Stability

Financial ***stability*** is built over time through hard work, dedication and applied knowledge. True financial stability is a long-term condition that requires constant education and adaptation to economic challenges of all kinds.

FINANCIAL SECTION

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

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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, 2011, 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 audits. The prior year combined total information has been derived from the Systems' 2010 financial statements and, in our report dated October 22, 2010, we expressed unqualified opinions on the respective financial statements of the Systems' net assets.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Public School and Public Education Employee Retirement Systems of Missouri at June 30, 2011, 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 16 through 20 and the Schedules of Funding Progress and Employer Contributions on pages 42 through 44 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 45 through 46 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 21, 2011

American Institute of Certified Public Accountants
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MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the financial position of the Public School Retirement System of Missouri (PSRS) and the Public Education Employee Retirement System of Missouri (PEERS) (collectively referred to as the Systems) provides an overview of the Systems' financial activities for the fiscal year ended June 30, 2011. 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, 2011 were $31.0 billion. The net assets increased by $4.8 billion from June 30, 2010. This increase was a result of the Systems achieving record high investment returns in fiscal year 2011.

The overall investment return was 21.8% for the Public School Retirement System (PSRS) and 21.4% for the Public Education Employee Retirement System (PEERS). The Systems' investment asset allocation and strategic initiatives provided returns that significantly exceeded our assumed rate of return of 8%. Additionally, the overall investment return of the Systems significantly outperformed the Systems' strategic and Policy Benchmark returns. These returns are an indication of how the Systems' internal staff and active investment management have added value through strategic portfolio repositioning and implementation. PSRS outperformed the median return of large institutional pension funds, while PEERS was marginally below the median return.

The Systems' funding objective is to meet long-term benefit obligations through the accumulation of contributions and investment income. This funding is to 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. The Systems continue their dedication to provide a stable and secure retirement to their members.

As of June 30, 2011, the pre-funded ratios were 85.5% for PSRS and 85.3% for PEERS. As of June 30, 2010, the pre-funded ratios were 77.7% for PSRS and 79.1% for PEERS. To arrive at the actuarial value of assets as of June 30, 2011 and 2010, the Systems used an asset smoothing method by which investment returns above or below 8% are recognized over a five-year period. During fiscal year 2011, the Systems conducted an actuarial experience study, which resulted in revisions to some of the actuarial assumptions. The actuarial assumptions are detailed in the notes to the financial statements.

Revenues for fiscal year 2011 were comprised of contribution revenue of $1.4 billion and investment gains of $5.5 billion, compared to contribution revenue of $1.4 billion and investment gains of $3.0 billion for fiscal year 2010.

Expenses increased 7.1% over the prior year from $1.95 billion to $2.1 billion. Service retirement benefits increased by $102.8 million from $1.7 billion in fiscal year 2010 to $1.8 billion in fiscal year 2011. Another $75.1 million was paid to retirees electing the Partial Lump Sum Option (PLSO). This cost increased by $20.0 million from the $55.1 million paid during fiscal year 2010. 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 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 22) 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 23) 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 an employer, 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 notes to the 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 24 through 41. The report also contains required supplementary information in addition to the basic financial statements themselves.

The Schedules of Funding Progress (page 42) include historical trend information about the actuarially funded status of each pension 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 43) present historical trend information about the annual required contributions of employers and the actual contributions made by employers.

The Schedule of Funding Progress (page 44) includes historical trend information about the actuarially funded status of the defined benefit other post employment benefit (OPEB) plan from a long-term, ongoing perspective and the progress made in accumulating assets to pay benefits when due.

The Schedule of Employer Contributions (page 44) presents historical trend information about the annual required contributions of the employer and the actual employer contributions made for the defined benefit OPEB plan.

The Schedule of Percentage of Other Post Employment Benefit (OPEB) Cost Contributed (page 44) presents historical trend information about the annual OPEB costs and the actual contributions made for the defined benefit OPEB plan.

Other supplementary schedules are also included. The Schedules of Administrative Expenses (page 45) present the overall cost of administering the Systems. The Schedules of Professional Services (page 46) further detail this category of administrative expense.

The Schedules of Investment Expenses (page 46) show the costs associated with investing the assets of the Systems. These expenses are shown as a reduction of revenue on the Statements of Changes in Plan Net Assets.

Financial Analysis of the Public School Retirement System

The Public School Retirement System of Missouri (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 14.0% of their annual covered salary during 2011. The employer was required to match that amount. Most PSRS members do not contribute to Social Security.

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

	2011	2010	Change
Cash & investments	$ 30,821,804	$ 26,097,115	$ 4,724,689
Receivables	2,151,259	2,575,364	(424,105)
Other	15,497	13,354	2,143
Total assets	32,988,560	28,685,833	4,302,727
Total liabilities	4,888,379	4,930,092	(41,713)
Plan net assets	$ 28,100,181	$ 23,755,741	$ 4,344,440

Assets

Total assets of PSRS as of June 30, 2011 were $33.0 billion and were mostly comprised of cash, investments, and contributions due from employers. Total assets increased by $4.3 billion or 15.0% from the prior year due to significant investment gains.

Liabilities

Total liabilities as of June 30, 2011, were $4.9 billion and were mostly comprised of payables from the purchase of investments and obligations under security lending arrangements. Total liabilities decreased by $41.7 million from the prior year. This decrease was due to a $0.6 billion decrease in securities lending obligations, which was partially offset by an increase in investment purchase liabilities.

Net Assets

PSRS assets exceeded liabilities at June 30, 2011, by $28.1 billion. This was up from 2010 net assets of $23.8 billion by $4.3 billion. This increase was a result of investment earnings that totaled $5.0 billion for the year offset by benefit payments and other expenses which exceeded contribution revenue by $0.7 billion. This trend is a natural progression in a mature defined benefit plan.

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

	2011	2010	Change
Additions			
Member contributions	$ 638,357	$ 636,633	$ 1,724
Employer contributions	594,732	594,326	406
Investment income	5,018,518	2,723,032	2,295,486
Other	930	867	63
Total additions	6,252,537	3,954,858	2,297,679
Deductions			
Monthly benefits	1,845,620	1,729,704	115,916
Refunds of contributions	53,639	48,160	5,479
Administrative expenses	8,836	10,026	(1,190)
Other	2	404	(402)
Total deductions	1,908,097	1,788,294	119,803
Change in plan net assets	$4,344,440	$ 2,166,564	$ 2,177,876

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 $2.1 million to $1.2 billion. This was a 0.2% increase over the prior year. Retirement contributions were calculated at 14.0% of retirement salary for each member during fiscal year 2011. The employer matched this amount. Contribution rates increased from 13.5% to 14.0% of pay compared to the prior year. Overall contribution revenue remained stable even though an increase in contribution rates occurred. This was the result of a decline in total active members contributing to the System. In addition to contributions on salary, members may also pay to reinstate previously refunded contributions or to purchase various types of elective credit. Such contributions for the year decreased by $0.5 million.

The net investment gain was $5.0 billion as compared to a net investment gain of $2.7 billion in 2010. 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 2011 were $1.9 billion, an increase of 6.7% over fiscal year 2010.

Benefit expenses increased by $115.9 million. This was a result of the addition of 3,197 new service and disability retirees. There were no changes to the benefit formula during 2011. Refunds of contributions increased by $5.5 million to $53.6 million.

Administrative expenses decreased by $1.2 million to $8.8 million. This was an 11.9% decrease, which is attributable to a significant reduction in depreciation expense due to several large software products becoming fully depreciated. The cost of these items was charged 61% to PSRS and 39% to PEERS, unless the expense was determined to be of direct benefit to only one system. In such instance, the allocation of expense was 100% to the benefited system. 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 of Missouri (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 6.63% of their annual covered salary during 2011. The employer was required to match that amount. PEERS members also contribute to Social Security.

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

	2011	2010	Change
Cash & investments	$ 3,200,113	$ 2,674,567	$ 525,546
Receivables	232,745	267,504	(34,759)
Other	41	122	(81)
Total assets	3,432,899	2,942,193	490,706
Total liabilities	514,135	537,768	(23,633)
Plan net assets	$ 2,918,764	$ 2,404,425	$ 514,339

Assets

Total assets of PEERS as of June 30, 2011 were $3.4 billion and were mostly comprised of cash, investments, and contributions due from employers. Total assets increased by $0.5 billion or 16.7% from the prior year due to significant investment gains.

Liabilities

Total liabilities as of June 30, 2011 were $0.5 billion and were mostly comprised of payables from the purchase of investments and obligations under security lending arrangements. Total liabilities decreased by $23.6 million. This decrease was due to a $54.0 million decrease in securities lending obligations, which was partially offset by an increase in investment purchase liabilities.

