Missouri Local Government Employees Retirement System

42nd Comprehensive Annual Financial Report

For the Fiscal Year: July 1, 2009 - June 30, 2010

Administrative Organization

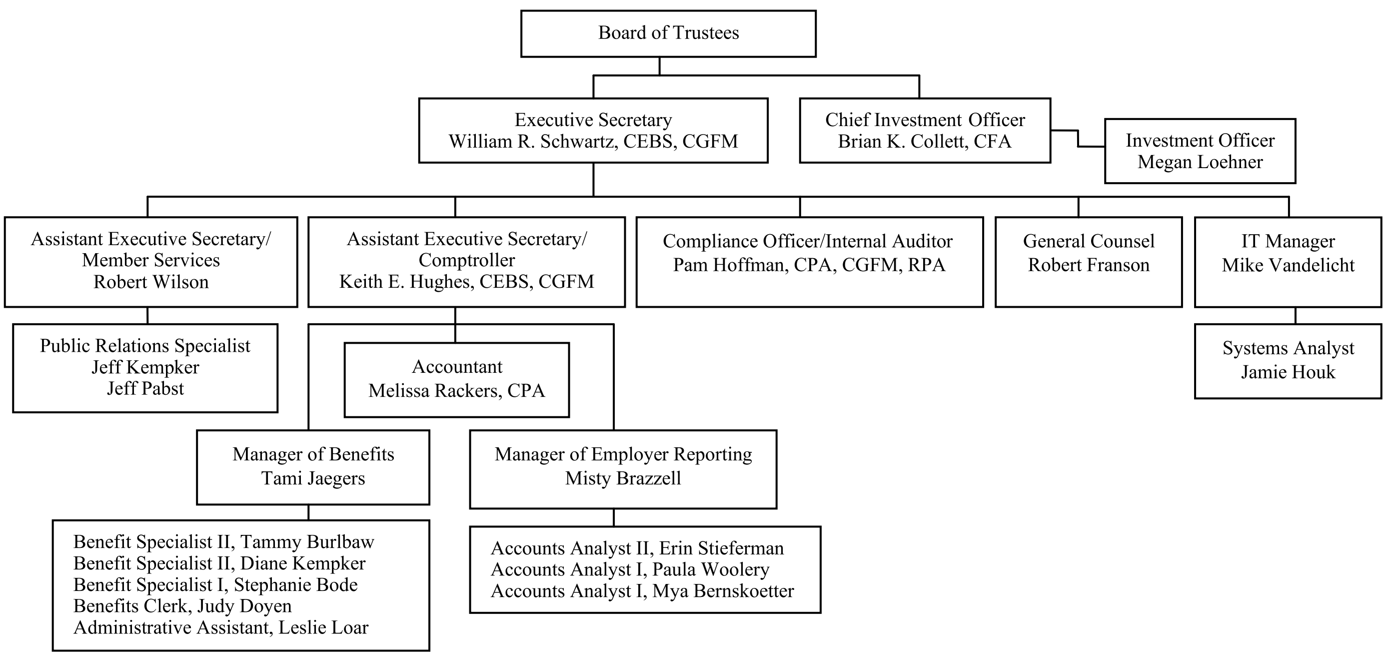
Administrative Organization — Board

The board operates with the assistance of five committees, appointed by the chairperson: administrative, disability, investment, legislative, and governance.

Administrative Committee	Disability Committee	Investment Committee	Legislative Committee	Governance Committee
Victor Gragg*	Nancy Yendes*	Robert Ashcroft*	Bob West*	Frank Buck*
Robert Ashcroft	Arby Todd	Victor Gragg	Frank Buck	Arby Todd
Arby Todd	Frank Buck	Bob West	Nancy Yendes	Bob West

*Committee Chairperson

Administrative Organization — Staff



Consulting Services

Actuary
Gabriel, Roeder, Smith & Co.
Mita D. Drazilov
Judith A. Kermans
Southfield, MI

Auditor
Williams Keepers, LLC
Certified Public Accountants
Michael J. Oldelehr, CPA
Jefferson City, MO

Board Governance
Cortex Applied Research, Inc.
John Por
Toronto, Canada

Data Processing
Quality Computer Systems, Inc.
Cathy Young
Columbia, MO

Legal Counsel
Armstrong Teasdale, LLP
Attorneys at Law
J. Kent Lowry
Sherry Doctorian
Jefferson City, MO

Medical Advisors
P.A. Boyer, M.D.
Andrew Matera, M.D.
Janie Vale, M.D.

For a list of investment professionals, see page 28.

Certificate of Achievement

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Missouri Local Government Employees Retirement System

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2009

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

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

PPCC Achievement Award

Public Pension Coordinating Council
Public Pension Standards

Public Pension Standards Award
For Funding and Administration
2009

Presented to

Missouri Local Government
Employees Retirement System

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

Presented by the Public Pension Coordinating Council, a confederation of

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

Alan H. Winkle
Program Administrator

Letter of Transmittal

William R. Schwartz, CEBS
Executive Secretary

Missouri Local Government Employees Retirement System

701 West Main, P.O. Box 1665, Jefferson City, Missouri 65102
Telephone (573) 636-9455 • 800-447-4334 • FAX (573) 636-9671
www.molagers.org
William R. Schwartz , CEBS, Executive Secretary

September 29, 2010

The Board of Trustees
Missouri Local Government
Employees Retirement System
Jefferson City, Missouri 65102

The Annual Report of the Missouri Local Government Employees Retirement System (LAGERS) for the fiscal year ended June 30, 2010, is submitted herewith. The management of LAGERS is responsible for the compilation and accuracy of the financial, investment, actuarial and statistical information contained in this report. Responsibility for both the accuracy of the data, and completeness and fairness of the presentation, rests with the management of the system. I trust that you and the members of the system will find this annual report helpful in understanding your public employee retirement system – a system which continues to maintain a strong and positive financial future.

The LAGERS system was established in 1967 consisting of 10 employers and has subsequently expanded to include 602 political subdivisions of the state. A listing of the current employers begins on page 48.

