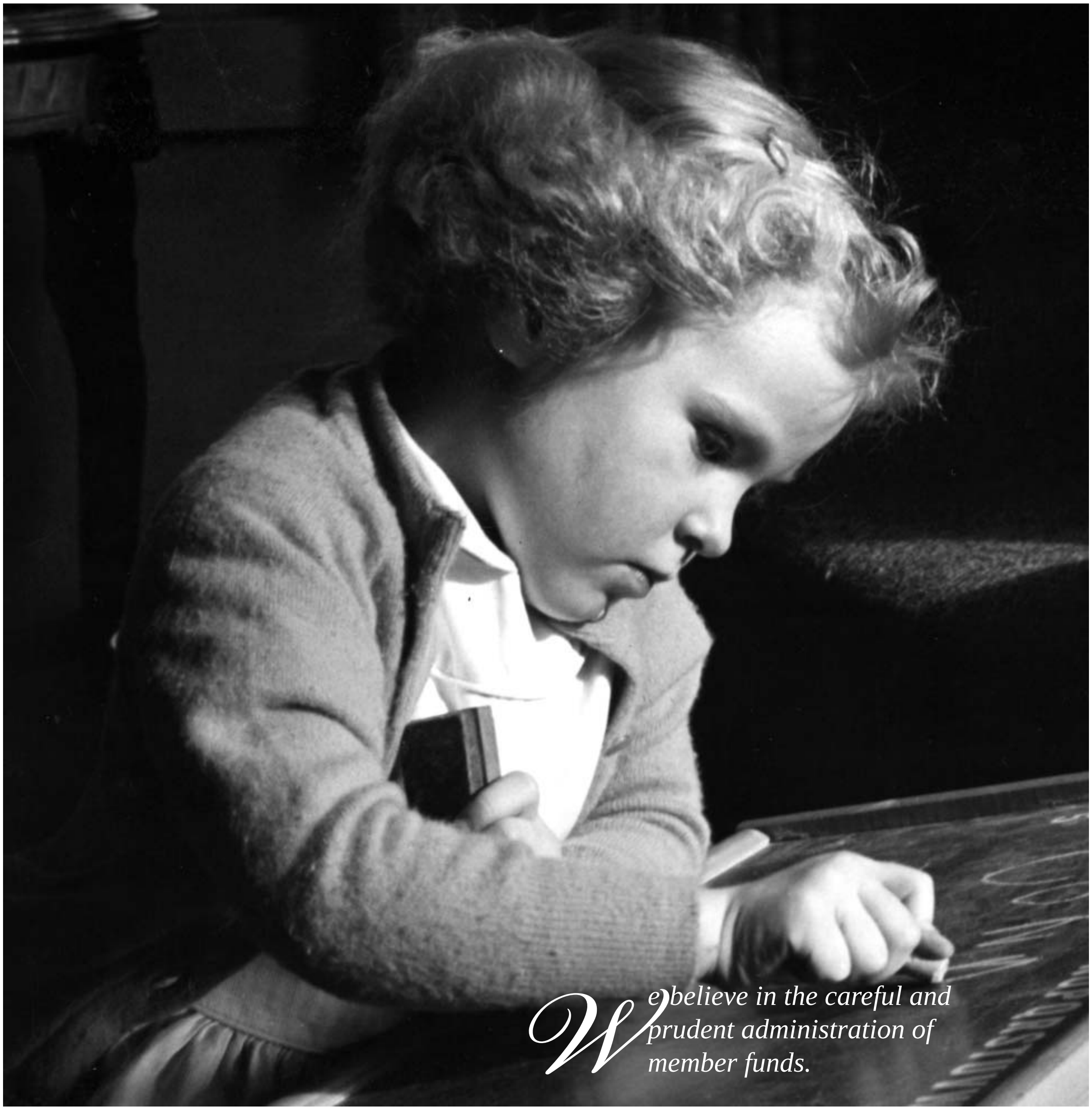
Financial Section



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Financial Section

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees of the
Public School and Public Education Employee
Retirement Systems of Missouri

We have audited the accompanying statements of plan net assets of the Public School and Public Education Employee Retirement Systems of Missouri (the Systems) as of June 30, 2007 and the related statements of changes in plan net assets for the year then ended. These financial statements are the responsibility of the Systems' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. 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 audit provides 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 Public School and Public Education Employee Retirement Systems of Missouri at June 30,2007 and the changes in plan net assets for the year then ended, in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis on pages 20 through 24 and the schedules of funding progress and employer contributions on pages 41 and 42 are not a required part of the basic financial statements of the Systems, but are supplementary information required by the Governmental Accounting Standards Board (GASB). The required supplementary information is the responsibility of management of the Systems. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary 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 information included on pages 43 through 45 is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Systems. Such information has 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.

The introductory, investment, actuarial, and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Williams-Keepers LLC

October 29, 2007

Financial Section

Management's Discussion and Analysis
June 30, 2007

This discussion and analysis of the financial position of the Public School Retirement System and the Public Education Employee Retirement System (collectively referred to as the Systems) provides an overview of the Systems' financial activities for the fiscal year ended June 30, 2007. We encourage you to consider the information presented here in conjunction with additional information presented in the financial statements and required supplementary information.

Financial Highlights

The following highlights are explained in more detail for each System later in this discussion.

The combined net assets of the Systems at June 30, 2007 were $32.0 billion. The net assets were up $4.1 billion from June 30, 2006. This increase was primarily due to the increase in the fair value of investments.

The overall investment return was 16.6% for the Public School Retirement System (PSRS) and 16.6% for the Public Education Employee Retirement System (PEERS). Our relatively conservative asset allocation provided returns that significantly exceeded our assumed rate of return of 8%, but trailed our peers of large institutional pension systems that took more risk. For most of the year, PSRS and PEERS maintained fixed income allocations that were higher than the majority of public pension plans.

The Systems' funding objective is to meet long-term benefit obligations through the accumulation of contributions and investment income. This funding shall be carried out in such a way to ensure that the burden of paying retirement costs shall be shared equitably by present and succeeding generations of members and taxpayers.

As of June 30, 2007, the funded ratios were 83.5% for PSRS and 83.2% for PEERS. As of June 30, 2006, the funded ratios were 82.6% for PSRS and 80.5% for PEERS. To arrive at the actuarial value of assets as of June 30, 2007, we used an asset smoothing method by which investment returns above or below 8% are recognized over a five-year period.

Revenues for the year were $5.6 billion. This figure is comprised of contribution revenue of $1.1 billion and investment income of $4.5 billion.

Expenses increased 9.9% over the prior year from $1.4 billion to $1.6 billion. Service retirement benefits increased by $111.1 million from $1.24 billion in fiscal year 2006 to $1.35 billion in fiscal year 2007. Another $55.6 million was paid to retirees electing the Partial Lump Sum Option (PLSO). This cost was up $12.9 million from the $42.6 million paid during fiscal year 2006. This option allows eligible retirees to elect to have their lifetime monthly benefits actuarially reduced in exchange for the right to also receive a one-time payment at retirement equal to 12, 24, or 36 times the Option 1, single-life benefit amount.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the financial report of the Systems. The financial report consists of: The basic financial statements, comprised of the Statements of Plan Net Assets and the Statements of Changes in Plan Net Assets; the notes to the basic financial statements; and the required and other supplementary information.

The Statements of Plan Net Assets (page 25) present information on the assets and liabilities of the Systems, with the difference between the two reported as net assets. The net assets of the Systems reflect the resources available to pay benefits to members when due. Over time, increases and decreases in net assets measure whether the Systems' financial position is improving or deteriorating.

The Statements of Changes in Plan Net Assets (page 26) present information detailing the changes in net assets that occurred during the current fiscal year. All changes in net assets are reported on an accrual basis. This means that the revenue or expense is recognized as soon as the underlying event giving rise to the change occurs, regardless of when the actual cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods. For example, contributions due from a district, even though not yet paid by year end, will be reflected as revenue. Earned vacation accruals will be reflected as an expense, even though they have not been paid to employees.

The basic notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes can be found on pages 27 through 40. The report also contains required supplementary information in addition to the basic financial statements themselves. The Schedules of Funding Progress (page 41) include historical trend information about the actuarially funded status of each plan from a long-term, ongoing perspective and the progress made in accumulating assets to pay benefits when due.

The Schedules of Employer Contributions (page 42) present historical trend information about the annual required contributions of employers and the actual contributions made by employers.

Other supplementary schedules are also included. The Schedule of Administrative Expenses (page 43) presents the overall cost of administering the Systems. The Schedule of Professional/Consultant Fees (page 45) further details this category of administrative expense.

