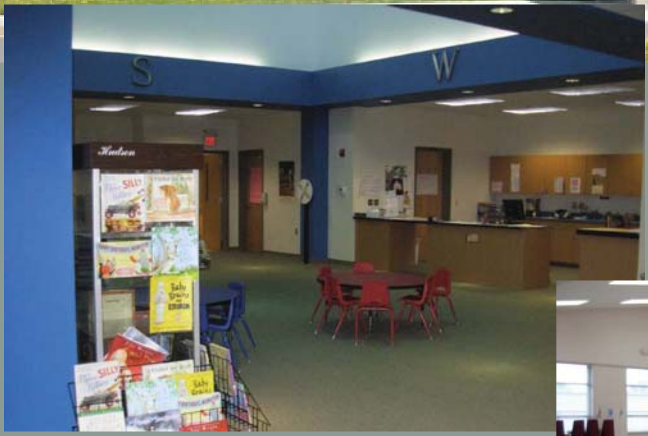
FINANCIAL SECTION

Hallsville R-IV School District

Pictured above is Hallsville Primary School, constructed in 2006-2007. This 50,000 square foot building houses Pre-Kindergarten through first grade with a planned expansion through third grade.



Pictured above, the Hallsville Primary School Media Center

Pictured above, the Hallsville Primary School Cafeteria

Growing schools for growing minds

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of plan net assets of the Public School and Public Education Employee Retirement Systems of Missouri (the Systems) as of June 30, 2008 and the related statements of changes in plan net assets for the year then ended. These financial statements are the responsibility of the Systems' management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Public School and Public Education Employee Retirement Systems of Missouri at June 30, 2008 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 22 through 27 and the schedules of funding progress and employer contributions on pages 46 through 48 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 49 through 51 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 24, 2008

June 30, 2008

This discussion and analysis of the financial position of the Public School Retirement System and the Public Education Employee Retirement System (collectively referred to as the Systems) provides an overview of the Systems' financial activities for the fiscal year ended June 30, 2008. 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, 2008 were $30.0 billion. The net assets were down $2.0 billion from June 30, 2007. This decrease was primarily due to the decrease in the fair value of investments of $2.2 billion caused by a decline in equities due to the global credit crisis, overall global economic slowdown and weakness in consumer demand.

The overall investment return was -4.6% for the Public School Retirement System (PSRS) and -4.6% for the Public Education Employee Retirement System (PEERS). This was a direct result of market declines that have affected all pension systems due to the global credit crisis, overall global economic slowdown and weakness in consumer demand. The overall investment return of the Systems was marginally above the Systems' benchmark returns and comparable to the median return of large institutional pension funds.

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

As of June 30, 2008, the funded ratios were 83.4% for PSRS and 82.5% for PEERS. As of June 30, 2007, the funded ratios were 83.5% for PSRS and 83.2% for PEERS. To arrive at the actuarial value of assets as of June 30, 2008 and 2007, we used an asset smoothing method by which investment returns above or below 8% are recognized over a five-year period.

Revenues for fiscal year 2008 were comprised of contribution revenue of $1.2 billion and investment losses of $1.5 billion, compared to contribution revenue of $1.1 billion and investment income of $4.5 billion for fiscal year 2007.

Expenses increased 8.9% over the prior year from $1.6 billion to $1.7 billion. Service retirement benefits increased by $120.1 million from $1.35 billion in fiscal year 2007 to $1.47 billion in fiscal year 2008. Another $62.9 million was paid to retirees electing the Partial Lump Sum Option (PLSO). This cost was up $7.3 million from the $55.6 million paid during fiscal year 2007. This option allows eligible retirees to elect to have their lifetime monthly benefits actuarially reduced in exchange for the right to also receive a one-time payment at retirement equal to 12, 24, or 36 times the Option 1, Single-Life benefit amount.

Overview of the Financial Statements

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

The Statements of Plan Net Assets (page 28) 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 29) present information detailing the changes in net assets that occurred during the current fiscal year. All changes in net assets are reported on an accrual basis. This means that the revenue or expense is recognized as soon as the underlying event giving rise to the change occurs, regardless of when the actual cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods. For example, contributions due from a district, even though not yet paid by year end, will be reflected as revenue. Earned vacation accruals will be reflected as an expense, even though they have not been paid to employees.

The 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 30 through 45. The report also contains required supplementary information in addition to the basic financial statements themselves.

The Schedules of Funding Progress (page 46) 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 47) present historical trend information about the annual required contributions of employers and the actual contributions made by employers.

The Schedules of Funding Progress (page 48) include 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.

Other supplementary schedules are also included. The Schedule of Administrative Expenses (page 49) presents the overall cost of administering the Systems. The Schedule of Professional/Consultant Fees (page 51) further details this category of administrative expense.

The Schedule of Investment Expenses (page 50) shows 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 (PSRS) is a mandatory cost-sharing multiple employer retirement system for full-time certificated employees and certain part-time employees of participating employers. PSRS members were required to contribute 12.5% of their annual covered salary during 2008. The employer was required to match that amount. Most PSRS members do not contribute to Social Security, except for employees hired after 1986 who contribute to Medicare only.

Assets

Total assets of PSRS as of June 30, 2008 were $37.3 billion and were mostly comprised of cash, investments, and contributions due from employers. Total assets decreased by $1.1 billion or 2.9% from the prior year primarily due to investment losses.

Liabilities

Total liabilities as of June 30, 2008 were $9.9 billion and were mostly comprised of obligations under security lending arrangements and payables from the purchase of investments. Total liabilities increased by $0.7 billion from the prior year. This increase was primarily due to increased obligations under security lending arrangements.

Net Assets

System assets exceeded liabilities at June 30, 2008 by $27.4 billion. This was down from 2007 net assets of $29.2 billion by $1.8 billion. This reduction was primarily due to a reduction in investment earnings due to the adverse market conditions previously discussed. Investment losses totaled $1.4 billion for the year. In addition, benefit payments and other expenses exceeded contribution revenue by $0.4 billion. This trend is a natural progression in a mature defined benefit plan.

