PUBLIC SCHOOL RETIREMENT SYSTEM
OF THE SCHOOL DISTRICT OF KANSAS CITY, MISSOURI

FINANCIAL STATEMENTS

Years Ended December 31, 2014 and 2013

MHM Mayer Hoffman McCann P.C.
An Independent CPA Firm

PUBLIC SCHOOL RETIREMENT SYSTEM
OF THE SCHOOL DISTRICT OF KANSAS CITY, MISSOURI

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Public School Retirement System of the School District of Kansas City, Missouri
Kansas City, Missouri

Report on the Financial Statements

We have audited the accompanying financial statements of the Public School Retirement System of the School District of Kansas City, Missouri (the "Retirement System"), which comprise the statements of fiduciary net position as of December 31, 2014 and 2013, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Retirement System as of December 31, 2014 and 2013, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the Retirement System adopted a new accounting pronouncement related to Financial Reporting for Pension Plans during the year ended December 31, 2014. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis for the years ended December 31, 2014 and 2013 on pages 3 through 6 and supplementary information on pages 20 through 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Retirement System's basic financial statements. The introductory section, titled Management Discussion and Analysis, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The introductory section has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Mayer Hoffman McCann P.C.

Kansas City, Missouri
June 16, 2015

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

Years Ended December 31, 2014 and 2013

Our discussion and analysis of the Public School Retirement System of the School District of Kansas City, Missouri's (the "Retirement System") financial performance provides an overview of the Retirement System's financial activities for the years ended December 31, 2014 and 2013.

Financial statements

Statement of Fiduciary Net Position - The statement of fiduciary net position reports the Retirement System's assets, liabilities, and the resultant net position available at the end of the year (Assets - Liabilities = Net Position). All assets and liabilities are recorded by use of the accrual basis of accounting. The assets are generally made up of cash, investments (at fair market value), and contributions receivable from participating employers and plan members. The liabilities include unpaid and/or accrued expenses as of the end of the year. Overall, this statement shows the financial position of the Retirement System at the specified year-end date.

Statement of Changes in Fiduciary Net Position - The statement of changes in fiduciary net position reports the transactions of the Retirement System that occurred during the year. All of the current year's revenue and expenses are taken into account when preparing this statement. This statement not only shows that Additions - Deductions = Net Changes in Fiduciary Net Position, but it also supports the change that has occurred to the prior year's net position value as shown on the statement fiduciary net position.

Notes to the Financial Statements - The notes to the financial statements are an integral part of the financial statements. The required supplementary information provides historical and supplementary information, which is considered useful in the evaluation of the condition of the Plan, which is administered by the Retirement System.

PUBLIC SCHOOL RETIREMENT SYSTEM
OF THE SCHOOL DISTRICT OF KANSAS CITY, MISSOURI

MANAGEMENT DISCUSSION AND ANALYSIS

Years Ended December 31, 2014 and 2013

Comparative statements

The following are summary comparative statements of the Retirement System. For the purpose of this report, these comparative statements have been condensed to give its users a quick overview of the Retirement System's net position and changes in them. One can think of the Retirement System's net position as a way to measure the Retirement System's financial health. Over time, increases or decreases in the Retirement System's net position are indicators of whether its financial health is improving or deteriorating.

	December 31, 2014	December 31, 2013	Percentage Change
Receivables	$ 16,614,075	$ 12,904,452	28.75%
Investments	685,887,143	713,073,319	-3.81%
Cash	2,026,321	1,880,481	7.76%
Asset held for sale	770,000	-	100.00%
Prepaid and other assets	54,244	52,928	2.49%
Property and equipment, net of accumulated depreciation	268,675	2,880,056	-90.67%
Total assets	705,620,458	730,791,236	-3.44%
Securities purchased	6,110,089	3,425,877	78.35%
Accounts payable	851,538	691,187	23.20%
Accrued expenses	135,351	120,871	11.98%
Total liabilities	7,096,978	4,237,935	67.46%
Net position restricted for pensions	$ 698,523,480	$ 726,553,301	-3.86%

Comparative statements (continued)

	Years Ended December 31, 2014	2013	Percentage Change
Contributions	$ 26,646,322	$ 24,404,265	9.19%
Net investment income	27,283,040	78,572,949	-65.28%
Other income	2,500	25,834	-90.32%
Total additions	53,931,862	103,003,048	-47.64%
Benefits paid	75,298,738	73,844,481	1.97%
Refunds of contributions	3,236,645	3,567,693	-9.28%
Depreciation expense	528,860	524,163	0.90%
Administrative expenses	1,548,319	1,479,932	4.62%
Impairment Loss	1,349,121	-	100.00%
Total deductions	81,961,683	79,416,269	3.21%
Increase (decrease) in net position	(28,029,821)	23,586,779	-218.84%
Net position restricted for pensions:			
Beginning of year	726,553,301	702,966,522	3.36%
End of year	$ 698,523,480	$ 726,553,301	-3.86%

For the year ended December 31, 2014, the change in plan net position for the Retirement System decreased by just under 4% compared to those at December 31, 2013.

