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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, 2010, and the related statements of changes in plan net assets for the year then ended. These financial statements are the responsibility of the Systems' management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Public School and Public Education Employee Retirement Systems of Missouri at June 30, 2010, and the changes in plan net assets for the year then ended, in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis on pages 20 through 25 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 22, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2010

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, 2010. 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, 2010 were $26.2 billion. The net assets increased by $2.5 billion from June 30, 2009. This increase was directly related to investment market recoveries experienced during the fiscal year. The Systems' portfolios were well positioned to take advantage of the positive market shifts, which resulted in a significant increase in the fair value of investments.

The overall investment return was 13.0% for the Public School Retirement System (PSRS) and 12.7% for the Public Education Employee Retirement System (PEERS). The Systems' investment asset allocation and strategic initiatives provided returns that significantly exceeded our assumed rate of return of 8%. Additionally, the overall investment return of the Systems significantly outperformed the Systems' benchmark returns and the median return of large institutional pension funds. The Systems' internal investment staff and external investment managers added value above the policy benchmark in each major asset category.

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

As of June 30, 2010, the funded ratios were 77.7% for PSRS and 79.1% for PEERS. As of June 30, 2009, the funded ratios were 79.9% for PSRS and 80.7% for PEERS. To arrive at the actuarial value of assets as of June 30, 2010 and 2009, 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 2010 were comprised of contribution revenue of $1.4 billion and investment gains of $3.0 billion, compared to contribution revenue of $1.3 billion and investment losses of $5.8 billion for fiscal year 2009.

Expenses increased 4.9% over the prior year from $1.86 billion to $1.95 billion. Service retirement benefits increased by $102.8 million from $1.6 billion in fiscal year 2009 to $1.7 billion in fiscal year 2010. Another $55.1 million was paid to retirees electing the Partial Lump Sum Option (PLSO). This cost decreased by $22.6 million from the $77.7 million paid during fiscal year 2009. This option allows eligible retirees to elect to have their lifetime monthly benefits actuarially reduced in exchange for the right to also receive a one-time payment at retirement equal to 12, 24, or 36 times the Single Life (Option 1) 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 26) 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 27) 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 28 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

MANAGEMENT'S DISCUSSION AND ANALYSIS

contributions of employers and the actual contributions made by employers.

The Schedule of Funding Progress (page 48) includes historical trend information about the actuarially funded status of the defined benefit other post employment benefit (OPEB) plan from a long-term, ongoing perspective and the progress made in accumulating assets to pay benefits when due.

The Schedule of Employer Contributions (page 48) presents historical trend information about the annual required contributions of the employer and the actual employer contributions made for the defined benefit OPEB plan.

The Schedule of Percentage of Other Post Employment Benefit (OPEB) Cost Contributed (page 48) presents historical trend information about the annual OPEB costs and the actual contributions made for the defined benefit OPEB plan.

Other supplementary schedules are also included. The Schedule of Administrative Expenses (page 49) presents the overall cost of administering the Systems. The Schedule of Professional Services (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 Statement of Changes in Plan Net Assets.

Financial Analysis of the Public School Retirement System

The Public School Retirement System (PSRS) is a mandatory cost-sharing multiple employer retirement system for full-time certificated employees and certain part-time employees of participating employers. PSRS members were required to contribute 13.5% of their annual covered salary during 2010. 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, 2010 were $27.6 billion and were mostly comprised of cash, investments, and contributions due from employers. Total assets increased by $2.4 billion or 9.5% from the prior year due to investment gains.

Liabilities
Total liabilities as of June 30, 2010, were $3.9 billion and were mostly comprised of payables from the purchase of investments and obligations under security lending arrangements. Total liabilities increased by $0.2 billion from the prior year.

Net Assets
System assets exceeded liabilities at June 30, 2010, by $23.8 billion. This was up from 2009 net assets of $21.6 billion by $2.2 billion. This increase was a result of investment earnings that totaled $2.7 billion for the year offset by benefit payments and other expenses which exceeded contribution revenue by $0.5 billion. This trend is a natural progression in a mature defined benefit plan.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

	2010	2009	Change
Cash & investments	$ 25,018,498	$ 22,564,548	$ 2,453,950
Receivables	2,575,364	2,640,432	(65,068)
Other	13,354	12,442	912
Total assets	27,607,216	25,217,422	2,389,794
Total liabilities	3,851,475	3,628,245	223,230
Plan net assets	$ 23,755,741	$ 21,589,177	$ 2,166,564

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

	2010	2009	Change
Additions			
Member contributions	$ 636,633	$ 599,582	$ 37,051
Employer contributions	594,326	563,454	30,872
Investment income (loss)	2,723,032	(5,301,374)	8,024,406
Other	867	627	240
Total additions (reductions)	3,954,858	(4,137,711)	8,092,569
Deductions			
Monthly benefits	1,729,704	1,651,608	78,096
Refunds of contributions	48,160	46,408	1,752
Administrative expenses	10,026	10,122	(96)
Other	404	13	391
Total deductions	1,788,294	1,708,151	80,143
Change in plan net assets	$ 2,166,564	$ (5,845,862)	$ 8,012,426

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 $67.9 million to $1.2 billion. This was a 5.8% increase over the prior year. Retirement contributions were calculated at 13.5% of retirement salary for each member during fiscal year 2010. The employer matched this amount. Contribution rate increases accounted for 3.8% 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 $6.6 million or 16.3%. The remainder of the increase in contributions is attributed to increased salaries and health care benefits.

The net investment gain was $2.7 billion as compared to a net investment loss of $5.3 billion in 2009. 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 2010 were $1.8 billion, an increase of 4.7% over fiscal year 2009.

Benefit expenses increased by $78.1 million. This was a result of cost-of-living increases applied to the benefits of current retirees and the addition of 2,433 new service and disability retirees. There were no changes to the benefit formula during 2010. Refunds of contributions increased by $1.8 million to $48.2 million.

Administrative expenses decreased by $0.1 million to $10.0 million. This was a 1.0% decrease, which is attributable to a variety of factors including: increased depreciation expense related to newly completed information technology projects that was offset by not providing a merit or COLA salary increase for staff members, decreases in external legal fees, printing and postage costs and computer consultants. The cost of these items was charged 61% to PSRS and 39% to PEERS, unless the expense was determined to be of direct benefit to only one system. In such instance, the allocation of expense was 100% to the benefited system. As always, we will continue to look for ways to streamline costs where prudent.

Financial Analysis of the Public Education Employee Retirement System

The Public Education Employee Retirement System (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 6.5% of their annual covered salary during 2010. The employer was required to match that amount. PEERS members also contribute to Social Security.

Assets
Total assets of PEERS as of June 30, 2010 were $2.8 billion and were mostly comprised of cash, investments, and contributions due from employers. Total assets increased by $0.3 billion or 13.6% from the prior year primarily due to investment gains.

Liabilities
Total liabilities as of June 30, 2010 were $0.4 billion and were mostly comprised of payables from the purchase of investments and obligations under security lending arrangements. Total liabilities increased by $46.5 million.