PUBLIC SCHOOL RETIREMENT SYSTEM
PLAN NET ASSETS (000'S)

	2008	2007	Change
Cash & investments	$ 34,009,978	$ 33,531,143	$ 478,835
Receivables	3,306,861	4,916,199	(1,609,338)
Other	14,293	12,893	1,400
Total assets	37,331,132	38,460,235	(1,129,103)
Total liabilities	9,896,093	9,176,568	719,525
Plan net assets	$ 27,435,039	$ 29,283,667	$ (1,848,628)

PUBLIC SCHOOL RETIREMENT SYSTEM
CHANGES IN PLAN NET ASSETS (000'S)

	2008	2007	Change
Additions			
Member contributions	$ 572,810	$ 514,163	$ 58,647
Employer contributions	521,242	472,217	49,025
Investment (loss) income	(1,385,701)	4,125,164	(5,510,865)
Other	370	280	90
Total additions	(291,279)	5,111,824	(5,403,103)
Deductions			
Monthly benefits	1,502,974	1,380,563	122,411
Refunds of contributions	46,301	44,010	2,291
Administrative expenses	8,042	7,111	931
Other	32	2	30
Total deductions	1,557,349	1,431,686	125,663
Change in plan net assets	$ (1,848,628)	$ 3,680,138	$ (5,528,766)

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 $107.7 million to $1.1 billion. This was a 10.9% increase over the prior year. Retirement contributions were calculated at 12.5% of retirement salary for each member during fiscal year 2008. The employer matched this amount. Contribution rate increases accounted for 4.2% of the increase. In addition to contributions on salary, members may also pay contributions to reinstate previously withdrawn service credit or to purchase various types of elective credit. Such contributions for the year increased by $10.0 million or 21.9%. The remainder of the increase in contributions is attributed to increased salaries and healthcare benefits.

The net investment loss was $1.4 billion as compared to a net investment gain of $4.1 billion in 2007. The 2008 investment markets experienced significant adverse conditions which resulted in investment losses. Such conditions included the global credit crisis and an overall global economic slowdown. 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 2008 were $1.6 billion, an increase of 8.8% over fiscal year 2007.

Benefit expenses increased by $122.4 million. This was a result of cost-of-living increases applied to the benefits of current retirees, increased PLSO payments and the addition of 2,921 new service and disability retirees. There were no changes to the benefit formula during 2008. Refunds of contributions increased by $2.3 million to $46.3 million.

Administrative expenses increased by $0.93 million to $8.0 million. This was a 13.1% increase. This increase is attributable to a variety of factors including: providing a 2.6% COLA increase plus a 3% merit pool for staff members, market salary adjustments based on an independent compensation study, the addition of an investment accountant and information technology security analyst, the performance of an independent fiduciary audit and the recognition of annual other post employment healthcare costs in accordance with Governmental Accounting Standards Board (GASB) Statement No. 45. The cost of these items was charged 60% to PSRS and 40% to PEERS. As always, we will continue to look for ways to streamline costs where prudent.

Financial Analysis of the Public Education Employee Retirement System

The Public Education Employee Retirement System (PEERS) is a mandatory cost-sharing multiple employer retirement system for non-certificated employees and certain part-time certificated employees of participating employers. PEERS members were required to contribute 6.0% of their annual covered salary during 2008. The employer was required to match that amount. PEERS members also contribute to Social Security.

Assets

Total assets of PEERS as of June 30, 2008 were $3.6 billion and were mostly comprised of cash, investments, and contributions due from employers. Total assets increased by $0.08 billion or 2.3% from the prior year primarily due to increased securities lending collateral which was partially offset by investment losses.

Liabilities

Total liabilities as of June 30, 2008 were $1.0 billion and were mostly comprised of obligations under security lending arrangements and payables from the purchase of investments. Total liabilities increased by $0.2 billion. This increase was primarily due to increased obligations under security lending arrangements.

Net Assets

PEERS assets exceeded liabilities at the close of fiscal year 2008 by $2.6 billion. This was down from 2007 net assets by $0.1 billion. This reduction was primarily due to a reduction in investment earnings due to the adverse market conditions previously discussed. Investment losses totaled $0.1 billion for the year. Because PEERS is a much younger plan than PSRS, contribution revenues exceeded benefit payments and other expenses by $25.1 million.

PUBLIC EDUCATION EMPLOYEE RETIREMENT SYSTEM
PLAN NET ASSETS (000'S)

	2008	2007	Change
Cash & investments	$ 3,321,490	$ 3,099,494	$ 221,996
Receivables	287,819	428,630	(140,811)
Total assets	3,609,309	3,528,124	81,185
Total liabilities	1,033,647	846,948	186,699
Plan net assets	$ 2,575,662	$ 2,681,176	$(105,514)

PUBLIC EDUCATION EMPLOYEE RETIREMENT SYSTEM
CHANGES IN PLAN NET ASSETS (000'S)

	2008	2007	Change
Additions			
Member contributions	$ 81,370	$ 73,071	$ 8,299
Employer contributions	77,989	69,235	8,754
Investment (loss) income	(130,619)	373,198	(503,817)
Total additions	28,740	515,504	(486,764)
Deductions			
Monthly benefits	114,064	103,182	10,882
Refunds of contributions	15,509	13,699	1,810
Administrative expenses	4,681	4,427	254
Total deductions	134,254	121,308	12,946
Change in plan net assets	$(105,514)	$ 394,196	$(499,710)

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 $17.1 million to $159.4 million. This was a 12.0% increase over the prior year. Retirement contributions were calculated at 6.0% of retirement salary for each member during fiscal year 2008. The employer matched this amount. Contribution rate increases accounted for 4.3% of the increase. In addition to contributions on salary, members may also pay contributions to reinstate previously withdrawn service credit or to purchase various types of elective credit. The remainder of the increase in contributions is attributed to increased salaries and healthcare benefits.

The net investment loss was $130.6 million as compared to a net investment gain of $373.2 million in 2007. The 2008 investment markets experienced significant adverse conditions which resulted in investment losses. Such conditions included the global credit crisis and an overall global economic slowdown. 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 2008 were $134.3 million, an increase of 10.7% over fiscal year 2007.

Benefit expenses increased by $10.9 million. This was a result of cost-of-living increases applied to the benefits of current retirees and the addition of 1,390 new service and disability retirees. There were no changes to the benefit formula during 2008. Refunds of contributions increased by $1.8 million to $15.5 million.

Administrative expenses increased by $0.3 million to $4.7 million. This was a 5.7% increase. This increase is attributable to a variety of factors including: providing a 2.6% COLA increase plus a 3% merit pool for staff members, market salary adjustments based on an independent compensation study, the addition of an investment accountant and information technology security analyst, the performance of an independent fiduciary audit and the recognition of annual other post employment healthcare costs in accordance with GASB Statement No. 45. The cost of these items was charged 60% to PSRS and 40% to PEERS. As always, we will continue to look for ways to streamline costs where prudent.

