of normal cost and amortization of any unfunded accrued liabilities over a 34-year period). Actuarially determined rates, expressed as percentages of annual covered payroll, provide for amounts sufficient to fund those benefits designated by State statute to be funded in advance. Actuarial assumptions used to compute contribution requirements are the same as those used to compute the pension benefit obligation as discussed in Note 3. Contributions for the special consultant fees are being funded on an actuarial basis.

Contributions totaling $79,390,570 and $77,913,492 for fiscal years 2003 and 2002, respectively, represent funding of normal costs and amortization of the unfunded accrued liability. Contribution rates determined by the Retirement System's actuary for the years ended June 30, 2003 and 2002 are as follows:

2003

	Non-Uniformed	Uniformed	Actual	
Normal Cost	11.51%	12.77%	10.68%	12.73%
Amortization of unfunded accrued liability	10.95	19.58	12.43	21.93
Expenses	.21	.21	.18	.28
Total Contribution Rate	22.67%	32.56%	23.29%	34.94%

The System decided not to change the actual contribution rates from 2002 and charged 23.29% for non-uniformed and 34.94% for uniformed employees.

2002

	Non-Uniformed	Uniformed	Actual	
Normal Cost	11.24%	12.84%	10.68%	12.73%
Amortization of unfunded accrued liability	11.15	19.88	12.43	21.93
Expenses	.21	.21	.18	.28
Total Contribution Rate	22.60%	32.93%	23.29%	34.94%

Amendments to the Retirement System

Benefits of the Retirement System, as discussed above, were affected by House Bill 1149 (HB 1149) which was approved and made effective, for most provisions, August 28, 1994, with the remainder effective January 1, 1995 and Senate Bill 248 (SB248) with provisions effective July 1, 2003 or August 28, 2003. The Bills provide for the following changes:

* Normal Retirement - members 48 or older are entitled to retire with a normal annuity and elect any of the survivor benefits if the sum of their age and service totals 80 or more. This provision was effective August 28, 2003.
* Increase In Formula Multiplier - the multiplier utilized in the retirement benefit formula increased from 1.5% to 1.6% effective January 1, 1995. This increase is also retroactive to individuals whose retirement date is before January 1, 1995.
* Survivor's Cost of Living Adjustment (COLA) - beneficiaries receiving benefits qualify for the annual minimum 4% to a maximum 5% COLA. Those beneficiaries now receiving a benefit are limited to 65% of the benefit they are receiving in total COLAs. Those who begin receiving COLAs after the effective date are limited to 65% of their initial benefit.
* Pop-Up Provision - retired members and future retirees whose spouse precedes them in death who have chosen a spouse option that reduced their initial retirement benefit will have their monthly benefit adjusted to the amount they would be receiving if they had not chosen the option. This provision was effective August 28, 1994.
* Minimum Benefit - effective January 1, 1995, the minimum benefit increased to $15 from the prior level of $12. As a result, a member's normal annuity amount cannot be less than the total years of service multiplied by $15.
* Purchase of service for uniformed patrol - effective August 28, 2003, uniformed patrol members who previously were employed by a non-federal public entity will be allowed to purchase creditable service time of up to four years maximum.

Benefits of the Retirement System were also affected by House Bill 356 effective August 28, 1997. The amended provisions are as follows:

* For current active and inactive employees, annual COLA's continue at 80% of the change in the CPI-U, limited to the 4%-5% range. After the 65% cap, COLA's will be 80% of the change in the CPI-U limited to a range of 0%-5%.
* For employees hired after August 28, 1997, the COLA will be 80% of the change in the CPI-U, with a range of 0%-5%.

On July 10, 1999, Governor Mel Carnahan signed into law Senate Bills 308 & 314 (SB308) – legislation that creates a new retirement plan for eligible state employees. The new retirement plan, effective July 1, 2000, is commonly referred to as the Year 2000 Plan.

This new plan is for employees hired on or after July 1, 2000, that would otherwise be participants in the existing Closed Plan that is administered by the Highway and Transportation Employees' and Highway Patrol Retirement System. All retired members prior to July 1, 2000, will be allowed to participate in the Year 2000 Plan. Furthermore, employees covered by the Closed Plan, who are active on the effective date of the new plan, and terminated-vested members will be able to elect which plan they wish to retire under at the time of retirement.

SB308 also makes the following changes to the Year 2000 Plan as well as the existing Closed Plan:

(1) Effective July 1, 2000, a member who is not married at retirement but marries thereafter will be allowed to designate a spouse as beneficiary upon completion of one year of marriage. In addition, the member can designate a new spouse as beneficiary upon completion of one year of marriage in the event of the death of the spouse the member was married to at date of retirement.

(2) The definition of average compensation is modified to allow the system to consider the compensation an employee would have earned during a medical leave of absence just as if the employee had been able to work. Allows the Final Average Pay (FAP) to be calculated properly based on a state payroll system (lag payroll) adopted on or after January 1, 2000;

(3) Effective August 28, 1999, SB308 will provide a minimum annuity in the amount of 50% of the member's FAP to a survivor or unemancipated children under age 21 in the event of duty-related death. In such instances, there is no minimum length of service requirement.

BackDROP

Legislation effective January 1, 2002 provides a Deferred Retirement Option Provision (BackDROP) to members of the System. It is available in both the Closed Plan and the Year 2000 Plan.

To be eligible to participate in the BackDROP, a member must have been eligible to retire under normal age and/or service conditions for at least two years. A retroactive starting date is established for BackDROP purposes which, at the earliest, is the later of: 1) the member's normal retirement date or 2) five years prior to the annuity starting date under the retirement plan selected by the member.

The BackDROP period for the accumulation of the BackDROP account is from the retroactive starting date to the annuity starting date. This results in a BackDROP period of two to five years depending upon the individual situation.

A theoretical BackDROP account is accumulated that includes 90% of the value of the benefit payments that would have been paid during the BackDROP period had the member retired at the retroaction starting date with their respective option election. These payments include applicable post-retirement benefit increases.

The member is paid the resulting lump sum value of the BackDROP account as of the annuity starting date or in three equal installments beginning at the annuity starting date.

The annuity benefit payable from the actual retirement date is computed with years of service and average pay as of the retroactive starting date for the BackDROP. Post-retirement benefit increases that occurred during the BackDROP period are applicable in the calculation of the monthly annuity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting

The financial statements were prepared using the accrual basis of accounting. Plan member contributions are recognized as revenues in the period in which employee services are performed. Expenses are recorded when the corresponding obligations are incurred.

Method Used to Value Investments

Investments are reported at fair value on a trade date basis. Bonds and stocks traded on a national or international exchange are valued at the reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair value.

Dividend income is recognized when dividends are declared. Interest income is recognized when earned.

Investments

	2003		2002	
	Carrying Amount	Market Value	Carrying Amount	Market Value
Government & government agency securities	$ 318,200,734	$ 330,947,116	$ 300,337,373	$ 310,097,509
Corporate bonds	82,192,329	86,737,524	108,957,980	109,618,851
Common and preferred stocks	698,060,005	754,924,907	814,952,986	753,881,954
Timberland	29,015,868	39,931,598	30,000,000	36,085,257
Short-term investments	27,640,199	27,640,199	53,032,326	53,408,293
Total Investments	$1,155,109,135	$1,240,181,344	$1,307,280,665	$1,263,091,864

The timberland investments consist of forestland with trees suitable for harvesting timber.

Cash

As of June 30, 2003 and 2002, the Retirement System had cash with a book balance of $555,862 and $(671,168), respectively, and a bank balance of $5,871 and $298, respectively. The bank in which this cash is held is required to pledge securities sufficient to collateralize these accounts. As of June 30, 2003 and 2002, the market value of this collateral was sufficient.

Categories of Asset Risks

The investments of the Retirement System are governed primarily by an investment authority known as the "prudent person rule." The prudent person rule, as set forth by State statute, establishes a standard for all fiduciaries, which includes anyone that has authority with respect to the fund. The Retirement System's investments are categorized to give an indication of the level of risk assumed by the fund at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the Retirement System or its agent in the Retirement System's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Retirement System's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department but not in the Retirement System's name. As of June 30, 2003 and 2002, all investments of the Retirement System, except real estate mortgages, are classified in Category 3. Real estate investments are not considered securities and, as such, are not categorized for credit risk.

Related-Party Transactions

The Retirement System reimburses the Missouri Highway and Transportation Department for accounting, legal and data processing services. This amounted to $262,723 for June 30, 2003 and $559,721 for June 30, 2002.

Capital Assets

Capital assets which are presented at cost, are depreciated on the straight-line method over the estimated useful lives of the related assets. The estimated useful lives are as follows:

Furniture and Equipment	5 – 10 years
Building and Improvements	30 years

Receivables

Receivables consist primarily of contributions owed and yet to be remitted by the employer, pending investment trades and interest and dividends.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. CONCENTRATIONS:

No investments in any one organization (other than those issued by the U.S. government) represent five percent of plan net assets.

4. COMPENSATED DEFERRED ABSENCES:

Expenses for accumulated annual leave and compensating time in lieu of overtime paid earned by employees are recorded when earned by the employee. The balance owed was $56,269 and $65,144 as of June 30, 2003 and 2002, respectively.

