IN TIMES LIKE THESE,
IT'S IMPORTANT TO FEEL
SECURE, SO YOU CAN
FOCUS ON WHAT'S AHEAD.

KPMG LLP
Suite 1100
One Jackson Place
188 East Capitol Street
Jackson, MS 39201

Independent Auditors' Report

The Board of Trustees
Public Employees' Retirement System of Mississippi:

We have audited the accompanying statement of fiduciary net assets of the Public Employees' Retirement System of Mississippi (the System), a component unit of the State of Mississippi, as of June 30, 2010, and the related statement of changes in fiduciary net assets for the year then ended. These basic financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 net assets of the System as of June 30, 2010, and the changes in the System's net assets for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report, dated November 29, 2010, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 16 through 24 and the schedules of funding progress and employer contributions on pages 44 through 48 are not required parts of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. 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. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The introductory section, investment section, actuarial section, statistical section and supplementary information included in Schedules 1 through 6 on pages 49 through 53 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information included in Schedules 1 through 6 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section, investment section, actuarial section and statistical section 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.

KPMG LLP

November 29, 2010

Management's Discussion and Analysis

This section presents management's discussion and analysis of the Public Employees' Retirement System of Mississippi's (the System) financial position and performance for the year ended June 30, 2010. It is presented as a narrative overview and analysis in conjunction with the Letter of Transmittal, included in the Introductory Section, the financial statements, and other information that are presented in the Financial Section of this Comprehensive Annual Financial Report.

The System is responsible for administering retirement benefits for all state and public education employees, sworn officers of the Mississippi Highway Safety Patrol, other public employees whose employers have elected to participate, and elected members of the state Legislature and the President of the Senate. The System is comprised of seven funds, including four defined benefit pension plans: the Public Employees' Retirement System (PERS), the Mississippi Highway Safety Patrol Retirement System (MHSPRS), the Municipal Retirement Systems (MRS), and the Supplemental Legislative Retirement Plan (SLRP). The System also is responsible for the administration of two defined contribution plans: the Mississippi Deferred Compensation Plan & Trust (MDC), which is a supplemental retirement savings plan, and the Optional Retirement Plan (ORP), which is an optional plan offered to certain members of institutions of higher learning. As explained in Note 2 to the basic financial statements, ORP is not part of the System's reporting entity. The System's funds, with the exception of ORP, are defined as pension (and other employee benefit) trust funds, which are fiduciary in nature. The remaining fund is the Flexible Benefits Cafeteria Plan (FBCP), which is an agency fund. Throughout this discussion and analysis, units of measure (i.e. billions, millions, and thousands) are approximate, being rounded up or down to the nearest tenth of the respective unit value.

Financial Highlights

The combined net assets of the defined benefit plans administered by the System increased by $1.7 billion, or 10.8 percent. This increase was primarily the result of an improvement in overall market performance compared to the 2009 market environment.

The 2010 rate of return on investments for the defined benefit plans was 14.1 percent compared with fiscal year 2009's rate of return of negative 19.4 percent. Domestic, international, and global equity portfolios returned 17.3 percent, 11.9 percent, and 7.6 percent for the year respectively, while the return on debt securities was 12.1 percent. The rate of return on real estate investments was 5.1 percent and the return on the private equity portfolio was negative 7.8 percent, while the Absolute Return Strategy had a return of 42.7 percent as of fiscal year end.

The defined benefit plans administered by the System were actuarially funded at an average of 65.1 percent as of June 30, 2010, a decrease from the comparative average of 69.8 percent as of June 30, 2009. The decrease in funding percentage was primarily due to unfavorable investment performance in 2009 and 2010 as a result of the economic recession. Funding status is further described in Note 6 of the basic financial statements.

The Mississippi Deferred Compensation Plan & Trust (MDC), formerly the Government Employees' Deferred Compensation Plan, net assets increased $123 million during fiscal year 2010, primarily due to an increase in the market value of securities.

The MDC rates of return for investment options ranged from a high of 26.2 percent to a low of 0.3 percent compared to prior year investment option returns with a high of 9.6 percent and a low of negative 39.6 percent.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the System's financial reporting, which is comprised of the following components:

(1) Basic financial statements,

(2) Notes to the basic financial statements,

(3) Required supplementary information, and

(4) Other supplementary schedules.

Collectively, this information presents the net assets held in trust for pension benefits for each of the funds administered by the System as of June 30, 2010. This financial information also summarizes changes in net assets held in trust for pension benefits for the year then ended. The information in each of these components is briefly summarized as follows:

(1) **Basic financial statements.** The June 30, 2010, financial statements are presented for the fiduciary funds administered by the System. Fiduciary funds are used to account for resources held for the benefit of parties outside of the System. Fiduciary funds include pension trust funds such as PERS, MHSPRS, MRS, SLRP, and MDC, as well as an agency fund, the FBCP. A Statement of Fiduciary Net Assets and a Statement of Changes in Fiduciary Net Assets are presented for the fiduciary funds as of June 30, 2010. These financial statements reflect the resources available to pay benefits to members, including retirees and beneficiaries, as of year end, as well as the changes in those resources during the year.

(2) **Notes to the basic financial statements.** The notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements. Information in the notes to the basic financial statements is described below.

- Note 1 provides a general description of the System, as well as a concise description of each of the funds administered by the System. Information regarding employer and member participation in the pension plans administered by the System also is provided.
- Note 2 provides a summary of significant accounting policies, including the basis of accounting for each fund type, management's use of estimates, information regarding the implementation of applicable new accounting pronouncements, and other significant accounting policies.
- Note 3 describes investments, including investing authority and policies, investment risk discussion and additional information about cash, securities lending, and derivatives.
- Note 4 provides a summary of the property and equipment of the System including depreciation and net holding amounts.
- Note 5 provides a summary of receivables and payables (due to/due from other funds).
- Note 6 provides information about the funding status and progress for the defined benefit plans administered by the System.
- Note 7 provides information about contributions to the defined benefit plans administered by the System.
- Note 8 provides information about System employees as members of PERS.

(3) **Required supplementary information.** The required supplementary information consists of schedules of funding progress, schedules of employer contributions, and related notes concerning actuarial information for the defined benefit pension plans administered by the System.

(4) **Other supplementary schedules.** Other schedules include detailed information on administrative expenses incurred by the System, investment, and other professional service expenses incurred, as well as the due to balances for individual municipal retirement plans. Also included are summaries of cash receipts and disbursements, a comparison of budget and actual administrative expenses, and a statement of changes for the FBCP.

Financial Analysis of the Systems – Defined Benefit Plans

Investments

The investment assets of the defined benefit plans administered by the System are combined in a commingled investment pool as authorized by State statute. Each plan owns an equity position in the pool and receives a proportionate investment allocation of income or loss from the pool in accordance with its respective ownership percentage. Each plan's allocated share of each type of investment in the pool is shown in the Statement of Fiduciary Net Assets. Investment gains or losses are reported in the Statement of Changes in Fiduciary Net Assets. The rate of return on investments is therefore approximately the same for each of the plans.

Total System Investments

At June 30, 2010, the System's total investments, before securities lending activities, approximated $16.8 billion, an increase of $1.3 billion from fiscal year 2009. The combined investment portfolio experienced a return of 14.1 percent compared with a median large public plan return of 13.5 percent*. Investment results over time compared with the System's benchmarks are presented on page 58 in the Investment Section.

**Mercer Public Funds > $1 billion Universe Median*

Short-Term Securities

At June 30, 2010, the System held $2.6 million in short-term investments, which is $56.6 million below 2009 holdings. Short-term investments returned 0.1 percent for the 2010 fiscal year.

Debt Securities

At June 30, 2010, the System held $4.3 billion in debt securities, which is approximately $65.0 million less than fiscal year 2009 holdings. Debt securities returned 12.0 percent compared with the System's benchmark return of 9.5 percent.

Equity Securities

At June 30, 2010, the System held $11.6 billion in U.S., international, and global equity securities, an increase of $1.2 billion from fiscal year 2009. U.S., international, and global equity securities had returns of 17.3 percent, 11.9 percent, and 7.6 percent, respectively. The System's benchmark return for domestic equity securities was 15.7 percent, while the international securities benchmark returned 10.9 percent. The global securities benchmark used by the System posted a return of 10.2 percent.

Private Equity

The private equity asset class, totaling $92.3 million, posted a return of negative 7.8 percent. Private equities are investments in operating companies, typically accessed through limited partnerships, which provide a differentiated return stream and diversification. This asset class is generally managed for long-term gains where returns and asset value take time to develop. The System's benchmark return was 19.4 percent.

Absolute Return Strategy

The Board of Trustees added an allocation to absolute return investments in June 2009 to further diversify the System's overall portfolio. These investments include a combination of equity holdings based on selected specific investment strategies. At June 30, 2010, absolute return strategy investments showed a return of 42.7 percent compared to the System's benchmark of 8.0 percent. Holdings at year end totaled $14.9 million.

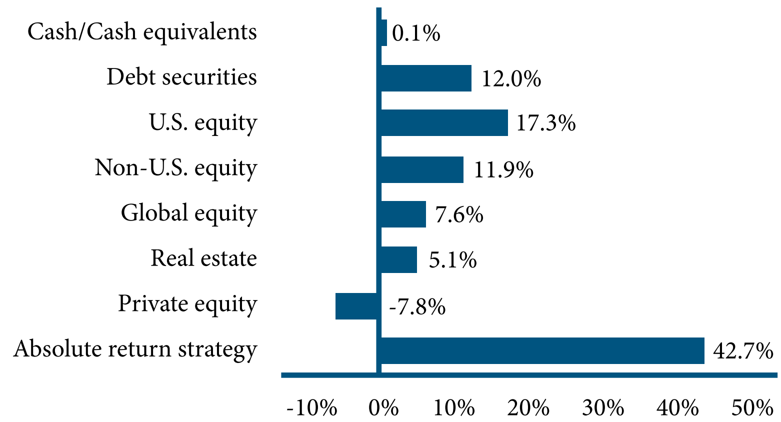
Real Estate

The real estate portfolio is divided between core commingled and value-added fund investments that directly invest in properties. The System also invests in managed portfolios of Real Estate Investment Trusts (REIT), which are exchange traded securities that provide indirect exposure to real estate properties and real estate management companies. At June 30, 2010, combined holdings totaled $767 million, an increase of $98.0 million from 2009. The System's real estate portfolio experienced a return of 5.1 percent on the total real estate portfolio for the year end. The NCREIF Fund Index-ODCE, the benchmark for the System's core commingled and value added fund investments, saw a return of negative 6.0 percent for the year ended June 30, 2010, while the Dow Jones U.S. Select REIT Index had a return of 55.7 percent for the same period.

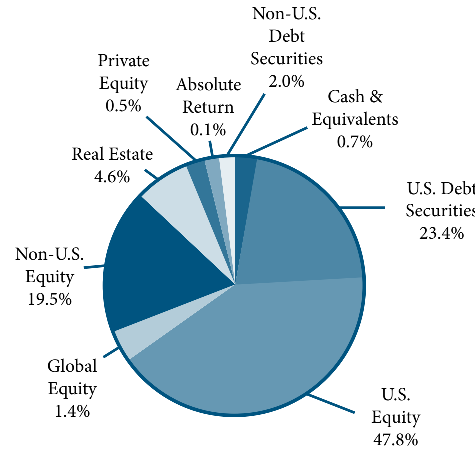
Securities Lending

The System earns additional investment income by lending investment securities to broker-dealers. This is done on a pooled basis by the System's custodial bank, Bank of New York Mellon (BNYM). The broker-dealers provide collateral to BNYM and generally use the borrowed securities to cover short sales and failed trades for their clients. BNYM invests cash collateral to earn interest. For the 2010 fiscal year, net securities lending income to the System amounted to $39.9 million, an increase of $7.4 million from fiscal year 2009.

Defined Benefit Plans
Investment Rates of Return by Investment Type
Fiscal Year 2010



Defined Benefit Plans
Asset Allocation at Fair Value
June 30, 2010



Analysis of Individual Systems – Defined Benefit Plans

Public Employees' Retirement System

PERS is a defined benefit plan that provides retirement benefits to all State of Mississippi public employees, public education employees, other public employees whose employers have elected to participate, and elected members of the state Legislature and President of the Senate. Benefits of the plan are funded by member and employer contributions and by earnings on investments. Net assets held in trust for benefits at June 30, 2010, amounted to $16.8 billion, an increase of $1.7 billion (11.3 percent) above $15.1 billion at June 30, 2009.

Additions to PERS net assets held in trust for benefits include employer and employee contributions and investment income. For the 2010 fiscal year, employer and employee contributions increased $20.0 million (1.7 percent) from $1.15 billion in fiscal year 2009 to $1.17 billion. This change is attributed to an increase in the employer contribution rate, effective July 1, 2009, from 11.85 percent to 12.00 percent. PERS recognized net investment income of $2.1 billion for the 2010 fiscal year, compared with net investment loss of $3.7 billion for the 2009 fiscal year.

Deductions from PERS net assets held in trust for benefits primarily include retirement and beneficiary benefits, as well as administrative expenses. For the 2010 fiscal year, benefits amounted to $1.6 billion, an increase of $115.3 million (7.9 percent) over the 2009 fiscal year. The increase in benefit payments was due to an increase in the number of benefit recipients, as well as an increase in the average benefit payment. For the 2010 fiscal year, the cost of administering the System amounted to $12.2 million, a decrease of $138.0 million (1.1 percent) from fiscal year 2009. The reduction in administrative expenses was due primarily to decreases in the contractual services and commodities categories.