Office facility

In October 2004, the Retirement System purchased the property located at 4600 Paseo Boulevard (also known as 1331 Brush Creek and 4605 Virginia). The acquisition of this 14,200 square foot facility is to serve as the Retirement System's office space. The purchase price was $884,050. The purchase of this facility affords the Retirement System the ability to cease paying rent for office space (which was $5,668 per month for 3,400 square feet of downtown space) and parking. The new facility affords the Retirement System approximately 100 parking spaces along with a large, open meeting area. The facility is large enough to allow for the rental of office space to other entities, and consequently offers the possibility to reduce occupancy costs.

<u>Office facility</u> (continued)

In August 2005, the Retirement System relocated its offices from downtown to the new facility at 4600 Paseo Boulevard. Remodeling construction had been completed on phase one when the Retirement System took occupancy. During the remainder of 2005, construction continued on phases two and three of the building.

In September 2009, the Retirement System entered into a one year lease of 2600 square feet in the amount of $40,000 with a tenant. Over the course of the last two years, the lessee has extended the initial lease term for several short term intervals and increased the square footage that is leased. The current lease expired December 2013. As of December 31, 2014, the lessee is no longer leasing space in the building.

In December 2011, the Retirement System exercised its “right of first refusal” on the sale of the adjoining property. Simultaneously with the purchase, the Retirement System sold the property to an unrelated buyer in the amount of $265,000. There was no gain on the sale of this property.

In April 2014, the Retirement System obtained an appraisal of their building and determined that the carrying value exceeded the fair value of the building; therefore, it was determined that the building value was impaired. An impairment loss of $1,349,121 was recorded to reduce the carrying amount of the building down to the fair value amount of $770,000.

In October 2014, the Retirement System agreed to list the building for sale on the real estate market, and intends to sell the building within the next year. Due to this, the net book value of the building at December 31, 2014 has been categorized as an asset held for sale on the statement of fiduciary net position.

The value of the building as reflected in the above Summary Comparative Statements of Fiduciary Net Position reflects the net book value at December 31, 2014 and 2013. The net book value includes original cost plus the construction costs, less accumulated depreciation costs.

	December 31, 2014	December 31, 2013
Cost		
Land, building and improvements	$ -	$ 2,772,401
Equipment	16,679	16,679
Software	2,207,230	2,187,308
Total cost	2,223,909	4,976,388
Less: accumulated depreciation	(1,955,234)	(2,096,332)
Net property and equipment	$ 268,675	$ 2,880,056

AUDITED FINANCIAL STATEMENTS

PUBLIC SCHOOL RETIREMENT SYSTEM
OF THE SCHOOL DISTRICT OF KANSAS CITY, MISSOURI

STATEMENTS OF FIDUCIARY NET POSITION

December 31, 2014 and 2013

	2014	2013
ASSETS		
Receivables:		
Plan member contributions	$ 688,754	$ 312,520
Employers' contributions	9,182,422	8,555,031
Due from brokers for securities sold	5,923,587	3,585,037
Accrued interest and dividends	819,312	451,864
	16,614,075	12,904,452
Investments, at fair value:		
Cash and short term investments	14,475,712	6,807,554
Commingled domestic fixed income	67,188,432	64,581,469
High yield fixed income	15,236,878	24,014,950
Global fixed income	32,295,070	32,335,927
Domestic equity	157,144,487	167,517,585
International equity	162,685,050	192,731,885
Pooled real estate funds	73,508,872	56,848,298
Alternative equity funds	106,856,338	105,884,820
Private equity funds	31,867,012	30,203,174
Commodities fund	24,629,292	32,147,657
	685,887,143	713,073,319
Other:		
Cash	2,026,321	1,880,481
Prepaid and other assets	54,244	52,928
Asset held for sale	770,000	-
Property and equipment, at cost, less accumulated depreciation	268,675	2,880,056
	3,119,240	4,813,465
TOTAL ASSETS	705,620,458	730,791,236
LIABILITIES		
Due to brokers for securities purchased	6,110,089	3,425,877
Accounts payable	851,538	691,187
Accrued payroll expenses	135,351	120,871
TOTAL LIABILITIES	7,096,978	4,237,935
NET POSITION RESTRICTED FOR PENSIONS	$ 698,523,480	$ 726,553,301