Net Assets
PEERS assets exceeded liabilities at the close of fiscal year 2010 by $2.4 billion. This was up from 2009 net assets by $0.3 billion. This increase was primarily the result of investment earnings that totaled $0.3 billion during the year. Because PEERS is a much younger plan than PSRS, contribution revenues exceeded benefit payments and other expenses by $29.6 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

	2010	2009	Change
Cash & investments	$ 2,554,127	$ 2,231,072	$ 323,055
Receivables	267,504	253,462	14,042
Other	121	-	121
Total assets	2,821,752	2,484,534	337,218
Total liabilities	417,328	370,861	46,467
Plan net assets	$ 2,404,424	$ 2,113,673	$ 290,751

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

	2010	2009	Change
Additions			
Member contributions	$ 95,924	$ 89,427	$ 6,497
Employer contributions	91,479	85,916	5,563
Investment income (loss)	261,135	(489,552)	750,687
Total additions (reductions)	448,538	(314,209)	762,747
Deductions			
Monthly benefits	135,796	126,667	9,129
Refunds of contributions	16,711	15,673	1,038
Administrative expenses	5,280	5,431	(151)
Other	-	9	(9)
Total deductions	157,787	147,780	10,007
Change in plan net assets	$ 290,751	$ (461,989)	$ 752,740

MANAGEMENT'S DISCUSSION AND ANALYSIS

Revenues – Additions to Plan Net Assets
The reserves needed to finance retirement benefits are accumulated through the collection of employer and employee contributions and through investment earnings. Total contribution revenue for the year increased by $12.0 million to $187.4 million. This was a 6.9% increase over the prior year. Retirement contributions were calculated at 6.5% of retirement salary for each member during fiscal year 2010. The employer matched this amount. Contribution rate increases accounted for 4.0% 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 $1.2 million or 32.4%. The remainder of the increase in contributions is attributed to increased salaries and health care benefits.

The net investment gain was $261.1 million as compared to a net investment loss of $490.0 million in 2009. 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 2010 were $157.8 million, an increase of 6.8% over fiscal year 2009.

Benefit expenses increased by $9.1 million. This was a result of cost-of-living increases applied to the benefits of current retirees and the addition of 1,451 new service and disability retirees. There were no changes to the benefit formula during 2010. Refunds of contributions increased by $1.0 million to $16.7 million.

Administrative expenses decreased by $0.2 million to $5.3 million. This was a 2.8% decrease. This decrease is attributable to a variety of factors including: increased depreciation expense related to newly completed information technology projects that was offset by not providing a merit or COLA salary increase for staff members, decreases in printing and postage costs and computer consultants. The cost of these items was charged 61% to PSRS and 39% to PEERS, unless the expense was determined to be of direct benefit to only one system. In such instance, the allocation of expense was 100% to the benefited system. As always, we will continue to look for ways to streamline costs where prudent.

Summary

Due to the long-term nature of defined benefit pension plans, it is important to look at the financial performance of the Systems over a period of years and not just at this single point in time. Our investment earnings significantly exceeded the 8% rate of return assumption in 2010. The long term return of the Systems remains above the 8% assumed rate of return. The current 25-year return of the Systems is 8.6%. The current fiscal year 2012 contribution rate recommended for PSRS is 29.0%, which is limited by state statute. The recommended rate is below the annual required contribution rate of 31.34%. The current contribution rate recommended for PEERS for fiscal year 2012 is equal to the annual required contribution rate of 13.72%. 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.

STATEMENTS OF PLAN NET ASSETS

As of June 30, 2010 with comparative totals for June 30, 2009

	PSRS	PEERS	Combined Totals June 30, 2010	Combined Totals June 30, 2009
ASSETS				
Cash	$ 66,485,830	$ 12,840,334	$ 79,326,164	$ 38,224,633
Receivables				
Contributions	165,734,636	16,179,558	181,914,194	179,999,624
Accrued interest and dividends	200,889,746	21,890,085	222,779,831	231,444,816
Investment sales	2,207,873,715	229,410,169	2,437,283,884	2,481,686,021
Due from PEERS	676,848	-	676,848	525,465
Other	189,392	24,570	213,962	238,293
Total receivables	2,575,364,337	267,504,382	2,842,868,719	2,893,894,219
Investments, at fair value				
Public debt	7,144,678,106	771,033,871	7,915,711,977	7,642,916,083
U.S. equities	8,456,528,910	848,730,945	9,305,259,855	8,482,609,517
Global equities	4,314,486,979	444,315,826	4,758,802,805	4,258,756,564
Short-term investments	882,167,155	90,439,870	972,607,025	635,285,195
Private equity	1,678,834,134	137,909,311	1,816,743,445	1,207,593,446
Real estate	1,065,734,881	92,259,139	1,157,994,020	1,192,071,442
Total investments	23,542,430,165	2,384,688,962	25,927,119,127	23,419,232,247
Invested securities lending collateral	1,409,582,003	156,597,922	1,566,179,925	1,338,163,681
Prepaid expenses	1,678,511	120,658	1,799,169	138,328
Capital assets, net of accumulated depreciation	11,675,147	-	11,675,147	12,303,602
Total assets	27,607,215,993	2,821,752,258	30,428,968,251	27,701,956,710
LIABILITIES				
Accounts payable	13,872,161	1,656,117	15,528,278	14,617,324
Interest payable	153,321	96,870	250,191	417,389
Securities lending collateral	1,468,636,423	163,155,491	1,631,791,914	1,429,537,245
Investment purchases	2,367,710,681	251,058,867	2,618,769,548	2,552,435,326
Due to PSRS	-	676,848	676,848	525,465
Net other post-employment benefit obligation	327,660	218,440	546,100	363,000
Compensated absences	774,277	464,995	1,239,272	1,209,927
Total liabilities	3,851,474,523	417,327,628	4,268,802,151	3,999,105,676
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	$ 23,755,741,470	$ 2,404,424,630	$ 26,160,166,100	$ 23,702,851,034

See accompanying Notes to the Financial Statements.

