Financials

HORNE LLP
CPAs & Business Advisors

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Public Employees' Retirement System of Mississippi

We have audited the 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, 2006, and the related statement of changes in fiduciary net assets for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of Public Employees' Retirement System of Mississippi as of June 30, 2006, and the changes in the net assets available for benefits for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated November 28, 2006, 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 18 through 26 and the schedules of funding progress and employer contributions are not required parts of the basic financial statements but are supplementary information required by accounting standards generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires 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 expressing an opinion on the financial statements taken as a whole. The supplementary information included in Schedules 1 through 6 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Horne LLP

Jackson, Mississippi
November 28, 2006

This section presents management's discussion and analysis of the Public Employees' Retirement System of Mississippi's (System) financial position and performance for the year ended June 30, 2006. 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 which 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 State Highway 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 is also responsible for the administration of two defined contribution plans; the Government Employees' Deferred Compensation Plan (GEDCP), a supplemental retirement savings plan, and the Optional Retirement Plan (ORP), 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, 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 $1.5 billion, or 8.4 percent. This increase was primarily the result of overall market performance in investments.
- The rate of return on investments of the defined benefit plans administered by the System during fiscal year 2006 was 10.7 percent compared with fiscal year 2005 rate of return of 9.8 percent. The U.S. and international equity portfolios returned 10.1 percent and 26.0 percent for the year respectively, while the return on debt securities was negative .5 percent. The rate of return on real estate investments was 18.7 percent as of fiscal year end.
- The defined benefit plans administered by the System were actuarially funded at an average of 72.0 percent as of June 30, 2006, an increase from the comparative average of 71.8 percent as of June 30, 2005. The increase in funding percentage was due to favorable investment performance in recent years and the effect of setting the actuarial value of assets equal to market value on June 30, 2006. This change in actuarial method will apply to the Municipal Retirement Systems plans at the next valuation date, which is September 30, 2006. The effects of asset valuation are further described in note 6 of the basic financial statements.
- The GEDCP net assets increased $90.7 million during fiscal year 2006 primarily because of an increase in the number of participants and an increase in the market value of securities.
- The GEDCP rates of return for investment options ranged from a high of 26.4 percent to a low of negative .2 percent compared to prior year investment option returns of a high of 15.0 percent and a low of 2.2 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, 2006. This financial information also summarizes the 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.** As of June 30, 2006, 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 GEDCP, 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, 2006, and for the year then ended. 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 that is 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 is also provided.
- Note 2 provides a summary of significant accounting policies, including the basis of accounting for each fund type, investment accounting policies, 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 describes required supplementary information.

(3) **Required Supplementary Information.** The required supplementary information consists of two schedules and related notes concerning actuarial information, funding status and required contributions of 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.

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 proportionate investment income 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 Statements of Fiduciary Net Assets. Investment gains or losses are reported in the Statements of Changes in Fiduciary Net Assets of each retirement plan. The rates of return on investments is therefore approximately the same for each of the plans.

Systems Total Investments

At June 30, 2006, the System's total investments approximated $18.7 billion, an increase of $1.4 billion from fiscal year 2005 investment totals. The combined investment portfolio experienced a return of 10.7 percent compared with a median large public plan return of 11.4 percent*. The System's investment return exceeded the 9.5 percent policy target and investment performance over the past fiscal year has significantly contributed to the improvement of the System's overall financial position. Investment results over time compared with the System's benchmarks are presented on page 58 in the Investment Section.

*Callan Associates Public Plan Sponsor Large Fund Universe

Equity Securities

At June 30, 2006, the System held $13.5 billion in U.S. and international equity securities, an increase of $1.1 billion from fiscal year 2005. U.S. equity and international equity securities had returns of 10.1 percent and 26.0 percent respectively, for the 2006 fiscal year, compared to the System's benchmark returns of 9.6 percent and 26.6 percent, respectively.

Long-Term Debt Securities

At June 30, 2006, the System held $4.2 billion in U.S. long-term debt securities, which is approximately $19 million less than fiscal year 2005 holdings. Long-term debt securities returned a negative .5 percent compared with the System's benchmark return of negative .8 percent.

Real Estate

The real estate portfolio is divided between core commingled fund investments, which directly invest in properties, and managed portfolios of Real Estate Investment Trusts (REIT). REITs are exchange traded securities which provide indirect exposure to real estate properties and real estate management companies. At June 30, 2006, holdings totaled $723.1 million, an increase of $248.5 million from 2005.

Real estate investments experienced returns of 18.7 percent for the year end. The NCREIF Index, the benchmark for the System's core commingled fund investments, saw returns of 18.7 percent for the year ended June 30, 2006, while the Wilshire REIT Index, used to benchmark REIT investments, had returns of 22.0 percent for the same period.

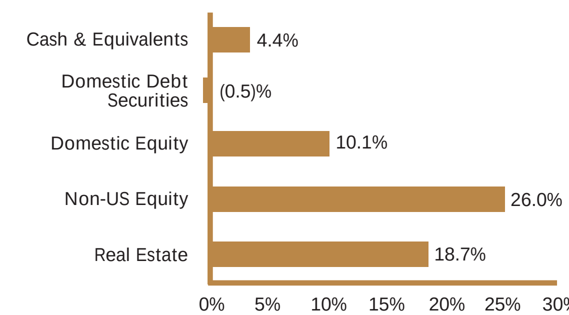
Short-Term Securities

At June 30, 2006, the System held $276.2 million in short-term investments, an increase of $156.4 million from fiscal year 2005. Short-term investments returned 4.4 percent for the 2006 fiscal year.

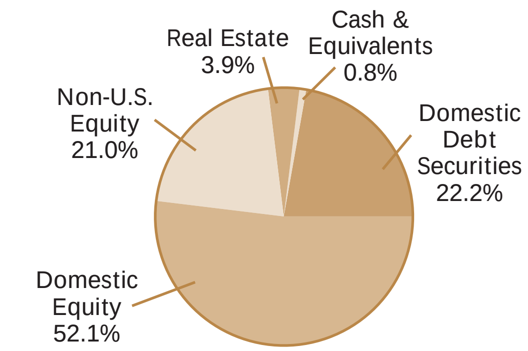
Securities Lending

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, The Bank of New York (BNY). The broker-dealers provide collateral to BNY and generally use the borrowed securities to cover short sales and failed trades. BNY invests cash collateral in order to earn interest. For the 2006 fiscal year, net securities lending income to the System amounted to $10.4 million, an increase of $4.3 million from fiscal year 2005. The increase in securities lending revenue for fiscal year 2006 is due to BNY lending a much greater volume of securities, particularly two to three times more U.S. equities.

Defined Benefit Plans Return
- Investment Rates of Return by Investment Type
Fiscal Year 2006



Defined Benefit Plans
- Asset Allocation at Fair Value
June 30, 2006



Analysis of Individual Systems – Defined Benefit Plans

Public Employees' Retirement System

The Public Employees' Retirement System of Mississippi (PERS) 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 the 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, 2006, amounted to $18.3 billion, an increase of $1.4 billion (8.5 percent) over $16.9 billion at June 30, 2005.

Additions to PERS net assets held in trust for benefits include employer and member contributions and investment income. For the 2006 fiscal year, member and employer contributions increased from those of fiscal year 2005 from $857.8 million to $933.4 million or an increase of $75.6 million (8.8 percent). This change is attributed to an increase in the employer contribution rate, effective July 1, 2005, from 9.75 percent to 10.75 percent. PERS recognized net investment income of $1.8 billion for the 2006 fiscal year, compared with $1.5 billion for the 2005 fiscal year.

Deductions from PERS net assets held in trust for benefits primarily include retirement and beneficiary benefits, and administrative expenses. For the 2006 fiscal year, benefits amounted to $1.3 billion, an increase of $84 million (7.1 percent) over the 2005 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 2006 fiscal year, the costs of administering the System amounted to $10.0 million, a decrease of $1.3 million (11.6 percent) from fiscal year 2005. The decrease in administrative expenses was due to a reduction in appropriated budget funds.