See Notes to Financial Statements

PUBLIC SCHOOL RETIREMENT SYSTEM
OF THE SCHOOL DISTRICT OF KANSAS CITY, MISSOURI

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION

Years Ended December 31, 2014 and 2013

	2014	2013
ADDITIONS		
Contributions:		
Plan members	$ 13,358,180	$ 12,310,320
Employers	13,288,142	12,093,945
Total contributions	26,646,322	24,404,265
Investment income:		
Net realized and unrealized appreciation in fair value of investments	24,676,100	76,101,474
Interest	3,106,082	1,311,150
Dividends	4,286,883	5,611,134
Other income	2,500	25,834
	32,071,565	83,049,592
Less: Investment expense	4,786,025	4,450,809
Net investment income	27,285,540	78,598,783
TOTAL ADDITIONS	53,931,862	103,003,048
DEDUCTIONS		
Benefits paid	75,298,738	73,844,481
Refund of contributions	3,236,645	3,567,693
Depreciation expense	528,860	524,163
Administrative expenses	1,548,319	1,479,932
Impairment loss	1,349,121	-
TOTAL DEDUCTIONS	81,961,683	79,416,269
NET INCREASE (DECREASE) IN NET POSITION	(28,029,821)	23,586,779
NET POSITION RESTRICTED FOR PENSION		
Beginning of year	726,553,301	702,966,522
End of year	$ 698,523,480	$ 726,553,301

See Notes to Financial Statements

(1) Description of plan

The following description of the Public School Retirement System of the School District of Kansas City, Missouri (the "Retirement System") provides only general information. Participants should refer to the Missouri Revised Statutes regarding the Retirement System or the Summary Plan Description for a more complete description of the Retirement System's provisions, which are available from the Retirement System's administrator.

General - The Retirement System is a cost-sharing multiple-employer defined benefit pension plan (the "Plan"), which was established by the General Assembly of the State of Missouri and is exempt from the provisions of the Employee Retirement Income Security Act of 1974. The Board of Trustees of the Retirement System ("Board of Trustees") administers and operates the Plan in accordance with the statutes of the State of Missouri. At December 31, 2014, participating employers consisted of the School District of Kansas City, Missouri; the Kansas City, Missouri Public Library District; the Retirement System; and the following charter schools: Academie LaFayette, Academy for Integrated Arts, Allen Village Charter School, Alta Vista Charter School, Benjamin Banneker Charter Academy, Brookside Charter School, Crossroads Academy of Kansas City, DeLaSalle Charter School, Della Lamb Elementary, Ewing Marion Kauffman School, Frontier School of Excellence, Frontier School of Innovation, Genesis School, Inc., Gordon Parks Elementary, Hogan Preparatory Academy, Hope Leadership Academy, KIPP Endeavor Academy, Lee A. Tolbert Community Academy, Pathway Academy, Scuola Vita Nuova, and University Academy.

Eligibility - All regular, full-time employees of the participating employers become members of the Plan as a condition of employment if they are in a position requiring at least 25 hours of work per week and nine calendar months per year. Employees hired before or during 1961 are members of Plan A. As of December 31, 2014, there are no longer any members of Plan A receiving benefits. Employees who retire after June 30, 1999 and were hired after 1961, but before January 1, 2014 are members of Plan B. Employees hired after January 1, 2014 are members of Plan C. At January 1, 2014 and 2013, respectively, the Plan's membership consisted of:

	2014	2013
Active plan members	3,501	3,396
Retirees and beneficiaries receiving benefits	3,885	3,859
Terminated plan members entitled to but not yet receiving benefits	2,790	2,687
Total plan membership	10,176	9,942

Terminated plan members entitled to but not yet receiving benefits include former members who are entitled to a refund of their contributions plus accrued interest.

Contributions - Effective January 1, 1999, members of Plan B contributed 7.5% of annual compensation, as defined. Effective January 1, 2014, members of Plan B and C contribute at 8% of annual compensation.

Effective January 1, 1999, employers contributed 7.5% of annual compensation, as defined. Effective January 1, 2014, employers contribute 8% of annual compensation.

Service - Creditable service is membership service. This is service for which required contributions have been made. Members of Plan B are effectively limited to 30 years of creditable service, regardless of the number of years actually worked, unless the member earned more than 30 years prior to August 28, 1993. Members of Plan C are effectively limited to 34.29 years of creditable service, regardless of the number of years actually worked.

(1) **Description of plan (continued)**

Compensation

Annual compensation - Compensation in excess of the limitations set forth in Section 401(a)(17) of the Internal Revenue Code will be disregarded for purposes of determining contributions and benefits for members of Plan B and C. However, for years prior to 1989, members of Plan B and C's annual compensation are limited to the scheduled compensation for a school principal who holds a master's degree. A member's annual compensation is the member's regular compensation.

Average final compensation - For members of Plan B and C, the average final compensation is the highest average compensation paid during any four consecutive years of creditable service.