STATEMENTS OF CHANGES IN PLAN NET ASSETS

For the year ended June 30, 2010 with comparative totals for June 30, 2009

	PSRS	PEERS	Combined Totals Year Ended June 30, 2010	Combined Totals Year Ended June 30, 2009
ADDITIONS (REDUCTIONS)				
Contributions				
Employer	$ 594,326,122	$ 91,478,725	$ 685,804,847	$ 649,370,049
Member	636,632,688	95,924,251	732,556,939	689,009,535
Total contributions	1,230,958,810	187,402,976	1,418,361,786	1,338,379,584
Investment income (loss)				
From investing activities:				
Net appreciation (depreciation) in fair value of investments	2,199,925,246	210,729,935	2,410,655,181	(6,126,766,786)
Interest from investments	252,787,216	26,634,629	279,421,845	169,164,656
Interest from bank deposits	46,681	2,998	49,679	105,693
Dividends	442,214,479	42,386,720	484,601,199	276,702,773
Total investment income (loss)	2,894,973,622	279,754,282	3,174,727,904	(5,680,793,664)
Less investment expenses	203,601,558	20,869,125	224,470,683	106,401,984
Net income (loss) from investing activities	2,691,372,064	258,885,157	2,950,257,221	(5,787,195,648)
From security lending activities:				
Security lending gross income	9,963,189	957,555	10,920,744	152,605,440
Net appreciation (depreciation) in fair value of security lending collateral pool	24,228,720	1,532,854	25,761,574	(91,373,564)
Less security lending activity expenses:				
Agent fees	696,362	66,802	763,164	9,225,192
Broker rebates	1,835,671	173,322	2,008,993	55,737,565
Total security lending expenses	2,532,033	240,124	2,772,157	64,962,757
Net income (loss) income from security lending activity	31,659,876	2,250,285	33,910,161	(3,730,881)
Total net investment income (loss)	2,723,031,940	261,135,442	2,984,167,382	(5,790,926,529)
Other income				
PEERS capital asset charge	837,550	-	837,550	619,614
Miscellaneous income	29,474	284	29,758	8,427
Total other income	867,024	284	867,308	628,041
Total additions (reductions)	3,954,857,774	448,538,702	4,403,396,476	(4,451,918,904)
DEDUCTIONS				
Monthly benefits	1,729,704,028	135,796,464	1,865,500,492	1,778,274,393
Refunds of contributions	48,159,590	16,710,950	64,870,540	62,081,357
Administrative expenses	10,026,129	5,280,239	15,306,368	15,553,163
Other expenses	403,960	50	404,010	22,204
Total deductions	1,788,293,707	157,787,703	1,946,081,410	1,855,931,117
Net increase (decrease)	2,166,564,067	290,750,999	2,457,315,066	(6,307,850,021)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS				
Beginning of year	21,589,177,403	2,113,673,631	23,702,851,034	30,010,701,055
End of year	$ 23,755,741,470	$ 2,404,424,630	$ 26,160,166,100	$ 23,702,851,034

See accompanying Notes to the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2010 with comparative information for June 30, 2009

Note 1 – Plan Descriptions

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

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

The Public School Retirement System

The Public School Retirement System of Missouri (PSRS) is a mandatory cost-sharing multiple employer retirement system for all full-time certificated employees and certain part-time certificated employees of all public school districts in Missouri (except the school districts of St. Louis and Kansas City) and all public 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 Single-Life (Option 1) 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 13.5% of their annual covered salary during 2009-2010 and 13.0% during 2008-2009. 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:

	2010		2009	
Retirees and beneficiaries receiving benefits		45,467		43,746
Inactive members entitled to but not yet receiving benefits		6,380		6,515
Active members: Vested	57,833		56,117	
Non-vested	21,423		23,218	
Total active members		79,256		79,335
Other inactive members		4,779		5,055
Total		135,882		134,651

Employers – PSRS had 539 and 541 contributing employers during fiscal years 2010 and 2009, respectively.

NOTES TO THE FINANCIAL STATEMENTS

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 Single-Life (Option 1) 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 6.5% of their annual covered salary during 2009-2010 and 6.25% during 2008-2009. 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:

	2010		2009	
Retirees and beneficiaries receiving benefits		20,071		19,151
Inactive members entitled to but not yet receiving benefits		4,546		4,586
Active members: Vested	28,123		26,778	
Non-Vested	22,240		24,200	
Total active members		50,363		50,978
Other inactive members		10,809		11,952
Total		85,789		86,667

Employers – PEERS had 535 contributing employers during fiscal years 2010 and 2009.

NOTES TO THE FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies

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

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

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

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

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

PEERS reimburses PSRS for the use of capital assets used by the two Systems on a proportional basis. The amount of this reimbursement was $837,550 in 2010 and $619,614 in 2009.

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, 2010. 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, 2009, from which the information was derived.

Reclassification – Certain reclassifications have been made to the 2009 totals to conform with the classifications for 2010.

NOTES TO THE FINANCIAL STATEMENTS

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

	2010	2009
Designated for Members' Contributions (Member Reserves) – Accumulation of active and terminated member contributions plus interest.	$ 6,506,803,573	$ 6,299,067,123
Designated for the Payment of Benefits to Present Retirees – Transfers from Member Reserves at retirement and an actuarially determined transfer from Operating Reserves to fund the System's obligation for benefit payments and cost-of-living adjustments to current retirees and beneficiary recipients.	20,531,266,025	19,744,324,094
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.	745,173	804,757
Designated for Operating Expenses/Benefits to Future Retirees (Operating Reserves/Deficit) – Accumulation of employer contributions and investment income used to fund future benefit payments, interest on member accounts and administration and maintenance expenses of the System.	(3,283,073,301)	(4,455,018,571)
Net Assets Held In Trust For Pension Benefits	$ 23,755,741,470	$ 21,589,177,403

PEERS

	2010	2009
Designated for Members' Contributions (Member Reserves) – Accumulation of active and terminated member contributions plus interest.	$ 743,146,346	$ 693,962,321
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.	1,392,753,371	1,305,024,978
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.	268,524,913	114,686,332
Net Assets Held In Trust For Pension Benefits	$ 2,404,424,630	$ 2,113,673,631

NOTES TO THE FINANCIAL STATEMENTS

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, 2010, the PSRS carrying amount of deposits at the depository bank was $7,432,407 and the bank balance was $10,205,014. Of the bank balance, $10,205,014 was covered by federal depository insurance. In addition the deposits were also collateralized with securities held by a third-party institution in the System's name. An additional $5,852,099 was held in overnight repurchase agreements with a book value of $5,852,099.

At June 30, 2010, the PEERS carrying amount of deposits at the depository bank was ($277,856) 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, 2010 was $2,247,576 with a book value of $2,247,576.

The following Agency securities were pledged as collateral for overnight repurchase agreements as of June 30, 2010:

PSRS

Agency	Maturity Date	Market Value
GLPC	04/25/21	$ 3,268,743
GLPC	10/25/18	2,583,356
Total		$ 5,852,099

PEERS

Agency	Maturity Date	Market Value
FNMA	09/29/15	$ 951,793
FNMA	01/28/14	1,022,039
FHLMC	12/30/13	386,629
Total		$ 2,360,461

The following Agency securities were pledged as collateral for overnight deposits as of June 30, 2010:

PSRS

Agency	Maturity Date	Market Value
GLPC	10/25/18	$ 1,036,766
GLPC	03/25/35	3,095,185
FFCB	04/29/11	1,960,058
FHMV	06/30/20	4,900,000
MOT	12/01/24	494,566
MOT	12/01/23	247,104
Total		$ 11,733,679

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.

NOTES TO THE FINANCIAL STATEMENTS

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, 2010, 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, 2010	<1 Year to Maturity	1 to 5 Years to Maturity	6 to 10 Years to Maturity	over 10 Years to Maturity
U.S. treasuries	$ 4,482,098,129	$ 152,063,753	$ 2,460,423,080	$ 1,489,636,296	$ 379,975,000
Government guaranteed mortgages	36,527,544	36,527,544	-	-	-
Agencies	139,437,564	35,595,715	816,866	7,813,341	95,211,642
Collateralized mortgage obligations	164,007,874	-	-	3,455,304	160,552,570
Asset backed securities	65,505,951	11,309,203	16,429,142	5,719,434	32,048,172
Corporate bonds	1,179,367,978	(869,557,535)	888,740,196	1,096,242,760	63,942,557
Sovereign	52,029,378	-	10,899,299	33,036,997	8,093,082
Municipals	18,927,729	394,136	-	-	18,533,593
Commingled Funds (see note)					
SSGA STIF	826,377,722	826,377,722	-	-	-
PIMCO Real Return	34,106,657	34,106,657	-	-	-
PIMCO Emerging Markets	64,756,886	64,756,886	-	-	-
PIMCO Emerging Markets Local Currency	19,424,898	19,424,898	-	-	-
Currency	181,727,755	181,727,755	-	-	-
Total	$ 7,264,296,065	$ 492,726,734	$ 3,377,308,583	$ 2,635,904,132	$ 758,356,616
Percentage of total fixed income	100%	8%	46%	36%	10%

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.