Summary

Due to the long-term nature of defined benefit pension plans, it is important to look at the financial performance of the Systems over a period of years and not just at this single point in time. Although our earnings did not meet the 8% return assumption in 2008, the current five-year return of the Systems is 8.4%. As indicated earlier, the current year decrease in net assets is a result of an overall investment market slowdown, which has affected all pension systems. Subsequent to fiscal year end, the overall investment market deteriorated further due to an expanded global credit crisis and continued write downs of mortgage related assets. Investment returns have been negatively impacted in certain asset classes due to such events since fiscal year end. The current contribution rates recommended for fiscal year 2010, which are limited by state statute, are still below the annual required contribution rates of 28.45% for PSRS and 13.29% for PEERS. Unless our investment returns greatly exceed our assumptions and expectations, we can expect contribution rate increases over the next several years. The Board of Trustees, 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 of Trustees, our members, and other users of our financial report with a general overview of the Systems' finances and to demonstrate the Systems' accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Public School and Education Employee Retirement Systems, P.O. Box 268, Jefferson City, MO 65102.

As of June 30, 2008 with comparative totals for June 30, 2007

			Combined Totals	
	PSRS	PEERS	June 30, 2008	June 30, 2007
ASSETS				
Cash	$ 47,822,523	$ 13,656,824	$ 61,479,347	$ 117,161,436
Receivables				
Contributions	144,084,075	14,796,308	158,880,383	158,398,115
Accrued interest and dividends	172,173,582	15,963,556	188,137,138	307,072,064
Investment sales	2,990,103,368	257,017,695	3,247,121,063	4,878,750,409
Due from PEERS	352,855	-	352,855	497,409
Other	147,311	41,889	189,200	110,846
Total receivables	3,306,861,191	287,819,448	3,594,680,639	5,344,828,843
Investments, at fair value				
Public debt	7,717,897,255	729,914,940	8,447,812,195	9,190,037,351
U.S. equities	10,784,523,512	1,002,612,527	11,787,136,039	12,702,294,119
Global equities	5,537,599,624	527,538,996	6,065,138,620	7,409,810,184
Short term investments	703,183,018	88,697,111	791,880,129	1,013,542,867
Private equity	1,048,439,431	84,860,221	1,133,299,652	451,864,690
Real estate	1,477,020,486	131,021,534	1,608,042,020	1,270,057,916
Total investments	27,268,663,326	2,564,645,329	29,833,308,655	32,037,607,127
Invested securities lending collateral	6,693,492,465	743,187,762	7,436,680,227	4,475,868,863
Prepaid expenses	586,502	-	586,502	128,640
Capital assets, net of accumulated depreciation	13,706,076	-	13,706,076	12,764,715
Total assets	37,331,132,083	3,609,309,363	40,940,441,446	41,988,359,624
LIABILITIES				
Accounts payable	15,103,801	1,421,358	16,525,159	22,734,422
Interest payable	44,763,717	3,895,609	48,659,326	13,041,513
Securities lending collateral	6,693,492,465	743,187,762	7,436,680,227	4,475,868,863
Investment purchases	3,141,968,142	284,291,457	3,426,259,599	5,510,436,395
Due to PSRS	-	352,855	352,855	497,409
Net other post employment benefit obligation	109,974	73,316	183,290	-
Compensated absences	655,362	424,573	1,079,935	937,905
Total liabilities	9,896,093,461	1,033,646,930	10,929,740,391	10,023,516,507
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	$ 27,435,038,622	$ 2,575,662,433	$ 30,010,701,055	$ 31,964,843,117

(Schedules of funding progress for the plans are presented on page 46)

See accompanying Notes to the Financial Statements.

For the year ended June 30, 2008 with comparative totals for the year ended June 30, 2007

			Combined Totals Year Ended	
	PSRS	**PEERS**	**June 30, 2008**	**June 30, 2007**
ADDITIONS				
Contributions				
Employer	$ 521,241,501	$ 77,988,839	$ 599,230,340	$ 541,451,790
Member	572,810,350	81,370,202	654,180,552	587,233,945
Total contributions	1,094,051,851	159,359,041	1,253,410,892	1,128,685,735
Investment income				
From investing activities:				
Net (depreciation) appreciation in fair value of investments	(1,943,610,417)	(183,462,063)	(2,127,072,480)	3,789,631,921
Interest from investments	251,067,417	23,424,496	274,491,913	462,220,215
Interest from bank deposits	392,417	58,850	451,267	715,574
Dividends	316,650,039	29,772,418	346,422,457	304,666,400
Total investment (loss) income	(1,375,500,544)	(130,206,299)	(1,505,706,843)	4,557,234,110
Less investment expenses	66,018,558	6,244,145	72,262,703	72,671,553
Net (loss) income from investing activities	(1,441,519,102)	(136,450,444)	(1,577,969,546)	4,484,562,557
From security lending activities:				
Security lending gross income	228,515,885	24,904,325	253,420,210	245,764,139
Less security lending activity expenses:				
Agent fees	9,941,219	1,035,359	10,976,578	2,960,789
Broker rebates	162,756,640	18,037,436	180,794,076	229,004,380
Total security lending expenses	172,697,859	19,072,795	191,770,654	231,965,169
Net income from security lending activity	55,818,026	5,831,530	61,649,556	13,798,970
Total net investment (loss) income	(1,385,701,076)	(130,618,914)	(1,516,319,990)	4,498,361,527
Other income				
PEERS capital asset charge	326,778	-	326,778	257,243
Miscellaneous income	43,275	396	43,671	23,344
Total other income	370,053	396	370,449	280,587
Total (deductions) additions	(291,279,172)	28,740,523	(262,538,649)	5,627,327,849
DEDUCTIONS				
Monthly benefits	1,502,974,331	114,063,510	1,617,037,841	1,483,744,552
Refunds of contributions	46,300,943	15,509,484	61,810,427	57,709,050
Administrative expenses	8,041,951	4,680,634	12,722,585	11,537,748
Other expenses	31,802	758	32,560	1,871
Total deductions	1,557,349,027	134,254,386	1,691,603,413	1,552,993,221
Net (decrease) increase	(1,848,628,199)	(105,513,863)	(1,954,142,062)	4,074,334,628
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS				
Beginning of year	29,283,666,821	2,681,176,296	31,964,843,117	27,890,508,489
End of year	$ 27,435,038,622	$ 2,575,662,433	$ 30,010,701,055	$ 31,964,843,117

See accompanying Notes to the Financial Statements.

June 30, 2008 with comparative information for June 30, 2007

Note 1 – Plan Descriptions

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

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

The Public School Retirement System

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

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

Contributions – PSRS members were required to contribute 12.5% of their annual covered salary during 2007-2008 and 12.0% during 2006-2007. 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:

		2008		2007	
Retirees and beneficiaries receiving benefits			41,738		39,828
Inactive members entitled to but not yet receiving benefits			6,392		6,243
Active members:	Vested	55,415		55,299	
	Non-vested	23,021		21,822	
Total active members			78,436		77,121
Other inactive members			5,188		5,364
Total			131,754		128,556

Employers – PSRS had 543 and 545 contributing employers during fiscal years 2008 and 2007, 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 community college employees (except the Community College of St. Louis). Employees of covered districts who work 20 or more hours per week on a regular basis and who are not contributing members of the Public School Retirement System of Missouri (PSRS) must contribute to PEERS. Employees of PSRS who do not hold Missouri teaching certificates also contribute to PEERS.