An actuarial valuation of PERS assets and benefit obligations is performed annually. At the date of the most recent actuarial valuation, June 30, 2010, the funded status of the plan decreased to 64.2 percent from 67.3 percent at June 30, 2009. The amount by which PERS' actuarial assets were less than actuarial benefit liabilities was $11.3 billion at June 30, 2010, an increase in unfunded actuarial accrued liabilities of $1.3 billion over June 30, 2009. The decrease in funded status is due primarily to unfavorable investment performance brought on by the economic recession in 2009 and the slow economic recovery of 2010.

Net Assets – Defined Benefit Plans
June 30

(In Thousands)

	PERS 2010	PERS 2009	MHSPRS 2010	MHSPRS 2009
Assets:				
Cash, cash equivalents, and receivables	$ 632,004	$ 1,071,214	$ 8,700	$ 15,033
Investments at fair value	16,381,981	15,140,813	227,446	214,803
Invested securities lending collateral	3,983,717	2,342,474	55,513	33,318
Capital assets	15,387	15,814	-	-
Total assets	21,013,089	18,570,315	291,659	263,154
Liabilities:				
Investment accounts and other payables	236,289	1,058,922	3,205	14,972
Securities lending liability	3,988,586	2,376,906	55,581	33,808
Total liabilities	4,224,875	3,435,828	58,786	48,780
Total net assets	$ 16,788,214	$ 15,134,487	$ 232,873	$ 214,374

Changes in Net Assets – Defined Benefit Plans
Year Ended June 30

(In Thousands)

	PERS 2010	PERS 2009	MHSPRS 2010	MHSPRS 2009
Additions:				
Contributions	$ 1,170,941	$ 1,147,650	$ 10,656	$ 11,232
Investment income (loss)	2,148,749	(3,717,016)	29,942	(52,869)
Other additions	610	657	3,985	3,208
Total additions	3,320,300	(2,568,709)	44,583	(38,429)
Deductions:				
Pension benefits	1,580,808	1,465,500	25,847	23,098
Refunds	73,580	70,050	65	72
Administrative and other deductions	12,185	12,323	172	181
Total deductions	1,666,573	1,547,873	26,084	23,351
Increase (decrease) in net assets	$ 1,653,727	$ (4,116,582)	$ 18,499	$ (61,780)

Mississippi Highway Safety Patrol Retirement System

MHSPRS provides retirement benefits to sworn officers of the Mississippi Highway Safety Patrol. Benefits of the plan are funded by member and employer contributions and by earnings on investments. MHSPRS net assets held in trust for benefits at June 30, 2010, amounted to $232.9 million, an increase of $18.5 million (8.6 percent) from $214.4 million at June 30, 2009.

Additions to MHSPRS net assets held in trust for benefits include employer and employee contributions and investment income. For the 2010 fiscal year, employer and employee contributions were $10.7 million, a decrease of $576 thousand (5.1 percent) from 2009. MHSPRS also received fees of $4 million to fund retirement benefits. Contributions decreased due to a decrease in the number of active members, from 570 in 2009 to 542 in 2010. MHSPRS recognized net investment income of $29.9 million for the 2010 fiscal year compared with a net investment loss of $52.9 million for the 2009 fiscal year.

Deductions from MHSPRS net assets held in trust for benefits include retirement and beneficiary benefits and administrative fees. For the 2010 fiscal year, benefits amounted to $25.8 million, an increase of $2.7 million (11.9 percent) from the 2009 fiscal year. The

Net Assets – Defined Benefit Plans
June 30

(In Thousands)

MRS		SLRP		Eliminations		Total Defined Benefit Pension Plans		Total Percent Change
2010	2009	2010	2009	2010	2009	2010	2009	
$ 5,209	$ 10,003	$ 363	$ 645	$ (6)	$ (9)	$ 646,270	$ 1,096,886	(41.1)%
147,126	145,985	10,872	9,901	-	-	16,767,425	15,511,502	8.1%
35,908	22,643	2,654	1,535	-	-	4,077,792	2,399,970	69.9 %
-	-	-	-	-	-	15,387	15,814	(2.7)%
188,243	178,631	13,889	12,081	(6)	(9)	21,506,874	19,024,172	13.1%
2,088	10,188	153	691	(6)	(9)	241,729	1,084,764	(77.7)%
35,952	22,976	2,657	1,558	-	-	4,082,776	2,435,248	67.7%
38,040	33,164	2,810	2,249	(6)	(9)	4,324,505	3,520,012	22.9%
$ 150,203	$ 145,467	$ 11,079	$ 9,832	$ -	$ -	$ 17,182,369	$ 15,504,160	10.8%

Changes in Net Assets – Defined Benefit Plans
Year Ended June 30

(In Thousands)

MRS		SLRP		Eliminations		Total Defined Benefit Pension Plans		Total Percent Change
2010	2009	2010	2009	2010	2009	2010	2009	
$ 21,565	$ 17,569	$ 648	$ 665	$ -	$ -	$ 1,203,810	$ 1,177,116	2.3%
19,369	(35,930)	1,432	(2,437)	-	-	2,199,492	(3,808,252)	n/m
-	-	-	-	(610)	(657)	3,985	3,208	24.2%
40,934	(18,361)	2,080	(1,772)	(610)	(657)	3,407,287	(2,627,928)	n/m
35,766	35,848	804	790	-	-	1,643,225	1,525,236	7.7%
3	12	20	9	-	-	73,668	70,143	5.0%
429	467	9	9	(610)	(657)	12,185	12,323	(1.1)%
36,198	36,327	833	808	(610)	(657)	1,729,078	1,607,702	7.5%
$ 4,736	$ (54,688)	$ 1,247	$ (2,580)	$ -	$ -	$ 1,678,209	$ (4,235,630)	n/m

n/m – not meaningful

increase in benefit payments was due to an increase in the average monthly benefit. The average monthly benefit increase is generally reflective of new retirees with larger benefit payments than deceased retirees during the same period. For the 2010 fiscal year, MHSPRS transferred $172 thousand to PERS to offset the cost of administration, a decrease of $9 thousand (5.0 percent) from fiscal year 2009.

An actuarial valuation of MHSPRS assets and benefit obligations is performed annually. At the date of the most recent actuarial valuation, June 30, 2010, the funded status of the plan decreased to 68.3 percent from 74.1 percent at June 30, 2009. The amount by which the MHSPRS actuarial assets were less than actuarial benefit liabilities was $130.2 million, compared with $102.3 million at June 30, 2009. The decrease in funded status is due primarily to unfavorable investment performance brought on by the economic recession in 2009 and the slow economic recovery of 2010.

Municipal Retirement Systems

Two municipal retirement plans and 17 fire and police disability and relief plans comprise MRS, all of which are closed to new members. Seventeen of these separate plans provide retirement benefits to municipal employees, fire fighters, and police officers who were not already members of PERS and who were hired prior to July 1, 1976. Membership in the other two plans was extended until July 1, 1987. All active employees have retired from six of the municipal plans. The financial positions of MRS plans have been aggregated for financial reporting purposes. Individual plan information is included with the specific municipality's comprehensive annual financial report. Benefits of MRS are funded by employer and employee contributions, and by earnings on investments. The aggregated plan's net assets held in trust for benefits at June 30, 2010, amounted to $150.2 million, an increase of $4.7 million (3.2 percent) from $145.5 million at June 30, 2009.

Additions to MRS net assets held in trust for benefits consist of employer and employee contributions and investment income. For the 2010 fiscal year, employer and employee contributions of $21.6 million were $4.0 million (22.7 percent) more than contributions of $17.6 million received in fiscal year 2009. Municipal plan employer contributions are funded through taxes levied on assessed properties. The increase in contributions is due to the resumption of payment of employer contributions by a participating municipality. Under a special agreement, this municipality previously paid via pension obligation bonds in lieu of employer contributions. MRS recognized net investment income of $19.4 million for the 2010 fiscal year compared with net investment loss of $35.9 million for the 2009 fiscal year.

Deductions from MRS net assets held in trust for benefits include retirement and beneficiary benefits and administrative fees. For the 2010 fiscal year, benefits amounted to $35.8 million, a decrease of $82 thousand from the 2009 fiscal year. The decrease in benefit payments resulted primarily from a reduction in the number of retirees. For the 2010 fiscal year, MRS transferred $429 thousand to PERS to offset the cost of administration, compared to $467 thousand transferred for fiscal year 2009. Administrative fees are calculated based on the amount of employer contributions. Administrative fees decreased due to a decrease in property tax collections for 18 of the 19 participating municipalities.

An actuarial valuation of MRS assets and benefit obligations is performed annually as of September 30. The funded status of MRS as of September 30, 2009, decreased to 50.2 percent from 56.6 percent at September 30, 2008. The amount by which the MRS actuarial assets were less than actuarial benefit liabilities was $189.9 million at September 30, 2009, compared with $159.6 million at September 30, 2008.

Supplemental Legislative Retirement Plan

SLRP provides supplemental retirement benefits to all elected members of the state Legislature and president of the Senate. Benefits of the plan are funded by member and employer contributions and by earnings on investments. The plan's net assets held in trust for benefits at June 30, 2010, amounted to $11.1 million, an increase of $1.3 million (13.3 percent) from $9.8 million at June 30, 2009.

Additions to SLRP net assets held in trust for benefits include employer and employee contributions and investment income. For the 2010 fiscal year, employer and employee contributions were $648 thousand, a decrease of $17 thousand (2.6 percent) from those of fiscal year 2009. The decrease in contributions is attributed to a decrease in total payroll. SLRP recognized net investment income of $1.4 million for the 2010 fiscal year, compared with a net investment loss of $2.4 million for the 2009 fiscal year.

Deductions from SLRP net assets held in trust for benefits primarily include retirement and beneficiary benefits, as well as administrative fees. For the 2010 fiscal year, benefits amounted to $804 thousand, an increase from $790 thousand (1.8 percent) in the 2009 fiscal year. The increase in retirement benefits is due to an increase in the number of retirees. For the 2010 fiscal year, SLRP transferred $9 thousand to PERS to offset the cost of administration. Transfers in 2009 also totaled $9 thousand.

An actuarial valuation of SLRP assets and benefit obligations is performed annually. At the date of the most recent actuarial valuation, June 30, 2010, the funded status of the plan decreased to 77.5 percent from 81.0 percent at June 30, 2009. The amount by which the SLRP actuarial assets were under actuarial benefit liabilities was $3.8 million, compared with $3.1 million at June 30, 2009. The decrease in funded status is due primarily to unfavorable investment performance brought on by the economic recession in 2009 and the slow economic recovery of 2010.

Actuarial Valuations and Funding Progress

An actuarial valuation of each of the defined benefit plans administered by the System is performed annually as of June 30, with the exception of MRS, which is performed as of September 30. The funded status of each of the plans is shown in the Schedules of Funding Progress on page 44. This table shows funding ratios for the last ten fiscal years. The table also shows the amount by which actuarial assets exceeded or fell short of actuarial benefit liabilities.

As of June 30, 2010, funding ratios ranged from a high of 77.5 percent to a low of 50.2 percent, as compared to 81.0 percent and 56.6 percent for June 30, 2009. The average funding ratio decreased from 69.7 percent to 65.1 percent during the fiscal year. The decrease in funding status is due to growth in the number of retirees, improved mortality rates, the compounding effects of past benefit improvements, and unfavorable investment returns in 2008 and 2009, which are included in the smoothing period for actuarial gains and losses. At June 30, 2010, the System's total unfunded actuarial accrued liability had increased to $11.6 billion from $10.3 billion at June 30, 2009. This is a net increase of $1.3 billion for the year. The difference between the actuarial value of assets and market value of net assets was $3.5 billion, resulting in actuarially deferred loss that will be recognized in equal increments over the next four years.

The Board of Trustees adopted a 0.15 percent increase in the PERS employer contribution rate, from 11.85 percent to 12.0 percent, which became effective July 1, 2009. Through passage of House Bill 1, the Mississippi Legislature increased the PERS member contribution rate by 1.75 percent from 7.25 percent to 9.00 percent, effective on July 1, 2010. The Board's funding decisions are based on the System's funding policy, which states that the need for increases will be evaluated on an annual basis and in conjunction with recommendations made by the consulting actuary, in order to maintain the unfunded accrued liability (UAL) period within 30 years in accordance with *Governmental Accounting Standards.*

To help address the funding status the Board of Trustees, at their October 2010 meeting, approved the recommendation of the consulting actuary to increase the PERS employer contribution rate from 12.0 percent to 12.93 percent for the 2011/2012 fiscal year. This action comes on the heels of the Mississippi Legislature's April decision to increase PERS member contributions from 7.25 percent to 9.0 percent effective July 1, 2010. Of note, the actuary recommended in 2005 that the PERS employer contribution rate increase from 10.75 to 12.5 percent; however, due to the fiscal bearing on the State's budget, the PERS Board worked with the Legislature to phase in the increase over time. As a result of market gains in 2006 and 2007, that increase was never fully implemented. Also in its October 2010 meeting, the Board moved to increase the MHSPRS employer contribution rate from 30.30 percent to 35.21 percent and to increase the SLRP employer contribution rate from 6.65 percent to 7.40 percent. These increases will become effective July 1, 2011.

The System has not been immune to volatility in the financial market. While on a long-term basis we have exceeded our actuarial assumed rate of return on investments, on a shorter-term basis we have not met the assumed rate. However, investment returns that exceed 8.0 percent, such as the 14.1 percent rate of return earned for this fiscal year, may help to lessen the degree to which contribution rates will increase in future years.