NOTES TO THE FINANCIAL STATEMENTS

PEERS

Security Type	Market Value at June 30, 2010	<1 Year to Maturity	1 to 5 Years to Maturity	6 to 10 Years to Maturity	over 10 Years to Maturity
U.S. treasuries	$ 461,225,865	$ 14,293,222	$ 258,165,983	$ 149,314,720	$ 39,451,940
Government guaranteed mortgages	6,414,121	4,841,354	-	-	1,572,767
Agencies	30,481,032	5,845,901	2,218,733	1,161,034	21,255,364
Collateralized mortgage obligations	21,413,430	-	-	101,606	21,311,824
Asset backed securities	7,949,783	575	2,650,347	1,763,228	3,535,633
Corporate bonds	132,553,396	(80,817,161)	91,951,458	113,771,983	7,647,116
Sovereign	6,490,048	-	2,008,947	3,090,673	1,390,428
Municipals	2,931,421	-	198,384	501,789	2,231,248
Commingled Funds (see note)					
SSGA STIF	92,250,905	92,250,905	-	-	-
PIMCO High-Yield Institutional Investors	504,821	504,821	-	-	-
PIMCO Real Return	4,425,409	4,425,409	-	-	-
PIMCO Emerging Markets	7,195,210	7,195,210	-	-	-
PIMCO Emerging Markets Local Currency	2,602,660	2,602,660	-	-	-
Currency	19,006,182	19,006,182	-	-	-
Total	$ 795,444,283	$ 70,149,078	$ 357,193,852	$ 269,705,033	$ 98,396,320
Percentage of total fixed income	100%	9%	45%	34%	12%

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.

NOTES TO THE FINANCIAL STATEMENTS

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 do not include security lending collateral held in a pooled investment fund. The Systems' debt investments by credit rating category as of June 30, 2010 are presented in the following tables.

PSRS

Security Type	Market Value at June 30, 2010	%	AAA	AA	A	BBB	BB	B	CCC	CC	Not Rated
U.S. treasuries	$ 4,482,098,129	62%	$ 4,482,098,129	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Government guaranteed mortgages	36,527,544	1%	36,527,544	-	-	-	-	-	-	-	-
Agencies	139,437,564	2%	139,437,564	-	-	-	-	-	-	-	-
Collateralized mortgage obligations	164,007,874	2%	73,888,373	5,528,559	35,503,325	1,917,091	2,424,507	21,288,368	20,867,151	2,590,500	-
Asset backed securities	65,505,951	1%	38,243,998	2,715,074	14,851,182	1,790,403	340,636	1,125,215	454,605	5,970,098	14,740
Corporate bonds	1,179,367,978	17%	554,470,901	115,745,132	359,956,305	796,791,222	118,398,787	158,244,769	3,594,024	-	(927,833,162)
Sovereign	52,029,378	1%	10,385,549	1,036,250	804,536	22,321,511	17,029,372	452,160	-	-	-
Municipals	18,927,729	0%	741,670	7,448,866	5,424,078	5,313,115	-	-	-	-	-
Commingled Funds (see note)											
SSGA STIF	826,377,722	11%	826,377,722	-	-	-	-	-	-	-	-
PIMCO Real Return	34,106,657	0%	34,106,657	-	-	-	-	-	-	-	-
PIMCO Emerging Markets	64,756,886	1%	-	-	64,756,886	-	-	-	-	-	-
PIMCO Emerging Markets Local Currency	19,424,898	0%	-	19,424,898	-	-	-	-	-	-	-
Currency	181,727,755	2%	-	-	-	-	-	-	-	-	181,727,755
Total	$ 7,264,296,065	100%	$ 6,196,278,107	$ 151,898,779	$ 481,296,312	$ 828,133,342	$ 138,193,302	$ 181,110,512	$ 24,915,780	$ 8,560,598	$ (746,090,667)
Percentage of total fixed income	100%		85%	2%	7%	12%	2%	2%	0%	0%	-10%

PEERS

Security Type	Market Value at June 30, 2010	%	AAA	AA	A	BBB	BB	B	CCC	CC	Not Rated
U.S. treasuries	$ 461,225,865	58%	$ 461,225,865	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Government guaranteed mortgages	6,414,121	1%	6,414,121	-	-	-	-	-	-	-	-
Agencies	30,481,032	4%	30,481,032	-	-	-	-	-	-	-	-
Collateralized mortgage obligations	21,413,430	3%	11,121,849	602,892	3,741,373	402,591	496,329	1,249,838	3,490,370	308,188	-
Asset backed securities	7,949,783	1%	5,767,671	273,708	510,547	266,875	29,234	-	11,469	792,773	297,506
Corporate bonds	132,553,396	17%	57,443,872	14,849,658	40,981,783	85,786,502	10,879,142	10,236,014	186,500	-	(87,810,075)
Sovereign	6,490,048	1%	1,168,197	456,062	100,567	2,505,023	2,260,199	-	-	-	-
Municipals	2,931,421	0%	602,384	1,049,022	787,517	492,498	-	-	-	-	-
Commingled Funds (see note)											
SSGA STIF	92,250,905	11%	92,250,905	-	-	-	-	-	-	-	-
PIMCO High Yield Institutional Investors	504,821	0%	-	-	-	-	-	504,821	-	-	-
PIMCO Real Return	4,425,409	1%	4,425,409	-	-	-	-	-	-	-	-
PIMCO Emerging Markets	7,195,210	1%	-	-	7,195,210	-	-	-	-	-	-
PIMCO Emerging Markets Local Currency	2,602,660	0%	-	2,602,660	-	-	-	-	-	-	-
Currency	19,006,182	2%	-	-	-	-	-	-	-	-	19,006,182
Total	$ 795,444,283	100%	$ 670,901,305	$ 19,834,002	$ 53,316,997	$ 89,453,489	$ 13,664,904	$ 11,990,673	$ 3,688,339	$ 1,100,961	$ (68,506,387)
Percentage of total fixed income	100%		84%	2%	7%	11%	2%	2%	1%	0%	-9%

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.

NOTES TO THE FINANCIAL STATEMENTS

Foreign Currency Risk **–** Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Systems do not have a single investment policy designating the allowable exposure to foreign currency; however, each manager must follow guidelines established specifically for its managed portfolio. The portfolios are continually monitored to ensure compliance with these guidelines. The Systems' exposure to foreign currency risk as of June 30, 2010 is presented on the following tables.