ACCOUNTING SYSTEMS AND REPORTS

This report was prepared to conform with the principles of governmental accounting and reporting as put forth by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants.

The Government Finance Officers Association of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the LAGERS system for its comprehensive annual financial report for the fiscal year ended June 30, 2009. LAGERS has received this prestigious award for its annual report in each of the last thirty-two years.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, the contents of which conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements. We believe this report continues to conform to the Certificate of Achievement Program requirements and we are submitting it to the Government Finance Officers Association to determine its eligibility for another certificate.

The Financial section of the report contains the independent auditors' letter, management's discussion and analysis, the financial statements, notes and other required supplementary information. Management's discussion and analysis provides a narrative introduction and overview of the financial statements and should be read in conjunction with those statements.

Transactions of the LAGERS system are reported on the accrual basis of accounting. The management of the system is charged with maintaining a sound system of internal controls. The objectives of such a system are to provide management with reasonable assurance that assets are safeguarded against loss from unauthorized use and they are recorded properly to permit the preparation of financial statements. Even though there are inherent limitations in any system of internal controls, the management of LAGERS makes every effort to ensure that through systematic reporting and internal reviews, errors or fraud are quickly detected and corrected.

REVENUES

The collection of employer and employee contributions, as well as income from investments, provide the reserves needed to finance retirement benefits. Contributions and investment income for fiscal year 2010 totaled $640,987,413. This amount includes realized and unrealized gains/losses. Contribution rates continue to increase due to past investment performance. Reserves have increased considerably as a result of increased investment performance in the 2010 fiscal year.

EXPENSES

The principle purpose for which LAGERS was created was to provide retirement annuities, survivor benefits, and total and permanent disability benefits to qualified members and their beneficiaries. The cost of such programs includes recurring benefit payments as designated by the plan, refund of contributions to terminated employees, and the cost of administering the system. Expenses for fiscal year 2010 totaled $162,681,215, an increase of 5% over fiscal year 2009 expenses. The increase in expenses resulted primarily from monthly payments to the additional number of retirees and partial lump-sum payments to retirees.

INVESTMENTS

The investments of the LAGERS system are governed primarily by an investment authority known as the “prudent person rule”. The prudent person rule establishes a standard for all fiduciaries, which includes anyone that has authority with respect to the fund. The prudent person standard states that fiduciaries shall discharge their duties solely in the interest of the fund participants and beneficiaries and with the degree of diligence, care, and skill which prudent men and women would ordinarily exercise under similar circumstances in a like position. By permitting further diversification of investments within a fund, the prudent person standard may enable a fund to reduce overall risk and increase returns. A summary of the asset allocation can be found on page 23 of this report.

The prudent person rule permits the fund to establish an investment policy based upon certain investment criteria and allows for the delegation of investment authority to professional investment advisors. The statement of investment policy outlines the responsibility for the investment of the fund and the degree of risk that is deemed appropriate for the fund. Investment advisors are to execute the investment policy in accordance with the statutory authority, the Board policy and their respective guidelines, but are to use full discretion within the policy and guidelines. For fiscal year 2010, investments provided a 16.2% rate of return. The LAGERS annualized rate of return over the last five years was 3.6% and 3.8% over the last ten years.

FUNDING

A pension fund is well funded when it has enough money in reserve to meet all expected future obligations to participants. The LAGERS funding objective is to meet long term benefit promises through contributions that remain approximately level as a percent of member payroll. The greater the level of funding, the larger the ratio of assets accumulated to the actuarial accrued liability and the greater the level of investment potential. At June 30, 2010 the system has a funded status of 81%. The advantage of a well funded plan is that the participants can look at assets that are committed to the payment of benefits. A detailed discussion of funding is provided in the Actuarial Section of this report.

PROFESSIONAL SERVICES

Professional consultants are appointed by the Board of Trustees to perform professional services that are essential to the effective and efficient operation of LAGERS. An opinion from the certified public accountant and the actuary are included in this report. The consultants appointed by the Board are listed on page 3 of this report.

ACKNOWLEDGMENTS

The compilation of this report reflects the combined effort of the LAGERS staff under the leadership of the Board of Trustees. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means for determining responsible stewardship of the funds of the system.

The report is being mailed to all employer members of the system. They form the link between LAGERS and its membership. Their cooperation contributes significantly to the success of LAGERS. We trust the employers and their employees find this report informative.

On behalf of the Board of Trustees, I would like to take this opportunity to express my gratitude to the staff, the advisors, and to the many people who have worked so diligently to assure the successful operation of the system.

Respectfully submitted,

William R. Schwartz

William R. Schwartz, CEBS, CGFM
Executive Secretary

Chairperson's Report

Arby Todd
Chairperson
Member Trustee
Term Expires 12-31-2013

Missouri Local Government Employees Retirement System

701 West Main, P.O. Box 1665, Jefferson City, Missouri 65102
Telephone (573) 636-9455 • 800-447-4334 • FAX (573) 636-9671
www.molagers.org
William R. Schwartz, CEBS, Executive Secretary

September 29, 2010

To all LAGERS members:

As Chairperson of the Board of Trustees of the Missouri Local Government Employees Retirement System, I am pleased to present the 2010 Comprehensive Annual Financial Report. This report provides a detailed analysis of the financial and actuarial status of your retirement system.

The worldwide investment environment continues to be extremely challenging with wide swings in returns. For the period ending June 30, 2010, the LAGERS portfolio recorded a stellar 1-year return of 16.2%. This return places LAGERS in the first quartile of public pension plans and soundly beats the LAGERS Custom Benchmark. The Board continues to diversify the portfolio in efforts to lessen this economic unpredictability.

In spite of the past poor markets, the system continues to present a strong aggregate 81% pre-funded ratio. Many existing public pension plans operated by local subdivisions are seeking the safe harbor of the LAGERS plan. The number of active members and employers continues to grow. LAGERS continues to provide that strong anchor that provides members the essential guaranteed retirement income for their retirement years.

