FINANCIAL SECTION

Security

PSRS/PEERS has helped almost 115,000 members and their families achieve financial security during retirement. We remain dedicated to helping our current and future members achieve the financially secure retirement they deserve after a full career of service to Missouri's public schools and students.

Financial Section

Independent Auditors' Report

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The Board of Trustees of the
Public School and Public Education Employee
Retirement Systems of Missouri

We have audited the accompanying financial statements of the Public School and Public Education Employee Retirement Systems of Missouri (the Systems), which comprise the statements of fiduciary net position as of June 30, 2014, the related statements of changes in fiduciary net position for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditors' 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 financial position of the Public School and Public Education Employee Retirement Systems of Missouri as of June 30, 2014, and the respective changes in financial position for the year then ended, in conformity with U.S. generally accepted accounting principles.

Independent Auditors' Report, continued

Other Matters

Prior Year Information

The prior year combined total information has been derived from the Systems' 2013 financial statements and, in our report dated October 25, 2013, we expressed unmodified opinions on the respective financial statements of the Systems' net position.

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 15-19 and the schedules of changes in the employers' net pension liability, employers' net pension liability, employer contributions, and investment returns on pages 39-42 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 U.S. generally accepted auditing standards, 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 audit 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 Public School and Public Education Employee Retirement Systems of Missouri basic financial statements. The introductory, investment, acturial and statistical sections and the additional information presented on pages 43 and 44 are presented for purposes of additional analysis and are not a required part of the financial statements.

The additional information presented on pages 43 through 44 is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the additional information presented on pages 43 and 45 is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory, investment, actuarial and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Williams Keepers LLC

December 1, 2014

Management's Discussion and Analysis

Introduction

This discussion and analysis of the financial position of the Public School Retirement System of Missouri (PSRS) and the Public Education Employee Retirement System of Missouri (PEERS), collectively referred to as the Systems, provides an overview of the Systems' financial activities for the fiscal year ended June 30, 2014. We encourage you to consider the information presented here in conjunction with additional information presented in the financial statements and required supplementary information.

Financial Highlights

The following highlights are explained in more detail for each System later in this discussion.

- The Systems implemented Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*, during fiscal year 2014. GASB Statement No. 67 required changes in the presentation of the financial statements, notes to the financial statements and required supplementary information. Significant changes include an actuarial calculation of total and net pension liability and comprehensive footnote disclosures about each.
- The net position of the combined Systems increased by $4.5 billion. The net position of PSRS increased by $4.0 billion while the net position of PEERS increased by $529.8 million.
- The Systems' well-structured investment program, paired with substantial returns in the global stock market, added approximately $5.5 billion in investment earnings to the growth of total assets for the year ended June 30, 2014. These significant investment earnings are a result of a 16.7% return (net of all investment expenses and fees) for both PSRS and PEERS. The returns are well above the 8% investment return goal set for the Systems and exceeded the total plan policy benchmark return of 15.5%.
- As of June 30, 2014, PSRS' fiduciary net position as a percentage of the total pension liability was 89.3% and the net pension liability approximated $4.1 billion. PEERS' fiduciary net position as a percentage of the total pension liability was 91.3% and the net pension liability approximated $365.2 million as of June 30, 2014.
- Total revenues for fiscal year 2014 were comprised of contribution revenue of $1.53 billion and investment gains of $5.5 billion, compared to contribution revenue of $1.50 billion and investment gains of $3.7 billion for fiscal year 2013.
- Expenses increased 6.2% over the prior year from $2.3 billion to $2.5 billion. Retirement benefits and member refunds increased by $144.6 million from the prior year, while administrative expenses increased by $0.2 million during the same time period.

Overview of the Financial Statements

The Systems' 2014 financial statements, notes to the financial statements and required supplementary information were prepared in conformity with GASB Statement No. *67, "Financial Reporting for Pension Plans.*

This discussion and analysis is intended to serve as an introduction to the financial report of the Systems. The financial report consists of: the basic financial statements comprised of the Statements of Fiduciary Net Position and the Statements of Changes in Fiduciary Net Position, the notes to the basic financial statements, required supplementary information and other supplementary information.

The Statements of Fiduciary Net Position present information on the assets and liabilities of the Systems, with the difference between the two reported as net position. The net position of the Systems reflects the resources available to pay benefits to members when due. Over time, increases and decreases in net position measure whether the Systems' financial position is improving or deteriorating.

The Statements of Changes in Fiduciary Net Position present information detailing the changes in net position that occurred during the current fiscal year. All changes in net position are reported on an accrual basis. This means that the revenue or expense is recognized as soon as the underlying event giving rise to the change occurs, regardless of when the actual cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods. For example, contributions due from an employer, even though not yet paid by year end, will be reflected as revenue. Earned vacation accruals will be reflected as an expense, even though they have not been paid to employees.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes can be found on pages 22 through 38.

The report also contains required supplementary information in addition to the basic financial statements themselves. The required supplementary information consists of the following schedules and related notes:

- The Schedules of Changes in the Employers' Net Pension Liability include historical trend information about the annual changes the net pension liability, including assumption changes and variances of assumed experience. These schedules are new under GASB No. 67. Additional years of data will be displayed as they become available.
- The Schedules of Employers' Net Pension Liability include historical trend information about whether each System's net position is increasing or decreasing over time relative to the total pension liability. The schedules provide a long-term, ongoing perspective of the accumulation assets to pay benefits when due. These schedules are new under GASB No. 67. Additional years of data will be displayed as they become available.
- The Schedules of Employer Contributions present historical trend information about the annual determined contributions of employers and the actual contributions made by employers.
- The Schedules of Investment Returns present historical annual money-weighted rate of returns. These schedules are new under GASB No. 67. Additional years of data will be displayed as they become available.
- The Schedule of Funding Progress includes historical trend information about the actuarially funded status of the defined benefit other post-employment benefit (OPEB) plan from a long-term, ongoing perspective and the progress made in accumulating assets to pay benefits when due.
- The Schedule of Employer Contributions presents historical trend information about the annual required contributions of the employer and the actual employer contributions made for the defined benefit OPEB plan.
- The Schedule of Percentage of Other Post Employment Benefit (OPEB) Cost Contributed presents historical trend information about the annual OPEB costs and the actual contributions made for the defined benefit OPEB plan.
- The Notes to the Schedules of Required Supplementary Information provide additional information that is essential to a full understanding of the data provided in the schedules.

Other supplementary schedules are also included. The Schedules of Administrative Expenses present the overall cost of administering the Systems. The Schedules of Professional Services further detail this category of administrative expense. The Schedules of Investment Expenses show the costs associated with investing the assets of the Systems. These expenses are shown as a reduction of revenue on the Statements of Changes in Fiduciary Net Position.

Financial Analysis of the Public School Retirement System of Missouri (PSRS)

PSRS is a mandatory cost-sharing multiple employer retirement system for full-time certificated employees and certain part-time employees of participating employers. PSRS members were required to contribute 14.5% of their annual covered salary during fiscal year 2014. The employer was required to match that amount. Most PSRS members do not contribute to Social Security, except for employees hired after 1986 who contribute to Medicare only. In some instances, positions may be determined not to be exempt from Social Security contributions. PSRS members required to contribute to Social Security are required to contribute two-thirds of the approved PSRS contribution rate and their employer is required to match the contribution. The members' benefits are further calculated at two-thirds the normal benefit amount.

Public School Retirement System of Missouri
Fiduciary Net Position (000's)

	2014	2013	Change
Cash & investments	$ 37,479,140	$ 33,880,619	$ 3,598,521
Receivables	1,764,411	1,254,326	510,085
Other	24,244	21,413	2,831
Total assets	39,267,795	35,156,358	4,111,437
Total liabilities	4,887,186	4,780,941	106,245
Fiduciary net position	$ 34,380,609	$ 30,375,417	$ 4,005,192

Assets

Total assets of PSRS as of June 30, 2014 were $39.3 billion and were mostly comprised of cash, investments, investment sales receivables and contributions due from employers. Total assets increased by $4.1 billion or 11.7% from the prior year due to significant investment earnings.

