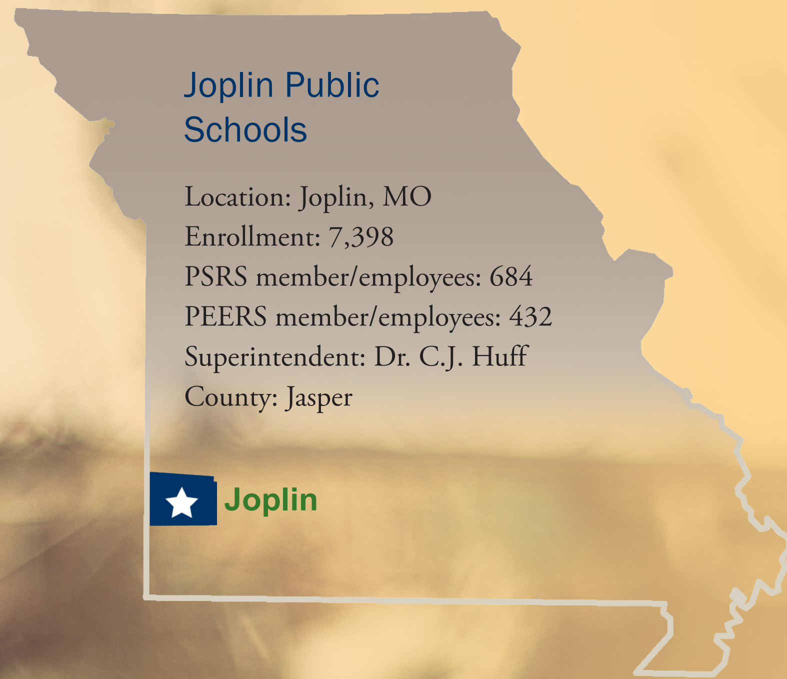
Photo: Aaron Durall

Joplin Public Schools

Location: Joplin, MO
Enrollment: 7,398
PSRS member/employees: 684
PEERS member/employees: 432
Superintendent: Dr. C.J. Huff
County: Jasper



Triumph Over Unthinkable Disaster

On Sunday evening, May 22, 2011, the evening of their high school graduation ceremony, Joplin was struck by an EF-5 tornado. The Joplin school district lost seven students and one staff member, with many others injured. The storm destroyed more than half the district's classroom space – six district buildings were demolished and four others damaged.

The district pledged to do everything in its power to help the community rise up after the incredible devastation, and to get their students back to school on time the following school year.

In a demonstration of amazing strength and dedication, and with unparalleled community support, they did just that. Students returned to school on time on August 17, 2011, attending class in temporary facilities set up in locations around the city.

The districts' ultimate goal is to raise funds, rebuild destroyed schools and return students to permanent facilities by August 2014, as well as to provide safe rooms for existing facilities.

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

WILLIAMS KEEPERS LLC
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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

We have audited the accompanying statements of plan net assets of the Public School Retirement System of Missouri and the Public Education Employee Retirement System of Missouri (the Systems) as of June 30, 2012, 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 opinions on these financial statements based on our audits. The prior year combined total information has been derived from the Systems' 2011 financial statements and, in our report dated October 21, 2011, we expressed unqualified opinions on the respective financial statements of the Systems' net assets.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Public School Retirement System of Missouri and the Public Education Employee Retirement System of Missouri at June 30, 2012, and the changes in plan net assets for the year then ended, in conformity with U.S. generally accepted accounting principles.

U.S. generally accepted accounting principles require that the management's discussion and analysis and the schedules of funding progress and employer contributions on pages 14-18 and 40-42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Public School Retirement System of Missouri and the Public Education Employee Retirement System of Missouri (the Systems') financial statements as a whole. The additional financial information on pages 43-44 are presented for purposes of additional analysis and are not a required part of the financial statements. The additional information on pages 43-44 is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory, investment, actuarial and statistical sections have not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Williams Keepers LLC

October 24, 2012

American Institute of Certified Public Accountants
Missouri Society of Certified Public Accountants
PKF North American Network

Superior service. Creative solutions. Exceptional clients.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the financial position of the Public School Retirement System of Missouri (PSRS) and the Public Education Employee Retirement System of Missouri (PEERS), collectively referred to as the Systems, provides an overview of the Systems' financial activities for the fiscal year ended June 30, 2012. 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 decreased by \$237.6 million. The net assets of PSRS decreased by \$283.4 million while the net assets of PEERS increased by \$45.8 million.

Financial markets experienced high volatility during fiscal year 2012, with most global markets being unsettled. The overall investment returns were 1.9% for PSRS and 1.6% for PEERS. Both Systems outperformed the median return of large institutional pension funds during these difficult markets. 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 one-year investment earnings are below the 8% rate of return assumption. However, the long-term returns of the Systems remain above the 8% assumed rate of return. The current 25-year return of the Systems is 8.2%.

As of June 30, 2012, the funded ratios were 81.5% for PSRS and 82.5% for PEERS. As of June 30, 2011, the funded ratios were 85.5% for PSRS and 85.3% for PEERS. To arrive at the actuarial value of assets as of June 30, 2012 and 2011, the Systems used an asset smoothing method by which investment returns above or below 8% are recognized over a five-year period. During fiscal year 2011, the Systems conducted an actuarial experience study, which resulted in revisions to some of the actuarial assumptions. The actuarial assumptions are detailed in the notes to the financial statements.

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

Total revenues for fiscal year 2012 were comprised of contribution revenue of \$1.5 billion and investment gains of \$489.6 million, compared to contribution revenue of \$1.4 billion and investment gains of \$5.5 billion for fiscal year 2011.

Expenses increased 5.8% over the prior year from \$2.1 billion to \$2.2 billion. Retirement benefits and member refunds increased by \$121.3 million from the prior year, while administrative expenses decreased by \$0.7 million during the same time period.

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

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes can be found on pages 22 through 39. The report also contains required supplementary information in addition to the basic financial statements themselves.

The Schedules of Funding Progress (page 40) include historical trend information about the actuarially funded status of each System from a long-term, ongoing perspective and the progress made in accumulating assets to pay benefits when due.

The Schedules of Employer Contributions (page 41) present historical trend information about the annual required contributions of employers and the actual contributions made by employers.

The Schedule of Funding Progress (page 42) 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 42) 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 42) presents historical trend information about the annual OPEB costs and the actual contributions made for the defined benefit OPEB plan.

Other supplementary schedules are also included. The Schedules of Administrative Expenses (page 43) present the overall cost of administering the Systems. The Schedules of Professional Services (page 44) further detail this category of administrative expense.

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

Financial Analysis of the Public School Retirement System of Missouri (PSRS)

PSRS is a mandatory cost-sharing multiple employer retirement system for full-time certificated employees and certain part-time employees of participating employers. PSRS members were required to contribute 14.5% of their annual covered salary during fiscal year 2012. 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.

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

	2012	2011	Change
Cash & investments	$ 31,015,849	$ 30,821,804	$ 194,045
Receivables	1,862,705	2,151,259	(288,554)
Other	17,517	15,497	2,020
Total assets	32,896,071	32,988,560	(92,489)
Total liabilities	5,079,298	4,888,379	190,919
Plan net assets	$ 27,816,773	$ 28,100,181	$ (283,408)

Assets

Total assets of PSRS as of June 30, 2012 were $32.9 billion and were mostly comprised of cash, investments, investment sales receivables and contributions due from employers. Investment sales receivables decreased significantly from the prior year, which is reflected in a higher cash and investments balance. Total assets decreased by $92.5 million or 0.3% from the prior year due to benefit payments exceeding contribution revenue and investment earnings during the year.

Liabilities

Total liabilities as of June 30, 2012, were $5.1 billion and were mostly comprised of payables from the purchase of investments and obligations under security lending arrangements. Total liabilities increased by $190.9 million from the prior year. This increase was due to a $559.5 million increase in investment purchase liabilities that was offset by a significant decrease in obligations under security lending arrangements.

Net Assets

PSRS assets exceeded liabilities at June 30, 2012, by $27.8 billion. This was a decrease of $283.4 million from 2011 net assets. This decrease was a result of investment earnings that totaled $449.8 million for the year offset by benefit payments and other expenses which exceeded contribution revenue by $733.7 million. This trend is a natural progression in a mature defined benefit plan.

