AUDIT REPORT

MISSOURI INVESTMENT TRUST
YEAR ENDED DECEMBER 31, 2002

From The Office Of State Auditor
Claire McCaskill

Report No. 2003-39
April 25, 2003
www.auditor.state.mo.us

Office Of The
State Auditor Of Missouri
Claire McCaskill

April 2003

YELLOW SHEET

The following report is our review of the Missouri Investment Trust.

The Missouri Investment Trust was established by state law to allow the state to invest specific funds for long-term investment and growth. Subject to a valid, binding trust agreement, the trust receives funds specifically approved and designated by the General Assembly.

The responsibility for the proper administration of the trust and the direction of its policies is vested in a seven-member Board of Trustees. The board consists of the State Treasurer, the Commissioner of Administration, one member appointed by the Speaker of the House, one member appointed by the President Pro-tem of the Senate, and three members to be selected by the Governor, with the advice and consent of the Senate.

The Missouri Investment Trust accepts deposits from various state funds after specific legislative approval. As of December 31, 2002, the Missouri Investment Trust had received deposits from the Wolfner Library Trust Fund, Missouri Arts Council Trust Fund, Missouri Humanities Council Trust Fund, and the Pansey Johnson-Travis Memorial State Gardens Trust Fund totaling $728,000; $20,000,000; $850,000; and $815,000, respectively. The trust's only investments at December 31, 2002 and 2001, were deposits in an external investment consultant's investment pools.

We had no findings on the Missouri Investment Trust.

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MISSOURI INVESTMENT TRUST

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FINANCIAL SECTION

State Auditor's Reports

CLAIRE C. McCASKILL
Missouri State Auditor

INDEPENDENT AUDITOR'S REPORT ON
THE FINANCIAL STATEMENTS

Honorable Bob Holden, Governor
and
Board of Trustees, Missouri Investment Trust
Jefferson City, MO 65102

We have audited the accompanying financial statements of the Missouri Investment Trust as of and for the years ended December 31, 2002 and 2001, as identified in the table of contents. These financial statements are the responsibility of the trust's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Missouri Investment Trust as of December 31, 2002 and 2001, and the results of its operations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we also have issued our report dated March 17, 2003, on our consideration of the trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the trust's management and was not subjected to the auditing procedures applied in the audit of the financial statements referred to above. Accordingly, we express no opinion on the information.

Claire McCaskill
State Auditor

March 17, 2003 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits:	Kenneth W. Kuster, CPA
Audit Manager:	Douglas J. Porting, CPA
In-Charge Auditor:	Gayle A. Garrison

CLAIRE C. McCASKILL
Missouri State Auditor

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Honorable Bob Holden, Governor
and
Board of Trustees, Missouri Investment Trust
Jefferson City, MO 65102

We have audited the financial statements of the Missouri Investment Trust as of and for the years ended December 31, 2002 and 2001, and have issued our report thereon dated March 17, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the financial statements of the Missouri Investment Trust are free of material misstatement, we performed tests of the trust's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of the Missouri Investment Trust, we considered the trust's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A

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material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the management of the Missouri Investment Trust and other applicable government officials. However, pursuant to Section 29.270, RSMo 2000, this report is a matter of public record and its distribution is not limited.

Claire McCaskill
State Auditor

March 17, 2003 (fieldwork completion date)

Financial Statements

Exhibit A

MISSOURI INVESTMENT TRUST
COMPARATIVE STATEMENT OF NET ASSETS

		December 31,	
		2002	2001
ASSETS			
Investments	$	15,944,800	20,235,265
Total Assets		15,944,800	20,235,265
LIABILITIES AND NET ASSETS			
Total Liabilities		2,457	1,598
Net Assets Held in Trust for Pool Participants	$	15,942,343	20,233,667

The accompanying Notes to the Financial Statements are an integral part of this statement.

Exhibit B

MISSOURI INVESTMENT TRUST
COMPARATIVE STATEMENT OF CHANGES IN NET ASSETS

	Year Ended December 31,	
	2002	2001
ADDITIONS		
Deposits	$ 0	4,328,000
Investment income (Loss)	(4,284,292)	(2,043,648)
Investment expenses	(7,032)	(5,405)
Net Investment Income (Loss)	(4,291,324)	(2,049,053)
Total Additions	(4,291,324)	2,278,947
DEDUCTIONS		
Total Deductions	0	0
NET INCREASE (DECREASE) IN NET ASSETS	(4,291,324)	2,278,947
NET ASSETS, JANUARY 1	20,233,667	17,954,720
NET ASSETS, DECEMBER 31	$ 15,942,343	20,233,667

The accompanying Notes to the Financial Statements are an integral part of this statement.

Notes to the Financial Statements

MISSOURI INVESTMENT TRUST
NOTES TO THE FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

A. Reporting Entity and Basis of Presentation

The accompanying financial statements present the investment trust data of the Missouri Investment Trust. The Missouri Investment Trust accepts deposits from various state funds after specific legislative approval. As of December 31, 2002, the following state funds were authorized depositors of the Missouri Investment Trust: Wolfner Library Trust, Missouri Arts Council Trust, Missouri Humanities Council Trust, and the Pansey Johnson-Travis Memorial State Gardens Trust. Deposits are invested by the Missouri Investment Trust Board of Trustees through an external investment consultant. Due to the nature of the trust and because the trust provides services only to the state and receives funding only from the state, the trust is considered a component unit of the state of Missouri financial reporting entity and is blended into the state's financial statements.