An actuarial valuation of PERS assets and benefit obligations is performed annually. At the date of the most recent actuarial valuation, June 30, 2006, the funded status of the plan increased to 73.5 percent from 72.4 percent at June 30, 2005. The amount by which the PERS actuarial assets were less than actuarial benefit liabilities was $6.6 billion at June 30, 2006, essentially the same as for June 30, 2005. The increase in funded status relates primarily to favorable investment returns, the effect of setting actuarial assets equal to market value of net assets and an increase in the employer contribution rate which changed to 10.75 on July 1, 2005.

Net Assets – Defined Benefit Plans
June 30
(In Thousands)

	PERS 2006	PERS 2005	MHSPRS 2006	MHSPRS 2005
Assets:				
Cash, cash equivalents, and receivables	$ 656,173	$ 555,968	$ 7,781	$ 7,245
Investments, at fair value	18,308,481	16,774,048	230,230	246,883
Invested securities lending collateral	4,974,021	2,606,010	72,558	37,864
Capital assets	17,180	17,744	-	-
Total assets	23,955,855	19,953,770	310,569	291,992
Liabilities:				
Investment accounts and other payables	588,672	409,623	7,103	5,954
Deferred revenue	-	50,000	-	-
Securities lending liability	5,046,120	2,603,612	37,829	37,829
Total liabilities	5,634,792	3,063,235	44,932	43,783
Total net assets	$ 18,321,063	$ 16,890,535	$ 265,637	$ 248,209

Changes in Net Assets – Defined Benefit Plans
Year Ended June 30
(In Thousands)

	PERS 2006	PERS 2005	MHSPRS 2006	MHSPRS 2005
Additions:				
Contributions	$ 933,443	$ 857,789	$ 8,473	$ 7,797
Investment income	1,777,853	1,507,079	25,934	21,897
Other additions	580	530	2,628	2,388
Total additions	2,711,876	2,365,398	37,035	32,082
Deductions:				
Pension benefits	1,198,230	1,116,405	19,359	18,005
Refunds	73,344	71,064	110	86
Administrative and other deductions	9,774	11,054	138	127
Total deductions	1,281,348	1,198,523	19,607	18,218
Increase (decrease) in net assets	$ 1,430,528	$ 1,166,875	$ 17,428	$ 13,864

Mississippi Highway Safety Patrol Retirement System

The 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, 2006 amounted to $265.6 million, an increase of $17.4 million (7.0 percent) from $248.2 million at June 30, 2005.

Additions to MHSPRS net assets held in trust for benefits include employer and member contributions and investment income. For the 2006 fiscal year, member and employer contributions increased by $700 thousand (8.7 percent) from those of fiscal year 2005, from $7.8 million to $8.5 million. Contributions increased due to an increase in participants. MHSPRS recognized net investment income of $25.9 million for the 2006 fiscal year compared with $21.9 million for the 2005 fiscal year.

Net Assets – Defined Benefit Plans
June 30
(In Thousands)

	MRS 2006	MRS 2005	SLRP 2006	SLRP 2005	Eliminations 2006	Total Defined Benefit Pension Plans 2006	Total Defined Benefit Pension Plans 2005	Total Percent Change
Assets:								
Cash, cash equivalents, and receivables	$ 6,554	$ 6,153	$ 323	$ 276	$ (7)	$ 670,824	$ 569,526	17.8%
Investments, at fair value	193,378	218,234	10,042	10,497	-	18,742,131	17,249,662	8.7%
Invested securities lending collateral	60,330	33,437	3,179	1,611	-	5,110,088	2,678,922	90.8%
Capital assets	-	-	-	-	-	17,180	17,744	(3.2)%
Total assets	260,262	257,824	13,544	12,384	(7)	24,540,223	20,515,854	19.6%
Liabilities:								
Investment accounts and other payables	5,979	5,384	314	257	(7)	$ 602,061	421,102	43.0%
Deferred revenue	-	-	-	-	-	-	50,000	0.0%
Securities lending liability	33,406	33,406	1,610	1,609	-	5,118,965	2,676,456	91.3%
Total liabilities	39,385	38,790	1,924	1,866	(7)	5,721,026	3,147,558	81.8%
Total net assets	$ 220,877	$ 219,034	$ 11,620	$ 10,518	$ -	$ 18,819,197	$ 17,368,296	8.4%

Changes in Net Assets – Defined Benefit Plans
Year Ended June 30
(In Thousands)

	MRS 2006	MRS 2005	SLRP 2006	SLRP 2005	Eliminations 2006	Total Defined Benefit Pension Plans 2006	Total Defined Benefit Pension Plans 2005	Total Percent Change
Additions:								
Contributions	$ 15,876	$ 14,749	$ 606	$ 614	$ -	$ 958,398	$ 880,949	8.8%
Investment income	21,563	19,337	1,137	932	-	1,826,487	1,549,245	17.9%
Other additions	-	-	-	-	(576)	2,632	2,388	10.2%
Total additions	37,439	34,086	1,743	1,546	(576)	2,787,517	2,432,582	14.6%
Deductions:								
Pension benefits	35,165	34,296	632	599	-	1,253,386	1,169,305	7.2%
Refunds	1	11	1	2	-	73,456	71,163	3.2%
Administrative and other deductions	430	395	8	8	(576)	9,774	11,054	(11.6)%
Total deductions	35,596	34,702	641	609	(576)	1,336,616	1,251,522	6.8%
Increase (decrease) in net assets	$ 1,843	$ (616)	$ 1,102	$ 937	$ -	$ 1,450,901	$ 1,181,060	22.8%

Deductions from MHSPRS net assets held in trust for benefits include retirement and beneficiary benefits and administrative fees. For the 2006 fiscal year, benefits amounted to $19.5 million, an increase of $1.4 million (7.6 percent) from the 2005 fiscal year. For the 2006 fiscal year, MHSPRS transferred $138 thousand to PERS to offset the cost of administration, an increase of $11 thousand (8.7 percent) from fiscal year 2005.

An actuarial valuation of MHSPRS assets and benefit obligations is performed annually. At the date of the most recent actuarial valuation, June 30, 2006, the funded status of the plan increased to 75.8 percent from 75.6 percent at June 30, 2005. The amount by which the MHSPRS actuarial assets were less than actuarial benefit liabilities was $85.0 million, compared with $81.6 million at June 30, 2005. The change in funded status relates primarily to favorable investment returns and the effect of setting actuarial assets equal to market value of net assets.

Municipal Retirement Systems

Two municipal retirement plans and seventeen fire and police disability and relief plans comprise the Municipal Retirement Systems (MRS). 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 five 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 member and employer contributions, and by earnings on investments. The aggregated plan's net assets held in trust for benefits at June 30, 2006 amounted to $220.9 million, an increase of $1.9 million (0.8 percent) from $219.0 million at June 30, 2005.

Additions to MRS net assets held in trust for benefits consist of employer and member contributions and investment income. For the 2006 fiscal year, member and employer contributions of $15.9 million was $1.2 million (7.6 percent) more than contributions of $14.7 million received in fiscal year 2005. Municipal plan employer contributions are funded through taxes levied on assessed properties. The increase in contributions is a result of increased property values and millage rates within some municipalities. MRS recognized net investment income of $21.6 million for the 2006 fiscal year compared with $19.3 million for the 2005 fiscal year.

Deductions from MRS net assets held in trust for benefits include retirement and beneficiary benefits and administrative fees. For the 2006 fiscal year, benefits amounted to $35.2 million, an increase of $859 thousand (2.5 percent) over the 2005 fiscal year. The increase in benefit payments resulted, in part, from plan amendments. Additionally, retirees added to retirement roles have somewhat higher benefits due to higher annual salaries while those removed from roles were typically retired for a number of years based on salary rates which are comparatively lower. For the 2006 fiscal year, MRS transferred $430 thousand to PERS to offset the cost of administration, compared to $395 thousand transferred for fiscal year 2005. Administrative fees are calculated based on the amount of contributions.

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, 2005, decreased to 56.1 percent from 59.8 percent at September 30, 2004. The amount by which the MRS actuarial assets were less than actuarial benefit liabilities was $170.2 million at September 30, 2005, compared with $157.9 million at September 30, 2004. The decrease in the funded status relates primarily to the required prorating of unfavorable investment performance in previous years, on an actuarial basis.

