



*Growing
schools
for growing
minds*

Comprehensive

ANNUAL FINANCIAL REPORT

for the fiscal year ended June 30, 2008

**Pictured on the front cover: Hazelwood Southeast Middle School,
one of four middle schools opened by the Hazelwood School
District in the 2007-2008 school year.**

Growing schools for growing minds



From top to bottom, left to right: Camdenton High School, Graden Elementary School in Park Hill, Clever High School, Neosho High School, Kirbyville Elementary School, Stony Point Elementary School in Grain Valley, and Hallsville Primary School. These are just a few of the schools growing throughout Missouri.

Comprehensive Annual Financial Report for the fiscal year ended June 30, 2008

M. Steve Yoakum, Executive Director

Prepared by:

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MISSION STATEMENT

The Public School Retirement System of Missouri and the Public Education Employee Retirement System of Missouri (PSRS and PEERS) work in partnership with the member school districts of this state to provide eligible employees and their beneficiaries with a significant source of income based on the employee's length of service and compensation in order to enhance retirement, disability and death benefits received from other sources.

It is the fiduciary responsibility of those charged with administration of PSRS and PEERS to:

- effectively collect contributions,
- prudently invest the assets to obtain optimum returns,
- equitably provide benefits, and
- impartially and in accordance with applicable law administer the benefit programs.

The Board of Trustees and staff are committed to providing services to the members and beneficiaries professionally, promptly, courteously, and efficiently.

MISSION STATEMENT PRINCIPLES

- We will conduct the business of the Retirement Systems in accordance with the mission statement.
- We will act as fiduciaries in the management of all funds for the exclusive benefit of our members.
- We will adhere to our investment policy to ensure the highest possible investment return consistent with the prudent investment of plan assets.
- We will have as our goal the replacement of 80% of a member's final average salary after a 30-year career through the combination of income from public pensions and, where applicable, the federal Social Security system.
- We shall have as our goal the retention of purchasing power of the initial retirement benefit through the retirement years.
- We will maintain an independent retirement system that retains the power of the trustees to set actuarial assumptions, appoint consultants, employ staff, establish a budget and conduct all business of the Retirement Systems.
- We will prepare and distribute an annual financial report that adheres to U.S. generally accepted accounting principles.
- We will provide prompt, courteous and accurate service to our members.
- We will provide clear and complete information to the members and the districts through the use of a summary plan document, newsletters, an annual member account statement and any other documents deemed necessary.
- We will adhere to the highest standards of ethical conduct.

Kirbyville R-VI School District

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Pictured at left is the old Kirbyville Elementary School.



Pictured at right is the main entrance of the new Kirbyville Elementary School.

Growing schools for growing minds

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Camdenton School District

INTRODUCTORY SECTION



Pictured above is the new 260,000 square foot Camdenton High School, completed in 2007.



Pictured above is the Senior High building, completed and occupied in December 1967. The building was used as a high school until the 2007-2008 school year. It is currently the Camdenton Middle School.



The white brick building pictured above was finished in 1941 and served as a high school until 1967. This building now houses Special Services, Early Childhood, and several classes for Dogwood Elementary, grades K-2.



Pictured at left, "Old Red" was finished in 1932. The class of 1933 was the first class to graduate in this building.

Growing schools for growing minds

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Tina Zubeck
Chair
Elected PEERS Member



Joncee Nodler
Vice-Chair
Appointed Member



Cheryl Boggess
Elected PSRS Member



James O'Donnell
Appointed Member



Peggy Preston
Elected PSRS Member



Wayne Wheeler
Appointed Retired
Member



December 1, 2008

To: Board of Trustees and Members of the Retirement Systems:

I am pleased to present the *Comprehensive Annual Financial Report* of the Public School Retirement System of Missouri (PSRS) and Public Education Employee Retirement System of Missouri (PEERS) for the fiscal year ended June 30, 2008. The management and staff of the Systems are responsible for the accuracy and completeness of this report and for ensuring that all material disclosures have been made. To the best of our knowledge, the information presented is a fair and accurate portrayal of the financial position and operations of PSRS and PEERS as of June 30, 2008.

Overview of the Retirement Systems

The Public School Retirement System of Missouri, a cost-sharing multiple employer retirement system, was established in 1946 by an act of the Missouri legislature to provide retirement, disability and death benefits to full-time, certificated employees in the public schools and four-year regional universities. It has been amended to include part-time certificated employees of public schools and no longer accepts new employees of the regional colleges and universities.