The Schedule of Investment Expenses (page 44) shows the costs associated with investing the assets of the Systems. These expenses are shown as a reduction of revenue on the Statement of Changes in Plan Net Assets.

Financial Analysis of the Public School Retirement System

The Public School Retirement System (PSRS) is a mandatory cost-sharing multiple employer retirement system for full-time certificated employees and certain part-time employees of participating employers. PSRS members were required to contribute 12.0% of their annual covered salary during 2007. The employer was required to match that amount. Most PSRS members do not contribute to Social Security, except for employees hired after 1986 who contribute to Medicare only.

Assets

Total assets of PSRS as of June 30, 2007 were $38.5 billion and were mostly comprised of cash, investments, and contributions due from employers. Total assets increased by $5.6 billion or 17.0% from the prior year primarily due to investment earnings.

Liabilities

Total liabilities as of June 30, 2007 were $9.2 billion and were mostly comprised of obligations under security lending arrangements and payables from the purchase of investments. Total liabilities increased by $1.9 billion from the prior year. This increase was primarily due to increased payables from the purchase of investments.

Net Assets

System assets exceeded liabilities at June 30, 2007 by $29.3 billion. This was up from 2006 net assets of $25.6 billion by $3.7 billion. This increase was a result of investment earnings that totaled $4.1 billion for the year offset by benefit payments and other expenses which exceeded contribution revenue by $0.4 billion. This trend is a natural progression in a mature defined benefit plan.

Public School Retirement System
Plan Net Assets (000's)

	2007	2006	Change
Cash & investments	$ 33,531,143	$ 29,803,145	$ 3,727,998
Receivables	4,916,199	3,042,185	1,874,014
Other	12,893	12,008	885
Total assets	38,460,235	32,857,338	5,602,897
Total liabilities	9,176,568	7,253,809	1,922,759
Plan net assets	$ 29,283,667	$ 25,603,529	$ 3,680,138

Public School Retirement System
Changes in Plan Net Assets (000's)

	2007	2006	Change
Additions			
Member contributions	$ 514,163	$ 502,980	$ 11,183
Employer contributions	472,217	429,579	42,638
Investment income	4,125,164	2,235,836	1,889,328
Other	280	264	16
Total additions	5,111,824	3,168,659	1,943,165
Deductions			
Monthly benefits	1,380,563	1,260,839	119,724
Refunds of contributions	44,010	36,394	7,616
Administrative expenses	7,111	6,750	361
Other	2	4	(2)
Total deductions	1,431,686	1,303,987	127,699
Change in plan net assets	$ 3,680,138	$ 1,864,672	$ 1,815,466

Revenues – Additions to Plan Net Assets
The reserves needed to finance retirement benefits are accumulated through the collection of employer and employee contributions and through investment earnings. Total contribution revenue for the year increased by $53.8 million to $986.4 million. This was a 5.8% increase over the prior year. Retirement contributions were calculated at 12.0% of retirement salary for each member during fiscal year 2007. The employer matched this amount. Contribution rate increases accounted for 4.4% of the increase. In addition to contributions on salary, members may also pay contributions to reinstate previously withdrawn service credit or to purchase various types of elective credit.

The net investment gain was $4.1 billion as compared to a net investment gain of $2.2 billion in 2006. All investment related expenses, such as fees paid to investment managers, are reflected as a reduction in revenue and are accounted for in this net figure.

Expenses – Deductions from Plan Net Assets
The primary expenses of PSRS include the payment of pension benefits to members and beneficiaries, refunds of contributions to former members, and the cost of administering the System. Total expenses for fiscal year 2007 were $1.4 billion, an increase of 9.8% over fiscal year 2006.

Benefit expenses increased by $119.7 million. This was a result of cost-of-living increases applied to the benefits of current retirees, increased PLSO payments and the addition of 2,376 new service and disability retirees. There were no changes to the benefit formula during 2007. Refunds of contributions increased by $7.6 million to $44.0 million.

Administrative expenses increased by $0.36 million to $7.1 million. This was a 5.4% increase. This increase is attributable to providing a 3.55% COLA increase plus a 2% merit pool for staff members and the addition of one attorney position and one systems administrator position in Information Technology. The cost of these items was charged 60% to PSRS and 40% to PEERS. As always, we will continue to look for ways to streamline costs where prudent.

Financial Analysis of the Public Education Employee Retirement System

The Public Education Employee Retirement System (PEERS) is a mandatory cost-sharing multiple employer retirement system for non-certificated employees and certain part-time certificated employees of participating employers. PEERS members were required to contribute 5.75% of their annual covered salary during 2007. The employer was required to match that amount. PEERS members also contribute to Social Security.

Financial Section

Assets
Total assets of PEERS as of June 30, 2007 were $3.5 billion and were mostly comprised of cash, investments, and contributions due from employers. Total assets increased by $0.6 billion or 19.0% from the prior year primarily due to investment earnings.

Liabilities
Total liabilities as of June 30, 2007 were $847.0 million and were mostly comprised of obligations under security lending arrangements and payables from the purchase of investments. Total liabilities increased by $168.7 million. This increase was primarily due to increased payables from the purchase of investments.

Net Assets
PEERS assets exceeded liabilities at the close of fiscal year 2007 by $2.7 billion. This was up from 2006 net assets by $0.4 billion. This increase was primarily the result of investment earnings that totaled $373.2 million for the year. Because PEERS is a much younger plan than PSRS, contribution revenues exceeded benefit payments and other expenses by $21.0 million.

Public Education Employee Retirement System
Plan Net Assets (000's)

	2007	2006	Change
Cash & investments	$ 3,099,494	$ 2,685,708	$ 413,786
Receivables	428,630	279,526	149,104
Total assets	3,528,124	2,965,234	562,890
Total liabilities	846,948	678,254	168,694
Plan net assets	$ 2,681,176	$ 2,286,980	$ 394,196

Public Education Employee Retirement System
Changes in Plan Net Assets (000's)

	2007	2006	Change
Additions			
Member contributions	$ 73,071	$ 68,018	$ 5,053
Employer contributions	69,235	61,746	7,489
Investment income	373,198	197,629	175,569
Other	-	3	(3)
Total additions	515,504	327,396	188,108
Deductions			
Monthly benefits	103,182	92,661	10,521
Refunds of contributions	13,699	12,044	1,655
Administrative expenses	4,427	4,358	69
Total deductions	121,308	109,063	12,245
Change in plan net assets	$ 394,196	$ 218,333	$ 175,863

Financial Section

Revenues – Additions to Plan Net Assets
The reserves needed to finance retirement benefits are accumulated through the collection of employer and employee contributions and through investment earnings. Total contribution revenue for the year increased by $12.5 million to $142.3 million. This was a 9.7% increase over the prior year. Retirement contributions were calculated at 5.75% of retirement salary for each member during fiscal year 2007. The employer matched this amount. Contribution rate increases accounted for 4.5% of the increase. In addition to contributions on salary, members may also pay contributions to reinstate previously withdrawn service credit or to purchase various types of elective credit.

The net investment gain was $373.2 million as compared to a net investment gain of $197.6 million in 2006. All investment related expenses, such as fees paid to investment managers, are reflected as a reduction in revenue and are accounted for in this net figure.

Expenses – Deductions from Plan Net Assets
The primary expenses of PEERS include the payment of pension benefits to members and beneficiaries, refunds of contributions to former members, and the cost of administering the System. Total expenses for fiscal year 2007 were $121.3 million, an increase of 11.2% over fiscal year 2006.

Benefit expenses increased by $10.5 million. This was a result of cost-of-living increases applied to the benefits of current retirees and the addition of 1,220 new service and disability retirees. There were no changes to the benefit formula during 2007. Refunds of contributions increased by $1.7 million to $13.7 million.

Administrative expenses increased by $0.1 million to $4.4 million. This was a 1.6% increase. This increase is attributable to providing a 3.55% COLA increase plus a 2% merit pool for staff members and the addition of one attorney position and one systems administrator position in Information Technology. The cost of these items was charged 60% to PSRS and 40% to PEERS. As always, we will continue to look for ways to streamline costs where prudent.

Summary
Due to the long-term nature of defined benefit pension plans, it is important to look at the financial performance of the Systems over a period of years and not just at this single point in time. Although our earnings exceeded the 8% return assumption in 2007, we still cannot amortize our unfunded actuarial accrued liabilities over the required 30 year amortization period. The current contribution rates recommended for fiscal year 2009, which are limited by state statute, are still below the annual required contribution rates of 28.24% for PSRS and 12.98% for PEERS.