Supplemental Legislative Retirement Plan

The Supplemental Legislative Retirement Plan (SLRP) provides supplemental retirement benefits to all elected members of the State Legislature and the 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, 2006 amounted to $11.6 million, an increase of $1.1 million (10.5 percent) over $10.5 million at June 30, 2005.

Additions to SLRP net assets held in trust for benefits include employer and member contributions and investment income. For the 2006 fiscal year, member and employer contributions were $606 thousand, a decrease of $8 thousand (negative 1.3 percent) from those of fiscal year 2005. Contributions decreased due to a reduction in active members. SLRP recognized net investment income of $1.1 million for the 2006 fiscal year, compared with $932 thousand for the 2005 fiscal year.

Deductions from SLRP net assets held in trust for benefits include retirement and beneficiary benefits and administrative fees. For the 2006 fiscal year, benefits amounted to $633 thousand, an increase from $601 thousand (5.1 percent) over the 2005 fiscal year. Benefit payments increased due to an increase in retired participants. For the 2006 fiscal year, SLRP transferred $8 thousand to PERS to offset the cost of administration. Transfers in 2005 totaled $8 thousand.

An actuarial valuation of SLRP assets and benefit obligations is performed annually. At the date of the most recent actuarial valuation, June 30, 2006, the funded status of the plan increased to 82.6 percent from 79.3 percent at June 30, 2005. The amount by which the SLRP actuarial assets were under actuarial benefit liabilities was $2.4 million, compared with $2.8 million at June 30, 2005. The change in funded status relates primarily to favorable investment returns, as well as the effect of setting the actuarial value of assets equal to market value of net assets.

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 systems is shown in the Schedules of Funding Progress on page 44. This table shows the 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, 2006, funding ratios ranged from a high of 82.6 percent to a low of 56.1 percent, as compared to 79.3 percent and 59.8 percent for June 30, 2005. The average funding ratio increased from 71.8 percent to 72.0 percent during the fiscal year An increase in the employer contribution rate, to 10.75 percent, was an element in the PERS plan funding increase.

At June 30, 2006, the Systems' total unfunded actuarial accrued liability had increased to $6.9 billion from $6.8 billion at June 30, 2005. This is a net change in the unfunded actuarial accrued liability of $76.4 million for the year. At June 30, 2006, there was no difference between the total actuarial value of assets and fair value of net assets as compared to $318.3 million in actuarially deferred losses at June 30, 2005.

Net Assets – IRC 457 Plan

June 30

(In Thousands)

	IRC 457 Plan GEDCP 2006	IRC 457 Plan GEDCP 2005	Percent Change
Assets:			
Cash and receivables	$ 6,756	$ 5,539	22.0 %
Investments, at fair value	911,229	821,710	10.9 %
Total	917,985	827,249	11.0 %
Liabilities:			
Investment accounts and other payables	256	183	39.9 %
Total	256	183	39.9 %
Total net assets	$ 917,729	$ 827,066	11.0 %

Changes in Net Assets – IRC 457 Plan

Year ended June 30

(In Thousands)

	IRC 457 Plan GEDCP 2006	IRC 457 Plan GEDCP 2005	Percent Change
Additions:			
Contributions	$ 82,325	$ 81,337	1.2 %
Investment income	57,436	38,820	48.0 %
Total	139,761	120,157	16.3 %
Deductions:			
Pension benefits	49,098	41,146	19.3 %
Total	49,098	41,146	19.3 %
Increase in net assets	$ 90,663	$ 79,011	14.7 %

Two common factors affecting the plans with funding increases were recent favorable investment returns and the effect of setting the actuarial value of assets equal to market value of net assets. Municipal Retirement Systems' valuation date occurred prior to the change in actuarial valuation method. Municipal Retirement Systems' actuarial assets will be set to market value of net assets at the next valuation date, which is September 30, 2006. Smoothing of actuarial gains and losses will commence again in future years with an additional constraint that actuarial value of assets cannot be less than 80 percent nor more than 120 percent of the market value of net assets.

The Board of Trustees has taken steps to enhance funding adequacy of the System through adjustments to employer contribution rates. In 2005, our consulting actuary recommended an employer contribution rate of 12.50 percent, which was adopted by the Board of Trustees. To mitigate the financial impact on the State of Mississippi general fund budget, we reached a compromise with Legislative leaders to phase-in the employer rate increase in .55 percent increments over the next four years beginning July 1, 2006. As a result, the employer contribution rate will be raised from 10.75 percent to 11.30 percent for fiscal year 2007. The temporary change of setting actuarial value of assets equal to net asset value resulted in a recommendation from our consulting actuary that the employer contribution rate for PERS increase to 12.25 percent, rather than the 12.50 percent rate proposed in 2005. Additional information regarding funding for the defined benefit plans is presented in note 6 to the basic financial statements.

Defined Contribution Plans

457 Defined Contribution Plan

The 457 Plan is established under Section 457 of the Internal Revenue Code. This plan 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, 2006 amounted to $917.7 million, an increase of $90.6 million (11.0 percent) over net assets of $827.1 million at June 30, 2005.

Additions to the 457 Plan net assets held in trust for benefits include contributions and investment income. For the 2006 fiscal year, contributions increased from those of the 2005 fiscal year from $81.3 million to $82.3 million or an increase of $1.0 million (1.2 percent). Contributions increased because of increased participation from 36,778 in 2005 to 37,084 in 2006. The plan recognized net investment income of $57.4 million for the 2006 fiscal year compared with net investment income of $38.8 million for the 2005 fiscal year.

Deductions from the 457 Plan net assets include payments to participants and beneficiaries. For the 2006 fiscal year, payments amounted to $49.1 million, an increase of $8.0 million (19.3 percent) over the 2005 fiscal year. The increase in payments is attributed to an increase in the number of annuitants, as well as an increase in hardship withdrawals due to Hurricane Katrina.

Benefit obligations of the 457 Defined Contribution Plan are equal to the member 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, Mississippi 39201-1005.

Statement of Fiduciary Net Assets – June 30, 2006

(In Thousands)

	PERS	MHSPRS	MRS	SLRP	Eliminations	Total Defined Benefit Pension Plans	IRC 457 Plan GEDCP	Total Pension Trust Funds	Agency Funds	Total 2006
Assets										
Cash and cash equivalents (note 3)	$ 206,173	$ 2,568	$ 2,158	$ 112	$ -	$ 211,011	$ 2,582	$ 213,593	$ 22	$ 213,615
Receivables:										
Employer	38,989	-	334	-	-	39,323	-	39,323	-	39,323
Employee	28,209	-	21	-	-	28,230	3,981	32,211	-	32,211
Investment proceeds	297,568	3,742	3,143	164	-	304,617	-	304,617	-	304,617
Interest and dividends	84,675	1,065	894	47	-	86,681	193	86,874	-	86,874
Other receivables	550	406	4	-	-	960	-	960	-	960
Total receivables	449,991	5,213	4,396	211	-	459,811	4,174	463,985		463,985
Investments, at fair value (note 3)										
Short-term securities	269,788	3,393	2,850	148	-	276,179	11,729	287,908	-	287,908
Long-term debt securities	4,136,088	52,011	43,686	2,269	-	4,234,054	19,810	4,253,864	-	4,253,864
Equity securities	13,196,210	165,943	139,380	7,238	-	13,508,771	380,037	13,888,808	-	13,888,808
Real estate investments	706,395	8,883	7,462	387	-	723,127	-	723,127	-	723,127
Balanced asset fund	-	-	-	-	-	-	36,570	36,570	-	36,570
Fixed rate and variable	-	-	-	-	-	-	462,622	462,622	-	462,622
Life insurance contracts	-	-	-	-	-	-	461	461	-	461
Total investments before lending activities	18,308,481	230,230	193,378	10,042	-	18,742,131	911,229	19,653,360	-	19,653,360
Securities lending:										
Short-term securities	1,088,230	15,874	13,199	696	-	1,117,999	-	1,117,999	-	1,117,999
Long-term debt securities	3,885,791	56,684	47,131	2,483	-	3,992,089	-	3,992,089	-	3,992,089
Total securities lending	4,974,021	72,558	60,330	3,179	-	5,110,088	-	5,110,088	-	5,110,088
Total investments	23,282,502	302,788	253,708	13,221	-	23,852,219	911,229	24,763,448	-	24,763,448
Due from (to) other funds (note 5)	9	-	-	-	(7)	2	-	2	-	2
Capital assets, at cost, net of accumulated depreciation (note 4)	17,180	-	-	-	-	17,180	-	17,180	-	17,180
Total assets	23,955,855	310,569	260,262	13,544	(7)	24,540,223	917,985	25,458,208	22	25,458,230
Liabilities										
Accounts payable and accrued expenses	568,806	7,103	5,972	314	-	582,195	254	582,449	15	582,464
Obligations under securities lending	5,046,120	37,829	33,406	1,610	-	5,118,965	-	5,118,965	-	5,118,965
Due to other funds	18,728	-	7	-	(7)	18,728	2	18,730	-	18,730
Funds held for others	1,138	-	-	-	-	1,138	-	1,138	7	1,145
Total liabilities	5,634,792	44,932	39,385	1,924	(7)	5,721,026	256	5,721,282	22	5,721,304
Net assets held in trust for pension benefits (A schedule of funding progress for each plan is presented on page 44.)	$ 18,321,063	$ 265,637	$ 220,877	$11,620	$ -	$18,819,197	$ 917,729	$ 19,736,926	$ -	$19,736,926