Liabilities

Total liabilities as of June 30, 2014, were $4.9 billion and were mostly comprised of payables from the purchase of investments and obligations under security lending arrangements. Total liabilities increased by

$106.2 million from the prior year. This was due to an increase in investment purchase liabilities.

Net Position

PSRS assets exceeded liabilities at June 30, 2014, by $34.4 billion. This was an increase of $4.0 billion from the 2013 net position. This increase was a result of investment earnings that totaled $4.9 billion for the year offset by benefit payments and other expenses which exceeded contribution revenue by $922.0 million.

Public School Retirement System of Missouri
Changes in Fiduciary Net Position (000's)

	2014	2013	Change
Additions			
Member contributions	$ 679,391	$ 665,926	$ 13,465
Employer contributions	643,990	634,040	9,950
Investment income	4,927,192	3,378,531	1,548,661
Other	6	20	(14)
Total additions	6,250,579	4,678,517	1,572,062
Deductions			
Monthly benefits	2,180,547	2,055,764	124,783
Refunds of contributions	55,921	55,394	527
Administrative expenses	8,903	8,712	191
Other	16	3	13
Total deductions	2,245,387	2,119,873	125,514
Change in fiduciary net position	$4,005,192	$2,558,644	$ 1,446,548

Revenues – Additions to Fiduciary Net Position

The reserves needed to finance retirement benefits are accumulated through the collection of employer and employee contributions and through investment earnings. Total contribution revenue for the year increased by $23.4 million to $1.32 billion. This was a 1.8% increase over the prior year. Retirement contributions were calculated at 14.5% of retirement salary for each member during fiscal year 2014. The employer matched this amount. Contribution rates were unchanged from the prior year. In addition to contributions on salary, members may also pay contributions to reinstate previously refunded service or to purchase various types of elective service. Such contributions for the year decreased by $2.1 million. This decrease combined with an increased salary base resulted in the overall increase in contributions.

The net investment gain was $4.9 billion as compared to a net investment gain of $3.4 billion in 2013. The net investment gain was due to an outstanding investment return of 16.7% during the fiscal year. All investment related expenses, such as fees paid to investment managers, are reflected as a reduction in revenue and are accounted for in this net figure.

Expenses – Deductions from Fiduciary Net Position

The primary expenses of PSRS include the payment of pension benefits to members and beneficiaries, refunds of contributions to former members, and the cost of administering the System. Total expenses for fiscal year 2014 were $2.2 billion, an increase of 5.9% over fiscal year 2013.

Benefit expenses increased by $124.7 million to $2.18 billion. This was a result of the addition of 2,947 new service and disability retirees. There were no changes to the benefit formula during 2014. Refunds of contributions increased by $0.5 million to $55.9 million.

Administrative expenses marginally increased by $0.2 million to $8.9 million. The cost of these items was charged 62% to PSRS and 38% to PEERS, unless the expense was determined to be of direct benefit to only one System. In such instance, the allocation of expense was 100% to the benefited System. As always, we will continue to look for ways to streamline costs when prudent.

Financial Analysis of the Public Education Employee Retirement System of Missouri (PEERS)

PEERS is a mandatory cost-sharing multiple employer retirement system for non-certificated employees and certain part-time certificated employees of participating employers. PEERS members were required to contribute 6.86% of their annual covered salary during 2014. The employer was required to match that amount. PEERS members also contribute to Social Security.

Public Education Employee Retirement System of Missouri
Fiduciary Net Position (000's)

	2014	2013	Change
Cash & investments	$4,191,641	$ 3,706,208	$ 485,433
Receivables	201,609	113,222	88,387
Other	30	-	30
Total assets	4,393,280	3,819,430	573,850
Total liabilities	546,957	502,917	44,040
Fiduciary net position	$3,846,323	$ 3,316,513	$ 529,810

Assets

Total assets of PEERS as of June 30, 2014 were $4.4 billion and were mostly comprised of cash, investments, investment sales receivables and contributions due from employers. Total assets increased by $573.8 million or 15.0% from the prior year due to significant investment earnings.

Liabilities

Total liabilities as of June 30, 2014 were $0.5 billion and were mostly comprised of payables from the purchase of investments and obligations under security lending arrangements. Total liabilities increased by $0.04 million. This was due to an increase in investment purchase liabilities.

Net Position

PEERS assets exceeded liabilities at June 30, 2014 by $3.8 billion. This was up from 2013 net position of $3.3 billion by $529.8 million. This increase was a result of investment earnings that totaled $544.2 million for the year offset by benefit payments and other expenses which exceeded contribution revenue by $14.3 million.

Public Education Employee Retirement System of Missouri
Changes in Fiduciary Net Position (000's)

	2014	2013	Change
Additions			
Member contributions	$ 106,421	$ 103,271	$ 3,150
Employer contributions	100,700	97,058	3,642
Investment income	544,154	353,729	190,425
Total additions	751,275	554,058	197,217
Deductions			
Monthly benefits	196,745	178,663	18,082
Refunds of contributions	19,880	18,636	1,244
Administrative expenses	4,838	4,801	37
Other	2	2	-
Total deductions	221,465	202,102	19,363
Change in fiduciary net position	$ 529,810	$ 351,956	$ 177,854

Revenues – Additions to Fiduciary Net Position

The reserves needed to finance retirement benefits are accumulated through the collection of employer and employee contributions and through investment earnings. Total contribution revenue for the year increased by $6.8 million to $207.1 million. Retirement contributions were calculated at 6.86% of retirement salary for each member during fiscal year 2014. The employer matched this amount. Contribution rates were unchanged from the prior year. Overall contribution revenue increased by 3.4%. In addition to contributions on salary, members may also pay contributions to reinstate previously refunded service or to purchase various types of elective service. Such contributions for the year decreased by $0.5 million. The increase in total contributions is attributable to a higher salary base.

The net investment gain was $544.2 million as compared to a net investment gain of $353.7 million in 2013. The net investment gain was due to an outstanding investment return of 16.7% during the fiscal year. All investment related expenses, such as fees paid to investment managers, are reflected as a reduction in revenue and are accounted for in this net figure.

Expenses – Deductions from Fiduciary Net Position

The primary expenses of PEERS include the payment of pension benefits to members and beneficiaries, refunds of contributions to former members, and the cost of administering the System. Total expenses for fiscal year 2014 were $221.5 million, an increase of 9.6% over fiscal year 2013.

Benefit expenses increased by $18.1 million to $196.7 million. This was a result of the addition of 1,984 new service and disability retirees. There were no changes to the benefit formula during 2014. Refunds of contributions increased by $1.2 million to $19.9 million.

Administrative expenses marginally increased to $4.8 million. This was a 0.8% increase. Administrative costs were charged 62% to PSRS and 38% to PEERS, unless the expense was determined to be of direct benefit to only one System. In such instance, the allocation of expense was 100% to the benefited System. As always, we will continue to look for ways to streamline costs when prudent.

Summary

The total net returns of 16.7% for PSRS and PEERS exceed both the long-term investment goal of earning 8% and the total plan policy benchmark return of 15.5%. Due to the long-term nature of defined benefit pension plans, it is important to look at the financial performance of the Systems over a period of years and not just at this single point in time. Over long periods of time, the Systems continue to produce investment returns that meet or exceed the Systems' objectives. The annualized investment returns for the Systems over the last 30 years is 9.9%.