5. RETIREMENT PLAN:

At June 30, 2002, the Retirement System employed ten (10) full-time employees and one (1) part-time employee. At June 30, 2003, the System employed ten (10) full-time employees and no part-time employees. Full-time employees are covered by the Retirement System. Upon retirement, benefits paid to Retirement System employees are considered to be administrative expenses of the System.

6. SECURITIES LENDING PROGRAM:

Under the "prudent person" authority of the governing statutes and in accordance with the policies set by the Board of Trustees, the System lends its securities to broker-dealers and banks pursuant to a form of loan agreement. The System's custodial bank is authorized to lend available securities to approved broker-dealers and banks subject to the receipt of acceptable collateral.

During the fiscal year, the System lent securities and received cash, securities insured or guaranteed by the U.S. government or its agencies, and irrevocable bank letters of credit as collateral. The System did not have the ability to pledge or sell collateral securities absent a borrower default. Borrowers were required to deliver collateral for each loan equal to: (1) in the case of loaned securities denominated in dollars or whose primary trading market was located in the United States, 102% of the market value of the loaned securities; and (2) in the case of loaned securities not denominated in US dollars or whose primary trading market was not located in the United States, 105% of the market value of the loaned securities.

The System did not impose any restrictions during the fiscal year on the amount of the loans that the custodial bank made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the year. There were no losses during the year resulting from a default of the borrowers or the custodial bank.

The System and borrowers maintained the right to terminate all securities lending transactions on demand. The average duration of cash collateral in a collective investment pool was unavailable as of the report date. Because the loans were terminable at will, their duration did not match the duration of the investments made with the cash collateral. On June 30, 2003 and 2002, the System had no credit risk exposure to borrowers.

For fiscal years ending June 30, 2003 and 2002, the System earned $129,258 and $98,402, respectively on the securities lending program.

7. RESTATEMENT OF PRIOR YEARS:

For the years ending June 30, 2002 and June 30, 2001 the System failed to record contributions receivable in the amounts of $3,181,458 and $3,348,688, respectively. The errors were a result of a misunderstanding of the State of Missouri's payroll cycle changes. As a result, the net assets held in trust for pension benefits were restated as follows:

	2002	2001
Net assets held in trust as originally stated	$1,268,238,497	$1,413,243,548
Add contributions receivable	3,181,458	3,348,688
Net Assets Held In Trust As Restated	$1,271,419,955	$1,416,592,236

SCHEDULE OF FUNDING PROGRESS [1]

REQUIRED SUPPLEMENTARY INFORMATION

Date of Valuation	Actuarial Asset Value (a)	Actuarial Accrued Liability (AAL)- Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
06/30/1994	$ 746,964,221	$ 1,204,313,635	$ 457,367,414	62.02%	$ 236,748,214	193.19%
06/30/1995	831,031,253	1,330,909,279	499,878,026	62.44	243,561,510	205.24
06/30/1996	916,553,828	1,429,910,844	513,357,016	64.10	254,712,739	201.54
06/30/1997	1,015,906,708	1,651,811,690	635,904,982	61.50	271,070,643	234.59
06/30/1998	1,126,961,804	1,744,052,411	617,090,607	64.62	278,690,426	221.43
06/30/1999[3]	1,242,744,403	2,052,700,427	809,956,023	60.54	288,068,083[2]	281.17
06/30/2000[4]	1,339,228,528	2,180,963,695	841,735,167	61.41	301,421,805[2]	279.25
06/30/2000[5]	1,422,796,011	2,188,826,322	766,030,311	65.00	301,421,805[2]	254.14
06/30/2001	1,520,800,409	2,301,402,527	780,602,118	66.08	323,400,023[2]	241.37
06/30/2002	1,450,507,432	2,358,452,163	907,944,731	61.50	308,654,239[2]	294.16
06/30/2003	1,363,952,522	2,418,145,741	1,054,193,219	56.40	319,345,949[2]	330.11

(1) *Since the Long-Term Disability (LTD) Plan uses the aggregate funding method, this schedule is not required for the LTD Plan and the assets and liabilities have been excluded.*

(2) *Estimated.*

(3) *Introduction of Year 2000 Plan; change in actuary.*

(4) *Old assumptions.*

(5) *New assumptions adopted.*

SCHEDULE OF EMPLOYER CONTRIBUTIONS [1] AND DEVELOPMENT OF NET PENSION OBLIGATIONS

REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2003

Uniformed

Fiscal Year Ending	Covered Payroll	Actual Employer Contributions	Actual Employer Contribution %	Annual Required Contribution (ARC)%	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
06/30/1994	$ 32,715,429	$ 9,739,383	29.77%	29.77%	$ 9,739,383	100.00%	0
06/30/1995	35,232,287	14,462,854	41.05	41.05	14,462,854	100.00	0
06/30/1996	39,557,621	15,743,114	39.17 (3)	39.17	15,743,114	100.00	0
06/30/1997	42,242,106	16,546,233	39.17	39.17	16,546,233	100.00	0
06/30/1998	43,987,039	16,600,708	37.74	37.74	16,600,708	100.00	0
06/30/1999 (4)	43,882,573 (2)	13,901,999	31.68	31.68	13,901,999	100.00	0
06/30/2000 (5)	44,297,237 (2)	13,484,079	30.44	30.44	13,484,079	100.00	0
06/30/2001	50,088,675 (2)	17,500,983	34.94	34.94	17,500,983	100.00	0
06/30/2002	47,681,511 (2)	16,659,920	34.94	34.94 (6)	16,659,920	100.00	0
06/30/2003	48,172,519 (2)	16,831,478	34.94	34.94 (6)	16,831,478	100.00	0

(1) *Contributions for the Long-Term Disability Plan are de minimus and are excluded from this schedule.*
(2) *Estimated.*
(3) *41.05% 7/1/95-10/31/95 & 39.17% 11/1/95-6/30/96*
(4) *Introduction of Year 2000 Plan; change in actuary.*
(5) *New assumptions adopted.*
(6) *The ARC is the rate adopted by the Retirement System, the actuarially calculated rate was 32.93%.*

Non-Uniformed

Fiscal Year Ending	Covered Payroll	Actual Employer Contributions	Actual Employer Contribution %	Annual Required Contribution (ARC)%	Annual Pension cost (APC)	Percentage of APC Contributed	Net Pension Obligation
06/30/1994	$ 204,032,785	$ 40,949,380	20.07%	20.07%	$ 40,949,380	100.00%	0
06/30/1995	208,329,222	56,144,725	26.95	26.95	56,144,725	100.00	0
06/30/1996	215,155,118	56,842,321	26.15 (3)	26.15	56,842,321	100.00	0
06/30/1997	228,828,537	59,838,662	26.15	26.15	59,838,662	100.00	0
06/30/1998	234,703,387	61,140,232	26.05	26.05	61,140,232	100.00	0
06/30/1999 (4)	244,185,511 (2)	54,990,577	22.52	22.52	54,990,577	100.00	0
06/30/2000 (5)	257,124,568 (2)	56,567,405	22.00	22.00	56,567,405	100.00	0
06/30/2001	273,311,348 (2)	63,654,213	23.29	23.29	63,654,213	100.00	0
06/30/2002	260,972,726 (2)	60,780,548	23.29	23.29 (6)	60,780,548	100.00	0
06/30/2003	271,173,431 (2)	63,156,292	23.29	23.29 (6)	63,156,292	100.00	0

(1) *Contributions for the Long-Term Disability Plan are de minimus and are excluded from this schedule.*
(2) *Estimated.*
(3) *26.95% 7/1/95-10/31/95 & 26.15% 11/1/95-6/30/96*
(4) *Introduction of Year 2000 Plan; change in actuary.*
(5) *New assumptions adopted.*
(6) *The ARC is the rate adopted by the Retirement System, the actuarially calculated rate was 22.60%.*

NOTES TO THE SCHEDULES OF TREND INFORMATION

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation Date .... June 30, 2003
Actuarial Cost Method .... Entry Age Normal
Amortization Method .... Level Percent, Closed
Remaining Amortization Period .... 33 Years
Asset Valuation Method .... 3-Year Smoothed Market Average

Actuarial Assumptions:
Investment Rate of Return 8.25%
Projected Salary Increases .... 4.3% to 8.0%*
*Includes Inflation at 4.0%
Cost-of-living Adjustments 3.5%

SCHEDULE OF ADMINISTRATIVE EXPENSES

SUPPLEMENTARY INFORMATION
Year Ended June 30, 2003

	2003	2002
PERSONAL SERVICES		
Salary	$ 378,621	$ 320,267
Employee Fringe Benefits	156,568	162,170
Total Personal Services	535,189	482,437
PROFESSIONAL SERVICES		
Actuary	115,190	60,250
Information Systems	93,283	0
Audit	9,620	7,800
Insurance Consultant	5,225	4,125
Custodian Search	73,043	0
Government Consultant	15,000	15,000
Other	5,443	0
Total Professional Services	316,804	87,175
MISCELLANEOUS		
Agency Expense	262,723	559,721
Depreciation	28,099	6,893
Board & Staff Development	49,881	55,641
Office Supplies	55,778	26,030
Postage	50,540	62,438
Insurance Premium	2,782	343
Bank Service Charge	5,541	5,308
Building Expenses	91,226	3,529
Other	53,292	45,040
Total Miscellaneous	599,862	764,943
Total Administrative Expenses	$ 1,451,855	$ 1,334,555