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

Statement of Changes in Fiduciary Net Assets – For the Year Ended June 30, 2006

(In Thousands)

	PERS	MHSPRS	MRS	SLRP	Eliminations	Total Defined Benefit Pension Plans	IRC 457 Plan GEDCP	Total Pension Trust Funds 2006
Additions:								
Contributions:								
Employer	$ 557,831	$ 6,884	$ 15,613	$ 411	$ -	$ 580,739	$ -	$ 580,739
Employee	375,612	1,589	263	195	-	377,659	82,325	459,984
Total contributions	933,443	8,473	15,876	606	-	958,398	82,325	1,040,723
Net Investment Income:								
Net appreciation in fair value	1,300,551	18,972	15,774	831	-	1,336,128	54,609	1,390,737
Interest and dividends	498,583	7,273	6,047	319	-	512,222	2,827	515,049
Total before lending activities	1,799,134	26,245	21,821	1,150	-	1,848,350	57,436	1,905,786
Securities lending:								
Net appreciation in fair value	30,231	441	366	19	-	31,057	-	31,057
Interest	130,538	1,904	1,583	84	-	134,109	-	134,109
Interest expense	(148,836)	(2,171)	(1,805)	(95)	-	(152,907)	-	(152,907)
Program fees	(1,765)	(26)	(21)	(1)	-	(1,813)	-	(1,813)
Net income from securities lending	10,168	148	123	7	-	10,446	-	10,446
Managers' fees and trading costs	(31,449)	(459)	(381)	(20)	-	(32,309)	-	(32,309)
Net investment income	1,777,853	25,934	21,563	1,137	-	1,826,487	57,436	1,883,923
Other additions:								
Rent Income	-	-	-	-	-	-	-	-
Administrative fees	576	-	-	-	(576)	-	-	-
Other	4	2,628	-	-	-	2,632	-	2,632
Total other additions	580	2,628	-	-	(576)	2,632	-	2,632
Total	2,711,876	37,035	37,439	1,743	(576)	2,787,517	139,761	2,927,278
Deductions:								
Retirement annuities	1,198,230	19,359	35,165	632	-	1,253,386	49,098	1,302,484
Refunds to terminated employees	73,344	110	1	1	-	73,456	-	73,456
Total	1,271,574	19,469	35,166	633	-	1,326,842	49,098	1,375,940
Administrative Expenses:								
Personal services:								
Salaries, wages and fringe benefits	6,120	-	-	-	-	6,120	-	6,120
Travel and subsistence	61	-	-	-	-	61	-	61
Contractual services	2,736	-	-	-	-	2,736	-	2,736
Commodities	294	-	-	-	-	294	-	294
Total administrative expenses	9,211	-	-	-	-	9,211	-	9,211
Depreciation & loss on transfer of equipment	563	-	-	-	-	563	-	563
Administrative fees	-	138	430	8	(576)	-	-	-
Total	1,281,348	19,607	35,596	641	(576)	1,336,616	49,098	1,385,714
Net increase	1,430,528	17,428	1,843	1,102	-	1,450,901	90,663	1,541,564
Net assets held in trust for pension benefits:								
Beginning of year	16,890,535	248,209	219,034	10,518	-	17,368,296	827,066	18,195,362
End of year	$18,321,063	$265,637	$220,877	$11,620	$ -	$18,819,197	$917,729	$19,736,926

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

Notes to Basic Financial Statements – June 30, 2006

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' Deferred Compensation Plan (GEDCP)	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 State Highway 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	233	-	17	-	250
Other political subdivisions	249	–	–	–	249
Total employers	851	2	17	5	875
Members:					
Active vested	112,092	473	60	129	112,754
Active nonvested	45,999	91	5	44	46,139
Total active members	158,091	564	65	173	158,893
Inactive vested	18,277	14	1	51	18,343
Inactive nonvested	99,434	32	3	6	99,475
Total inactive members	117,711	46	4	57	117,818
Retirees and beneficiaries	66,757	625	2,225	122	69,729
Total retired/inactive members	184,468	671	2,229	179	187,547
Total members	342,559	1,235	2,294	352	346,440
Active members by employer:					
State agencies	32,682	564	-	173	33,419
State universities	16,785	-	-	-	16,785
Public schools	64,342	-	-	-	64,342
Community/junior colleges	5,632	-	-	-	5,632
Counties	13,944	-	-	-	13,944
Municipalities	17,783	-	65	-	17,848
Other political subdivisions	6,923	-	-	-	6,923
Total active members	158,091	564	65	173	158,893

**Information furnished for MRS is as of September 30, 2005.*

(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 are not eligible to receive monthly retirement benefits may request a refund of employee contributions plus interest.

Participating employees who retire at or after age 60 with 4 or more years of membership service or those who retire regardless of age with at least 25 years of credited service 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 1/2 percent for each year of credited service over 25 years. Average compensation is the average of the employee's earnings during the 4 highest compensated years of credited service. A member may elect a reduced allowance payable for life with the provision that, after death, a beneficiary receives benefits for life or for a specified number of years. Benefits vest upon completion of 4 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 payment is made to eligible retirees and beneficiaries. The cost of living adjustment is equal to 3 percent of the annual retirement allowance for each full fiscal year of retirement prior to the year in which the member reaches age 55, plus 3 percent compounded for each year thereafter beginning with the fiscal year in which the member turns age 55. For the year ended June 30, 2006, the total additional annual payments were $232,710,000.

(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 5 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 4 highest consecutive years of earnings reduced 3 percent for each year below age 55 or 3 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 are not eligible to receive monthly retirement benefits may request a refund of 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 payment is made to eligible retirees and beneficiaries. The cost of living adjustment is equal to 3 percent of the annual retirement allowance for each full fiscal year of retirement prior to the year in which the member reaches age 60, plus 3 percent compounded for each year thereafter beginning with the fiscal year in which the member turns age 60. For the year ended June 30, 2006, the total additional annual payments were $4,974,000.

(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.

Participating employees who retire regardless of age 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 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 2/3 percent of average monthly compensation. Average monthly compensation for the two Municipal Retirement Systems and for 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 Municipal 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 Municipal plans may adopt an annual adjustment other than one linked to the change in the Consumer Price Index. These additional payments will only be made when funded by the employers. For the year ended June 30, 2006, the total additional annual payments were $4,215,000.

(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 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 4 years of membership service in PERS. SLRP 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 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, 2006, the total additional annual payments were $87,000.

(5) Government Employees' Deferred Compensation Plan

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 retirement 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, 2006, total plan assets aggregated $917,985,000.