Net Assets

PEERS assets exceeded liabilities at the close of fiscal year 2011 by $2.9 billion. This was up from 2010 net assets of $2.4 million by $0.5 billion. This increase was a result of investment earnings that totaled $0.5 billion during the year. Because PEERS is a much younger plan than PSRS, contribution revenues exceeded benefit payments and other expenses by $11.4 million.

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

	2011	2010	Change
Additions			
Member contributions	$ 95,792	$ 95,924	$ (132)
Employer contributions	90,816	91,479	(663)
Investment income	502,934	261,135	241,799
Total additions	689,542	448,538	241,004
Deductions			
Monthly benefits	150,769	135,796	14,973
Refunds of contributions	18,823	16,711	2,112
Administrative expenses	5,608	5,280	328
Other	3	-	3
Total deductions	175,203	157,787	17,416
Change in plan net assets	$ 514,339	$ 290,751	$ 223,588

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 decreased by $0.8 million to $186.6 million. Retirement contributions were calculated at 6.63% of retirement salary for each member during fiscal year 2011. The employer matched this amount. Contribution rates increased from 6.5% to 6.63% of pay compared to the prior year. Overall contribution revenue marginally decreased even though an increase in contribution rates occurred. The decrease was a result of a decline in total active members contributing to the System. In addition to contributions on salary, members may also pay to reinstate previously refunded contributions or to purchase various types of elective credit. Such contributions for the year increased by $0.2 million or 4.8%.

The net investment gain was $502.9 million as compared to a net investment gain of $261.1 million in 2010. 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 2011 were $175.2 million, an increase of 11.0% over fiscal year 2010.

Benefit expenses increased by $15.0 million. This was a result of the addition of 1,728 new service and disability retirees. There were no changes to the benefit formula during 2011. Refunds of contributions increased by $2.1 million to $18.8 million.

Administrative expenses increased by $0.3 million to $5.6 million. This was a 6.2% increase. This increase is attributable to increased depreciation expense related to newly completed information technology projects. PEERS reimburses PSRS for the use of capital assets used by the two Systems on a proportional basis based on the prior fiscal year's balances. Administrative costs were charged 61% to PSRS and 39% to PEERS, unless the expense was determined to be of direct benefit to only one system. In such instance, the allocation of expense was 100% to the benefited system. 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. Our investment earnings significantly exceeded the 8% rate of return assumption in both 2011 and 2010. The long-term return of the Systems remains above the 8% assumed rate of return. The current 25-year return of the Systems is 8.4%.

The Board of Trustees, management and staff have worked diligently during the current fiscal year to create and adopt a Funding Stabilization Policy for both PSRS and PEERS. The recommended fiscal year 2013 contribution rates for both PSRS and PEERS are unchanged from fiscal year 2012. PSRS' recommended fiscal year 2013 contribution rate remains 29.0%. The recommended rate is above the annual required contribution rate of 26.10%. PEERS' recommended fiscal year 2013 contribution rate remains 13.72%. The recommended rate is above the annual required contribution rate of 13.01%. The fiscal year 2013 contribution rates for both PSRS and PEERS represent a stabilization of the rates with no increase over fiscal year 2012. These contribution rate levels adhere to the Board of Trustees' Funding Stabilization Policy which has taken into consideration the probable rise in the annual required contribution in future fiscal years.

The Board, management and staff continually strive to improve the financial position of the Systems through a prudent investment program and long-term strategic planning.

Requests for Information

This financial report is designed to provide the Board, 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 Education Employee Retirement Systems of Missouri, P.O. Box 268, Jefferson City, MO 65102.

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Public School Retirement System of Missouri and
Public Education Employee Retirement System of Missouri
Statements of Plan Net Assets

as of June 30, 2011
with comparative totals for June 30, 2010

	PSRS	PEERS	Combined Totals June 30, 2011	Combined Totals June 30, 2010
ASSETS				
Cash	$ 71,609,074	$ 8,654,593	$ 80,263,667	$ 79,326,164
Receivables				
Contributions	158,732,569	15,933,372	174,665,941	181,914,194
Accrued interest and dividends	64,224,855	7,233,238	71,458,093	90,279,831
Investment sales	1,927,700,680	209,549,831	2,137,250,511	2,437,283,884
Due from PEERS	506,898	-	506,898	676,848
Other	94,210	28,411	122,621	213,962
Total receivables	2,151,259,212	232,744,852	2,384,004,064	2,710,368,719
Investments, at fair value				
U.S. Treasuries and TIPS	4,679,002,638	491,650,482	5,170,653,120	5,207,126,520
U.S. public equities	9,368,373,888	967,842,962	10,336,216,850	7,456,370,394
Global public equities	4,757,087,040	523,503,624	5,280,590,664	4,357,538,177
Short-term investments	1,254,068,498	125,478,183	1,379,546,681	972,607,025
Public credit	2,398,779,670	278,629,220	2,677,408,890	3,609,244,188
Private equity	1,756,185,586	144,738,144	1,900,923,730	1,432,009,716
Private credit	285,263,908	22,830,987	308,094,895	329,617,735
Private real estate	1,634,929,502	146,782,653	1,781,712,155	1,157,994,020
Hedged assets	3,729,852,553	383,136,782	4,112,989,335	2,736,168,189
Total investments	29,863,543,283	3,084,593,037	32,948,136,320	27,258,675,964
Invested securities lending collateral	886,651,960	106,865,034	993,516,994	1,566,179,925
Prepaid expenses	731,630	41,078	772,708	1,799,169
Capital assets, net of accumulated depreciation	14,765,165	-	14,765,165	11,675,147
Total assets	32,988,560,324	3,432,898,594	36,421,458,918	31,628,025,088
LIABILITIES				
Accounts payable	16,164,933	1,878,174	18,043,107	15,528,278
Interest payable	1,105,026	142,035	1,247,061	250,191
Securities lending collateral	913,404,013	109,155,270	1,022,559,283	1,631,791,914
Investment purchases	3,956,370,759	401,631,911	4,358,002,670	3,817,826,385
Due to PSRS	-	506,898	506,898	676,848
Net other post employment benefit obligation	453,808	299,092	752,900	546,100
Compensated absences	880,287	521,598	1,401,885	1,239,272
Total liabilities	4,888,378,826	514,134,978	5,402,513,804	5,467,858,988
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	$ 28,100,181,498	$ 2,918,763,616	$ 31,018,945,114	$ 26,160,166,100

Note: See accompanying Notes to the Financial Statements.

Public School Retirement System of Missouri and Public Education Employee Retirement System of Missouri Statements of Changes in Plan Net Assets

for the year ended June 30, 2011
with comparative totals for the year ended June 30, 2010

	PSRS	PEERS	Combined Totals Year Ended June 30, 2011	Combined Totals Year Ended June 30, 2010
ADDITIONS				
Contributions				
Employer	$ 594,732,137	$ 90,816,155	$ 685,548,292	$ 685,804,847
Member	638,356,963	95,791,885	734,148,848	732,556,939
Total contributions	1,233,089,100	186,608,040	1,419,697,140	1,418,361,786
Investment income				
From investing activities:				
Net appreciation in fair value of investments	4,934,182,144	487,768,248	5,421,950,392	2,696,213,581
Interest from investments	204,902,612	26,197,410	231,100,022	279,421,845
Interest from bank deposits	54,724	3,273	57,997	49,679
Dividends	168,003,701	17,191,478	185,195,179	199,042,799
Total investment income	5,307,143,181	531,160,409	5,838,303,590	3,174,727,904
Less investment expenses	326,523,083	33,050,582	359,573,665	224,470,683
Net income from investing activities	4,980,620,098	498,109,827	5,478,729,925	2,950,257,221
From security lending activities:				
Security lending gross income	11,113,135	1,108,508	12,221,643	10,920,744
Net appreciation in fair value of security lending collateral	32,302,367	4,267,335	36,569,702	25,761,574
Less security lending activity expenses:				
Agent fees	1,148,613	117,847	1,266,460	763,164
Broker rebates	4,368,523	434,167	4,802,690	2,008,993
Total security lending expenses	5,517,136	552,014	6,069,150	2,772,157
Net income from security lending activities	37,898,366	4,823,829	42,722,195	33,910,161
Total net investment income	5,018,518,464	502,933,656	5,521,452,120	2,984,167,382
Other income				
PEERS capital asset charge	915,699	-	915,699	837,550
Miscellaneous income	14,366	-	14,366	29,758
Total other income	930,065	-	930,065	867,308
Total additions	6,252,537,629	689,541,696	6,942,079,325	4,403,396,476
DEDUCTIONS				
Monthly benefits	1,845,619,830	150,769,061	1,996,388,891	1,865,500,492
Refunds of contributions	53,638,650	18,822,979	72,461,629	64,870,540
Administrative expenses	8,835,641	5,607,971	14,443,612	15,306,368
Other expenses	3,480	2,699	6,179	404,010
Total deductions	1,908,097,601	175,202,710	2,083,300,311	1,946,081,410
Net increase	4,344,440,028	514,338,986	4,858,779,014	2,457,315,066
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS				
Beginning of year	23,755,741,470	2,404,424,630	26,160,166,100	23,702,851,034
End of year	$28,100,181,498	$2,918,763,616	$31,018,945,114	$26,160,166,100

Note: See accompanying Notes to the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011 (with comparative information for June 30, 2010)

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 managed simultaneously 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 two-year 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. The majority of PSRS members are exempt from Social Security contributions. In some instances, positions may be determined to not be exempt from Social Security contributions. Any PSRS member who is required to contribute to Social Security comes under the requirements of Section 169.070 (9) RSMo, known as the "two-thirds statute." PSRS members required to contribute to Social Security are required to contribute two-thirds of the approved PSRS contribution rate and their employer is required to match the contribution. The members' benefits are further calculated at two-thirds the normal benefit amount.