I am extremely proud to report that LAGERS has again received two prestigious national awards this year: The Certificate of Achievement for Excellence in Financial Reporting (32 consecutive years) and the Public Pension Coordinating Council for Public Pension Standards (14 consecutive years).

The many volunteer hours provided by all the LAGERS Board members are greatly appreciated in making LAGERS one of the premier and most sound public pension plans in the country.

In June 2010, the Board of Trustees was saddened by the death of fellow Board member, Jack Pierce. His participation as a member of the Board of Trustees will be missed.

Finally, I appreciate the opportunity of serving on the LAGERS Board and as your Chairperson. Thank you for your continued interest and support. Be assured that LAGERS will maintain the financial integrity of the system in these tough financial times.

Respectfully,

Arby Todd, Chairperson
LAGERS Board of Trustees

Board of Trustees

Independent Auditors' Report

WILLIAMS KEEPERS LLC
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

2005 West Broadway, Suite 100, Columbia, MO 65203
OFFICE (573) 442-6171 FAX (573) 777-7800

3220 West Edgewood, Suite E, Jefferson City, MO 65109
OFFICE (573) 635-6196 FAX (573) 644-7240

www.williamskeepers.com

The Board of Trustees
Missouri Local Government
Employees Retirement System
Jefferson City, Missouri 65102

We have audited the accompanying statement of plan net assets of the Missouri Local Government Employees Retirement System (the System) as of June 30, 2010, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

The management's discussion and analysis on pages 11 and 12 and the schedules of funding progress and employer contributions on pages 19 and 20 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. The required supplementary information is the responsibility of management of the System. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information, for the year ended June 30, 2010. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information included on page 21 is presented for purposes of additional analysis and is not a required part of the basic financial statements of the System. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

The introductory, investment, actuarial and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Williams-Keepers LLC

September 29, 2010

Management's Discussion and Analysis

Management is pleased to present this overview and analysis of the financial activities of the Missouri Local Government Employees Retirement System (LAGERS) for the year ended June 30, 2010. We encourage readers to consider the information presented in conjunction with the Letter of Transmittal on page 6 of this report, the financial statements, required supplementary information, and supplementary information.

Required Financial Statements

LAGERS, an agent multiple-employer public employee retirement system, prepares its financial statements on an accrual basis in accordance with U.S. generally accepted accounting principles promulgated by the Government Accounting Standards Board. The Statement of Plan Net Assets indicates the net assets available to pay future benefits and provides a snapshot at a particular point in time. The Statement of Changes in Plan Net Assets provides a view of the current year's additions and deductions from net assets. The Notes to the Financial Statements are necessary for a full understanding of the financial statements. The Required Supplementary Information and related disclosures present the historical funding status of LAGERS.

Financial Analysis of LAGERS

The funding ratio (actuarial value of assets divided by the actuarial accrued liability) is computed on the last day of February each year in conjunction with the annual valuation of the system. Below are the most recent results:

2010	2009	2008
81.0%	80.0%	97.5%

This ratio gives an indication of how well LAGERS funding objective is being met. The 2010 change in the funding ratio is largely attributable to the investment markets of the past 18 months. LAGERS actuary uses a five-year smoothed market-related value to determine the actuarial value of assets. The smoothing prevents extreme volatility in employer contribution rates due to short-term fluctuations in the investment markets such as fiscal year 2009.

Management's Discussion and Analysis

continued

Comparative Financial Statements

Statement of Plan Net Assets

LAGERS provides retirement, death, and disability benefits to employees of participating political subdivisions. The following table is a summary of LAGERS Plan Net Assets (in millions) as of June 30.

Assets	2010	2009	% Change
Cash	$ 1	$ 6	(83)%
Receivables	21	21	0
Investments	4,138	3,692	12
Capital Assets	5	3	67
Total Assets	$ 4,165	$ 3,722	12
Liabilities	470	505	(7)
Total Plan Net Assets	$ 3,695	$ 3,217	15

This table presents a $478 million increase in net assets. The increase in investments reflects the positive investment market's of all asset classes this past year which resulted in a 16.2% annualized return. As a pension fund, LAGERS must retain a long-term investment horizon and the table below presents the returns for such time frames.

	3 Years	5 Years	10 Years
Annualized Returns (loss)	(2.5)%	3.6%	3.8%

Statement of Changes in Plan Net Assets

Additions	2010	2009	% Change
Member contributions	$ 11	$ 8	38%
Employer contributions	138	133	4
Net investment income (loss)	492	(732)	167
Total additions (loss)	$ 641	$ (591)	208
Deductions			
Benefit payments	$ 158	$ 149	6
Refunds	2	3	33
Administrative expenses	3	3	0
Total deductions	$ 163	$ 155	5
Changes in net assets available for benefits	$ 478	$ (746)	164

Additions to fund benefits are accumulated through contributions and investment income. Employer contributions were steady from fiscal year 2009 to 2010. LAGERS net investment gain reflects the investment markets for fiscal year 2010. Benefit payments continue to escalate as LAGERS fulfills its mission of providing retirement benefits to the membership. This amount will continue to escalate as the demographics of the LAGERS population continues to mature.

Statement of Plan Net Assets

June 30, 2010

Assets		
Cash		$ 1,030,431
Receivables:		
Member	$ 909,751	
Employer	11,589,663	
Accrued interest and dividends	8,545,428	
Total receivables		21,044,842
Investments at fair value:		
Short-term investments	$ 99,370,402	
Government bonds	529,232,151	
Corporate bonds	173,822,763	
International bonds	218,174,077	
Mortgage and asset-backed securities	169,345,746	
Domestic stocks	1,194,566,018	
International stocks	658,067,423	
Alternative investments	631,419,879	
Total investments		$ 3,673,998,459
Invested securities lending collateral		464,146,386
Capital assets, net of accumulated depreciation of $1,198,953		5,269,500
Total assets		$ 4,165,489,618
Liabilities		
Accounts payable and accrued expenses	$ 6,002,710	
Collateral for securities on loan	464,146,386	
Total liabilities		$ 470,149,096
Net assets held in trust for pension benefits		$ 3,695,340,522

See accompanying notes to financial statements.