The Public Education Employee Retirement System of Missouri, also a cost-sharing multiple employer retirement system, was established in 1965 by an act of the Missouri legislature to provide retirement, disability and death benefits to non-certificated school employees in the public schools, community colleges and junior colleges who have elected to join the System.

Financial Information

The Systems' financial statements are prepared in accordance with generally accepted accounting principles (GAAP) within the guidelines established by the Governmental Accounting Standards Board (GASB). A system of internal controls is in place to help monitor and safeguard assets and promote efficient operations. An independent certified public accounting firm selected by the Board of Trustees performs a financial audit each year. In addition, the Systems employ an internal auditor who performs operational reviews to ensure that the internal controls are functioning effectively.

Please refer to the Management's Discussion and Analysis on pages 22 through 27 for an overview of additions to and deductions from the plans for the fiscal year.

Investment Activities

The overall investment return for the fiscal year was -4.6% for the Public School Retirement System (PSRS) and the Public Education Employee Retirement System (PEERS). Our return was below our assumed rate of return of 8% due to the overall negative global economic environment; however, our return exceeded the policy benchmark return of -4.9%. Our decision to restructure the public debt portfolio in December 2007, from a core Lehman Aggregate Public Debt portfolio to a U.S. Treasuries and TIPS portfolio assisted in providing returns that exceeded our policy benchmark return and provided significant downside protection as the credit crisis evolved throughout the fiscal year.

The Board of Trustees governs the investment process by adopting investment policies and objectives, which define the Systems' strategic investment initiatives, and by monitoring performance to measure the results. The PSRS/PEERS Investment Policy, adopted by the Board and amended as needed, has specific guidelines for performance expectations, eligible holdings and portfolio characteristics. The key to determining investment strategy is asset allocation, a crucial decision made by the Board after consideration of expected returns for asset classes within the context of risk tolerance for the Systems. Internal staff, with the advice of outside consultants, is responsible for implementing and monitoring this strategy. The Systems continue to monitor and update strategy to increase expected returns. During 2008, the staff continued to work towards implementation of the long-term asset allocation adopted in fiscal year 2007.

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FAX Numbers: Membership (573) 634-7934; Investments (573) 634-6248; Employer Services (573) 634-7911; Administration (573) 634-5375

Additional detailed information regarding the PSRS and PEERS investments can be found in the Investment Section of this report.

Funding Status

PSRS and PEERS are defined benefit retirement systems. This means that a formula made up of credit (years of service) times final average salary, times a multiplier (2.5% for PSRS and 1.61% for PEERS) determines each member's retirement benefit. The actuarial accrued liability is calculated for each System using the plan provisions in effect at the time of the calculation. Actuarial assumptions used in the calculation are recommended by the Systems' outside actuary and are based upon prior experience of the plans.

To determine the relative health of the Systems, the actuarial accrued liability is compared to the actuarial value of assets to arrive at a funded percentage. As of June 30, 2008, PSRS was 83.4% funded, while PEERS was 82.5% funded. This is a slight decrease from the June 30, 2007 funded ratios of 83.5% for PSRS and 83.2% for PEERS.

The actuarial value of assets was determined using a "smoothing" method that requires all gains (earnings in excess of 8%) and losses (earnings below 8%) to be recognized over a five-year period. Because of this methodology, only one-fifth of the 2008 return below 8% was recognized as of June 30, 2008.

During the 2008 fiscal year, the contribution rates collected by the Systems were insufficient to fund the normal costs of the Systems plus amortize the unfunded actuarial accrued liability within a 30-year period. The annual required contribution rates for 2008 were 28.24% for PSRS and 12.98% for PEERS. The contribution rates collected were 25.0% for PSRS and 12.0% for PEERS.

Based upon the June 30, 2008 actuarial valuations, the annual required contribution rates for fiscal year 2009 were determined to be 28.45% for PSRS and 13.29% for PEERS. The Board of Trustees set the fiscal year 2009 contribution rates at 26% for PSRS and 12.5% for PEERS and the 2010 rates at 27% for PSRS and 13% for PEERS. The approved rates were set in accordance with the annual contribution rate increase limits set forth in state statute which require the PSRS rate to increase 1% per year and the PEERS rate to increase 0.5% per year until the rates collected are equal to the annual required contribution rates as determined by the actuary. Due to the current decline in the investment market, we anticipate that rates will continue to rise for the foreseeable future.

Legislative Changes During 2007-2008

There was no legislation passed during the 2007-2008 legislative session that directly impacted PSRS or PEERS.