The Systems' funding objective is to achieve a funded ratio of 100% over a closed 30-year period from fiscal year 2011 through fiscal year 2040. For this purpose, funded ratio is defined as the actuarial value of assets divided by the actuarial accrued liability determined under the entry age normal cost method and the actuarial assumptions adopted by the PSRS/PEERS Board of Trustees.

The actuary recommended the fiscal year 2016 contribution rates remain unchanged from the fiscal year 2015 rates. The Board of Trustees approved the actuary recommended rates resulting in four consecutive years of stable contribution rates for employers and members. The fiscal year 2016 contribution rate for PSRS remains 29.0%. The fiscal year 2016 contribution rate for PEERS remains 13.72%. The fiscal year 2016 contribution rates are in compliance PSRS/PEERS' Board of Trustees' Funding Policy.

The Board of Trustees, management and staff continually strive to improve the financial position of the Systems through a prudent investment program and long-term strategic planning.

Requests for Information

This financial report is designed to provide the Board of Trustees, our members, and other users of our financial report with a general overview of the Systems' finances and to demonstrate the Systems' accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Public School and Education Employee Retirement Systems of Missouri (PSRS/PEERS), P.O. Box 268, Jefferson City, MO 65102.

Public School Retirement System of Missouri
Public Education Employee Retirement System of Missouri
Statements of Fiduciary Net Position

as of June 30, 2014
with comparative totals for June 30, 2013

			Combined Totals	
	PSRS	**PEERS**	**June 30, 2014**	**June 30, 2013**
ASSETS				
Cash	$ 125,545,964	$ 17,449,984	$ 142,995,948	$ 198,069,171
Receivables				
Contributions	217,795,053	26,930,002	244,725,055	197,366,057
Accrued interest and dividends	56,552,913	6,316,924	62,869,837	68,234,245
Investment sales	1,489,918,154	166,422,495	1,656,340,649	1,101,750,472
Due from PSRS	-	1,901,569	1,901,569	44,887
Other	145,118	38,028	183,146	152,305
Total receivables	1,764,411,238	201,609,018	1,966,020,256	1,367,547,966
Investments, at fair value				
U.S. Treasuries and TIPS	5,171,784,938	577,683,646	5,749,468,584	4,410,857,013
U.S. public equities	12,936,452,572	1,444,989,918	14,381,442,490	13,524,073,390
Non-U.S. public equities	5,415,641,247	604,922,173	6,020,563,420	5,605,620,130
Short term investments	732,515,518	83,649,545	816,165,063	496,185,748
Public debt	2,677,877,169	299,116,430	2,976,993,599	2,768,678,928
Private equity	2,388,718,420	266,817,662	2,655,536,082	2,334,539,869
Private credit	347,410,637	38,805,450	386,216,087	388,892,932
Private real estate	2,368,954,676	264,610,070	2,633,564,746	2,574,410,725
Hedged assets	4,929,244,090	550,592,055	5,479,836,145	4,802,531,436
Total investments	36,968,599,267	4,131,186,949	41,099,786,216	36,905,790,171
Invested securities lending collateral	384,994,457	43,003,529	427,997,986	482,966,750
Prepaid expenses	382,129	30,416	412,545	144,842
Capital assets, net of accumulated depreciation	23,861,742	-	23,861,742	21,267,894
Total assets	39,267,794,797	4,393,279,896	43,661,074,693	38,975,786,794
LIABILITIES				
Accounts payable	16,422,528	2,142,458	18,564,986	17,500,652
Interest payable	146,536	16,368	162,904	55,392
Securities lending collateral	384,995,196	43,003,611	427,998,807	482,955,884
Investment purchases	4,481,627,400	500,593,681	4,982,221,081	4,780,386,056
Due to PEERS	1,901,569	-	1,901,569	44,887
Accrued medical claims	75,000	-	75,000	-
Net other post employment benefit obligation	884,535	567,865	1,452,400	1,199,300
Compensated absences	1,133,473	633,027	1,766,500	1,715,034
Total liabilities	4,887,186,237	546,957,010	5,434,143,247	5,283,857,205
NET POSITION - RESTRICTED FOR PENSIONS	$ 34,380,608,560	$ 3,846,322,886	$ 38,226,931,446	$ 33,691,929,589

See accompanying Notes to the Financial Statements.

Public School Retirement System of Missouri
Public Education Employee Retirement System of Missouri
Statements of Changes in Fiduciary Net Position

for the year ended June 30, 2014
with comparative totals for the year ended June 30, 2013

	PSRS	PEERS	Combined Totals Year Ended June 30, 2014	Combined Totals Year Ended June 30, 2013
ADDITIONS				
Contributions				
Employer	$ 643,989,869	$ 100,699,735	$ 744,689,604	$ 731,099,648
Member	679,390,918	106,420,656	785,811,574	769,196,044
Total contributions	1,323,380,787	207,120,391	1,530,501,178	1,500,295,692
Investment income				
From investing activities:				
Net appreciation in fair value of investments	5,120,469,197	565,814,640	5,686,283,837	3,726,886,474
Interest from investments	163,913,347	18,111,181	182,024,528	187,099,872
Interest from bank deposits	57,231	1,261	58,492	49,230
Dividends	152,739,472	16,893,754	169,633,226	171,995,221
Total investment income	5,437,179,247	600,820,836	6,038,000,083	4,086,030,797
Less investment expenses	513,361,990	57,039,981	570,401,971	377,148,108
Net income from investing activities	4,923,817,257	543,780,855	5,467,598,112	3,708,882,689
From security lending activities:				
Security lending gross income	1,070,380	117,024	1,187,404	2,869,772
Net (depreciation) appreciation in fair value of security lending collateral	(10,522)	(1,166)	(11,688)	15,247,728
Less security lending activity expenses:				
Agent fees	774,659	86,073	860,732	1,525,459
Broker rebates paid (received)	(3,089,939)	(343,327)	(3,433,266)	(6,785,377)
Total security lending expenses	(2,315,280)	(257,254)	(2,572,534)	(5,259,918)
Net income from security lending activities	3,375,138	373,112	3,748,250	23,377,418
Total net investment income	4,927,192,395	544,153,967	5,471,346,362	3,732,260,107
Other income				
Miscellaneous income	6,171	977	7,148	20,305
Total other income	6,171	977	7,148	20,305
Total additions	6,250,579,353	751,275,335	7,001,854,688	5,232,576,104
DEDUCTIONS				
Monthly benefits	2,180,546,938	196,744,702	2,377,291,640	2,234,427,197
Refunds of contributions	55,921,469	19,880,108	75,801,577	74,030,753
Administrative expenses	8,902,611	4,837,920	13,740,531	13,513,394
Other expenses	16,568	2,515	19,083	4,769
Total deductions	2,245,387,586	221,465,245	2,466,852,831	2,321,976,113
Net increase in net position	4,005,191,767	529,810,090	4,535,001,857	2,910,599,991
NET POSITION - RESTRICTED FOR PENSIONS				
Beginning of year	30,375,416,793	3,316,512,796	33,691,929,589	30,781,329,598
End of year	$ 34,380,608,560	$ 3,846,322,886	$ 38,226,931,446	$ 33,691,929,589

See accompanying Notes to the Financial Statements.

Notes to the Financial Statements

Note 1 - Plan Descriptions

The Board of Trustees of the Public School Retirement System of Missouri administers two separate retirement systems, the Public School Retirement System of Missouri (PSRS) and the Public Education Employee Retirement System of Missouri (PEERS). The Board of Trustees consists of seven members, three of whom are elected PSRS active members, one an elected active member of PEERS and three persons appointed by the governor, one of whom must be a retired member of either PSRS or PEERS.