Net Assets – Defined Contribution Plan
June 30

(In Thousands)

	IRC 457 Plan MDC		Percent
	2010	2009	Change
Assets:			
Cash and receivables	$ 5,669	$ 6,509	(12.9)%
Investments at fair value	1,086,230	962,563	12.8 %
Total	1,091,899	969,072	12.7 %
Liabilities:			
Investment accounts and other payables	156	149	4.7 %
Total	156	149	4.7 %
Total net assets	$ 1,091,743	$ 968,923	12.7 %

Changes in Net Assets – Defined Contribution Plan
Year Ended June 30

(In Thousands)

	IRC 457 Plan GEDCP 2010	2009	Percent Change
Additions:			
Contributions	$ 86,980	$ 83,131	4.6 %
Investment income (loss)	89,849	(115,004)	n/m
Total	176,829	(31,873)	n/m
Deductions:			
Pension benefits	54,009	55,195	(2.1)%
Total	54,009	55,195	(2.1)%
Increase/(decrease) in net assets	$ 122,820	$ (87,068)	n/m

n/m – not meaningful

Defined Contribution Plan

457 Defined Contribution Plan

The Mississippi Deferred Compensation Plan & Trust (MDC) is established under Section 457 of the Internal Revenue Code. MDC provides supplemental retirement benefits for plan participants. The plan is funded by participant contributions and by investment earnings. Net assets held in trust for benefits at June 30, 2010, amounted to $1.1 billion, which was an increase of $131.0 million (13.5 percent) from net assets of $969.0 million at June 30, 2009.

Additions to the MDC net assets held in trust for benefits include contributions and investment income. For the 2010 fiscal year, contributions were $87.0 million compared to $83.1 million in 2009, or a increase of $3.9 million (4.7 percent). The increase from last year is due primarily to an increase in direct rollovers to MDC, as well as an increase in the number of participants. Participation in the plan increased from 39,802 in 2009 to 40,036 in 2010. Investment income of $89.8 million was recognized for the 2010 fiscal year compared with a net investment loss of $115.0 million for the 2009 fiscal year.

Deductions from the MDC net assets include payments to participants and beneficiaries. For the 2010 fiscal year, payments amounted to $54.0 million, a decrease of $1.2 million (2.2 percent) from the 2009 fiscal year. The decrease in withdrawals is attributed to a suspension of the required minimum distribution brought on by a lagging economy. Benefit obligations of the 457 defined contribution plan are equal to the participants account balances, which are equal to net assets of the plan.

Requests for Information

This financial report is designed to provide a general overview of the finances of the System. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Public Employees' Retirement System, Accounting Department, 429 Mississippi Street, Jackson, MS 39201-1005.

Statement of Fiduciary Net Assets – June 30, 2010

(In Thousands)

	PERS	MHSPRS	MRS	SLRP	Eliminations	Total Defined Benefit Pension Plans	IRC 457 Plan MDC	Total Pension Trust Funds	Agency Funds	Total 2010
Assets										
Cash and cash equivalents (Note 3)	$ 304,660	$ 4,218	$ 2,729	$ 202	$ -	$ 311,809	$ 2,419	$ 314,228	$17	$ 314,245
Receivables:										
Employer	52,770	-	285	-	-	53,055	-	53,055	-	53,055
Employee	31,560	-	10	-	-	31,570	3,017	34,587	-	34,587
Investment proceeds	176,533	2,451	1,585	117	-	180,686	-	180,686	-	180,686
Interest and dividends	65,815	914	591	44	-	67,364	233	67,597	-	67,597
Other receivables	660	1,117	9	-	-	1,786	-	1,786	-	1,786
Total receivables	327,338	4,482	2,480	161	-	334,461	3,250	337,711	-	337,711
Investments, at fair value (Note 3):										
Short-term securities	2,562	35	24	2	-	2,623	22,193	24,816	-	24,816
Debt securities	4,204,814	58,379	37,763	2,791	-	4,303,747	50,268	4,354,015	-	4,354,015
Equity securities	11,320,363	157,171	101,667	7,513	-	11,586,714	459,368	12,046,082	-	12,046,082
Private equity	90,166	1,252	810	59	-	92,287	-	92,287	-	92,287
Absolute return strategy	14,528	202	130	10	-	14,870	-	14,870	-	14,870
Real estate investments	749,548	10,407	6,732	497	-	767,184	-	767,184	-	767,184
Asset allocation fund	-	-	-	-	-	-	44,884	44,884	-	44,884
Fixed rate and variable	-	-	-	-	-	-	509,152	509,152	-	509,152
Life insurance contracts	-	-	-	-	-	-	365	365	-	365
Total investments before lending activities	16,381,981	227,446	147,126	10,872	-	16,767,425	1,086,230	17,853,655	-	17,853,655
Securities lending:										
Short-term securities	2,347,754	32,716	21,162	1,564	-	2,403,196	-	2,403,196	-	2,403,196
Debt securities	1,635,963	22,797	14,746	1,090	-	1,674,596	-	1,674,596	-	1,674,596
Total securities lending	3,983,717	55,513	35,908	2,654	-	4,077,792	-	4,077,792	-	4,077,792
Total investments	20,365,698	282,959	183,034	13,526	-	20,845,217	1,086,230	21,931,447	-	21,931,447
Due from other funds	6	-	-	-	(6)	-	-	-	-	-
Capital assets, at cost, net of accumulated depreciation (Note 4)	15,387	-	-	-	-	15,387	-	15,387	-	15,387
Total assets	21,013,089	291,659	188,243	13,889	(6)	21,506,874	1,091,899	22,598,773	17	22,598,790
Liabilities										
Accounts payable and accrued expenses	235,127	3,205	2,082	153	-	240,567	156	240,723	15	240,738
Obligations under securities lending	3,988,586	55,581	35,952	2,657	-	4,082,776	-	4,082,776	-	4,082,776
Due to other funds (Note 5)	24	-	6	-	(6)	24	-	24	-	24
Funds held for others	1,138	-	-	-	-	1,138	-	1,138	2	1,140
Total liabilities	4,224,875	58,786	38,040	2,810	(6)	4,324,505	156	4,324,661	17	4,324,678
Net assets held in trust for pension benefits	$16,788,214	$232,873	$150,203	$11,079	$ -	$17,182,369	$1,091,743	$18,274,112	$ -	$18,274,112

The accompanying notes are an integral part of these basic financial statements.

Public Employees' Retirement System of Mississippi

Statement of Changes in Fiduciary Net Assets – For the Year Ended June 30, 2010

(In Thousands)

	PERS	MHSPRS	MRS	SLRP	Eliminations	Total Defined Benefit Pension Plans	IRC 457 Plan MDC	Total Pension Trust Funds 2010
Additions:								
Contributions:								
Employer	$ 731,544	$ 8,613	$ 21,420	$ 446	$ -	$ 762,023	$ 863	$ 762,886
Employee	439,397	2,043	145	202	-	441,787	86,117	527,904
Total contributions	1,170,941	10,656	21,565	648	-	1,203,810	86,980	1,290,790
Net investment income:								
Net appreciation in fair value	1,682,992	23,452	15,171	1,121	-	1,722,736	69,952	1,792,688
Interest and dividends	459,918	6,409	4,146	306	-	470,779	19,897	490,676
Total before lending activities	2,142,910	29,861	19,317	1,427	-	2,193,515	89,849	2,283,364
Securities lending:								
Net appreciation in fair value	34,068	475	306	23	-	34,872	-	34,872
Interest	6,204	86	57	4	-	6,351	-	6,351
Interest expense	364	5	3	1	-	373	-	373
Program fees	(1,676)	(23)	(15)	(1)	-	(1,715)	-	(1,715)
Net income from securities lending	38,960	543	351	27	-	39,881	-	39,881
Managers' fees and trading costs	(33,121)	(462)	(299)	(22)	-	(33,904)	-	(33,904)
Net investment income	2,148,749	29,942	19,369	1,432	-	2,199,492	89,849	2,289,341
Other additions:								
Administrative fees	610	-	-	-	(610)	-	-	-
Other	-	3,985	-	-	-	3,985	-	3,985
Total other additions	610	3,985	-	-	(610)	3,985	-	3,985
Total	3,320,300	44,583	40,934	2,080	(610)	3,407,287	176,829	3,584,116
Deductions:								
Retirement annuities	1,580,808	25,847	35,766	804	-	1,643,225	54,009	1,697,234
Refunds to terminated employees	73,580	65	3	20	-	73,668	-	73,668
Total	1,654,388	25,912	35,769	824	-	1,716,893	54,009	1,770,902
Administrative expenses:								
Personal services:								
Salaries, wages and fringe benefits	7,922	-	-	-	-	7,922	-	7,922
Travel and subsistence	79	-	-	-	-	79	-	79
Contractual services	3,446	-	-	-	-	3,446	-	3,446
Commodities	292	-	-	-	-	292	-	292
Total administrative expenses	11,739	-	-	-	-	11,739	-	11,739
Depreciation	446	-	-	-	-	446	-	446
Administrative fees	-	172	429	9	(610)	-	-	-
Total	1,666,573	26,084	36,198	833	(610)	1,729,078	54,009	1,783,087
Net increase	1,653,727	18,499	4,736	1,247	-	1,678,209	122,820	1,801,029
Net assets held in trust for pension benefits:								
Beginning of year	15,134,487	214,374	145,467	9,832	-	15,504,160	968,923	16,473,083
End of year	$16,788,214	$232,873	$150,203	$11,079	$ -	$17,182,369	$1,091,743	$18,274,112

The accompanying notes are an integral part of these basic financial statements.

1. Plan Description

(a) General

The Public Employees' Retirement System of Mississippi (System) is the administrator of six fiduciary funds, of which five are pension trust funds and one an agency fund, as listed below. The System is also the administrator of the Optional Retirement Plan, a defined contribution plan, but as explained in Note 2, that plan is not part of the System's reporting entity.

Plan Name	Type of Plan
Public Employees' Retirement System of Mississippi (PERS)	Cost-sharing multiple-employer defined benefit plan
Mississippi Highway Safety Patrol Retirement System (MHSPRS)	Single-employer defined benefit plan
Municipal Retirement Systems and Fire and Police Disability and Relief Fund (MRS)*	Agent multiple-employer defined benefit plan
Supplemental Legislative Retirement Plan (SLRP)	Single-employer defined benefit plan
Government Employees' Mississippi Deferred Compensation Plan & Trust (MDC)	IRC 457 defined contribution plan
Flexible Benefits Cafeteria Plan (FBCP)	Agency

**Closed to new members*

The System's purpose is to provide pension benefits for all State and public education employees, sworn officers of the Mississippi Highway Safety Patrol, other public employees whose employers have elected to participate in the System, and elected members of the state Legislature and the President of the Senate.

A summary of participating employers and members follows:

	PERS	MHSPRS	MRS*	SLRP	TOTAL
Employers:					
State agencies	113	2	–	5	120
State universities	9	–	–	–	9
Public schools	150	–	–	–	150
Community/junior colleges	15	–	–	–	15
Counties	82	–	–	–	82
Municipalities	239	–	17	–	256
Other political subdivisions	261	–	–	–	261
Total employers	869	2	17	5	893
Members:					
Active vested	109,577	387	31	134	110,129
Active nonvested	55,319	155	–	41	55,515
Total active members	164,896	542	31	175	165,644
Inactive vested	18,503	15	2	51	18,571
Inactive nonvested	110,740	38	–	10	110,788
Total inactive members	129,243	53	2	61	129,359
Retirees and beneficiaries	79,168	696	2,090	142	82,096
Total retired/inactive members	208,411	749	2,092	203	211,455
Total members	373,307	1,291	2,123	378	377,099
Active members by employer:					
State agencies	33,704	542	–	175	34,421
State universities	17,575	–	–	–	17,575
Public schools	66,042	–	–	–	66,042
Community/junior colleges	6,343	–	–	–	6,343
Counties	14,740	–	–	–	14,740
Municipalities	18,650	–	31	–	18,681
Other political subdivisions	7,842	–	–	–	7,842
Total active members	164,896	542	31	175	165,644

**Information furnished for MRS is as of September 30, 2009.*

(b) Membership and Benefit Provisions

(1) Public Employees' Retirement System of Mississippi

Membership in PERS is a condition of employment for those who qualify. Eligibility is granted upon hiring for qualifying employees and officials of the State of Mississippi (the State), state universities, community and junior colleges, and teachers and employees of the public school districts. For those persons employed by political subdivisions and instrumentalities of the State, membership is contingent upon approval of the entity's participation in PERS by the System's Board of Trustees. If approved, membership is a condition of employment and eligibility is granted to those who qualify upon hiring. Members who terminate employment from all covered employers and who are not eligible to receive monthly retirement benefits may request a refund of their accumulated employee contributions plus interest.

Participating employees who are vested and retire at or after age 60 or those who retire regardless of age with at least 25 years of creditable service (30 years of creditable service for employees who become members of PERS on or after July 1, 2011) are entitled, upon application, to an annual retirement allowance payable monthly for life in an amount equal to 2 percent of their average compensation for each year of credited service up to and including 25 years, plus 2.5 percent for each year of credited service over 25 years. Average compensation is the average of the employee's earnings during the four highest compensated years of credited service. A member may elect a reduced retirement allowance payable for life with the provision that, after death, a beneficiary receives benefits for life or for a specified number of years. For members who enter the System on or after July 1, 2007, benefits vest upon completion of eight years of membership service. For members who entered the System before July 1, 2007, benefits vest upon completion of four years of membership service. PERS also provides certain death and disability benefits. Benefit provisions are established by Section 25-11-1 et seq., Mississippi Code Ann. 1972 and may be amended only by the State of Mississippi Legislature.

A cost-of-living adjustment payment is made to eligible retirees and beneficiaries. The cost-of-living adjustment is equal to 3.0 percent of the annual retirement allowance for each full fiscal year of retirement up to the year in which the retired member reaches age 55, plus 3.0 percent compounded for each fiscal year thereafter. For the year ended June 30, 2010, the total additional annual payments were $338,628,000.

(2) Mississippi Highway Safety Patrol Retirement System

Membership in MHSPRS is a condition of employment. Eligibility is granted upon hiring for all officers of the Mississippi Highway Safety Patrol who have completed a course of instruction in an authorized highway patrol training school on general law enforcement and who serve as sworn officers of the highway patrol in the enforcement of the laws of the State of Mississippi.