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

	2012	2011	Change
Additions			
Member contributions	$ 658,936	$ 638,357	$ 20,579
Employer contributions	620,214	594,732	25,482
Investment income	449,822	5,018,518	(4,568,696)
Other	441	930	(489)
Total additions	1,729,413	6,252,537	(4,523,124)
Deductions			
Monthly benefits	1,950,231	1,845,620	104,611
Refunds of contributions	54,456	53,639	817
Administrative expenses	8,134	8,836	(702)
Other	-	2	(2)
Total deductions	2,012,821	1,908,097	104,724
Change in plan net assets	$ (283,408)	$ 4,344,440	$(4,627,848)

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 $46.1 million to $1.3 billion. This was a 3.7% increase over the prior year. Retirement contributions were calculated at 14.5% of retirement salary for each member during fiscal year 2012. The employer matched this amount. Contribution rates increased by 3.6% compared to the prior year (14.5% of retirement salary during 2012 compared to 14.0% during fiscal year 2011). In addition to contributions on salary, members may also pay contributions to reinstate previously refunded service or to purchase various types of elective service. Such contributions for the year decreased by $5.4 million.

The net investment gain was $449.8 million as compared to a net investment gain of $5.0 billion in 2011. The investment gain is directly related to the current net year investment return of 1.9% compared to the prior year return of 21.8%. 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 2012 were $2.0 billion, an increase of 5.5% over fiscal year 2011.

Benefit expenses increased by $104.6 million. This was a result of the addition of 2,996 new service and disability retirees. There were no changes to the benefit formula during 2012. Refunds of contributions increased by $0.8 million to $54.5 million.

Administrative expenses decreased by $0.7 million to $8.1 million. This was a 7.9% decrease, which is attributable to a significant reduction in depreciation and legal fee expenses. 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 when prudent.

Financial Analysis of the Public Education Employee Retirement System of Missouri (PEERS)

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 6.86% of their annual covered salary during 2012. The employer was required to match that amount. PEERS members also contribute to Social Security.

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

	2012	2011	Change
Cash & investments	$3,317,935	$ 3,200,113	$ 117,822
Receivables	184,894	232,745	(47,851)
Other	-	41	(41)
Total assets	3,502,829	3,432,899	69,930
Total liabilities	538,272	514,135	(24,137)
Plan net assets	$ 2,964,557	$ 2,918,764	$ 45,793

Assets

Total assets of PEERS as of June 30, 2012 were $3.5 billion and were mostly comprised of cash, investments, investment sales receivables and contributions due from employers. Investment sales receivables decreased significantly from the prior year, which is reflected in a higher cash and investments balance. Total assets increased by $69.9 million or 2.0% from the prior year due to investment gains and contribution revenue exceeding benefit payments and other expenses.

Liabilities

Total liabilities as of June 30, 2012 were $0.5 billion and were mostly comprised of payables from the purchase of investments and obligations under security lending arrangements. Total liabilities increased by $24.1 million. This increase was due to an $82.6 million increase in investment purchase liabilities that was offset by a significant decrease in obligations under security lending arrangements.

Net Assets

PEERS assets exceeded liabilities at the close of fiscal year 2012 by $2.96 billion. This was up from 2011 net assets of $2.92 billion by $45.8 million. This increase was a result of investment earnings that totaled $39.8 million during the year. Because PEERS is a much younger plan than PSRS, contribution revenues exceeded benefit payments and other expenses by $6.0 million.

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

	2012	2011	Change
Additions			
Member contributions	$101,931	$ 95,792	$ 6,139
Employer contributions	95,094	90,816	4,278
Investment income	39,774	502,934	(463,160)
Total additions	236,799	689,542	(452,743)
Deductions			
Monthly benefits	166,945	150,769	16,176
Refunds of contributions	18,470	18,823	(353)
Administrative expenses	5,591	5,608	(17)
Other	-	3	3
Total deductions	191,006	175,203	15,803
Change in plan net assets	$ 45,793	$514,339	$(468,546)

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 $10.4 million to $197.0 million. Retirement contributions were calculated at 6.86% of retirement salary for each member during fiscal year 2012. The employer matched this amount. Contribution rates increased by 3.5% compared to the prior year (6.86% of retirement salary during 2012 compared to 6.63% during fiscal year 2011). Overall contribution revenue increased by 5.6%. In addition to contributions on salary, members may also pay contributions to reinstate previously refunded service or to purchase various types of elective service. Such contributions for the year increased by $1.9 million or 36.7%.

The net investment gain was $39.8 million as compared to a net investment gain of $502.9 million in 2011. The investment gain is directly related to the current year investment return of 1.6% compared to the prior year return of 21.4%. 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 2012 were $191.0 million, an increase of 9.0% over fiscal year 2011.

Benefit expenses increased by $16.2 million. This was a result of the addition of 1,781 new service and disability retirees. There were no changes to the benefit formula during 2012. Refunds of contributions decreased by $0.4 million to $18.5 million.

Administrative expenses marginally decreased to $5.59 million. This was a 0.3% decrease. This decrease is attributable to a reduction in legal fee expenses. PEERS reimburses PSRS for the use of capital assets used by the two Systems on a proportional basis. Administrative costs were charged 61% to PSRS and 39% to PEERS, unless the expense was determined to be of direct benefit to only one System. In such instance, the allocation of expense was 100% to the benefited System. As always, we will continue to look for ways to streamline costs when 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 one year investment returns are below the 8% rate of return assumption, however the long term return of the Systems remains above the 8% assumed rate of return. The current 25-year return of the Systems is 8.2%.

The recommended fiscal year 2014 contribution rates for both PSRS and PEERS are unchanged from fiscal years 2013 and 2012. The recommended fiscal year 2014 contribution rate for PSRS remains 29.0%.

The recommended rate is above the annual required contribution rate of 28.20%. The recommended fiscal year 2014 contribution rate for PEERS remains 13.72%. The recommended rate is above the annual required contribution rate of 13.57%. The recommended fiscal year 2014 contribution rates for both PSRS and PEERS represent a stabilization of the rates with no increase over fiscal years 2013 and 2012. These contribution rate levels adhere to the PSRS/PEERS' Board of Trustees' Funding Stabilization Policy which has taken into consideration the probable rise in the annual required contribution in future fiscal years. Fiscal year 2014 contribution rates were approved by the PSRS/PEERS Board of Trustees at their December 2012 board meeting.

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 of Missouri (PSRS/PEERS), P.O. Box 268, Jefferson City, MO 65102.

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

as of June 30, 2012
with comparative totals for June 30, 2011

			Combined Totals	
	PSRS	**PEERS**	**June 30, 2012**	**June 30, 2011**
ASSETS				
Cash	$ 90,553,538	$ 13,481,385	$ 104,034,923	$ 80,263,667
Receivables				
Contributions	162,148,530	17,250,538	179,399,068	174,665,941
Accrued interest and dividends	126,642,508	9,425,579	136,068,087	71,458,093
Investment sales	1,573,449,536	158,184,669	1,731,634,205	2,137,250,511
Due from PEERS	348,642	-	348,642	506,898
Other	115,754	32,783	148,537	122,621
Total receivables	1,862,704,970	184,893,569	2,047,598,539	2,384,004,064
Investments, at fair value				
U.S. Treasuries and TIPS	4,177,031,256	473,783,581	4,650,814,837	5,170,653,120
U.S. public equities	10,458,109,496	1,109,816,543	11,567,926,039	10,336,216,850
Global public equities	4,230,694,103	487,548,871	4,718,242,974	5,280,590,664
Short-term investments	417,784,266	66,643,970	484,428,236	1,379,546,681
Public debt	2,559,373,302	279,136,465	2,838,509,767	2,677,408,890
Private equity	1,943,852,119	160,829,045	2,104,681,164	1,900,923,730
Private credit	392,944,813	31,953,154	424,897,967	308,094,895
Private real estate	2,048,406,187	212,704,627	2,261,110,814	1,781,712,155
Hedged assets	4,173,430,894	433,143,909	4,606,574,803	4,112,989,335
Total investments	30,401,626,436	3,255,560,165	33,657,186,601	32,948,136,320
Invested securities lending collateral	523,668,569	48,893,553	572,562,122	993,516,994
Prepaid expenses	125,353	-	125,353	772,708
Capital assets, net of accumulated depreciation	17,391,271	-	17,391,271	14,765,165
Total assets	32,896,070,137	3,502,828,672	36,398,898,809	36,421,458,918
LIABILITIES				
Accounts payable	13,747,422	1,719,009	15,466,431	18,043,107
Interest payable	271,912	55,051	326,963	1,247,061
Securities lending collateral	548,097,925	50,985,860	599,083,785	1,022,559,283
Investment purchases	4,515,652,935	484,229,148	4,999,882,083	4,358,002,670
Due to PSRS	-	348,642	348,642	506,898
Net other post-employment benefit obligation	573,551	375,649	949,200	752,900
Compensated absences	953,831	558,276	1,512,107	1,401,885
Total liabilities	5,079,297,576	538,271,635	5,617,569,211	5,402,513,804
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	$ 27,816,772,561	$ 2,964,557,037	$ 30,781,329,598	$ 31,018,945,114

Note: See accompanying Notes to the Financial Statements.