Normal retirement

Eligibility - A member of Plan B may retire (a) after the completion of five years of creditable service, provided such member has attained at least the age of 60 or (b) after the member has accumulated a minimum of 75 credits (effective August 28, 1998), where each year of creditable service plus a member's age equals 75 credits. A member of Plan C may retire (a) after the completion of five years of creditable service, provided such member has attained at least the age of 62 or (b) after the member has accumulated a minimum of 80 credits, where each year of creditable service plus a member's age equals 80 credits.

Benefit - For a member of Plan B, the normal monthly retirement benefit equals the product of one-twelfth of 2.00% (1.75% for members who retired prior to June 30, 1999) of the member's average final compensation and years of creditable service, subject to a maximum of 60% of their average final compensation. The normal monthly retirement benefit for a member of Plan B whose years of creditable service exceeded 34.25 years on August 28, 1993, shall equal the product of 1.75% and the member's years of creditable service on August 28, 1993. For a member of Plan C, the normal monthly retirement benefit equals the product of one-twelfth of 1.75% of the member's average final compensation and years of creditable service, subject to a maximum of 60% of their average final compensation.

Minimum benefit - Effective January 1, 1996, any member with at least ten years of service, but less than twenty years, is entitled to a minimum monthly retirement benefit equal to the sum of $150 and $15 for each full year of creditable service in excess of ten years or the actuarial equivalent if an option is elected. Any member with at least twenty years of creditable service at retirement is entitled to a minimum monthly retirement benefit of $300 or the actuarial equivalent of $300 if an option is elected. Beneficiaries of deceased members who retired with at least ten years of creditable service and elected one of the optional plans for payment of benefits may receive the actuarial equivalent of the minimum monthly retirement benefit available for the option chosen.

Under either Plan, if a member's accumulated contributions provide more than one-half of the member's monthly retirement benefit (under the actuarial assumptions adopted by the Board of Trustees), the member's benefit will be increased by this excess.

Early retirement

Eligibility - A member with at least five years of creditable service and a minimum age of fifty-five is eligible for early retirement. A member with at least thirty years of creditable service may retire at any time regardless of age.

Benefit - A member eligible for early retirement will receive a reduced benefit, calculated as for normal retirement, which recognizes service and compensation to the actual retirement date. The reduction in benefit will provide a benefit which is actuarially equivalent to the normal retirement benefit that would be payable at the member's normal retirement date.

(1) Description of plan (continued)

Disability retirement
Eligibility - A member with at least five years of creditable service who is certified to be totally incapacitated for performance of duty by the Medical Board (as designated by the Board of Trustees) is eligible for disability retirement.

Benefit - A disabled member will receive an unreduced benefit, calculated as for normal retirement, based on service and average final compensation at the actual retirement date. The minimum disability retirement allowance shall be the lesser of:

1. 25% of the person's average compensation; or

2. The member's service retirement allowance calculated based on the member's final average compensation and the maximum number of years of creditable service the member would have earned had the member remained an employee until attaining the age of 60.

Termination benefits - vested
Eligibility - A member who has at least five years of creditable service earns a vested interest in their accrued benefit, provided the member leaves their contributions in the Plan.

Benefit - The vested benefit is calculated as a normal retirement benefit based on a member's creditable service and average final compensation on the termination date. The benefit is payable, at minimum, on the member's normal retirement date.

Termination benefits - non-vested
If the member's termination is for reasons other than death or retirement, and if the member has not met the vesting or retirement requirements, only the member's contributions with interest will be refunded.

Death benefit
Prior to retirement - For a member who passes away while actively employed, the member's accumulated contributions with interest will be paid to the member's beneficiary. Certain beneficiaries of a member of Plan B or C have the option to receive a monthly retirement benefit or a refund of the member's contributions with interest. All beneficiaries are guaranteed to receive at least the member's accumulated contributions at retirement, if a member passes away before electing an option.

Post retirement - The optional form of benefit payment selected under either Plan B or Plan C will determine what, if any, benefits are payable upon death after retirement.

Option 1 - The retiree's beneficiary will receive, for life, the same level of monthly retirement benefit. In the event that the retiree's beneficiary predeceases the retiree, the retiree's monthly retirement benefit will be adjusted to the amount it would have been, had the retiree not elected Option 1.

Option 2 - The retiree's beneficiary will receive, for life, a monthly retirement benefit equal to one-half the retiree's benefit. In the event the retiree's beneficiary predeceases the retiree, the retiree's monthly benefit will be adjusted to the amount it would have been, had the retiree not elected Option 2.

Option 3 - No benefits are payable to the retiree's estate or any beneficiary. Retirement benefits payable under this option will be actuarially increased from the normal formula.

(1) Description of plan (continued)

Death benefit (continued)
If the death of any retiree who has not elected an option occurs before they have received total benefits at least as large as their accumulated contributions, the difference shall be paid to the deceased's beneficiary, if living, or to their estate.