Requests for Information
This financial report is designed to provide the Board of Trustees, our members, and other users of our financial report with a general overview of the Systems' finances and to demonstrate the Systems' accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Public School and Public Education Employee Retirement Systems, P.O. Box 268, Jefferson City, MO 65102.

Statements of Plan Net Assets

As of June 30, 2007 with comparative totals for June 30, 2006

	PSRS	PEERS	Combined Totals June 30, 2007	Combined Totals June 30, 2006
ASSETS				
Cash	$106,005,463	$11,155,973	$117,161,436	$51,254,178
Receivables				
Contributions	143,661,005	14,737,110	158,398,115	154,140,746
Accrued interest and dividends	282,353,748	24,718,316	307,072,064	95,970,506
Investment sales	4,489,593,527	389,156,882	4,878,750,409	3,070,772,994
Due from PEERS	497,409	-	497,409	691,452
Other	92,872	17,974	110,846	135,172
Total receivables	4,916,198,561	428,630,282	5,344,828,843	3,321,710,870
Investments, at fair value				
Public debt	8,419,521,726	770,515,625	9,190,037,351	9,916,277,107
U.S. equities	11,277,558,435	1,038,806,394	12,316,364,829	10,659,832,087
Global equities	6,785,555,995	624,254,189	7,409,810,184	5,555,472,919
Absolute return pool	387,356,263	33,683,154	421,039,417	-
Short term investments	952,733,255	60,809,612	1,013,542,867	1,031,149,870
Private equity	418,362,330	33,502,360	451,864,690	140,627,033
Real estate	1,134,466,649	100,481,140	1,234,947,789	842,651,544
Total investments	29,375,554,653	2,662,052,474	32,037,607,127	28,146,010,560
Invested securities lending collateral	4,049,583,334	426,285,529	4,475,868,863	4,291,587,830
Prepaid expenses	128,640	-	128,640	157,716
Capital assets, net of accumulated depreciation	12,764,715	-	12,764,715	11,850,530
Total assets	38,460,235,366	3,528,124,258	41,988,359,624	35,822,571,684
LIABILITIES				
Accounts payable	20,814,041	1,920,381	22,734,422	22,241,194
Interest payable	11,874,726	1,166,787	13,041,513	5,943,275
Securities lending collateral	4,049,583,334	426,285,529	4,475,868,863	4,291,587,830
Investment purchases	5,093,730,593	416,705,802	5,510,436,395	3,610,771,794
Due to PSRS	-	497,409	497,409	691,452
Compensated absences	565,851	372,054	937,905	827,650
Total liabilities	9,176,568,545	846,947,962	10,023,516,507	7,932,063,195
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	$ 29,283,666,821	$ 2,681,176,296	$ 31,964,843,117	$ 27,890,508,489

(Schedules of funding progress for the plans are presented on page 41)

See accompanying Notes to the Financial Statements.

Statements of Changes in Plan Net Assets

For the year ended June 30, 2007 with comparative totals for the year ended June 30, 2006

	PSRS	PEERS	Combined Totals Year Ended June 30, 2007	Combined Totals Year Ended June 30, 2006
ADDITIONS				
Contributions				
Employer	$472,216,630	$69,235,160	$541,451,790	$491,324,416
Member	514,163,373	73,070,572	587,233,945	570,997,722
Total contributions	986,380,003	142,305,732	1,128,685,735	1,062,322,138
Investment income				
From investing activities:				
Net appreciation in fair value of investments	3,474,334,796	315,297,125	3,789,631,921	1,826,553,452
Interest from investments	424,469,445	37,750,770	462,220,215	386,144,904
Interest from bank deposits	614,247	101,327	715,574	439,121
Dividends	279,450,092	25,216,308	304,666,400	261,011,753
Total investment income	4,178,868,580	378,365,530	4,557,234,110	2,474,149,230
Less investment expenses	66,336,071	6,335,482	72,671,553	53,751,624
Net income from investing activities	4,112,532,509	372,030,048	4,484,562,557	2,420,397,606
From security lending activities:				
Security lending gross income	224,273,346	21,490,793	245,764,139	177,499,672
Less security lending activity expenses:				
Agent fees	2,712,720	248,069	2,960,789	3,360,627
Broker rebates	208,929,337	20,075,043	229,004,380	161,071,420
Total security lending expenses	211,642,057	20,323,112	231,965,169	164,432,047
Net income from security lending activity	12,631,289	1,167,681	13,798,970	13,067,625
Total net investment income	4,125,163,798	373,197,729	4,498,361,527	2,433,465,231
Other income				
PEERS capital asset charge	257,243	-	257,243	251,764
Miscellaneous income	23,312	32	23,344	15,539
Total other income	280,555	32	280,587	267,303
Total additions	5,111,824,356	515,503,493	5,627,327,849	3,496,054,672
DEDUCTIONS				
Monthly benefits	1,380,562,964	103,181,588	1,483,744,552	1,353,499,313
Refunds of contributions	44,010,291	13,698,759	57,709,050	48,437,675
Administrative expenses	7,111,060	4,426,688	11,537,748	11,108,648
Other expenses	1,871	-	1,871	4,009
Total deductions	1,431,686,186	121,307,035	1,552,993,221	1,413,049,645
Net increase	3,680,138,170	394,196,458	4,074,334,628	2,083,005,027
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS				
Beginning of year	25,603,528,651	2,286,979,838	27,890,508,489	25,807,503,462
End of year	$ 29,283,666,821	$ 2,681,176,296	$ 31,964,843,117	$ 27,890,508,489

See accompanying Notes to the Financial Statements.

Notes to the Financial Statements

June 30, 2007 with comparative totals for June 30, 2006

Note 1 – Plan Descriptions

The Board of Trustees of the Public School Retirement System administers two separate retirement systems, the Public School Retirement System (PSRS) and the Public Education Employee Retirement System (PEERS). The Board of Trustees consists of seven members, three of whom are elected PSRS active members, one an elected active member of PEERS and three persons appointed by the Governor, one of whom must be a retired member of either PSRS or PEERS.

The funds of the two Systems are invested in conjunction with each other but each System retains title to its own investments. Each System's assets may be used only for the payment of benefits to the members of the separate System in accordance with the statutes governing that System as well as expenses required to administer the System.

The Public School Retirement System

The Public School Retirement System of Missouri (PSRS) is a mandatory cost-sharing multiple employer retirement system for all full-time certificated employees and certain part-time certificated employees of all public school districts in Missouri (except the school districts of St. Louis and Kansas City) and all public community colleges. The System also includes certificated employees of PSRS, Missouri State Teachers' Association, Missouri State High School Activities Association, and certain employees of the State of Missouri who elected to remain covered by PSRS under legislation enacted in 1986, 1987 and 1989.

PSRS was established as an independent trust fund by an Act of the Missouri General Assembly effective August 1, 1945. Statutes governing the retirement system are found in Sections 169.010-169.141 and Section 169.560-169.595 RSMo. It is a defined benefit plan providing service retirement, death and disability benefits to its members. Members are vested for service retirement benefits after accruing five years of creditable service. Individuals who (a) are at least age 60 and have a minimum of five years of service, (b) have 30 years of service, or (c) qualify for benefits under the "Rule of 80" (service credit and age total at least 80) are entitled to a monthly benefit for life, which is calculated using a 2.5% formula factor. Beginning July 1, 2001, and ending July 1, 2013, a 2.55% formula factor is used to calculate benefits for members who have 31 or more years of service. Actuarially age-reduced benefits are available for members with five to 24.9 years of service at age 55 or with 25 years of service (if not yet age 55). Members who are less than age 55 and who do not qualify under the "Rule of 80" but have between 25 and 29.9 years of credit may retire with a lesser benefit formula factor during a window that will close July 1, 2013. Members who are three years beyond normal retirement can elect to have their lifetime monthly benefits actuarially reduced in exchange for the right to also receive a one-time partial lump sum (PLSO) payment at retirement equal to 12, 24, or 36 times the Option 1, single-life benefit amount. Annual cost-of-living adjustments (COLAs) are provided for eligible service and disability retirees and for surviving beneficiaries receiving payments under optional retirement plans, up to a lifetime maximum of 80% of the original benefit amount.