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

for the year ended June 30, 2012
with comparative totals for the year ended June 30, 2011

			Combined Totals Year Ended	
	PSRS	**PEERS**	**June 30, 2012**	**June 30, 2011**
ADDITIONS				
Contributions				
Employer	$ 620,214,231	$ 95,094,785	$ 715,309,016	$ 685,548,292
Member	658,935,738	101,930,717	760,866,455	734,148,848
Total contributions	1,279,149,969	197,025,502	1,476,175,471	1,419,697,140
Investment income				
From investing activities:				
Net appreciation in fair value of investments	325,706,142	24,926,204	350,632,346	5,421,950,392
Interest from investments	187,267,270	20,721,439	207,988,709	231,100,022
Interest from bank deposits	39,213	1,464	40,677	57,997
Dividends	159,270,504	16,788,336	176,058,840	185,195,179
Total investment income	672,283,129	62,437,443	734,720,572	5,838,303,590
Less investment expenses	232,346,116	23,611,800	255,957,916	359,573,665
Net income from investing activities	439,937,013	38,825,643	478,762,656	5,478,729,925
From security lending activities:				
Security lending gross income	2,554,549	265,484	2,820,033	3,600,319
Net appreciation in fair value of security lending collateral	2,322,698	197,928	2,520,626	36,569,702
Less security lending activity expenses:				
Agent fees	1,372,774	140,256	1,513,030	1,266,460
Broker rebates paid (received)	(6,380,024)	(624,995)	(7,005,019)	(3,818,634)
Total security lending expenses	(5,007,250)	(484,739)	(5,491,989)	(2,552,174)
Net income from security lending activities	9,884,497	948,151	10,832,648	42,722,195
Total net investment income	449,821,510	39,773,794	489,595,304	5,521,452,120
Other income				
PEERS capital asset charge	433,323	-	433,323	915,699
Miscellaneous income	7,711	-	7,711	14,366
Total other income	441,034	-	441,034	930,065
Total additions	1,729,412,513	236,799,296	1,966,211,809	6,942,079,325
DEDUCTIONS				
Monthly benefits	1,950,231,251	166,945,359	2,117,176,610	1,996,388,891
Refunds of contributions	54,456,051	18,469,530	72,925,581	72,461,629
Administrative expenses	8,133,833	5,590,986	13,724,819	14,443,612
Other expenses	315	-	315	6,179
Total deductions	2,012,821,450	191,005,875	2,203,827,325	2,083,300,311
Net (decrease) increase	(283,408,937)	45,793,421	(237,615,516)	4,858,779,014
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS				
Beginning of year	28,100,181,498	2,918,763,616	31,018,945,114	26,160,166,100
End of year	$ 27,816,772,561	$ 2,964,557,037	$ 30,781,329,598	$ 31,018,945,114

Note: See accompanying Notes to the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012 (with comparative information for June 30, 2011)

Note 1–Plan Descriptions

The Board of Trustees of the Public School Retirement System of Missouri administers two separate retirement systems, the Public School Retirement System of Missouri (PSRS) and the Public Education Employee Retirement System of Missouri (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 of Missouri

PSRS is a mandatory cost-sharing multiple employer retirement system for all full-time certificated employees and certain part-time certificated employees of all public school districts in Missouri (except the school districts of St. Louis and Kansas City) and all public two-year colleges. The System also includes certificated employees of PSRS, Missouri State Teachers' Association, Missouri State High School Activities Association, and certain employees of the state of Missouri who elected to remain covered by PSRS under legislation enacted in 1986, 1987 and 1989. The majority of PSRS members are exempt from Social Security contributions. In some instances, positions may be determined not to be exempt from Social Security contributions. Any PSRS member who is required to contribute to Social Security comes under the requirements of Section 169.070 (9) RSMo, known as the "2/3's statute." PSRS members required to contribute to Social Security are required to contribute two-thirds of the approved PSRS contribution rate and their employer is required to match the contribution. The members' benefits are further calculated at two-thirds the normal benefit amount.

PSRS was established as an independent trust fund by an Act of the Missouri General Assembly effective August 1, 1945. Statutes governing the 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 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 and age total at least 80) are entitled to a monthly benefit for life, which is calculated using a 2.5% benefit factor. Beginning July 1, 2001, and ending July 1, 2013, a 2.55% benefit 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 younger than age 55 and who do not qualify under the "Rule of 80" but have between 25 and 29.9 years of service may retire with a lesser benefit 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 Option (PLSO) payment at retirement equal to 12, 24, or 36 times the Single Life benefit amount. Annual cost-of-living adjustments (COLAs) are provided for eligible service and disability retirees and for surviving beneficiaries receiving payments under optional benefit plans, up to a lifetime maximum of 80% of the original benefit amount.

Contributions – PSRS members were required to contribute 14.5% of their annual covered salary during fiscal year 2012 and 14.0% during fiscal year 2011. Employers were required to match the contributions made by employees. The contribution rate is set each year by the PSRS/PEERS 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 members and benefit recipients served by the System at June 30 was:

			2012		2011
Retirees and beneficiaries receiving benefits			50,344		48,065
Inactive members entitled to but not yet receiving benefits			6,891		6,645
Active members:	Vested	58,943		58,258	
	Non-vested	18,586		19,450	
Total active members			77,529		77,708
Other inactive members			4,632		4,935
Total			139,396		137,353

Employers – PSRS had 538 contributing employers during fiscal years 2012 and 2011.

The Public Education Employee Retirement System of Missouri

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

PEERS was established as a trust fund by an Act of the Missouri General Assembly effective October 13, 1965. Statutes governing the 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 of Missouri.

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 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 and age total at least 80) are entitled to a monthly benefit for life, which is calculated using a 1.61% benefit factor. Members qualifying for "Rule of 80" or "30-and-Out" are entitled to an additional temporary .8% benefit factor 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 younger than age 55 and who do not qualify under the "Rule of 80" but have between 25 and 29.9 years of service may retire with a lesser benefit 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 Option (PLSO) payment at retirement equal to 12, 24, or 36 times the Single Life benefit amount. Annual cost-of-living adjustments (COLAs) are provided for eligible service and disability retirees and for surviving beneficiaries receiving payments under optional benefit plans, up to a lifetime maximum of 80% of the original benefit amount.

Contributions – PEERS members were required to contribute 6.86% of their annual covered salary during fiscal year 2012 and 6.63% during fiscal year 2011. Employers were required to match the contributions made by their employees. The contribution rate is set each year by the PSRS/PEERS 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 of Missouri (PSRS) and are financed through investment earnings.

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

			2012		2011
Retirees and beneficiaries receiving benefits			22,562		21,328
Inactive members entitled to but not yet receiving benefits			4,940		4,790
Active members:	Vested	29,199		28,624	
	Non-Vested	19,406		20,176	
Total active members			48,605		48,800
Other inactive members			9,612		10,612
Total			85,719		85,530

Employers – PEERS had 534 contributing employers during fiscal years 2012 and 2011.

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 employers, 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 national and international exchanges are valued at the last reported sales price at current exchange rates. Fixed income securities not traded on a national or international exchange are based on equivalent values of comparable securities with similar yield and risk. 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 $433,323 in 2012 and $915,699 in 2011.

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, 2012. 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, 2011, from which the information was derived.

Reclassification – Certain reclassifications have been made to the 2011 totals to conform with the classifications for 2012.