Benefit increase adjustments - The Board of Trustees shall determine annually whether or not the Retirement System can provide an increase in benefits for those retirees who, as of January 1 preceding the date of such increase, have been retired at least one year (three years prior to January 1, 2002). Any increase also applies to optional retirement allowances paid to a retiree's beneficiary. Before any increases are made, the following requirements must be satisfied:

1. The Retirement System funded ratio as of January 1st of the preceding year of the proposed increase must be at least 100% after adjusting for the effect of the proposed increase. The funded ratio is the ratio of assets to the pension benefit obligation.

2. The actuarially required contribution rate, after adjusting for the effect of the proposed increase, may not exceed the statutory contribution rate.

3. The actuary must certify that the proposed increase will not impair the actuarial soundness of the Retirement System.

In accordance with the Benefit Increase Adjustments Policy, if an increase is permissible, the amount of the increase will be equal to the lesser of 3% or the percentage increase in the CPI for the preceding year, subject to a cumulative increase of 100% subsequent to December 31, 2000.

The Board of Trustees reserves the right, at its sole discretion, not to award any Benefit Increase Adjustment or other supplements for any year, even if the statutory requirements for an increase are satisfied, or to provide increases in greater or lesser amounts than prescribed by this policy. For the years ended December 31, 2014 and 2013 there was no Benefit Increase Adjustment or an extra check issued to eligible retirees.

Administration of the Retirement System - The Board of Trustees is responsible for the general administration and proper operation of the Retirement System. The Board consists of twelve members: four members appointed by the Board of Education, one member appointed by the Board of Trustees of the Library District, four members elected by and from the members of the Retirement System, two members elected by and from the retirees of the Retirement System, and the Superintendent of Schools of the School District of Kansas City, Missouri. The Board hires an Executive Director to manage the day-to-day operations and implement strategic plans as set by the Board.

Administrative expenses - All expenses of the Retirement System are paid by the Plan. Fees related to the administration of Plan are included in administrative expenses. Investment related expenses are included in net appreciation of fair value of investments.

(2) Summary of significant accounting policies

Basis of accounting - The financial statements of the Retirement System are prepared under the accrual method of accounting. Plan member and employer contributions are recognized in the period in which the contributions are due. Based on an agreement with the State of Missouri, the School District of Kansas City, Missouri and the Kansas City, Missouri Public Library District pay the employer portions of their retirement payment one year in arrears. These amounts are included in the financial statements as contributions receivable. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

(2) **Summary of significant accounting policies (continued)**

Implementation of Governmental Accounting Standard Board ("GASB") Statement No. 67 - Effective December 31, 2014, the Retirement System implemented GASB Statement No. 67, *Financial Reporting for Pension Plans*, to build upon the existing framework for financial reports of defined benefit plans, including enhanced disclosures and the presentation of new information about annual money-weighted rates of return. The implementation of GASB Statement No. 67 had no effect on the Retirement System's net position.

Use of estimates - 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 reported amounts of assets and liabilities and changes therein, and disclosures of contingent assets and liabilities. Accordingly, actual results may differ from those estimates.

Investment valuation and income recognition - Investments are stated at fair value. Quoted market prices, if available, are used to value investments. The net unrealized appreciation or depreciation in the fair value of investments for the period reflects the net increase or decrease in the fair value of the investments, on an aggregate basis, between the beginning and the end of the reporting period. The net realized gain or loss on sale of investments is the difference between the proceeds received and the cost of the investment sold. The net realized gains and losses have been combined with the net unrealized appreciation and depreciation for purposes of this report. The fair value of the alternative equity funds, private equity funds, and the commodities fund are valued at net asset value of shares held by the Retirement System at year end as determined by audited financial statements of such funds.

Pooled real estate funds consist of funds invested in income producing real estate. These pooled real estate funds are valued at current value based on information received from the funds' sponsor. The value of underlying real estate is generally determined by independent appraisal. Such value may differ from a price at which the real estate could be sold because market prices are negotiated by willing buyers and sellers.

Purchases and sales of securities are recorded on a trade-date basis. Investment income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

(2) **Summary of significant accounting policies (continued)**

The Retirement System's policy in regard to the allocation of invested assets is established and may be amended by the Board of Trustees. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension plan. The following was the Retirement System Board's adopted asset allocation policy as of December 31, 2014:

Asset Class	Target Allocation
Domestic Equity	22.50 %
International Equity	15.00 %
Emerging Market Equity	10.00 %
Domestic Fixed Income - Core	10.00 %
International (Dev.) Fixed Income	5.00 %
High Yield	2.50 %
Low Volatility Alternatives	15.00 %
Private Equity	5.00 %
Commodities	5.00 %
Real Estate	10.00 %
Total	100.00 %

Rate of return - For the years ended December 31, 2014 and 2013, the annual money-weighted return on the Retirement System's investments, net of investment expense was 3.49% and 12.66%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Concentration risk - The Retirement System does not have investments in individual securities that represent more than five percent of the total net asset value as of December 31, 2014.

