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

FINANCIAL STATEMENTS

Years Ended December 31, 2012 and 2011

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 plan net assets of the Public School Retirement System of the School District of Kansas City, Missouri (the "Retirement System"), which was created by the General Assembly of the State of Missouri, as of December 31, 2012 and 2011, and the related statements of changes in plan net assets 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 audit. We conducted our audit 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.

Opinions

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, 2012 and 2011, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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, 2012 and 2011 on pages 3 through 6 and supplementary information on pages 18 through 19 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 audit was 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 audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Mayer Hoffman McCann P.C.

Leawood, Kansas
June 10, 2013

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

Years Ended December 31, 2012 and 2011

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, 2012 and 2011.

Financial statements

Statement of Plan Net Assets - The statement of plan net assets reports the Retirement System's assets, liabilities, and the resultant net assets available at the end of the year (Assets - Liabilities = Net Assets). 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 Plan Net Assets - The statement of changes in plan net assets 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 Plan Net Assets, but it also supports the change that has occurred to the prior year's net asset value as shown on the statement of plan net assets.

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.

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 assets and changes in them. One can think of the Retirement System's net assets as a way to measure the Retirement System's financial health. Over time, increases or decreases in the Retirement System's net assets are indicators of whether its financial health is improving or deteriorating.

Summary Comparative Statements of Plan Net Assets

	December 31, 2012	December 31, 2011	Percentage Change
Investments	$ 690,027,871	$ 667,765,885	3.33%
Receivables	14,279,907	12,582,168	13.49%
Property and equipment, net of accumulated depreciation	3,388,662	3,501,471	-3.22%
Cash	1,549,310	1,040,381	48.92%
Prepaid and other assets	51,062	48,303	5.71%
Total assets	709,296,812	684,938,208	3.56%
Securities purchased	5,576,826	2,325,162	139.85%
Accounts payable	630,862	576,465	9.44%
Accrued expenses	122,602	105,975	15.69%
Total liabilities	6,330,290	3,007,602	110.48%
Net assets held in trust for pension benefits	$ 702,966,522	$ 681,930,606	3.08%

Comparative statements (continued)

Summary Comparative Statements of Changes in Plan Net Assets

	Years Ended December 31, 2012	Years Ended December 31, 2011	Percentage Change
Net investment income	$ 76,704,823	$ 5,438,483	1310.41%
Other income	56,306	64,220	-12.32%
Contributions	22,948,176	24,054,927	-4.60%
Total additions	99,709,305	29,557,630	237.34%
Benefits paid	72,426,711	70,411,892	2.86%
Refunds of contributions	4,386,983	5,721,334	-23.32%
Depreciation expense	522,931	443,059	18.03%
Administrative expenses	1,336,764	1,283,445	4.15%
Total deductions	78,673,389	77,859,730	1.05%
Increase (decrease) in net assets held in trust for pension benefits	21,035,916	(48,302,100)	-143.55%
Net assets held in trust for pension benefits:			
Beginning of year	681,930,606	730,232,706	-6.61%
End of year	$ 702,966,522	$ 681,930,606	3.08%

For the year ended December 31, 2012, the change in plan net assets for the Retirement System increased by just over 3% compared to those at December 31, 2011.

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. Furthermore, real estate is generally an appreciating asset. The appreciation in this asset will serve to increase the net assets of the Retirement System.

Office facility (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 expires December 2013.

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.

The value of the building as reflected in the above Summary Comparative Statements of Plan Net Assets reflects the net book value at December 31, 2012 and 2011. The net book value includes original cost plus the construction costs, less accumulated depreciation costs.

	December 31, 2012	December 31, 2011
Cost		
Land, building and improvements	$ 2,756,844	$ 2,743,731
Equipment	16,679	16,679
Software	2,187,308	1,790,299
Total cost	4,960,831	4,550,709
Less: accumulated depreciation	(1,572,169)	(1,049,238)
Net property and equipment	$ 3,388,662	$ 3,501,471