Contributions – PSRS members were required to contribute 12.0% of their annual covered salary during 2006-2007 and 11.5% during 2005-2006. The employing districts were required to match the contributions made by employees. The contribution rate is set each year by the Board of Trustees upon the recommendation of the independent actuary within the contribution restrictions set in Section 169.030 RSMo. Administrative costs are financed through investment earnings. Contributions for employees of the State of Missouri were made by the state in accordance with the actuarially determined contribution rate needed to fund current costs and prior service costs of state employees as authorized in Section 104.342.8 RSMo.

Members – The number of PSRS membership and benefit recipients served by the System at June 30 was:

		2007		2006	
Retirees and beneficiaries receiving benefits			39,828		38,110
Inactive members entitled to but not yet receiving benefits			6,243		6,197
Active members:	Vested	55,299		54,511	
	Non-vested	21,822		21,028	
Total active members			77,121		75,539
Other inactive members			5,364		5,556
Total			128,556		125,402

Employers – PSRS had 545 contributing employers during both years.

Financial Section

The Public Education Employee Retirement System

The Public Education Employee Retirement System of Missouri (PEERS) is a mandatory cost-sharing multiple employer retirement system for all public school district employees (except the school districts of St. Louis and Kansas City), employees of the Missouri Association of School Administrators, and community college employees (except the Community College of St. Louis). Employees of covered districts who work 20 or more hours per week on a regular basis and who are not contributing members of the Public School Retirement System of Missouri (PSRS) must contribute to PEERS. Employees of PSRS who do not hold Missouri teaching certificates also contribute to PEERS.

PEERS was established as a trust fund by an Act of the Missouri General Assembly effective October 13, 1965. Statutes governing the retirement system are found in Sections 169.600 - 169.715 and Sections 169.560-169.595 RSMo. The statutes place responsibility for the operation of PEERS on the Board of Trustees of the Public School Retirement System.

PEERS is a defined benefit plan providing service retirement and disability benefits to its members. Members are vested for service retirement benefits after accruing five years of creditable service. Individuals who (a) are at least age 60 and have a minimum of five years of service, (b) have 30 years of service, or (c) qualify for benefits under the "Rule of 80" (service credit and age total at least 80) are entitled to a monthly benefit for life, which is calculated using a 1.61% formula factor. Members qualifying for "Rule of 80" or "30 and out" are entitled to an additional temporary .8% benefit multiplier until reaching minimum Social Security age (currently age 62). Actuarially age-reduced retirement benefits are available with five years of service at age 55. Members who are less than age 55 and who do not qualify under the "Rule of 80" but have between 25 and 29.9 years of credit may retire with a lesser benefit formula factor during a window that will close July 1, 2013. Members who are three years beyond normal retirement can elect to have their lifetime monthly benefits actuarially reduced in exchange for the right to also receive a one-time partial lump sum (PLSO) payment at retirement equal to 12, 24, or 36 times the Option 1, single-life benefit amount. Annual cost-of-living adjustments (COLAs) up to a lifetime maximum of 80% of the original benefit amount are provided for eligible service and disability retirees and for surviving beneficiaries receiving payments under optional retirement plans.

Contributions – PEERS members were required to contribute 5.75% of their annual covered salary during 2006-2007 and 5.50% during 2005-2006. The employing districts were required to match the contributions made by their employees. The contribution rate is set each year by the Board of Trustees upon the recommendation of the independent actuary within the contribution restrictions in Section 169.620 RSMo. Administrative costs proportional to its membership size are reimbursed by PEERS to the Public School Retirement System and are financed through investment earnings.

Members – The number of PEERS membership and benefit recipients served by the System at June 30 was:

		2007			2006
Retirees and beneficiaries receiving benefits			17,539		16,760
Inactive members entitled to but not yet receiving benefits			4,071		3,831
Active members:	Vested	26,054		25,163	
	Non-vested	23,227		23,025	
Total active members			49,281		48,188
Other inactive members			13,343		14,093
Total			84,234		82,872

Employers – PEERS had 536 contributing employers during both years.

Note 2 – Summary of Significant Accounting Policies

Basis of Accounting – The financial statements of both Systems were prepared using the accrual basis of accounting. For both Systems, member and employer contributions are recognized when due, pursuant to formal commitments and statutory requirements. Benefits and refunds are recognized when due and payable in accordance with the statutes governing the Systems. Expenses are recognized when the liability is incurred, regardless of when payment is made. Administrative expenses are funded through investment earnings.

Cash – Cash includes cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables – Receivables consist primarily of contributions owed and yet to be remitted by the employing districts, pending investment trades and interest and dividends payable to the Systems as of the end of each fiscal year.

Method Used to Value Investments – Investments are reported at fair value on a trade date basis. Securities traded on international exchanges are valued at the last 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 value of real estate investments are based on estimated current values and independent appraisals. The value of private equity investments, that do not have an established market, are determined based upon the most current net asset values and activities through year end. When not readily available alternative investments are valued based on a good faith determination by the General Partner.

Capital Assets – The building and most other capital assets are owned by PSRS and are stated at cost less depreciation accumulated since acquisition. The stated value does not purport to represent replacement or realized value. Costs of major additions and improvements are capitalized. Expenditures for maintenance and repairs are charged to operations as incurred. Depreciation is calculated using the straight-line method, with estimated lives ranging from three to 40 years in the following major classes: computers and software, three years; vehicles, five years; equipment, five years; building and land improvements, 15 years; building, 40 years.

PEERS owns office equipment purchased before 1997 and follows the same guidelines for depreciation. As of June 30, 2007 this equipment was fully depreciated. PEERS reimburses PSRS for the use of capital assets used by the two Systems on a proportional basis. The amount of this reimbursement was $257,243 in 2007 and $251,764 in 2006.

Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of net assets held in trust for pension benefits at June 30, 2007. Actual results could differ from those estimates.

Total Columns – The financial statements include total column information for the prior year. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with both Systems' financial statements for the year ended June 30, 2006, from which the information was derived.

Reclassification – Certain reclassifications have been made to the 2006 totals to conform with the classifications for 2007.

Note 3 – Designations of Net Assets Held in Trust for Pension Benefits

The Systems designate the net assets held in trust for pension benefits for the following specific purposes:

PSRS

	2007	2006
Designated for Members' Contributions (Member Reserves) – Accumulation of active and terminated member contributions plus interest.	$ 5,820,742,526	$ 5,467,066,813
Designated for the Payment of Benefits to Present Retirees – Transfers from Member Reserves at retirement and an actuarially determined transfer from Operating Reserves to fund the System's obligation for benefit payments and cost-of-living adjustments to current retirees and beneficiary recipients.	17,058,596,901	15,370,196,978
Designated for Additional Deposit Annuities – Accumulation of the additional deposits over and above the contributions required by law. Defined contribution annuity payments are made to current retirees from this reserve.	1,016,588	1,081,659
Designated for Operating Expenses/Benefits to Future Retirees (Operating Reserves) – Accumulation of employer contributions and investment income used to fund future benefit payments, interest on member accounts and administration and maintenance expenses of the System.	6,403,310,806	4,765,183,201
Net Assets Held In Trust For Pension Benefits	$ 29,283,666,821	$ 25,603,528,651

PEERS

	2007	2006
Designated for Members' Contributions (Member Reserves) – Accumulation of active and terminated member contributions plus interest.	$ 586,679,606	$ 527,336,720
Designated for the Payment of Benefits to Present Retirees – Transfers from Member Reserves at retirement and an actuarially determined transfer from Operating Reserves to fund the System's obligation for benefit payments and cost-of-living adjustments to current retirees and beneficiary recipients.	1,093,650,215	1,020,485,817
Designated for Operating Expenses/Benefits to Future Retirees (Operating Reserves) – Accumulation of employer contributions and investment income used to fund future benefit payments, interest on member accounts and administration and maintenance expenses of the System.	1,000,846,475	739,157,301
Net Assets Held In Trust For Pension Benefits	$ 2,681,176,296	$ 2,286,979,838

Note 4 – Deposits, Investments and Securities Lending Program

Custodial Credit Risk – Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Systems will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Systems would not be able to recover the value of investment or collateral securities that are in the possession of an outside party. To mitigate custodial credit risk, the Systems require that all deposits be 100% collateralized with securities held in the Systems' name and held by a third party agent.

Deposits – Cash balances include short-term securities held by the custodial bank in a pooled short-term investment fund and operating balances held by the depository banks.

At June 30, 2007, the PSRS carrying amount of deposits at the depository bank was $12,156,739 and the bank balance was $13,070,643. Of the bank balance, $100,000 was covered by federal depository insurance. The remaining $12,970,643 was collateralized with securities held by a third-party institution in the System's name. An additional $4,363,312 was held in overnight repurchase agreements with a book value of $4,363,312.