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 Sections 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 credit. Individuals who (a) are at least age 60 and have a minimum of five years of credit, (b) have 30 years of credit, or (c) qualify for benefits under the "Rule of 80" (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 credit. Actuarially age-reduced benefits are available for members with five to 24.9 years of credit at age 55 or with 25 years of credit (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 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 benefit plans, up to a lifetime maximum of 80% of the original benefit amount.

Contributions – PSRS members were required to contribute 14.0% of their annual covered salary during 2010-2011 and 13.5% during 2009-2010. 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. The annual statutory increase in the total contribution rate may not exceed 1% of pay. 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:

			2011		2010
Retirees and beneficiaries receiving benefits			48,065		45,467
Inactive members entitled to but not yet receiving benefits			6,645		6,380
Active members:	Vested	58,258		57,833	
	Non-vested	19,450		21,423	
Total active members			77,708		79,256
Other inactive members			4,935		4,779
Total			137,353		135,882

Employers – PSRS had 538 and 539 contributing employers during fiscal years 2011 and 2010, respectively.

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 public two-year 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 educator 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 credit. Individuals who (a) are at least age 60 and have a minimum of five years of credit, (b) have 30 years of credit, or (c) qualify for benefits under the “Rule of 80” (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 credit at age 55. Members who are younger 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 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 benefit plans.

Contributions – PEERS members were required to contribute 6.63% of their annual covered salary during 2010-2011 and 6.5% during 2009-2010. 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. The annual statutory increase in the total contribution rate may not exceed .5% of pay. 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:

			2011		2010
Retirees and beneficiaries receiving benefits			21,328		20,071
Inactive members entitled to but not yet receiving benefits			4,790		4,546
Active members:	Vested	28,624		28,123	
	Non-Vested	20,176		22,240	
Total active members			48,800		50,363
Other inactive members			10,612		10,809
Total			85,530		85,789

Employers – PEERS had 534 and 535 contributing employers during fiscal years 2011 and 2010, respectively.

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 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 reimburses PSRS for the use of capital assets used by the two Systems on a proportional basis based on the prior fiscal year's balances. The amount of this reimbursement was $915,699 in 2011 and $837,550 in 2010.

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, 2011. 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, 2010, from which the information was derived.

Reclassification – Certain reclassifications have been made to the 2010 totals to conform with the classifications for 2011.

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

	2011	2010
Designated for Members' Contributions (Member Reserves) – *Accumulation of active and terminated member contributions plus interest.*	$ 6,571,916,082	$ 6,506,803,573
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.*	20,023,082,295	20,531,266,025
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.*	618,704	745,173
Designated for Operating Expenses/Benefits to Future Retirees (Operating Reserves/Deficit) – *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.*	1,504,564,417	(3,283,073,301)
Net Assets Held In Trust For Pension Benefits	$ 28,100,181,498	$ 23,755,741,470

PEERS

	2011	2010
Designated for Members' Contributions (Member Reserves) – *Accumulation of active and terminated member contributions plus interest.*	$ 783,112,501	$ 743,146,346
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.*	1,398,620,374	1,392,753,371
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.*	737,030,741	268,524,913
Net Assets Held In Trust For Pension Benefits	$ 2,918,763,616	$ 2,404,424,630

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, 2011, the PSRS carrying amount of deposits at the depository bank was $10,712,519 and the bank balance was $13,542,793. Of the bank balance, $13,542,793 was covered by federal depository insurance. In addition the deposits were also significantly over collateralized with U.S. agency securities held by a third-party institution in the System's name, totaling $95,070,895. An additional $4,576,100 was held in overnight repurchase agreements with a book value of $4,567,100. The overnight repurchase agreements were collateralized with U.S. agency securities held by a third-party institution in the System's name totaling $4,576,100.

At June 30, 2011, the PEERS carrying amount of deposits at the depository bank was ($549,805) 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, 2011 was $2,497,045 with a book value of $2,497,045. The overnight repurchase agreements were collateralized with U.S. agency securities held by a third-party institution in the System's name totaling $2,622,804.

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. government securities. At June 30, 2011, the Systems did not have more than 5% of total investments in a single issue except for U.S. government 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 tables include collateral pledged for deposits and repurchase agreements and securities lending collateral. The maturities of all debt securities are presented on the following page.

PSRS

Security Type	Fair Value at June 30, 2011	Less than 1 year to maturity	1 to 5 years to maturity	6 to 10 years to maturity	over 10 years to maturity
U.S. Treasuries	$4,468,396,738	$ 147,494,406	$2,082,929,634	$1,792,352,310	$ 445,620,388
Government guaranteed mortgages	234,976,298	-	14,740,082	25,111,878	195,124,338
Agencies	5,150,006	-	1,002,050	-	4,147,956
Collateralized mortgage obligations	161,285,901	792	-	3,988,735	157,296,374
Asset backed securities	607,159,791	-	25,228,968	31,607,272	550,323,551
Corporate bonds	1,908,518,105	475,047,898	428,850,451	880,108,828	124,510,928
Sovereign	53,246,997	1,169,007	15,756,186	19,358,114	16,963,690
Repurchase agreements	109,412,581	109,412,581	-	-	-
Commercial paper	69,885,581	69,885,581	-	-	-
Certificate of deposit	70,425,795	51,151,280	19,274,515	-	-
Derivatives	(20,479,784)	245,003	(19,857,633)	(901,215)	34,061
Municipals	29,655,006	-	413,392	-	29,241,614
Commingled Funds (see note)					
JPM STIF	1,213,315,012	1,213,315,012	-	-	-
BRIDGEWATER STIF II	78,099,043	78,099,043	-	-	-
PIMCO High Yield Institutional Investors	15,370,583	15,370,583	-	-	-
PIMCO Developing Markets	123,177,538	123,177,538	-	-	-
PIMCO Emerging Markets	29,183,913	29,183,913	-	-	-
PIMCO Short Term Floating NAV II	141,365,681	141,365,681	-	-	-
Currency	45,123,852	45,123,852	-	-	-
Total	$9,343,268,637	$2,500,042,170	$ 2,568,337,645	$2,751,625,922	$1,523,262,900
Percentage of Total Fixed Income	**100%**	**27%**	**28%**	**29%**	**16%**

PEERS

Security Type	Fair Value at June 30, 2011	Less than 1 year to maturity	1 to 5 years to maturity	6 to 10 years to maturity	over 10 years to maturity
U.S. Treasuries	$ 470,640,322	$ 18,887,500	$ 216,506,174	$ 188,339,447	$ 46,907,201
Government guaranteed mortgages	25,625,603	-	2,622,804	43,550	22,959,249
Agencies	1,470,829	145,594	223,566	-	1,101,669
Collateralized mortgage obligations	22,441,847	75	-	80,567	22,361,205
Asset backed securities	54,698,333	8,598	3,101,474	3,793,791	47,794,470
Corporate bonds	198,099,729	50,170,597	43,737,404	89,024,089	15,167,639
Sovereign	6,853,986	65,149	1,028,897	3,084,121	2,675,819
Repurchase agreements	21,124,476	21,124,476	-	-	-
Commercial paper	14,013,183	14,013,183	-	-	-
Certificate of deposit	13,572,373	10,348,791	3,223,582	-	-
Derivatives	(2,275,870)	44,067	(2,240,210)	(84,775)	5,048
Municipals	5,511,019	-	203,239	460,467	4,847,313
Commingled Funds (see note)					
JPM STIF	118,901,234	118,901,234	-	-	-
BRIDGEWATER STIF II	8,578,623	8,578,623	-	-	-
PIMCO High Yield Institutional Investors	2,150,289	2,150,289	-	-	-
PIMCO International	511,328	511,328	-	-	-
PIMCO Developing Markets	13,686,393	13,686,393	-	-	-
PIMCO Emerging Markets	3,386,625	3,386,625	-	-	-
PIMCO Short Term Floating NAV II	16,958,373	16,958,373	-	-	-
Currency	4,796,791	4,796,791	-	-	-
Total	$ 1,000,745,486	$ 283,777,686	$ 268,406,930	$ 284,741,257	$ 163,819,613
Percentage of Total Fixed Income	**100%**	**28%**	**28%**	**28%**	**16%**

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.*

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 tables include collateral pledged for deposits and repurchase agreements and securities lending collateral. The Systems' debt investments by credit rating category as of June 30, 2011 are presented in the following tables.