SCHEDULE OF INVESTMENT EXPENSES

SUPPLEMENTARY INFORMATION
Year Ended June 30, 2003

	Assets Under Management at 6/30/03 (market value)	Fees Accrued During FY03
Investment Manager Fees:		
Alliance Capital	$104,797,485	$400,796
Artisan Partners	60,220,172	422,071
Northern Trust Company	235,527,637	19,930
Rockwood Capital Advisors	169,476,104	262,857
Rothschild Asset Management	89,764,362	484,392
United Missouri Bank of Kansas City, N.A.	404,773,859	281,478
Wachovia Timberland Investment Management	39,931,598	282,601
Wellington Management Company	135,690,125	543,256
Total Investment Manager Fees		$2,697,380
Other Investment Fees:		
Investment Consultant	N/A	$95,000
Investment Performance Service	N/A	9,000
Investment Custodian	N/A	93,988
Investment Expenses	N/A	116,285
Total Other Investment Fees		$314,273
Total Investment Expense		$3,011,653

Notes

Investment Section

In This Section

LETTER FROM CONSULTANT

Asset Consulting Group, Inc.
7700 Bonhomme Avenue, Suite 650
St. Louis, Missouri 63105

Mr. Norman Robinson
Executive Director
Highway and Transportation Employees'
and Highway Patrol Retirement System
P.O. Box 1930
Jefferson City, MO 65102-1930

September 30, 2003

Dear Mr. Robinson:

As we conclude the fiscal year ending June 30, 2003, we would like to summarize the overall performance of the Missouri Highway and Transportation Employees' and Highway Patrol Retirement System (HTEHPRS) investment portfolio.

As of June 30, 2003 the total investment portfolio had a market value of $1,237,513,221. Equities represented 61.1% of the total investment portfolio, with the balance of the portfolio being comprised of domestic fixed-income (34.1%), timber (3.2%) and cash equivalents (1.7%).

During the 12 months ending June 30, the Fund had a total return (including both income and price change) of 3.2%, compared to an overall pension fund median return of 4.1% over the same interval. By comparison, an allocation index consisting of unmanaged index returns comprising the same asset allocation as the overall Fund returned 3.0% over the same 12 months. During this interval, large cap US stocks posted meager returns in a difficult market environment, significantly lagging excellent returns from bonds. The S&P 500 posted a 0.3% return, compared to the Lehman Aggregate bond index at 10.4%. The Fund's domestic equity portfolio performed in line with the overall US stock market (0.3%, compared to the S&P 500 at 0.3%).

International equities lagged US equities during this 12 month period, with the MSCI EAFE index posting a return of –6.1%. The Fund's international equity manager significantly outpaced the EAFE index, however, with a return of 0.0%.

The Fund's fixed income allocation is diversified among different styles, ranging from limited duration to core duration. In general, the overall fixed income composite posted returns of 9.7%, compared to index returns for intermediate bonds at 8.7% and core duration bonds at 10.4%. Performance for the limited duration portfolios over the past 12 months ranged from 6.8% to 9.6%, whereas the core duration bond manager posted a 12-month return of 8.0%, lagging the Lehman Aggregate bond index at 10.4%.

Overall Fund returns for the trailing 3 and 5 year periods ending June 30 were –2.1% and 1.9%, respectively, on an annualized basis. These returns lag the median returns of other pension funds (-0.9% and 3.3%, respectively over the 3 and 5 year intervals).

We appreciate the opportunity to be of service to the Missouri HTEHPRS and look forward to working with you and your colleagues.

Sincerely,

Randall L. Kirkland, CFA
Managing Director
Asset Consulting Group, Inc.

INVESTMENT SUMMARY

Year Ended June 30, 2003

	06/30/02 Book Value	06/30/02 Market Value	Acquisitions	Dispositions	06/30/03 Book Value	06/30/03 Market Value	% of Market
Fixed Income							
US Govt and Agencies	$ 268,020,999	$ 277,781,135	$ 167,628,308	$ (243,564,711)	$ 192,084,596	$ 193,723,491	16%
Corporate Bonds	108,957,980	109,618,851	38,579,307	(65,344,957)	82,192,330	90,032,457	7%
FHA Mortgages	32,316,374	32,316,374	143,820,884	(50,021,120)	126,116,138	131,333,243	11%
	409,295,353	419,716,360	350,028,499	(358,930,788)	400,393,064	415,089,191	34%
Equity							
Common Stock	814,952,986	753,881,954	499,057,865	(618,043,830)	695,967,021	752,928,368	61%
Preferred Stock	0	0	2,092,984	0	2,092,984	2,035,000	0%
	814,952,986	753,881,954	501,150,849	(618,043,830)	698,060,005	754,963,368	61%
Short Term	53,032,326	53,408,293	239,224,234	(264,616,362)	27,640,198	27,670,329	2%
Timber	30,000,000	36,085,257	0	(984,132)	29,015,868	39,790,333	3%
Total Investments	$1,307,280,665	$1,263,091,864	$1,090,403,581	$(1,242,575,112)	$1,155,109,134	$1,237,513,221	100%

Reconciliation to Statement of Plan Net Assets:

Less Accrued Income	(4,893,063)
Less Deferred Interest Purchased	(91,559)
Less Investment Sales Receivable	(13,203,330)
Plus Investment Purchases Payable	20,848,876
Plus Accruals on Pending Transactions	7,199
	$1,240,181,344

TIME WEIGHTED PERCENTAGE RATES OF RETURN

Year Ended June 30, 2003

Long-Term Averages

	1 Year	3 Years	5 Years
Total Fund	**3.20%**	**-2.08%**	**1.85%**
Equity	0.23	-9.86	-3.08
Fixed Income	8.23	8.90	7.15
Timber	0.25	4.36	N/A
Cash	1.20	2.93	3.02

LARGEST INVESTMENT HOLDINGS

Year Ended June 30, 2003

Largest Equity Securities

Shares	Security	Market Value
288,500	CITIGROUP INC.	$12,347,800
139,000	ADR CANON INC	6,345,350
185,000	PFIZER INC	6,317,750
167,700	EXXON MOBIL CORP.	6,022,107
226,200	MICROSOFT CORP. COM	5,792,982
97,400	AMERICAN INTERNATIONAL GROUP INC	5,374,532
110,400	MERRILL LYNCH & CO. INC.	5,153,472
301,800	ADR NOKIA CORP	4,958,574
63,800	ADR TOTAL SA	4,836,040
221,900	MBNA CORP	4,624,396

Largest Fixed Income Securities

Par	Security	Market Value
13,000,000	US TREAS NTS 6.5 DUE 08-15-2005	$14,407,119.61
11,700,000	US TREAS NTS DTD 08-31-02 2.125 DUE 08-31-2004	11,844,612.00
11,500,000	US TREAS NTS NT 1.25 DUE 05-31-2005	11,494,134.65
7,700,000	US TREAS NTS DTD 1.5 DUE 02-28-2005	7,737,498.38
5,850,000	FHLMC DEB 6.25 07-15-2004	6,159,055.32
5,370,000	US TREAS NTS 5.75 DUE 11-15-2005	5,911,134.68
5,775,000	US TREAS NTS DTD 11-30-2002 2 DUE 11-30-2004	5,844,415.26
5,000,000	US TREAS NTS 5 DUE 08-15-2011	5,608,850.10
5,300,000	FNMA PREASSIGN 00244 4.75 02-21-2013/02-21-2006	5,444,849.10
4,200,000	US TREAS NTS 6.5 DUE 05-15-2005	4,606,896.46

Space and cost restrictions make it impractical to print the entire investment portfolio in this report. However, a portfolio listing is available for review in the office of the Executive Director of the Highway and Transportation Employees' and Highway Patrol Retirement System.