Awards

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to PSRS and PEERS for the *Comprehensive Annual Financial Report* for the fiscal year ended June 30, 2007. The Certificate of Achievement is a prestigious national award recognizing excellence in the preparation of state and local government financial reports. To be awarded the Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR whose contents meet or exceed program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for only one year. We believe our current report continues to meet the Certificate of Achievement program requirements and are submitting it to GFOA for consideration again this year.

Public Pension Coordinating Council (PPCC), Public Pension Standards Award

The Systems also received the PPCC, Public Pension Standards Award in 2008 in recognition of meeting the professional standards for plan design and administration as set forth in the Public Pension Standards. This award is presented by the PPCC, a confederation of the National Association of State Retirement Administrators (NASRA), the National Conference on Public Employee Retirement Systems (NCPERS), and the National Council on Teacher Retirement (NCTR).

Professional Services

Certain professional services are provided to the Systems by retained consultants. The required opinion letters from two of those consultants, Gabriel, Roeder, Smith and Company, actuaries, and Williams Keepers LLC, independent certified public accountants, are contained elsewhere in this report.

Investment consulting services, as well as investment manager search assistance and investment performance analysis, have been provided by Russell Investment Group of Tacoma, WA.

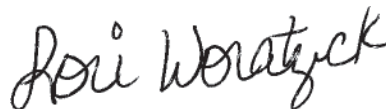
Acknowledgements

We would like to express our thanks and gratitude to the Board of Trustees, staff, and consultants who have worked diligently to produce this report and to ensure the successful operation of the Systems.

Respectfully submitted,



M. Steve Yoakum
Executive Director



Lori Woratzeck, CPA
Chief Financial Officer

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to
The Public School
and the Public Education Employee
Retirement Systems of Missouri

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

A Certificate of Achievement for Excellence in Financial
Reporting is presented by the Government Finance Officers
Association of the United States and Canada to
government units and public employee retirement
systems whose comprehensive annual financial
reports (CAFRs) achieve the highest
standards in government accounting
and financial reporting.