PSRS

Security Type	Fair Value at June 30, 2011	%	AAA	AA	A	BBB	BB	B	CCC	Not Rated
U.S. Treasuries	$ 4,468,396,738	48%	$ 4,468,396,738	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Government guaranteed mortgages	234,976,298	3%	234,976,298	-	-	-	-	-	-	-
Agencies	5,150,006	0%	5,150,006	-	-	-	-	-	-	-
Collateralized mortgage obligations	161,285,901	2%	68,731,456	8,665,487	27,988,906	569,863	1,591,032	23,470,384	15,887,827	14,380,946
Asset backed securities	607,159,791	6%	523,879,644	25,254,296	28,786,192	10,248,532	15,402,286	836,050	2,505,873	246,918
Corporate bonds	1,908,518,105	20%	510,495,531	134,990,622	382,512,106	516,136,351	159,063,415	163,767,780	5,133,974	36,418,326
Sovereign	53,246,997	1%	14,808,522	8,129,229	792,971	20,923,124	8,593,151	-	-	-
Repurchase agreements	109,412,581	1%	-	44,123,316	65,289,265	-	-	-	-	-
Commercial paper	69,885,581	1%	2,597,045	27,017,422	40,271,114	-	-	-	-	-
Certificate of deposit	70,425,795	1%	6,800,796	24,949,627	38,675,372	-	-	-	-	-
Derivatives	(20,479,784)	0%	-	-	-	-	-	-	-	(20,479,784)
Municipals	29,655,006	0%	909,118	9,476,723	16,525,404	325,792	2,417,969	-	-	-
Commingled Funds (see note)										
JPM STIF	1,213,315,012	13%	1,213,315,012	-	-	-	-	-	-	-
BRIDGEWATER STIF II	78,099,043	1%	78,099,043	-	-	-	-	-	-	-
PIMCO High Yield Institutional Investors	15,370,583	0%	-	-	-	-	15,370,583	-	-	-
PIMCO Developing Markets	123,177,538	1%	-	123,177,538	-	-	-	-	-	-
PIMCO Emerging Markets	29,183,913	0%	-	-	-	-	-	29,183,913	-	-
PIMCO Short Term Floating NAV II	141,365,681	2%	-	141,365,681	-	-	-	-	-	-
Currency	45,123,852	0%	-	-	-	-	-	-	-	45,123,852
Total	$ 9,343,268,637	100%	$7,128,159,209	$547,149,941	$600,841,330	$548,203,662	$202,438,436	$217,258,127	$23,527,674	$75,690,258
Percentage of Total Fixed Income	**100%**		**77%**	**6%**	**6%**	**6%**	**2%**	**2%**	**0%**	**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 truer picture of our fixed income holdings.

PEERS

Security Type	Fair Value at June 30, 2011	%	AAA	AA	A	BBB	BB	B	CCC	Not Rated
U.S. Treasuries	$ 470,640,322	48%	$470,640,322	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Government guaranteed mortgages	25,625,603	3%	25,625,603	-	-	-	-	-	-	-
Agencies	1,470,829	0%	1,470,829	-	-	-	-	-	-	-
Collateralized mortgage obligations	22,441,847	2%	10,925,156	1,517,866	2,293,644	358,881	396,866	1,952,064	3,486,910	1,510,460
Asset backed securities	54,698,333	5%	47,344,212	2,209,498	2,485,175	795,218	1,318,409	-	525,801	20,020
Corporate bonds	198,099,729	20%	51,828,513	15,749,127	45,026,647	57,702,540	14,623,516	10,728,328	320,150	2,120,908
Sovereign	6,853,986	1%	1,875,382	1,442,480	101,197	2,111,508	1,323,419	-	-	-
Repurchase agreements	21,124,476	2%	-	8,926,912	12,197,564	-	-	-	-	-
Commercial paper	14,013,183	1%	399,545	5,466,093	8,147,545	-	-	-	-	-
Certificate of deposit	13,572,373	1%	699,932	5,047,743	7,824,698	-	-	-	-	-
Derivatives	(2,275,870)	0%	-	-	-	-	-	-	-	(2,275,870)
Municipals	5,511,019	1%	660,076	2,896,279	1,662,585	-	292,079	-	-	-
Commingled Funds (see note)										
JPM STIF	118,901,234	12%	118,901,234	-	-	-	-	-	-	-
BRIDGEWATER STIF II	8,578,623	1%	8,578,623	-	-	-	-	-	-	-
PIMCO High Yield Institutional Investors	2,150,289	0%	-	-	-	-	2,150,289	-	-	-
PIMCO International	511,328	0%	-	511,328	-	-	-	-	-	-
PIMCO Developing Markets	13,686,393	1%	-	13,686,393	-	-	-	-	-	-
PIMCO Emerging Markets	3,386,625	0%	-	-	-	-	-	3,386,625	-	-
PIMCO Short Term Floating NAV II	16,958,373	2%	-	16,958,373	-	-	-	-	-	-
Currency	4,796,791	0%	-	-	-	-	-	-	-	4,796,791
Total	$1,000,745,486	100%	$738,949,427	$74,412,092	$79,739,055	$60,968,147	$20,104,578	$16,067,017	$4,332,861	$6,172,309
Percentage of Total Fixed Income	**100%**		**74%**	**7%**	**8%**	**6%**	**2%**	**2%**	**0%**	**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 truer 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 as of June 30, 2011 is presented on the following tables.

PSRS

Currency	Debt	Equity	Currency/Short Term	Total
Australian Dollar	$ (362,854)	$ 144,887,467	$ 1,806,797	$ 146,331,410
Brazilian Real	(10,055,559)	60,474,149	2,580,810	52,999,400
British Pound Sterling	32,085,006	541,749,052	5,395,643	579,229,701
Bulgarian Lev	-	1,404,217	-	1,404,217
Canadian Dollar	15,509,222	176,474,217	1,711,107	193,694,546
Chiliean Peso	-	1,171,145	6,243	1,177,388
Chinese Yuan	-	9,564	182,970	192,534
Colombian Peso	3,005,837	-	-	3,005,837
Czech Koruna	-	6,133,020	15,321	6,148,341
Danish Krone	-	45,226,832	513,436	45,740,268
Euro Currency	106,746,764	913,495,636	8,985,231	1,029,227,631
Hong Kong Dollar	218,568	205,254,176	4,533,865	210,006,609
Hungarian Forint	-	989,212	(273,408)	715,804
Indian Rupee	-	60,306,760	970,853	61,277,613
Indonesian Rupiah	2,167,771	18,389,027	64,998	20,621,796
Israeli Shekel	-	984,242	11,793	996,035
Japanese Yen	304,825	494,235,155	1,992,307	496,532,287
Malaysian Ringgit	-	11,474,722	135,067	11,609,789
Mexican Peso	(1,221,426)	5,019,852	407,816	4,206,242
New Romanian Leu	-	-	9	9
New Taiwan Dollar	-	55,792,689	1,764,934	57,557,623
New Turkish Lira	-	16,377,586	117,891	16,495,477
New Zealand Dollar	-	7,466,544	160,208	7,626,752
Norwegian Krone	-	14,069,327	378,692	14,448,019
Pakistan Rupee	-	1,899,741	72,336	1,972,077
Peruvian Nuevo Sol	-	-	(1,520)	(1,520)
Philippine Peso	-	274,038	(5,126)	268,912
Polish Zloty	-	14,359,115	102,517	14,461,632
Russian Ruble	-	750,124	(39,979)	710,145
Singapore Dollar	(41,722)	16,022,480	599,433	16,580,191
South African Rand	(269,096)	46,203,248	238,205	46,172,357
South Korean Won	120	103,034,608	365,093	103,399,821
Swedish Krona	2,068,422	34,536,002	(912,263)	35,692,161
Swiss Franc	1,211,401	176,156,578	5,083,489	182,451,468
Thailand Baht	-	10,950,343	197,898	11,148,241
Ukraine Hryvnia	-	950,052	-	950,052
Total	**$ 151,367,279**	**$ 3,186,520,920**	**$ 37,162,666**	**$ 3,375,050,865**