Custodial credit risk - Custodial credit risk is when, in the event a financial institution or counterparty fails, the Retirement System would not be able to recover the value of deposits, investments or collateral securities that are in the possession of an outside party. All investments are held in the Retirement System's name and are not subject to creditors of the custodial financial institution.

(2) Summary of significant accounting policies (continued)

Currency risk - Currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Retirement System's investments at December 31, 2014, were distributed among the following currencies:

USD Equivalent		Currency	Percent
$	7,010,904	Euro Currency Unit	1.0%
	4,592,859	Japanese Yen	0.7%
	607,699	Poland	0.1%
	1,577,088	Mexican New Peso	0.2%
	1,670,394	New Zealand	0.2%
	2,638,101	United Kingdom	0.4%
	667,790,098	U.S. Dollar	97.4%
$	685,887,143	**Total Currencies**	100.0%

Credit risk - Credit risk is the risk that an issuer or other counterparty to a debt investment will not fulfill its obligations. The Retirement System's investment policies require that any investment manager have at least 80% of holdings in issues rated A or higher by both Standard & Poor's Corporation and Moody's Investors Service or their equivalents. Each portfolio is required to maintain a reasonable risk level relative to its benchmark. The Retirement System's assets as of December 31, 2014 subject to credit risk are shown with current credit ratings below:

AAA	$	54,765,930	55.1%
AA		24,123,109	24.2%
A		11,877,156	11.9%
BAA		8,717,307	8.8%
	$	99,483,502	100.0%

Interest rate risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Retirement System's assets subject to interest rate risk are shown below grouped by effective duration ranges:

Security Description	Current Market Value	Investment Maturities (in years): Less Than 1	1 - 5	6 - 10	Greater Than 10
U.S. Government	$ 54,878,845	$ -	$ 16,861,682	$ 14,082,646	$ 23,934,517
Government Bonds--Europe	9,931,179	-	3,264,047	3,338,791	3,328,341
Government Bonds--Latin America	1,529,070	-	270,771	1,258,298	-
Government Bonds--Pacific Asia	6,231,910	-	2,354,457	1,827,064	2,050,389
Corporate Bonds--United States	26,912,498	-	5,520,211	8,191,088	13,201,200
	$ 99,483,502	$ -	$ 28,271,168	$ 28,697,887	$ 42,514,447

(2) **Summary of significant accounting policies (continued)**

Property and equipment - Property and equipment are carried at cost. Purchases are depreciated over their estimated useful lives by use of the straight-line method. The useful lives for the purpose of computing depreciation are:

Building and improvements	40 years
Equipment	7 years
Software	5 years

(3) Property and equipment

Property and equipment consisted of the following at December 31, 2014 and 2013:

	December 31, 2014	December 31, 2013
Cost		
Land, building and improvements	$ -	$ 2,772,401
Equipment	16,679	16,679
Software	2,207,230	2,187,308
Total cost	2,223,909	4,976,388
Less: accumulated depreciation	(1,955,234)	(2,096,332)
Net property and equipment	$ 268,675	$ 2,880,056

Depreciation expense for the years ended December 31, 2014 and 2013 was $528,860 and $524,163, respectively.

In December 2011, the Retirement System exercised its “right of first refusal” on the sale of the adjoining property. Simultaneously with the purchase, the Retirement System sold the property to an unrelated buyer in the amount of $265,000. There was no gain on the sale of this property.

In April 2014, the Retirement System obtained an appraisal of their building and determined that the carrying value exceeded the fair value of the building; therefore, it was determined that the building value was impaired. An impairment loss of $1,349,121 was recorded to reduce the carrying amount of the building down to the fair value amount of $770,000.

In October 2014, the Retirement System agreed to list the building for sale on the real estate market, and intends to sell the building within the next year. Due to this, the net book value of the building at December 31, 2014 has been categorized as an asset held for sale on the statement of fiduciary net position.

(4) Funding policy

The Missouri Revised Statutes Sections 169.350.4 and 169.291.16 specify that for 2014 and each subsequent year, the employee contribution rate and the employer contribution rate shall be the same percentage of compensation, each not less than 7.5% of compensation nor more than 9% compensation. Within this permitted range, the rate may be changed (increased or decreased) in increments of 0.5% each year. The objective is that the combined employee and employer contribution will be the amount actuarially required to cover the normal cost and amortize the unfunded accrued actuarial liability over a period that does not exceed 30 years from the date of valuation. The rate for each calendar year shall be certified by the Board of Trustees to the employers at least six months prior to the date such rate is to be effective. Prior to 2014, the Missouri Revised Statutes 169.350.1(1) and 169.291.16 specified that the employee and the employer each contribute 7.5% of compensation, as defined.