SCHEDULE OF BROKERAGE COMMISSIONS

Investment Brokerage Firm	Units	Commission	Commission Rate
ABN AMRO INCORPORATED LLC	6,100	$305	$0.05
ABN AMRO SECS USA INC DTC 792	63,000	3,907	0.06
ACCESS SECURITIES, INC.	3,300	165	0.05
ADAMS HARKNESS & HILL INC.	13,100	634	0.05
ARCHIPELAGO BCC CAPITAL	272,000	4,691	0.02
ARCHIPELAGO BCC CAPITAL CLEAR	324,800	6,496	0.02
ARNHOLD & S BLEICHROEDER INC	3,900	195	0.05
AVALON RESEARCH GROUP INC.	4,000	200	0.05
B TRADE SERVICES	213,400	4,400	0.02
BAIRD, ROBERT W., & COMPANY INCORPORATED	171,800	8,736	0.05
BANC AMERICA SECUR. MONTGOMERY DIV.	699,500	34,599	0.05
BEAR STEARNS & CO INC.	769,300	36,166	0.05
BEAR, STEARNS SECURITIES CORP	1,400	70	0.05
BERNSTEIN, SANFORD C. & CO	109,000	5,554	0.05
BLAIR, WILLIAM & CO	14,600	604	0.04
BNY BROKERAGE INC.	400	20	0.05
BNY CLEARING SERVICES LLC	10,100	505	0.05
BNY ESI SECURITIES CO.	115,100	2,302	0.02
BOSTON INSTITUTIONAL SERVICES, INC.	4,000	280	0.07
BRIDGE TRADING COMPANY	69,700	2,190	0.03
BROADCORT CAP CORP./SUB OF MLPF & S	10,300	474	0.05
BROADCORT CAPITAL CORP	23,800	1,185	0.05
BROWN BROTHERS, HARRIMAN & CO NEW YORK	11,900	595	0.05
B-TRADE SERVICES LLC	211,200	5,070	0.02
BUCKINGHAM RESEARCH GROUP	48,700	2,628	0.05
BUTTLES CORP./EQUITY/BROADCORT CAP.C	10,400	520	0.05
C. L. GLAZER & COMPANY, INC.	21,400	1,070	0.05
CANTOR FITZGERALD & CO	247,500	4,681	0.02
CAPITAL INSTITUTIONAL SERVICES INC	9,830,104	6,652	0.00
CAPITAL INSTITUTIONAL SERV NEW YORK	138,628	5,690	0.04
CIBC WORLD MARKETS CORP	111,000	4,852	0.04
CIBC WORLD MARKETS CORP. NEW YORK	107,800	5,395	0.05
CITATION GROUP/BCC CLRG	36,300	1,815	0.05
CITIGROUP GLOBAL MARKETS INC.	789,900	30,468	0.04
CL KING & ASSOCIATES	36,600	1,831	0.05
COMMERZBANK CAPITAL MARKETS CORPORATION	10,700	535	0.05
CORRESPONDENT SERVICES CORPORATION	5,600	280	0.05
CREDIT LYONNAIS SECURITIES (USA) INC	6,900	295	0.04
CREDIT SUISSE FIRST BOSTON CORPORATION	819,150	40,337	0.05
D. A. DAVIDSON & CO. INC.	28,900	1,481	0.05
DAVIS, MENDEL & REGENSTEIN, INC.	3,300	165	0.05
DEMATTED MONNESS LLC	3,800	152	0.04
DEUTSCHE BANK SECURITIES INC	601,519	28,194	0.05
DIRECT BROKERAGE INC.	176,500	3,629	0.02
DONALDSON & CO. INCORPORATED	2,900	126	0.04
DONALDSON LUFKIN & JENRETTE SEC CORP	90,200	5,184	0.06
DOUGHERTY COMPANY	17,800	890	0.05
DOWLING & PARTNERS SECURITIES LLC	34,300	1,380	0.04
DRESDNER KLEINWORT WASSERSTEIN SEC.	16,000	800	0.05
EDWARDS, A.G., & SONS, INC.	105,400	3,541	0.03
EDWARDS, A.G.	58,700	2,852	0.05
ERNST AND COMPANY	600	18	0.03
FACTSET DATA SYSTEMS	27,600	1,292	0.05
FACTSET DATA SYSTEMS (THRU BEAR STEARNS)	39,300	1,859	0.05
FIRST ALBANY CORPORATION	27,800	1,390	0.05
FIRST ANALYSIS SECURITIES CORP	16,200	707	0.04
FIRST CLEARING CORP	14,200	516	0.04
FIRST CLEARNG LLC	28,600	858	0.03
FIRST TENNESSEE SECURITIES CORP.	15,100	755	0.05
FISERV SECURITIES, INC.	6,900	345	0.05

SCHEDULE OF BROKERAGE COMMISSIONS
(continued)

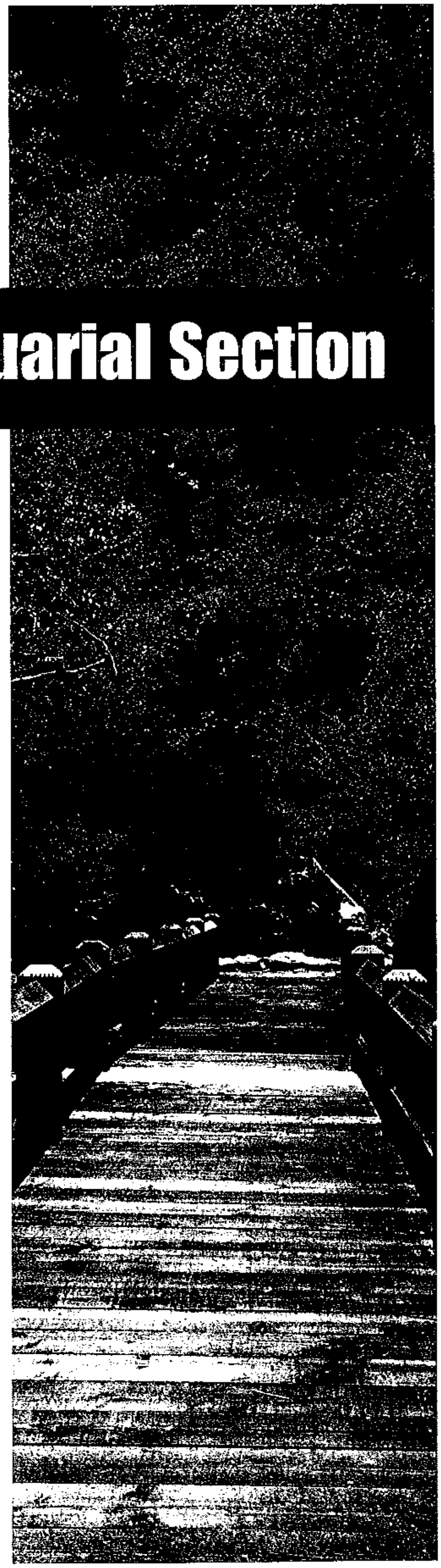
Investment Brokerage Firm	Units	Commission	Commission Rate
FOX PITT KELTON	79,900	3,977	0.05
FRIEDMAN BILLING AND RAMSEY	14,200	626	0.04
FULCRUM GLOBAL PARTNERS LLC	26,202	2,815	0.11
GERARD KLAIDER MATTISON & COMPANY	8,700	367	0.04
GOLDMAN SACHS & COMPANY	1,459,681	93,683	0.06
HARRIS NESBITT GERARD INC.	22,000	863	0.04
HEFLIN & CO, LLC	123,100	2,980	0.02
HENDERSON BROTHERS, INC.	9,900	146	0.01
HOENIG & COMPANY INC.	6,900	345	0.05
HOWARD WEIL DIVISION - LEGG MASON	167,400	4,001	0.02
INSTINET	59,100	1,076	0.02
INVESTEC ERNST & COMPANY	16,200	776	0.05
INVESTMENT TECHNOLOGY GROUP INC	375,201	6,227	0.02
ISI GROUP INC.	49,700	2,485	0.05
J.P. MORGAN SECURITIES INC	482,490	24,427	0.05
JACKSON PARTNERS & ASSOCIATES, INC.	17,200	865	0.05
JANNEY MONTGOMERY SCOTT	52,500	2,625	0.05
JEFFERIES & COMPANY	492,300	16,295	0.03
JOHNSON RICE & CO.	39,600	1,980	0.05
JONES & ASSOCIATES	240,800	10,247	0.04
KALB VOORHIS & CO	30,500	915	0.03
KEEFE BRUYETTE AND WOODS INC.	25,654	948	0.04
KELCOP FINANCIAL INC	3,900	142	0.04
KING, CL, & ASSOCIATES INC.	11,300	565	0.05
KINNARD JOHN G. & COMPANY	4,300	215	0.05
KNIGHT EQUITY MARKETS, L.P.	26,500	826	0.03
KNIGHT SECURITIES L.P.	43,100	1,569	0.04
KV EXECUTION SERVICES LLC	19,300	421	0.02
LA BRANCHE FINANCIAL #2	77,800	1,023	0.01
LA BRANCHE FINANCIAL SERVICES, INC.	95,400	2,548	0.03
LAZARD FRERES & CO.	43,300	13,516	0.31
LEERINK SWANN & CO./IPO	11,100	548	0.05
LEGG MASON WOOD WALKER INC	55,000	2,556	0.05
LEHMAN BROTHERS INC	1,102,831	54,502	0.05
LYNCH JONES & RYAN	342,750	15,471	0.05
MAXUS CORP	14,247	712	0.05
MCDONALD AND COMPANY	141,232	5,033	0.04
MERRILL LYNCH CAPITAL MARKETS	25,569	1,514	0.06
MERRILL LYNCH INTER NEW YK DTC 161	93,900	2,817	0.03
MERRILL LYNCH INTERNATIONAL LONDON	85,540	5,199	0.06
MERRILL LYNCH INTL LTD EQUITIES	48,158	6,502	0.14
MERRILL LYNCH PIERCE FENNER & SMITH	2,119,886	94,121	0.04
MERRILL LYNCH PROFESSIONAL CLEARING	5,700	229	0.04
MERRILL LYNCH(MLPFS INT) NEW YORK	34,651	1,920	0.06
MERRILL PROFESSIONAL CLEARING CORP.	36,100	1,805	0.05
MIDWEST RESEARCH SECURITIES	17,400	859	0.05
MILLER TABAK + COMPANY, LLC	7,500	375	0.05
MILLER TABAK HIRSCH	19,800	803	0.04
MONNESS CRESPI AND HARDT CO INC	10,800	496	0.05
MOORS & CABOT,INC./IPO TRACKING	232,350	6,253	0.03
MORGAN KEEGAN & COMPANY INC.	91,500	4,495	0.05
MORGAN STANLEY & CO INC. NEW YORK	549,800	26,419	0.05
MORGAN STANLEY & CO. INCORPORATED	743,200	32,393	0.04
NATIONAL FINANCIAL SERVICES	8,900	267	0.03
NBC CLEARING SERVICE TWO	8,600	430	0.05
NEEDHAM & COMPANY	29,100	1,328	0.05
NEUBERGER AND BERMAN	8,000	400	0.05
OTA LLC	700	35	0.05
PACIFIC CREST SECURITES	2,540	289	0.11
PACIFIC GROWTH EQUITIES	3,700	185	0.05
PALI CAPITAL, LLC	6,300	225	0.04