Participating employees who withdraw from service at or after age 55 with at least five years of membership service, or after reaching age 45 with at least 20 years of credited service, or with 25 years of service at any age are entitled, upon application, to an annual retirement allowance payable monthly for life in an amount equal to 2.5 percent of their average compensation during the four highest consecutive years of earnings, reduced 3.0 percent for each year below age 55 or 3.0 percent for each year under 25 years of service, whichever is less. MHSPRS also provides certain death and disability benefits. Members who terminate employment from all covered employers and who are not eligible to receive monthly retirement benefits may request a refund of their accumulated employee contributions plus interest. Benefit provisions for MHSPRS are established by Section 25-13-1 et seq., Mississippi Code Ann. 1972 and may be amended only by the State of Mississippi Legislature.

A cost-of-living adjustment payment is made to eligible retirees and beneficiaries. The cost-of-living adjustment is equal to 3.0 percent of the annual retirement allowance for each full fiscal year of retirement up to the year in which the retired member reaches age 60, plus 3.0 percent compounded for each fiscal year thereafter. For the year ended June 30, 2010, the total additional annual payments were $6,294,000.

(3) Municipal Retirement Systems

Membership in the two general Municipal Retirement Systems and the 17 Fire and Police Disability and Relief Systems was granted to all municipal employees, fire fighters, and police officers who were not already members of PERS and who were hired prior to July 1, 1976. Two fire and police plans elected to extend the eligibility period for membership to

July 1, 1987. Employees hired after these periods automatically become members of PERS. Municipal Retirement Systems were all closed to new members by July 1, 1987.

Regardless of age, participating employees who retire with at least 20 years of membership service are entitled to an annual retirement allowance payable monthly for life in an amount equal to 50.0 percent of their average monthly compensation and an additional 1.7 percent for each year of credited service over 20 years, not to exceed 66.67 percent of average monthly compensation except as may otherwise be provided through local and private legislation. Average monthly compensation for the two Municipal Retirement Systems and the 17 Fire and Police Disability and Relief Systems is the monthly average for the last six months of service. Certain participating employers provide a minimum monthly retirement allowance. Benefits vest upon reaching 20 years of credited service. MRS also provides certain death and disability benefits. Members who terminate employment from all covered employers and are not eligible to receive monthly retirement benefits may request a refund of employee contributions. Benefit provisions are established by Sections 21-29, Articles 1, 3, 5 and 7, Mississippi Code Ann. 1972, as amended, and annual local and private legislation. Statutes may be amended only by the State of Mississippi Legislature.

The retirees and beneficiaries of MRS plans with provisions for additional payments, who are receiving a retirement allowance on July 1 of each fiscal year, may be entitled to an additional payment. This payment is equal to the annual percentage change of the Consumer Price Index not to exceed 2.5 percent of the annual retirement allowance for each full fiscal year of retirement. Certain MRS plans may adopt an annual adjustment other than one linked to the change in the Consumer Price Index. These additional payments will be made only when funded by the employers. For the year ended June 30, 2010, the total additional annual payments were $5,048,000.

(4) Supplemental Legislative Retirement Plan

Membership in SLRP is composed of all elected members of the state Legislature and the President of the Senate. This plan is designed to supplement the provisions of PERS.

Those serving when SLRP became effective on July 1, 1989, had 30 days to waive membership. Those elected after July 1, 1989, automatically become members.

The retirement allowance is 50.0 percent of an amount equal to the retirement allowance payable by PERS, determined by credited service as an elected senator or representative in the state Legislature or as President of the Senate. Benefits vest upon completion of the requisite number of membership service years in PERS. SLRP also provides certain death and disability benefits. Members who terminate employment from all covered employers and who are not eligible to receive monthly retirement benefits may request a refund of their accumulated employee contributions plus interest. Benefit provisions for SLRP are established by Section 25-11-301 et seq., Mississippi Code Ann. 1972 and may be amended only by the State of Mississippi Legislature.

Retirees and beneficiaries of SLRP may receive additional amounts calculated identically to PERS retirees and beneficiaries. For the year ended June 30, 2010, the total additional annual payments were $161,000.

(5) Government Employees' Mississippi Deferred Compensation Plan & Trust

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The term "employee" means any person, whether appointed, elected, or under contract, providing services for the State, state agencies, counties, municipalities, or other political subdivisions, for which compensation is paid. The plan permits employees to defer a portion of their income until future years. The deferred compensation is available to employees at termination, retirement, death, unforeseeable emergency, or can be rolled over to the System for purchase of eligible service credit.

The PERS Board of Trustees amended the plan to provide that all assets and income of the plan shall be held in trust for the exclusive benefit of participants and their beneficiaries in order to comply with amendments to Section 457 of the Internal Revenue Code.

The System has no liability for losses under the plan but does have the duty of due care that would be required of a prudent investor. At June 30, 2010, total plan assets aggregated $1,091,899,000 with 40,036 participants.

(6) Flexible Benefits Cafeteria Plan

Section 25-17-3, Mississippi Code Ann. (1972), authorizes any state agency to adopt a benefit plan that meets the requirements of a cafeteria plan as defined in Section 1-25 et seq. of the Internal Revenue Code of 1954, and regulations thereunder, for the benefit of eligible employees and their dependents. The FBCP was established as an agency fund to account for transactions related to those employees of the System who participate in the cafeteria plan.

(c) Employee and Employer Obligations to Contribute

Employees covered by PERS and MHSPRS are required to contribute 7.25 percent of their salary. Members of SLRP are required to contribute 3.00 percent of their compensation in addition to the 7.25 percent required by PERS. Effective July 1, 2010, employees covered by PERS are required to contribute 9.00 percent of their earned compensation toward retirement. If an employee covered by PERS, MHSPRS, or SLRP leaves employment, accumulated employee contributions plus interest are refunded to the employee upon request. The interest paid on employee accounts was 3.50 percent in 2010. In the event of death prior to retirement of any member whose spouse and/or children are not entitled to a retirement allowance, the deceased member's accumulated contributions and interest are paid to the designated beneficiary. Each employer contributes the remaining amounts necessary to finance the plan. Contribution provisions are established by Mississippi Code Ann. (1972) Section 25-11-1 et seq. for PERS, Section 25-13-1 et seq. for MHSPRS, and Section 25-11-301 et seq. for SLRP. These statutes may be amended only by the State of Mississippi Legislature.

Employees covered by MRS are required to contribute amounts varying from 7.00 percent to 10.00 percent of their salary, depending on the actuarial soundness of their respective plans. Any increase to the 7.00 percent base contribution rate is made in increments not to exceed 1.00 percent per year. If an employee leaves covered employment, accumulated employee contributions are refunded to the employee upon request. Employees covered by MRS do not receive interest on their accumulated contributions. Each employer contributes the remaining amounts necessary to finance participation of its own employees in MRS. Contribution provisions are established by Sections 21-29, Articles 1, 3, 5, and 7, Mississippi Code Ann. (1972) and annual local and private legislation. Statutes may be amended only by the State of Mississippi Legislature.

2. Summary of Significant Accounting Policies

(a) Financial Reporting Entity

The reporting entity for the System and its component units consists of five pension trust funds and one agency fund. The pension trust funds are PERS, MHSPRS, MRS, SLRP, and MDC. These financial statements are included in the financial statements of the State of Mississippi. The agency fund is the FBCP. The component units of the System are included in the System's reporting entity due to their financial relationships. Although the component units are legally separate from the System, they are reported as if they were part of the System because the governing boards of each are identical. The System is considered a component unit of the State of Mississippi reporting entity in accordance with Governmental Accounting Standards Board (GASB) 14, *The Financial Reporting Entity*.

The membership of the Optional Retirement Plan (ORP) is composed of teachers and administrators of institutions of higher learning appointed or employed on or after July 1, 1990, who elect to participate in ORP and reject membership in PERS. Title 25, Article 11 of the Mississippi Code states that the Board of Trustees of the System will provide for administration of the ORP program. ORP participants direct the investment of their funds among three investment vendors. Benefits payable to plan participants are not obligations of the State of Mississippi. Such benefits and other rights of participants or their beneficiaries are the liability of the vendors and are governed solely by the terms of the annuity contracts issued by them. As such, ORP is not considered part of the System's reporting entity for financial reporting purposes.

(b) Basis of Presentation – Fund Accounting

Fiduciary funds are used to account for assets held by the System in a trustee capacity or as an agent. Fiduciary funds include PERS, MHSPRS, MRS, SLRP, and MDC pension trust funds. Agency funds are custodial in nature and do not involve measurement of results of operations. FBCP is accounted for as an agency fund.

(c) Basis of Accounting

PERS, MHSPRS, MRS, SLRP, and MDC use the accrual basis of accounting and the economic resources measurement focus. Employee and employer contributions are recognized as revenue when due pursuant to formal commitments, as well as statutory requirements; investment income is recognized when earned. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Other expenses are recognized when incurred. Investments for PERS, MHSPRS, MRS, SLRP, and MDC are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Corporate bonds are valued based on yields currently available on comparable securities from issuers of similar credit ratings. Mortgage securities are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. Short-term investments are reported at fair value when published prices are available, or at cost plus accrued interest, which approximates fair value. The fair value of commingled real estate funds is based on independent appraisals, while Real Estate Investment Trusts (REIT) traded on a national or international exchange are valued at the last reported sales price at current exchange rates. For individual investments where no readily ascertainable fair value exists, the System, in consultation with its investment advisors and custodial bank, has determined the fair values.

(d) Budgetary Data

Annual budgets are legally adopted on a modified cash basis for the administrative expenditure portion of the pension trust funds. The System uses the following procedures in the budgetary process:

- Approximately one year in advance, the System prepares a proposed operating budget for the upcoming fiscal year. The operating budget includes proposed expenditures and the means of financing them.

- At the beginning of August, the proposed budget for the fiscal year commencing the following July is submitted to the Department of Finance and Administration and the Joint Legislative Budget Committee. Budget hearings are conducted by these bodies resulting in recommendations for changes.

- In January, the proposed budget and the recommendations proposed by the Department of Finance and Administration and the Joint Legislative Budget Committee are presented to the state Legislature. The state Legislature makes any revisions it deems appropriate and then legally enacts the System's budget in the form of an appropriation bill.

- The System is authorized to transfer budget amounts between major expenditure classifications on a limited basis subject to approval by the Department of Finance and Administration.

- Spending authority lapses for appropriated funds that remain undisbursed at August 31.

(e) Capital Assets

Capital assets used for administering the plans are carried at historical cost. Depreciation is provided using the straight-line method. The following schedule summarizes estimated useful lives by asset classification:

Asset Classification	Estimated Useful Life	Estimated Salvage Value
Building	40 years	20%
Improvements	20 years	20%
Furniture and equipment	5-15 years	1%
Computer equipment	3 years	1%
Vehicles	3-10 years	10%

(f) Accumulated Personal Leave and Major Medical Leave

Section 25-3-97, Mississippi Code Ann. (1972), authorizes a lump-sum payment for a maximum of 30 days of accrued personal leave upon termination of employment. No payment is authorized for accrued major medical leave unless the employee presents medical evidence that his or her physical condition is such that the employee no longer has the capacity to work in state government. Accumulated personal leave (including fringe benefits) of employees directly related to the administration of the System is paid from the pension trust funds and is accrued in the financial statements when earned, up to a maximum of 30 days per employee. The System does not accrue accumulated major medical leave since it is not probable that the compensation will be paid and since the leave vests only upon termination for medical disability.

(g) New Accounting Pronouncement

The System implemented Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* for the fiscal year beginning July 1, 2009. The pronouncement has no impact on the System's net assets, but resulted in additional disclosures, which are presented in Note 3 to the basic financial statements.

(h) Use of Estimates in the Preparation of Financial Statements
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 assets and liabilities at June 30, 2010, and the reported amounts of additions to and deductions from net assets during the year then ended. Actual results could differ from those estimates.

3. Cash, Cash Equivalents, and Investments

(a) Legal Provisions
The System is authorized by Section 25-11-121, Mississippi Code Ann. (1972), to invest in the following:

- Bonds, notes, certificates, and other valid general obligations of the State, or of any county, city, or supervisor's district of any county of the State.

- School district bonds of the State.

- Notes or certificates of indebtedness issued by the Veterans' Home Purchase Board of Mississippi.

- Highway bonds of the State.

- Corporate bonds rated by Standard and Poor's Corporation (S&P) or Moody's Investors Service.

- Short-term obligations of corporations, or of wholly-owned subsidiaries of corporations, whose short-term obligations are rated A-3 or better by S&P or rated P-3 or better by Moody's Investors Service. The Board of Trustees has established a policy which further limits investments of this type to only those corporations whose short-term obligations are rated A-2 or P-2 by S&P or Moody's Investors Service, respectively.

- Bonds of the Tennessee Valley Authority.

- Bonds, notes, certificates, and other valid obligations of the United States of America, or any Federal instrumentality that issues securities under authority of an Act of Congress and are exempt from registration with the U.S. Securities and Exchange Commission.

- Bonds, notes, debentures, and other securities issued by any federal instrumentality and fully guaranteed by the United States of America.

- Bonds, stocks, and convertible securities of established foreign companies that are listed on primary national stock exchanges of foreign nations and in foreign government securities. The System is authorized to hedge such transactions through foreign banks and generally deal in foreign exchange through the use of foreign currency, interbank forward contracts, futures contracts, options contracts, swaps, and other related derivative instruments.

- Interest-bearing bonds or notes which are general obligations of any other state in the United States of America or any city or county therein, provided such city or county had a population as shown by the federal census next preceding such investment of not less than 25,000 inhabitants, and provided that such state, city, or county has not defaulted for a period longer than 30 days in the payment of principal or interest on any of its general obligation indebtedness during a period of 10 calendar years immediately preceding such investment.