AUDITED FINANCIAL STATEMENTS

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

STATEMENTS OF PLAN NET ASSETS

December 31, 2012 and 2011

	2012	2011
ASSETS		
Investments, at fair value:		
Cash and short term investments	$ 16,585,100	$ 16,557,791
Corporate fixed income	-	22,029,643
Government bonds & government mortgage-backed securities	-	24,055,963
Commingled domestic fixed income	65,959,088	70,382,178
High yield fixed income	22,425,929	18,156,297
Global fixed income	40,792,386	40,094,413
Multi strategy alternative	-	16,000,000
Domestic equity	156,065,283	279,909,321
International equity	186,119,781	89,667,761
Pooled real estate funds	42,397,800	29,448,223
Alternative equity funds	99,265,632	33,738,464
Private equity funds	26,764,726	27,725,831
Commodities fund	33,652,146	-
	690,027,871	667,765,885
Receivables:		
Plan member contributions	255,910	343,725
Employers' contributions	7,869,875	8,725,075
Due from brokers for securities sold	5,562,017	2,357,295
Accrued interest and dividends	592,105	1,156,073
	14,279,907	12,582,168
Other:		
Property and equipment, at cost, less accumulated depreciation	3,388,662	3,501,471
Cash	1,549,310	1,040,381
Prepaid and other assets	51,062	48,303
	4,989,034	4,590,155
TOTAL ASSETS	709,296,812	684,938,208
LIABILITIES		
Due to brokers for securities purchased	5,576,826	2,325,162
Accounts payable	630,862	576,465
Accrued payroll expenses	122,602	105,975
TOTAL LIABILITIES	6,330,290	3,007,602
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	$ 702,966,522	$ 681,930,606

See Notes to Financial Statements

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

STATEMENTS OF CHANGES IN PLAN NET ASSETS

Years Ended December 31, 2012 and 2011

	2012	2011
ADDITIONS		
Investment income:		
Net realized and unrealized appreciation (depreciation) in fair value of investments	$ 70,406,487	$ (5,519,960)
Interest	2,027,065	4,809,723
Dividends	6,417,419	8,214,232
Other income	56,306	64,220
	78,907,277	7,568,215
Less: Investment expense	2,146,148	2,065,512
Net investment income	76,761,129	5,502,703
Contributions:		
Plan members	11,577,924	12,082,175
Employers	11,370,252	11,972,752
Total contributions	22,948,176	24,054,927
TOTAL ADDITIONS	99,709,305	29,557,630
DEDUCTIONS		
Benefits paid	72,426,711	70,411,892
Refund of contributions	4,386,983	5,721,334
Depreciation expense	522,931	443,059
Administrative expenses	1,336,764	1,283,445
TOTAL DEDUCTIONS	78,673,389	77,859,730
NET INCREASE (DECREASE)	21,035,916	(48,302,100)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Beginning of year	681,930,606	730,232,706
End of year	$ 702,966,522	$ 681,930,606

See Notes to Financial Statements

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 ("ERISA"). The Board of Trustees of the Retirement System administers and operates the Plan in accordance with the statutes of the State of Missouri. At December 31, 2012, 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 of Technology, Brookside Charter School, Crossroads Academy, DeLaSalle Charter High School, Della Lamb Elementary, Derrick Thomas Academy, Ewing Marion Kauffman School, Frontier School of Excellence, Frontier School of Innovation, Genesis School, Gordon Parks Elementary, Hogan Preparatory Academy Middle School, Hogan Preparatory Academy High School, Hope 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. Employees hired after 1961 are members of Plan B. At January 1, 2012 and 2011, the Plan's membership consisted of:

	2012	2011
Active plan members	3,284	3,490
Retirees and beneficiaries receiving benefits	3,829	3,670
Terminated plan members entitled to but not yet receiving benefits	2,569	2,554
Total plan membership	9,682	9,714

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.

During the years ended December 31, 2011 and 2010, active plan members decreased and retirees and terminated plan members increased due to the Kansas City School District's closing of some of the Retirement System's participating employers due to the "right-sizing plan" that was implemented in 2010.

Contributions - Members of Plan A contribute 5% of annual compensation up to $3,000, for a maximum annual contribution of $150. Effective January 1, 1999, members of Plan B contribute 7.5% of annual compensation, as defined.

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

(1) Description of plan (continued)

Service - Creditable service is membership service. This is service for which required contributions have been made. For members in Plan A, creditable service is limited to 40 years. 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.

Compensation
Annual compensation - For members of Plan A, annual compensation is limited to $3,000. There is not a limitation on annual compensation for years after 1988 for members of Plan B. However, for years prior to 1989, members of Plan B'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 A, the average final compensation is the average annual compensation paid in the five years of creditable service when a member's compensation is greatest, subject to a maximum of $3,000. For members of Plan B, 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 A may retire after the completion of five years of creditable service, provided such member has attained the age of 62. 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.

Benefit - For a member of Plan A, the normal monthly retirement benefit equals the product of one-twelfth of 1.25% of the member's average final compensation and years of creditable service. 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.

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.

(1) Description of plan (continued)

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.

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 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.

(1) Description of plan (continued)

Death benefit (continued)
Post retirement - The optional form of benefit payment selected under either Plan A or Plan B 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.

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 1^{st} 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, 2012 and 2011 there was no Benefit Increase Adjustment or an extra check issued to eligible retirees.

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

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 (depreciation) 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.

Use of estimates - The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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. Dividends are recorded on the ex-dividend date.

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, 2012.

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

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.