Statement of Changes in Plan Net Assets

Year Ended June 30, 2010

	Total	Reserves: Member	Employer	Benefit	Casualty	Income (Expense)
Additions:						
Contributions:						
Member	$ 10,563,158	$ 10,563,158	—	—	—	—
Employer	137,849,763	—	$ 131,352,739	—	$ 6,497,024	—
Total contributions	$ 148,412,921	$ 10,563,158	$ 131,352,739	—	$ 6,497,024	—
Investment income:						
Interest income	$ 19,923,192	—	—	—	—	$ 19,923,192
Dividend income	40,310,768	—	—	—	—	40,310,768
Other income	8,435,781	—	—	—	—	8,435,781
Net appreciation in fair value of investments	430,790,294	—	—	—	—	430,790,294
Total investment income	$ 499,460,035	—	—	—	—	$ 499,460,035
Less investment expenses	29,300,435	—	—	—	—	29,300,435
Net investment income	$ 470,159,600	—	—	—	—	$ 470,159,600
Securities lending income	$ 30,027,371	—	—	—	—	$ 30,027,371
Less securities lending expenses:						
Borrower rebates	233,268	—	—	—	—	233,268
Management fees	7,379,211	—	—	—	—	7,379,211
Net securities lending expenses	$ 7,612,479	—	—	—	—	$ 7,612,479
Net securities lending income	$ 22,414,892	—	—	—	—	$ 22,414,892
Net additions	$ 640,987,413	$ 10,563,158	$ 131,352,739	—	$ 6,497,024	$ 492,574,492
Deductions:						
Benefits Paid:						
Annuity benefits	$ 157,702,725	—	$ 2,185,255	$ 155,517,470	—	—
Refunds	1,563,179	$ 1,563,179	—	—	—	—
Total benefits paid	$ 159,265,904	$ 1,563,179	$ 2,185,255	$ 155,517,470	—	—
Administrative expenses	$ 3,415,311	—	—	—	—	$ 3,415,311
Total deductions	$ 162,681,215	$ 1,563,179	$ 2,185,255	$ 155,517,470	—	$ 3,415,311
Other changes in reserves:						
Annuities awarded	—	$ (6,437,140)	$ (174,536,259)	$ 184,493,181	$ (3,544,587)	$ 24,805
Earnings allocated	—	3,265,496	101,490,376	67,187,935	1,688,530	(173,632,337)
Total other changes in reserves	—	$ (3,171,644)	$ (73,045,883)	$ 251,681,116	$ (1,856,057)	$ (173,607,532)
Net increase	$ 478,306,198	$ 5,828,335	$ 56,121,601	$ 96,163,646	$ 4,640,967	$ 315,551,649
Net assets held in trust for pension benefits at June 30, 2009	$ 3,217,034,324	$ 91,640,357	$1,892,940,736	$1,254,823,498	$ 21,513,169	$ (43,883,436)
Net assets held in trust for pension benefits at June 30, 2010	$ 3,695,340,522	$ 97,468,692	$1,949,062,337	$1,350,987,144	$ 26,154,136	$ 271,668,213

See accompanying notes to financial statements.

Notes to Financial Statements

Year Ended June 30, 2010

(1) Plan Description

The Missouri Local Government Employees Retirement System (LAGERS) was established in 1967 and is administered in accordance with RSMo. 70.600-70.755. LAGERS is an agent multiple-employer, statewide public employee retirement plan for units of local government which is legally separate and fiscally independent of the state of Missouri. Responsibility for the operation and administration of the plan is vested in the LAGERS Board of Trustees which is elected by the membership. At June 30, 2010, there were 602 participating political subdivisions in the system. Any political subdivision in Missouri may elect to have its full-time general, police and fire employees covered by LAGERS. At June 30, 2010, LAGERS membership consisted of the following:

	General	Police	Fire	Total
Retirees and beneficiaries currently receiving benefits:	11,784	2,369	748	14,901
Terminated employees entitled to benefits but not yet receiving them:	775	145	26	946
Active employees:	25,528	5,659	1,845	33,032
Total	38,087	8,173	2,619	48,879

LAGERS provides retirement, death and disability benefits to employees of participating political subdivisions. All benefits vest after 5 years of credited service. Employees who retire on or after age 60 (55 for police and fire) with 5 or more years of service are entitled to an allowance for life based upon the benefit program then in effect for their political subdivision. Employees may retire with an early retirement benefit with a minimum of 5 years of credited service and after attaining age 55 (50 for police and fire) and receive a reduced allowance.

If the political subdivision participates under the contributory plan, each member contributes 4% of gross salary. If an employee leaves covered employment or dies before attaining 5 years of credited service, accumulated employee contributions are refunded to the employee or designated beneficiary. Each participating employer is required by statute to contribute the remaining amounts necessary to finance the coverage of its own employees. Benefit and contribution provisions are fixed by state statute and may be amended only by action of the state legislature.

Schedule of Funded Status: (in thousands)

Valuation Date	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability	Funded Ratio
2-28-10	$3,592,226	$4,432,332	81.0%

Valuation Date	Unfunded Accrued Liability (UAL)	Annual Covered Payroll	UAL as a % of Covered Payroll
2-28-10	$840,106	$1,331,226	63.1%

Multi-year trend information regarding whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits can be found in the required supplementary information following the Notes to the Financial Statements. Additional information as of the June 30, 2010 actuarial valuation follows:

Valuation date	2-28-10
Actuarial cost method	Individual entry-age
Amortization method	Closed for all periods in excess of 15, upon attainment of 15 years liabilities are amoritized over an open 15-year period by level percent of payroll contributions
Remaining amortization period	Varies between 15 and 30 years, by employer
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return*	7.5%
Projected salary increases*	4.0% - 8.0%
*Includes inflation component of	4.0%
Cost-of-living adjustment	Contingent upon investment return, with a maximum of the lower of 4% or cumulative CPI since retirement

(2) Summary of Significant Accounting Policies and Plan Asset Matters

Basis of Accounting:

The financial statements were prepared using the accrual basis of accounting. Employee and employer contributions are recognized in the period in which the contributions are due and for which employee services have been rendered. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made.