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

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

Contributions **–** PEERS members were required to contribute 6.0% of their annual covered salary during 2007-2008 and 5.75% during 2006-2007. 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:

		2008	2008	2007	2007
Retirees and beneficiaries receiving benefits			18,288		17,539
Inactive members entitled to but not yet receiving benefits			4,304		4,071
Active members:	Vested	26,345		26,054	
	Non-vested	24,520		23,227	
Total active members			50,865		49,281
Other inactive members			12,319		13,343
Total			85,776		84,234

Employers **–** PEERS had 536 contributing employers during both years.

Note 2 – Summary of Significant Accounting Policies

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

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

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

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

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

PEERS owns office equipment purchased before 1997 and follows the same guidelines for depreciation. As of June 30, 2008 this equipment was fully depreciated. PEERS reimburses PSRS for the use of capital assets used by the two Systems on a proportional basis. The amount of this reimbursement was $326,778 in 2008 and $257,243 in 2007.

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, 2008. 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, 2007, from which the information was derived.

Reclassification – Certain reclassifications have been made to the 2007 totals to conform with the classifications for 2008.

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

	2008	2007
Designated for Members' Contributions (Member Reserves) – Accumulation of active and terminated member contributions plus interest.	$ 6,174,728,056	$ 5,820,742,526
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.	18,547,599,919	17,058,596,901
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.	952,184	1,016,588
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.	2,711,758,463	6,403,310,806
Net Assets Held In Trust For Pension Benefits	$ 27,435,038,622	$ 29,283,666,821

PEERS

	2008	2007
Designated for Members' Contributions (Member Reserves) – Accumulation of active and terminated member contributions plus interest.	$ 650,970,360	$ 586,679,606
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.	1,215,035,632	1,093,650,215
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.	709,656,441	1,000,846,475
Net Assets Held In Trust For Pension Benefits	$ 2,575,662,433	$ 2,681,176,296

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, 2008, the PSRS carrying amount of deposits at the depository bank was $13,601,191 and the bank balance was $16,289,941. Of the bank balance, $100,000 was covered by federal depository insurance. The remaining $16,189,941 was collateralized with securities held by a third-party institution in the System's name. An additional $4,735,104 was held in overnight repurchase agreements with a book value of $4,735,104.

At June 30, 2008, the PEERS carrying amount of deposits at the depository bank was ($324,300) 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, 2008 was $2,236,880 with a book value of $2,236,880.

The following Agency securities were pledged as collateral for overnight repurchase agreements as of June 30, 2008:

PSRS

Agency	Maturity Date	Market Value
GLPC	01/25/21	$ 485,875
GLPC	04/25/14	400,459
GLPC	01/25/21	461,699
GLPC	02/25/21	777,343
GLPC	04/25/26	415,856
GLPC	10/25/18	1,079,012
GLPC	01/25/19	1,114,860
Total		$ 4,735,104

PEERS

Agency	Maturity Date	Market Value
FNMA	01/29/13	$ 396,997
FNMA	01/04/13	1,530,944
FHLMC	02/27/09	308,939
Total		$ 2,236,880

The following Agency securities were pledged as collateral for overnight deposits as of June 30, 2008:

PSRS

Agency	Maturity Date	Market Value
GLPC	01/25/19	$ 636,453
GLPC	01/25/19	1,679,099
GLPC	08/25/20	2,090,000
FNMA	05/07/12	3,954,064
FHMC	03/02/12	4,921,609
FFCB	10/03/12	3,942,187
Total		$ 17,223,412

PEERS

Agency	Maturity Date	Market Value
Not applicable		

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

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Systems' investment in a single issue. To mitigate this risk, the Systems' investment policy prohibits investing more than 5% of the total investment portfolio into any single financial institution or issuer, excluding U.S. securities. At June 30, 2008, the Systems did not have more than 5% of total investments in a single issue except for U.S. securities.

Interest Rate Risk

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

PSRS

Security Type	Market Value at June 30, 2008	<1 Year to Maturity	1 to 5 Years to Maturity	6 to 10 Years to Maturity	over 10 Years to Maturity
U.S. treasuries	$ 5,661,932,780	$ 206,141,042	$ 3,194,325,598	$ 1,756,768,251	$ 504,697,889
Government guaranteed mortgages	96,242,210	79,275,540	55,412	5,057,983	11,853,275
Agencies	958,411,182	20,311,233	13,738,726	20,010,892	904,350,331
Collateralized mortgage obligations	577,194,402	-	4,691,582	34,016,508	538,486,312
Asset backed securities	54,123,010	6,623,996	10,852,507	5,107,789	31,538,718
Corporate bonds	340,864,714	63,637,325	128,735,035	90,597,280	57,895,074
Sovereign	21,463,869	-	-	10,083,274	11,380,595
Municipals	7,031,967	-	-	-	7,031,967
Commingled Funds (see note)					
SSGA STIF	482,975,469	482,975,469	-	-	-
PIMCO High Yield	595,484	-	595,484	-	-
PIMCO Institutional Class	5,288,475	-	5,288,475	-	-
PIMCO Emerging Markets	8,757,988	-	8,757,988	-	-
PIMCO Emerging Markets Local Currency	654,581	-	654,581	-	-
Currency	179,787,010	179,787,010	-	-	-
Total	$ 8,395,323,141	$ 1,038,751,615	$ 3,367,695,388	$ 1,921,641,977	$ 2,067,234,161
Percentage of total fixed income	100%	12%	40%	23%	25%

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.

PEERS

Security Type	Market Value at June 30, 2008	<1 Year to Maturity	1 to 5 Years to Maturity	6 to 10 Years to Maturity	over 10 Years to Maturity
U.S. treasuries	$ 535,175,262	$ 22,422,769	$ 300,376,803	$ 164,349,081	$ 48,026,609
Government guaranteed mortgages	7,949,537	5,881,216	1,502	-	2,066,819
Agencies	90,373,930	3,074,115	1,928,983	996,596	84,374,236
Collateralized mortgage obligations	46,725,085	-	124,688	2,999,271	43,601,126
Asset backed securities	8,653,101	590,257	3,537,932	1,405,620	3,119,292
Corporate bonds	40,505,358	12,789,145	13,874,054	6,422,988	7,419,171
Sovereign	1,933,023	-	-	854,883	1,078,140
Municipals	1,492,576	-	-	200,000	1,292,576
Commingled Funds (see note)					
SSGA STIF	62,966,308	62,966,308	-	-	-
PIMCO High Yield	50,827	-	50,827	-	-
PIMCO Institutional Class	467,586	-	467,586	-	-
PIMCO Emerging Markets	579,985	-	579,985	-	-
PIMCO Emergency Markets Local Currency	1,157,378	-	1,157,378	-	-
Currency	26,934,768	26,934,768	-	-	
Total	$ 824,964,724	$ 134,658,578	$ 322,099,738	$ 177,228,439	$ 190,977,969
Percentage of total fixed income	100%	16%	39%	22%	23%

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 but does not include security lending collateral held in a pooled investment fund. The Systems' debt investments by credit rating category as of June 30, 2008 are presented in the following tables.