PEERS

Currency	Debt	Equity	Currency/Short Term	Total
Australian Dollar	$ 277,451	$ 16,878,507	$ 220,272	$ 17,376,230
Brazilian Real	(2,957,963)	6,336,729	174,938	3,553,704
British Pound Sterling	1,627,313	59,246,967	404,734	61,279,014
Bulgarian Lev	-	131,308	-	131,308
Canadian Dollar	849,447	21,730,839	230,962	22,811,248
Chilean Peso	-	133,293	849	134,142
Chinese Yuan	-	1,196	16,596	17,792
Colombian Peso	255,010	-	-	255,010
Czech Koruna	-	629,484	644	630,128
Danish Krone	-	5,559,788	51,217	5,611,005
Euro Currency	5,570,403	97,382,834	711,543	103,664,780
Hong Kong Dollar	23,453	23,090,726	373,914	23,488,093
Hungarian Forint	-	110,940	(30,996)	79,944
Indian Rupee	-	6,717,970	119,756	6,837,726
Indonesian Rupiah	257,244	1,899,986	9,174	2,166,404
Israeli Shekel	-	113,665	678	114,343
Japanese Yen	(7,870)	55,431,471	271,845	55,695,446
Malaysian Ringgit	-	1,437,793	31,284	1,469,077
Mexican Peso	(132,252)	571,748	55,245	494,741
New Taiwan Dollar	-	5,947,754	172,976	6,120,730
New Turkish Lira	-	1,765,189	22,849	1,788,038
New Zealand Dollar	-	1,003,421	20,023	1,023,444
Norwegian Krone	-	1,584,862	47,699	1,632,561
Pakistan Rupee	-	134,246	17,917	152,163
Peruvian Nuevo Sol	-	-	(72)	(72)
Philippine Peso	-	-	(1,079)	(1,079)
Polish Zloty	-	1,966,628	8,419	1,975,047
Russian Ruble	-	78,222	(4,495)	73,727
Singapore Dollar	(4,550)	2,068,695	78,848	2,142,993
South African Rand	(19,193)	5,004,821	29,963	5,015,591
South Korean Won	8	11,392,210	40,066	11,432,284
Swedish Krona	(29,889)	3,553,139	(113,419)	3,409,831
Swiss Franc	-	20,120,173	341,578	20,461,751
Thailand Baht	-	1,306,029	27,015	1,333,044
Ukraine Hryvnia	-	39,271	-	39,271
Total	**$ 5,708,612**	**$ 353,369,904**	**$ 3,330,943**	**$ 362,409,459**

Derivatives – Derivatives are generally defined as investment instruments whose cash flows or fair values are derived from the value of some other asset or index. The Systems are parties to derivatives which have off-balance-sheet risk. These derivative instruments are used in the normal course of business to generate earnings and reduce exposure to fluctuations in market conditions. The Systems are exposed to various types of credit, market, and legal risk related to these investments. Investment staff monitors these types of investments with extreme care and is not aware of any undue risks at this time. All derivatives are considered investments. Derivatives are reported at fair value on the Statements of Plan Net Assets based on quoted market prices when available. In the instances that quoted market prices are unavailable, pricing is obtained via independent pricing sources.

The fair value balances and notional amounts of derivative instruments outstanding as of June 30, 2011, classified by type are as follows.

PSRS

	Fair Value at June 30, 2011		
Investment Derivatives	**Classification**	**Amount**	**Notional**
Swaps			
Receive-fixed interest rate swap	Investments, at fair value	$ 568,463	$ 76,600,000
Pay-fixed interest rate swap	Investments, at fair value	(22,679,595)	395,100,000
Credit default swaps	Investments, at fair value	5,005,562	280,150,789
Total return swaps - equity	Investments, at fair value	2,396,898	1,573,862,389
Total swaps		**(14,708,672)**	**2,325,713,178**
Futures			
Equity futures long	Investments, at fair value	-	121,371,797
Equity futures short	Investments, at fair value	-	72,207,416
Treasury futures long	Investments, at fair value	-	11,769,469
Treasury futures short	Investments, at fair value	-	46,964,750
Currency futures long	Investments, at fair value	-	1,196,954,554
Commodity futures long	Investments, at fair value	-	44,783,440
Total futures		**-**	**1,494,051,426**
Options			
Equity written call options	Investments, at fair value	(173,465)	131,400
Equity purchased call options	Investments, at fair value	215,736	213,600
Equity written put options	Investments, at fair value	(81,235)	131,400
Equity purchased put options	Investments, at fair value	450,530	804,400
Treasury futures written call options	Investments, at fair value	(7,609)	4,400,000
Treasury futures written put options	Investments, at fair value	(7,172)	4,200,000
Fixed income written call options	Investments, at fair value	(317,074)	57,200,000
Fixed income purchased call options	Investments, at fair value	116,104	19,650,000
Fixed income written put options	Investments, at fair value	(290,839)	143,200,000
Swaptions	Investments, at fair value	(536,079)	155,400,000
Total options		**(631,103)**	**385,330,800**
Foreign currency forwards net receivable/payable	Investment sales and purchases	**(899,122)**	-
Total Investment Derivatives		**$ (16,238,897)**	**$ 4,205,095,404**

PEERS

Investment Derivatives	Classification (Fair Value at June 30, 2011)	Amount (Fair Value at June 30, 2011)	Notional
Swaps			
Receive-fixed interest rate swap	Investments, at fair value	$ 97,674	$ 12,000,000
Pay-fixed interest rate swap	Investments, at fair value	(2,639,815)	46,700,000
Credit default swaps	Investments, at fair value	585,721	32,745,249
Total return swaps - equity	Investments, at fair value	266,349	151,131,476
Total swaps		**(1,690,071)**	**242,576,725**
Futures			
Equity futures long	Investments, at fair value	-	13,717,577
Equity futures short	Investments, at fair value	-	8,395,998
Treasury futures long	Investments, at fair value	-	1,873,153
Treasury futures short	Investments, at fair value	-	9,419,922
Currency futures long	Investments, at fair value	-	142,199,062
Commodity futures long	Investments, at fair value	-	4,959,240
Total futures		**-**	**180,564,952**
Options			
Equity written call options	Investments, at fair value	(19,263)	14,600
Equity purchased call options	Investments, at fair value	23,937	23,700
Equity written put options	Investments, at fair value	(9,035)	14,600
Equity purchased put options	Investments, at fair value	49,963	89,300
Treasury futures written call options	Investments, at fair value	(1,508)	900,000
Treasury futures written put options	Investments, at fair value	(1,898)	900,000
Fixed income written call options	Investments, at fair value	(44,064)	7,900,000
Fixed income purchased call options	Investments, at fair value	12,302	2,400,000
Fixed income written put options	Investments, at fair value	(38,453)	18,700,000
Swaptions	Investments, at fair value	(62,939)	23,200,000
Total options		**(90,958)**	**54,142,200**
Foreign currency forwards net receivable/payable	Investment sales and purchases	**(177,577)**	-
Total Investment Derivatives		**$ (1,958,606)**	**$ 477,283,877**

Swaps - The Systems' investment managers have entered into various swaps including interest rate swaps, credit default swaps and equity and total return swaps. Swaps represent an agreement between two parties to exchange sequences of cash flows over a period in the future. In the most common type of interest rate swap arrangement, one party agrees to pay fixed interest payments on designated dates to a counterparty who, in turn, agrees to make return interest payments that float with some reference rate. A credit default swap is a contract whereby the credit risk associated with an investment is transferred by entering into an agreement with another party, who in exchange for periodic fees, agrees to make payments in the event of a default or other predetermined credit event. Total return swaps is a contract in which one party makes payments based on a set rate, either fixed or variable, while the other party makes payments based on the return of the underlying asset. The underlying asset is typically an index, bond, etc. Gains and losses on swaps are determined based on market values and are recorded in net appreciation (depreciation) in fair value of investments on the Systems' Statements of Changes in Plan Net Assets. Net gains on swaps of $323.0 million for PSRS and $27.1 million for PEERS were recognized for the fiscal year ended June 30, 2011.

Futures - Futures represent commitments to purchase (asset) or sell (liability) securities at a future date and at a specified price. Futures contracts are traded on organized exchanges (exchange traded) thereby minimizing the Systems' credit risk. The net change in the futures contracts value is settled daily in cash with the exchanges. Net gains or losses resulting from the daily settlements are included in net appreciation (depreciation) in fair value of investments on the Systems' Statements of Changes in Plan Net Assets. PSRS and PEERS recognized net gains on future contracts of $16.1 million and $2.8 million, respectively, during the fiscal year ended June 30, 2011.