PSRS

Currency	Debt	Equity	Currency/ Short Term	Total
Australian Dollar	$ 202,322	$ 84,070,018	$ 610,474	$ 84,882,814
Brazilian Real	5,996,937	42,482,749	951,793	49,431,479
Canadian Dollar	9,381,519	141,514,593	1,135,903	152,032,015
Colombian Peso	2,817,104	-	-	2,817,104
Czech Koruna	-	6,611,248	154,595	6,765,843
Danish Krone	-	36,950,029	561,658	37,511,687
Euro Currency	51,935,957	814,040,732	3,577,317	869,554,006
Hong Kong Dollar	-	153,937,068	1,358,295	155,295,363
Hungarian Forint	-	2,963,008	96,221	3,059,229
Indian Rupee	-	58,058,408	1,649,115	59,707,523
Indonesian Rupiah	-	18,829,555	168,245	18,997,800
Israeli Shekel	-	198,918	73,782	272,700
Japanese Yen	-	444,815,341	5,729,568	450,544,909
Malaysian Ringgit	-	1,370,559	31,567	1,402,126
Mexican Peso	306,870	8,842,175	126,611	9,275,656
New Bulgaria Lev	-	795,813	-	795,813
New Romanian Leu	-	-	21	21
New Taiwan Dollar	-	55,514,274	6,332,136	61,846,410
New Turkish Lira	-	7,839,118	73,545	7,912,663
New Zealand Dollar	-	730,430	52,408	782,838
Norwegian Krone	-	8,178,800	134,820	8,313,620
Pakistan Rupee	-	1,729,168	17,746	1,746,914
Philippine Peso	-	-	8,087	8,087
Polish Zloty	-	12,259,331	269,811	12,529,142
Pound Sterling	21,189,951	498,026,948	3,394,350	522,611,249
Singapore Dollar	-	22,374,249	128,757	22,503,006
South African Rand	-	39,776,438	67,134	39,843,572
South Korean Won	(8,970)	76,852,043	247,680	77,090,753
Swedish Krona	1,883,618	67,320,075	266,250	69,469,943
Swiss Franc	-	220,992,771	284,430	221,277,201
Thailand Baht	-	11,517,375	203,791	11,721,166
Turkish Lira	-	24,219,404	505,076	24,724,480
Ukraine Hryvnia	-	1,682,033	4,344	1,686,377
	$ 93,705,308	$ 2,864,492,671	$ 28,215,530	$ 2,986,413,509

NOTES TO THE FINANCIAL STATEMENTS

PEERS

Currency	Debt	Equity	Currency/ Short Term	Total
Australian Dollar	$ 47,242	$ 9,469,406	$ 60,281	$ 9,576,929
Brazilian Real	544,554	4,169,136	72,913	4,786,603
Canadian Dollar	1,400,777	15,636,930	229,329	17,267,036
Colombian Peso	238,999	-	-	238,999
Czech Koruna	-	690,732	16,786	707,518
Danish Krone	-	4,037,171	25,943	4,063,114
Euro Currency	1,546,992	83,672,288	435,342	85,654,622
Hong Kong Dollar	-	15,828,430	143,810	15,972,240
Hungarian Forint	-	313,683	10,176	323,859
Indian Rupee	-	5,932,677	241,591	6,174,268
Indonesian Rupiah	-	1,912,163	15,230	1,927,393
Israeli Shekel	-	90,627	8,427	99,054
Japanese Yen	-	46,910,555	422,888	47,333,443
Malaysian Ringgit	-	137,012	-	137,012
Mexican Peso	31,950	922,632	16,586	971,168
New Bulgaria Lev	-	74,417	-	74,417
New Russian Ruble	-	-	(287)	(287)
New Taiwan Dollar	-	5,497,420	546,619	6,044,039
New Turkish Lira	-	750,818	6,873	757,691
New Zealand Dollar	-	76,464	6,751	83,215
Norwegian Krone	-	797,168	9,850	807,018
Pakistan Rupee	-	120,838	14,120	134,958
Philippine Peso	-	-	1,368	1,368
Polish Zloty	-	1,253,596	26,790	1,280,386
Pound Sterling	335,725	51,839,762	279,971	52,455,458
Singapore Dollar	-	2,221,365	19,949	2,241,314
South African Rand	-	4,287,431	6,010	4,293,441
South Korean Won	-	7,812,024	110,171	7,922,195
Swedish Krona	-	7,044,475	22,791	7,067,266
Swiss Franc	-	22,946,915	26,599	22,973,514
Thailand Baht	-	1,330,472	28,505	1,358,977
Turkish Lira	-	2,522,007	6,389	2,528,396
Ukraine Hryvnia	-	118,070	394	118,464
	$ 4,146,239	$ 298,416,684	$ 2,812,165	$ 305,375,088

NOTES TO THE FINANCIAL STATEMENTS

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

The fair value balances and notional amounts of derivative instruments outstanding as of June 30, 2010, classified by type, and the changed in fair value of such derivative instruments for the year ended June 30, 2010 are as follows.

PSRS

	Changes in Fair Value		Fair Value at June 30, 2010		
Investment Derivatives	**Classification**	**Amount**	**Classification**	**Amount**	**Notional**
Swaps					
Receive-fixed interest rate swap	Net appreciation (depreciation) in fair value of investments	$ 3,514,595	Investments, at fair value	$ 3,514,595	$ 159,500,000
Pay-fixed interest rate swap	Net appreciation (depreciation) in fair value of investments	(26,363,422)	Investments, at fair value	(26,363,422)	288,700,000
Credit default swaps	Net appreciation (depreciation) in fair value of investments	2,776,201	Investments, at fair value	2,776,201	232,186,789
Total return swaps - equity	Net appreciation (depreciation) in fair value of investments	927,455,028	Investments, at fair value	927,455,028	527,205
Total return swaps - fixed income	Net appreciation (depreciation) in fair value of investments	(927,455,028)	Investments, at fair value	(927,455,028)	993,991,273
Total swaps		**(20,072,626)**		**(20,072,626)**	**1,674,905,267**
Futures					
Equity futures	Net appreciation (depreciation) in fair value of investments	-	Investments, at fair value	-	339,150,716
Treasury futures	Net appreciation (depreciation) in fair value of investments	-	Investments, at fair value	-	76,418,477
Currency futures	Net appreciation (depreciation) in fair value of investments	-	Investments, at fair value	-	95,456,785
Commodity futures	Net appreciation (depreciation) in fair value of investments	-	Investments, at fair value	-	26,911,440
Total futures		**-**		**-**	**537,937,418**
Options					
Equity written call options	Net appreciation (depreciation) in fair value of investments	26,317	Investments, at fair value	(268,420)	788,300
Equity written put options	Net appreciation (depreciation) in fair value of investments	(115,307)	Investments, at fair value	37,436	188,270
Currency written put options	Net appreciation (depreciation) in fair value of investments	(46,843)	Investments, at fair value	(76,351)	3,400,000
Treasury futures written call options	Net appreciation (depreciation) in fair value of investments	(32,032)	Investments, at fair value	(43,281)	17,000
Treasury futures written put options	Net appreciation (depreciation) in fair value of investments	120,868	Investments, at fair value	(3,753)	905,500
Swaptions	Net appreciation (depreciation) in fair value of investments	(427,734)	Investments, at fair value	(1,709,696)	200,400,000
Total options		**(474,731)**		**(2,064,065)**	**205,699,070**
Foreign currency forwards	Net appreciation (depreciation) in fair value of investments	**(212,502)**	Investments, at fair value	**1,593,989,620**	**1,578,481,629**[1]
TBA Mortgage Backed Securities	Net appreciation (depreciation) in fair value of investments	**2,438,336**	Investments, at fair value	**55,938,336**	**53,500,000**
Total Investment Derivatives		**$ (18,321,523)**		**$ 1,627,791,265**	**$ 4,050,523,384**

[1]Represents the USD base equivalent of the original contract.