The funds of the two Systems are managed simultaneously. Investments of the Systems are combined in a commingled investment pool as allowed by state statute. Each System owns an equity position in the pool and receives proportionate investment income from the pool in accordance with their respective ownership percentage. Each System's allocated share of each type of investment in the pool is shown on the Statements of Net Position. Investment gains and losses are reported in the Statements of Changes in Net Position. Each System's assets may be used only for the payment of benefits to the members of the separate System in accordance with the statutes governing that System as well as expenses required to administer the System.

The Public School Retirement System of Missouri (PSRS)

PSRS is a mandatory cost-sharing multiple employer retirement system for all full-time certificated employees and certain part-time certificated employees of all public school districts in Missouri (except the school districts of St. Louis and Kansas City) and all public community colleges. The System also includes certificated employees of PSRS, Missouri State Teachers' Association, Missouri State High School Activities Association, and certain employees of the state of Missouri who elected to remain covered by PSRS under legislation enacted in 1986, 1987 and 1989. The majority of PSRS members are exempt from Social Security contributions. In some instances, positions may be determined not to be exempt from Social Security contributions. Any PSRS member who is required to contribute to Social Security comes under the requirements of Section 169.070 (9) RSMo, known as the "2/3's statute." PSRS members required to contribute to Social Security are required to contribute two-thirds of the approved PSRS contribution rate and their employer is required to match the contribution. The members' benefits are further calculated at two-thirds the normal benefit amount.

PSRS was established as an independent trust fund by an Act of the Missouri General Assembly effective August 1, 1945. Statutes governing the System are found in Sections 169.010-169.141 and Sections 169.560-169.595 RSMo. It is a defined benefit plan providing service retirement, death and disability benefits to its members. Members are vested for service retirement benefits after accruing five years of service. Individuals who (a) are at least age 60 and have a minimum of 5 years of service, (b) have 30 years of service, or (c) qualify for benefits under the "Rule of 80" (service and age total at least 80) are entitled to a monthly benefit for life, which is calculated using a 2.5% benefit factor. Beginning July 1, 2001, and ending July 1, 2014, a 2.55% benefit factor is used to calculate benefits for members who have 31 or more years of service. Actuarially age-reduced benefits are available for members with five to 24.9 years of service at age 55 or with 25 years of service (if not yet age 55). Members who are younger than age 55 and who do not qualify under the "Rule of 80" but have between 25 and 29.9 years of service may retire with a lesser benefit factor. Members that are three years beyond normal retirement can elect to have their lifetime monthly benefits actuarially reduced in exchange for the right to also receive a one-time partial lump sum (PLSO) payment at retirement equal to 12, 24, or 36 times the Single Life benefit amount. Annual cost-of-living adjustments (COLAs) are provided for eligible service and disability retirees and for surviving beneficiaries receiving payments under optional benefit plans, up to a lifetime maximum of 80% of the original benefit amount.

Contributions – PSRS members were required to contribute 14.5% of their annual covered salary during fiscal year 2014. Employers were required to match the contributions made by employees. The contribution rate is set each year by the PSRS/PEERS Board of Trustees upon the recommendation of the independent actuary within the contribution restrictions set in Section 169.030 RSMo. The annual statutory increase in the total contribution rate may not exceed 1% of pay. Administrative costs are financed through investment earnings. Contributions for employees of the State of Missouri were made by the state in accordance with the actuarially determined contribution rate needed to fund current costs and prior service costs of state employees as authorized in Section 104.342.8 RSMo.

Members – The number of PSRS members and benefit recipients served by the System at June 30, 2014:

Retirees and beneficiaries receiving benefits			54,486
Inactive members entitled to, but not yet receiving benefits			8,884
Active members:	Vested	57,785	
	Non-vested	17,383	
Total active members			75,168
Other inactive members			5,567
Total			144,105

Employers – PSRS had 535 contributing employers during fiscal year 2014.

The Public Education Employee Retirement System of Missouri (PEERS)

PEERS is a mandatory cost-sharing multiple employer retirement system for all public school district employees (except the school districts of St. Louis and Kansas City), employees of the Missouri Association of School Administrators, and community college employees (except the Community College of St. Louis). Employees of covered districts who work 20 or more hours per week on a regular basis and who are not contributing members of the Public School Retirement System of Missouri (PSRS) must contribute to PEERS. Employees of PSRS who do not hold Missouri educator certificates also contribute to PEERS.

PEERS was established as a trust fund by an Act of the Missouri General Assembly to begin operations on November 1, 1965. Statutes governing the System are found in Sections 169.600 - 169.715 and Sections 169.560-169.595 RSMo. The statutes place responsibility for the operation of PEERS on the Board of Trustees of the Public School Retirement System of Missouri.

PEERS is a defined benefit plan providing service retirement and disability benefits to its members. Members are vested for service retirement benefits after accruing five years of service. Individuals who (a) are at least age 60 and have a minimum of five years of service, (b) have 30 years of service, or (c) qualify for benefits under the "Rule of 80" (service and age total at least 80) are entitled to a monthly benefit for life, which is calculated using a 1.61% benefit factor. Members qualifying for "Rule of 80" or "30-and-out" are entitled to an additional temporary .8% benefit multiplier until reaching minimum Social Security age (currently age 62). Actuarially age-reduced retirement benefits are available with five years of service at age 55. Members who are younger than age 55 and who do not qualify under the "Rule of 80" but have between 25 and 29.9 years of service may retire with a lesser benefit factor. Members that are three years beyond normal retirement can elect to have their lifetime monthly benefits actuarially reduced in exchange for the right to also receive a one-time partial lump sum (PLSO) payment at retirement equal to 12, 24, or 36 times the Single Life benefit amount. Annual cost-of-living adjustments (COLAs) up to a lifetime maximum of 80% of the original benefit amount are provided for eligible service and disability retirees and for surviving beneficiaries receiving payments under optional benefit plans.

Contributions – PEERS members were required to contribute 6.86% of their annual covered salary during fiscal year 2014. Employers were required to match the contributions made by their employees. The contribution rate is set each year by the PSRS/PEERS Board of Trustees upon the recommendation of the independent actuary within the contribution restrictions in Section 169.620 RSMo. The annual statutory increase in the total contribution rate may not exceed 0.5% of pay. Administrative costs proportional to its membership size are reimbursed by PEERS to the Public School Retirement System of Missouri (PSRS) and are financed through investment earnings.

Members - The number of PEERS members and benefit recipients served by the System at June 30, 2014:

Retirees and beneficiaries receiving benefits			25,029
Inactive members entitled to, but not yet receiving benefits			6,131
Active members:	Vested	28,642	
	Non-vested	16,947	
Total active members			45,589
Other inactive members			10,084
Total			86,833

Employers – PEERS had 532 contributing employers during fiscal year 2014.

Note 2 – Summary of Significant Accounting Policies

Basis of Accounting – The Systems' financial statements, notes to the financial statements and required supplementary information were prepared in conformity with GASB Statement No. 67, "Financial Reporting for Pension Plans. GASB Statement No. 67 required changes in the presentation of the financial statements, notes to the financial statements and required supplementary information. Significant changes include an actuarial calculation of total and net pension liability and comprehensive footnote disclosures about each.

The financial statements of both Systems were prepared using the accrual basis of accounting. For both Systems, member and employer contributions are recognized when due, pursuant to formal commitments and statutory requirements. Benefits and refunds are recognized when due and payable in accordance with the statutes governing the Systems. Expenses are recognized when the liability is incurred, regardless of when payment is made. Administrative expenses are funded through investment earnings.

Cash – Cash includes cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables – Receivables consist primarily of contributions owed and yet to be remitted by employers, pending investment trades and interest and dividends payable to the Systems as of the end of each fiscal year.