Use of Estimates:

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires LAGERS to use estimates and assumptions that affect the accompanying financial statements and disclosures. Actual results could differ from those estimates.

Reporting Entity:

The accompanying financial statements include only the accounts of the LAGERS retirement system pursuant to RSMo 70.605.18 which requires an audit to be performed by a certified public accountant. RSMo 70.605.21 provides the LAGERS Board of Trustees with the authority to govern its own proceedings and administer the LAGERS retirement system. The LAGERS Board of Trustees established retirement and postemployment healthcare plans (Notes (5) and (6)), for its employees who administer the LAGERS retirement system. Such plans are not considered to be part of the reporting entity and thus are not included in the accompanying financial statements.

Method Used to Value Investments:

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Bonds and stocks traded on a national or international exchange are valued at the reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest

Notes to Financial Statements

continued

rates for similar instruments. Fair values for alternative investments in timberland represent net asset value estimates provided by the general partner's administrators or portfolio managers and are compared to independent appraisals. The fair value of private equity alternative investments that do not have an established market are determined based upon the values of the underlying companies as determined by the general partner.

Capital Assets:

The office building, equipment and fixtures, which are presented at cost, are depreciated on the straight-line method over the estimated useful lives of the related assets, which have an original cost of $500 or greater. The estimated useful lives are as follows: building - 25 years, furniture - 8 years, and equipment - 3 years.

(3) Cash, Investments and Securities Lending

Deposits:

Custodial credit risk for deposits is the risk that, in the event of a financial institution failure, LAGERS deposits may not be returned. The deposits are held in one financial institution with a balance of up to $250,000 insured by the Federal Deposit Insurance Corporation (FDIC). Effective July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act provides unlimited insurance coverage for these deposits through December 31, 2012, at which time the covered amount returns to $250,000. Prior to July 21, 2010, LAGERS mitigated custodial credit risk for deposits by requiring the bank to pledge securities in an amount over the FDIC insured amount at least equal in market value to 100% of the aggregate amount of the deposits. These securities are required to be delivered to a third party institution mutually agreed upon by the bank and LAGERS.

Investment Policies:

The Missouri Revised Statutes prescribe the "prudent person rule" as LAGERS investment authority. The rule requires LAGERS to make investments with the same care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a similar capacity and familiar with those matters would use in the conduct of a similar enterprise with similar aims. Within the "prudent person" framework, the Board of Trustees adopts investment guidelines for LAGERS investment managers that are included within the respective management agreements. The Investment Section contains a summary of these guidelines.

Investment Summary:

The following table presents the summary of LAGERS investments by type at June 30, 2010.

Short-term investments	$ 99,370,402
Government bonds	529,232,151
Corporate bonds	173,822,763
Mortgages & asset backed securities	169,345,746
International bonds	218,174,077
Domestic stocks	1,194,566,018
International stocks	658,067,423
Alternative investments	631,419,879
Total	$ 3,673,998,459

Custodial Credit Risk for Investments:

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, LAGERS will not be able to recover the value of investments or collateral securities that are in the possession of an outside party. As of June 30, 2010, investments in the amount of $1,698,857 were uninsured and unregistered, with securities held by the counter party or by its trust department or agent but not in LAGERS name.

Concentration of Credit Risk:

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of a government's investment in a single issue. External investment management firms manage the fixed income portfolio. LAGERS investment guidelines require diversified portfolios with no single issue being greater than 5% of the portfolio, except for obligations of the U.S. government or its agencies. As of June 30, 2010, no single issue exceeded 5% of the portfolio, excluding U.S. government securities.

Credit Risk:

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to LAGERS. At June 30, 2010, 42% of the fixed income portfolio represents obligations that are not guaranteed by the U.S. government. Below is a list of fixed income credit qualities.

Quality Rating	
AAA/U.S. governments	$ 691,304,425
AA	36,589,907
A	23,824,815
BBB	31,764,509
BB	52,315,358
Not rated	254,775,723
Total Credit Risk Debt	$1,090,574,737

Interest Rate Risk:

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration is a measure of a debt instrument's exposure to a change in interest rates and the related sensitivity of market price to parallel shifts in the yield curve. It uses the present value of cash flows, weighted for those cash flows as a percentage of the instruments' full price. LAGERS benchmarks for the fixed income portfolio include the Barclay's U.S. Aggregate Bond Index, Barclay's Global Bond Index, and the Treasury Inflation-Protected Index. At June 30, 2010, the effective duration for the fixed income benchmark portfolio was 4.6 years, whereas, the LAGERS fixed income portfolio had an effective duration of 8.1 years.

Investment	Fair Value	Effective Duration Rate
Government bonds	$ 747,406,228	10.5 years
Corporate bonds	173,822,763	4.3 years
Mortgage & asset-backed securities	169,345,746	4.9 years
Total	$1,090,574,737	

Foreign Currency Risk:

The international portfolio is constructed on the principles of diversification, quality, value and growth. Risk of loss arises from changes in currency exchange rates. LAGERS external managers may or may not hedge the portfolio's foreign currency exposures with currency forward contracts depending upon their views on a specific foreign currency relative to the U.S. dollar. Currency trading may not be used for speculative purposes. LAGERS exposure to foreign currency risk is as follows:

Foreign Equities	
Australian dollar	$ 27,936,854
British pound sterling	63,607,640
Canadian dollar	26,218,863
Danish krone	824,730
Euro	111,245,833
Hong Kong dollar	50,262,815
Hungarian forint	332,380

Indonesian rupiah	2,405,676
Japanese yen	86,734,140
Malaysian ringgit	3,353,881
Mexican peso	614,525
New Zealand dollar	330,652
Norwegian krone	8,269,774
Singapore dollar	8,845,168
South African rand	4,564,549
South Korean won	13,282,350
Swedish krona	6,164,781
Swiss franc	28,030,475
Thai baht	2,501,402
United States dollar	1,202,575,125
Total Foreign Equities	$1,648,101,613