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:

Public School Retirement System of Missouri

	2012	2011
Designated for Members' Contributions (Member Reserves) – *Accumulation of active and terminated member contributions plus interest.*	$ 6,687,357,639	$ 6,571,916,082
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.*	21,190,467,861	20,023,082,295
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.*	564,439	618,704
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.*	(61,617,378)	1,504,564,417
Net Assets Held In Trust For Pension Benefits	$ 27,816,772,561	$ 28,100,181,498

Public Education Employee Retirement System of Missouri

	2012	2011
Designated for Members' Contributions (Member Reserves) – *Accumulation of active and terminated member contributions plus interest.*	$ 822,485,225	$ 783,112,501
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.*	1,541,541,277	1,398,620,374
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.*	600,530,535	737,030,741
Net Assets Held In Trust For Pension Benefits	$ 2,964,557,037	$ 2,918,763,616

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, 2012, the PSRS carrying amount of deposits at the depository bank was $11,893,340 and the bank balance was $13,186,992. Of the bank balance, $13,186,992 was covered by federal depository insurance. In addition the deposits were over collateralized with U.S. agency securities held by a third-party institution in the System's name, totaling $1,680,991. An additional $5,466,396 was held in overnight repurchase agreements with a book value of $5,466,396. The overnight repurchase agreements were collateralized with U.S. agency securities held by a third-party institution in the System's name totaling $5,466,396.

At June 30, 2012, the PEERS carrying amount of deposits at the depository bank was ($698,633) 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, 2012 was $2,272,040 with a book value of $2,272,040. The overnight repurchase agreements were collateralized with U.S. agency securities held by a third-party institution in the System's name totaling $2,272,040.

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 Systems is covered by this "prudent person" rule.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Systems' investment in a single issue. To mitigate this risk, the Systems' investment policy prohibits investing more than 5% of the total investment portfolio into any single financial institution or issuer, excluding U.S. government securities. At June 30, 2012, the Systems did not have more than 5% of total investments in a single issue except for U.S. government securities.

Interest Rate Risk

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

Public School Retirement System of Missouri

Security Type	Fair Value at June 30, 2012	Less than 1 year to maturity	1 to 5 years to maturity	6 to 10 years to maturity	over 10 years to maturity
U.S. Treasuries	$6,333,673,571	$2,026,708,370	$ 2,424,240,069	$1,218,385,373	$ 664,339,759
Government guaranteed mortgages	7,147,385	-	-	-	7,147,385
Agencies	75,155,994	9,088,917	6,960,327	14,120,120	44,986,630
Collateralized mortgage obligations	28,977,954	-	-	-	28,977,954
Commercial mortgage-backed securities	40,775,953	-	-	8,615,573	32,160,380
Asset-backed securities	253,297,355	-	7,586,435	24,428,762	221,282,158
Corporate bonds	1,412,078,714	84,722,286	321,982,886	908,998,620	96,374,922
Sovereign	114,293,906	57,383,422	14,563,618	24,330,162	18,016,704
Repurchase agreements	80,427,152	80,427,152	-	-	-
Commercial paper	27,580,912	27,580,912	-	-	-
Certificate of deposit	85,825,040	85,825,040	-	-	-
Derivatives	(3,416,908)	1,146,803	(986,960)	(2,908,580)	(668,171)
Municipals	39,788,086	-	-	-	39,788,086
Commingled Funds (see note)					
JPM STIF	214,815,658	214,815,658	-	-	-
Bridgewater STIF II	57,344,740	57,344,740	-	-	-
PIMCO Real Return	15,794,711	-	-	15,794,711	-
PIMCO Developing Markets	178,247,348	178,247,348	-	-	-
PIMCO Short Term Folating NAV II	96,062,990	96,062,990	-	-	-
Currency	54,506,218	54,506,218	-	-	-
Total	$9,112,376,779	$2,973,859,856	$ 2,774,346,375	$2,211,764,741	$1,152,405,807
Percentage of Total Fixed Income	**100%**	**33%**	**30%**	**24%**	**13%**

Public Education Employee Retirement System of Missouri

Security Type	Fair Value at June 30, 2012	Less than 1 year to maturity	1 to 5 years to maturity	6 to 10 years to maturity	over 10 years to maturity
U.S. Treasuries	$ 718,169,920	$ 221,108,061	$ 279,099,375	$ 140,930,935	$ 77,031,549
Agencies	16,604,854	910,610	3,793,524	3,063,029	8,837,691
Collateralized mortgage obligations	6,198,002	-	-	-	6,198,002
Commercial mortgage-backed securities	1,872,111	-	-	-	1,872,111
Asset-backed securities	22,725,480	-	813,617	2,928,354	18,983,509
Corporate bonds	148,747,835	9,155,224	32,656,694	94,988,680	11,947,237
Sovereign	10,717,690	4,542,136	1,213,886	3,171,312	1,790,356
Repurchase agreements	8,057,924	8,057,924	-	-	-
Commercial paper	2,763,307	2,763,307	-	-	-
Certificate of deposit	8,168,904	8,168,904	-	-	-
Derivatives	(570,138)	81,853	(199,973)	(331,011)	(121,007)
Municipals	6,910,140	100,096	-	416,618	6,393,426
Commingled Funds (see note)					
JPM STIF	30,191,619	30,191,619	-	-	-
Bridgewater STIF II	6,383,738	6,383,738	-	-	-
PIMCO Real Return	2,233,780	-	-	2,233,780	-
PIMCO International Sector Fund	616,890	-	-	616,890	-
PIMCO Developing Markets	19,805,261	19,805,261	-	-	-
PIMCO Short Term Folating NAV II	7,177,989	7,177,989	-	-	-
Currency	6,187,009	6,187,009	-	-	-
Total	$1,022,962,315	$ 324,633,731	$ 317,377,123	$ 248,018,587	$ 132,932,874
Percentage of Total Fixed Income	**100%**	**32%**	**31%**	**24%**	**13%**

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 are displayed.*

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Systems do not have a single investment policy designating the minimum allowable credit rating. However, each manager must follow guidelines established specifically for its managed portfolio. The portfolios are continually monitored to ensure compliance with these guidelines. The following tables include collateral pledged for deposits and repurchase agreements and securities lending collateral. The Systems' debt investments by credit rating category as of June 30, 2012 are presented in the following tables.

Public School Retirement System of Missouri

Security Type	Fair Value at June 30, 2012	%	AAA	AA	A	BBB	BB	B	CCC	Not Rated
U.S. Treasuries	$6,333,673,571	71%	$6,333,673,571	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Government guaranteed mortgages	7,147,385	0%	7,147,385	-	-	-	-	-	-	-
Agencies	75,155,994	1%	75,155,994	-	-	-	-	-	-	-
Collateralized mortgage obligations	28,977,954	0%	14,563,317	1,139,966	1,026,108	389,972	1,013,757	2,260,064	8,099,878	484,892
Commercial mortgage-backed securities	40,775,953	0%	34,979,025	653,303	5,143,625	-	-	-	-	-
Asset backed securities	253,297,355	3%	74,922,321	96,229,264	64,843,209	9,497,974	5,155,326	6,639	2,642,622	-
Corporate bonds	1,412,078,714	15%	65,052,902	68,444,736	379,787,984	545,430,109	187,307,700	121,845,036	1,399,788	42,810,459
Sovereign	114,293,906	1%	12,934,084	58,354,426	14,669,803	21,094,830	6,947,263	293,500	-	-
Repurchase agreements	80,427,152	1%	12,257,053	68,170,099	-	-	-	-	-	-
Commercial paper	27,580,912	0%	-	12,710,320	14,870,592	-	-	-	-	-
Certificates of deposit	85,825,040	1%	6,108,285	31,807,148	43,852,276	4,057,331	-	-	-	-
Derivatives	(3,416,908)	0%	-	-	-	-	-	-	-	(3,416,908)
Municipals	39,788,086	0%	3,954,865	14,020,341	19,042,949	212,932	125,089	2,431,910	-	-
Commingled Funds (see note)										
JPM STIF	214,815,658	2%	214,815,658	-	-	-	-	-	-	-
Bridgewater STIF II	57,344,740	1%	-	-	57,344,740	-	-	-	-	-
PIMCO Real Return	15,794,711	0%	15,794,711	-	-	-	-	-	-	-
PIMCO Developing Markets	178,247,348	2%	-	178,247,348	-	-	-	-	-	-
PIMCO Short Term Floating NAV II	96,062,990	1%	96,062,990	-	-	-	-	-	-	-
Currency	54,506,218	1%	-	-	-	-	-	-	-	54,506,218
Total	$9,112,376,779	100%	$6,967,422,161	$529,776,951	$600,581,286	$580,683,148	$200,549,135	$126,837,149	$12,142,288	$94,384,661
Percentage of Total Fixed Income	**100%**		**76%**	**6%**	**7%**	**6%**	**2%**	**2%**	**0%**	**1%**