Options - Options represent or give buyers the right, but not the obligation, to buy (call) or sell (put) an asset at a preset price over a specified period. The option's price is usually a small percentage of the underlying asset's value. As a writer of financial options, the Systems' investment managers receive a premium at the outset of the agreement and bear the risk of an unfavorable change in the price of the financial instrument underlying the option. As a purchaser of financial options, the Systems' investment managers pay a premium at the outset of the agreement and the counterparty bears the risk of an unfavorable change in the price of the financial instrument underlying the option. Net gains or losses resulting from such obligations are included in net appreciation (depreciation) in fair value of investments on the Systems' Statements of Changes in Plan Net Assets. PSRS and PEERS recognized net losses on option contracts of $3.5 million and $0.9 million, respectively, during the fiscal year ended June 30, 2011.

Currency Forwards - Currency forwards represent forward foreign exchange contracts that are entered into in order to hedge the exposure to changes in foreign currency rate on the foreign currency dominated portfolio holdings. A forward foreign exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. The gain or loss arising from the difference between the original contracts and the closing of such contracts is included in net appreciation (depreciation) in fair value of investments on the Systems' Statements of Changes in Plan Net Assets. PSRS and PEERS recognized net losses on such contracts of $10.9 million and $0.8 million, respectively, during the fiscal year ended June 30, 2011.

Derivative Risk - Derivatives that are exchange traded are not subject to credit risk. No derivatives held are subject to custodial credit risk.

At June 30, 2011 the counterparties' credit ratings for currency forwards, options and swaps are subject to credit risk as shown in the chart below.

The Systems are exposed to interest rate risk on its interest rate swaps. As the variable portion of the swaps move in the market, the Systems' exposure increases and decreases. The Systems are exposed to termination risk. The Systems' investment managers or their counterparties may terminate a derivative if the either party fails to perform under the terms of the contract.

The Systems' derivatives are governed by ISDA Master Agreements between the Systems' and the Counterparties. These agreements set forth collateral requirements and applicable netting arrangements. Foreign currency risks are reflected on pages 32 and 33.

The Systems could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. The Systems' investment managers seek to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, and exposure monitoring procedures. The Systems anticipate that the counterparties will be able to satisfy their obligations under the contracts.

Derivative Counterparty Credit Ratings

PSRS				
Quality Rating	**Swaps**	**Options**	**Forwards**	**Total**
AA	$ 156,266	$ (4,822)	$ -	$ 151,444
A	(14,864,938)	(611,500)	1,159,761,957	1,144,285,519
Total subject to credit risk	**$ (14,708,672)**	**$ (616,322)**	**$ 1,159,761,957**	**$ 1,144,436,963**
PEERS				
Quality Rating	**Swaps**	**Options**	**Forwards**	**Total**
AA	$ (110,883)	$ (549)	$ -	$ (111,432)
A	(1,845,536)	(87,002)	1,781,612,568	1,779,680,030
Total subject to credit risk	**$ (1,956,419)**	**$ (87,551)**	**$ 1,781,612,568**	**$ 1,779,568,598**

The derivative financial instruments discussed involve, to varying degrees, elements of market risk to the extent of future market movements in excess of the amounts recognized in the Statements of Plan Net Assets. Market risk arises from the potential unfavorable change in the value of the underlying instruments. The contract or notional amounts of these instruments reflect the extent of the Systems' involvement in each class of financial instrument; however, these amounts do not represent the exposure to market loss. Additional derivatives may be held in limited partnerships and commingled funds that are not reflected in this disclosure.

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 act as the Systems' agent to lend available securities to approved broker-dealers and banks subject to the receipt of acceptable collateral.

During the fiscal year, the Systems' custodial bank lent, on behalf of the Systems, securities and received cash or other collateral including securities issued or guaranteed by the U.S. government, sovereign debt, irrevocable letters of credit, convertible debt and assets permissible under Rule 15c3-3 under the Securities Exchange Act of 1934. The securities lending program was administered by the Systems' previous custodial bank through September 30, 2010. Effective, October 1, 2010, the Systems' new custodial bank, JPMorgan Chase Bank, NA, began administering the securities lending program. Securities lending collateral and loans outstanding on September 30, 2010 were novated to JP Morgan Chase Bank, NA to administer going forward. The Systems did impose restrictions through September 30, 2010 on the amount and type of loans that the custodial banks made on their behalf. Effective October 1, 2010, the restrictions were rescinded.

The Systems and their agents 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.

Pursuant to the lending agreement, the custodial banks have an obligation to provide a form of indemnification to the Systems in the event of default by a borrower. There were no violations of the contractual provisions nor were there any borrower or lending agent default losses during the fiscal year.

The market value of securities on loan as of June 30, 2011 was approximately $891,810,788 for PSRS and $106,104,502 for PEERS. On June 30, 2011 the Systems had no credit risk exposure to borrowers as the cash and securities collateral amounts received exceeded amounts on loan. Loans are generally terminable on demand. However, with the prior approval of the Systems, loans may be made on the basis of a specified termination date, with or without providing for the right of the Systems to terminate or substitute equivalent securities. As of June 30, 2011, there were no term loans for either PSRS or PEERS.

PSRS and PEERS maintain investment portfolios that were novated to JPMorgan Chase, NA from the Systems' previous agent lender and custodial bank. These assets are referred to as the Legacy Portfolio. As of June 30, 2011, PSRS' Legacy Portfolio had a cost basis of $648,404,511 and an estimated market value of $621,639,862, with an unrealized loss of $26,764,649. PEERS' Legacy Portfolio had a cost basis of $55,541,276 and an estimated market value of $53,248,492, with an unrealized loss of $2,292,784.

New cash collateral is invested in separately managed accounts in accordance with the investment guidelines approved by the Systems. Assets purchased with new cash collateral are referred to as the J.P. Morgan Portfolio. The primary investment objective of the J.P. Morgan Portfolio is the preservation of principal. As of June 30, 2011, the cost basis of the J.P. Morgan Portfolio totaled $264,999,502 for PSRS and $53,613,994 for PEERS. The estimated market value of the J.P. Morgan Portfolio totaled $265,012,098 for PSRS and $53,616,542 for PEERS. The unrealized gain for PSRS was $12,596 and $2,548 for PEERS.

PSRS recognized net appreciation of $32,302,367 and PEERS recognized net appreciation of $4,267,335 for the year ended June 30, 2011 on the invested collateral accounts. Such is reported as net appreciation in fair value of security lending collateral on the Statements of Changes in Plan Net Assets.

The weighted average duration of invested collateral as of June 30, 2011 was 31 days and an average final maturity of approximately 24 years for PSRS, and 23 days and an average final maturity of approximately 17 years for PEERS. Because the loans were terminable at will, their duration did not match the duration of the investments made with cash collateral. In addition, there is the possibility that a portion of the legacy investment portfolios will be held to maturity.

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 2010-2011.

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 – Schedule of Funded Status and Funding Progress

The funded status of the Systems as of June 30, 2011, the most recent actuarial valuation date, is as follows:

(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)
PSRS	6/30/2011	$ 29,387,486	$ 34,383,430	$ 4,995,944	85.5%	$ 4,338,976	115.1%
PEERS	6/30/2011	$ 3,028,757	$ 3,549,348	$ 520,591	85.3%	$ 1,414,442	36.8%

The schedule of funding progress, presented as required supplementary information (RSI) following the Notes to the Financial Statements, presents multi-year trend information about whether the actuarial value of plan net assets is increasing or decreasing over time relative to the AAL for benefits.

Additional information as of the latest valuations is as follows:

Valuation Date	June 30, 2011
Actuarial Cost Method	Entry Age Normal
Amortization Method	
PSRS (1)	Closed, level percent for 30 years, effective June 30, 2011 Open level, percent for 30 years, prior to June 30, 2011
PEERS (2)	Closed, level percent for 30 years, effective June 30, 2011 Open, level percent for 30 years, prior to June 30, 2011
Asset Valuation Method	5-year smoothing of actual returns less expected returns Marked to market June 30, 2003
Actuarial Assumptions:	
Investment Rate of Return	8.0%
Projected Salary Increases*	
PSRS	4.0 - 10.0%, effective June 30, 2011 5.0 - 10.25%, prior to June 30, 2011
PEERS	5.0 - 12.0%, effective June 30, 2011 5.0 - 10.0%, prior to June 30, 2011
*Includes inflation at	2.5%, effective June 30, 2011 3.25%, prior to June 30, 2011
Cost-of-Living Adjustments	2.0%, effective June 30, 2011 3.25%, prior to June 30, 2011

(1) 30-year amortization assumes an ARC rate of 26.10% for fiscal year 2013. The annual statutory increase in the total contribution rate may not exceed 1% of pay. The Board of Trustees has set the fiscal year 2013 contribution rate equivalent to the fiscal year 2012 rate of 29.0%. The contribution rate was determined based on the Board of Trustees' Funding Stabilization policy and the recommendation of the independent actuary.