At June 30, 2007, the PEERS carrying amount of deposits at the depository bank was ($330,615) and the bank balance was $0. Since the bank balance was $0, no amount was required to be collateralized. To maximize investment income, the float caused by outstanding checks was invested in overnight repurchase agreements, thus causing the negative book balance. The overnight repurchase agreement balance at June 30, 2007 was $2,377,936 with a book value of $2,377,936.

The following Agency securities were pledged as collateral for overnight repurchase agreements as of June 30, 2007:

PSRS

Agency	Maturity Date	Market Value
GLPC	11/25/25	$ 398,794
GLPC	07/25/29	1,044,892
GLPC	08/25/19	2,205,847
GLPC	06/25/25	713,779
Total		$ 4,363,312

PEERS

Agency	Maturity Date	Market Value
FHLB	07/30/08	$ 4,271,792
FHLB	01/28/08	1,412,973
Total		$ 5,684,765

The following Agency securities were pledged as collateral for overnight deposits as of June 30, 2007:

PSRS

Agency	Maturity Date	Market Value
GLPC	06/25/25	$ 1,065,118
FHLV	03/23/09	2,901,486
FNMA	08/22/07	978,334
FHDN	07/11/07	2,103,207
FHDN	07/27/07	4,011,688
FNMA	05/05/08	1,511,404
FHMC	07/16/07	1,957,452
Total		$ 14,528,689

PEERS

Agency	Maturity Date	Market Value
Not applicable		

Investments – Funds for both Systems that are in excess of a safe operating balance are invested by the investment agents under policies and procedures established by the Board of Trustees. Chapter 169.040 RSMo as amended effective August 13, 1984, authorizes any investment which a prudent person acting in a like capacity and familiar with similar matters would use in the conduct of an enterprise of a like character and with like aims. Any person with fiduciary responsibility with respect to the retirement Systems is covered by this "prudent person" rule.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of the Systems' investment in a single issue. To mitigate this risk, the Systems' investment policy prohibits investing more than 5% of the total investment portfolio into any single financial institution or issuer, excluding U.S. securities. At June 30, 2007, the Systems did not have more than 5% of total investments in a single issue except for U.S. securities.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Systems do not have a single investment policy that restricts duration as a means of managing its exposure to fair value losses arising from increased interest rates; however, each manager must follow guidelines established relative to the duration of its benchmark. The portfolios are continually monitored to ensure compliance with these guidelines. The following table includes collateral pledged for deposits and repurchase agreements but does not include security lending collateral held in a pooled investment fund. The maturities of all debt securities are presented below:

PSRS

Security Type	Market Value at June 30, 2007	<1 year to maturity	1 to 5 years to maturity	6 to 10 years to maturity	over 10 years to maturity
U.S. treasuries	$ 1,437,071,857	$ 10,251,445	$ 519,497,361	$ 700,817,320	$ 206,505,731
Government guaranteed mortgages	101,097,758	77,377,652	21,832	9,627,570	14,070,704
Agencies	1,920,900,796	350,261,790	141,359,122	50,445,462	1,378,834,422
Collateralized mortgage obligations	473,265,677	-	3,353,010	6,513,329	463,399,338
Asset Backed Securities	1,007,491,565	4	833,472,290	68,499,718	105,519,553
Corporate Bonds	1,844,849,084	107,026,024	668,919,436	752,126,501	316,777,123
Sovereign	190,515,549	16,292,038	44,159,000	108,082,470	21,982,041
Municipals	33,001,203	1,306,383	1,200,152	-	30,494,668
Commingled Funds (see note)					
SSGA TIPS	286,371,982	-	-	286,371,982	-
SSGA STIF	875,831,429	875,831,429	-	-	-
SSGA Lehmann Aggregate	1,120,455,827	-	1,120,455,827	-	-
PIMCO High Yield	544,552	544,552	-	-	-
PIMCO Institutional Class	5,614,531	-	-	5,614,531	-
PIMCO Emerging Markets	27,578,238	-	27,578,238	-	-
PIMCO International	20,189,557	20,189,557	-	-	-
Seix High Income Fund	23,493,039	-	23,493,039	-	-
Currency	97,332,173	97,332,173	-	-	-
Total	$ 9,465,604,817	$ 1,556,413,047	$ 3,383,509,307	$ 1,988,098,883	$ 2,537,583,580
Percentage of total fixed income	100%	16%	36%	21%	27%

Note: Commingled Funds are presented at the weighted average maturity. These funds do not have a single maturity date; however, the underlying securities have maturity dates. To more accurately reflect the interest rate risk of the Systems, these weighted averages were displayed. Government backed securities are not required to be disclosed; however, we feel it shows a more accurate picture of our fixed income holdings.

PEERS

Security Type	Market Value at June 30, 2007	<1 year to maturity	1 to 5 years to maturity	6 to 10 years to maturity	over 10 years to maturity
U.S. treasuries	$ 131,728,686	$ 1,344,314	$ 44,978,882	$ 63,796,041	$ 21,609,449
Government guaranteed mortgages	8,462,186	6,959,413	4,572	320,123	1,178,078
Agencies	172,402,256	23,998,652	18,260,514	4,559,973	125,583,117
Collateralized mortgage obligations	40,501,338	-	-	570,435	39,930,903
Asset Backed Securities	86,067,059	-	73,204,390	5,074,400	7,788,269
Corporate Bonds	166,789,744	8,729,839	57,445,114	71,255,792	29,358,999
Sovereign	16,847,002	1,424,943	3,832,917	9,612,865	1,976,277
Municipals	2,796,268	95,101	117,996	-	2,583,171
Commingled Funds (see note)					
SSGA TIPS	31,521,362	-	-	31,521,362	-
SSGA STIF	54,479,204	54,479,204		-	-
SSGA Lehmann Aggregate	118,205,952	-	118,205,952	-	-
PIMCO High Yield	48,609	48,609	-	-	-
PIMCO Institutional Class	501,212	-	-	501,212	-
PIMCO Emerging Markets	2,403,436	-	2,403,436	-	-
PIMCO International	728,235	728,235	-	-	-
Seix High Income Fund	2,014,471	-	2,014,471	-	-
Currency	9,157,354	9,157,354			
Total	$ 844,654,374	$ 106,965,664	$ 320,468,244	$ 187,212,203	$ 230,008,263
Percentage of total fixed income	100%	13%	38%	22%	27%

Note: Commingled Funds are presented at the weighted average maturity. These funds do not have a single maturity date; however, the underlying securities have maturity dates. To more accurately reflect the interest rate risk of the Systems, these weighted averages were displayed. Government backed securities are not required to be disclosed; however, we feel it shows a more accurate picture of our fixed income holdings.

Credit Risk **–** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Systems do not have a single investment policy designating the minimum allowable credit rating; however, each manager must follow guidelines established specifically for its managed portfolio. The portfolios are continually monitored to ensure compliance with these guidelines. The following table includes collateral pledged for deposits and repurchase agreements but does not include security lending collateral held in a pooled investment fund. The Systems' debt investments by credit rating category as of June 30, 2007 are presented in the following tables.

PSRS

Security Type	Market Value at June 30, 2007	Percentage	AAA	AA	A	BBB	BB	B	Not Rated
U.S. treasuries	$ 1,437,071,857	15%	$ 1,437,071,857	$ -	$ -	$ -	$ -	$ -	$ -
Government guaranteed mortgages	101,097,758	1%	101,097,758	-	-	-	-	-	-
Agencies	1,920,900,796	20%	1,920,900,796	-	-	-	-	-	-
Collateralized mortgage obligations	473,265,677	5%	471,465,677	-	-	-	1,800,000	-	-
Asset backed securities	1,007,491,565	11%	969,897,379	13,315,284	4,842,429	9,958,254	9,343,834	134,385	-
Corporate bonds	1,844,849,084	19%	139,604,666	345,262,983	309,929,746	540,258,043	212,221,810	285,083,509	12,488,327
Sovereign	190,515,549	2%	2,030,976	71,499,901	31,426,900	21,019,732	24,684,061	10,622,116	29,231,863
Municipals	33,001,203	1%	8,314,013	21,707,206	-	2,979,984	-	-	-
Commingled Funds (see note)									
SSGA TIPS	286,371,982	3%	286,371,982	-	-	-	-	-	-
SSGA STIF	875,831,429	9%	-	-	875,831,429	-	-	-	-
SSGA Lehmann Aggregate	1,120,455,827	12%	-	1,120,455,827	-	-	-	-	-
PIMCO High Yield	544,552	0%	-	-	-	-	544,552	-	-
PIMCO Institutional Class	5,614,531	0%	-	-	-	-	5,614,531	-	-
PIMCO Emerging Markets	27,578,238	1%	-	-	-	27,578,238	-	-	-
PIMCO International	20,189,557	0%	-	20,189,557	-	-	-	-	-
Seix High Income Fund	23,493,039	0%	-	23,493,039	-	-	-	-	-
Currency	97,332,173	1%	-	-	-	-	-	-	97,332,173
Total	$ 9,465,604,817	100%	$ 5,336,755,104	$ 1,615,923,797	$ 1,222,030,504	$ 601,794,251	$ 254,208,788	$ 295,840,010	$ 139,052,363
Percentage of total fixed income	100%		56%	17%	13%	7%	3%	3%	1%

Note: Commingled Funds are presented at the weighted average credit quality. These funds do not carry a rating in and of themselves; however, the underlying securities are all rated. To more accurately reflect the credit risk of the Systems, these weighted averages were displayed. Government backed securities are not required to be disclosed; however, we feel it shows a more accurate picture of our fixed income holdings.