- Shares of common and/or preferred stock of corporations created by or existing under the laws of the United States of America or any state, district, or territory thereof.

- Covered call and put options on securities traded on one or more of the regulated exchanges.

- Pooled or commingled funds managed by a corporate trustee or by a U.S. Securities and Exchange Commission registered investment advisory firm and shares of investment companies and unit investment trusts registered under the Investment Company Act of 1940. Such pooled or commingled funds or shares are comprised of common or preferred stocks, bonds, money market instruments, or other authorized investments.

- Pooled or commingled real estate funds or real estate securities managed by a corporate trustee or by a Securities and Exchange Commission registered investment advisory firm retained as an investment manager by the Board of Trustees of the System.

- Up to 10 percent of the total book value of investments can be types of investments not specifically authorized by this section, if the investments are in the form of a separate account managed by a Securities and Exchange Commission registered investment advisory firm retained as an investment manager by the Board; or a limited partnership or commingled fund.

The System is also authorized by its Board of Trustees to operate a securities lending program and has contracted with its custodian to reinvest cash collateral received from the transfer of securities in any investment instrument authorized by Section 25-11-121, Mississippi Code Ann. (1972).

Section 25-11-121, Mississippi Code Ann. (1972) requires the System's Board of Trustees to determine the degree of collateralization necessary for both foreign and domestic demand deposits in addition to that which is guaranteed by federal insurance programs. These statutes also require that, when possible, the types of collateral securing deposits be limited to securities in which the System itself may invest. The Board of Trustees has established a policy to require collateral equal to at least 100 percent of the amount on deposit in excess of that which is guaranteed by federal insurance programs to the credit of the System for domestic demand deposit accounts. No collateral is required for foreign demand deposit accounts, and at June 30, 2010, the System had no deposits in foreign demand deposit accounts.

(b) Cash and Cash Equivalents

For cash deposits and cash equivalents, custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Mississippi Code of 1972, Section 25-11-121, provides that the deposits of the System in any bank of the United States shall, where possible, be safeguarded and guaranteed by the posting of bonds, notes, and other securities as security by the depository. The System's Board of Trustees has formally adopted a short-term investment policy that requires that the market value of securities guaranteeing the deposits shall at all times be equal to 100 percent of the amount of funds on deposit.

The amount of the System's total cash and cash equivalents at June 30, 2010, was $314,245,000. Cash deposits in bank accounts totaled $2,192,000, which were covered by federal depository insurance. At June 30, 2010, the System held $312,053,000 in cash equivalents. Cash equivalents are created through daily sweeps of excess cash by the System's custodial bank into a bank-sponsored short-term investment fund. This fund is a custodial bank-sponsored commingled fund that is invested in short-term U.S. government securities, including agency discount notes, repurchase agreements, and U.S. Treasury bills. The average S&P short-term quality rating of the fund was A-1 at June 30, 2010.

(c) Investments

All of the investment assets of MHSPRS, MRS, and SLRP are combined with those of PERS and invested in short-term and long-term debt securities, public equity securities, private equity, absolute return investments, and real estate. These investments are accounted for as part of the PERS pension trust fund and are allocated to MHSPRS, MRS, and SLRP based on their equitable interest in the PERS fund. All investments are reported at fair value.

All investments are governed by the Board's policy of the prudent person rule. The prudent person rule establishes a standard for all fiduciaries to act as a prudent person would be expected to act, with discretion and intelligence, while investing for income and preservation of principal.

In October 2002, the Board of Trustees adopted real estate as part of the System's long-term asset allocation. The Mississippi Code Section 25-11-121 allows the System to invest up to 10 percent of the total portfolio in real estate only via real estate securities and commingled funds. Direct ownership of real estate assets is prohibited. The System funded its first real estate investments in June 2003. The portfolio is divided between core commingled and value-added real estate fund investments, which directly invest in properties, and in managed portfolios of Real Estate Investment Trusts (REIT). REITs are exchange traded securities that provide indirect exposure to real estate properties and real estate management companies.

Fair values of commingled fund properties are based on the most recent independent appraisal values. Independent appraisal firms, which are Members of Appraisal Institute (MAI), are required to conduct valuations at least annually.

In fiscal year 2009, PERS began investing in private equity and absolute return investments. The Board adopted the current long-term policy asset allocation target in 2006 that includes 5.0 percent private equity and 5.0 percent absolute return strategies. Private equity was adopted to provide returns in excess of those provided through publicly traded stocks and bonds. Absolute return strategies provide returns that are not correlated with the public equity markets. In fiscal year 2010, PERS expanded its fixed income allocation into emerging market debt securities, which invest primarily in sovereign government and agency debt securities. The System also expanded its non-U.S. allocation in the area of REITs.

The following table presents the fair value of investments by type at June 30, 2010 (in thousands):

Investment type:	Fair Value
Commercial paper	$ 2,042,654
Repurchase agreements	361,342
U.S. Government agency obligations	254,575
U.S. Treasury obligations	1,464,818
Collateralized mortgage obligations	434,212
Corporate bonds	2,421,888
Mortgage pass-throughs	476,254
State and local obligations	60,576
Asset backed securities	522,044
Yankee/Global bonds	42,716
Sovereign agencies debt	16,164
Sovereign governments debt	286,919
Domestic equity securities	8,293,850
International equity securities	3,395,236
Real estate	767,184
Private equity	92,287
Absolute return	14,870
Money market fund	22,193
Fixed income funds	50,268
Asset allocation funds	44,884
Fixed and variable funds	509,152
Life insurance contracts	365
Equity funds	356,996
Total	$ 21,931,447

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the pension trust fund will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government and are held by either: a. the counterparty or b. the counterparty's trust department or agent but not in the government's name. The Mississippi Code of 1972, Section 25-11-121, requires that all investments be clearly marked as to ownership, and to the extent possible, shall be registered in the name of the System.

Of the defined benefit pension funds' $20.8 billion in investments at June 30, 2010, $4.1 billion were exposed to custodial credit risk. These are cash collateral reinvestment securities held in the name of the custodian who acquired them as the lending agent/counterparty. This is consistent with the System's securities lending agreement in place with the custodian.

The fair value of cash collateral securities as of June 30, 2010, are presented by type below (in thousands):

	Fair Value
Commercial paper	$ 2,042,654
Repurchase agreements	360,542
Corporate bonds	1,149,638
Asset backed securities	424,993
U.S. Government agencies	99,965
Total	$ 4,077,792

Interest Rate Risk

As of June 30, 2010, the System had the following debt security investments and maturities:

Investment Type:	Fair Value (in thousands)	Investment Maturities (in years) Less than 1	1 - 5	6 - 10	More than 10
Asset backed securities	$ 522,044	$ 439,268	$ 24,835	$ 17,473	$ 40,468
Collateralized mortgage obligations	434,212	17,840	-	19,620	396,752
Commercial paper	2,042,654	2,042,654	-	-	-
Corporate bonds	2,421,888	302,746	1,366,131	428,717	324,294
Mortgage pass-throughs	476,254	70	1,078	31,796	443,310
Repurchase agreements	361,342	361,342	-	-	-
State and local obligations	60,576	-	4,638	522	55,416
U. S. Government agency obligations	254,575	18,378	207,245	17,979	10,973
U. S. Treasury obligations	1,464,818	20,629	786,495	399,121	258,573
Yankee/Global bonds	42,716	1,052	20,940	12,677	8,047
Sovereign agencies debt	16,164	-	3,990	12,174	-
Sovereign governments debt	286,919	-	48,276	130,118	108,525
Total	$ 8,384,162	$ 3,203,979	$ 2,463,628	$ 1,070,197	$ 1,646,358

The System does not have a formal investment policy that limits investment maturities as a means of managing its exposure to potential fair value losses arising from future changes in interest rates.

Market or interest rate risk is the greatest risk faced by an investor in the debt securities market. The price of a debt security typically moves in the opposite direction of the change in interest rates. Derivative securities, variable rate investments with coupon multipliers greater than one, and securities with long terms to maturity are examples of investments whose fair values may be highly sensitive to interest rate changes. These securities are reported at fair value in the Statement of Fiduciary Net Assets. Inverse floaters and variable rate investments with coupon multipliers greater than one are prohibited under the System's derivatives policy.

Section 25-11-121, Mississippi Code Ann. (1972) provides for the acquisition of derivative instruments by the System. The System adopted a formal derivatives policy in February 1996 with updates adopted in June 2005. During fiscal year 2010, the investments in derivative securities by the System were exclusively in asset/liability-based derivatives such as interest-only (IO) strips, collateralized mortgage obligations, and asset-backed securities. The System reviews fair values of all securities on a monthly basis and prices are obtained from recognized pricing sources. Derivative securities are held, in part, to maximize yields.

Interest-only and principal-only (PO) strips are transactions that involve the separation of the interest and principal components of a security. They are highly sensitive to prepayments by mortgagors, which may result from a decline in interest rates. The System held IOs valued at $6 thousand at fiscal year end. The System's derivatives policy limits IO and PO strips to 3.0 percent of the investment portfolio.

Collateralized mortgage obligations (CMO) are bonds that are collateralized by whole-loan mortgages, mortgage pass-through securities, or stripped mortgage-backed securities. Income is derived from payments and prepayments of principal and interest generated from collateral mortgages. Cash flows are distributed to different investment classes or tranches in accordance with that CMO's established payment order. Some CMO tranches have more stable cash flows relative to changes in interest rates while others are significantly more sensitive to interest rate fluctuations. In a declining interest rate environment, some CMOs may be subject to a reduction in interest payments as a result of prepayments of mortgages that make up the collateral pool. A reduction in interest payments causes a decline in cash flows and, thus, a decline in the fair value of the CMO security. Rising interest rates may cause an increase in interest payments and, thus, an increase in the fair value of the security. The System held $434.2 million in CMOs at June 30, 2010. Of this amount, $140.0 million were tranches that are highly sensitive to future changes in interest rates. CMO residuals are prohibited under the System's derivatives policy.

Asset-backed securities (ABS) are bonds or notes backed by loan paper or accounts receivable originated by banks, credit card companies, or other credit providers. The originator of the loan or accounts receivable paper sells it to a specially created trust, which repackages it as securities. Similar to CMOs, asset-backed securities have been structured as pass-throughs and as structures with multiple bond classes. Of the $522.0 million in ABS that the System held at June 30, 2010, $68.0 million are highly sensitive to changes in interest rates. ABS, which are leveraged structures or residual interests, are prohibited by the System's derivatives policy.

At June 30, 2010, the System had invested $476.3 million in mortgage pass-through securities issued by the Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. These investments are moderately sensitive to changes in interest rates because they are backed by mortgage loans in which the borrowers have the option of prepaying.

Credit Risk

The System's exposure to credit risk as of June 30, 2010, was as follows (fair value in thousands):

	Quality Ratings														
Investment Type:	AAA	AA	A	BAA	BA	BBB	BB	B	CAA	CCC	CC	C	NR	P	WR
Asset backed securities.	$ 447,416	$ 20,132	$ 6,542	$ 1,792	$ 16,823	$ -	$ -	$ -	$28,110	$ -	$ -	$ 16	$ -	$ -	$1,212
Collateralized mortgage obligations.	253,592	14,276	68,396	2,603	1,884	15,567	8,153	5,678	8,618	16,966	12,859	1,170	-	-	-
Commercial paper.	-	-	1,989,707	-	-	-	-	-	-	-	-	-	-	52,948	-
Corporate bonds.	303,650	765,081	678,819	278,193	101,973	169,419	43,556	72,026	1,475	2,288	-	-	5,403	-	4
Mortgage pass-throughs. .	425,041	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Repurchase agreements. . . .	360,542	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sovereign agencies debt. . .	1,024	285	2,966	-	5,033	6,856	-	-	-	-	-	-	-	-	-
Sovereign governments debt.	12,296	6,379	19,865	74,303	69,813	58,453	6,811	34,338	-	-	-	-	4,662	-	-
State and local obligations.	1,978	23,201	26,935	4,370	-	-	-	-	-	-	-	-	4,093	-	-
U.S. Government agency obligations.	251,323	-	2,812	-	-	-	-	-	-	-	-	-	-	-	-
Yankee/Global bonds.	26,137	6,556	8,191	-	-	1,832	-	-	-	-	-	-	-	-	-
Total	$2,082,999	$835,910	$2,804,233	$361,261	$195,526	$252,127	$58,520	$112,042	$38,203	$19,254	$12,859	$1,186	$14,158	$52,948	$1,216

State law requires a minimum quality rating of A-3 by S&P or P-3 by Moody's for corporate short-term obligations. This law also requires corporate and taxable municipal bonds to be of investment grade as rated by S&P or Moody's.

PERS' Board of Trustees has adopted a short-term investment policy that further restricts commercial paper to be of corporations with long-term debt to be rated A or better by S&P or Moody's, and whose short-term obligations are of A-2 or P-2 or better ratings by S&P and Moody's, respectively. This applies to all short-term investments of the System.

In addition to the short-term investment policy, a policy adopted for the internally managed short-term account requires that for any amount above the established core of $30.0 million, no more than 25.0 percent be invested in any issue having a rating lower than AA or A1/P1.

Credit risk for derivative securities held by the System results from the same considerations as other counterparty risk assumed by the System, which is the risk that a borrower will be unable to meet its obligation. The System's policy requires that the credit quality of the underlying asset must be rated A or better by Moody's or S&P.

The System's lending agent is permitted to purchase asset-backed securities for the cash collateral fund that are only AAA rated.