SCHEDULE OF BROKERAGE COMMISSIONS
(continued)

Investment Brokerage Firm	Units	Commission	Commission Rate
PARIBAS CORPORATION	82,597	1,398	0.02
PCS SECURITIES INC	33,400	1,670	0.05
PERCIVAL FINANCIAL PARTNERS, LTD	4,100	205	0.05
PERSHING LLC	11,900	595	0.05
PERSHING LLC FORMERLY DLJ	187,350	9,925	0.05
PRECURSOR GROUP	11,100	555	0.05
PXP SECURITIES CORP	519,900	25,222	0.05
RAYMOND JAMES	69,400	3,357	0.05
RAYMOND JAMES & ASSOCIATES INC.	72,700	2,558	0.04
RBC DAIN RAUSCHER	172,550	8,545	0.05
REFCO SECURITIES INC	3,900	195	0.05
REYNDERS, GRAY & CO.,INCORPORATED	1,800	90	0.05
ROBERT W. BAIRD & COMPANY INC MILWAUKEE USA	142,075	6,868	0.05
SANDLER O'NEILL & PARTNER	37,500	1,830	0.05
SANFORD C. BERNSTEIN & CO., LLC	217,600	10,353	0.05
SCHWAB, CHARLES	46,200	694	0.02
SCOTT & STRINGFELLOW INVESTMENT	104,300	4,680	0.04
SG COWEN AND COMPANY	156,700	7,847	0.05
SG COWEN SECURITIES CORP.	261,500	6,918	0.03
SIDOTI AND COMPANY LLC	26,500	1,325	0.05
SIMMONS & CO - NEW YORK	50,600	1,518	0.03
SMITH BARNEY INC	421,465	21,160	0.05
SOUNDVIEW FINANCIAL GROUP	248,000	8,220	0.03
SOUNDVIEW TECHNOLOGY GROUP INC.	225,700	8,091	0.04
SOUTHWEST SECURITIES INC	5,000	225	0.05
SPEAR LEEDS AND KELLOGG	74,200	1,187	0.02
STANDARD & POORS SECURITIES INC	112,500	5,207	0.05
STATE STREET GLOBAL MARKETS, LLC	25,800	692	0.03
STATE STREET BROKERAGE SVCS	1,500	45	0.03
STEPHENS INC	54,200	2,710	0.05
STIFEL, NICOLAUS & CO.,INC.	2,800	140	0.05
SUNTRUST CAPITAL MARKETS, INC.	58,950	3,088	0.05
SUNTRUST ROBINSON HUMPHREY	12,800	631	0.05
SUSQUEHANA INC	1,100	44	0.04
THINKEQUITY PARTNERS LLC	800	16	0.02
THOMAS WEISEL PARTNERS LLC	311,901	15,616	0.05
THOMSON INSTITUTINAL SERVICES, INC.	7,300	365	0.05
U.S. BANCORP PIPER JAFFRAY INC	155,100	7,207	0.05
UBS FINANCIAL SERVICES INC.	15,315	825	0.05
UBS SECURITIES LLC	608,736	26,829	0.04
UBS SECURITIES LLC NEW YORK	641,900	27,069	0.04
UBS WARBURG LLC	120,350	5,799	0.05
US CLEARING INSTITUTIONAL TRADING	49,600	2,480	0.05
VANDHAM SECURITIES CORP	311,200	9,336	0.03
VERITAS SECURITIES	42,900	1,287	0.03
WACHOVIA CAPITAL MARKETS, LLC	210,600	10,929	0.05
WACHOVIA CAPITAL MARKETS 46171	137,700	6,470	0.05
WACHOVIA SECURITIES LLC	265,300	12,731	0.05
WAVE SECURITIES LLC	4,100	83	0.02
WEDBUSH MORGAN SECURITIES, INC	9,100	385	0.04
WEEDEN AND & CO	133,600	4,691	0.04
WELLS FARGO SECURITIES LLC	27,400	1,519	0.06
WELLS FARGO VAN KASPER, LLC	2,400	144	0.06
WEXFORD CLEARING SERVICES	54,800	1,288	0.02
WILLIAM BLAIR & COMPANY,L.L.C.	20,300	1,015	0.05
WILSHIRE ASSOCIATES INCORPORATED	524,255	14,263	0.03
TOTAL	33,755,326	$1,048,329	$0.03

Notes

Actuarial Section



In This Section

ACTUARY'S CERTIFICATION LETTER

GABRIEL, ROEDER, SMITH & COMPANY
Consultants & Actuaries
One Towne Square • Suite 800 • Southfield, Michigan 48076 • 248-799-9000 • 800-521-0498 • fax 248-799-9020

April 8, 2004

The Retirement Board
Highway and Transportation Employees
and Highway Patrol Retirement System
P.O Box 1930
Jefferson City, Missouri 65102-1930

Dear Board Members:

The basic financial objective of the Highway and Transportation Employees and Highway Patrol Retirement System (HTEHPRS) is to establish and receive contributions which

(1) when expressed in terms of percents of active member payroll will remain approximately level from generation to generation of Missouri citizens, and which
(2) when combined with present assets and future investment return will be sufficient to meet the present and future financial obligations of HTEHPRS.

In order to measure progress toward this fundamental objective, HTEHPRS has annual actuarial valuations performed. The valuations (i) measure present financial position, and (ii) establish contribution rates that provide for the current cost and level percent-of-payroll amortization of unfunded actuarial accrued liabilities over a reasonable period. An actuarial valuation was performed based upon benefit conditions, data and assumptions as of June 30, 2003. This valuation indicates that contribution rates for the period beginning July 1, 2004 that equal or exceed the calculated contribution rates will meet the Board's financial objective. The calculated contribution rates are 28.28% of payroll for the 7,819 Non-Uniformed employees and 43.54% of payroll for the 1,073 Uniformed patrol employees.

The actuarial valuations are based upon financial and participant data which is prepared by retirement system staff, assumptions regarding future rates of investment return and inflation, and rates of retirement, turnover, death, and disability among HTEHPRS' members and their beneficiaries. We review the data for internal and year-to-year consistency as well as general reasonableness prior to its use in the actuarial valuations. It is also summarized and tabulated for the purpose of analyzing trends. The assumptions were adopted by the Board of Trustees and were based upon actual experience of HTEHPRS during the period July 1, 1994 to June 30, 1999. Assets were valued using a three-year smoothing method. The assumptions and methods utilized in this valuation, in our opinion, meet the parameters established by Governmental Accounting Standards Board Statement No. 25.

The current benefit structure is outlined in the introductory section. We provided the information used in the supporting schedules in the actuarial section and the Schedules of Funding Progress in the financial section, as well as the employer contribution rates shown in the Schedule of Employer Contributions in the financial section.

Based upon the valuation results, it is our opinion that the Highway and Transportation Employees' and Highway Patrol Retirement System for the State of Missouri continues to be in sound condition in accordance with actuarial principles of level percent-of-payroll financing. However, a return to a more normal investment market is important for the Retirement System.

Respectfully submitted,

Brian B. Murphy

Brian B. Murphy, F.S.A.
Senior Consultant & Actuary

Kenneth G. Alberts

Kenneth G. Alberts
Consultant

BBM:lz:lr

SUMMARY OF ACTUARIAL METHODS AND ASSUMPTIONS

METHODS

Asset Valuation Method

Valuation assets were determined using a three-year smoothed market average. This method recognizes assumed investment return fully each year. Differences between actual and assumed investment return are phased in over a closed three-year period.

Actuarial Cost Method

The Entry Age Normal actuarial cost method was used for determining liabilities and normal cost. Normal costs were computed as a level percent of pay and were based on the Year 2000 Plan. Unfunded Actuarial Accrued Liabilities were amortized as a level percent of payroll over 33 years. For this purpose, covered payroll is assumed to increase 4% per year. Continued yearly reductions in the amortization period will result in a 30-year period being used for the June 30, 2006 valuation. This is consistent with GASB amortization period requirements.

ASSUMPTIONS

Interest Rate:	8.25% per annum, net of administrative fees.
Administrative Expenses:	0.46% of payroll, based upon actual results from previous year.
Surviving Spouses:	90% of employees dying in-service will have an eligible beneficiary.
Post-Retirement Benefit Increases:	The annual Consumer Price Index is assumed to be 3.5%.
Applicable Disability Benefit:	All future disability benefits will be paid by the external disability insurance carrier. Benefits payable after the termination of disability benefits (such as benefits payable after conversion to normal retirement or benefits payable to survivors of disabled retirees) will be paid by the retirement system.
Mortality:	Rates used in evaluating allowances to be paid to non-disabled pensioners were the 1971 Group Annuity Mortality (GAM) tables projected to the year 2000 set back one year for males and seven years for females. Pre-retirement mortality used was 50% of the 71GAM2000 tables set back one year for males and seven years for females. Disabled pension mortality was based on PBGC Disabled Mortality tables.