PEERS

Security Type	Market Value at June 30, 2007	Percentage	AAA	AA	A	BBB	BB	B	Not Rated
U.S. treasuries	$ 131,728,686	16%	$ 131,728,686	$ -	$ -	$ -	$ -	$ -	$ -
Government guaranteed mortgages	8,462,186	1%	8,462,186	-	-	-	-	-	-
Agencies	172,402,256	21%	172,402,256	-	-	-	-	-	-
Collateralized mortgage obligations	40,501,338	5%	40,346,338	-	-	-	155,000	-	-
Asset backed securities	86,067,059	10%	84,025,704	-	491,602	889,217	660,536	-	-
Corporate bonds	166,789,744	20%	23,802,734	29,637,054	27,235,486	48,059,432	18,117,200	24,142,687	(4,204,849)
Sovereign	16,847,002	2%	222,912	6,212,290	2,757,001	1,858,453	2,277,643	934,458	2,584,245
Municipals	2,796,268	0%	791,907	1,791,505	-	212,856	-	-	-
Commingled Funds (see note)									
SSGA TIPS	31,521,362	4%	31,521,362	-	-	-	-	-	-
SSGA STIF	54,479,204	6%	-	-	54,479,204	-	-	-	-
SSGA Lehmann Aggregate	118,205,952	14%	-	118,205,952	-	-	-	-	-
PIMCO High Yield	48,609	0%	-	-	-	-	48,609	-	-
PIMCO Institutional Class	501,212	0%	-	-	-	-	501,212	-	-
PIMCO Emerging Markets	2,403,436	0%	-	-	-	2,403,436	-	-	-
PIMCO International	728,235	0%	-	728,235	-	-	-	-	-
Seix High Income Fund	2,014,471	0%	-	2,014,471	-	-	-	-	-
Currency	9,157,354	1%	-	-	-	-	-	-	9,157,354
Total	$ 844,654,374	100%	$ 493,304,085	$ 158,589,507	$ 84,963,293	$ 53,423,394	$ 21,760,200	$ 25,077,145	$ 7,536,750
Percentage of total fixed income	100%		58%	19%	10%	6%	3%	3%	1%

Note: Commingled Funds are presented at the weighted average credit quality. These funds do not carry a rating in and of themselves; however, the underlying securities are all rated. To more accurately reflect the credit risk of the Systems, these weighted averages were displayed. Government backed securities are not required to be disclosed; however, we feel it shows a more accurate picture of our fixed income holdings.

Foreign Currency Risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Systems do not have a single investment policy designating the allowable exposure to foreign currency; however, each manager must follow guidelines established specifically for its managed portfolio. The portfolios are continually monitored to ensure compliance with these guidelines. The Systems' exposure to foreign currency risk is presented on the following tables.

PSRS

Currency	Debt	Equity	Currency/ Short Term	Total
Argentine Peso	$ 8,178,248	$ -	$ -	$ 8,178,248
Australian Dollar	423	174,828,642	683,024	175,512,089
Brazilian Real	30,928,177	73,529,227	(829,831)	103,627,573
Canadian Dollar	(76,020,698)	131,055,893	2,173,221	57,208,416
Chilean Peso	-	1,661,545	-	1,661,545
Columbian Peso	7,976,507	-	(8,574,959)	(598,452)
Czech Koruna	-	19,255,394	616,496	19,871,890
Danish Krone	-	27,988,956	516,250	28,505,206
Egyptian Pound	8,113,790	-	-	8,113,790
Euro Currency	(14,282)	2,039,327,115	7,711,943	2,047,024,776
Hong Kong Dollar	-	144,483,899	2,576,811	147,060,710
Hungarian Forint	-	32,207,872	373,033	32,580,905
Indian Rupee	-	19,477,398	629,811	20,107,209
Indonesian Rupiah	-	13,903,327	325,679	14,229,006
Israeli Shekel	-	14,595,751	19,004	14,614,755
Japanese Yen	7,826,715	872,588,534	36,984,951	917,400,200
Malaysian Ringgit	-	3,003,742	2,041	3,005,783
Mexican Peso	9,798,352	16,686,948	451,678	26,936,978
New Bulgaria Lev	-	4,806,564	1,692	4,808,256
New Russian Ruble	-	521,244	(67)	521,177
New Taiwan Dollar	-	62,245,871	6,563,247	68,809,118
New Turkish Lira	-	23,613,395	23,921	23,637,316
New Zealand Dollar	-	4,335,048	5,271	4,340,319
Norwegian Krone	-	35,430,784	41,721	35,472,505
Pakistan Rupee	-	3,828,568	-	3,828,568
Philippine Peso	-	145,824	118,297	264,121
Polish Zloty	-	41,726,558	(14)	41,726,544
Pound Sterling	1,400,480	1,036,934,857	15,254,475	1,053,589,812
Singapore Dollar	-	84,737,463	426,258	85,163,721
South African Rand	22,997,119	31,395,773	93,161	54,486,053
South Korean Won	-	142,718,243	100,924	142,819,167
Swedish Krona	-	150,741,870	3,307,824	154,049,694
Swiss Franc	-	361,631,400	552,938	362,184,338
Thailand Baht	-	24,507,009	314,984	24,821,993
Yuan Renminbi	-	-	(106,082)	(106,082)
	$ 21,184,831	$ 5,593,914,714	$ 70,357,702	$ 5,685,457,247

PEERS

Currency	Debt	Equity	Currency/ Short Term	Total
Argentine Peso	$ 715,083	$ -	$ -	$ 715,083
Australian Dollar	44	16,041,544	302,417	16,344,005
Brazilian Real	2,721,259	6,134,242	(65,340)	8,790,161
Canadian Dollar	(6,262,315)	12,236,628	172,965	6,147,278
Chilean Peso	-	154,072	7,703	161,775
Columbian Peso	873,340	-	(1,281,394)	(408,054)
Czech Koruna	-	1,744,003	55,913	1,799,916
Danish Krone	-	2,751,388	57,935	2,809,323
Egyptian Pound	709,860	-	-	709,860
Euro Currency	16,984	186,122,297	1,259,727	187,399,008
Hong Kong Dollar	-	14,028,667	149,196	14,177,863
Hungarian Forint	-	2,929,558	45,481	2,975,039
Indian Rupee	-	1,772,420	52,477	1,824,897
Indonesian Rupiah	-	1,258,757	29,186	1,287,943
Israeli Shekel	-	1,290,149	1,681	1,291,830
Japanese Yen	704,371	81,009,529	2,746,189	84,460,089
Malaysian Ringgit	-	232,983	229	233,212
Mexican Peso	860,743	1,753,727	40,040	2,654,510
New Bulgaria Lev	-	436,177	262	436,439
New Russian Ruble	-	47,236	(348)	46,888
New Taiwan Dollar	-	5,436,716	422,813	5,859,529
New Turkish Lira	-	2,217,915	4,497	2,222,412
New Zealand Dollar	-	346,599	2,911	349,510
Norwegian Krone	-	3,227,668	13,210	3,240,878
Pakistan Rupee	-	193,877	2,732	196,609
Philippine Peso	-	13,198	19,846	33,044
Polish Zloty	-	3,646,666	-	3,646,666
Pound Sterling	32,554	96,132,203	1,873,193	98,037,950
Singapore Dollar	-	7,653,766	63,064	7,716,830
South African Rand	2,005,198	2,900,453	49,806	4,955,457
South Korean Won	-	13,349,787	9,121	13,358,908
Swedish Krona	-	13,949,200	237,634	14,186,834
Swiss Franc	-	34,272,021	69,221	34,341,242
Thailand Baht	-	2,107,224	31,975	2,139,199
Yuan Renminbi	-	-	(2)	(2)
	$ 2,377,121	$ 515,390,670	$ 6,374,340	$ 524,142,131

Derivatives – The Systems are parties to certain financial investments with off-balance sheet risk used in the normal course of business to generate earnings and reduce exposure to fluctuations in market conditions. Derivatives are reported at fair value on the Statement of Plan Net Assets.