Foreign Currency Risk

The System's exposure to foreign currency risk at June 30, 2010, was as follows (in thousands):

Currency	Cash & Equivalents	Equities & REITs	Debt Securities	Total Fair Value	Percent
Australian Dollar.	$ 30	$ 154,324	$ -	$ 154,354	4.86%
Brazilian Real.	(5,467)	132,369	4,762	131,664	4.14
British Pound Sterling.	4,679	529,089	-	533,768	16.80
Canadian Dollar.	74	83,857	9,125	93,056	2.93
Danish Krone.	788	26,962	-	27,750	0.87
Egyptian Pound.	2	27,850	-	27,852	0.88
Euro.	(9,984)	860,274	5,324	855,614	26.92
Hong Kong Dollar.	248	80,792	-	81,040	2.55
Hungarian Forint.	30	5,702	-	5,732	0.18
Indian Rupee.	8	27,940	-	27,948	0.88
Indonesian Rupiah.	20	28,076	-	28,096	0.88
Israeli Shekel.	30	15,353	-	15,383	0.48
Japanese Yen.	4,184	511,239	-	515,423	16.20
Malaysian Ringgit.	140	5,649	-	5,789	0.18
Mexican Peso.	-	13,904	24,661	38,565	1.21
New Taiwan Dollar.	310	44,409	-	44,719	1.41
New Turkish Lira.	100	56,714	-	56,814	1.79
New Zealand Dollar.	140	1,388	12,326	13,854	0.44
Norwegian Krone.	191	30,847	-	31,038	0.98
Pakistan Rupee.	-	8,249	-	8,249	0.26
Singapore Dollar.	80	43,298	-	43,378	1.37
South African Rand.	393	89,527	-	89,920	2.83
South Korean Won.	103	105,654	-	105,757	3.33
Swedish Krona.	183	43,210	-	43,393	1.36
Swiss Franc.	2,321	182,648	-	184,969	5.82
Thailand Baht.	20	14,152	-	14,172	0.45
Total.	$ (1,377)	$ 3,123,476	$ 56,198	$ 3,178,297	100.00%

The System's investment asset allocation policy limits international investments to 17.8 percent. At June 30, 2010, the current position was 21.5 percent. The Investment Committee of the Board of Trustees evaluates the actual investment asset allocation quarterly, in accordance with the adopted phase-in policy. Based on current market conditions, the Board adjusts the allocation as necessary.

Investment Derivatives

The Governmental Accounting Standards Board issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, with implementation effective for fiscal year 2010. Derivative instruments are financial arrangements used by governments to manage specific risks or to make investments.

The following table presents the investment derivative instruments outstanding as of June 30, 2010 (in thousands), as reported in the System's Statement of Fiduciary Net Assets:

	Changes in Fair Value		Fair Value at June 30, 2010			
	Classification	Amount	Classification	Amount	Notional	
Investment derivative instruments:						
Foreign currency forwards.	Investment income	$ (63)	Investment	$ (63)	9,591	BRL
Foreign currency forwards.	Investment income	79	Investment	79	12,001,463	COP
Foreign currency forwards.	Investment income	(313)	Investment	(313)	11,814	EUR
TBA securities.	Investment income	91	Debt securities	18,950	$ 17,655	

The System's derivatives policy limits foreign currency forwards to no more than 100.0 percent of the aggregate value of the portfolio securities denominated in the hedged currency.

Investment Derivatives Credit Risk

The counterparties of the foreign currency forwards have short-term credit ratings of A or better as rated by the nationally recognized statistical rating organizations. PERS' general policy requires that the counterparty has a long-term credit rating of A or better and a short-term credit rating of A1/P1 at a minimum. More specifically, the System's policy requires that all over-the-counter derivatives be rated AA or better by the nationally recognized statistical rating organizations. The counterparties of the to-be-announced securities (TBA) are rated A or better by the nationally recognized statistical rating organizations.

Investment Derivatives Foreign Currency Risk

The foreign currency forwards are also presented in the foreign currency risk table on page 37.

Investment Derivatives Interest Rate Risk

The TBAs are disclosed in the interest risk table by years to maturity.

Commitments

As of June 30, 2010, the System had real estate, private equity, and absolute return investments legally structured as limited partnerships. The System was one of the limited partners within each fund, with the investment managers serving as the general partners. As part of the limited partnership agreements, PERS agrees to potentially invest up to the committed amounts during the stated fund investment period.

At fiscal year end, PERS had the following outstanding investment commitments:

Commitments – Alternative Investments
June 30, 2010

	Committed Capital	Capital Contributed	Outstanding
Real estate.	$ 300,000,000	$ 199,329,234	$ 100,670,766
Private equity.	1,500,000,000	87,814,535	1,412,185,465
Absolute return.	17,500,000	17,500,000	-
Total.	$ 1,817,500,000	$ 304,643,769	$ 1,512,856,231

Within its Alternative Investment Program, the System has investments, that due to their long-term nature, do not provide immediate liquidity. The commingled real estate fund investments allow for quarterly liquidity. As of June 30, 2010, the total fair value of the commingled real estate portfolio was approximately $386.0 million. The closed-end real estate funds, timber fund, and private equity fund investments are all 10- to 12-year commitments. These funds have limited liquidity due to their long investment time horizon, but will make periodic distributions throughout the term of the investment as assets are sold. As of June 30, 2010, the fair value of these investments totaled $230.0 million. The absolute return portfolio also has limited liquidity, but has a shorter three- to four-year investment horizon. As of June 30, 2010, the System held $15.0 million in assets for the absolute return portfolio.

(d) Securities Lending Transactions

The System accounts for securities lending transactions in accordance with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions,* which established standards of accounting and financial reporting for securities lending transactions.

The following table details the net income from securities lending for the period ended June 30, 2010 (in thousands):

	PERS	MHSPRS	MRS	SLRP	Total
Interest income	$ 6,204	$ 86	$ 57	$ 4	$ 6,351
Net appreciation	34,068	475	306	23	34,872
Income from securities lending	40,272	561	363	27	41,223
Less:					
Interest expense*	(364)	(5)	(3)	(1)	(373)
Program fees	1,676	23	15	1	1,715
Expenses from securities lending	1,312	18	12	-	1,342
Net income from securities lending	$ 38,960	$ 543	$ 351	$27	$ 39,881

**Interest expense resulted in a negative number for FY2010 due to the Fed Funds rate being at its lowest in years and more borrowers were willing to pay the lender to borrow high-demand securities as opposed to the lender paying the borrower a portion of the earnings from the re-invested cash collateral.*

The Board of Trustees has authorized the System to lend its securities to broker-dealers with a simultaneous agreement to return the collateral for the same securities in the future. The System's custodian, pursuant to a written agreement, is permitted to lend all long-term securities to authorized broker-dealers subject to the receipt of acceptable collateral. There have been no significant violations of the provisions of the agreement during the period of these financial statements. The System lends securities for collateral in the form of either cash or other securities. The types of securities on loan at June 30, 2010, are long-term U.S. government and agency obligations, corporate bonds, REITS, and domestic and international equities. At the initiation of a loan, borrowers are required to provide collateral amounts of 102.0 percent on U.S. securities and international securities denominated in the same currency of the loaned security. For international securities that are denominated in a currency other than the currency of the loaned security, 105.0 percent collateral is required at the initiation of the loan. In the event the collateral fair value on U.S. securities falls to less than 100.0 percent of the respective fair value of the securities lent, the borrower is required to provide additional collateral by the end of the next business day. In the event the collateral fair value falls below 102.0 percent for international same-currency transactions or 105.0 percent for cross-currency transactions, the borrower is required to provide additional collateral. The contractual agreement with the System's custodian provides indemnification in the event the borrower fails to return the securities lent or fails to pay the System income distributions by the securities' issuers while the securities are on loan. The System cannot pledge, lend, or sell securities received as collateral unless the borrower defaults.

The maturities of the investments made with cash collateral generally do not match the maturities of the securities loans. All securities loans can be terminated on demand by either the System or the borrower, although the average term of these loans was two days at June 30, 2010. Cash collateral was invested in repurchase agreements, commercial paper, corporate bonds, U.S. government agencies, and asset-backed securities at June 30, 2010. The weighted average effective duration of all collateral investments at June 30, 2010, was 34 days with a weighted average maturity of 34 days.

Securities lent at year-end for cash collateral are presented by type in Note 3 (c); securities lent for securities collateral are classified according to the custodial credit risk category for the collateral. There were no securities lent for securities collateral as of June 30, 2010. The investments purchased with the cash collateral are also presented in Note 3 (c) in the discussion of custodial credit risk, since the custodian, as agent, is the counterparty in acquiring these securities in a separate account for the System.

At year-end, the System had no credit risk exposure to borrowers because the amount the System owed the borrowers exceeded the amount the borrowers owed the System.

The securities lending total assets of $4,078,938,000, which include the related accrued interest, and the related total liabilities of $4,082,776,000, which include the related expenses, on the Statement of Fiduciary Net Assets do not equal at June 30, 2010. The difference of negative $3,838,000 is due to the collateral investment fund's market depreciation and the earnings receivable until the final distribution takes place the following month.

The following table presents the fair values of the underlying securities and the value of the collateral pledged at June 30, 2010 (in thousands):

Securities Lent	Fair Value Including Accrued Income	Cash Collateral Received
Lent for cash collateral:		
Debt securities	$ 1,441,680	$ 1,471,916
Domestic equities	2,058,747	2,134,489
International equities	312,778	355,305
REITs	116,989	121,066
Total securities lent	$ 3,930,194	$ 4,082,776

(e) Commission Recapture Program

The Board of Trustees has authorized the System to enter into a commission recapture program. This program allows the System to recapture a portion of the commissions paid to broker-dealers with which the System has entered into an agreement. Earnings for the fiscal year ended June 30, 2010, were $584,000.

4. Capital Assets

The following table shows amounts for capital assets as of June 30, 2010 (in thousands):

Description	2010
Land	$ 508
Building	18,459
Improvements	25
Furniture and equipment	1,197
Total capital assets	20,189
Less accumulated depreciation	
Building	3,626
Improvements	20
Furniture and equipment	1,156
Total accumulated depreciation	4,802
Net capital assets	$ 15,387

5. Due To Other Funds

The following is a summary of due to/due from other funds as of June 30, 2010 (in thousands):

Due To Other Funds: Receivable Fund	Payable Fund	Amount
State of Mississippi	PERS	$ 24

6. Funding Status and Progress

(a) Actuarial Asset Valuation

Actuarial values of assets for PERS, MHSPRS, SLRP, and MRS are based on a smoothed fair value basis that recognizes 20.0 percent of the unrecognized and unanticipated gains and losses. The actuarial valuation of assets recognizes assumed investment income fully each year. Differences between actual and assumed investment income are recognized in equal increments over a five-year period beginning with the current year.

The following table presents the actuarial change in asset valuation for the year ended June 30, 2010 (in thousands):

	PERS	MHSPRS	MRS	SLRP	Total
Valuation assets June 2009*	$ 20,597,581	$ 292,322	$ 208,479	$ 13,386	$ 21,111,768
Contributions and other revenue	1,170,941	14,641	17,045	648	1,203,275
Benefit payments	(1,654,388)	(25,912)	(35,869)	(824)	(1,716,993)
Administrative expenses	(11,739)	(172)	(338)	(9)	(12,258)
Investment expenses**	(33,121)	(462)	-	(22)	(33,605)
Net new money	(528,307)	(11,905)	(19,162)	(207)	(559,581)
Expected total investment return for 2010 (8%)	1,224,073	17,154	14,689	801	1,256,717
Adjustment towards market (20%)	(1,149,921)	(16,483)	(12,827)	(739)	(1,179,970)
Valuation assets June 2010*	$ 20,143,426	$ 281,088	$ 191,179	$ 13,241	$ 20,628,934

**Information for MRS is presented as of September, 2008 and 2009, respectively.*
***This amount is based on a proportionate share of the total investment expense of the commingled assets. The ratio of this number to the total investment expense is equal to the ratio of a fiscal year average market value of assets for this fund to a fiscal year average market value of the total commingled assets.*

Significant actuarial assumptions used to compute contribution requirements for PERS, MHSPRS, SLRP, and MRS are the same as those used to compute the standardized measure of the actuarial accrued liability described in the Notes to Required Supplemental Schedules. The significant assumptions include:

	PERS	MHSPRS	MRS	SLRP
Valuation date	June 30, 2010	June 30, 2010	September 30, 2009	June 30, 2010
Actuarial cost method	Entry age	Entry age	Entry age	Entry age
Amortization method	Level percent open	Level percent open	Level dollar closed	Level percent open
Remaining amortization period	30.0 years	30.0 years	25.0 years	29.7 years
Asset valuation method	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market
Actuarial assumptions:				
Investment rate of return	8.0%	8.0%	8.0%	8.0%
Projected salary increases	4.5-15.0%	5.0-10.52%	4.5-6.0%	4.50%
Wage inflation rates	4.25%	4.25%	4.25%	4.25%
Increase in benefits after retirement	3.0%[1]	3.0%[2]	2.0-3.75%[3]	3.0%[1]

[1]Calculated 3% simple interest to age 55, compounded each year thereafter. [2]Calculated 3% simple interest to age 60, compounded each year thereafter.
[3]Varies depending on municipality.

(b) Actuarial Experience Review

An actuarial survey of the mortality, service, withdrawals, compensation experience of members, and valuation of assets and liabilities is performed annually to determine the actuarial soundness of the System. To validate that the assumptions recommended by the actuary are in the aggregate reasonably related to actual experience, the System requests the actuary to conduct an experience investigation every other year.

An experience review was last performed as of June 30, 2008. As a result of this study, the Board of Trustees adopted new assumptions for PERS that revised rates of salary increase, withdrawal, pre-retirement mortality, and disability and service retirement for active members. Also adopted was a change in post-retirement mortality tables. New assumptions for MHSPRS were adopted that changed retirement decrements and post-retirement mortality tables. A change in salary scale, as well as post-retirement mortality tables, were adopted for SLRP. The assumptions for wage inflation and price inflation were changed for PERS, MHSPRS, and SLRP. The benefit provision for maximum reportable earned compensation increased for PERS and SLRP, and the 20-percent corridor around the market value of assets used to develop the actuarial value of assets was eliminated for PERS, MHSPRS, SLRP, and MRS. Changes resulting from the experience for PERS, MHSPRS, and SLRP were used in the actuarial valuations as of June 30, 2010.