PSRS

Security Type	Market Value at June 30, 2008	Percentage	AAA	AA	A	BBB	BB	B	CCC	Not Rated
U.S. treasuries	$ 5,661,932,780	67%	$ 5,661,932,780	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Government guaranteed mortgages	96,242,210	2%	96,242,210	-	-	-	-	-	-	-
Agencies	958,411,182	11%	958,411,182	-	-	-	-	-	-	-
Collateralized mortgage obligations	577,194,402	7%	577,194,402	-	-	-	-	-	-	-
Asset backed securities	54,123,010	1%	53,007,110	-	832,528	-	283,372	-	-	-
Corporate bonds	340,864,714	4%	13,561,106	125,994,803	186,194,290	41,138,030	22,807,383	24,338,111	6,439,299	(79,608,308)
Sovereign	21,463,869	0%	-	-	-	16,866,183	4,231,904	365,782	-	-
Municipals	7,031,967	0%	-	3,793,612	529,213	2,709,142	-	-	-	-
Commingled Funds (see note)										
SSGA STIF	482,975,469	6%	-	-	482,975,469	-	-	-	-	-
PIMCO High Yield	595,484	0%	-	-	-	-	595,484	-	-	-
PIMCO Institutional Class	5,288,475	0%	-	-	-	5,288,475	-	-	-	-
PIMCO Emerging Markets	8,757,988	0%	-	-	-	-	8,757,988	-	-	-
PIMCO Emerging Markets Local Currency	654,581	0%	-	-	-	654,581	-	-	-	-
Currency	179,787,010	2%	-	-	-	-	-	-	-	179,787,010
Total	$ 8,395,323,141	100%	$ 7,360,348,790	$ 129,788,415	$ 670,531,500	$ 66,656,411	$ 36,676,131	$ 24,703,893	$ 6,439,299	$ 100,178,702
Percentage of total fixed income	100%		88%	2%	8%	1%	0%	0%	0%	1%

PEERS

Security Type	Market Value at June 30, 2008	Percentage	AAA	AA	A	BBB	BB	B	CCC	Not Rated
U.S. treasuries	$ 535,175,262	65%	$ 535,175,262	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Government guaranteed mortgages	7,949,537	1%	7,949,537	-	-	-	-	-	-	-
Agencies	90,373,930	11%	90,373,930	-	-	-	-	-	-	-
Collateralized mortgage obligations	46,725,085	6%	46,725,085	-	-	-	-	-	-	-
Asset backed securities	8,653,101	1%	8,360,505	41,050	233,835	-	17,711	-	-	-
Corporate bonds	40,505,358	5%	1,664,677	13,645,780	23,003,279	4,390,462	940,799	2,446,500	496,091	(6,082,230)
Sovereign	1,933,023	0%	-	-	-	1,442,530	454,931	35,562	-	-
Municipals	1,492,576	0%	797,970	457,438	55,222	181,946	-	-		-
Commingled Funds (see note)										
SSGA STIF	62,966,308	8%	-	-	62,966,308	-	-	-	-	-
PIMCO High Yield	50,827	0%	-	-	-	-	50,827	-	-	-
PIMCO Institutional Class	467,586	0%	-	-	-	467,586	-	-	-	-
PIMCO Emerging Markets	579,985	0%	-	-	-	-	579,985	-	-	-
PIMCO Emerging Markets Local Currency	1,157,378	0%	-	-	-	1,157,378	-	-	-	-
Currency	26,934,768	3%	-	-	-	-	-	-	-	26,934,768
Total	$ 824,964,724	100%	$ 691,046,966	$ 14,144,268	$ 86,258,644	$ 7,639,902	$ 2,044,253	$ 2,482,062	$ 496,091	$ 20,852,238
Percentage of total fixed income	100%		84%	2%	10%	1%	0%	0%	0%	3%

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

FINANCIAL SECTION

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

PSRS

Currency	Debt	Equity	Currency/ Short Term	Total
Argentine Peso	$ -	$ -	$ 242	$ 242
Australian Dollar	(209,145)	154,148,726	5,185,327	159,124,908
Brazilian Real	8,693,897	61,202,866	252,176	70,148,939
Canadian Dollar	-	193,682,754	8,399,379	202,082,133
Chilean Peso	-	-	44	44
Colombian Peso	2,128,597	-	-	2,128,597
Czech Koruna	-	20,077,031	(3,373)	20,073,658
Danish Krone	331,865	27,798,999	426,499	28,557,363
Egyptian Pound	-	6,610,704	280,591	6,891,295
Euro Currency	952,146	1,397,509,166	6,890,739	1,405,352,051
Hong Kong Dollar	-	170,547,532	3,058,056	173,605,588
Hungarian Forint	-	16,990,743	6,577	16,997,320
Indian Rupee	-	20,376,083	220,906	20,596,989
Indonesian Rupiah	-	13,252,369	163,376	13,415,745
Israeli Shekel	-	15,449,125	5,056	15,454,181
Japanese Yen	-	675,786,849	6,010,150	681,796,999
Malaysian Ringgit	-	2,990,837	9,700	3,000,537
Mexican Peso (New)	(33,770)	21,286,068	6,211	21,258,509
New Bulgaria Lev	-	7,983,723	549,640	8,533,363
New Russian Ruble	-	498,457	-	498,457
New Taiwan Dollar	-	49,204,425	1,562,204	50,766,629
New Zealand Dollar	-	5,188,442	87,616	5,276,058
Norwegian Krone	-	37,353,168	3,006,231	40,359,399
Pakistan Rupee	-	5,898,642	24,726	5,923,368
Philippine Peso	-	-	3,642	3,642
Polish Zloty	(289,510)	18,259,480	9,695	17,979,665
Pound Sterling	(55,786,727)	714,233,260	6,667,506	665,114,039
Romanian Leu	-	2,058,537	-	2,058,537
Singapore Dollar	-	26,241,191	198,185	26,439,376
South African Rand	(960,075)	28,976,057	507,453	28,523,435
South Korean Won	-	79,464,017	95,608	79,559,625
Swedish Krona	-	57,279,728	3,258,379	60,538,107
Swiss Franc	-	306,333,204	2,336,092	308,669,296
Thailand Baht	-	18,277,264	4,269	18,281,533
Turkish Lira	-	13,723,088	1,523	13,724,611
Ukraine Hryvnia	-	6,088,717	-	6,088,717
Yuan Renminbi	-	-	(444)	(444)
	$ (45,172,722)	$ 4,174,771,252	$ 49,223,981	$ 4,178,822,511