SUMMARY OF ACTUARIAL METHODS AND ASSUMPTIONS

Salary Increase Assumptions for an Individual Member

	Non-Uniformed			Uniformed		
Age	Merit & Seniority	Base (Economic)	Increase Next Year	Merit & Seniority	Base (Economic)	Increase Next Year
20	3.00%	4.00%	7.00%	4.00%	4.00%	8.00%
25	3.00	4.00	7.00	3.50	4.00	7.50
30	2.85	4.00	6.85	2.60	4.00	6.60
35	2.20	4.00	6.20	1.70	4.00	5.70
40	1.70	4.00	5.70	0.90	4.00	4.90
45	1.30	4.00	5.30	0.40	4.00	4.40
50	0.80	4.00	4.80	0.30	4.00	4.30
55	0.60	4.00	4.60	0.30	4.00	4.30
60	0.30	4.00	4.30	0.30	4.00	4.30

Severance Assumptions
Annual Terminations Per 100 Employees

	Less Than 5 Years of Service		More Than 5 Years of Service	
	Service	Number Terminating	Sample Age	Number Terminating
Non-Uniformed Males	0-1	20	25	4.0
	1-2	10	35	2.5
	2-3	7	45	1.3
	3-4	6	55	0.4
	4-5	5		
Non-Uniformed Females	0-1	16	25	5.5
	1-2	9	35	4.6
	2-3	8	45	3.0
	3-4	7	55	1.4
	4-5	6	-	-
Uniformed Patrol	0-1	5	25	2.5
	1-2	4	35	1.4
	2-3	3	45	0.9
	3-4	2	55	0.2
	4-5	2		

SUMMARY OF ACTUARIAL METHODS AND ASSUMPTIONS

Retirement Assumptions
Percents of Eligible Members Retiring Within Next Year

Retirement	Non-Uniformed		Uniformed
Age	Male	Female	All
50	12 %	12 %	50 %
51	12	12	20
52	12	12	25
53	12	12	15
54	12	12	25
55	12	12	30
56	12	12	30
57	12	12	30
58	12	15	30
59	12	15	30
60	16	10	100
61	18	10	
62	50	50	
63	40	15	
64	30	15	
65	40	50	
66	35	50	
67	35	50	
68	35	50	
69	35	50	
70	100	100	

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Actuarial Valuation Date	Number	Covered Payroll	Average Pay	% Change in Average Pay from Prior Year
06/30/1994	8,849	$242,864,780	$27,445	0.6%
06/30/1995	8,904	250,529,253	28,137	2.5
06/30/1996	9,023	264,196,115	29,280	4.1
06/30/1997	8,997	280,209,116	31,145	6.4
06/30/1998	8,871	284,889,796	32,115	3.1
06/30/1999	9,140	298,673,247	32,678	1.8
06/30/2000	9,171	312,532,009	34,078	4.3
06/30/2001	9,087	327,049,257	35,991	5.6
06/30/2002	8,695	312,747,492	35,969	(0.1)
06/30/2003	8,895	318,744,193	35,846	(0.3)
			Ten Year Average	**2.8%**

SUMMARY OF PLAN PROVISIONS*

As of June 30, 2003

Comparison of the Closed Plan and the Year 2000 Plan

Plan Provision	Closed Plan	Year 2000 Plan
Membership Eligibility	Members who work in a position normally requiring at least 1,000 hours of work a year.	Members hired for the first time on or after July 1, 2000, in a position requiring at least 1,000 hours of work a year. Members who left state employment prior to becoming vested and return to work on or after July 1, 2000, in a position normally requiring at least 1,000 hours of work a year.
Normal Retirement Eligibility	Age 65 & active with 4 years of service. Age 65 with 5 years of service. Age 60 with 15 years of service. "Rule of 80"/minimum age 50. Age 55 with 4 years of service. (uniformed members only)	Age 62 with 5 years of service. "Rule of 80"/minimum age 50. Age 60 (mandatory with 5 years of service -uniformed members only).
Early Retirement Eligibility	Age 55 with 10 years of creditable service.	Age 57 with 5 years creditable service.
Benefit Life Benefit	1.6% x FAP** x service (Base benefit is increased by 33 1/3% for uniformed patrol members only.)	1.7% x FAP** x service
Temporary Benefit	Not available.	0.8% x FAP** x service (until age 62 - only if retiring under "Rule of 80").
Vesting	5 years of service.	5 years of service.
COLA (Cost-of-Living Adjustment)	If hired before August 28, 1997, annual COLA is a minimum of 4%, maximum 5%, based on 80% of the increase in the CPI-U over the previous year, up to a maximum of 65% of original benefit. After 65% cap is reached, annual COLA increases will be equal to 80% of the change in the CPI-U, with a maximum of 5%. If hired after the above date, annual COLAs will be equal to 80% of the increase in the CPI-U, maximum 5%, with no guaranteed minimum.	Annual COLA is equal to 80% of the change in the CPI-U with a maximum rate of 5%.
Survivor Benefit **(Death before retirement)** Non duty-related Death	Survivor benefit to eligible spouse calculated using the Joint and 100% survivor option or 80% of the member's life income annuity paid to eligible children. If at least 3, but less than 5, years of service the survivor benefit is calculated using 25% of the member's base benefit calculated as if the member retired on their date of death.	Survivor benefit to eligible spouse calculated using the Joint & 100% survivor option or 80% of the member's life income annuity paid to eligible children.
Duty-related Death	Survivor benefit to eligible spouse or children equal to 50% of final average pay (no service requirement).	Survivor benefit to eligible spouse or children equal to 50% of final average pay (no service requirement).
Optional Forms of Payment **(Death after retirement)**	Survivor benefit to eligible spouse based on payment option elected at retirement. Payment options include: Life Income Annuity Unreduced Joint & 50% Survivor Joint & 100% Survivor 60 or 120 Guaranteed Payments BackDROP	Survivor benefit to eligible spouse based on payment option elected at retirement. Payment options include: Life Income Annuity Joint & 50% Survivor Joint & 100% Survivor 120 or 180 Guaranteed Payments BackDROP
Disability	Long-Term Disability, Work-Related and Normal Disability	Long-Term Disability and Work-Related Disability

* This summary describes the plan provisions of the Revised Statutes of Missouri (RSMo.), as amended, that governed the programs, which HTEHPRS administered during the period covered by this report. It does not overrule any applicable statute or administrative rule and, in the event of a conflict, the applicable statute or rule would apply. The Year 2000 Plan is effective July 1, 2000.

** Final Average Pay - highest 36 consecutive months of pay.

LEGISLATIVE CHANGES

On June 10, 2003, Governor Bob Holden signed into law Senate Bill 248 which contained several provisions affecting our retirement system.

Retirement Incentive

Active employees who first qualified for normal retirement between October 1, 2003, and January 1, 2004, are considered eligible for normal retirement during the incentive period (with no adjustment for retiring early). These members are considered to have satisfied the eligibility requirement for normal retirement. The calculation of the retirement benefit is based only on the actual service credit at the date of retirement. Active employees who meet the eligibility requirements for the BackDROP between October 1, 2003, and January 1, 2004, are able to retire during the incentive period and qualify for the BackDROP amount accrued up to the date of actual retirement.

Minimum Age 48 for Rule of 80

Senate Bill 248 also contains provisions that lower the minimum age for Rule of 80 from age 50 to age 48.

Subsidized Purchase of Service - Uniformed Patrol

This provision of Senate Bill 248 allows uniformed members, who have full-time non-federal public employment to purchase this additional service credit at a reduced rate. The member must purchase all of his or her creditable service not to exceed four years. The calculation used to determine the cost of purchase will be the same as a military purchase. The member is responsible for providing the retirement system the required verification of the service and the purchase must be made prior to the effective date of the retirement.

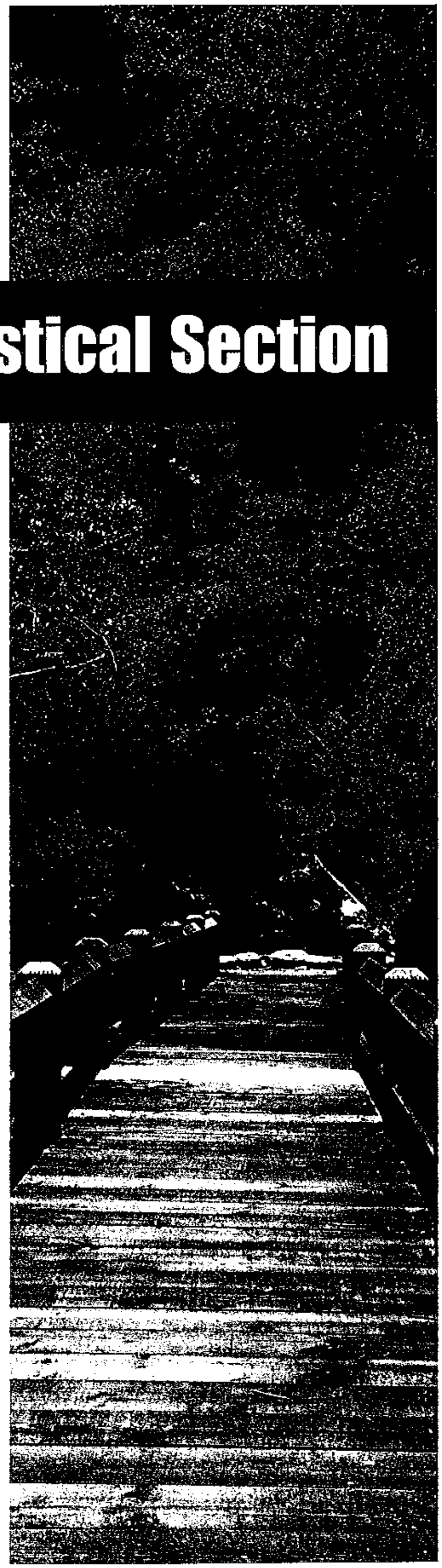
Transfer of Service - Certain Public Safety Employees

Another provision found in Senate Bill 248 allows employees of the Division of Public Safety, who are transferred to the Missouri Department of Transportation (MoDOT) by virtue of executive order 03-05, the option of electing to remain in MOSERS or transferring their service to the HTEHPRS. For an employee who elects to transfer their service to HTEHPRS, MOSERS will be required to pay to HTEHPRS an amount actuarially determined to equal the liability at the time of transfer to the extent that liability is funded as of the most recent actuarial valuation not to exceed 100%.