International security managers are authorized to engage in forward contracts to exchange different currencies at a specified date and rate. These forward contracts involve elements of custodial and market risk in excess of the amount recognized in the Statement of Plan Net Assets. The forward exchange contracts activity (purchases and sales) during fiscal years 2007 and 2006 are shown below.

2007	Purchase Value	Fair Value
PSRS	$ 2,626,430,154	$ 2,631,922,454
PEERS	222,625,478	223,117,916

2006	Purchase Value	Fair Value
PSRS	$ 2,052,279,597	$ 2,058,261,171
PEERS	185,499,509	186,100,757

The "Net Appreciation" in Fair Value of Investments" found on the Statement of Changes in Plan Net Assets includes for PSRS a gain on forward contracts and currency disposal of $8,100,307 during 2006-2007 and a net loss of $16,209,283 during 2005-2006. PEERS had a net gain of $1,386,351 during 2006-2007 and a net loss of $1,454,583 in 2005-2006.

Certain managers are authorized to enter into contractual commitments involving other financial instruments with off-balance-sheet risk. During the year, the Systems held equity futures, Treasury futures, options, forwards and swaps. These are used to minimize the expenses and volatility of the portfolio.

The following derivatives were held by the Systems at June 30, 2007:

Type	PSRS Notional Value	PEERS Notional Value
Equity futures	$ (46,337,718)	$ (1,663,689)
Treasury futures	121,215,844	11,325,688
Currency futures	1,059,410,106	81,105,480
Cash futures	66,472,757	5,578,359
Total	$ 1,200,760,989	$ 96,345,838

Security Lending Activity – Under the "prudent person" authority of the governing statutes and in accordance with the policies set by the Board of Trustees, the Systems lend securities to broker-dealers and banks pursuant to a form of loan agreement. The Systems' 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 Systems lent securities and received cash (both U.S. and foreign currency), securities issued or guaranteed by the U.S. government or its agencies, sovereign debt of foreign countries, and irrevocable bank letters of credit as collateral. The Systems did not have the ability to pledge or sell noncash collateral absent borrower default. Borrowers were required to deliver collateral for each loan equal to: (1) in the case of loaned securities denominated in U.S. dollars or whose primary trading market was located in the United States, or sovereign debt issued by foreign governments, 102% of the fair value of the loaned securities and (2) in the case of loaned securities not denominated in U.S. dollars or whose primary trading market was not located in the United States, 105% of the fair value of the loaned securities.

The Systems did not impose any restrictions during the fiscal year on the amount of the loans that the custodial bank made on their behalf. The custodial bank indemnified the System by agreeing to purchase replacement securities, or return cash collateral in the event a borrower failed to return a loaned security or pay distributions thereon. 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 Systems and borrowers each maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested together with the cash collateral of other qualified tax-exempt plan lenders in a collective investment pool. The average duration of such investment pool as of June 30, 2007 was 68 days and an average weighted maturity of 533 days. Because the loans were terminable at will, their duration did not match the duration of the investments made with cash collateral. On June 30, 2007 the Systems had no credit risk exposure to borrowers because the amounts the Systems owed the borrowers exceeded the amounts the borrowers owed the Systems.

The collateral held (including both cash collateral recognized in the "Statement of Plan Net Assets" and non-cash collateral) and the fair values of securities on loan for PSRS were $5,090,660,025 and $4,898,844,667 at June 30, 2007 and $4,145,455,453 and $4,069,555,366 at June 30, 2006. Net security lending income was $12,631,289 for the 2006-2007 fiscal year and $12,050,552 for the 2005-2006 fiscal year.

The collateral held (including both cash collateral recognized in the "Statement of Plan Net Assets" and non-cash collateral) and the fair values of securities on loan for PEERS were $465,515,757 and $450,515,316 at June 30, 2007 and $369,165,286 and $361,416,439 at June 30, 2006. Net security lending income was $1,167,681 for the 2006-2007 fiscal year and $1,017,073 for the 2005-2006 fiscal year.

The collective investment pool in which the collateral received from security lending loans is invested has the following characteristics. The fair value of the investments held by the pooled fund is based upon valuations provided by a recognized pricing service. Because the pooled fund does not meet the requirements of Rule 2a-7 of the Investment Company Act of 1940, the fund's investments are valued at fair market value for reporting purposes. The pooled fund is not registered with the Securities and Exchange Commission.

The custodial bank and consequently, the investment vehicles it sponsors (including the pooled fund) are subject to the oversight of the Federal Reserve Board and the Massachusetts Commissioner of Banks. The fair value of the System's position in the pooled fund is not the same as the value of the fund shares. The Systems had no involuntary participation in an external investment pool through this fund and no income from one fund was assigned to another fund by the custodial bank during either fiscal year.

Note 5 – Additional Deposits Program

Section 169.035, RSMo provides for an additional deposits program for PSRS members. Members may make payments above the required defined benefit contribution amount to the Retirement System in order to provide a monthly annuity at retirement based on the total of the deposits and interest.

This annuity is in addition to the defined benefit allowance provided by the System. Contributions to the program are tax-sheltered. As of September 1, 1996 new deposits to the program were limited to members currently with deposits in the program. No additional deposits were made during 2006-2007. The deposits and interest of the one member who has not yet retired totaled $1,745 as of June 30, 2007.

The deposits to the program are included in the investment program of the PSRS defined benefit plan. The additional deposits program's basis of accounting and the asset valuation are identical to the defined benefit plan.

Note 6 – Retirement Plans

Section 401 (a) Defined Benefit Plan – All full-time Retirement System employees holding a valid Missouri teaching certificate are covered by PSRS. All other eligible employees are members of PEERS. Both Systems provide retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Chapter 169 RSMo contains the statutory provisions of both Systems.

PSRS members were required to contribute 12.0% of their annual covered salary during 2006-2007 and 11.5% during 2005-2006. PSRS, as the employer, was required to match that amount. The contribution rate is established and may be amended by the Board of Trustees. Employer contributions to PSRS totaled $32,322 for the 2006-2007 fiscal year and $29,899 for 2005-2006. The amounts for these years are equal to the required contributions.

PEERS members were required to contribute 5.75% of their annual covered salary during 2006-2007 and 5.50% during 2005-2006. PSRS, as the employer, was required to match that amount. The contribution rate is established and may be amended by the Board of Trustees. Employer contributions to PEERS totaled $335,772 for the 2006-2007 fiscal year and $281,877 for 2005-2006. The amounts for these years are equal to the required contributions.

Section 457 Deferred Compensation Plan – A voluntary Section 457 deferred compensation plan is administered to provide additional retirement benefits for employees. The plan provides for employer-matching contributions up to a set maximum. The total contributions are subject to the limitations established in IRC Section 457. The Board of Trustees has authority to establish the employer contribution levels. For most employees, the System will match $50 plus 0.52% of salary per month. For certain employees, the System will make employer-paid contributions up to the maximum deferral allowed by the IRS (currently $15,500 per year plus $5,000 in catch up contributions). This is governed by individual employment contracts as approved by the Board of Trustees.

All employees immediately vest in the employer-matching and employer-paid contributions. Employer-matching contributions totaled $83,773 for the 2006-2007 fiscal year and $70,796 for the 2005-2006 fiscal year. Employer-paid contributions totaled $48,250 for the 2006-2007 fiscal year and $28,000 for the 2005-2006 fiscal year. Employee contributions totaled $185,099 for the 2006-2007 fiscal year and $169,349 for the 2005-2006 fiscal year.

Maintenance of individual member accounts and custody of assets have been contracted to a third party administrator and investment custodian. Total contributions are sent directly to the third party administrator by the employer. Employees can self-direct investments of their contributions and their respective share of matching contributions in a number of investment options.

Because the System does not hold the plan's assets and does not have significant administrative responsibilities, the plan's assets and changes in net assets are not reported in the Systems' financial statements.