PEERS

Currency	Debt	Equity	Currency/ Short Term	Total
Argentine Peso	$ -	$ -	$ 243	$ 243
Australian Dollar	(12,236)	14,558,743	487,093	15,033,600
Brazilian Real	741,652	5,582,094	10,507	6,334,253
Canadian Dollar	-	18,656,880	838,068	19,494,948
Colombian Peso	180,587	-	-	180,587
Czech Koruna	-	1,961,794	(319)	1,961,475
Danish Krone	35,561	2,871,051	54,068	2,960,680
Egyptian Pound	-	577,329	8,582	585,911
Euro Currency	(61,991)	134,555,420	(336,154)	134,157,275
Hong Kong Dollar	-	15,794,883	461,413	16,256,296
Hungarian Forint	-	1,587,927	2,968	1,590,895
Indian Rupee	-	1,855,982	15,571	1,871,553
Indonesian Rupiah	-	1,202,324	14,773	1,217,097
Israeli Shekel	-	1,082,213	93	1,082,306
Japanese Yen	-	66,862,490	673,248	67,535,738
Malaysian Ringgit	-	272,159	242	272,401
Mexican Peso (New)	(3,522)	1,949,710	(10,605)	1,935,583
New Bulgaria Lev	-	714,430	51,394	765,824
New Russian Ruble	-	-	(383)	(383)
New Taiwan Dollar	-	4,651,664	155,678	4,807,342
New Zealand Dollar	-	602,041	6,424	608,465
Norwegian Krone	-	3,729,816	414,931	4,144,747
Pakistan Rupee	-	624,811	7,963	632,774
Philippine Peso	-	-	319	319
Polish Zloty	(26,724)	1,663,009	2,004	1,638,289
Pound Sterling	(5,064,139)	70,248,779	1,027,995	66,212,635
Romanian Leu	-	192,843	(2)	192,841
Singapore Dollar	-	2,639,056	28,289	2,667,345
South African Rand	(83,712)	2,699,007	119,779	2,735,074
South Korean Won	-	7,513,754	12,062	7,525,816
Sudanese Pound	-	-	1,492	1,492
Swedish Krona	-	6,151,700	1,890,066	8,041,766
Swiss Franc	-	30,530,366	260,587	30,790,953
Thailand Baht	-	1,643,592	2,137	1,645,729
Turkish Lira	-	1,162,109	126	1,162,235
Ukraine Hryvnia	-	570,235	-	570,235
Uruguayan Peso	35,562	-	-	35,562
Yuan Renminbi	-	-	4,473	4,473
	$(4,258,962)	$ 404,708,211	$ 6,205,125	$ 406,654,374

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. Derivatives are reported at fair value on the Statements of Plan Net Assets.

International security managers are authorized to engage in forward contracts to exchange different currencies at a specified date and rate. These forward contracts involve elements of custodial and market risk in excess of the amount recognized in the Statements of Plan Net Assets. The forward exchange contracts activity (purchases and sales) during fiscal years 2008 and 2007 are shown below.

2008	Purchase Value	Fair Value
PSRS	$ 2,052,600,128	$ 2,055,076,797
PEERS	194,358,473	194,586,925

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

The "Net Appreciation (Depreciation) in Fair Value of Investments" found on the Statements of Changes in Plan Net Assets includes for PSRS a net gain on forward contracts and currency disposal of $16,989,753 during 2007-2008 and a net gain of $8,100,307 during 2006-2007. PEERS had a net loss of $278,095 during 2007-2008 and a net gain of $1,386,351 during 2006-2007.

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.

Certain managers are authorized to enter into contractual commitments involving other financial instruments with off-balance-sheet risk. During the year, the Systems held futures, options, forwards and swaps. These derivatives are used to minimize the expenses and volatility of the portfolio and to gain exposure to certain assets without having to actually own the asset.

The following derivatives were held by the Systems at June 30, 2008:

Type	PSRS Notional Value	PEERS Notional Value
Equity futures	$ 186,376,438	$ 18,529,373
Treasury futures	39,252,031	(1,753,820)
Currency futures	330,581,376	46,417,936
Cash futures	115,793,430	11,383,433
Total	$ 672,003,275	$ 74,576,922

Type	PSRS Notional Value	PEERS Notional Value
Interest rate swaps	$ 388,924,985	$ 39,180,044
Credit default swaps	396,945,692	37,274,837
Total return swaps	526,591,187	45,905,361
Total	$ 1,312,461,864	$ 122,360,242

Type	Number of Contracts	PSRS Notional Value	Number of Contracts	PEERS Notional Value
Fixed income purchased call options	510,600,000	$ 510,600,000	43,000,000	$ 43,000,000
Treasury futures written call options	220	220,000	22	22,000
Treasury futures written put options	220	220,000	22	22,000
Total		$ 511,040,000		$ 43,044,000

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.

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

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

The Systems did not impose any restrictions during the fiscal year on the amount of the loans that the custodial bank made on their behalf. The custodial bank indemnified the Systems by agreeing to purchase replacement securities, or return cash collateral in the event a borrower failed to return a loaned security or pay distributions thereon. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the year. There were no losses during the year resulting from a default of the borrowers or the custodial bank.

The Systems and borrowers each maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested together with the cash collateral of other qualified tax-exempt plan lenders in a collective investment pool. The weighted average duration of such investment pool as of June 30, 2008 was 41.84 days and an average final maturity of 395.61 days. Because the loans were terminable at will, their duration did not match the duration of the investments made with cash collateral. On June 30, 2008 the Systems had no credit risk exposure to borrowers because the amounts the Systems owed the borrowers exceeded the amounts the borrowers owed the Systems.

The collateral held (including both cash collateral recognized in the "Statement of Plan Net Assets" and non-cash collateral) and the fair values of securities on loan for PSRS were $7,976,845,428 and $7,789,400,384 at June 30, 2008 and $5,090,660,025 and $4,898,844,667 at June 30, 2007. Net security lending income was $55,818,026 for the 2007-2008 fiscal year and $12,631,289 for the 2006-2007 fiscal year.