Administrative Changes

The legislation contains provisions that involve minor modifications to and clarifications of the Closed Plan and the Year 2000 Plan. These changes enable HTEHPRS to more effectively administer the benefit provisions of the retirement system.

Statistical Section



In This Section

ACTIVE MEMBER DATA

BY AGE

Age	Total	Department of Transportation	Civilian Patrol	Uniformed Patrol	Retirement System
< 21	52	47	5	-	-
21-25	508	384	51	72	1
26-30	917	635	107	175	-
31-35	1,253	861	106	283	3
36-40	1,419	1,057	162	199	1
41-45	1,601	1,281	188	131	1
46-50	1,458	1,126	199	131	2
51-55	1,018	778	169	71	-
56-60	501	405	80	14	2
61-65	144	124	20	-	-
>65	24	18	6	-	-
Total	**8,895**	**6,716**	**1,093**	**1,076**	**10**
Average Age		**42**	**43**	**37**	**42**

BY YEARS OF SERVICE

Years of Service	Total	Department of Transportation	Civilian Patrol	Uniformed Patrol	Retirement System
< 1	940	753	104	82	1
1-5	2,087	1,651	272	162	2
6-10	1,845	1,263	229	352	1
11-15	1,235	951	134	149	1
16-20	1,207	939	136	131	1
21-25	718	541	97	78	2
26-30	590	413	86	90	1
31-35	200	142	29	29	-
36-40	62	52	6	3	1
41-45	11	11	-	-	-
Total	**8,895**	**6,716**	**1,093**	**1,076**	**10**
Average Service		**11**	**11**	**12**	**16**

TERMINATED VESTED MEMBER DATA

BY AGE

Age	Total	Department of Transportation	Civilian Patrol	Uniformed Patrol
< 21	-	-	-	-
21-25	-	-	-	-
26-30	41	30	7	4
31-35	183	122	22	39
36-40	258	200	30	28
41-45	279	229	38	12
46-50	203	159	29	15
51-55	171	127	26	18
56-60	68	54	13	1
61-65	4	3	1	-
>65	-	-	-	-
Total	1,207	924	166	117
Average Age		43	44	40

BY YEARS OF SERVICE

Years of Service	Total	Department of Transportation	Civilian Patrol	Uniformed Patrol
<1	-	-	-	-
1-5	202	148	31	23
6-10	558	437	64	57
11-15	291	219	47	25
16-20	115	90	17	8
21-25	35	27	6	2
26-30	6	3	1	2
31-35	-	-	-	-
Total	1,207	924	166	117
Average Service		10	10	10

SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT

ALL MEMBERS

Amount of Monthly Benefit	Type of Benefit: Retirement Normal	Retirement Early	Disability Normal	Disability Long-Term	Survivor	Total Recipients
1-200	23	16	7	4	294	344
201-400	87	70	9	23	381	570
401-600	159	62	8	21	282	532
601-800	229	38	9	10	174	460
801-1000	241	17	6	8	124	396
1001-1200	275	9	6	6	94	390
1201-1400	275	7	10	5	63	360
1401-1600	320	7	8	2	51	388
1601-1800	311	3	5	-	51	370
1801-2000	305	1	3	-	34	343
2001-2200	306	2	-	1	32	341
2201-2400	298	-	2	-	29	329
2401-2600	223	1	1	-	24	249
2601-2800	213	-	-	-	18	231
2801-3000	194	-	1	-	21	216
>3000	999	-	-	-	38	1,037
TOTALS	**4,458**	**233**	**75**	**80**	**1,710**	**6,556***

MISSOURI DEPARTMENT OF TRANSPORTATION

Amount of Monthly Benefit	Type of Benefit: Retirement Normal	Retirement Early	Disability Normal	Disability Long-Term	Survivor	Total Recipients
1-200	19	12	7	1	275	314
201-400	65	58	9	23	355	510
401-600	127	55	8	16	260	466
601-800	197	33	9	10	148	397
801-1000	215	16	6	8	102	347
1001-1200	242	7	5	4	71	329
1201-1400	249	6	10	5	45	315
1401-1600	274	7	6	2	42	331
1601-1800	265	3	3	-	35	306
1801-2000	261	1	3	-	23	288
2001-2200	262	2	-	1	22	287
2201-2400	262	-	1	-	21	284
2401-2600	193	1	-	-	15	209
2601-2800	185	-	-	-	16	201
2801-3000	162	-	-	-	20	182
>3000	505	-	-	-	24	529
TOTALS	**3,483**	**201**	**67**	**70**	**1,474**	**5,295**

*** This number includes two retirement system staff retirees.**

SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT

CIVILIAN PATROL

Amount of Monthly Benefit	Type of Benefit: Retirement Normal	Retirement Early	Disability Normal	Disability Long-Term	Survivor	Total Recipients
1-200	3	4	-	3	17	27
201-400	18	12	-	-	15	45
401-600	24	7	-	5	14	50
601-800	30	5	-	-	10	45
801-1000	24	1	-	-	12	37
1001-1200	30	2	1	2	15	50
1201-1400	24	1	-	-	6	31
1401-1600	40	-	1	-	-	41
1601-1800	41	-	1	-	3	45
1801-2000	40	-	-	-	1	41
2001-2200	40	-	-	-	1	41
2201-2400	29	-	-	-	1	30
2401-2600	17	-	-	-	-	17
2601-2800	12	-	-	-	1	13
2801-3000	7	-	-	-	-	7
>3000	45	-	-	-	2	47
TOTALS	**424**	**32**	**3**	**10**	**98**	**567**

UNIFORMED PATROL

Amount of Monthly Benefit	Type of Benefit: Retirement Normal	Retirement Early	Disability Normal	Disability Long-Term	Survivor	Total Recipients
1-200	-	-	-	-	2	2
201-400	4	-	-	-	11	15
401-600	8	-	-	-	8	16
601-800	2	-	-	-	16	18
801-1000	2	-	-	-	10	12
1001-1200	3	-	-	-	8	11
1201-1400	2	-	-	-	12	14
1401-1600	6	-	1	-	9	16
1601-1800	5	-	1	-	13	19
1801-2000	4	-	-	-	10	14
2001-2200	4	-	-	-	9	13
2201-2400	7	-	1	-	7	15
2401-2600	12	-	1	-	9	22
2601-2800	16	-	-	-	1	17
2801-3000	25	-	1	-	1	27
>3000	449	-	-	-	12	461
TOTALS	**549**	-	**5**	-	**138**	**692**