(6) Flexible Benefits Cafeteria Plan

Section 25-17-3, Mississippi Code Ann. (1972), authorizes any State agency to adopt a benefit plan which 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 are required to contribute 7.25 percent of their salary. Employees covered by MHSPRS are required to contribute 6.5 percent of their salary. Members of SLRP are required to contribute 3 percent of their compensation in addition to the 7.25 percent required by PERS. 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 3.5 percent in 2006. 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 percent to 10 percent of their salary, depending on the actuarial soundness of their respective plans. Any increase to the 7 percent base contribution rate is made in increments not to exceed 1 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 GEDCP. 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 GEDCP 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 GEDCP 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 GEDCP 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 this 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 which result 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 Pronouncements

In May 2004, the Governmental Accounting Standards Board issued Statement No. 44, *Economic Condition Reporting: The Statistical Section* (the Statement). The Statement amends previously issued guidance for the preparation of the statistical section to assist users in utilizing the basic financial statements, notes to basic financial statements and required supplementary information to assess the economic condition of the System. The requirements of this Statement are effective for the System's fiscal year beginning July 1, 2005. The implementation of GASB Statement No. 44 had no impact on the financial statements of the System.

(h) Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at June 30, 2006, 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 of investment grade as rated by Standard and Poor's Corporation or by 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 Standard and Poor's Corporation 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 Standard and Poor's Corporation 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 rated single A or better, stocks and convertible securities of established foreign companies which are listed on primary national stock exchanges of foreign nations and foreign government securities rated single A or better by a recognized rating agency. 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 ten 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 ten 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, 2006, 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, 2006, was $213,615,000. Cash deposits in bank accounts totaled $(204,000) which were covered by federal depository insurance. At June 30, 2006, the System held $210,054,000 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 which is invested in short-term securities, including domestic commercial paper, time deposits, and asset-backed securities. The average S & P short term quality rating of the fund was A-1 at June 30, 2006.

As of June 30, 2006, the System's cash equivalents were exposed to custodial credit risk as follows:

Uninsured and uncollateralized	$ –
Uninsured and collateral held by custodial bank not in the System's name	210,054,000
Total	$ 210,054,000

(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, equity securities, 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.

The Board of Trustees adopted real estate in October 2002 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 real estate fund investments, which directly invest in properties, and in managed portfolios of Real Estate Investment Trusts (REIT). REITs are exchange traded securities which 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.

The following table presents the fair value of investments by type at June 30, 2006 (in thousands):

Investment type:	Fair Value
Commercial paper	$ 519,299
Repurchase agreements	807,090
International currency	21,009
U.S. Government agency obligations	436,943
U.S. Treasury obligations	1,175,908
Collateralized mortgage obligations	1,146,646
Corporate bonds	3,416,067
Mortgage pass-throughs	759,906
Municipals	60,823
Asset backed securities	1,223,169
Yankee/Global bonds	53,462
Domestic equity securities	9,715,937
International equity securities	3,911,263
Real estate	723,127
Money market fund	11,729
Fixed income fund	19,809
Balanced asset fund	36,570
Fixed and variable fund	462,622
Life insurance contracts	461
Equity fund	261,608
Total	$24,763,448

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' $23.9 billion in investments at June 30, 2006, $5.1 billion were cash collateral reinvestment securities acquired by the custodian, whom is also 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, 2006, are presented by type below (in thousands):

	Fair Value
Commercial paper	$ 467,999
Repurchase agreements	650,000
Corporate bonds	2,081,543
Asset backed securities	1,465,546
Collateralized mortgage obligations	445,000
Total	$5,110,088

Interest Rate Risk

As of June 30, 2006, the System had the following 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	$1,223,169	$1,161,196	$ 1,416	$ 9,846	$ 50,711
Collateralized mortgage obligations	1,146,645	325,674	36,610	30,086	754,275
Commercial paper	519,299	519,299	-	-	-
Corporate bonds	3,416,067	310,689	2,585,429	299,443	220,506
U.S. Government agency obligations	436,943	72,308	266,642	60,602	37,391
Mortgage pass-throughs	759,906	60	4,504	6,490	748,852
Repurchase agreements	807,090	807,090	-	-	-
Municipals	60,823	-	2,346	11,615	46,862
U.S. Treasury obligations	1,175,908	795	612,863	333,552	228,698
Yankee/Global bonds	53,462	3,314	25,445	6,415	18,288
Total	$9,599,312	$3,200,425	$3,535,255	$758,049	$2,105,583

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. Additionally, the System adopted a formal policy in February 1996 which established guidelines for investing in derivatives. During fiscal year 2006, the investments in derivatives by the System were exclusively in asset/liability based derivatives such as interest-only (IO) strips, principal-only (PO) 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 strips are transactions which 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 and POs valued at $4 million and $3 million, respectively, at fiscal year end. The System's derivatives policy limits IO and PO strips to 3 percent of the investment portfolio.

Collateralized mortgage obligations (CMOs) 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 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 which 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, thus an increase in the fair value of the security. The System held $1,147 million in CMOs at June 30, 2006. Of this amount, $421 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 $1,223 million in ABS that the System held at June 30, 2006, $34 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, 2006, the System has invested in $760 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, 2006, is as follows (fair value in thousands):

	S&P Quality Ratings							
Investment Type	A	AA	AAA	B	BAA	BB	BBB	D
Commercial paper	$ 519,299	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Repurchase agreements	-	650,000	157,090	-	-	-	-	-
U.S. Government agency obligations	-	19,803	417,140	-	-	-	-	-
Collateralized mortgage obligations	4,777	12,538	1,119,960	-	-	5,356	4,016	-
Corporate bonds	982,677	1,339,862	818,464	4,413	2,523	10,848	257,280	-
Mortgage pass-throughs	682	-	706,521	43	-	-	3	-
Municipals	5,538	8,843	28,102	1,285	-	-	18,339	-
Asset backed securities	3,860	2,627	1,207,055	-	5,009	-	2,388	2,231
Yankee/Global bonds	17,832	20,594	7,398	-	-	6,353	-	-
Total	$1,534,665	$2,054,267	$4,461,730	$5,741	$7,532	$16,204	$288,379	$2,231

State law requires a minimum quality rating of A-3 by Standard and Poor's 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 Standard and Poor's or Moody's.

PERS' Board of Trustees has adopted a short-term investment policy which further restricts commercial paper to be of corporations with long-term debt to be rated A or better by Standard and Poor's or Moody's, and whose short-term obligations are of A-2 or P-2 or better ratings by Standard and Poor's 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 million, no more than 25 percent be invested in any issue having a rating lower than AA or A1P1.

Credit risk for derivatives 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 Standard and Poor's.

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

Foreign Currency Risk

The System's exposure to foreign currency risk at June 30, 2006, was as follows:

Currency	%	Fair Value (in thousands)
Australian Dollar	3.52%	$ 129,767
Brazilian Real	1.50%	55,223
Canadian Dollar	0.92%	33,990
Danish Krone	0.73%	26,836
Egyptian Pound	0.46%	17,010
Euro	34.89%	1,286,852
Pound Sterling	22.13%	816,167
Hong Kong Dollar	2.10%	77,606
Hungarian Forint	0.21%	7,751
Indian Rupee	0.75%	27,837
Indonesian Rupiah	0.29%	10,580
Israeli Shekel	0.37%	13,823
Japanese Yen	18.64%	687,556
Malaysian Ringgit	0.03%	948
Mexican Nuevo Peso	0.23%	8,430
New Taiwan Dollar	0.98%	36,176
New Zealand Dollar	0.08%	3,067
Norwegian Krone	0.76%	27,891
Polish Zloty	0.01%	212
Singapore Dollar	0.63%	23,262
South African Rand	0.73%	27,025
South Korean Won	1.83%	67,497
Swedish Krona	1.61%	59,541
Swiss Franc	6.08%	224,104
Thai Baht	0.29%	10,527
Turkish Lira	0.22%	8,178
Total	100.00%	$3,687,856

All foreign currency-denominated investments are in equities and foreign cash. The System's investment asset allocation policy limits non-U.S. investments to 15 percent. At June 30, 2006, the current position is 21.0 percent. The investment committee evaluates the investment asset allocation quarterly and adjusts as necessary.