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

Public Education Employee Retirement System of Missouri

Security Type	Fair Value at June 30, 2012	%	AAA	AA	A	BBB	BB	B	CCC	Not Rated
U.S. treasuries	$ 718,169,920	69%	$718,169,920	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Agencies	16,604,854	2%	2,386,359	14,218,495	-	-	-	-	-	-
Collateralized mortgage obligations	6,198,002	1%	3,919,402	94,997	136,334	-	534,790	488,728	1,022,254	1,497
Commercial mortgage-backed securities	1,872,111	0%	1,262,856	-	496,278	112,977	-	-	-	-
Asset backed securities	22,725,480	2%	6,252,146	8,235,431	6,744,934	918,757	439,263	632	134,317	-
Corporate bonds	148,747,835	14%	1,571,222	13,426,699	42,101,164	60,862,584	18,299,479	9,624,479	651,150	2,211,058
Sovereign	10,717,690	1%	738,776	5,533,147	1,233,116	1,996,924	1,138,977	76,750	-	-
Repurchase agreements	8,057,924	1%	1,228,023	6,829,901	-	-	-	-	-	-
Commercial paper	2,763,307	0%	-	1,273,436	1,489,871	-	-	-	-	-
Certificates of deposit	8,168,904	1%	588,654	3,186,730	4,393,520	-	-	-	-	-
Derivatives	(570,138)	0%	-	-	-	-	-	-	-	(570,138)
Municipals	6,910,140	1%	491,388	4,422,438	1,703,131	-	-	293,183	-	-
Commingled Funds (see note)										
JPM STIF	30,191,619	3%	30,191,619	-	-	-	-	-	-	-
Bridgewater STIF II	6,383,738	1%	-	-	6,383,738	-	-	-	-	-
PIMCO Real Return	2,233,780	0%	2,233,780	-	-	-	-	-	-	-
PIMCO International Sector Fund	616,890	0%	-	616,890	-	-	-	-	-	-
PIMCO Developing Markets	19,805,261	2%	-	19,805,261	-	-	-	-	-	-
PIMCO Short Term Floating NAV II	7,177,989	1%	7,177,989	-	-	-	-	-	-	-
Currency	6,187,009	1%	-	-	-	-	-	-	-	6,187,009
Total	$1,022,962,315	100%	$776,212,134	$ 77,643,425	$ 64,682,086	$63,891,242	$ 20,412,509	$10,483,772	$ 1,807,721	$ 7,829,426
Percentage of Total Fixed Income	**100%**		**76%**	**8%**	**6%**	**6%**	**2%**	**1%**	**0%**	**1%**

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

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Systems do not have a single investment policy designating the allowable exposure to foreign currency. However, each manager must follow guidelines established specifically for its managed portfolio. The portfolios are continually monitored to ensure compliance with these guidelines. The Systems' exposure to foreign currency risk as of June 30, 2012 is presented on the following tables.

Public School Retirement System of Missouri

Currency	Debt	Equity	Currency/Short Term	Total
Australian Dollar	$ 5,240,015	$ 122,509,900	$(1,056,637)	$ 126,693,278
Brazilian Real	8,912,723	48,870,382	637,246	58,420,351
British Pound Sterling	32,765,634	343,411,972	1,145,615	377,323,221
Bulgarian Lev	-	737,426	-	737,426
Canadian Dollar	12,857,945	115,787,039	(269,597)	128,375,387
Chilean Peso	-	7,728,305	41,461	7,769,766
Colombian Peso	2,920,467	-	(4,114)	2,916,353
Czech Koruna	-	4,686,862	12,885	4,699,747
Danish Krone	-	27,525,287	104,552	27,629,839
Egyptian Pound	-	64,558	6,796	71,354
Euro Currency	79,023,760	674,273,643	691,732	753,989,135
Hong Kong Dollar	-	137,760,358	395,020	138,155,378
Hungarian Forint	-	422,151	23,004	445,155
Indian Rupee	-	20,708,053	1,198,716	21,906,769
Indonesian Rupiah	2,304,546	11,598,692	256,041	14,159,279
Israeli Shekel	-	-	18,347	18,347
Japanese Yen	54,760,855	441,426,957	3,146,568	499,334,380
Malaysian Ringgit	-	15,536,497	236,874	15,773,371
Mexican Peso	3,527,883	14,810,069	421,037	18,758,989
Moroccan Dirham	-	377,922	6,909	384,831
New Taiwan Dollar	-	40,554,042	944,341	41,498,383
New Turkish Lira	-	5,708,163	152,235	5,860,398
New Zealand Dollar	-	6,314,956	143,219	6,458,175
Norwegian Krone	-	17,052,107	802,918	17,855,025
Pakistan Rupee	-	1,507,803	30,958	1,538,761
Peruvian Nuevo Sol	-	-	60	60
Philippine Peso	-	2,842,388	82,208	2,924,596
Polish Zloty	-	7,627,372	246,228	7,873,600
Russian Ruble	-	234,825	34,120	268,945
Singapore Dollar	-	14,395,899	145,142	14,541,041
South African Rand	4,080,448	46,356,813	314,191	50,751,452
South Korean Won	-	87,014,646	386,798	87,401,444
Swedish Krona	172,231	22,260,796	1,249,057	23,682,084
Swiss Franc	1,280,616	118,011,422	(3,709,621)	115,582,417
Thailand Baht	-	21,284,810	165,132	21,449,942
Ukraine Hryvnia	-	103,714	-	103,714
Yuan Renminbi	-	62,577	(39,393)	23,184
Total	**$ 207,847,123**	**$ 2,379,568,406**	**$ 7,960,048**	**$ 2,595,375,577**

Public Education Employee Retirement System of Missouri

Currency	Debt	Equity	Currency/Short Term	Total
Australian Dollar	$ 751,699	$ 13,619,619	$ (84,558)	$ 14,286,760
Brazilian Real	777,598	4,892,014	66,483	5,736,095
British Pound Sterling	1,082,144	38,356,510	108,080	39,546,734
Bulgarian Lev	-	68,957	-	68,957
Canadian Dollar	1,698,099	14,229,825	(21,886)	15,906,038
Chilean Peso	-	812,788	6,445	819,233
Chinese Yuan	-	-	-	-
Colombian Peso	247,768	-	(467)	247,301
Czech Koruna	-	489,204	642	489,846
Danish Krone	-	3,245,997	10,200	3,256,197
Egyptian Pound	-	3,103	-	3,103
Euro Currency	3,751,151	68,457,712	(1,124,874)	71,083,989
Hong Kong Dollar	-	15,385,660	44,835	15,430,495
Hungarian Forint	-	17,651	1,348	18,999
Indian Rupee	-	2,331,980	51,104	2,383,084
Indonesian Rupiah	272,511	1,120,237	30,107	1,422,855
Israeli Shekel	-	-	730	730
Japanese Yen	4,009,740	49,389,199	421,051	53,819,990
Malaysian Ringgit	-	2,035,437	23,150	2,058,587
Mexican Peso	330,384	1,791,705	50,309	2,172,398
Moroccan Dirham	-	44,220	228	44,448
New Taiwan Dollar	-	4,403,138	95,129	4,498,267
New Turkish Lira	-	668,332	24,018	692,350
New Zealand Dollar	-	626,385	9,950	636,335
Norwegian Krone	-	1,987,698	92,288	2,079,986
Pakistan Rupee	-	104,949	2,290	107,239
Peruvian Nuevo Sol	-	-	(237)	(237)
Philippine Peso	-	305,293	7,385	312,678
Polish Zloty	-	1,012,309	30,012	1,042,321
Russian Ruble	-	24,487	(2,211)	22,276
Singapore Dollar	-	1,747,332	26,535	1,773,867
South African Rand	441,810	5,011,226	47,149	5,500,185
South Korean Won	-	9,365,559	42,071	9,407,630
Swedish Krona	-	2,257,370	137,789	2,395,159
Swiss Franc	-	12,765,389	(522,353)	12,243,036
Thailand Baht	-	2,420,525	30,982	2,451,507
Ukraine Hryvnia	-	5,300	9	5,309
Yuan Renminbi	-	-	1,349	1,349
Total	**$ 13,362,904**	**$258,997,110**	**$(394,918)**	**$271,965,096**