The Missouri Investment Trust, presented in Exhibits A and B, is a separate legal and accounting entity, recording all assets, liabilities, equities, revenues, and expenses related to the trust's activities. However, expenses presented for the trust or its programs may not reflect the total cost of the related activity. Other direct and indirect costs provided by the Office of the Missouri State Treasurer are not allocated to the trust or its programs.

B. Basis of Accounting

The financial statements for the Missouri Investment Trust, Exhibits A and B, are prepared in conformity with generally accepted accounting principles. The statements are presented on the accrual basis of accounting which recognizes revenues when earned and expenses when the related liabilities are incurred.

Investments are made by the Missouri Investment Trust Board of Trustees through an external investment consultant's investment pools which are managed to approximate returns experienced by the Standard & Poor's 500 Index, the Russell 2000 Index, and the Morgan Stanley Capital International EAFE Provisional Index. Deposits of each state fund are segregated by the investment consultant in separate investment accounts within the pool. Funds are invested in equity securities with a long term objective of capital appreciation. However, investments in equity securities also carry increased risks due to potential volatility in the market.

C. Fiscal Authority and Responsibility

The Missouri Investment Trust Board of Trustees administers transactions in the Missouri Investment Trust within the authority prescribed by the General Assembly. The board serves in a fiduciary capacity with respect to the management of the investment trust and the investment of funds for the exclusive benefit of the state of Missouri; however, the board is not subject to regulatory oversight by the SEC or other entities. The board establishes policies, procedures, and objectives of the trust, accepts deposits to the trust from authorized state funds, and selects and monitors the external investment consultant. The board is responsible for establishing such policies and making investment decisions in good faith and with the degree of diligence, care, and skill which a prudent person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

2. Investments

The trust's only investments at December 31, 2002 and 2001, were deposits in an external investment consultant's investment pools with carrying values of $15,944,800 and $20,235,265, respectively, which approximates fair value. The valuation is provided by the consultant's monthly investment summary reports and is based on the underlying fair value of the equity securities in which the consultant's investment pools have invested. These investments are not subject to categorization of credit risk.

3. Deposits and Net Assets

As of December 31, 2002, the Missouri Investment Trust had received deposits from the Wolfner Library Trust Fund, Missouri Arts Council Trust Fund, Missouri Humanities Council Trust Fund, and the Pansey Johnson-Travis Memorial State Gardens Trust Fund totaling $728,000; $20,000,000; $850,000; and $815,000, respectively. Participation in the Missouri Investment Trust by the various authorized state funds is on a voluntary basis. In accordance with the trust agreement and Sections 30.953 to 30.971, RSMo, net assets are held in trust for the pool participants.

4. Investment Income (Loss)

Investment income (loss) includes dividends and realized/unrealized gains and losses on underlying securities held by the investment consultant in the consultant's investment pools. Due to poor economic and stock market conditions in recent years, the Missouri Investment Trust experienced net investment losses totaling $(4,291,324) and $(2,049,053) for the two years ended December 31, 2002 and 2001, respectively.

STATISTICAL SECTION

History, Organization, and
Statistical Information

MISSOURI INVESTMENT TRUST
HISTORY, ORGANIZATION, AND STATISTICAL INFORMATION

The Missouri Investment Trust was established by Section 30.953, RSMo, effective August 28, 1997, to allow the state to invest specific funds for long-term investment and growth. Subject to a valid, binding trust agreement, the trust receives funds specifically approved and designated by the General Assembly.

The responsibility for the proper administration of the trust and the direction of its policies is vested in a seven-member Board of Trustees. The board consists of the State Treasurer, the Commissioner of Administration, one member appointed by the Speaker of the House, one member appointed by the President Pro-Tem of the Senate, and three members selected by the Governor who are appointed, with the advice and consent of the Senate, to serve staggered four-year terms. Members of the Board of Trustees as of December 31, 2002, were:

Name	Date Term Ends	Title/Appointed by
Nancy Farmer, Chairman	N/A	State Treasurer
Jacquelyn D. White	N/A	Commissioner of Administration
Vicky Riback-Wilson	N/A	Member appointed by Speaker of the House
Charles Zitnik	N/A	Member appointed by President Pro-Tem of the Senate
Richard Dahl	February 24, 2004	Member appointed by Governor
Joe Rechter	February 24, 2005	Member appointed by Governor
Vacant *	February 24, 2006	Member appointed by Governor

* Rainey Crawford's term expired February 24, 2002. As of March 26, 2003, a successor trustee has not been appointed.

The board has selected State Street Global Advisors to provide investment management services to the trust.

The trust serves as a tool for specifically appropriated state monies to be invested longer than authorized by statute for the state treasurer.

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