(5) Investments

The following presents investments that represent 5% or more of the Plan's net position:

	December 31, 2014	December 31, 2013
Rhumbline S&P 500 Pooled Index Fund	$ 75,106,860	$ 70,556,482
Georgetown Fund Managed by Rock Creek	44,751,021	42,772,564
Rhumbline S&P Mid-Cap 400 Index Fund	44,109,992	45,947,937
AQR Global Risk Premium Fund	41,716,741	44,126,288
Earnest Partners Emerging Market Fund	35,923,216	41,263,946
Rhumbline Core Bond Pooled Index Fund	-	64,581,469

(6) Net Pension Liability

The components of the net pension liability of participating entities at December 31, 2014 and 2013, were as follows:

	2014	2013
Total pension liability	$ 879,288,823	$ 875,451,114
Less: plan fiduciary net position	698,523,480	726,553,301
Net pension liability	$ 180,765,343	$ 148,897,813
Plan fiduciary net position as a percentage of total pension liability	79.44%	82.99%

Actuarial information - The Retirement System engages an independent actuarial firm to perform an annual actuarial valuation. The information displayed below presents the funded status as of the most recent actuarial valuation. The Schedule of Funding Progress in the Required Supplementary Information section, immediately following the notes to the financial statements, presents multi-year trend information regarding whether the actuarial value of plan assets is increasing or decreasing over time, relative to the actuarial accrued liability of benefits.

Actuarial Valuation Date	Actuarial Value of Assets A	Actuarial Accrued Liability B	Unfunded Actuarial Accrued Liability (UAAL) B-A	Funded Ratio A/B	Covered Payroll C	UAAL as a Percentage of Covered Payroll (B-A)/C
1/1/2014	$ 710,828,744	$ 875,451,114	$ 164,622,370	81.20%	$ 157,014,537	104.85%

The actuarial assumptions used for the most recent valuation are as follows:

Valuation Date	January 1, 2014
Actuarial Cost Method	Entry Age Normal Level Percentage of Pay
Amortization Method	Level Dollar, Open Period
Remaining Amortization Period	30 years
Asset Valuation Method	5 year smoothed market
Actuarial Assumptions:	
Inflation	3.50%
Investment Rate of Return	8.00%
Projected Salary Increases	5.00% annually

(6) Net Pension Liability (continued)

Pre-retirement mortality rates were based on RP-2000 Healthy Non-Annuitant projected 15 years from the valuation date using Scale AA. Post-retirement mortality rates were based on RP-2000 Healthy Annuitant Table Annuitant projected 7 years from the valuation date using Scale AA. Disability mortality rates were based on RP-2000 Disabled Table for Males and Females.

The long-term expected rate of return on pension plan investments is reviewed as part of the regular experience study prepared by the Retirement System. Several factors are considered in evaluating the long-term rate of return assumption, including long-term historical data, estimates inherent in current market data, and an analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation), along with estimates of variability and correlations for each asset class, were developed by the Retirement System's investment consultant. These ranges are combined to produce the 10-year long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Retirement System's target asset allocation as of December 31, 2014 (see the discussion of the pension plan's investment policy) are summarized in the following table:

Asset Class	10-Year Long-term Expected Real Rate of Return
Domestic Equity	6.55 %
International Equity	7.23 %
Emerging Market Equity	9.48 %
Domestic Fixed Income - Core	1.56 %
International (Dev.) Fixed Income	0.20 %
High Yield	4.35 %
Low Volatility Alternatives	3.52 %
Private Equity	11.53 %
Commodities	3.86 %
Real Estate	4.40 %

Discount Rate - The discount rate used to measure the total pension liability was 8%. The projection of cash flows used to determine the discount rate assumed that contributions from the Plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current Plan members. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

(6) Net Pension Liability (continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of participating entities calculated using the discount rate of 8%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7%) or 1-percentage-point higher (9%) than the current rate:

	Discount Rate	**Participating entities' net pension liabilty**
1% decrease	7.0%	257,893,148
Current discount rate	8.0%	180,765,343
1% increase	9.0%	114,379,710

(7) Tax status

The Retirement System is exempt from federal income tax under Section 501 of the Internal Revenue Code.

(8) Risks and uncertainties

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of plan net assets.

Plan contributions are made and the actuarial present value of accumulated plan benefits are reported based on certain assumptions pertaining to interest rates, inflation rates and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimation and assumption process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.

Changes in the discount rate and investment returns can have a significant effect on the funded status of the Plan. Management continues to monitor these changes and the potential impact on the future pension plan funding requirements and related expenses.