The June 30, 2008, experience review also recommended a change in post-retirement mortality tables for MRS. This change was adopted and used in the valuations as of September 30, 2009.

7. Contributions Required and Contributions Made

Funding policies for PERS, MHSPRS, and SLRP provide for employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are adequate to accumulate sufficient assets to pay benefits when due. Contribution rates are established by the Board of Trustees for PERS, MHSPRS, and SLRP in accordance with actuarial contribution requirements determined through the most recent valuation.

The annual required contribution rate (ARC) is set two years in advance. Based on the June 30, 2008, valuation, the consulting actuary recommended an employer contribution rate for PERS of 12.00 percent, effective for fiscal year 2010. The Board of Trustees adopted the actuary's recommendation to assure a sufficient funding level to maintain the unfunded accrued liability amortization period within 30 years. For fiscal year 2011, the Board of Trustees approved an increase to 13.56 percent beginning July 1, 2010. However, due to the passage of House Bill 1, of the 2010 First Extraordinary Session, the Mississippi Legislature increased the employee contribution rate by 1.75 percent from 7.25 to 9.00 percent, effective July 1, 2010. Due to the increase in employee contribution rate, the employer contribution rate increase to 13.56 percent was delayed until the completion of the June 30, 2010, actuarial valuation. As a result of the increase in employee contribution rate and due to favorable investment experience in fiscal year 2010, the consulting actuary recommended the PERS' required employer contribution rate of 12.93 percent in the June 30, 2010, valuation report. This contribution rate is scheduled to begin July 1, 2011.

Based on the June 30, 2010, valuations, the consulting actuary recommended an increase in the employer contribution rate for MHSPRS from 30.30 percent to 35.21 percent and an increase in employer contribution rate for SLRP from 6.65 percent to 7.40 percent, in order to keep the anticipated accrued liability payment period within 30 years in accordance with GASB Statements 25 and 27. The Board of Trustees approved these increases effective beginning July 1, 2011.

Costs to administer plans are financed from investment earnings. In addition, employers of MHSPRS, SLRP, and MRS contribute an administrative fee to the System.

Required Contributions
(Dollars in Thousands)

	Contribution Requirements						Contributions Made				
	Normal Cost		Unfunded Cost				Member		Employer		
System	Amount	Percent of Covered Payroll	Amount	Percent of Covered Payroll	Total Required Contributions	Total Actual Contributions	Amount	Percent of Covered Payroll	Amount	Percent of Covered Payroll	Covered Payroll
PERS	$ 680,253	11.38%	$ 490,688	7.87%	$ 699,824	$ 1,170,941	$ 439,397	7.25%	$ 731,544	12.00%	$ 5,763,556
MHSPRS	6,495	24.12	4,161	13.43	11,096*	14,641	2,043	7.25	12,598*	30.30	26,353
SLRP	467	6.89	181	2.76	452	648	202	3.00	446	6.65	6,605
Total	$ 687,215	-	$ 495,030	-	$ 711,372	$ 1,186,230	$ 441,642	-	$ 744,588	-	$ 5,796,514

**Due to Senate Bill No. 2659 enacted in 2004, an estimated additional contribution of $3,100,000 (11.7% of payroll) was used to calculate total required contributions for MHSPRS. The actual amount received in 2010 was $3,985,000.*

Funding policies for MRS, established by Mississippi statutes, provide for a property tax to be levied within each municipality and deductions from salaries of members, at rates sufficient to make the plans actuarially sound. An actuarial valuation is performed on an annual basis to determine the rates necessary to make the System actuarially sound. However, Mississippi statutes limit any increase in the property tax levy for pension contributions to one-half mill per year. Given this constraint on employer contribution increases, there is a possibility, depending upon future experience, that one or more of the plans under MRS will be exhausted at some point in the future. Such an event would lead to at least a temporary reduction in benefits paid until the affected plan's cash flow position improved.

Mississippi Code Ann. (1972) provides that a municipality may fund or assist in funding MRS through the use of revenue bonds in order to make the plans under MRS actuarially sound by July 1, 2000. During the fiscal year ended June 30, 1998, a participating municipality issued $50.0 million in Pension Obligation Bonds. The proceeds of the bond issuance were transferred to

MRS in lieu of employer contributions. The millage levied by this municipality for MRS employer contributions was used by the municipality to retire the bond indebtedness. In October 2009, the municipality resumed submitting employer contributions.

An actuary is used to determine the implications of the statutory limited contribution levels. At September 30, 2009, aggregate contributions for MRS were equivalent to 114.4 percent of the required annual contributions. Certain municipalities will have a contribution deficiency after the maximum one-half mill per year increase.

The employer contribution millage rates required for each municipality ranged from 0.51 to 9.01 mills, totaling $16,892,000 in actual contributions. The employee contribution rates ranged from 7.0 percent to 10.0 percent of covered payroll, totaling $152,428 in actual contributions.

(a) Legally Required Reserves

Provisions for reserves, in which all assets of the System are to be credited according to their purpose, are established by Section 25-11-123, Article 3, Mississippi Code Ann. (1972) and may be amended only by the State of Mississippi Legislature. The annuity savings account accumulates the contributions made by members and accumulated interest. The annuity reserve represents the actuarial value of all annuities in force. The reserve account that accumulates contributions made by the employers, and where all retirement allowances and other benefits are charged, is referred to as the employer's accumulation account.

The following table presents the reserve account balances and the unfunded actuarial accrued liability as of June 30, 2010 (in thousands):

	PERS	MHSPRS	MRS	SLRP
Annuity savings account	$ 4,266,621	$ 20,658	$ 2,522	$ 2,509
Annuity reserve	3,161,093	27,280	-	1,233
Employer's accumulation account	12,715,712	233,150	188,657	9,499
Unfunded actuarial accrued liability (UAAL)	11,256,562	130,189	189,857	3,840
Actuarial accrued liability	$ 31,399,988	$ 411,277	$ 381,036	$ 17,081
Percent funded	64.2%	68.3%	50.2%	77.5%
Annual covered payroll	$ 5,763,556	$ 26,353	$ 1,608	$ 6,605
UAAL as a percentage of annual covered payroll	195.3%	494.0%	11,807.0%	58.1%

**The annuity reserve for MRS is reflected as of the September 30, 2009, valuation date.*

8. Retirement Plan of System Employees

System employees are members of PERS. The payroll for System employees covered by PERS for the year ended June 30, 2010, was $6,058,000; the System's total payroll expense was $7,922,000. System contributions for the years ended June 30, 2010, 2009, and 2008, were $721,000, $704,000, and $656,000, respectively. The contributions for 2010, 2009, and 2008 were 100, 100, and 97 percent of required contributions, respectively. Refer to Note 7 to the basic financial statements for more information regarding contributions made for fiscal year 2010. System contributions represent less than one percent of total contributions required for all participating employers.

9. Ten-Year Historical Trend Information

Ten-year historical trends, as noted in required supplementary information, are designed to provide information about progress made by PERS, MHSPRS, MRS, and SLRP in accumulating sufficient assets to pay benefits when due. This information is on pages 44 and 45. Other supplementary information presented in succeeding sections of this report is for the benefit of statement users and is not a required part of the basic financial statements.

Required Supplementary Information

Schedules of Funding Progress – Last Ten Fiscal Years

(In Thousands) – (Unaudited)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Percent Funded (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Annual Covered Payroll ((b - a)/c)
Public Employees' Retirement System of Mississippi						
6/30/01	$ 16,191,631	$ 18,494,207	$ 2,302,576	87.5%	$ 4,112,238	56.0%
6/30/02	16,823,185	20,180,347	3,357,162	83.4	4,220,539	79.5
6/30/03	16,979,457	21,485,838	4,506,381	79.0	4,431,600	101.7
6/30/04	17,103,285	22,847,260	5,743,975	74.9	4,617,273	124.4
6/30/05	17,180,705	23,727,098	6,546,393	72.4	4,786,280	136.8
6/30/06	18,321,063	24,928,464	6,607,401	73.5	4,971,974	132.9
6/30/07	19,791,564	26,862,636	7,071,072	73.7	5,196,295	136.1
6/30/08	20,814,720	28,534,694	7,719,974	72.9	5,544,705	139.2
6/30/09	20,597,581	30,594,546	9,996,965	67.3	5,831,864	171.4
6/30/10	20,143,426	31,399,988	11,256,562	64.2	5,763,556	195.3
Mississippi Highway Safety Patrol Retirement System						
6/30/01	$ 259,713	$ 250,621	$ (9,092)	103.6%	$ 21,972	(41.4)%
6/30/02	263,255	285,548	22,293	92.2	20,339	109.6
6/30/03	259,746	302,134	42,388	86.0	21,052	201.3
6/30/04	256,481	316,570	60,089	81.0	22,683	264.9
6/30/05	253,477	335,117	81,640	75.6	22,343	365.4
6/30/06	265,637	350,638	85,001	75.8	24,499	347.0
6/30/07	284,626	371,233	86,607	76.7	27,037	320.3
6/30/08	298,630	381,578	82,948	78.3	29,597	280.3
6/30/09	292,322	394,630	102,308	74.1	26,390	387.7
6/30/10	281,088	411,277	130,189	68.3	26,353	494.0
Municipal Retirement Systems*						
9/30/00	$ 253,713	$ 375,059	$ 121,346	67.6%	$ 8,485	1,430.1%
9/30/01	262,260	381,782	119,522	68.7	7,350	1,626.1
9/30/02	259,586	393,011	133,425	66.1	5,980	2,231.2
9/30/03	250,640	399,622	148,982	62.7	4,584	3,250.0
9/30/04	235,198	393,061	157,863	59.8	3,675	4,295.6
9/30/05	217,140	387,386	170,246	56.1	2,909	5,852.4
9/30/06	213,553	383,355	169,802	55.7	2,223	7,638.4
9/30/07	213,432	379,584	166,152	56.2	1,953	8,507.5
9/30/08	208,479	368,131	159,652	56.6	1,713	9,320.0
9/30/09	191,179	381,036	189,857	50.2	1,608	11,807.0
Supplemental Legislative Retirement Plan						
6/30/01	$ 9,124	$ 10,302	$ 1,178	88.6%	$ 5,941	19.8%
6/30/02	9,730	11,328	1,598	85.9	5,988	26.7
6/30/03	10,196	12,220	2,024	83.4	6,289	32.2
6/30/04	10,323	12,934	2,611	79.8	5,794	45.1
6/30/05	10,634	13,402	2,768	79.3	6,530	42.4
6/30/06	11,620	14,064	2,444	82.6	6,354	38.5
6/30/07	12,722	15,054	2,332	84.5	6,554	35.6
6/30/08	13,412	15,615	2,203	85.9	6,753	32.6
6/30/09	13,386	16,535	3,149	81.0	6,803	46.3
6/30/10	13,241	17,081	3,840	77.5	6,605	58.1

**Valuation information furnished for MRS is as of September 30.*

See Notes to Required Supplementary Schedules.

Schedules of Employer Contributions – Last Ten Fiscal Years

(In Thousands) – (Unaudited)

Fiscal Year Ended June 30	Annual Required Contribution	Percentage Contributed
Public Employees' Retirement System of Mississippi		
2001	$ 398,833	100.0%
2002	400,943	100.0
2003	411,503	100.0
2004	432,081	100.0
2005	482,967	100.0
2006	514,525	100.0
2007	621,497	90.0
2008	636,546	97.0
2009	657,048	100.0
2010	699,824	100.0
Mississippi Highway Safety Patrol Retirement System		
2001	$ 5,576	100.0%
2002	3,452	100.0
2003	5,321	100.0
2004	5,928	100.0
2005	9,088	100.0
2006	8,692	100.0
2007	10,023	100.0
2008	10,492	100.0
2009	11,668	100.0
2010	11,096	100.0
Municipal Retirement Systems*		
2000	$ 12,364	114.5%
2001	11,276	125.9
2002	10,823	132.5
2003	11,989	116.6
2004	13,286	104.5
2005	14,091	100.6
2006	15,397	101.5
2007	15,426	97.1
2008	15,219	106.0
2009	14,765	114.4
Supplemental Legislative Retirement Plan		
2001	$ 371	100.0%
2002	376	100.0
2003	379	100.0
2004	398	100.0
2005	367	100.0
2006	413	100.0
2007	423	100.0
2008	436	100.0
2009	449	100.0
2010	452	100.0

**Valuation information furnished for MRS is as of September 30.*

See Notes to Required Supplementary Schedules.

1. Schedules of Funding Progress

   The funding percentage of the actuarial accrued liability is a measure intended to help users assess each of the plan's funding status on a going-concern basis and assess progress being made in accumulating sufficient assets to pay benefits when due. The actuarial value of assets is determined on a market-related basis that recognizes 20 percent of the current year's unrecognized and unanticipated gains and losses (both realized and unrealized), as well as 20 percent of the prior years' unrecognized and unanticipated gains and losses (both realized and unrealized).

   Allocation of the actuarial present value of projected benefits between accrued and future service liabilities is based on service using the entry age actuarial cost method. Assumptions, including projected pay increases, are the same as used to determine the plan's annual required contribution. For additional information regarding this schedule, refer to Note 6, Funding Status and Progress.

2. Schedules of Employer Contributions

   The required employer contributions and percent of those contributions actually made are presented in this schedule.