(2) 30-year amortization assumes an ARC rate of 13.01% for fiscal year 2013. The annual statutory increase in the total contribution rate may not exceed 0.5% of pay. The Board of Trustees has set the fiscal year 2013 contribution rate equivalent to the fiscal year 2012 rate of 13.72%. The contribution rate was determined based on the Board of Trustees' Funding Stabilization policy and the recommendation of the independent actuary.

Note 7 – Retirement Plans

Section 401(a) Defined Benefit Plan

All full-time retirement system employees holding a valid Missouri educator 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 legal provisions of both Systems.

PSRS members were required to contribute 14.0% of their annual covered salary during 2010-2011, 13.5% during 2009-2010 and 13.0% during 2008-2009. PSRS, as the employer, was required to match that amount. 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. Employer contributions to PSRS totaled $31,319 for the 2010-2011 fiscal year, $18,215 for the 2009-2010 fiscal year and $33,289 for the 2008-2009 fiscal year. The amounts for these years are equal to the required contributions.

PEERS members were required to contribute 6.63% of their annual covered salary during 2010-2011, 6.5% during 2009-2010 and 6.25% during 2008-2009. PSRS, as the employer, was required to match that amount. 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. Employer contributions to PEERS totaled $519,055 for the 2010-2011 fiscal year, $480,626 for the 2009-2010 fiscal year and $435,590 for the fiscal year 2008-2009. 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 of $15,500 per year plus $5,000 in catch up contributions, if eligible. 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 $91,941 for the 2010-2011 fiscal year and $97,750 for the 2009-2010 fiscal year. Employer-paid contributions totaled $51,500 for fiscal year 2010-2011 and $54,917 fiscal year 2009-2010. Employee contributions totaled $226,721 for the 2010-2011 fiscal year and $261,924 for the 2009-2010 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.

Note 8 – Other Post-Employment Benefit Plans

Post-Employment Staff Retiree Healthcare Plan

Plan Description and Funding Policy – The Public School Retirement System of Missouri Staff Retiree Healthcare Program (SRHP) is a single-employer defined benefit other post-employment benefit (OPEB) plan administered by PSRS. SRHP provides a healthcare premium implicit rate subsidy to eligible staff retirees and their dependents provided they pay 100% of the blended healthcare premium. The blended healthcare premium is based on all active and retired employees. Retiree healthcare benefits are funded on a pay-as-you-go basis, with premiums determined annually. The PSRS/PEERS Board of Trustees determines the funding of benefits and any benefit amendments. There is no continuing obligation to provide benefits beyond each calendar year. SRHP does not issue a stand alone public financial report.

Annual OPEB Cost and Net OPEB Obligation – PSRS' annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of Governmental Accounting Standards Board (GASB) Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

PSRS' annual OPEB cost, the amount actually contributed to the plan and changes in the net OPEB obligation are as follows:

Annual required contribution	$ 237,800
Interest on net OPEB obligation	24,600
Amortization of net OPEB obligation	(17,000)
Annual OPEB cost	245,400
Contributions made	38,600
Increase in net OPEB obligation	206,800
Net OPEB obligation - beginning of year	546,100
Net OPEB obligation - end of year	$ 752,900

PSRS' annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2011 and the two preceding years are as follows:

Fiscal Year Ended	Annual OPEB Cost (AOC)	% of AOC Contributed	Net OPEB Obligation
6/30/2009	$ 208,000	13.6%	$ 363,000
6/30/2010	$ 223,200	18.0%	$ 546,100
6/30/2011	$ 245,400	15.7%	$ 752,900

Funded Status and Funding Progress – SRHP's funded status and funding progress are summarized below:

SRHP Funded Status and Funding Progress

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)
6/30/2011	$ -	$ 2,463,400	$ 2,463,400	0.0%	$ 7,582,300	32.5%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Method and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the efforts of short-term volatility in actuarially accrued liabilities and the actuarial value of assets, consistent with the long-term perspectives of the calculations.

In the June 30, 2011 actuarial valuation, the following assumptions and method were used:

Actuarial Cost Method	Entry Age Normal
Actuarial Value of Assets	No Assets (pay-as-you-go)
Amortization Method	Level Percent Open
Remaining Amortization Period	30 Years
Actuarial Assumptions:	
Investment Rate of Return	4.5 % per year
Wage Inflation	5.0 % per year
Healthcare Trend	8.5% in fiscal year 2011, decreasing by one-half percentage point per year to an ultimate of 4.5% in fiscal year 2019 and after

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 $24,641 for five employees (four retirees and one termination) during 2011 and $76,550 for seven employees (four retirees and three terminations) during 2010. The cost was charged 61% to PSRS and 39% to PEERS.

Note 9 – Risk Management

The Retirement 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 10 – Commitments and Contingencies

PSRS was committed to the future purchase of investments at a cost of $3,956,370,759 on June 30, 2011 and PEERS had investment purchase commitments of $401,631,911 on June 30, 2011.

PSRS had total unfunded capital commitments to real estate, private equity and other alternative investments of $2.2 billion as of June 30, 2011. PEERS had total unfunded capital commitments to real estate, private equity and other alternative investments of $188.8 million as of June 30, 2011. The unfunded commitments are not recorded in the Statements of Plan Net Assets.

During fiscal year 2010, PSRS 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 $16,000,000. As of June 30, 2011, $5,924,940 had been paid pursuant to this contract.

As discussed in Note 4 – Deposits, Investments and Securities Lending Program, the System's custodial bank is authorized to act as the Systems' agent regarding security lending transactions. The required collateral is then invested in collective investment pools, which are governed by Trust agreements. The Systems and their previous custodial bank are in dispute regarding the terms of the Trust agreement for the Quality D Short-Term Investment Fund (Quality D Fund). The previous custodial bank believes the Trust Agreement provides them the ability to re-value the Systems' investments in the Quality D Fund based on a series of prior, System authorized, Custodial bank approved, redemptions. The Systems strongly contest such action. On October 14, 2009, the custodial bank revalued the Systems' investments in the Quality D Fund by reducing the value by approximately $96 million. The Systems were then provided their revalued portion of the Quality D Fund as an in-kind distribution. The in-kind distribution was utilized to fund a customized collective investment pool to facilitate securities lending activity. The revaluation was based on net asset values as of October 13, 2009. The Systems strongly oppose such action and anticipate recovery of such amounts. The Systems filed a lawsuit in Cole County Circuit Court against the custodial bank on September 18, 2009 in an attempt to prevent the custodial bank from taking such action. The Systems are proceeding with litigation to recover any amounts lost as a result of the custodial bank's action. The Systems' terminated their custodial relationship with the previous custodian on October 1, 2010.

Certain other legal proceedings are pending with PSRS and PEERS arising from normal activities. Although unable to predict the outcome of these matters, the Systems believe the final outcome of these actions will not have a material adverse effect on the Systems' financial statements.

Public School Retirement System of Missouri and Public Education Employee Retirement System of Missouri

Required Supplementary Information

Schedules of Funding Progress

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)
6/30/2006	$ 24,801,644	$ 30,037,130 [1]	$ 5,235,486	82.6%	$ 3,775,752	138.7%
6/30/2007	27,049,004	32,396,723 [2]	5,347,719	83.5%	3,980,698	134.3%
6/30/2008	28,751,241	34,490,452 [1]	5,739,211	83.4%	4,209,417	136.3%
6/30/2009	28,826,075	36,060,121 [1]	7,234,046	79.9%	4,439,381	163.0%
6/30/2010	28,931,331	37,233,602 [1]	8,302,271	77.7%	4,493,865	184.7%
6/30/2011	29,387,486	34,383,430 [3]	4,995,944	85.5%	4,338,976	115.1%

[1] There were no legislative changes in fiscal years 2006, 2008, 2009 or 2010.

[2] The extension of the 25-and-Out and 2.55% provisions to 2013 are included in the AAL for 2007.

[3] There were no legislative changes in fiscal year 2011, however acturial assumptions were revised.

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)
6/30/2006	$ 2,218,638	$ 2,756,833 [1]	$ 538,195	80.5%	$ 1,190,994	45.2%
6/30/2007	2,481,562	2,982,813 [2]	501,251	83.2%	1,275,199	39.3%
6/30/2008	2,703,762	3,278,602 [1]	574,840	82.5%	1,377,506	41.7%
6/30/2009	2,792,182	3,458,044 [1]	665,862	80.7%	1,417,485	47.0%
6/30/2010	2,892,411	3,658,713 [1]	766,302	79.1%	1,433,691	53.4%
6/30/2011	3,028,757	3,549,348 [3]	520,591	85.3%	1,414,442	36.8%

[1] There were no legislative changes in fiscal years 2006, 2008, 2009 or 2010.