(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, 2006 (in thousands):

	PERS	MHSPRS	MRS	SLRP	TOTAL
Interest income	$130,538	$1,904	$1,583	$84	$134,109
Net appreciation	30,231	441	366	19	31,057
Income from securities lending	160,769	2,345	1,949	103	165,166
Less:					
Interest expense	148,836	2,171	1,805	95	152,907
Program fees	1,765	26	21	1	1,813
Expenses from securities lending	150,601	2,197	1,826	96	154,720
Net income from securities lending	$ 10,168	$ 148	$ 123	$ 7	$ 10,446

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, 2006 are long-term U.S. government and agency obligations, corporate bonds, and domestic and international equities. At the initiation of a loan, borrowers are required to provide collateral amounts of 102 percent (domestic equities and bonds) and 105 percent (international equities) of the fair value and accrued income of the securities lent. In the event the collateral fair value falls to less than 100 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. 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 1.5 days at June 30, 2006. Cash collateral is invested in debt securities such as U.S. government and agency obligations and "AAA" asset-backed securities. Additionally, a significant portion is invested in corporate short-term securities, such as repurchase agreements, commercial paper and bank notes. The weighted average final duration of all collateral investments at June 30, 2006, was 508 days with a weighted average maturity of 25 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, 2006. 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 net investments ($5,141,519,000) and the related liability ($5,139,519,000) on the Statement of Fiduciary Net Assets do not equal at June 30, 2006. The difference of $2,000,000 is due to the collateral investment fund's market appreciation and the earnings re-invested until the 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, 2006 (in thousands):

Securities Lent	Fair Value Including Accrued Income	Cash Collateral Received
Lent for cash collateral:		
Debt securities	$1,536,874	$1,562,026
Domestic equities	2,878,022	2,948,905
International equities	416,899	422,466
REIT's	183,318	185,568
Total securities lent	$5,015,113	$5,118,965

(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, 2006 were $1,104,000.

4. Capital Assets

The following table shows amounts for capital assets as of June 30, 2006 and 2005 (in thousands):

Description	2006	2005
Land	$ 508	$ 508
Building	18,459	18,459
Improvements	25	25
Furniture and equipment	1,264	1,277
Total capital assets	20,256	20,269
Less accumulated depreciation		
Building	2,246	1,899
Improvements	20	20
Furniture and equipment	810	606
Total accumulated depreciation	3,076	2,525
Net capital assets	$ 17,180	$ 17,744

5. Due To/Due From Other Funds

The following is a summary of due to/due from other funds as of June 30, 2006 (in thousands):

Receivable Fund (Due To)	Payable Fund (Due From)	Amount
PERS	GEDCP	$ 2
Information Technology Services	PERS	13
State Personnel Board	PERS	4
Attorney General	PERS	2
Statewide Payroll & Human ResourceSystem		
1% Refund	PERS	345
Budget Contingency Fund	PERS	18,364
	Total	$ 18,730

6. Funding Status and Progress

(a) Actuarial Asset Valuation

Actuarial value of assets for PERS, MHSPRS and SLRP were set equal to market value of net assets for the June 30, 2006, actuarial valuation in order to facilitate the introduction of a valuation corridor to be used in future reporting periods. Smoothing will commence again in fiscal year 2007 with an additional constraint that actuarial value of assets cannot be less than 80 percent nor more than 120 percent of market value. Smoothing calculations were used for the Municipal Retirement Systems. Actuarial assets for Municipal Retirements Systems will be set equal to market value at the next valuation date, September 30, 2006, with smoothing to commence again September 30, 2007. Actuarial asset appreciation and depreciation is smoothed through recognition of equal increments over a five-year period with 20 percent of a year's appreciation or depreciation recognized each year beginning with the current year.

In accordance with GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, the System has determined that there are no significant decreases in the total unfunded actuarial liabilities for PERS, MHSPRS and SLRP generated by setting the actuarial values of assets equal to market values of net assets.

The following table presents the actuarial change in asset valuation for the year ended June 30, 2006 (in thousands):

	PERS	MHSPRS	MRS	SLRP	TOTAL
Valuation assets June, 2005**	$ 17,180,705	$ 253,477	$ 235,198	$ 10,634	$17,680,014
Contributions and other revenue	933,443	11,101	14,284	606	959,434
Benefit payments	(1,271,574)	(19,469)	(34,542)	(633)	(1,326,218)
Administrative expenses	(9,194)	(138)	(285)	(8)	(9,625)
Investment expenses*	(31,449)	(459)	-	(20)	(31,928)
Net new money	(378,774)	(8,965)	(20,543)	(55)	(408,337)
Expected total investment return for 2006 (8%)	1,392,012	20,397	17,994	869	1,431,272
Adjustment towards market ***	127,120	728	(15,509)	172	112,511
Valuation assets June, 2006**	$18,321,063	$ 265,637	$ 217,140	$ 11,620	$18,815,460

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.

*** Information for MRS is presented as of September, 2004 and 2005, respectively.*

**** The adjustment for PERS, MHSPRS and SLRP is equal to the difference between the actual rate of return and the actuarially assumed rate of return.*

(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, 2004. As a result of this study, the Board of Trustees adopted new assumptions in regard to gender-distinct disability rates, post-retirement mortality tables and the assumption for service credit granted to a member for unused leave at retirement. Also, new assumptions for MHSPRS were adopted which adjusted rates of withdrawal, amended mortality tables for male and female service retirees and beneficiaries and increased unused leave service credit at retirement. Changes were adopted in actuarial assumptions for SLRP with regard to rates of withdrawal, modernization of mortality tables, and increase in the assumed fixed retirement age and changes to unused leave service credit at retirement. Adjustments to assumed rates of salary increases at certain ages and post-retirement mortality rates were adopted for MRS. These changes were used in the actuarial valuation of PERS, MHSPRS and SLRP as of June 30, 2006. Significant actuarial assumptions used in valuations are included in the notes to the required supplemental schedules.

(c) Actuarial Accrued Liability

The actuarial accrued liability for PERS, MHSPRS, MRS, and SLRP is presented in the notes to the required supplemental schedules.

7. Contributions Required and Contributions Made

Funding policies for PERS, MHSPRS, and SLRP provide for periodic 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. Contributions for PERS, MHSPRS, and SLRP were made in accordance with actuarially determined contribution requirements determined through the most recent actuarial valuation. Costs to administer plans are financed from investment earnings. In addition, employers of MRS, MHSPRS, and SLRP contribute an administrative fee to the System.

Effective July 1, 2005, the employer contribution rate was increased from 9.75 percent to 10.75 percent. In June of 2005, PERS received $50,000,000 from the State of Mississippi to be utilized by the System as a credit against the one percent increase in general fund employer contributions. During fiscal year 2006, $31,635,923 was used for that purpose.

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	$590,995	11.40%	$342,448	6.60%	$514,525	$933,443	$375,612	7.25%	$557,831	10.75%	$4,971,974
MHSP	5,421	22.17	3,052	12.49	8,692*	8,473	1,589	6.50	6,884	28.16	24,499
SLRP	469	7.22	137	2.11	413	606	195	3.00	411	6.33	6,354
Total	$596,885	-	$345,637	-	$523,630	$942,522	$377,396	-	$565,126	-	$5,002,827

**Due to Senate Bill No. 2659 enacted in 2004, an estimated additional contribution of $2,400,000 (10.7% of payroll) was made to MHSPRS in 2006.*

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.

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 evaluation 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 funds 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 fund's cash flow position improved.

The 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 funds under MRS actuarially sound by July 1, 2000. During the fiscal year ended June 30, 1998, a participating municipality issued $50 million in Pension Obligation Bonds. The proceeds of the bond issuance were transferred to MRS in lieu of employer contributions for the period October 1, 1997, to June 30, 2009. The millage levied by this municipality for MRS employer contributions will be used by the municipality to retire the bond indebtedness.