The collateral held (including both cash collateral recognized in the "Statement of Plan Net Assets" and non-cash collateral) and the fair values of securities on loan for PEERS were $814,470,081 and $796,673,318 at June 30, 2008 and $465,515,757 and $450,515,316 at June 30, 2007. Net security lending income was $5,831,530 for the 2007-2008 fiscal year and $1,167,681 for the 2006-2007 fiscal year.

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

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

Note 5 – Additional Deposits Program

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

This annuity is in addition to the defined benefit allowance provided by the System. Contributions to the program are tax-sheltered. As of September 1, 1996 new deposits to the program were limited to members currently with deposits in the program. No additional deposits were made during 2007-2008. The only member with deposits and interest left in the program retired effective July 1, 2007 and has begun receiving monthly annuity payments.

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, 2008, 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	6/30/2008	$ 28,751,241	$ 34,490,452	$ 5,739,211	83.4%	$ 4,209,417	136.3%
PEERS	6/30/2008	$ 2,703,762	$ 3,278,602	$ 574,840	82.5%	$ 1,377,506	41.7%

The schedule of funding progress, presented as required supplementary information (RSI) following the Notes to the Financial Statements, presents multiyear 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 follows:

Valuation date	June 30, 2008
Actuarial cost method	Entry Age Normal
Amortization method	Level Percent, Open
Remaining amortization period	
PSRS	30 years (1)
PEERS	30 years (2)
Asset valuation method	5-year smoothed market Marked to market June 30, 2003
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases*	
PSRS	5.0 - 10.25%
PEERS	5.0 - 10.0%
*Includes inflation at	3.25%
Cost-of-living adjustments	3.25%

1) 30 year amortization assumes an ARC rate of 28.45% for fiscal year 2009. The annual statutory increase in the total contribution rate may not exceed 1% of pay. Contribution rates will be established by actuarial valuation.

2) 30 year amortization assumes an ARC rate of 13.29% for fiscal year 2009. The annual statutory increase in the total contribution rate may not exceed .5% of pay. Contribution rates will be established by actuarial valuation.

Note 7 – Retirement Plans

Section 401 (a) Defined Benefit Plan

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

PSRS members were required to contribute 12.5% of their annual covered salary during 2007-2008 and 12.0% during 2006-2007. 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 $30,510 for the 2007-2008 fiscal year and $32,322 for the 2006-2007. The amounts for these years are equal to the required contributions.

PEERS members were required to contribute 6.0% of their annual covered salary during 2007-2008 and 5.75% during 2006-2007. 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 $379,796 for the 2007-2008 fiscal year and $335,772 for the 2006-2007. The amounts for these years are equal to the required contributions.

Section 457 Deferred Compensation Plan

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

All employees immediately vest in the employer-matching and employer-paid contributions. Employer-matching contributions totaled $79,665 for the 2007-2008 fiscal year and $83,773 for the 2006-2007 fiscal year. Employer-paid contributions totaled $56,500 for the 2007-2008 fiscal year and $48,250 for the 2006-2007 fiscal year. Employee contributions totaled $189,381 for the 2007-2008 fiscal year and $185,099 for the 2006-2007 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 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. GASB Statement 45 was implemented prospectively with an initial transition liability of zero. 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. The June 30, 2008 actuarial valuation was the first valuation for the SRHP. PSRS' annual OPEB cost, the amount actually contributed to the plan, the percentage of annual OPEB cost contributed to the Plan and the net OPEB obligation for fiscal year 2008 are as follows:

Fiscal Year Ended	Annual OPEB Cost (AOC) [1]	Employer Contributions	% of AOC Contributed	Net OPEB Obligation	Annual Required Contribution (ARC) [1]	% of ARC Contributed
6/30/2008	$ 218,075	$ 34,785	16.0%	$ 183,290	$ 218,075	16.0%

[1] June 30, 2008 was the first actuarial valuation, resulting in no interest on the Net OPEB obligation or adjustment to the ARC; therefore, the AOC and ARC are equal.

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Payroll [(b-a)/c]
6/30/2008	$ -	$2,746,128	$2,746,128	0.0%	$5,832,445	47.1%

In the June 30, 2008 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	4.5% per year
Healthcare trend	10% per year graded down to 4.5% per year ultimate trend in 0.5% increments

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.

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 $27,230 for four employees (three retirees and one termination) during 2008 and $24,217 for four employees (two retirees and two terminations) during 2007. The cost was charged 60% to PSRS and 40% 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 $3,141,968,142 on June 30, 2008 and to the future purchase of $5,093,730,593 in investments on June 30, 2007. PEERS had investment commitments of $284,291,457 on June 30, 2008 and $416,705,802 on June 30, 2007.

PSRS had total capital commitments to real estate, private equity and other alternative investments of $5.4 billion as of June 30, 2008. Of these amounts $2.3 billion remained unfunded as of June 30, 2008. PEERS had total capital commitments to real estate, private equity and other alternative investments of $467.9 million as of June 30, 2008. Of these amounts $200.4 million remained unfunded as of June 30, 2008. The unfunded commitments are not recorded in the Statements of Plan Net Assets.

PSRS has entered into a contract with a consultant to provide and implement the software and training of an automated pension administration system at a cost of approximately $8,200,000. As of June 30, 2008, $1,576,708 had been paid pursuant to this contract.

Certain 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.

Note 11 – Subsequent Events

Subsequent to fiscal year end the global investment markets have been experiencing unprecedented, adverse events. Such events include an expanded global credit crisis, liquidity constraints in the markets and the continued write down of mortgage related assets. These events resulted in the failure of several large domestic and foreign financial institutions. Investment returns have been negatively impacted in certain asset classes due to such events. However, PSRS and PEERS are large institutional investors with the ability to create diversified portfolios over long periods of time. Over the long-term, we believe the Systems' investments will continue to provide consistent and meaningful investment returns. Management is continually assessing recent economic events and adjusting risk mitigation strategies as deemed necessary.

Required Supplementary Information

PUBLIC SCHOOL RETIREMENT SYSTEM

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)– Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
6/30/2003	$ 20,047,982[1]	$ 24,719,450[2]	$ 4,671,468	81.1%	$ 3,373,058	138.5%
6/30/2004	21,501,572	26,225,259[3]	4,723,687	82.0	3,408,230	138.6
6/30/2005	23,049,441	27,881,513[3]	4,832,072	82.7	3,540,649	136.5
6/30/2006	24,801,644	30,037,130[3]	5,235,486	82.6	3,775,752	138.7
6/30/2007	27,049,004	32,396,723[4]	5,347,719	83.5	3,980,698	134.3
6/30/2008	28,751,241	34,490,452[3]	5,739,211	83.4	4,209,417	136.3

[1]Actuarial value of assets was marked to market as June 30, 2003.