Method Used to Value Investments – Investments are reported at fair value on a trade date basis. The fair value of investments is based on published market prices and quotations from major investment brokers at current exchange rates, as available. Many factors are considered in arriving at fair value. Fixed income securities not traded on a national or international exchange are based on equivalent values of comparable securities with similar yield and risk. The value of real estate investments are based on estimated current values and independent appraisals. The value of private equity investments that do not have an established market are determined based upon the most current net asset values and activities through year end. When not readily available, alternative investments are valued based on a good faith determination by the general partner.

Capital Assets – The building and other capital assets are owned by PSRS and are stated at cost less depreciation accumulated since acquisition. The stated value does not purport to represent replacement or realized value. Costs of major additions and improvements are capitalized. Expenditures for maintenance and repairs are charged to operations as incurred. Depreciation is calculated using the straight-line method, with estimated lives ranging from three to 40 years in the following major classes: computers and software, three years; vehicles, five years; equipment, five years; building and land improvements, 15 years; building, 40 years.

PSRS allocates depreciation expense to PEERS for the use of capital assets.

Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of net assets held in trust for pension benefits at June 30, 2014. Actual results could differ from those estimates.

Total Columns*:* The financial statements include total column information for the prior year. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with both Systems' financial statements for the year ended June 30, 2013, from which the information was derived.

Note 3 – Designations of Net Position – Restricted for Pensions

The Systems designate the net position – restricted for pensions for the following specific purposes:

Public School Retirement System of Missouri

	2014
Designated for Members' Contributions (Member Reserves) – *Accumulation of active and terminated member contributions plus interest.*	$ 6,985,665,067
Designated for the Payment of Benefits to Present Retirees – *Transfers from Member Reserves at retirement and an actuarially determined transfer from Operating Reserves to fund the System's obligation for benefit payments and cost-of-living adjustments to current retirees and beneficiary recipients.*	23,579,597,748
Designated for Additional Deposit Annuities – *Accumulation of the additional deposits over and above the contributions required by law. Defined contribution annuity payments are made to current retirees from this reserve.*	399,819
Designated for Operating Expenses/Benefits to Future Retirees (Operating Reserves) – *Accumulation of employer contributions and investment income used to fund future benefit payments, interest on member accounts and administration and maintenance expenses of the System.*	3,814,945,926
Net Position – Restricted For Pensions	$ 34,380,608,560

Public Education Employee Retirement System of Missouri

	2014
Designated for Members' Contributions (Member Reserves) – *Accumulation of active and terminated member contributions plus interest.*	$ 949,343,801
Designated for the Payment of Benefits to Present Retirees – *Transfers from Member Reserves at retirement and an actuarially determined transfer from Operating Reserves to fund the System's obligation for benefit payments and cost-of-living adjustments to current retirees and beneficiary recipients.*	1,861,575,021
Designated for Operating Expenses/Benefits to Future Retirees (Operating Reserves) – *Accumulation of employer contributions and investment income used to fund future benefit payments, interest on member accounts and administration and maintenance expenses of the System.*	1,035,404,064
Net Position – Restricted For Pensions	$ 3,846,322,886

Note 4 – Deposits, Investments and Securities Lending Program

Custodial Credit Risk – Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Systems will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Systems would not be able to recover the value of investment or collateral securities that are in the possession of an outside party. To mitigate custodial credit risk, the Systems require that all deposits be 100% collateralized with securities held in the Systems' name and held by a third party agent.

Deposits – Cash balances include short-term securities held by the custodial bank in a pooled short-term investment fund and operating balances held by the depository banks.

At June 30, 2014, the PSRS carrying amount of deposits at the depository bank was $35,102,158 and the bank balance was $26,667,311. Of the bank balance, $250,000 was covered by federal depository insurance. In addition the deposits were collateralized with U.S. agency securities held by a third-party institution in the System's name, totaling $28,120,800. An additional $8,803,347 was held in overnight repurchase agreements with a book value of $8,803,347. The overnight repurchase agreements were collateralized with U.S. agency securities held by a third-party institution in the System's name totaling $8,803,347.

At June 30, 2014, the PEERS carrying amount of deposits at the depository bank was $772,462 and the bank balance was $309,637. Of the bank balance, $250,000 was covered by federal depository insurance. In addition the deposits were collateralized with U.S. agency securities held by a third-party institution in the System's name, totaling $742,122. An additional $3,242,125 was held in overnight repurchase agreements with a book value of $3,242,125. The overnight repurchase agreements were collateralized with U.S. agency securities held by a third-party institution in the System's name totaling $3,243,228.

Investment Policy and Asset Allocation – Funds for both Systems that are in excess of a safe operating balance are invested under policies and procedures established by the Board of Trustees. Chapter 169.040 RSMo as amended effective August 13, 1984, authorizes any investment which a prudent person acting in a like capacity and familiar with similar matters would use in the conduct of an enterprise of a like character and with like aims. Any person with fiduciary responsibility with respect to the Systems is covered by this "prudent person" rule.

The Board of Trustees approved the commingling of assets for purposes of investment as allowed by state statute. In order to implement this change, PSRS and PEERS adopted the Missouri Education Pension Trust Agreement. The Missouri Education Pension Trust (MEPT) is managed by the Board of Trustees and Investment Staff. Effective July 1, 2013, the invested assets of the Systems were pooled and invested in MEPT. All assets held by MEPT are for the exclusive benefit of PSRS and PEERS. Each of the Systems has equity in MEPT based on funds contributed and earnings allocated. Earnings of MEPT are allocated based on the average daily balances of each of the respective Systems. Individual investments in MEPT are not specifically identified to the respective Systems. For financial statement presentation, MEPT assets, liabilities, revenues, and expenses have been allocated to and presented in each respective system in the basic financial statements as required by investment pools. Due to the fact all invested assets are invested in MEPT, the rate of return for each of the Systems is approximately the same.

The Systems' policy in regard to the allocation of invested assets is established and may be amended by the Board of Trustees. System 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 by the Systems. The following was the Systems' Board of Trustees approved asset allocation as of June 30, 2014:

Investment Type	Long-term Target	Policy Ranges
Public Risk Asset Programs		
U.S. Public Equity	27.0%	16% - 48%
Public Credit	12.0%	0% - 20%
Hedged Assets	6.0%	0% - 25%
Non-U.S. Public Equity	15.0%	8% - 28%
Total Public Risk Assets	**60.0%**	**35% - 75%**
Safe Assets		
U.S. Treasuries	16.0%	0% - 40%
U.S. TIPS	4.0%	0% - 40%
Cash Equivalents	0.0%	0% - 10%
Total Safe Assets	**20.0%**	**10% - 40%**
Private Risk Asset Programs		
Private Equity	10.5%	4% - 14%
Private Real Estate	7.5%	4% - 10%
Private Credit	2.0%	0% - 7%
Total Private Risk Assets	**20.0%**	**5% - 25%**
Total Fund	**100.0%**	

Rate of Return

For the year ended June 30, 2014 the money-weighted rate of return, net of all investment expenses and fees was 16.7%. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. The time weighted return (geometric return) for the year ended June 30, 2014 net of all investment expenses and fees was 16.7%.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Systems' investment in a single issue. To mitigate this risk, the Systems' investment policy prohibits investing more than 5% of the total investment portfolio into any single financial institution or issuer, excluding U.S. government securities. At June 30, 2014, the Systems did not have more than 5% of total investments in a single issue except for U.S. government securities.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Systems do not have a single investment policy that restricts duration as a means of managing its exposure to fair value losses arising from increased interest rates; however, each manager must follow guidelines established relative to the duration of its benchmark. The portfolios are continually monitored to ensure compliance with these guidelines. The following table includes collateral pledged for securities lending collateral. The maturities of all debt securities are presented below:

Security Type	Fair Value at June 30, 2014	< 1 year to maturity	1 to 5 years to maturity	6 to 10 years to maturity	over 10 years to maturity
U.S. treasuries	$ 8,477,825,113	$ 3,674,235,146	$ 3,306,832,645	$ 900,016,769	$ 596,740,553
Agencies	15,455,687	-	14,678,711	776,976	-
Collateralized mortgage obligations	139,963,084	-	4,222,257	19,275,613	116,465,214
Commercial mortgage backed securities	21,220,130	-	-	543,571	20,676,559
Asset backed securities	14,570,487	-	1,233,997	5,512,856	7,823,634
Corporate bonds	2,073,347,567	31,050,185	1,160,496,441	750,322,212	131,478,729
Sovereign	95,905,944	2,339,828	65,820,942	17,810,817	9,934,357
Repurchase agreements	143,097,920	143,097,920	-	-	-
Commercial Paper	27,997,570	27,997,570	-	-	-
Certificate of Deposit	101,660,473	99,558,661	2,101,812	-	-
Time Deposits	54,000,000	54,000,000	-	-	-
Derivatives	2,974,346	336,420	391,214	(89,166)	2,335,878
Municipals	22,841,988	-	-	740,893	22,101,095
Commingled Funds (see note)					
JPM STIF	814,705,865	814,705,865	-	-	-
BlackRock TempFund	20,000,000	20,000,000	-	-	-
Fidelity Select	20,000,000	20,000,000	-	-	-
Bridgewater STIF II	40,732,451	40,732,451	-	-	-
Bridgewater US IL Bond Fund	14,992,235	-	-	14,992,235	-
Bridgewater International Bond Fund	18,269,658	-	-	-	18,269,658
PIMCO Developing Markets	259,035,241	-	259,035,241	-	-
PIMCO Emerging Markets	125,518	-	125,518	-	-
PIMCO Short Term Floating NAV II	276,050,378	276,050,378	-	-	-
Currency	6,154,513	6,154,513	-	-	-
Total	$12,660,926,168	$5,210,258,937	$4,814,938,778	$1,709,902,776	$ 925,825,677
Percentage of Total Fixed Income	**100%**	**41%**	**38%**	**14%**	**7%**

Note: Commingled Funds are presented at the weighted average maturity. These funds do not have a single maturity date; however, the underlying securities have maturity dates. To more accurately reflect the interest rate risk of the Systems, these weighted averages are displayed.

The following table includes the debt maturities for the Systems' deposits and repurchase agreements collateral.

Security Type	Fair Value at June 30, 2014	< 1 year to maturity	1 to 5 years to maturity	6 to 10 years to maturity	over 10 years to maturity
PSRS - Agencies	$ 36,924,147	$ -	$ 18,254,722	$ 4,906,801	$ 13,762,624
PEERS - Agencies	3,985,350	-	3,243,228	-	742,122

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Systems do not have a single investment policy designating the minimum allowable credit rating; however, each manager must follow guidelines established specifically for its managed portfolio. The portfolios are continually monitored to ensure compliance with these guidelines. The following tables include collateral pledged for securities lending collateral. The Systems' debt investments by credit rating category as of June 30, 2014 are presented in the following tables.

Security Type	Fair Value at June 30, 2014	%	AAA	AA	A	BBB	BB	B	CCC	Not Rated
U.S. treasuries	$ 8,477,825,113	67%	$ 8,477,825,113	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Agencies	15,455,687	0%	-	15,455,687	-	-	-	-	-	-
Collateralized mortgage obligations	139,963,084	1%	893,837	111,890,458	9,034,908	1,727,325	3,463,232	3,174,656	9,778,668	-
Commercial mortgage-backed securities	21,220,130	0%	7,191,353	11,089,363	2,210,501	728,913	-	-	-	-
Asset backed securities	14,570,487	0%	4,058,776	1,042,619	1,188,112	1,328,024	1,019,074	4,823,309	1,110,573	-
Corporate bonds	2,073,347,567	17%	11,821,942	129,113,325	768,981,451	705,051,647	190,594,742	233,589,220	11,956,177	22,239,063
Sovereign	95,905,944	1%	4,899,467	4,358,839	7,111,129	73,785,390	941,861	4,809,258	-	-
Repurchase agreements	143,097,920	1%	143,097,920	-	-	-	-	-	-	-
Commercial paper	27,997,570	0%	27,997,570	-	-	-	-	-	-	-
Certificates of deposit	101,660,473	1%	101,660,473	-	-	-	-	-	-	-
Time Deposits	54,000,000	1%	54,000,000	-	-	-	-	-	-	-
Derivatives	2,974,346	0%	-	-	-	-	-	-	-	2,974,346
Municipals	22,841,988	0%	792,772	8,758,724	8,947,267	1,325,324	109,405	2,908,496	-	-
Commingled Funds (see note)										
JPM STIF	814,705,865	7%	814,705,865	-	-	-	-	-	-	-
BlackRock TempFund	20,000,000	0%	20,000,000	-	-	-	-	-	-	-
Fidelity Select	20,000,000	0%	20,000,000	-	-	-	-	-	-	-
Bridgewater STIF II	40,732,451	0%	40,732,451	-	-	-	-	-	-	-
Bridgewater US IL Bond Fund	14,992,235	0%	-	14,992,235	-	-	-	-	-	-
Bridgewater International Bond Fund	18,269,658	0%	18,269,658	-	-	-	-	-	-	-
PIMCO Developing Markets	259,035,241	2%	-	259,035,241	-	-	-	-	-	-
PIMCO Emerging Markets	125,518	0%	-	-	125,518	-	-	-	-	-
PIMCO Short Term Floating NAV II	276,050,378	2%	-	276,050,378	-	-	-	-	-	-
Currency	6,154,513	0%	-	-	-	-	-	-	-	6,154,513
Total	$ 12,660,926,168	100%	$ 9,747,947,197	$831,786,869	$797,598,886	$783,946,623	$196,128,314	$249,304,939	$22,845,418	$31,367,922
Percentage of Total Fixed Income		**100%**	**77%**	**7%**	**6%**	**6%**	**2%**	**2%**	**0%**	**0%**

Note: Commingled Funds are presented at the weighted average credit quality. These funds do not carry a rating in and of themselves; however, the underlying securities are all rated. To more accurately reflect the credit risk of the Systems, these weighted averages are displayed. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not required to be disclosed; however, we feel it shows a more true picture of our fixed income holdings.

All collateral pledged in support of the Systems' deposits and repurchase agreements was held in agency securities with a quality rating of AA.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Systems do not have a single investment policy designating the allowable exposure to foreign currency; however, each manager must follow guidelines established specifically for its managed portfolio. The portfolios are continually monitored to ensure compliance with these guidelines. The Systems' exposure to foreign currency risk as of June 30, 2014 is presented in the following table.