An actuary is used to determine the implications of the statutory limited contribution levels. At September 30, 2005, aggregate contributions for MRS were equivalent to 99.0 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 .57 to 8.70 mills, totaling $13,951,000 in actual contributions. The employee contribution rates ranged from 7 percent to 10 percent of covered payroll, totaling $332,537 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, 2006 (in thousands):

	PERS	MHSPRS	MRS*	SLRP
Annuity savings account................	$ 3,955,066	$ 19,906	$ 4,138	$ 2,061
Annuity reserve	2,207,984	17,869	-	927
Employer's accumulation account.........	12,158,013	227,861	213,002	8,632
Unfunded actuarial accrued liability.......	6,607,401	85,002	170,246	2,444
Actuarial accrued liability................	$24,928,464	$350,638	$387,386	$14,064

**The annuity reserve for MRS is reflected as of the September 30, 2005 valuation date.*

8. 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 presented 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.

9. 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, 2006, was $4,739,000; the System's total payroll expense was $6,120,000. The System's contributions for the year ended June 30, 2006, were $506,000, which represents less than one percent of total contributions required for all participating employers.

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						
1997	$ 9,351,842	$ 11,681,476	$ 2,329,634	80.1%	$ 3,294,731	70.7%
1998	11,058,602	13,004,063	1,945,461	85.0	3,450,176	56.4
1999	13,016,632	15,751,361	2,734,729	82.6	3,711,680	73.7
2000	14,899,074	18,052,096	3,153,022	82.5	4,090,596	77.1
2001	16,191,631	18,494,207	2,302,576	87.5	4,112,238	56.0
2002	16,823,185	20,180,347	3,357,162	83.4	4,220,539	79.5
2003	16,979,457	21,485,838	4,506,381	79.0	4,431,600	101.7
2004	17,103,285	22,847,260	5,743,975	74.9	4,617,273	124.4
2005	17,180,705	23,727,098	6,546,393	72.4	4,786,280	136.8
2006	18,321,063	24,928,464	6,607,401	73.5	4,971,974	132.9
Mississippi Highway Safety Patrol Retirement System						
1997	$ 168,270	$ 189,901	$ 21,631	88.6%	$ 19,460	111.2%
1998	192,433	201,861	9,428	95.3	19,531	48.3
1999	219,866	221,757	1,891	99.1	19,808	9.5
2000	244,331	251,937	7,606	97.0	21,314	35.7
2001	259,713	250,621	(9,092)	103.6	21,972	(41.4)
2002	263,255	285,548	22,293	92.2	20,339	109.6
2003	259,746	302,134	42,388	86.0	21,052	201.3
2004	256,481	316,570	60,089	81.0	22,683	264.9
2005	253,477	335,117	81,640	75.6	22,343	365.4
2006	265,637	350,638	85,001	75.8	24,499	347.0
Municipal Retirement Systems *						
1996	$ 130,425	$ 358,703	$ 228,278	36.4%	$ 13,253	1,722.5%
1997	197,815	358,428	160,613	55.2	11,874	1,352.6
1998	213,591	363,612	150,021	58.7	10,852	1,382.4
1999	235,222	369,118	133,896	63.7	9,440	1,418.4
2000	253,713	375,059	121,346	67.6	8,485	1,430.1
2001	262,260	381,782	119,522	68.7	7,350	1,626.1
2002	259,586	393,011	133,425	66.1	5,980	2,231.2
2003	250,640	399,622	148,982	62.7	4,584	3,250.0
2004	235,198	393,061	157,863	59.8	3,675	4,295.6
2005	217,140	387,386	170,246	56.1	2,909	5,852.4
Supplemental Legislative Retirement Plan						
1997	$ 4,482	$ 6,970	$ 2,488	64.3%	$ 5,277	47.2%
1998	5,637	7,907	2,270	71.3	5,853	38.8
1999	6,954	8,931	1,977	77.9	5,894	33.6
2000	8,199	9,973	1,774	82.2	5,856	30.3
2001	9,124	10,302	1,178	88.6	5,941	19.8
2002	9,730	11,328	1,598	85.9	5,988	26.7
2003	10,196	12,220	2,024	83.4	6,229	32.5
2004	10,323	12,934	2,611	79.8	5,794	45.1
2005	10,634	13,402	2,768	79.3	6,530	42.4
2006	11,620	14,064	2,444	82.6	6,354	38.5

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

See Notes to Required Supplementary Schedules.

Required Supplementary Information

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		
1997	$310,566	100.0%
1998	321,236	100.0
1999	336,392	100.0
2000	361,889	100.0
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
Mississippi Highway Safety Patrol Retirement System		
1997	$ 5,171	100.0%
1998	5,091	100.0
1999	5,109	100.0
2000	5,182	100.0
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
Municipal Retirement Systems *		
1996	$ 21,681	93.8%
1997	20,674	345.1
1998	14,727	96.4
1999	13,803	99.8
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	99.0
Supplemental Legislative Retirement Plan		
1997	$ 274	100.0%
1998	334	100.0
1999	371	100.0
2000	373	100.0
2001	371	100.0
2002	376	100.0
2003	379	100.0
2004	398	100.0
2005	367	100.0
2006	413	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. As of June 30, 2006, PERS, MHSPRS and SLRP plans' actuarial values of assets are set equal to the respective market values of net assets. Smoothing will resume for these plans in fiscal year 2007 with an additional constraint that actuarial value of assets cannot be less than 80 percent nor more than 120 percent of market value. Actuarial value of assets for MRS is smoothed for 2006. Smoothing calculations recognize 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 the schedule.

Employer contribution rates for PERS, MHSPRS, and SLRP are set by State statute. The adequacy of these rates is assessed annually by actuarial valuation. Unfunded actuarial accrued liabilities are amortized as a level percent of the active member payroll, over the period of future years which produces the statutory employer contribution rate. Assuming the amortization period is reasonable, 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 actuarial accrued liability is being amortized on a closed basis as a level percent over a period of 30 years. The current financing arrangement provides for a contribution determined as a percentage of each city's assessed property valuation. This difference has historically resulted in the actual contribution being less than the annual required contribution for the municipal systems.

The Governmental Accounting Standards Board (GASB) Statements No. 25 requires a maximum acceptable amortization period for the total unfunded actuarial liability of not more than 30 years beginning with fiscal year 2007. The annual required contribution (ARC) of the employer as a percentage of payroll is shown below. The accrued liability rate is based on amortization of the unfunded accrued liability of $6,546,393,481 over a 28.4 year period from the valuation date for PERS. The employer contribution rate for the 2006/2007 fiscal year was increased to 12.50 percent of payroll. Due to a change in method, the actuary has restated the recommended rate to 12.25 percent of payroll effective July 1, 2007. The result of this proposed change in contribution rate is an amortization period, as of July 1, 2006, of 28.7 years.

2006/2007 Fiscal Year

Annual Required Contribution (ARC) – Based on the Valuation as of June 30, 2005

Annual Required Contribution (ARC)	Rate
Normal	4.50%
Accrued liability	8.00
Total	12.50%

The Board of Trustees adopted a phase-in approach of increasing employer contribution rates beginning with 10.75 percent in the 2005/2006 fiscal year and increasing .55 percent each year until 2010 or until the unfunded accrued liability amortization period is below 30 years.

3. Actuarial Assumptions

(a) Plan Overview

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, 2006	June 30, 2006	September 30, 2005	June 30, 2006
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	28.7 years	29.7 years	29 years	24.5 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	5.0-15.0%	5.0-10.52%	4.5-6.0%	5.0%
Wage inflation rates	4.0%	4.0%	4.0%	4.0%
Increase in benefits after retirement	3.0% [1]	3.0% [2]	2.0-3.75% [3]	3.0% [1]

* Actuarial value of assets was set equal to the market value on June 30, 2006. Smoothing will commence again in future years with an additional constraint that actuarial value of assets cannot be less than 80% nor more than 120% of market value.

[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

- Actuarial value of assets was set equal to the market value on June 30, 2006. Smoothing will commence again in future years with an additional constraint that actuarial value of assets cannot be less than 80 percent nor more than 120 percent of market value.