NOTES TO THE FINANCIAL STATEMENTS

PEERS

Investment Derivatives	Changes in Fair Value Classification	Changes in Fair Value Amount	Fair Value at June 30, 2010 Classification	Fair Value at June 30, 2010 Amount	Notional
Swaps					
Receive-fixed interest rate swap	Net appreciation (depreciation) in fair value of investments	$ 607,633	Investments, at fair value	$ 607,633	$ 22,100,000
Pay-fixed interest rate swap	Net appreciation (depreciation) in fair value of investments	(2,993,709)	Investments, at fair value	(2,993,709)	32,800,000
Credit default swaps	Net appreciation (depreciation) in fair value of investments	359,329	Investments, at fair value	359,329	22,564,249
Total return swaps - equity	Net appreciation (depreciation) in fair value of investments	(86,575,962)	Investments, at fair value	(86,575,962)	52,062
Total return swaps - fixed income	Net appreciation (depreciation) in fair value of investments	86,532,903	Investments, at fair value	86,532,903	93,818,568
Total swaps		**(2,069,806)**		**(2,069,806)**	**171,334,879**
Futures					
Equity futures	Net appreciation (depreciation) in fair value of investments	-	Investments, at fair value	-	39,947,667
Treasury futures	Net appreciation (depreciation) in fair value of investments	-	Investments, at fair value	-	8,415,711
Currency futures	Net appreciation (depreciation) in fair value of investments	-	Investments, at fair value	-	15,964,861
Commodity futures	Net appreciation (depreciation) in fair value of investments	-	Investments, at fair value	-	2,990,160
Total futures		**-**		**-**	**67,318,399**
Options					
Equity written call options	Net appreciation (depreciation) in fair value of investments	4,229	Investments, at fair value	(30,553)	89,000
Equity written put options	Net appreciation (depreciation) in fair value of investments	(13,086)	Investments, at fair value	3,181	21,850
Currency written put options	Net appreciation (depreciation) in fair value of investments	(6,701)	Investments, at fair value	(11,228)	500,000
Treasury futures written call options	Net appreciation (depreciation) in fair value of investments	(33,415)	Investments, at fair value	(50,781)	29,000
Treasury futures written put options	Net appreciation (depreciation) in fair value of investments	25,296	Investments, at fair value	(1,797)	155,000
Swaptions	Net appreciation (depreciation) in fair value of investments	(36,387)	Investments, at fair value	(189,063)	20,300,000
Total options		**(60,064)**		**(280,241)**	**21,094,850**
Foreign currency forwards	Net appreciation (depreciation) in fair value of investments	**37,258**	Investments, at fair value	**150,489,034**	**149,224,708**[1]
TBA Mortgage Backed Securities	Net appreciation (depreciation) in fair value of investments	**339,694**	Investments, at fair value	**7,239,694**	**6,900,000**
Total Investment Derivatives		**$ (1,752,918)**		**$ 155,378,681**	**$ 415,872,836**

[1]Represents the USD base equivalent of the original contract.

NOTES TO THE FINANCIAL STATEMENTS

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

Futures – Futures represent commitments to purchase (asset) or sell (liability) securities at a future date and at a specified price. Futures contracts are traded on organized exchanges (exchange traded) thereby minimizing the Systems' credit risk. The net change in the futures contracts value is settled daily in cash with the exchanges. Net gains or losses resulting from the daily settlements are included in net appreciation (depreciation) in fair value of investments on the Systems' Statements of Changes in Plan Net Assets.

Options – Options represent or give buyers the right, but not the obligation, to buy (call) or sell (put) an asset at a preset price over a specified period. The option's price is usually a small percentage of the underlying asset's value. As a writer of financial options, the Systems' investment managers receive a premium at the outset of the agreement and bear the risk of an unfavorable change in the price of the financial instrument underlying the option. As a purchaser of financial options, the Systems' investment managers pay a premium at the outset of the agreement and the counterparty bears the risk of an unfavorable change in the price of the financial instrument underlying the option.

Currency Forwards – Currency forwards represent forward foreign exchange contracts that are entered into in order to hedge the exposure to changes in foreign currency rate on the foreign currency dominated portfolio holdings. A forward foreign exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. The gain or loss arising from the difference between the original contracts and the closing of such contracts is included in net appreciation (depreciation) in fair value of investments on the Systems' Statements of Changes in Plan Net Assets.

TBA Mortgage Backed Securities – To-be-announced securities are forward contracts to purchase or sell mortgage backed securities at a future date yet to be determined. The gain or loss arising from the difference between the original contracts and the closing of such contracts is included in net appreciation (depreciation) in fair value of investments on the Systems' Statements of Changes in Plan Net Assets.

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

At June 30, 2010 the counterparties' credit ratings for currency forwards, options and swaps are subject to credit risk as shown below:

PSRS

Quality Rating	Swaps	Options	Forwards	TBA Mortgages	Total
AA	$ 583,226,452	$ (185,821)	$ 47,890,563	$ (10,591,727)	$ 620,339,467
A	(606,523,913)	(1,831,209)	1,546,099,057	66,530,063	1,004,273,998
Total subject to credit risk	$ (23,297,461)	$ (2,017,030)	$ 1,593,989,620	$ 55,938,336	$ 1,624,613,465

PEERS

Quality Rating	Swaps	Options	Forwards	TBA Mortgages	Total
AA	$ 56,689,332	$ (165,442)	$ 145,560,581	$ (1,152,498)	$ 200,931,973
A	(59,118,467)	(62,220)	4,928,453	8,392,192	(45,860,042)
Total subject to credit risk	$ (2,429,135)	$ (227,662)	$ 150,489,034	$ 7,239,694	$ 155,071,931

NOTES TO THE FINANCIAL STATEMENTS

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

The Systems' derivatives are governed by ISDA Master Agreements between the Systems' and the Counterparties. These agreements set forth collateral requirements and applicable netting arrangements. Foreign currency risks are reflected on pages 36 and 37.

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.

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 Statement of Plan Net Assets. Market risk arises from the potential unfavorable change in the value of the underlying instruments. The contract or notional amounts of these instruments reflect the extent of the Systems' involvement in each class of financial instrument; however, these amounts do not represent the exposure to market loss. Additional derivatives may be held in limited partnerships and commingled funds that are not reflected above.

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

During the fiscal year, the Systems' custodial bank lent, on behalf of the Systems, securities and received cash or other collateral including securities issued or guaranteed by the U.S. government, sovereign debt, irrevocable letters of credit, convertible debt and assets permissible under Rule 15c3-3 under the Securities Exchange Act of 1934. The Systems and their agent did not have the ability to pledge or sell noncash collateral absent borrower default. Borrowers were required to deliver collateral for each loan equal to: (1) in the case of loaned securities denominated in U.S. dollars or whose primary trading market was located in the United States, or sovereign debt issued by foreign governments, 102% of the fair value of the loaned securities and (2) in the case of loaned securities not denominated in U.S. dollars or whose primary trading market was not located in the United States, 105% of the fair value of the loaned securities.