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, 2012, classified by type are as follows:

Public School Retirement System of Missouri

	Fair Value at June 30, 2012		
Investment Derivatives	**Classification**	**Amount**	**Notional**
Swaps			
Receive-fixed interest rate swap	Investments, at fair value	$ 1,692,867	$ 226,800,000
Pay-fixed interest rate swap	Investments, at fair value	(4,993,416)	158,800,000
Credit default swaps	Investments, at fair value	(12,364,255)	432,674,388
Total return swaps - equity	Investments, at fair value	14,344,912	2,432,445,989
Total swaps		**(1,319,892)**	**3,250,720,377**
Futures			
Equity futures long	Investments, at fair value	-	67,498,738
Equity futures short	Investments, at fair value	-	46,738,731
Treasury futures long	Investments, at fair value	-	760,237,500
Fixed income futures short	Investments, at fair value	-	53,642,743
Currency futures long	Investments, at fair value	-	107,961,500
Commodity futures long	Investments, at fair value	-	109,438,840
Total futures		**-**	**1,145,518,052**
Options			
Equity purchased call options	Investments, at fair value	204,985	467,400
Equity written put options	Investments, at fair value	(55,682)	155,800
Equity purchased put options	Investments, at fair value	184,760	155,800
Treasury futures written call options	Investments, at fair value	(7,313)	3,900,000
Treasury futures written put options	Investments, at fair value	(10,969)	3,900,000
Fixed income written call options	Investments, at fair value	(139,693)	18,700,000
Fixed income purchased call options	Investments, at fair value	2,042	700,000
Fixed income written put options	Investments, at fair value	(90,175)	204,800,000
Swaptions	Investments, at fair value	(287,389)	38,600,000
Total options		**(199,434)**	**271,379,000**
Foreign currency forwards net receivable/payable	Investment Sales and Purchases	**(834,901)**	-
Total Investment Derivatives		**$ (2,354,227)**	**$ 4,667,617,429**

Public Education Employee Retirement System of Missouri

Investment Derivatives	Fair Value at June 30, 2012 Classification	Amount	Notional
Swaps			
Receive-fixed interest rate swap	Investments, at fair value	$ 212,285	$ 28,300,000
Pay-fixed interest rate swap	Investments, at fair value	(638,494)	21,800,000
Credit default swaps	Investments, at fair value	(326,432)	43,350,063
Total return swaps - equity	Investments, at fair value	352,173	274,153,102
Total swaps		**(400,468)**	**367,603,165**
Futures			
Equity futures long	Investments, at fair value	-	7,437,589
Equity futures short	Investments, at fair value	-	5,115,941
Treasury futures long	Investments, at fair value	-	53,350,000
Fixed income futures long	Investments, at fair value	-	15,976,070
Fixed income futures short	Investments, at fair value	-	17,880,914
Currency futures long	Investments, at fair value	-	5,943,750
Commodity futures long	Investments, at fair value	-	12,038,250
Total futures		**-**	**117,742,514**
Options			
Equity purchased call options	Investments, at fair value	28,115	41,200
Equity written put options	Investments, at fair value	(6,148)	17,200
Equity purchased put options	Investments, at fair value	20,400	17,200
Treasury futures written call options	Investments, at fair value	(5,750)	1,600,000
Treasury futures written put options	Investments, at fair value	(1,406)	500,000
Fixed income written call options	Investments, at fair value	(13,929)	3,350,000
Fixed income written put options	Investments, at fair value	(9,314)	27,200,000
Swaptions	Investments, at fair value	(32,067)	4,100,000
Total options		**(20,099)**	**36,825,600**
Foreign currency forwards net receivable/payable	Investment Sales and Purchases	60,378	-
Total Investment Derivatives		**$(360,189)**	**$ 522,171,279**

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. A total return swap is a contract in which one party makes payments based on a set rate, either fixed or variable, while the other party makes payments based on the return of the underlying asset. The underlying asset is typically an index, bond, etc. Gains and losses on swaps are determined based on market values and are recorded in net appreciation (depreciation) in fair value of investments on the Systems' Statements of Changes in Plan Net Assets. Net losses on swaps of $17.3 million for PSRS and $1.5 million for PEERS were recognized for the fiscal year ended June 30, 2012.

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 value of futures contracts is settled daily in cash with the exchanges. Net gains or losses resulting from the daily settlements are included in net appreciation (depreciation) in fair value of investments on the Systems' Statements of Changes in Plan Net Assets. PSRS and PEERS recognized net losses on futures contracts of $11.2 million and $1.3 million, respectively, during the fiscal year ended June 30, 2012.

Options - Options represent or give buyers the right, but not the obligation, to buy (call) or sell (put) an asset at a preset price over a specified period. The option's price is usually a small percentage of the underlying asset's value. As a writer of financial options, the Systems' investment managers receive a premium at the outset of the agreement and bear the risk of an unfavorable change in the price of the financial instrument underlying the option. As a purchaser of financial options, the Systems' investment managers pay a premium at the outset of the agreement and the counterparty bears the risk of an unfavorable change in the price of the financial instrument underlying the option. Net gains or losses resulting from such obligations are included in net appreciation (depreciation) in fair value of investments on the Systems' Statements of Changes in Plan Net Assets. PSRS and PEERS recognized net losses on option contracts of $48,600 and $102,000, respectively, during the fiscal year ended June 30, 2012.

Currency forwards - Currency forwards represent forward foreign exchange contracts that are entered into in order to hedge the exposure to changes in foreign currency rate on the foreign currency dominated portfolio holdings. A forward foreign exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. The gain or loss arising from the difference between the original contracts and the closing of such contracts is included in net appreciation (depreciation) in fair value of investments on the Systems' Statements of Changes in Plan Net Assets. PSRS recognized net gains on such contracts of $5.4 million and PEERS recognized net losses of $52,000, during the fiscal year ended June 30, 2012.

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, 2012 the counterparties' credit ratings for currency forwards, options and swaps are subject to credit risk as shown in the chart below.

The Systems are exposed to interest rate risk on 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 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 30 and 31.

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

Derivative Counterparty Credit Ratings

Public School Retirement System of Missouri

Quality Rating	Swaps	Options	Forwards	Total
AA	$ 355,758	$ (19,799)	$ (429,061)	$ (93,102)
A	(1,675,650)	(179,635)	(396,061)	(2,251,346)
Total subject to credit risk	**$(1,319,892)**	**$(199,434)**	**$(825,122)**	**$(2,344,448)**

Public Education Employee Retirement System of Missouri

Quality Rating	Swaps	Options	Forwards	Total
AA	$ (30,403)	$ (7,337)	$ -	$ (37,740)
A	(370,065)	(12,762)	61,226	(321,601)
Total subject to credit risk	**$ (400,468)**	**$ (20,099)**	**$ 61,226**	**$ (359,341)**

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

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

During the fiscal year, the Systems' custodial bank lent, on behalf of the Systems, securities to participating broker-dealers. The broker-dealers must provide collateral in the form of cash. The Systems did not impose restrictions during the fiscal year on the amount of loans that the custodial bank made on their behalf.

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 violations of the contractual provisions nor were there any borrower or lending agent default losses during the fiscal year.

The market value of securities on loan as of June 30, 2012 was $547,695,523 for PSRS and $50,945,084 for PEERS. On June 30, 2012 the Systems had no credit risk exposure to borrowers as the cash and securities collateral amounts received exceeded amounts on loan. Loans are generally terminable on demand. However, with the prior approval of the Systems, loans may be made on the basis of a specified termination date, with or without providing for the right of the Systems to terminate or substitute equivalent securities. As of June 30, 2012, there were no term loans for either PSRS or PEERS.

PSRS and PEERS maintain investment portfolios that were novated to JPMorgan Chase, NA from the Systems' previous agent lender and custodial bank. These assets are referred to as the Legacy Portfolio. As of June 30, 2012, PSRS' Legacy Portfolio had a cost basis of $270,811,698 and an estimated market value of $246,376,190, with an unrealized loss of $24,435,508. PEERS' Legacy Portfolio had a cost basis of $23,204,803 and an estimated market value of $21,111,879, with an unrealized loss of $2,092,924.