[2]The extension of the 25-and-Out provision to 2008 is included in the AAL for 2003.

[3]There were no legislative changes in fiscal year 2004, 2005, 2006 or 2008.

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

PUBLIC EDUCATION EMPLOYEE RETIREMENT SYSTEM

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)– Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
6/30/2003	$ 1,677,770[1]	$ 2,049,716[2]	$ 371,946	81.9%	$ 971,177	38.3%
6/30/2004	1,837,308	2,221,210[3]	383,902	82.7	984,866	39.0
6/30/2005	2,011,566	2,414,494[3]	402,928	83.3	1,055,204	38.2
6/30/2006	2,218,638	2,756,833[3]	538,195	80.5	1,190,994	45.2
6/30/2007	2,481,562	2,982,813[4]	501,251	83.2	1,275,199	39.3
6/30/2008	2,703,762	3,278,602[3]	574,840	82.5	1,377,506	41.7

[1]Actuarial value of assets was marked to market as June 30, 2003.

[2]The extension of the 25-and-Out provision to 2008 is included in the AAL for 2003.

[3]There were no legislative changes in fiscal year 2004, 2005, 2006 or 2008.

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

Required Supplementary Information

PUBLIC SCHOOL RETIREMENT SYSTEM

Year Ended June 30	Annual Required Contribution (ARC)	Employer Contribution	Percentage Contributed
2003	$ 376,659,713	$ 355,979,027	94.5 %
2004	475,400,520	359,762,556	75.7
2005	593,328,374	389,415,997	65.6
2006	608,134,319	429,578,911	70.6
2007	644,969,214	472,216,630	73.2
2008	656,347,298	521,241,501	79.4

PUBLIC EDUCATION EMPLOYEE RETIREMENT SYSTEM

Year Ended June 30	Annual Required Contribution (ARC)	Employer Contribution	Percentage Contributed
2003	$ 52,847,992	$ 48,933,326	92.6 %
2004	62,315,910	49,976,898	80.2
2005	73,948,917	53,109,687	71.8
2006	79,707,834	61,745,505	77.5
2007	89,945,503	69,235,160	77.0
2008	90,727,016	77,988,839	86.0

NOTES TO THE SCHEDULES OF TREND INFORMATION

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

Valuation date	June 30, 2008
Actuarial cost method	Entry Age Normal
Amortization method	Level Percent, Open
Remaining amortization period	
PSRS	30 years (1)
PEERS	30 years (2)
Asset valuation method	5-year smoothed market
	Marked to Market as of June 30, 2003
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases*	
PSRS	5.0 - 10.25%
PEERS	5.0 - 10.0%
*Includes inflation at	3.25%
Cost-of-living adjustments	3.25%

1) 30-year amortization assumes an ARC rate of 28.45% for fiscal year 2009. The annual statutory increase in the total contribution rate may not exceed 1% of pay. Contribution rates will be established by actuarial valuation.

2) 30-year amortization assumes an ARC rate of 13.29% for fiscal year 2009. The annual statutory increase in the total contribution rate may not exceed .5% of pay. Contribution rates will be established by actuarial valuation.

Required Supplementary Information

STAFF RETIREE HEALTH PLAN - DEFINED BENEFIT OPEB PLAN

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Payroll ((b-a)/c)
6/30/2008[1]	$ -	$2,746,128	$2,746,128	0.0%	$5,832,445	47.1%

NOTES TO THE SCHEDULES OF TREND INFORMATION

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

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	4.5% per year
Healthcare trend	10.0% per year graded down to 4.5% per year ultimate trend in 0.5% increments

[1]The June 30, 2008 actuarial valuation was the first valuation for the Staff Retiree Health Plan - Defined Benefit OPEB Plan.

For the year ended June 30, 2008

	PSRS	PEERS	Combined Totals
Personal services	$ 4,178,385	$ 2,783,715	$ 6,962,100
Professional services			
Actuarial services	89,380	71,837	161,217
Financial audit services	30,000	20,000	50,000
Technology consulting	275,369	183,580	458,949
Fiduciary audit services	165,000	110,000	275,000
Insurance consulting	3,600	2,400	6,000
Legislative consulting	24,750	16,500	41,250
Other consultants	81,563	55,871	137,434
Legal services	30,974	20,718	51,692
Total professional services	700,636	480,906	1,181,542
Communications			
Information and publicity	576,630	415,909	992,539
Postage	56,081	38,430	94,511
Staff field	27,123	14,204	41,327
Telephone	49,133	32,755	81,888
Total communications	708,967	501,298	1,210,265
Miscellaneous			
Building and utilities	104,953	69,969	174,922
Insurance	74,440	49,627	124,067
Office	434,325	286,771	721,096
Staff development	173,498	129,861	303,359
Miscellaneous	117,713	51,709	169,422
Total miscellaneous	904,929	587,937	1,492,866
Charge for use of capital assets	-	326,778	326,778
Depreciation expense	1,549,034	-	1,549,034
Total administrative expenses	$ 8,041,951	$ 4,680,634	$ 12,722,585

For the year ended June 30, 2008

	PSRS	PEERS	Combined Totals
Investment management expenses			
U.S. equity	$ 18,037,109	$ 1,601,529	$ 19,638,638
Global equity	21,688,016	2,024,879	23,712,895
Public debt	8,617,197	676,164	9,293,361
Real estate	1,053,789	105,008	1,158,797
Private equity	9,665,717	727,527	10,393,244
Total investment management expenses	59,061,828	5,135,107	64,196,935
Investment consultant fees	2,925,818	248,161	3,173,979
Custodial bank fees	3,657,551	318,048	3,975,599
Investment staff expenses	915,967	609,380	1,525,347
Commission recapture income	(542,606)	(66,551)	(609,157)
Total investment income expenses	$ 66,018,558	$ 6,244,145	$ 72,262,703
Security lending expenses			
Agent fees	$ 9,941,219	$ 1,035,359	$ 10,976,578
Broker rebates	162,756,640	18,037,436	180,794,076
Total security lending expenses	$ 172,697,859	$ 19,072,795	$ 191,770,654

For the year ended June 30, 2008

	PSRS	PEERS	Combined Totals
Technology consulting	$ 275,369	$ 183,580	$ 458,949
Fiduciary audit services	165,000	110,000	275,000
Actuarial services	89,380	71,837	161,217
Other consulting	81,563	55,871	137,434
Legal expenses	30,974	20,718	51,692
Financial audit services	30,000	20,000	50,000
Legislative consulting	24,750	16,500	41,250
Insurance consulting	3,600	2,400	6,000
Total fees	$ 700,636	$ 480,906	$ 1,181,542