Foreign Fixed Income

Australian dollar	$ 5,133,036
Brazilian real	2,152,403
British pound sterling	44,584,237
Canadian dollar	8,055,057
Chilean peso	(1,277,775)
Chinese yuan renminbi	3,501,578
Czech koruna	(2,837,252)
Danish krone	934,719
Euro	70,046,197
Hong Kong dollar	(201,094)
Hungarian forint	621,907
Indian rupee	1,997,558
Indonesian rupiah	3,437,852
Japanese yen	37,045,170
Malaysian ringgit	343,953
Mexican peso	572,767
New Taiwan dollar	(2,586,825)
New Zealand dollar	(425,004)
Norweigian krone	(210,134)
Philippine peso	3
Polish zloty	(3,489,365)
Russian ruble	(863,423)
Singapore dollar	(844,140)
South African rand	2,253,635
South Korean won	(522,697)
Swedish krona	4,727,829
Swiss franc	1,108,802
Thai baht	286,001
Turkish lira	1,290,788
United States dollar	898,544,057
Total Fixed Income	$1,073,379,840
Total Foreign Currency	$2,721,481,453

Derivatives:
LAGERS investment managers may enter into derivative transactions as permitted by their guidelines. A derivative financial instrument is an investment whose value depends on the values of one or more underlying assets, financial indexes, or commodity prices. These investments include futures contracts, swap contracts, options contracts, and forward foreign currency exchange. LAGERS investment managers may buy and sell futures, forwards and option contracts and enter into swap transactions to hedge against currency fluctuations. The notional value related to these derivative instruments are generally not recorded on the financial statements; however, the amounts for the exposure on these instruments are recorded. The notional/market value for the various contracts in the portfolio as of June 30, 2010 of $197,601,221 is recorded in investments on the Statement of Plan Net Assets. The change in fair value for the year ended June 30, 2010 of $96,640,090 is recorded in investment income on the Statement of Changes in Plan Net Assets.

Derivative financial instruments involve in various degrees, credit risk and market risk. Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to terms. LAGERS investment managers seek to control credit risk through counterparty credit evaluations and approvals, counterparty credit limits and exposure monitoring procedures. Market risk is the possibility that a change in interest or currency rates will cause the value of a financial instrument to decrease or become more costly to settle. The market risk is controlled by imposing strict limits as to the types, amounts and degree of risk that investment managers may take. LAGERS anticipates that the counter parties will be able to satisfy their obligations under the contract.

	Notional/MV	Cost	Unrealized Gain (Loss)
Futures	$ 203,122,232	$ 103,602,083	$ 99,520,149
Options	(395,532)	(585,947)	190,415
Swaps	1,600,740	119,910	1,480,830
Other	(6,726,219)	(2,174,915)	(4,551,304)

Securities Lending Program:
LAGERS participates in a securities lending program administered by Northern Trust Company (the custodian) in accordance with the provisions of RSMo. 70.745. Brokers who borrow the securities provide collateral usually in the form of cash, valued at 102 percent and 105 percent for domestic and international securities, respectively. There are no restrictions on the amount of securities that can be lent at one time.

LAGERS or the borrower can terminate any security loan on demand. Though any loaned security can be sold and reclaimed at any time from the borrower, the weighted average loan life of overall loans was 126 days as of June 30, 2010. Cash collateral is invested in a custom collateral account through Northern Trust Company with a weighted average life of 34 days. LAGERS cannot pledge or sell non-cash collateral unless the borrower defaults. The following table represents the balances relating to the securities lending transactions (in thousands) at June 30, 2010.

Securities Cash:

Securities Lent	Underlying Securities	Securities Collateral Value	Cash Collateral Value
U.S. government & agency securities	$222,377	$ -0-	$226,873
International bonds	56,200	41,048	18,083
U.S. corporate bonds	4,572	-0-	4,691
U.S. equities	185,501	426	190,761
Global equities	66,666	47,972	23,738
Total	$535,316	$89,446	$464,146

The lending agent provides indemnification if the borrowers fail to return the underlying securities (and if the collateral is inadequate to replace the securities lent) or fails to pay income distributions. There were no violations of legal or contractual provisions and no borrower or lending agent default losses to the security lending agent. LAGERS had no credit risk as a result of its securities lending program as the collateral held exceeded the market value of securities lent.

(4) Contributions

(a) Each participating unit of local government is obligated by state law to make all required contributions to the plan based upon an annual actuarial valuation.

(b) LAGERS is a pension plan covering substantially all employees of participating

Notes to Financial Statements

continued

units of local government in the state. Each participating unit of government is obligated by state law to make all required contributions to the plan. The required contributions are actuarially determined using the individual entry-age actuarial cost method. There are no long-term contracts for contributions to the plan. All liabilities are amortized over a period of 30 years or less, with a minimum amortization period of 15 years. Administrative costs of LAGERS are financed through investment earnings of the system.

(c) Employee contributions are determined at the election of the governing body of the local subdivision. Should the governing body elect to participate in the contributory plan, all employees shall contribute 4 percent of gross salary. The governing body may elect to participate in the non-contributory plan which would result in no employee contributions.

(d) The state statutes require LAGERS to maintain five separate reserves which are funded and described below:

Member Reserve Fund — The fund in which member contributions and interest credits are accumulated, and from which transfers are made for retirements and refunds, as applicable. The balance at June 30, 2010 was $97,468,692.

Employer Reserve Fund — The fund in which employer contributions and interest credits are accumulated, and from which transfers are made to pay applicable benefits. The balance at June 30, 2010 was $1,949,062,337.

Benefit Reserve Fund — The fund from which all retirement, disability and survivor benefits are paid. At the time of retirement, this fund receives the necessary transfers to pay such benefits. All retired individuals and the assets of this fund become the sole responsibility of the LAGERS Board of Trustees and result in no further liabilities to the previous employers. The balance at June 30, 2010 was $1,350,987,144.

Casualty Reserve Fund — The fund in which the employer contributions and interest credits are accumulated and from which transfers are made to pay for members retired as a result of disability. The balance at June 30, 2010 was $26,154,136.