Currency	Debt	Equity	Currency/Short Term	Total
Australian Dollar	$ 5,127,372	$ 127,310,997	$ 500,953	$ 132,939,322
Brazilian Real	2,890,170	61,810,276	947,884	65,648,330
British Pound Sterling	43,102,517	417,718,719	3,099,272	463,920,508
Canadian Dollar	5,852,722	190,100,296	2,130,749	198,083,767
Chilean Peso	-	3,142,402	121,640	3,264,042
Colombian Peso	-	-	5,915	5,915
Czech Koruna	-	251,920	13,365	265,285
Danish Krone	-	24,646,300	180,654	24,826,954
Egyptian Pound	-	153,891	583,182	737,073
Euro Currency	184,286,113	944,889,156	28,270,118	1,157,445,387
Hong Kong Dollar	-	155,456,986	544,479	156,001,465
Hungarian Forint	-	3,482,013	18,072	3,500,085
Indian Rupee	-	48,418,559	13,834,739	62,253,298
Indonesian Rupiah	-	8,573,662	190,539	8,764,201
Israeli Shekel	-	5,420,757	126,216	5,546,973
Japanese Yen	445,915	331,133,999	901,656	332,481,570
Malaysian Ringgit	-	22,520,721	515,246	23,035,967
Mexican Peso	2,912,916	12,797,103	628,760	16,338,779
Moroccan Dirham	-	-	32,347	32,347
New Taiwan Dollar	-	64,401,568	2,339,323	66,740,891
New Turkish Lira	-	14,412,658	98,886	14,511,544
New Zealand Dollar	-	22,216,001	3,012,421	25,228,422
Norwegian Krone	-	12,707,973	(208,080)	12,499,893
Pakistan Rupee	-	-	51,639	51,639
Peruvian Nuevo Sol	-	-	242	242
Philippine Peso	-	5,846,730	119,701	5,966,431
Polish Zloty	-	12,345,711	295,419	12,641,130
Qatari Rial	-	2,834,044	-	2,834,044
Russian Ruble	-	-	(121,157)	(121,157)
Singapore Dollar	-	42,155,834	140,348	42,296,182
South African Rand	353,412	47,124,160	386,223	47,863,795
South Korean Won	-	57,345,279	220,306	57,565,585
Swedish Krona	-	43,995,372	786,054	44,781,426
Swiss Franc	1,192,597	150,471,756	(71,255)	151,593,098
Thailand Baht	-	8,642,959	211,647	8,854,606
Yuan Renminbi	-	616,311	-	616,311
Total	**$ 246,163,734**	**$ 2,842,944,113**	**$ 59,907,503**	**$ 3,149,015,350**

Derivatives

Derivatives are generally defined as investment instruments whose cash flows or fair values are derived from the value of some other asset or index. The Systems are parties to derivatives which have off-balance sheet risk. These derivative instruments are used in the normal course of business to generate earnings and reduce exposure to fluctuations in market conditions. The Systems are exposed to various types of credit, market and legal risk related to these investments. Investment staff monitors these types of investments with extreme care and is not aware of any undue risks at this time. All derivatives are considered investments. Derivatives are reported at fair value on the Statements of Fiduciary Net Position based on quoted market prices when available. In the instances that quoted market prices are unavailable, pricing is obtained via independent pricing sources.

The fair value balances and notional amounts of derivative instruments outstanding as of June 30, 2014, classified by type are as follows:

	Fair Value at June 30, 2014		
Investment Derivatives	**Classification**	**Amount**	**Notional**
Swaps			
Receive-fixed interest rate swap	Investments, at fair value	$ 1,004,624	$ 555,600,000
Credit default swaps	Investments, at fair value	9,000,342	281,400,648
Total return swaps - equity	Investments, at fair value	51,173,337	2,833,026,971
Total swaps		**61,178,303**	**3,670,027,619**
Futures			
Equity futures long	Investments, at fair value	-	123,043,465
Equity futures short	Investments, at fair value	-	56,735,893
Treasury futures long	Investments, at fair value	-	226,017,368
Currency futures short	Investments, at fair value	-	2,394,388
Currency futures long	Investments, at fair value	-	992,400,284
Commodity futures long	Investments, at fair value	-	27,896,440
Total futures		**-**	**1,428,487,838**
Options			
Fixed income written call options	Investments, at fair value	(54,704)	7,600,000
Fixed income written put options	Investments, at fair value	(46,431)	16,900,000
Swaptions	Investments, at fair value	(152,339)	67,500,000
Total options		**(253,474)**	**92,000,000**
Foreign currency forwards net receivable/payable	Investment Sales and Purchases	959,545	-
Total Investment Derivatives		**$ 61,884,374**	**$ 5,190,515,457**

Swaps - The Systems' investment managers have entered into various swaps including interest rate swaps, credit default swaps and equity and total return swaps. Swaps represent an agreement between two parties to exchange sequences of cash flows over a period in the future. In the most common type of interest rate swap arrangement, one party agrees to pay fixed interest payments on designated dates to a counterparty who, in turn, agrees to make return interest payments that float with some reference rate. A credit default swap is a contract whereby the credit risk associated with an investment is transferred by entering into an agreement with another party, who in exchange for periodic fees, agrees to make payments in the event of a default or other predetermined credit event. A total return swap is a contract in which one party makes payments based on a set rate, either fixed or variable, while the other party makes payments based on the return of the underlying asset. The underlying asset is typically an index, bond, etc. Gains and losses on swaps are determined based on market values and are recorded in net appreciation (depreciation) in fair value of investments on the Systems' Statements of Changes in Fiduciary Net Assets. Net gains on swaps of $27.9 million were recognized for the fiscal year ended June 30, 2014.

Futures - Futures represent commitments to purchase (asset) or sell (liability) securities at a future date and at a specified price. Futures contracts are traded on organized exchanges (exchange traded) thereby minimizing the Systems' credit risk. The net change in the value of futures contracts is settled daily in cash with the exchanges. Net gains or losses resulting from the daily settlements are included in net appreciation (depreciation) in fair value of investments on the Systems' Statements of Changes in Fiduciary Net Assets. The Systems recognized net gains on futures contracts of $29.1 million during the fiscal year ended June 30, 2014.

Options - Options represent or give buyers the right, but not the obligation, to buy (call) or sell (put) an asset at a preset price over a specified period. The option's price is usually a small percentage of the underlying asset's value. As a writer of financial options, the Systems' investment managers receive a premium at the outset of the agreement and bear the risk of an unfavorable change in the price of the financial instrument underlying the option. As a purchaser of financial options, the Systems' investment managers pay a premium at the outset of the agreement and the counterparty bears the risk of an unfavorable change in the price of the financial instrument underlying the option. Net gains or losses resulting from such obligations are included in net appreciation (depreciation) in fair value of investments on the Systems' Statements of Changes in Fiduciary Net Position. The Systems recognized net gains on option contracts of $13.6 million during the fiscal year ended June 30, 2014.

Currency forwards - Currency forwards represent forward foreign exchange contracts that are entered into in order to hedge the exposure to changes in foreign currency rate on the foreign currency dominated portfolio holdings. A forward foreign exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. The gain or loss arising from the difference between the original contracts and the closing of such contracts is included in net appreciation (depreciation) in fair value of investments on the Systems' Statements of Changes in Fiduciary Net Position. The Systems recognized net losses on such contracts of $1.8 million during the fiscal year ended June 30, 2014.

Derivative Risk - Derivatives that are exchange traded are not subject to credit risk. No derivatives held are subject to custodial credit risk.

At June 30, 2014 the counterparties' credit ratings for currency forwards, options and swaps are subject to credit risk as shown below:

Derivative Counterparty Credit Ratings

Quality Rating	Swaps	Options	Forwards	Total
AA	$ -	$ -	$ (26,225)	$ (26,225)
A	51,323,524	(253,474)	985,770	52,055,820
Total subject to credit risk	**$ 51,323,524**	**$ (253,474)**	**$ 959,545**	**$ 52,029,595**

The Systems are exposed to interest rate risk on their interest rate swaps. As the variable portion of the swaps move in the market, the Systems' exposure increases and decreases. The Systems are exposed to termination risk. The Systems' investment managers or their counterparties may terminate a derivative if either party fails to perform under the terms of the contract.

The Systems' derivatives are governed by ISDA Master Agreements between the Systems and the Counterparties. These agreements set forth collateral requirements and applicable netting arrangements. Foreign currency risks are reflected on page 30.

The Systems could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. The Systems' investment managers seek to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, and exposure monitoring procedures. The Systems anticipate that the counterparties will be able to satisfy their obligations under the contracts.

The derivative financial instruments discussed involve, to varying degrees, elements of market risk to the extent of future market movements in excess of the amounts recognized in the Statements of Fiduciary Net Position. Market risk arises from the potential unfavorable change in the value of the underlying instruments. The contract or notional amounts of these instruments reflect the extent of the Systems' involvement in each class of financial instrument; however, these amounts do not represent the exposure to market loss. Additional derivatives may be held in limited partnerships and commingled funds that are not reflected above.