Pursuant to the lending agreement, the custodial bank has an obligation to provide a form of indemnification to the Systems in the event of default by a borrower. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the fiscal year.

The Systems did impose restrictions during the fiscal year on the amount and type of loans that the custodial bank made on their behalf.

The fair value of securities on loan as of June 30, 2010 totaled $1,440,200,172 for PSRS and $160,068,884 for PEERS. On June 30, 2010 the Systems had no credit risk exposure to borrowers as the cash and securities collateral amounts received exceeded amounts on loan.

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, 2010 was 29.73 days and an average final maturity of 498.74 days. Because the loans were terminable at will, their duration did not match the duration of the investments made with cash collateral.

The collective investment pool in which the cash 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. As of June 30, 2010 the cost basis of PSRS' investment in the fund totaled $1,468,636,423 and PEERS' investment in the fund totaled $163,155,491. As of June 30, 2010 the cost basis of the collateral exceeded market value for PSRS by $59,054,420 and PEERS by $6,557,569. PSRS recognized net appreciation of $3,562,236 and PEERS recognized net deprecation of $25,814 for the year ended June 30, 2010 on the invested collateral pool. Such is reported as net appreciation (depreciation) in fair value of security lending collateral pool on the Statements of Changes in Plan Net Assets. In addition to the cash collateral received, the fair value of securities held as collateral at June 30, 2010 totaled $18,284 for PSRS and $5,203 for PEERS.

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 equal to 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.

The Systems invest in shares of commingled equity index funds managed by State Street Global Advisors (SSGA). Several of these funds participate in securities lending programs managed by SSGA. The Systems receive a proportionate share of the

NOTES TO THE FINANCIAL STATEMENTS

securities lending income/(loss) generated from these activities. As of June 30, 2010 the cost basis of securities lending collateral for the commingled funds equaled the market value for both PSRS and PEERS. PSRS recognized net appreciation of $20,666,484 and PEERS recognized net appreciation of $1,558,668 for the year ended June 30, 2010. Such is reported as net appreciation (depreciation) in fair value of security lending collateral pool on the Statements of Changes in Plan Net Assets.

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 2009-2010.

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, 2010, the most recent actuarial valuation date, is as follows:

(Dollar amount 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	6/30/2010	$ 28,931,331	$ 37,233,602	$ 8,302,271	77.7%	$ 4,493,865	184.7%
PEERS	6/30/2010	$ 2,892,411	$ 3,658,713	$ 766,302	79.1%	$ 1,433,691	53.4%

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:

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, 2010
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	8.0%
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 31.34% for fiscal year 2012. 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 13.72% for fiscal year 2012. The annual statutory increase in the total contribution rate may not exceed .5% of pay. Contribution rates will be established by actuarial valuation.

NOTES TO THE FINANCIAL STATEMENTS

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 13.5% of their annual covered salary during 2009-2010, 13.0% during 2008-2009 and 12.5% during 2007-2008. 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 $18,215 for the 2009-2010 fiscal year, $33,289 for the 2008-2009 fiscal year and $30,510 for the 2007-2008 fiscal year. The amounts for these years are equal to the required contributions.

PEERS members were required to contribute 6.5% of their annual covered salary during 2009-2010, 6.25% during 2008-2009 and 6.0% during 2007-2008. 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 $480,626 for the 2009-2010 fiscal year, $435,590 for the 2008-2009 fiscal year and $379,796 for the fiscal year 2007-2008. The amounts for these years are equal to the required contributions.

Section 457 Deferred Compensation Plan

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

All employees immediately vest in the employer-matching and employer-paid contributions. Employer-matching contributions totaled $92,187 for the 2009-2010 fiscal year and $85,479 for the 2008-2009 fiscal year. Employer-paid contributions totaled $49,354 for fiscal year 2009-2010 and $56,500 for fiscal year 2008-2009. Employee contributions totaled $261,924 for the 2009-2010 fiscal year and $226,688 for the 2008-2009 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.

NOTES TO THE 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 health care premium implicit rate subsidy to eligible staff retirees and their dependents provided they pay 100% of the blended health care premium. The blended health care premium is based on all active and retired employees. Retiree health care 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. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

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

Annual required contribution	$ 218,100
Interest on net OPEB obligation	16,300
Amortization of net OPEB obligation	(11,200)
Annual OPEB cost	223,200
Contributions made	40,100
Increase in net OPEB obligation	183,100
Net OPEB obligation - beginning of year	363,000
Net OPEB obligation - end of year	$ 546,100

PSRS' annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2010 and the two preceding years are as follows:

Fiscal Year Ended	Annual OPEB Cost (AOC)[1]	% of AOC Contributed	Net OPEB Obligation
6/30/2008	$ 218,100	16.0%	$ 183,300
6/30/2009	$ 208,000	13.6%	$ 363,000
6/30/2010	$ 223,200	18.0%	$ 546,100

[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 were 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]
6/30/2010	$ -	$ 2,173,600	$ 2,173,600	0.0%	$ 7,016,300	31.0%

In the June 30, 2010 actuarial valuation, the following assumptions and method were used:

Actuarial Cost Method	Entry Age Normal
Actuarial Value of Assets	No Assets (pay-as-you-go)
Amortization Method	Level Percent Open
Remaining Amortization Period	30 Years
Actuarial Assumptions:	
Investment Rate of Return	4.5 % per year
Wage Inflation	5.0 % per year
Health care Trend	9.0% in fiscal year 2010, decreasing by one-half percentage point per year to an ultimate of 4.5% in fiscal year 2019 and after

NOTES TO THE FINANCIAL STATEMENTS

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 health care 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 effects 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 $76,550 for seven employees (four retirees and three terminations) during 2010 and $33,169 for three employees (three retirees) during 2009. The cost was charged 61% to PSRS and 39% to PEERS.

Note 9 – Risk Management

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

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

Note 10 – Commitments and Contingencies

PSRS was committed to the future purchase of investments at a cost of $2,367,710,681 on June 30, 2010 and PEERS had investment commitments of $251,058,867 on June 30, 2010.

PSRS had total unfunded capital commitments to real estate, private equity and other alternative investments of $2.2 billion as of June 30, 2010. PEERS had total unfunded capital commitments to real estate, private equity and other alternative investments of $196.3 million as of June 30, 2010. The unfunded commitments are not recorded in the Statements of Plan Net Assets.

During fiscal year 2010, PSRS entered into a contract with a consultant to provide and implement the software and training of an automated pension administration system at a cost of approximately $16,000,000. As of June 30, 2010, $1,948,194 had been paid pursuant to this contract.

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

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

Note 11 – Subsequent Events

Subsequent to year end, the Systems executed a contract with a new global custodian and master record keeper. Effective October 1, 2010, JP Morgan Chase Bank, N.A., became the Systems’ global custodian and master record keeper.