Post Employment Health Plan – PSRS maintains a Post Employment Health Plan ("PEHP") for employees. Upon termination, an employee will receive payment at the rate of one day of pay for each two days of accrued sick leave up to 100 days of accrued sick leave (50 days paid). Any days above 100 will be forfeited. All payments under the PEHP in excess of $1,000 will be transferred into a PEHP account which can be used to pay medical premiums for the employee or dependent at any time in the future. If an employee is retiring, the payments can be transferred back to PSRS on a monthly basis to cover the cost of medical insurance for the retiree. The amount paid into the PEHP was $24,217 for four employees (two retirees and two terminations) during 2007 and $23,145 for four employees (three retirees and one termination) during 2006. The cost was charged 60% to PSRS and 40% to PEERS.

Note 7 – Risk Management

The Systems are exposed to various risks of loss related to natural disasters, errors and omissions, loss of assets, torts, etc. The Systems have chosen to cover such losses through the purchase of commercial insurance. There have been no material insurance claims filed or paid during the past three years.

The Systems have a disaster recovery plan that provides for continued computer operations at a remote location should the retirement office be unavailable for normal operations.

Note 8 – Commitments and Contingencies

PSRS was committed to the future purchase of investments at a cost of $5,093,730,593 on June 30, 2007 and to the future purchase of $3,294,051,028 in investments on June 30, 2006. PEERS had investment commitments of $416,705,802 on June 30, 2007 and $316,720,766 on June 30, 2006.

PSRS has entered into a contract with a consultant to provide and implement the software and training of an automated pension administration system at a cost of approximately $8,200,000. As of June 30, 2007, $313,241 of payments had been made pursuant to this contract.

Schedules of Funding Progress

Required Supplementary Information

Public School Retirement System

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)– Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
6/30/2002	$ 22,236,105	$ 23,333,937[1]	$ 1,097,832	95.3%	$ 3,213,461	34.2 %
6/30/2003	20,047,982	24,719,450[2]	4,671,468	81.1	3,373,058	138.5
6/30/2004	21,501,572	26,225,259[3]	4,723,687	82.0	3,408,230	138.6
6/30/2005	23,049,441	27,881,513[4]	4,832,072	82.7	3,540,649	136.5
6/30/2006	24,801,644	30,037,130[5]	5,235,486	82.6	3,775,752	138.7
6/30/2007	27,049,004	32,396,722[6]	5,347,718	83.5	3,980,698	134.3

[1]There were no legislative changes in fiscal year 2002.
[2]The extension of the 25-and-Out provision to 2008 is included in the AAL for 2003.
[3]There were no legislative changes in fiscal year 2004.
[4]There were no legislative changes in fiscal year 2005.
[5]There were no legislative changes in fiscal year 2006.
[6]The extension of the 25-and-Out and 2.55% provisions to 2013 were included in the AAL for 2007.

Public Education Employee Retirement System

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)– Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
6/30/2002	$ 1,810,619	$ 1,855,982[1]	$ 45,363	97.6 %	$ 895,420	5.1 %
6/30/2003	1,677,770	2,049,716[2]	371,946	81.9	971,177	38.3
6/30/2004	1,837,308	2,221,210[3]	383,902	82.7	984,866	39.0
6/30/2005	2,011,566	2,414,494[4]	402,928	83.3	1,055,204	38.2
6/30/2006	2,218,638	2,756,833[5]	538,195	80.5	1,190,994	45.2
6/30/2007	2,481,562	2,982,812[6]	501,250	83.2	1,275,199	39.3

[1]There were no legislative changes in fiscal year 2002.
[2]The extension of the 25-and-Out provision to 2008 is included in the AAL for 2003.
[3]There were no legislative changes in fiscal year 2004.
[4]There were no legislative changes in fiscal year 2005.
[5]There were no legislative changes in fiscal year 2006.
[6]The extension of the 25-and-Out and 2.55% provisions to 2013 were included in the AAL for 2007.

Schedules of Employer Contributions

Required Supplementary Information

Public School Retirement System

Year Ended June 30	Annual Required Contribution (ARC)	Employer Contribution	Percentage Contributed
2002	$ 340,000,556	$ 340,000,556	100.0 %
2003	376,659,713	355,979,027	94.5
2004	475,400,520	359,762,556	75.7
2005	593,328,374	389,415,997	65.6
2006	608,134,319	429,578,911	70.6
2007	644,969,214	472,216,630	73.2

Public Education Employee Retirement System

Year Ended June 30	Annual Required Contribution (ARC)	Employer Contribution	Percentage Contributed
2002	$ 45,773,119	$ 45,773,119	100.0 %
2003	52,847,992	48,933,326	92.6
2004	62,315,910	49,976,898	80.2
2005	73,948,917	53,109,687	71.8
2006	79,707,834	61,745,505	77.5
2007	89,945,503	69,235,160	77.0

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, 2007
Actuarial cost method	Entry Age Normal
Amortization method	Level Percent, Open
Remaining amortization period	
PSRS	30 years (1)
PEERS	30 years (2)
Asset valuation method	5-year smoothed market
	Marked to Market as of June 30, 2003
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases*	
PSRS	5.0 - 10.25%
PEERS	5.0 - 10.0%
*Includes inflation at	3.25%
Cost-of-living adjustments	3.25%

1) 30-year amortization assumes an ARC rate of 28.24% for fiscal year 2008. The annual statutory increase in the total contribution rate may not exceed 1% of pay. Contribution rates will be established by actuarial valuation.
2) 30-year amortization assumes an ARC rate of 12.98% for fiscal year 2008. The annual statutory increase in the total contribution rate may not exceed .5% of pay. Contribution rates will be established by actuarial valuation.

Schedule of Administrative Expenses

For the year ended June 30, 2007

	PSRS	PEERS	Combined Totals
Personal services	$ 3,771,194	$ 2,511,604	$ 6,282,798
Professional services			
Actuarial services	159,786	106,324	266,110
Financial audit services	25,800	17,200	43,000
Computer consulting	590,253	393,339	983,592
Insurance consulting	3,600	2,400	6,000
Legislative consulting	27,600	18,400	46,000
Other consultants	46,738	31,159	77,897
Legal services	85,280	56,853	142,133
Total professional services	939,057	625,675	1,564,732
Communications			
Information and publicity	503,573	364,152	867,725
Postage	58,557	38,329	96,886
Staff field	30,236	15,605	45,841
Telephone	52,996	35,331	88,327
Total communications	645,362	453,417	1,098,779
Miscellaneous			
Building and utilities	104,986	69,996	174,982
Insurance	76,194	50,796	126,990
Office	398,555	263,176	661,731
Staff development	227,086	138,227	365,313
Miscellaneous	131,681	56,554	188,235
Total miscellaneous	938,502	578,749	1,517,251
Charge for use of capital assets	-	257,243	257,243
Depreciation expense	816,945	-	816,945
Total administrative expenses	$ 7,111,060	$ 4,426,688	$ 11,537,748

Schedule of Investment Expenses

For the year ended June 30, 2007

	PSRS	PEERS	Combined Totals
Investment management expenses			
U.S. equity	$ 24,251,443	$ 2,096,150	$ 26,347,593
International equity	20,411,537	1,818,152	22,229,689
Fixed income	6,616,722	574,867	7,191,589
Implementation pool	244,230	23,664	267,894
Real estate	1,100,706	106,864	1,207,570
Private equity	6,999,015	526,808	7,525,823
Total investment management expenses	59,623,653	5,146,505	64,770,158
Investment consultant fees	2,128,063	181,332	2,309,395
Custodial bank fees	4,033,802	375,740	4,409,542
Investment staff expenses	1,006,689	659,394	1,666,083
Commission recapture income	(456,136)	(27,489)	(483,625)
Total investment income expenses	$ 66,336,071	$ 6,335,482	$ 72,671,553
Security lending expenses			
Agent fees	$ 2,712,720	$ 248,069	$ 2,960,789
Broker rebates	208,929,337	20,075,043	229,004,380
Total security lending expenses	$ 211,642,057	$ 20,323,112	$ 231,965,169

Schedule of Professional/Consultant Fees

For the year ended June 30, 2007

	PSRS	PEERS	Combined Totals
Technology consulting	$ 590,253	$ 393,339	$ 983,592
Actuarial services	159,786	106,324	266,110
Legal expenses	85,280	56,853	142,133
Other consulting	46,738	31,159	77,897
Legislative consulting	27,600	18,400	46,000
Financial audit services	25,800	17,200	43,000
Insurance consulting	3,600	2,400	6,000
Total fees	$ 939,057	$ 625,675	$ 1,564,732