New cash collateral is invested in separately managed accounts in accordance with the investment guidelines approved by the Systems. Assets purchased with new cash collateral are referred to as the J.P. Morgan Portfolio. The primary investment objective of the J.P. Morgan Portfolio is the preservation of principal. As of June 30, 2012, the cost basis of the J.P. Morgan Portfolio totaled $277,286,227 for PSRS and $27,781,057 for PEERS. The estimated market value of the J.P. Morgan Portfolio totaled $277,292,379 for PSRS and $27,781,674 for PEERS. The unrealized gain for PSRS was $6,152 and $617 for PEERS.

PSRS recognized net appreciation of $2,322,698 and PEERS recognized net appreciation of $197,928 for the year ended June 30, 2012 on the invested collateral accounts. Such is reported as net appreciation in fair value of security lending collateral on the Statements of Changes in Plan Net Assets.

The weighted average duration of invested collateral as of June 30, 2012 was 22 days and an average final maturity of approximately 16 years for PSRS and 21 days and an average final maturity of approximately 14 years for PEERS. Because the loans were terminable at will, their duration did not match the duration of the investments made with cash collateral. In addition, there is the possibility that a portion of the Legacy investment portfolios will be held to maturity.

Note 5 – Additional Deposits Program

Section 169.035, RSMo provides for an additional deposits program for PSRS members. Members may make payments above the required defined benefit contribution amount to the 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 fiscal year 2012.

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, 2012, the most recent actuarial valuation date, is as follows:

(Dollar amounts in thousands)

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)– Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
PSRS	6/30/2012	$ 29,013,002	$ 35,588,030	$ 6,575,028	81.5%	$ 4,379,060	150.1%
PEERS	6/30/2012	$ 3,090,880	$ 3,746,347	$ 655,467	82.5%	$ 1,437,310	45.6%

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 is as follows:

Valuation date	June 30, 2012
Actuarial cost method	Entry Age Normal
Amortization method	
PSRS (1)	Closed, level percent for 30 years. Effective amortization period of 24.8 years.
PEERS (2)	Closed, level percent for 30 years. Effective amortization period of 26.3 years.
Asset valuation method	Five-year smoothing of actual returns less expected returns Marked to market June 30, 2003
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases*	
PSRS	4.0 - 10.0%
PEERS	5.0 - 12.0%
*Includes inflation at	2.5%
Cost-of-living adjustments	2.0%

(1) 30-year amortization assumes an ARC rate of 28.20% for fiscal year 2014. The annual statutory increase in the total contribution rate may not exceed 1% of pay. Contribution rates will be established in accordance with the Board of Trustees' Funding Stabilization Policy and the recommendation of the independent actuary. The recommended contribution rate for fiscal year 2014 is 29.0%, which results in an effective amortization period of 24.8 years.

(2) 30-year amortization assumes an ARC rate of 13.57% for fiscal year 2014. The annual statutory increase in the total contribution rate may not exceed 0.5% of pay. Contribution rates will be established in accordance with the Board of Trustees' Funding Stabilization Policy and the recommendation of the independent actuary. The recommended contribution rate for fiscal year 2014 is 13.72%, which results in an effective amortization period of 26.3 years.

Note 7 – Retirement Plans

Section 401(a) Defined Benefit Plan

All full-time System employees holding valid Missouri educator certificates 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 14.5% of their annual covered salary during fiscal year 2012, 14.0% during fiscal year 2011 and 13.5% during fiscal year 2010. 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 $34,722 for the 2012 fiscal year, $31,319 for the 2011 fiscal year and $18,215 for the 2010 fiscal year. The amounts for these years are equal to the required contributions.

PEERS members were required to contribute 6.86% of their annual covered salary during fiscal year 2012, 6.63% during fiscal year 2011 and 6.5% during fiscal year 2010. 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 $555,144 for the 2012 fiscal year, $519,055 for the 2011 fiscal year and $480,626 for the 2010 fiscal year. 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 $93,829 for the 2012 fiscal year and $91,941 for the 2011 fiscal year. Employer-paid contributions totaled $51,500 for both fiscal years 2012 and 2011. Employee contributions totaled $235,887 for the 2012 fiscal year and $226,721 for the 2011 fiscal year.

Maintenance of individual member accounts and custody of assets have been contracted to a third-party administrator and investment custodian. Total contributions are sent directly to the third-party administrator by the employer. Employees can self-direct investments of their contributions and their respective share of matching contributions in a number of investment options. Because the System does not hold the plan's assets and does not have significant administrative responsibilities, the plan's assets and changes in net assets are not reported in the Systems' financial statements.

Note 8 – Other Post-Employment Benefit Plans

Post-Employment Staff Retiree Healthcare Plan

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

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

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

Annual required contribution	$ 246,800
Interest on net OPEB obligation	24,800
Amortization of net OPEB obligation	(24,400)
Annual OPEB cost	247,200
Contributions made	50,900
Increase in net OPEB obligation	196,300
Net OPEB obligation - beginning of year	752,900
Net OPEB obligation - end of year	$ 949,200

PSRS' annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2012 and the two preceding years are as follows:

Fiscal Year Ended	Annual OPEB Cost (AOC)	% of AOC Contributed	Net OPEB Obligation
6/30/2010	$ 223,200	18.0%	$ 546,100
6/30/2011	$ 245,400	15.7%	$ 752,900
6/30/2012	$ 247,200	20.6%	$ 949,200

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

SRHP Funded Status and Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)– Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
6/30/2012	$ -	$2,532,800	$ 2,532,800	0.0%	$7,825,200	32.4%

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

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

In the June 30, 2012 actuarial valuation, the following assumptions and methods 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	3.3% per year, 4.5% per year for fiscal years 2010 and 2011
Wage inflation	3.5% per year, 5.0% per year for fiscal years 2010 and 2011
Healthcare trend	8.0% in fiscal year 2012, decreasing by one-half percentage point per year to an ultimate of 4.5% in fiscal year 2019 and after

Post-Employment Health Plan

PSRS maintains a Post-Employment Health Plan ("PEHP") for employees. Upon termination, an employee will receive payment at the rate of one day of pay for each two days of accrued sick leave up to 100 days of accrued sick leave (50 days paid). Any days above 100 will be forfeited. All payments under the PEHP in excess of $1,000 will be transferred into a PEHP account which can be used to pay health insurance 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 health insurance for the retiree. The amount paid into the PEHP was $25,653 for three employees (one retiree and two terminations) during 2012 and $24,641 for five employees (four retirees and one termination) during 2011. The cost was charged 61% to PSRS and 39% to PEERS.

Note 9 – Risk Management

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

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

Note 10 – Commitments and Contingencies

PSRS was committed to the future purchase of investments at a cost of $4,515,652,935 on June 30, 2012 and PEERS had investment purchase commitments of $484,229,148 on June 30, 2012.

PSRS had total unfunded capital commitments to real estate, private equity and other alternative investments of $2.0 billion as of June 30, 2012. PEERS had total unfunded capital commitments to real estate, private equity and other alternative investments of $193.8 million as of June 30, 2012. 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, 2012, $9,140,104 had been paid pursuant to this contract.

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

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

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

Required Supplementary Information

Schedules of Funding Progress

Public School Retirement System of Missouri

(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)
6/30/2007	$ 27,049,004	$ 32,396,723 [2]	$ 5,347,719	83.5%	$3,980,698	134.3%
6/30/2008	28,751,241	34,490,452 [1]	5,739,211	83.4%	4,209,417	136.3%
6/30/2009	28,826,075	36,060,121 [1]	7,234,046	79.9%	4,439,381	163.0%
6/30/2010	28,931,331	37,233,602 [1]	8,302,271	77.7%	4,493,865	184.7%
6/30/2011	29,387,486	34,383,430 [3]	4,995,944	85.5%	4,338,976	115.1%
6/30/2012	29,013,002	35,588,030 [1]	6,575,028	81.5%	4,379,060	150.1%

[1] There were no legislative changes in fiscal years 2008, 2009, 2010 and 2012.

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

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

Public Education Employee Retirement System of Missouri

(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)
6/30/2007	$ 2,481,562	$ 2,982,813 [2]	$ 501,251	83.2%	$1,275,199	39.3%
6/30/2008	2,703,762	3,278,602 [1]	574,840	82.5%	1,377,506	41.7%
6/30/2009	2,792,182	3,458,044 [1]	665,862	80.7%	1,417,485	47.0%
6/30/2010	2,892,411	3,658,713 [1]	766,302	79.1%	1,433,691	53.4%
6/30/2011	3,028,757	3,549,348 [3]	520,591	85.3%	1,414,442	36.8%
6/30/2012	3,090,880	3,746,347 [1]	655,467	82.5%	1,437,310	45.6%

[1] There were no legislative changes in fiscal years 2008, 2009, 2010 and 2012.