(9) Subsequent events

The Retirement System has evaluated subsequent events through June 16, 2015, which is the date the financial statements were available to be issued and noted the following item for disclosure:

Effective January 1, 2015, the contribution rate for both employees and employers increased to 8.50%.

REQUIRED SUPPLEMENTARY INFORMATION

PUBLIC SCHOOL RETIREMENT SYSTEM
OF THE SCHOOL DISTRICT OF KANSAS CITY, MISSOURI

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGES IN NET PENSION LIABILITIES
AND RELATED RATIOS
($ IN THOUSANDS)

	2014
Total Pension Liability	
Service cost	$ 15,418
Interest	66,956
Benefit payments, including member refunds	(78,536)
Net change in total pension liability	$ 3,838
Total pension liability - beginning	875,451
Total pension liability - ending	$ 879,289
Plan Fiduciary Net Position	
Contributions:	
Employer	$ 13,288
Employee	13,358
Net investment income	25,937
Benefit payments, including member refunds	(78,536)
Administrative expenses	(1,548)
Other	(529)
Net change in plan fiduciary net position	(28,030)
Plan fiduciary net position - beginning	726,553
Plan fiduciary net position - ending	$ 698,523
Net pension liability - ending	$ 180,766
Plan fiduciary net position as a percentage of the total pension liability	79.44%
Covered payroll	$ 166,102
Employers' Net Pension Liability as a percentage of covered payroll	108.83%

Note to Schedule:
This schedule is intended to show 10-year trend. Additional years will be reported as they become available.

PUBLIC SCHOOL RETIREMENT SYSTEM
OF THE SCHOOL DISTRICT OF KANSAS CITY, MISSOURI

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF EMPLOYERS' CONTRIBUTIONS
($ IN THOUSANDS)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Actuarially determined employer contribution	$ 19,401	$ 20,995	$ 16,373	$ 11,398	$ 7,084	$ 3,818	$ 3,934	$ 11,603	$ 12,084	$ 12,522
Actual employer contributions	13,288	12,094	11,370	11,973	13,282	27,657	15,613	15,055	14,431	14,404
Annual contribution deficiency (excess)	$ 6,113	$ 8,901	$ 5,003	$ (575)	$ (6,198)	$ (23,839)	$ (11,679)	$ (3,452)	$ (2,347)	$ (1,882)
Covered-employee payroll*	$ 166,102	$ 161,253	$ 151,603	$ 159,637	$ 177,093	$ 206,384	$ 208,173	$ 200,739	$ 192,414	$ 192,052
Actual contributions as a percentage of covered-employee payroll*	8.00%	7.50%	7.50%	7.50%	7.50%	13.40%	7.50%	7.50%	7.50%	7.50%

*Covered-employee payroll based upon the pensionable payroll reported to the Plan and excludes additional compensation amounts that may need to be reported by the employer.

PUBLIC SCHOOL RETIREMENT SYSTEM
OF THE SCHOOL DISTRICT OF KANSAS CITY, MISSOURI

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF INVESTMENT RETURNS

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Annual money-weighted rate of return, net of investment expense	3.49%	12.66%	13.20%	0.64%	13.35%	15.93%	-23.70%	6.55%	13.39%	7.74%

Notes to Required Supplementary Information
For the Year Ended December 31, 2014

Changes of benefit terms. The following changes to the plan provisions were reflected in the valuation performed as of January 1, 2014 are listed below:

Under legislation passed in 2013, the Board may adjust the member and employer contribution rate each year by no more than 0.50% each. The contribution rate can fluctuate between 7.5% and 9.0%. The Board increased the contribution rate for both members and employers to 8.0% of pay, effective January 1, 2014 and 8.5% of pay, effective January 1, 2015.

In addition, legislation in 2013 created a new set of plan provisions for members hired after December 31, 2013, referred to as Plan C. The key differences between Plan B and Plan C are a lower benefit multiplier (1.75% instead of 2.00%) and different requirements for unreduced benefits (age 62 or Rule of 80 rather than age 60 or Rule of 75). These changes are effective for those hired on or after January 1, 2014.

Changes of assumptions. In 2014, the non-disabled mortality tables were updated to reflect an additional year of mortality improvements.

Method and assumptions used in calculations of actuarially determined contributions. The system is funded with fixed contribution rates for members and employers. The actuarially determined contributions in the Schedule of Employer Contributions are calculated as of the beginning of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine the employer Actuarially Determined Contribution reported in the most recent actuarial valuation (January 1, 2014):

Actuarial cost method	Entry age normal level percentage of pay
Amortization method	Level dollar, open period
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Inflation	3.50%
Salary increase	5.00%, including inflation
Investment rate of return	8.00%, net of investment expense, and including inflation