Income-Expense Reserve Fund — The fund which accumulates the investment income and pays the administrative expenses of the system. This fund provides for the transfer of investment credits to the other reserves of the system. The balance at June 30, 2010 was $271,668,213.

(5) Staff Retirement Plan

The LAGERS Staff Retirement Plan is a single-employer defined benefit pension plan administered by the LAGERS Board of Trustees. The plan provides retirement, death and disability benefits to LAGERS employees and beneficiaries. The plan document is controlled by the LAGERS Board of Trustees. The LAGERS Board of Trustees issues a publicly available audited financial report that includes financial statements and required supplementary information for the Staff Retirement Plan.

The contribution requirements of the plan members and the employer are governed by the plan document, which may be amended by the LAGERS Board of Trustees. Plan members do not contribute toward the retirement plan. The employer is required to contribute an actuarially determined rate; the current rate is 16.03 percent of annual covered payroll.

For 2010, 2009, and 2008, the employer's respective annual pension cost was $222,160, $195,439 and $162,890 for the Staff Retirement Plan and was equal to the required and actual contributions. As of June 30, 2010, the plan was 72% funded. The actuarial accrued liability for benefits was $5,927,701 and the actuarial value of assets was $4,288,417, resulting in an unfunded actuarial accrued liability (UAAL) of $1,639,284. The covered payroll (annual payroll of active employees covered by the plan) was $1,553,466, and the ratio of the UAAL to the covered payroll was 106%.

The annual required contribution was determined as part of the June 30, 2008 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 7.5 percent investment rate of return and (b) projected salary increase ranging from 4 to 8 percent per year. Both (a) and (b) include an inflation component of 4 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2008 was 15 years.

(6) Staff Postemployment Healthcare Supplement

Plan Description:
The LAGERS Staff Retiree Healthcare Supplement (LSRHS) is a single-employer defined benefit healthcare supplement administered by LAGERS. LSRHS provides a healthcare subsidy to eligible staff retirees, spouse and minor children. The supplement does not provide access to retiree health coverage but will pay for a portion of a retiree's health premium (subsidy) based upon coverage that the retiree is able to obtain through the open market. To be eligible for the subsidy a retiree must have at least 10 years of service credit and retire from active status. The subsidy is equal to 2.5% x years of credited service (maximum 30 years) x healthcare premium. Under no circumstances can the healthcare premium exceed the premium that LAGERS would pay for an active member of the same age participating in the LAGERS Staff healthcare supplement. The LAGERS Board of Trustees issues a publicly available audited financial report that includes financial statements and required supplementary information for the Staff Retiree Healthcare Supplement.

Funding Policy:
The contribution requirements are established and may be amended by the LAGERS Board of Trustees. The required contribution is based upon an actuarial valuation dated June 30, 2008. For fiscal year 2010, the Board contributed $92,500 to the plan, including $41,587 for current normal cost and $50,913 to fund the current unfunded accrued liability. LAGERS staff make no contributions to the plan.

Annual OPEB and Net OPEB Obligation:
The LAGERS postemployment benefit (OPEB) cost is calculated based on the annual actuarially determined required contribution of the employer (ARC). 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 over a period not to exceed thirty years. The following shows the components of the LAGERS OPEB cost for the year:

Annual required contribution	$92,500
Contributions made	(92,500)
Net OPEB obligation -June 30, 2010	$ 0

LAGERS contributed 100% of the annual required contribution in 2010.

Funded Status and Funding Progress:
As of June 30, 2010, the plan was 22% funded. The actuarial accrued liability for benefits was $1,183,221 and the actuarial value of assets was $257,176, resulting in an unfunded actuarial accrued liability (UAAL) of $926,045. The covered payroll (annual payroll of active employees covered by the plan) was $1,553,466, and the ratio of the UAAL to the covered payroll was 60%. 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.

Actuarial Methods and Assumptions:
Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The June 30, 2010 actuarial valuation was calculated using the entry age actuarial cost method. The actuarial assumptions included a 7.5% investment rate of return (net of administrative expenses), and an annual healthcare cost trend rate of 10 percent initially, reduced by decrements to an ultimate rate of 4 percent after ten years. Both rates include a 4 percent inflation assumption. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period.The UAAL is being amortized as a level percentage of projected payroll over a period of 30 years on a closed basis.

Required Supplementary Information

LAGERS Schedule of Funding Progress

Valuation Date	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability	Unfunded Accrued Liability (UAL)	Funded Ratio	Annual Covered Payroll	UAL as a % of Covered Payroll
2-29-05	$2,984,489,211	$3,139,260,243	$154,771,032	95.1%	$1,031,415,223	15.0%
2-28-06	3,224,173,714	3,383,152,937	158,979,223	95.3	1,082,349,535	14.7
2-28-07	3,557,389,198	3,700,813,660	143,424,462	96.1	1,146,094,426	12.5
2-29-08	3,957,068,611	4,058,828,886	101,760,275	97.5	1,222,745,363	8.3
2-28-09	3,330,662,923	4,161,775,258	831,112,335	80.0	1,285,952,041	64.6
2-28-10	3,592,225,739	4,432,331,886	840,106,147	81.0	1,331,226,335	63.1

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

Valuation date 2-28-10

Actuarial cost method .... Individual entry-age

Amortization method.............................. Closed for all periods in excess of 15, upon attainment of 15 years liabilities are amortized over an open 15-year period by level percent of payroll contribution

Remaining amortization period .... Varies between 15 and 30 years, by employer

Asset valuation method.. 5-year smoothed market

Actuarial assumptions:

Investment rate of return* 7.5%

Projected salary increases*.. 4.0% - 8.0%

*Includes inflation component of 4.0%

Cost-of-living adjustment .... Contingent upon investment return, with a maximum of the lower of 4% or cumulative CPI since retirement

LAGERS Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2005	$104,282,742	100 %
2006	115,550,424	100
2007	128,938,636	100
2008	130,007,191	100
2009	132,715,295	100
2010	137,849,763	100