[2] The extension of the 25-and-Out provision to 2013 is included in the AAL for 2007.

[3] There were no legislative changes in fiscal year 2011, however acturial assumptions were revised.

Public School Retirement System of Missouri and Public Education Employee Retirement System of Missouri

Required Supplementary Information

Schedules of Employer Contributions

Public School Retirement System

Year Ended June 30	Employer Contribution	Annual Required Contribution (ARC) per GASB Statement #25	Percentage Contributed	Maximum Contribution per State Statute	Percentage Contributed
2006	$ 429,578,911	$ 608,134,319	70.6%	$ 429,578,911	100.0%
2007	472,216,630	644,969,214	73.2%	472,216,630	100.0%
2008	521,241,501	656,347,298	79.4%	521,241,501	100.0%
2009	563,454,487	669,643,988	84.1%	563,454,487	100.0%
2010	594,326,122	737,381,187	80.6%	594,326,122	100.0%
2011	594,732,137	684,366,766	86.9%	594,732,137	100.0%

Public Education Employee Retirement System

Year Ended June 30	Employer Contribution	Annual Required Contribution (ARC) per GASB Statement #25	Percentage Contributed	Maximum Contribution per State Statute	Percentage Contributed
2006	$ 61,745,505	$ 79,707,834	77.5%	$ 61,745,505	100.0%
2007	69,235,160	89,945,503	77.0%	69,235,160	100.0%
2008	77,988,839	90,727,016	86.0%	77,988,839	100.0%
2009	85,915,562	96,775,289	88.8%	85,915,562	100.0%
2010	91,478,725	95,821,957	95.5%	91,478,725	100.0%
2011	90,816,155	90,816,155	100.0%	90,816,155	100.0%

Notes to the Schedules of Required Supplementary 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 is as follows:

Valuation Date	June 30, 2011
Actuarial Cost Method	Entry Age Normal
Amortization Method	
PSRS (1)	Closed, level percent for 30 years, effective June 30, 2011 Open level, percent for 30 years, prior to June 30, 2011
PEERS (2)	Closed, level percent for 30 years, effective June 30, 2011 Open, level percent for 30 years, prior to June 30, 2011
Asset Valuation Method	5-year smoothing of actual returns less expected returns Marked to June 30, 2003
Actuarial Assumptions:	
Investment Rate of Return	8.0%
Projected Salary Increases*	
PSRS	4.0 - 10.0%, effective June 30, 2011 5.0 - 10.25%, prior to June 30, 2011
PEERS	5.0 - 12.0%, effective June 30, 2011 5.0 - 10.0%, prior to June 30, 2011
*Includes inflation at	2.5%, effective June 30, 2011 3.25%, prior to June 30, 2011
Cost-of-Living Adjustments	2.0%, effective June 30, 2011 3.25%, prior to June 30, 2011

(1) 30-year amortization assumes an ARC rate of 26.10% for fiscal year 2013. The annual statutory increase in the total contribution rate may not exceed 1% of pay. The Board of Trustees has set the fiscal year 2013 contribution rate equivalent to the fiscal year 2012 rate of 29.0%. The contribution rate was determined based on the Board of Trustees' Funding Stabilization policy and the recommendation of the independent actuary.

(2) 30-year amortization assumes an ARC rate of 13.01% for fiscal year 2013. The annual statutory increase in the total contribution rate may not exceed 0.5% of pay. The Board of Trustees has set the fiscal year 2013 contribution rate equivalent to the fiscal year 2012 rate of 13.72%. The contribution rate was determined based on the Board of Trustees' Funding Stabilization policy and the recommendation of the independent actuary.

Public School Retirement System of Missouri and
Public Education Employee Retirement System of Missouri

Required Supplementary Information

Staff Retiree Health Plan – Defined Benefit OPEB Plan

Schedule of Funding Progress

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)
6/30/2009	$ -	$ 1,988,800	$ 1,988,800	0.0%	$ 6,894,700	28.8%
6/30/2010	$ -	$ 2,173,600	$ 2,173,600	0.0%	$ 7,016,300	31.0%
6/30/2011	$ -	$ 2,463,400	$ 2,463,400	0.0%	$ 7,582,300	32.5%

Schedule of Employer Contributions

Year Ended	Annual Required Contribution (ARC)	Employer Contributions	Percentage Contributed
6/30/2009	$ 205,500	$ 28,300	13.8%
6/30/2010	$ 218,100	$ 40,100	18.4%
6/30/2011	$ 237,800	$ 38,600	16.2%

Schedule of Percentage of OPEB Cost Contributed

Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
6/30/2009	$ 208,000	13.6%	$ 363,000
6/30/2010	$ 223,200	18.0%	$ 546,100
6/30/2011	$ 245,400	15.7%	$ 752,900

Notes to the Schedules of Required Supplementary Information

The information presented in the required supplementary schedule was determined as part of the actuarial valuation at the date indicated. Additional information as of the June 30, 2011 valuation follows:

Actuarial Cost Method	Entry Age Normal
Actuarial Value of Assets	No Assets (pay-as-you-go)
Amortization Method	Level Percent Open
Remaining Amortization Period	30 Years
Actuarial Assumptions:	
Investment Rate of Return	4.5 % per year
Wage Inflation	5.0 % per year
Healthcare Trend	8.5% in fiscal year 2011, decreasing by one-half percentage point per year to an ultimate of 4.5% in fiscal year 2019 and after

Public School Retirement System of Missouri and
Public Education Employee Retirement System of Missouri

Schedules of Administrative Expenses

for the year ended June 30, 2011

	PSRS	PEERS	Combined Totals
Personnel services	$ 5,086,579	$ 3,250,528	$ 8,337,107
Professional services			
Actuarial services	336,838	175,857	512,695
Financial audit services	38,125	24,375	62,500
Technology consulting	168,151	107,507	275,658
Insurance consulting	3,660	2,340	6,000
Legislative consulting	27,450	17,550	45,000
Other consultants	51,863	33,158	85,021
Legal services	424,755	56,151	480,906
Total professional services	1,050,842	416,938	1,467,780
Communications			
Information and publicity	400,852	293,121	693,973
Postage	68,180	43,590	111,770
Member education	26,395	13,787	40,182
Telephone	49,335	31,345	80,680
Total communications	544,762	381,843	926,605
Miscellaneous			
Building and utilities	116,150	74,260	190,410
Insurance	84,446	53,990	138,436
Office	558,895	352,437	911,332
Staff development	142,388	90,686	233,074
Miscellaneous	156,437	70,579	227,016
Total miscellaneous	1,058,316	641,952	1,700,268
Charge for use of capital assets	-	916,710	916,710
Depreciation expense	1,095,142	-	1,095,142
Total administrative expenses	$ 8,835,641	$ 5,607,971	$ 14,443,612

Public School Retirement System of Missouri and Public Education Employee Retirement System of Missouri

Schedules of Investment Expenses

for the year ended June 30, 2011

	PSRS	PEERS	Combined Totals
Investment management expenses			
U.S. Treasuries and TIPS	$ 3,310,048	$ 356,345	$ 3,666,393
U.S. public equities	52,120,275	4,977,299	57,097,574
Global public equities	18,144,402	1,921,536	20,065,938
Public credit	8,116,630	914,675	9,031,305
Private equity	80,809,559	7,975,985	88,785,544
Private credit	24,398,876	2,126,591	26,525,467
Private real estate	32,034,804	2,774,182	34,808,986
Hedged assets	102,216,013	10,536,379	112,752,392
Total investment management expenses	321,150,607	31,582,992	352,733,599
Investment consultant fees	2,981,355	279,477	3,260,832
Custodial bank fees	671,107	66,373	737,480
Investment staff expenses	1,783,415	1,129,272	2,912,687
Commission Recapture Income	(63,401)	(7,532)	(70,933)
Total investment expenses	$ 326,523,083	$ 33,050,582	$ 359,573,665
Security lending expenses			
Agent fees	$ 1,148,613	$ 117,847	$ 1,266,460
Broker rebates	4,368,523	434,167	4,802,690
Total security lending expenses	$ 5,517,136	$ 552,014	$ 6,069,150

Public School Retirement System of Missouri and Public Education Employee Retirement System of Missouri

Schedules of Professional Services

for the year ended June 30, 2011

	PSRS	PEERS	Combined Totals
Legal expenses	$ 424,755	$ 56,151	$ 480,906
Technology consulting	168,151	107,507	275,658
Actuarial services	336,838	175,857	512,695
Other consulting	51,863	33,158	85,021
Financial audit services	38,125	24,375	62,500
Legislative consulting	27,450	17,550	45,000
Insurance consulting	3,660	2,340	6,000
Total fees	$ 1,050,842	$ 416,938	$ 1,467,780