   Employer contribution rates for PERS, MHSPRS, and SLRP are set by state statute. The adequacy of these rates is assessed annually by individual actuarial valuations. Unfunded actuarial accrued liabilities are amortized as a level percent of the active member payroll, over a fixed period of future years which produces the statutory employer contribution rate. The employer contribution rate so computed, expressed as a percent of active member payroll, is designed to accumulate sufficient assets to pay benefits when due. For MRS, the unfunded employer liability is being amortized on a closed basis as a level percent over a period of 30 years, beginning September 30, 1990. The current financing arrangement provides for a contribution determined as a percentage of each city's assessed property valuation. Actual MRS employer contributions were $16,892,000, which was 114.4 percent of required contributions for the valuation period ending September 30, 2009.

   The Governmental Accounting Standards Board (GASB) Statement No. 25 requires a maximum acceptable amortization period for the total unfunded actuarial liability of not more than 30 years. In order to comply with the GASB statement, the consulting actuary recommended, in the June 30, 2008, actuarial valuation report, a PERS employer contribution rate of 12.00 percent effective July 1, 2009. In the June 30, 2009, valuation report, the consulting actuary recommended an employer contribution rate of 13.56 percent. In the 2010 First Extraordinary Session, the Mississippi legislature passed a 1.75 percent increase in employee contribution rate, effective July 1, 2010. As a result, the Board of Trustees delayed increasing the employer contribution rate to 13.56 until July 1, 2012. Due to the increase in employee contribution rate and favorable investment performance in fiscal year 2010, the consulting actuary recommended an employer contribution rate of 12.93 percent, in the June 30, 2010, valuation report. The Board of Trustees approved the 0.93 percent increase to 12.93 percent effective July 1, 2011. At June 30, 2010, the actual employer contribution amount for PERS was $731,544,000, which was 100 percent of required total contributions. Actual employer contributions for MHSPRS and SLRP also remain at 100 percent of annual required contribution.

2009/2010 Fiscal Year

PERS Annual Required Contribution (ARC) – Based on the Valuation as of June 30, 2008

Annual Required Contribution (ARC)	Rate
Normal	4.02%
Accrued liability	7.98
Total	12.00%

3. Actuarial Assumptions

(a) Plan Overview

Based on the most recent actuarial valuation report dated June 30, 2010, the Board of Trustees adopted an employer contribution rate of 12.93 percent for PERS, 35.21 percent for MHSPRS, and 7.40 percent for SLRP effective July 1, 2011. The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

	PERS	MHSPRS	MRS	SLRP
Valuation date	June 30, 2010	June 30, 2010	September 30, 2009	June 30, 2010
Actuarial cost method	Entry age	Entry age	Entry age	Entry age
Amortization method	Level percent open	Level percent open	Level dollar closed	Level percent open
Remaining amortization period	30.0 years	30.0 years	25.0 years	29.7 years
Asset valuation method	5-year smoothed market	5-year smoothed market	5-year smoothed market	5-year smoothed market
Actuarial assumptions:				
Investment rate of return	8.0%	8.0%	8.0%	8.0%
Projected salary increases	4.5-15.0%	5.0-10.52%	4.5-6.0%	4.50%
Wage inflation rates	4.25%	4.25%	4.25%	4.25%
Increase in benefits after retirement	3.0%[1]	3.0%[2]	2.0-3.75%[3]	3.0%[1]

[1]Calculated 3% simple interest to age 55, compounded each year thereafter. [2]Calculated 3% simple interest to age 60, compounded each year thereafter.
[3]Varies depending on municipality.

(b) Effects of Current Year Changes in Plan Requirements

Plan requirements may be affected by changes in actuarial assumptions, benefit provisions, plan provisions, actuarial funding methods, or other significant factors.

The following amendments were incorporated into the actuarial valuations:

PERS

– The employee contribution rate was increased from 7.25 percent to 9.00 percent effective July 1, 2010. For valuation purposes, it was assumed this change is permanent. As a result, the employer contribution rate for fiscal year 2010/2011 was set at 12.00 percent, the same level as the previous year.

– The post-retirement mortality table used for service retirements and dependents of deceased pensioners has been changed from the 1983 Group Annuity Mortality Table, set forward one year for women, to the 1994 Group Annuity Mortality Table.

MHSPRS

– Due to Senate Bill No. 2659 enacted in 2004, additional contributions are being made to the System. The estimate used for last year's valuation was $3,100,000 annually. The actual additional contribution for 2010 is $3,985,000. However, since previous years' additional contributions have not been consistent, the last three years have been averaged to provide 2010 valuation results, which total an anticipated amount of $3,400,000 annually in the future.

– The valuation results are developed based upon the employer contribution rate of 35.21 percent of payroll.

SLRP

– The valuation results are developed based upon the employer contribution rate of 7.40 percent of payroll.

MRS

– The COLA for retirees of the City of Biloxi has been extended for an additional ten-year period with the COLA being compounded beginning with the state fiscal year in which the retired member turns age 55.

– The maximum COLA percentage for retirees of the City of Hattiesburg has been increased from 25.00 percent to 30.00 percent.

– The post-retirement mortality table used for service retirements and dependents of deceased pensioners has been changed from the 1983 Group Annuity Mortality Table, set forward 3 years for females, to the 1994 Group Annuity Mortality Table.

– The assumption for wage inflation has been changed from 4.00 percent to 4.25 percent, and the assumption for price inflation has been changed from 3.75 percent to 3.50 percent.

– The 20-percent corridor around the market value of assets used to develop the actuarial value of assets was eliminated.

Changes due to normal amortization and actuarial experience had the following effect on the unfunded accrued liability amortization period. The unfunded actuarial accrued liability for MRS is amortized on a closed basis as a level dollar amount over a period of 30 years.

	PERS	MHSPRS	SLRP
Previously reported period of years	30.0	29.3	26.2
Change due to:			
Normal amortization	(1.0)	(1.0)	(1.0)
Actuarial experience	0.7	1.1	3.9
Assumption changes	-	-	-
Plan amendments	-	-	-
Method change	-	-	-
UAL contribution experience	0.3	0.6	0.6
Computed period of years	30.0	30.0	29.7

Schedule 1

Schedule of Administrative Expenses and Depreciation

For the Year Ended June 30, 2010

(In Thousands)

	Amount
Administrative expenses:	
Personal services:	
Salaries and wages	$ 6,080
Employee benefits	1,842
Travel and subsistence	79
Total personal services	8,001
Contractual services:	
Professional services (See Schedule 3)	1,689
Communications	571
Data processing installation, training, and licensing	260
Rent of building space and office equipment	222
Utilities	186
Repair and maintenance of building and equipment	179
Bank charges	130
Janitorial	86
Security	63
Insurance	37
Other contractual services	23
Total contractual services	3,446
Commodities:	
Printing, binding, and padding	125
Office supplies and expendable repair parts	79
Office equipment (not capitalized)	66
Business meeting supplies	11
Fuel	11
Total commodities	292
Total administrative expenses	11,739
Depreciation:	
Building	369
Furniture and equipment	77
Total depreciation	446
Total administrative expenses and depreciation	$ 12,185

Schedule 2

Schedule of Administrative Expenditures/Expenses – Budget and Actual

(Non-GAAP Budgetary Basis) – For the Year Ended June 30, 2010

(In Thousands)

Budget Comparisons

	2010		Variance
	Budget	Actual	Favorable (Unfavorable)
Administrative expenditures:			
Personal services:			
Salaries, wages, and fringe benefits	$ 8,527	$ 7,889	$ 638
Travel and subsistence	80	73	7
Contractual services*	3,864	3,429	435
Commodities**	335	240	95
Capital outlays – other than equipment	20	17	3
Capital outlays	96	84	12
Subsidies, loans, and grants	-	-	-
Total	$ 12,922	$ 11,732	$ 1,190

**Contractual Services budget includes $145,000 for initial phases of the pension administration computer system replacement.*
***Commodities budget includes $5,000 for initial phases of the pension administration computer system replacement.*

The budget and actual (non-GAAP budget basis) schedule presents a comparison of the legally adopted budget with actual data on a budgetary basis. Accounting principles applied for purposes of developing data on a budgetary basis sometimes differ significantly from those used to present financial statements in conformity with generally accepted accounting principles. Therefore, a reconciliation of the resulting differences is presented below for the year ended June 30, 2010.

Reconciliation of Budgetary Basis Administrative Expenditures to GAAP Basis Administrative Expenses

	Amount
Administrative expenditures (budgetary basis)	$ 11,732
Adjustments:	
Compensated leave accrual	33
Bank service charges	130
Capital asset purchases recorded as expenditures for budgetary purposes	(19)
Fiscal year 2010 budget expenditures paid during lapse period; expenses recorded in fiscal year 2011	(830)
Fiscal year 2009 budget expenditures paid during lapse period; expenses recorded in fiscal year 2010	394
Fiscal year 2010 accruals to GAAP basis	299
Administrative expenses (GAAP basis)	$ 11,739

Schedule of Managers' Fees, Investment Global Out-Of-Pocket and Custodial Fees, and Professional Services Fees – For the Year Ended June 30, 2010

(In Thousands)

	Amount
Investment managers' fees:	
Private Equity Managers	$ 5,445
Artisan Partners Limited Partnership	2,798
Lazard Asset Management	2,469
The Boston Company – mid cap equity	2,336
Eagle Capital Management	2,207
INTECH	2,190
Wellington Asset Management – small cap equity	1,946
Wellington Asset Management – mid cap equity	1,887
Dimensional Fund Advisors – EAFE	1,823
New Star Institutional Managers Limited	1,721
The Boston Company – small cap equity	1,674
UBS Realty Investors	1,660
Pacific Investment Management Company – debt investments	1,419
Principal Global Investors	1,414
Dimensional Fund Advisors – small cap equity	1,394
Fayez Sarofim & Company	1,334
Acadian Asset Management	1,299
Hancock Timber Resource Group	1,130
AllianceBernstein	1,052
Loomis Sayles & Company	1,027
Jarislowsky Fraser Limited	1,007
Aberdeen Asset Management	921
Capital Guardian Trust Company	674
RREEF – REITs	646
AEW Partners Fund V	557
Wellington Asset Management – REITs	504
Angelo Gordon & Company	334
BlackRock Institutional Trust Company – debt investments	289
AEW Partners Fund VI	271
Northern Trust Global Investment	270
Wellington Asset Management – emerging markets debt investments	223
BlackRock Institutional Trust Company – EAFE	222
CIS, a Division of Dreyfus	206
State Street Global Advisors – equity	118
Heitman	97
State Street Global Advisors – debt investments	80
Absolute Return Managers	62
Total*	44,706
Custodial and global out-of-pocket fees – Bank of New York Mellon	168
Total managers' fees, out-of-pockets, and custodial fees	$44,874
Securities lending fees – Bank of New York Mellon	$ 1,715
Professional service fees:	
Fund evaluation – Mercer Investment Consulting, Inc.	$ 510
Actuary – Cavanaugh Macdonald	268
Medical fees – clinics, labs	268
Legal – State of Mississippi – Office of the Attorney General, Other	254
Audit – Department of Audit, KPMG LLP	124
Voting services – VR Election Services	104
Legal – Chapman and Cutler, Whiteford, Taylor and Preston	87
Graphic design – Maris, West & Baker	33
Mailing services – Postage Savers, Sourcelink	21
System development consultant – L.R. Wechsler LTD	20
Total professional service fees	$ 1,689

**Includes fees of $10,969,965, which are reflected in net appreciation on the Statement of Changes in Fiduciary Net Assets.*

Schedule 4

Summary Schedule of Cash Receipts and Disbursements

Pension Trust Funds – For the Year Ended June 30, 2010

(In Thousands)

	Amount
Cash balance at beginning of year	$ 343,370
Receipts:	
Contributions:	
Employee	527,909
Employer	759,978
Total contributions	1,287,887
Investments:	
Securities lending and reverse repurchase agreements	94,128,872
Investments matured and sold	13,180,881
Investment income	938,381
Total investments	108,248,134
Administrative receipts	616
Other receipts	12,053
Total cash receipts	109,548,690
Disbursements:	
Annuities and refunds:	
Retirement annuities	1,693,064
Refunds to terminated employees	73,309
Total annuities and refunds	1,766,373
Investments:	
Securities lending and reverse repurchase agreements	94,130,384
Investments purchased	13,634,106
Investment expenses	34,616
Total investments	107,799,106
Administrative expenses	12,197
Other disbursements	156
Total cash disbursements	109,577,832
Cash balance at end of year	$ 314,228

Schedule 5

Schedule of Investments Due to MRS from PERS – June 30, 2010

(In Thousands)

Due to MRS:	Amount
Biloxi Municipal	$ 2,176
Biloxi Fire and Police	7,156
Clarksdale Fire and Police	1,076
Clinton Fire and Police	6,699
Columbus Fire and Police	1,329
Greenville Fire and Police	3,491
Greenwood Fire and Police	2,657
Gulfport Fire and Police	8,730
Hattiesburg Fire and Police	19,159
Jackson Fire and Police	60,725
Laurel Fire and Police	2,975
McComb Fire and Police	1,030
Meridian Municipal	982
Meridian Fire and Police	6,562
Natchez Fire and Police	1,840
Pascagoula Fire and Police	6,596
Tupelo Fire and Police	5,891
Vicksburg Fire and Police	10,247
Yazoo City Fire and Police	598
Total investments due to MRS	$ 149,919

Schedule 6

Public Employees' Retirement System of Mississippi

Statement of Changes in Assets and Liabilities – Agency Funds
For the Year Ended June 30, 2010

(In Thousands)

	Balance June 30, 2009	Additions	Deductions	Balance June 30, 2010
Flexible Benefits Cafeteria Plan				
Assets:				
Cash	$ 19	$ 87	$ 89	$ 17
Accounts receivable	-	-	-	-
Total assets	$ 19	$ 87	$ 89	$ 17
Liabilities:				
Accounts payable	$ 15	$ -	$ -	$ 15
Funds held for others	4	87	89	2
Total liabilities	$ 19	$ 87	$ 89	$ 17