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, 2012, were distributed among the following currencies:

USD Equivalent	Currency	Percent
$ 4,231,270	Australian Dollar	0.6%
9,041,626	Euro Currency Unit	1.3%
16,615,270	Japanese Yen	2.4%
1,248,235	South Africa	0.2%
3,764,036	Poland	0.5%
2,127,570	Mexican New Peso	0.3%
1,268,452	United Kingdom	0.2%
651,731,412	U.S. Dollar	94.5%
$ 690,027,871	**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, 2012 subject to credit risk are shown with current credit ratings below:

U.S. Government	$ 3,554,145	6.8%
AAA	12,930,018	31.7%
AA	16,565,395	42.5%
A	7,383,589	18.1%
BAA	359,239	0.9%
	$ 40,792,386	100.0%

(2) Summary of significant accounting policies (continued)

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	$ 3,554,145	$ -	$ 602,017	$ 2,735,059	$ 217,069
Government Bonds--Europe	12,792,781	398,570	5,055,330	6,160,612	1,178,269
Government Bonds--Latin America	2,058,903	-	332,211	1,447,244	279,448
Government Bonds--Pacific Asia	20,732,049	3,764,350	7,134,327	7,990,851	1,842,521
Corporate Bonds--United States	900,121	432,301	467,820	-	-
Corporate Bonds--Europe	754,387	-	-	395,148	359,239
	$ 40,792,386	$ 4,595,221	$ 13,591,705	$ 18,728,914	$ 3,876,546

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

At such time that the Retirement System enters into a long term lease with a tenant for a significant portion of the building, the recorded value will be split between the portion used in the Retirement System's operations and the portion that is leased. The portion that is used in operations will continue to be recorded at cost and depreciated over the estimated useful life. The portion that is leased will be adjusted to fair value as determined at the time the lease is executed.

(3) Property and equipment

Property and equipment consisted of the following at December 31, 2012 and 2011:

	December 31, 2012	December 31, 2011
Cost		
Land, building and improvements	$ 2,756,844	$ 2,743,731
Equipment	16,679	16,679
Software	2,187,308	1,790,299
Total cost	4,960,831	4,550,709
Less: accumulated depreciation	(1,572,169)	(1,049,238)
Net property and equipment	$ 3,388,662	$ 3,501,471

Depreciation expense for the years ended December 31, 2012 and 2011 was $522,931 and $443,059, 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.

(4) Funding policy

The Missouri Revised Statutes 169.350.1(1) and 169.291.16 specify that the employee and the employer each contribute 7.5% of compensation, as defined.

(5) 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 multiyear 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
1/1/2012	$ 742,279,611	$ 874,286,498	$ 132,006,887	84.90%	$ 155,893,016	84.68%

(5) Actuarial information (continued)

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

Valuation Date	January 1, 2012
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:	
Investment Rate of Return	8.00%
Projected Salary Increases	Salaries are assumed to increase at the rate of 5% per year

(6) Tax status

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

(7) 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.

(8) Subsequent events

The Retirement System has evaluated subsequent events through June 10, 2013, which is the date the financial statements were available to be issued, no items for disclosure were noted during this evaluation.

REQUIRED SUPPLEMENTARY INFORMATION

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

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS

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
1/1/2003	$717,681,067	$ 701,114,370	$ (16,566,697)	102.36%	$ 168,391,474	-9.84%
1/1/2004	738,612,110	716,126,707	(22,485,403)	103.14%	186,528,530	-12.05%
1/1/2005	763,684,602	747,711,194	(15,973,408)	102.14%	195,866,663	-8.16%
1/1/2006	788,788,666	780,663,389	(8,125,277)	101.04%	187,445,140	-4.33%
1/1/2007	824,302,795	818,027,315	(6,275,480)	100.77%	199,221,110	-3.15%
1/1/2008	854,123,580	781,284,025	(72,839,555)	109.32%	202,311,837	-36.00%
1/1/2009	832,609,879	804,623,080	(27,986,799)	103.48%	205,326,108	-13.63%
1/1/2010	814,536,473	819,534,391	4,997,918	99.39%	194,474,437	2.57%
1/1/2011	786,297,998	844,232,490	57,934,492	93.14%	162,417,257	35.67%
1/1/2012	742,279,611	874,286,498	132,006,887	84.90%	155,893,016	84.68%

See Independent Auditors' Report

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

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF EMPLOYERS' CONTRIBUTIONS

Year Ended December 31,	Annual Required Contribution	Percentage Contributed
2003	$ 10,984,595	122.3%
2004	12,338,049	113.5%
2005	12,769,634	115.1%
2006	11,774,051	122.6%
2007	11,523,380	133.3%
2008	3,832,178	414.6%
2009	3,797,954	728.2%
2010	7,779,060	170.7%
2011	11,590,759	103.3%
2012	16,836,200	67.5%

See Independent Auditors' Report