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

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

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

Required Supplementary Information

Schedules of Employer Contributions

Public School Retirement System of Missouri

Year Ended June 30	Employer Contribution	Annual Required Contribution (ARC) per GASB Statement #25	Percentage Contributed	Maximum Contribution per State Statute	Percentage Contributed
2007	$ 472,216,630	$ 644,969,214	73.2%	$ 472,216,630	100.0%
2008	521,241,501	656,347,298	79.4%	521,241,501	100.0%
2009	563,454,487	669,643,988	84.1%	563,454,487	100.0%
2010	594,326,122	737,381,187	80.6%	594,326,122	100.0%
2011	594,732,137	684,366,766	86.9%	594,732,137	100.0%
2012	620,214,231	670,259,103	92.5%	620,214,231	100.0%

Public Education Employee Retirement System of Missouri

Year Ended June 30	Employer Contribution	Annual Required Contribution (ARC) per GASB Statement #25	Percentage Contributed	Maximum Contribution per State Statute	Percentage Contributed
2007	$ 69,235,160	$ 89,945,503	77.0%	$ 69,235,160	100.0%
2008	77,988,839	90,727,016	86.0%	77,988,839	100.0%
2009	85,915,562	96,775,289	88.8%	85,915,562	100.0%
2010	91,478,725	95,821,957	95.5%	91,478,725	100.0%
2011	90,816,155	90,816,155	100.0%	90,816,155	100.0%
2012	95,094,785	95,094,785	100.0%	95,094,785	100.0%

Notes to the Schedules of Required Supplementary Information

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

Valuation date	June 30, 2012
Actuarial cost method	Entry Age Normal
Amortization method	
PSRS (1)	Closed, level percent for 30 years, effective June 30, 2011 Open, level percent for 30 years, prior to June 30, 2011 Effective amortization period of 24.8 years as of June 30, 2012
PEERS (2)	Closed, level percent for 30 years, effective June 30, 2011 Open, level percent for 30 years, prior to June 30, 2011 Effective amortization period of 26.3 years as of June 30, 2012
Asset valuation method	Five-year smoothing of actual returns less expected returns Marked to market June 30, 2003
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases*	
PSRS	4.0 - 10.0%, effective June 30, 2011 5.0 - 10.25%, prior to June 30, 2011
PEERS	5.0 - 12.0%, effective June 30, 2011 5.0 - 10.0%, prior to June 30, 2011
*Includes inflation at	2.5%, effective June 30, 2011 3.25%, prior to June 30, 2011
Cost-of-living adjustments	2.0%, effective June 30, 2011 3.25%, prior to June 30, 2011

(1) 30-year amortization assumes an ARC rate of 28.20% for fiscal year 2014. The annual statutory increase in the total contribution rate may not exceed 1% of pay. Contribution rates will be established in accordance with the Board of Trustees' Funding Stabilization Policy and the recommendation of the independent actuary. The recommended contribution rate for fiscal year 2014 is 29.0%, which results in an effective amortization period of 24.8 years.

(2) 30-year amortization assumes an ARC rate of 13.57% for fiscal year 2014. The annual statutory increase in the total contribution ate may not exceed 0.5% of pay. Contribution rates will be established in accordance with the Board of Trustees' Funding Stabilization Policy and the recommendation of the independent actuary. The recommended contribution rate for fiscal year 2014 is 13.72%, which results in an effective amortization period of 26.3 years.

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

Required Supplementary Information

Staff Retiree Health Plan – Defined Benefit OPEB Plan

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)– Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
6/30/2010	$ -	$ 2,173,600	$ 2,173,600	0.0%	$ 7,016,300	31.0%
6/30/2011	$ -	$ 2,463,400	$ 2,463,400	0.0%	$ 7,582,300	32.5%
6/30/2012	$ -	$ 2,532,800	$ 2,532,800	0.0%	$ 7,825,200	32.4%

Schedule of Employer Contributions

Year Ended	Annual Required Contribution (ARC)	Employer Contributions	Percentage Contributed
6/30/2010	$ 218,100	$ 40,100	18.4%
6/30/2011	$ 237,800	$ 38,600	16.2%
6/30/2012	$ 246,800	$ 50,900	20.6%

Schedule of Percentage of OPEB Cost Contributed

Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
6/30/2010	$ 223,200	18.0%	$ 546,100
6/30/2011	$ 245,400	15.7%	$ 752,900
6/30/2012	$ 247,200	20.6%	$ 949,200

Notes to the Schedules of Required Supplementary Information

The information presented in the required supplementary schedule was determined as part of the actuarial valuation at the date indicated. Additional information as of the 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	3.3% per year, 4.5% per year for fiscal years 2010 and 2011
Wage inflation	3.5% per year, 5.0% per year for fiscal years 2010 and 2011
Healthcare trend	8.0% in fiscal year 2012, decreasing by one-half percentage point per year to an ultimate of 4.5% in fiscal year 2019 and after

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

Schedules of Administrative Expenses

for the year ended June 30, 2012

	PSRS	PEERS	Combined Totals
Personnel services	$5,190,073	$ 3,316,843	$ 8,506,916
Professional services			
Actuarial services	206,656	159,372	366,028
Financial audit services	42,733	27,321	70,054
Technology consulting	132,257	84,558	216,815
Insurance consulting	3,660	2,340	6,000
Legislative consulting	27,450	17,550	45,000
Other consultants	24,091	15,402	39,493
Legal services	137,611	34,306	171,917
Total professional services	574,458	340,849	915,307
Communications			
Information and publicity	141,811	96,928	238,739
Postage	321,323	216,456	537,779
Member education	27,964	15,815	43,779
Telephone	49,853	31,874	81,727
Total communications	540,951	361,073	902,024
Miscellaneous			
Building and utilities	128,179	81,951	210,130
Insurance	87,183	55,740	142,923
Office	570,337	364,495	934,832
Staff development	111,730	74,147	185,877
Miscellaneous	126,814	48,463	175,277
Total miscellaneous	1,024,243	624,796	1,649,039
Charge for use of capital assets	-	947,425	947,425
Depreciation expense	804,108	-	804,108
Total administrative expenses	$8,133,833	$ 5,590,986	$13,724,819

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

Schedules of Investment Expenses

for the year ended June 30, 2012

	PSRS	PEERS	Combined Totals
Investment management expenses			
U.S. Treasuries and TIPS	$ 3,319,165	$ 370,007	$ 3,689,172
U.S. public equities	44,949,274	4,327,743	49,277,017
Global public equities	15,155,107	1,709,869	16,864,976
Public debt	5,586,224	654,381	6,240,605
Private equity	57,986,173	5,104,151	63,090,324
Private credit	11,938,442	1,020,071	12,958,513
Private real estate	29,298,522	2,701,019	31,999,541
Hedged assets	58,889,402	5,997,709	64,887,111
Total investment management expenses	227,122,309	21,884,950	249,007,259
Investment consultant fees	2,923,640	267,110	3,190,750
Custodial bank fees	381,557	37,736	419,293
Investment staff expenses	2,283,985	1,456,683	3,740,668
Commission Recapture Income	(365,375)	(34,679)	(400,054)
Total investment expenses	$232,346,116	$23,611,800	$255,957,916
Security lending expenses			
Agent fees	$ 1,372,774	$ 140,256	$ 1,513,030
Broker rebates paid (received)	(6,380,024)	(624,995)	(7,005,019)
Total security lending expenses	$ (5,007,250)	$ (484,739)	$ (5,491,989)

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

Schedules of Professional Services

for the year ended June 30, 2012

	PSRS	PEERS	Combined Totals
Legal expenses	$ 137,611	$ 34,306	$ 171,917
Technology consulting	132,257	84,558	216,815
Actuarial services	206,656	159,372	366,028
Other consulting	24,091	15,402	39,493
Financial audit services	42,733	27,321	70,054
Legislative consulting	27,450	17,550	45,000
Insurance consulting	3,660	2,340	6,000
Total fees	$ 574,458	$ 340,849	$ 915,307