SCHEDULES OF FUNDING PROGRESS

Required Supplementary Information

PSRS

(Dollar amount 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]
6/30/2005	$ 23,049,441	$ 27,881,513 [1]	$ 4,832,072	82.7%	$ 3,540,649	136.5%
6/30/2006	24,801,644	30,037,130 [1]	5,235,486	82.6	3,775,752	138.7
6/30/2007	27,049,004	32,396,723 [2]	5,347,719	83.5	3,980,698	134.3
6/30/2008	28,751,241	34,490,452 [1]	5,739,211	83.4	4,209,417	136.3
6/30/2009	28,826,075	36,060,121 [1]	7,234,046	79.9	4,439,381	162.9
6/30/2010	28,931,331	37,233,602 [1]	8,302,271	77.7	4,493,865	184.7

[1] There were no legislative changes in fiscal years 2005, 2006, 2008, 2009 or 2010.

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

PEERS

(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]
6/30/2005	$ 2,011,566	$ 2,414,494 [1]	$ 402,928	83.3%	$ 1,055,204	38.2%
6/30/2006	2,218,638	2,756,833 [1]	538,195	80.5	1,190,994	45.2
6/30/2007	2,481,562	2,982,813 [2]	501,251	83.2	1,275,199	39.3
6/30/2008	2,703,762	3,278,602 [1]	574,840	82.5	1,377,506	41.7
6/30/2009	2,792,182	3,458,044 [1]	665,862	80.7	1,417,485	47.0
6/30/2010	2,892,411	3,658,713 [1]	766,302	79.1	1,433,691	53.4

[1] There were no legislative changes in fiscal years 2005, 2006, 2008, 2009 or 2010.

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

SCHEDULES OF EMPLOYER CONTRIBUTIONS

Required Supplementary Information

PSRS

Year Ended June 30	Employer Contribution	Annual Required Contribution (ARC) per GASB Statement #25	Percentage Contributed	Maximum Contribution per State Statute	Percentage Contributed
2005	$ 389,415,997	$ 593,328,374	65.6%	$ 389,415,997	100.0%
2006	429,578,911	608,134,319	70.6	429,578,911	100.0
2007	472,216,630	644,969,214	73.2	472,216,630	100.0
2008	521,241,501	656,347,298	79.4	521,241,501	100.0
2009	563,454,487	669,643,988	84.1	563,454,487	100.0
2010	594,326,122	737,381,187	80.6	594,326,122	100.0

PEERS

Year Ended June 30	Employer Contribution	Annual Required Contribution (ARC) per GASB Statement #25	Percentage Contributed	Maximum Contribution per State Statute	Percentage Contributed
2005	$ 53,109,687	$ 73,948,917	71.8%	$ 53,109,687	100.0%
2006	61,745,505	79,707,834	77.5	61,745,505	100.0
2007	69,235,160	89,945,503	77.0	69,235,160	100.0
2008	77,988,839	90,727,016	86.0	77,988,839	100.0
2009	85,915,562	96,775,289	88.8	85,915,562	100.0
2010	91,478,725	95,821,957	95.5	91,478,725	100.0

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, 2010
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	8.0%
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 31.34% for fiscal year 2012. 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 13.72% for fiscal year 2012. The annual statutory increase in the total contribution rate may not exceed .5% of Contribution rates will be established by actuarial valuation.

STAFF RETIREE HEALTH PLAN - DEFINED BENEFIT OPEB PLAN

Required Supplementary Information

SCHEDULE OF FUNDING PROGRESS

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]	$ -	$ 2,746,100	$ 2,746,100	0.0%	$ 5,832,445	47.1%
6/30/2009	-	1,988,800	1,988,800	0.0	6,894,700	28.8
6/30/2010	-	2,173,600	2,173,600	0.0	7,016,300	31.0

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended	Annual Required Contribution (ARC)	Employer Contributions	Percentage Contributed
6/30/2008	$ 218,100	$ 34,800	16.0%
6/30/2009	205,500	28,300	13.8
6/30/2010	218,100	40,100	18.4

SCHEDULE OF PERCENTAGE OF OPEB COST CONTRIBUTED

Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
6/30/2008	$ 218,100	16.0%	$ 183,300
6/30/2009	208,000	13.6	363,000
6/30/2010	223,200	18.0	546,100

NOTES TO THE SCHEDULES OF TREND INFORMATION

The information presented in the required supplementary schedule was determined as part of the actuarial valuation at the date indicated. Additional information as of the 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	5.0 % per year
Health care Trend	9.0% in fiscal year 2010, decreasing by one-half percentage point per year to an ultimate of 4.5% in fiscal year 2019 and after

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

SCHEDULE OF ADMINISTRATIVE EXPENSES

For the year ended June 30, 2010

	PSRS	PEERS	Combined Totals
Personnel services	$ 4,825,180	$ 3,077,839	$ 7,903,019
Professional services			
Actuarial services	277,395	102,030	379,425
Financial audit services	38,003	24,297	62,300
Technology consulting	111,721	71,388	183,109
Insurance consulting	3,660	2,340	6,000
Legislative consulting	27,450	17,550	45,000
Other consultants	69,840	44,651	114,491
Legal services	395,402	33,341	428,743
Total professional services	923,471	295,597	1,219,068
Communications			
Information and publicity	467,625	331,095	798,720
Postage	70,691	45,360	116,051
Staff field	35,737	17,443	53,180
Telephone	49,930	31,923	81,853
Total communications	623,983	425,821	1,049,804
Miscellaneous			
Building and utilities	117,420	75,078	192,498
Insurance	82,243	52,897	135,140
Office	460,288	293,346	753,634
Staff development	187,448	114,559	302,007
Miscellaneous	213,826	107,552	321,378
Total miscellaneous	1,061,225	643,432	1,704,657
Charge for use of capital assets	-	837,550	837,550
Depreciation expense	2,592,270	-	2,592,270
Total administrative expenses	$ 10,026,129	$ 5,280,239	$ 15,306,368

SCHEDULE OF INVESTMENT EXPENSES

For the year ended June 30, 2010

	PSRS	PEERS	Combined Totals
Investment management expenses			
U.S. equity	$ 70,588,219	$ 6,975,470	$ 77,563,689
Global equity	21,041,448	2,107,749	23,149,197
Public debt	11,000,262	1,337,539	12,337,801
Real estate	18,302,601	1,810,350	20,112,951
Private equity	77,388,354	7,412,473	84,800,827
Total investment management expenses	198,320,884	19,643,581	217,964,465
Investment consultant fees	3,064,966	249,285	3,314,251
Custodial bank fees	1,204,265	118,835	1,323,100
Investment staff expenses	1,459,292	906,847	2,366,139
Commission recapture income	(447,849)	(49,423)	(497,272)
Total investment expenses	$ 203,601,558	$ 20,869,125	$ 224,470,683
Security lending expenses			
Agent fees	$ 696,362	$ 66,802	$ 763,164
Broker rebates	1,835,671	173,322	2,008,993
Total security lending expenses	$ 2,532,033	$ 240,124	$ 2,772,157

SCHEDULE OF PROFESSIONAL SERVICES

For the year ended June 30, 2010

	PSRS	PEERS	Combined Totals
Legal expenses	$ 395,402	$ 33,341	$ 428,743
Technology consulting	111,721	71,388	183,109
Actuarial services	277,395	102,030	379,425
Other consulting	69,840	44,651	114,491
Financial audit services	38,003	24,297	62,300
Legislative consulting	27,450	17,550	45,000
Insurance consulting	3,660	2,340	6,000
Total fees	$ 923,471	$ 295,597	$ 1,219,068