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 $2,400,000 annually. The actual additional contribution for 2006 is $2,628,000, therefore, the 2006 valuation results reflect an anticipated amount of $2,600,000 annually.
- Actuarial value of assets was set equal to the market value on June 30, 2006. Smoothing will commence again in future years with an additional constraint that actuarial value of assets cannot be less than 80 percent nor more than 120 percent of market value.

SLRP

- Actuarial value of assets was set equal to the market value on June 30, 2006. Smoothing will commence again in future years with an additional constraint that actuarial value of assets cannot be less than 80 percent nor more than 120 percent of market value.

MRS

- The merit and seniority salary scale changed from a flat 2 percent for all ages to an aged-based chart.
- The mortality table used for healthy post-retirement mortality was changed for male participants to remove the set forward assumption.
- The minimum monthly benefit for retirees of Vicksburg was increased to $1,130.

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 40 years in accordance with GASB 25 requirements.

	PERS	MHSPRS	SLRP
Previously reported period of years	28.4	29.9	29.0
Change due to:			
Normal amortization	(1.0)	(1.0)	(1.0)
Actuarial experience	5.6	10.1	3.4
Assumption changes	-	-	-
Method change	(4.3)	(9.3)	(6.9)
Plan amendments	-	-	-
Computed period of years	28.7	29.7	24.5

Schedule 1

Schedule of Administrative Expenses and Depreciation – For the Year Ended June 30, 2006

(In Thousands)

	Amount
Administrative expenses:	
Personal services:	
Salaries and wages	$ 4,758
Employee benefits	1,362
Travel and subsistence	61
Total personal services	6,181
Contractual services:	
Professional services (See Schedule 3)	1,161
Data processing installation, training, and licensing	507
Utilities	282
Communications	170
Rent of building space and office equipment	162
Bank charges	130
Janitorial	79
Education	62
Repair and maintenance of building and equipment	59
Security	58
Other contractual services	34
Insurance	32
Total contractual services	2,736
Commodities:	
Printing, binding and padding	151
Office supplies and expendable repair parts	97
Office equipment (not capitalized)	19
Business meeting supplies	17
Other commodities	10
Total commodities	294
Total administrative expenses	9,211
Depreciation:	
Building	346
Furniture and equipment	217
Total depreciation	563
Total administrative expenses and depreciation	$ 9,774

Schedule 2

Schedule of Administrative Expenditures/Expenses – Budget and Actual (Non-GAAP Budgetary Basis) – For the Year Ended June 30, 2006

(In Thousands)

Budget Comparisons

	2006 Budget	2006 Actual	Variance Favorable (Unfavorable)
Administration expenditures:			
Personal services:			
Salaries, wages, and fringes benefits	$6,297	$6,100	$198
Travel and subsistence	75	61	14
Contractual services	2,660	2,629	31
Commodities	260	254	6
Capital outlays - other than equipment	-	-	-
Capital outlays	-	-	-
Subsidies, loans, and grants	-	-	-
Total	$9,292	$9,044	$248

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, 2006.

Reconciliation of Budgetary Basis Administrative Expenditures to GAAP Basis Administrative Expenses

	Amount
Administrative expenditures (Budgetary Basis)	$ 9,044
Adjustments:	
Compensated leave accrual	19
Bank service charges	130
Reclass cash transfer from fund 3533 for budgetary purposes	11
Capital asset purchases recorded as expenditures for budgetary purposes	17
Fiscal year 2006 budget expenditures paid during lapse period; expenses recorded in fiscal year 2007	(224)
Fiscal year 2006 accruals to GAAP Basis	214
Administrative expenses (GAAP Basis)	$ 9,211

Schedule 3

Schedule of Managers' Fees, Investment Global Out-of-Pocket and Custodial Fees, and Professional Service Fees – For the Year Ended June 30, 2006

(In Thousands)

	Amount
Investment managers' fees:	
Artisan Partners Limited Partnership	$ 2,560
The Boston Company Asset Management	2,520
Wellington Asset Management--small-cap equity	2,001
Delaware Investments	1,909
INTECH	1,861
New Star Institutional Managers Ltd	1,794
Wellington Asset Management--mid-cap equity	1,751
Dimensional Fund Advisors	1,685
Fayez Sarofim & Company	1,595
AllianceBernstein	1,576
Pacific Investment Management Company	1,282
Capital Guardian Trust Company	1,126
Lazard Asset Management	1,051
Jarislowsky Fraser Limited	1,043
Private Capital Management	1,026
Aberdeen Asset Management--debt investments	885
Eagle Capital Management, LLC	831
UBS Global Asset Management	766
Wellington Asset Management--real estate	760
RREEF--real estate	701
Eubel, Brady & Suttman Asset Management	694
Acadian Asset Management	484
Northern Trust Global Investment	445
Barclays Global Investors--debt investments	383
Lazard Emerging Markets	319
Fiduciary Tactical Asset Management	278
Standish Mellon	252
Barclays Global Investors--international equity	234
State Street Global Advisors	131
40/86 Advisors	15
Total	31,958
Custodial and global out-of-pocket fees - The Bank of New York and State Street	351
Total managers' fees, out-of-pockets, and custodial fees	$32,309
Securities lending fees - The Bank of New York and State Street	$ 1,813
Professional service fees:	
Medical fees-Clinics, Labs.	$ 271
Fund evaluation-Callan Associates	264
Actuary-Cavanaugh Macdonald, Buck Consultants	240
Legal-State of Mississippi-Office of the Attorney General, Other	182
Audit-Department of Audit, Horne LLP	75
Personnel fees	68
Graphic design-Maris, West & Baker	30
Mailing services-Postage Savers	18
Temporary personnel-Express Services, contract personnel	13
Total professional service fees	$ 1,161

Schedule 4

Summary Schedule of Cash Receipts and Disbursements Pension Trust Funds – For the Year Ended June 30, 2006

(In Thousands)

	Amount
Cash balance at beginning of year	$ 323,030
Receipts	
Contributions:	
Employee	453,548
Employer	548,945
Total contributions	1,002,493
Investments:	
Securities lending and reverse repurchase agreements	197,072,896
Investments matured and sold	21,554,778
Investment income	2,001,543
Total investments	220,629,217
Administrative receipts	696
Other receipts	11,646
Total cash receipts	221,644,052
Disbursements:	
Annuities and refunds:	
Retirement annuities	1,299,273
Refunds to terminated employees	73,456
Total annuities and refunds	1,372,729
Investments:	
Securities lending and reverse repurchase agreements	197,065,450
Investments purchased	23,133,471
Investment expenses	167,773
Total investments	220,366,694
Administrative expenses	10,082
Other disbursements	3,984
Total cash disbursements	221,753,489
Cash balance at end of year	$ 213,593

Schedule 5

Schedule of Investments Due to MRS from PERS – June 30, 2006

(In Thousands)

	Amount
Due to MRS:	
Biloxi Municipal	$ 9,158
Biloxi Fire and Police	1,074
Clarksdale Fire and Police	1,197
Clinton Fire and Police	8,608
Columbus Fire and Police	1,556
Greenville Fire and Police	5,037
Greenwood Fire and Police	3,247
Gulfport Fire and Police	10,873
Hattiesburg Fire and Police	24,969
Jackson Fire and Police	105,196
Laurel Fire and Police	3,487
McComb Fire and Police	1,532
Meridian Municipal	673
Meridian Fire and Police	9,085
Natchez Fire and Police	1,843
Pascagoula Fire and Police	9,148
Tupelo Fire and Police	8,857
Vicksburg Fire and Police	14,081
Yazoo City Fire and Police	916
Total investments due to MRS	$ 220,537

Schedule 6

Public Employees' Retirement System of Mississippi

Statement of Changes in Assets and Liabilities – Agency Funds – June 30, 2006

(In Thousands)

Flexible Benefits Cafeteria Plan	Balance June 30, 2005	Additions	Deductions	Balance June 30, 2006
Assets:				
Cash	$ 15	$ 75	$ 68	$ 22
Accounts receivable	-	-	-	-
Total assets	$ 15	$ 75	$ 68	$ 22
Liabilities:				
Funds held for others	$ -	$ 75	$ 68	$ 7
Accounts payable	15	-	-	$ 15
Total liabilities	$ 15	$ 75	$ 68	$ 22