SCHEDULE OF AVERAGE MONTHLY BENEFIT PAYMENTS

BY YEARS OF SERVICE

Retired In Fiscal Year		0-10	11-15	16-20	21-25	26-30	31-35	36-40	41+
				MISSOURI DEPARTMENT OF TRANSPORTATION					
1999	**Average Benefit**	**316**	**536**	**733**	**1,140**	**1,633**	**2,234**	**2,585**	**2,968**
	Current Retirees	1	7	15	19	38	37	40	23
2000	**Average Benefit**	**228**	**461**	**792**	**989**	**1,902**	**2,511**	**2,878**	**3,072**
	Current Retirees	2	10	14	17	53	70	57	40
2001	**Average Benefit**	**245**	**411**	**612**	**1,310**	**1,923**	**2,645**	**3,012**	**3,145**
	Current Retirees	22	27	34	35	80	158	69	26
2002	**Average Benefit**	**335**	**500**	**596**	**1,275**	**2,106**	**2,626**	**3,075**	**2,529**
	Current Retirees	1	16	14	34	58	65	32	20
2003	**Average Benefit**	**316**	**414**	**597**	**1,140**	**2,020**	**2,491**	**2,695**	**2,789**
	Current Retirees	16	11	12	23	49	42	31	16
				CIVILIAN PATROL					
1999	**Average Benefit**	**0**	**327**	**466**	**1,010**	**1,329**	**2,391**	**2,371**	**0**
	Current Retirees	0	4	1	3	2	11	7	0
2000	**Average Benefit**	**256**	**528**	**648**	**1,177**	**1,715**	**2,523**	**2,874**	**2,050**
	Current Retirees	2	1	3	5	6	9	6	2
2001	**Average Benefit**	**720**	**508**	**700**	**1,283**	**1,939**	**2,381**	**3,020**	**3,035**
	Current Retirees	6	1	1	4	14	22	10	2
2002	**Average Benefit**	**169**	**277**	**807**	**1,187**	**1,901**	**2,387**	**2,250**	**0**
	Current Retirees	2	5	1	5	7	5	5	0
2003	**Average Benefit**	**326**	**362**	**544**	**1,310**	**1,908**	**1,961**	**2,467**	**1,919**
	Current Retirees	3	4	3	3	10	15	3	4
				UNIFORMED PATROL					
1999	**Average Benefit**	**0**	**414**	**0**	**1,655**	**3,249**	**3,935**	**4,247**	**0**
	Current Retirees	0	1	0	1	11	30	5	0
2000	**Average Benefit**	**0**	**594**	**0**	**1,742**	**3,550**	**3,863**	**4,282**	**0**
	Current Retirees	0	1	0	2	2	15	8	0
2001	**Average Benefit**	**0**	**468**	**0**	**1,306**	**2,732**	**3,809**	**4,397**	**4,837**
	Current Retirees	0	3	0	2	7	11	5	1
2002	**Average Benefit**	**0**	**597**	**1,423**	**2,731**	**3,222**	**3,810**	**4,159**	**5,385**
	Current Retirees	0	1	1	1	9	12	10	1
2003	**Average Benefit**	**313**	**405**	**0**	**1,745**	**2,891**	**3,642**	**3,752**	**0**
	Current Retirees	2	1	0	1	12	7	8	0

RETIRED MEMBERS DATA (TEN-YEAR AVERAGES)

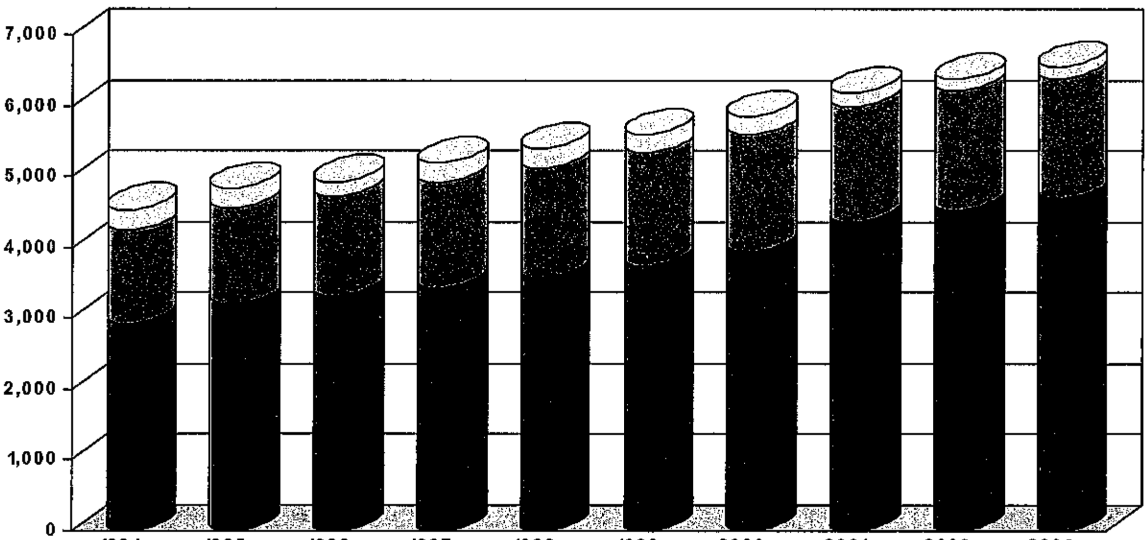
RETIREMENT AGE / YEARS OF SERVICE / BENEFIT INFORMATION

(The information contained in this tabulation relates to current retirees who retired in the years indicated)

Retired in Fiscal Year	Current Retirees	Average Age at Retirement	Average Service	Average Initial Benefit	Average Benefit on June 30, 2003	Percent of Increase
MISSOURI DEPARTMENT OF TRANSPORTATION						
1994	158	60.34	31.65	$ 1,276.99	$ 1,982.79	55.27
1995	241	58.43	31.88	1,281.60	1,904.60	48.61
1996	182	59.08	32.35	1,443.91	2,000.27	38.53
1997	181	58.52	30.69	1,350.30	1,846.41	36.74
1998	200	59.54	31.76	1,427.82	1,841.26	28.96
1999	180	58.76	31.29	1,511.66	1,961.60	29.76
2000	263	58.07	31.98	1,695.47	2,267.98	33.77
2001	451	56.08	32.62	1,976.49	2,093.46	5.92
2002	240	58.18	31.25	2,057.75	2,091.23	1.63
2003	200	57.39	30.47	1,833.17	1,873.87	2.22
CIVILIAN PATROL						
1994	19	61.32	27.63	$ 1,066.27	$ 1,650.34	54.78
1995	30	58.87	27.23	991.81	1,526.11	53.87
1996	25	60.96	26.28	953.58	1,374.25	44.12
1997	28	60.18	28.75	1,171.38	1,585.29	35.33
1998	26	59.46	28.54	1,273.80	1,650.63	29.58
1999	28	58.75	29.39	1,320.16	1,798.50	36.23
2000	34	58.82	28.94	1,373.79	1,858.85	35.31
2001	60	58.13	31.07	2,014.69	2,107.88	4.63
2002	30	57.73	26.97	1,486.73	1,498.43	0.79
2003	45	58.47	29.31	1,560.91	1,590.43	1.89
UNIFORMED PATROL						
1994	25	56.12	31.36	2,495.01	3,872.92	55.23
1995	67	54.12	32.28	2,455.50	3,633.61	47.98
1996	22	54.36	32.32	2,649.40	3,550.18	34.00
1997	34	54.76	31.79	2,772.15	3,586.20	29.37
1998	29	53.93	31.10	2,915.93	3,650.42	25.19
1999	48	54.46	31.73	3,082.83	3,689.41	19.68
2000	28	54.71	33.07	3,203.21	3,692.12	15.26
2001	29	57.66	34.10	2,755.74	3,167.74	14.95
2002	35	52.97	32.46	3,255.96	3,612.63	10.95
2003	31	54.35	32.10	2,773.69	2,999.29	8.13

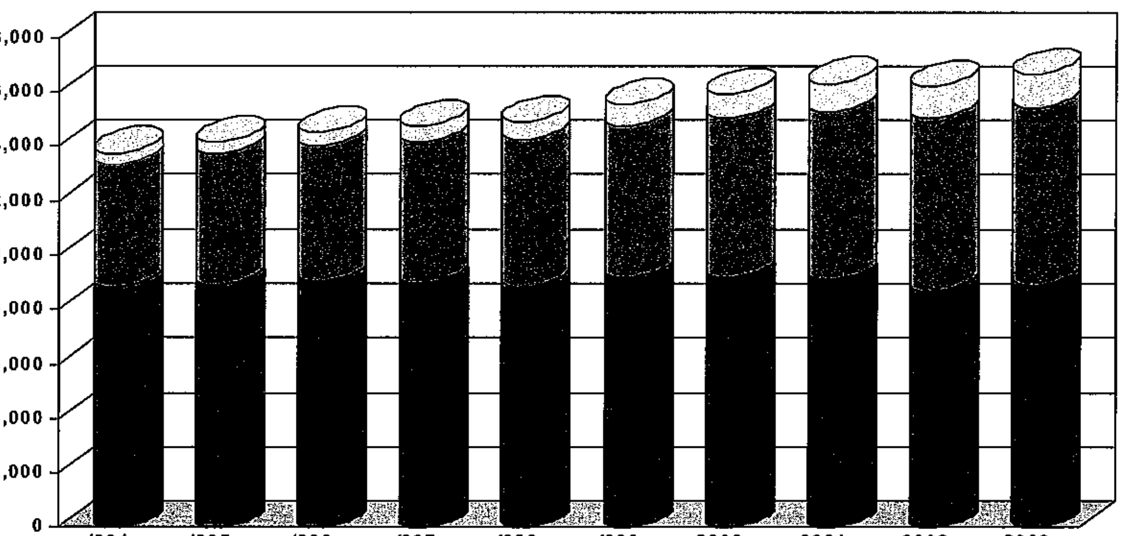
NOTE: Annual cost-of-living adjustments for the Closed Plan range between 4% and 5%. Annual cost-of-living adjustments for the Year 2000 Plan are 80% of the CPI-U.

BENEFIT RECIPIENTS



	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Disabilities	303	277	207	272	275	263	262	181	157	155
Survivors	1,307	1,365	1,405	1,486	1,549	1,590	1,641	1,637	1,680	1,710
Retirees	2,932	3,201	3,329	3,445	3,585	3,747	3,954	4,374	4,543	4,691

MEMBERSHIP DISTRIBUTION



	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Term Vested Members	372	416	498	574	660	762	912	1,018	1,130	1,207
Benefit Recipients	4,542	4,843	5,003	5,203	5,409	5,600	5,857	6,192	6,380	6,556
Active Members	8,849	8,904	9,023	8,997	8,849	9,172	9,171	9,106	8,706	8,895