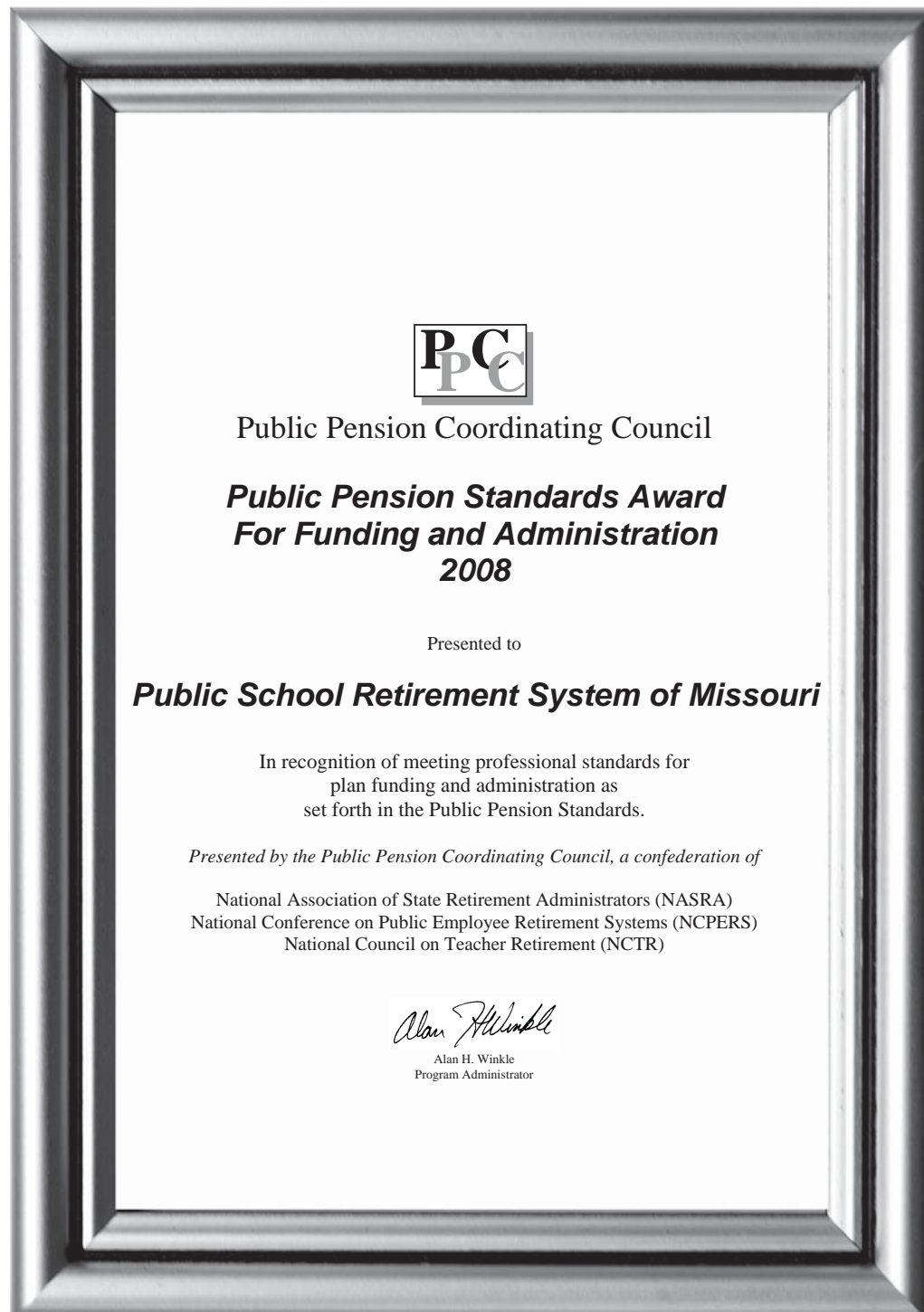


Charles S. Cox

President

Jeffrey R. Emen

Executive Director





Public Pension Coordinating Council

**Public Pension Standards Award
For Funding and Administration
2008**

Presented to

**Public Education Employee Retirement System
of Missouri**

In recognition of meeting professional standards for
plan funding and administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

A handwritten signature in cursive script that reads "Alan H. Winkle".

Alan H. Winkle
Program Administrator

June 30, 2008

INTRODUCTORY SECTION



M. Steve Yoakum
Executive Director



Janet Harris, CPA
Internal Auditor



Mary Hiatte
Executive Assistant



Craig Husting, CFA
Assistant Executive
Director, Investments



Jeff Russler
Director,
Employer Services



Rob Rust
Assistant Executive
Director, Operations



Tom Smith
Chief Technology
Officer



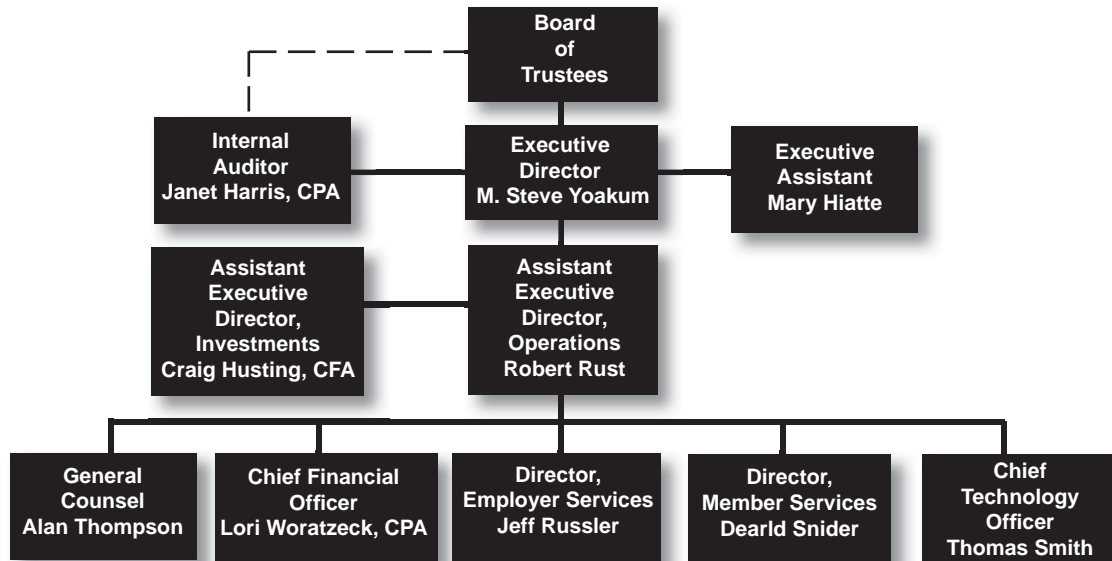
Dearld Snider
Director,
Member Services



Alan Thompson
General Counsel



Lori Woratzeck, CPA
Chief Financial
Officer



June 30, 2008

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Columbia, Missouri

Investment Management, Custodial and Consulting fees can be found in the Schedule of Investment Expenses on Pages 84 and 85. Additional information on Investment Managers can also be found in the Investment Section of this report.