LAGERS Staff Retirement Plan

Schedule of Funding Progress

Valuation Date	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability	Unfunded Accrued Liability (UAL)	Funded Ratio	Annual Covered Payroll	UAL as a % of Covered Payroll
6-30-08	$ 4,191,595	$ 4,839,679	$ 648,084	86.6%	$ 1,164,996	55.6%
6-30-09	4,024,969	5,531,160	1,506,191	72.8	1,380,333	109.1
6-30-10	4,288,417	5,927,701	1,639,284	72.3	1,553,466	105.5

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2008	$ 162,890	100%
2009	195,439	100
2010	222,160	100

LAGERS Staff Post Employment Healthcare Plan

Schedule of Funding Progress

Valuation Date	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability	Unfunded Accrued Liability (UAL)	Funded Ratio	Annual Covered Payroll	UAL as a % of Covered Payroll
6-30-08	$ 74,027	$ 712,820	$ 638,793	10.4%	$ 1,102,248	57.8%
6-30-09	158,520	950,753	792,233	16.7	1,380,333	57.4
6-30-10	257,176	1,183,221	926,045	21.7	1,553,466	59.6

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2008	$ 74,027	100%
2009	94,300	100
2010	92,500	100

Operating Expenses

Administrative Expenses

Year Ended June 30, 2010

Personnel Services:		
Staff salaries	$ 1,238,998	
Social Security	100,006	
Staff retirement plan	220,299	
OPEB	92,500	
Insurance	264,836	
Total Personnel Services		$ 1,916,639
Professional Services:		
Actuarial services	$ 349,295	
Data processing	143,700	
Audit	43,500	
General counsel	132,871	
Medical advisors	36,200	
Board governance	43,636	
Consultants	45,223	
Total Professional Services		794,425
Communications:		
Public information	$ 33,877	
Printing	30,349	
Telephone	34,491	
Postage	81,851	
Meetings and travel	91,855	
Total Communications		272,423
Miscellaneous:		
Utilities	$ 63,357	
Insurance premiums	61,054	
Equipment maintenance	38,612	
Office supplies	42,732	
Building maintenance	47,419	
Pension System Upgrade	2,177	
Depreciation	176,473	
Total Miscellaneous		431,824
Total Administrative Expenses		$ 3,415,311

Investment Expenses

Year Ended June 30, 2010

Investment Manager Fees:		
Equity managers	$ 4,390,658	
Fixed income managers	9,174,679	
Alternative managers	14,978,146	
Total Investment Manager Fees		$ 28,543,483
Other Investment Expenses:		
Investment custodial services	$ 290,916	
Internal investment expenses	466,036	
Total Other Investment expenses		756,952
Total Investment Expenses		$ 29,300,435
Total Securities Lending Management Fees & Rebates		$ 7,612,479

Participating Political Subdivisions

Libraries: (Employee Members)	Benefit Program†	Rule of 80	Final Average Salary Period	Employee Contrib.	Non-Contrib. Refund	Membership Date
Adair County Public Library (4)	L-1	no	5	no	no	01-1992
Brookfield Carnegie Library (2)	L-1	no	3	no	no	06-1989
Camden County Library (17)	L-7	no	3	yes	no	01-1978
Carthage Public Library (7)	L-1	no	5	yes	no	08-2001
Cass County Public Library (36)	L-3	no	5	no	no	05-1988
Cedar County Library (2)	L-3	no	3	yes	no	03-1997
Christian County Library (7)	L-6	no	5	no	no	06-1969
Dade County Library (0)	L-1	no	3	yes	no	03-1997
Ferguson Municipal Library (4)	L-1	no	5	yes	no	07-1969
Henry County Library (10)	L-1	no	5	no	no	01-2006
Hickory County Library (1)	L-1	no	3	yes	no	03-1997
Jefferson County Public Library (35)	L-3	no	3	yes	no	01-1992
Lebanon-Laclede Library (8)	L-9	no	5	no	no	01-2000
Little Dixie Regional Libraries (10)	L-7	no	5	no	no	06-1996
Livingston County Library (7)	L-1	no	5	no	no	02-2006
Maryville Public Library (2)	L-7	yes	5	no	no	12-2000
Mexico-Audrain County Library (8)	L-3	no	5	no	no	08-1984
*Mid-Continent Public Library (446)	L-6	yes	3	no	yes	04-1968
Mississippi County Library (5)	L-6	yes	3	yes	no	02-1969
Missouri River Regional Library (34)	L-7	no	3	no	no	01-2003
Neosho/Newton County Library (6)	L-3	yes	5	no	no	01-2005
Nevada Public Library (2)	L-6	no	3	no	no	04-1969
New Madrid County Library (4)	L-7	no	3	yes	no	04-1968
Polk County Library (4)	L-1	no	3	no	no	04-1997
Pulaski County Library (6)	L-3	no	5	no	no	01-2000
Ray County Library (3)	LT-10(65)	no	5	no	no	07-1970
Riverside Regional Library (16)	L-12	no	3	no	no	08-1968
Rock Hill Library (1)	L-3	no	5	yes	no	01-1989
Rolla Public Library (3)	L-6	no	3	yes	no	05-1989
Rolling Hills Consolidated Library (17)	L-1	no	5	no	no	07-2003
Salem Public Library (2)	L-7	no	3	yes	no	07-1993
Scenic Regional Library (19)	L-6	no	5	yes	no	01-1971
Sedalia Public Library (6)	L-6	no	3	no	no	07-1987
Springfield-Greene County Library (99)	L-7	no	3	no	yes	07-1969
St. Charles City-County Library (60)	L-7	no	3	no	yes	08-1973
Stone County Library (3)	L-1	no	5	yes	no	02-1970
Texas County Library (2)	L-3	no	5	yes	no	08-1982
Trails Regional Library (32)	L-7	no	3	no	no	10-1970
Webster County Library (4)	L-3	yes	3	no	no	01-2007
Wright County Library (2)	L-1	no	5	no	no	05-1982

† See Summary of Plan Provisions for benefit program description.
* Charter Member