Security Lending Activity – Under the "prudent person" authority of the governing statutes and in accordance with the policies set by the Board of Trustees, the Systems lend securities to broker-dealers and banks pursuant to a form of loan agreement. The Systems' custodial bank is authorized to act as the Systems' agent to lend available securities to approved broker-dealers and banks subject to the receipt of acceptable collateral.

During the fiscal year, the Systems' custodial bank lent, on behalf of the Systems, securities to participating broker-dealers. The broker-dealers must provide collateral in the form of cash. The Systems did not impose restrictions during the fiscal year on the amount of loans that the custodial bank made on their behalf. Borrowers were required to deliver collateral for each loan equal to: (1) in the case of loaned securities denominated in U.S. dollars or whose primary trading market was located in the United States, or sovereign debt issued by foreign governments, 102% of the fair value of the loaned securities and (2) in the case of loaned securities not denominated in U.S. dollars or whose primary trading market was not located in the United States, 105% of the fair value of the loaned securities.

Pursuant to the lending agreement, the custodial bank has an obligation to provide a form of indemnification to the Systems in the event of default by a borrower. There were no violations of the contractual provisions nor were there any borrower or lending agent default losses during the fiscal year.

The market value of securities on loan as of June 30, 2014 was $416,301,895. On June 30, 2014 the Systems had no credit risk exposure to borrowers as the cash and securities collateral amounts received exceeded amounts on loan. Loans are generally terminable on demand. However, with the prior approval of the Systems, loans may be made on the basis of a specified termination date, with or without providing for the right of the Systems to terminate or substitute equivalent securities. As of June 30, 2014, there were no term loans.

Cash collateral is invested in separately managed accounts in accordance with the investment guidelines approved by the Systems. The primary investment objective is the preservation of principal. As of June 30, 2014, the cost basis of the invested cash collateral totaled $427,998,807 and the estimated market value totaled $427,997,986.

The Systems recognized net depreciation of $11,688 for the year ended June 30, 2014 on the invested collateral account. Such is reported as net (depreciation) appreciation in fair value of security lending collateral on the Statements of Changes in Fiduciary Net Position.

The weighted average duration of invested collateral as of June 30, 2014 was 14 days and an average final maturity of approximately 23 days. Because the loans were terminable at will, their duration did not match the duration of the investments made with cash collateral.

Note 5 – Net Pension Liability of Employers

The components of the net pension liability of the Systems' employers at June 30, 2014 are as follows:

	Total Pension Liability (TPL) (a)	Fiduciary Plan Net Position-Restricted for Pensions (b)	Net Pension Liability (NPL) (a - b)	Fiduciary Plan Net Position as a % of TPL (b/a)	Covered Employee Payroll (c)	Employers' NPL as a % of Covered Payroll ((b-a)/c)
PSRS	$ 38,483,183,932	$ 34,380,608,560	$ 4,102,575,372	89.3%	$ 4,425,567,630	92.7%
PEERS	$ 4,211,488,832	$ 3,846,322,886	$ 365,165,946	91.3%	$ 1,442,700,979	25.3%

Actuarial Assumptions - Actuarial valuations of the Systems involve estimates of the reported amount and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The last experience study was conducted in 2011 and the next experience study is scheduled for 2016.

The Schedules of Employer's Net Pension Liability presents multi-year trend information about whether the plan net positions are increasing or decreasing over time relative to the total pension liability. These schedules are presented in the required supplementary information following the notes to the financial statements. The total pension liability was determined by an actuarial valuation as of June 30, 2014. A summary of the actuarial assumptions as of June 30, 2014 are shown below.

Measurement Date	June 30, 2014
Valuation Date	June 30, 2014
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.00%
Inflation	2.50%
Total Payroll Growth	
PSRS	3.50% per annum, consisting of 2.50% inflation, 0.50% additional inflation due to the inclusion of health care costs in pension earnings, and 0.50% of real wage growth.
PEERS	3.75% per annum, consisting of 2.50% inflation, 0.75% additional inflation due to the inclusion of health care costs in pension earnings, and 0.50% of real wage growth.
Future Salary Increases	
PSRS	4.00% - 10.00%, depending on service and including 2.50% inflation, 0.50% additional inflation due to the inclusion of health care costs in pension earnings, and real wage growth of 1.00% to 7.00%.
PEERS	5.00% - 12.00%, depending on service and including 2.50% inflation, 0.75% additional inflation due to the inclusion of health care costs in pension earnings, and real wage growth of 1.75% to 8.75%.
Cost-of-Living Increases	
PSRS	2.0% compounded annually, beginning on the second January after retirement and capped at 80% lifetime increase.
PEERS	2.0% compounded annually, beginning on the fourth January after retirement and capped at 80% lifetime increase.
Mortality Assumption	
Actives:	
PSRS	RP 2000 Mortality Table set back one year for males and six years for females, then projected to 2016 using Scale AA.
PEERS	RP 2000 Mortality Table set back one year for males and six years for females, then projected to 2016 using Scale AA.
Non-Disabled Retirees, Beneficiaries and Survivors:	
PSRS	RP 2000 Mortality Table set back one year for both males and females, then projected to 2016 using Scale AA.
PEERS	RP 2000 Mortality Table set forward one year for males and no set back/forward for females, then projected to 2016 using Scale AA.
Disabled Retirees:	RP 2000 Disabled Mortality Table

The sensitivity of the net pension liability of employers to changes in the discount rate is presented below. The net pension liability of employers calculated using the discount rate of 8.0% is presented as well as what the employers' net pension liability would be using a discount rate that is 1.0% lower (7.0%) or 1.0% higher (9.0%) than the current rate.

		1% Decrease (7.0%)	Current Rate (8.0%)	1% Increase (9.0%)
PSRS	Net Pension Liability (Asset)	$ 8,687,244,559	$ 4,102,575,372	$ 257,070,220
PEERS	Net Pension Liability (Asset)	$ 876,257,294	$ 365,165,946	$ (66,599,982)

The long-term expected rate of return on the Systems' investments was determined using a building-block method in which best-estimate ranges of expected future real rates of returns (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the 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 Systems' target allocation as of June 30, 2014 is summarized below along with the long term geometric return. Geometric return (also referred as the time weighted return) is considered best practice with in the investment management industry. Geometric returns represent the compounded rate of growth in a portfolio. The method eliminates the effects created by cashflows.

Asset Class	Target Asset Allocation	Long-term Expected Real Return Arithmetic Basis	Weighted Long-term Expected Real Return Arithmetic Basis
US. Public Equity	27.0 %	5.85 %	1.58 %
Public Credit	12.0 %	2.44 %	0.29 %
Hedge Assets	6.0 %	5.22 %	0.31 %
Non-U.S. Public Equity	15.0 %	6.64 %	1.00 %
U.S. Treasuries	16.0 %	1.01 %	0.16 %
U.S. Tips	4.0 %	1.12 %	0.04 %
Private Credit	2.0 %	7.61 %	0.15 %
Private Equity	10.5 %	8.61 %	0.90 %
Private Real Estate	7.5 %	4.60 %	0.35 %
Total	100.0 %		4.78 %
		Inflation	2.50 %
		Long term arithmetical nominal return	7.28 %
		effect of covariance matrix	0.81 %
		Long term expected geometric return	8.09 %

The discount rate used to measure the total pension liability was 8.00% as of June, 30, 2014, and is consistent with the long-term expected geometric return on plan investments. The projection of cash flows used to determine the discount rate assumed that employer contributions would be made at the actuarially calculated rate computed in accordance with assumptions and methods stated in the funding policy adopted by the Board of Trustees, which requires payment of the normal cost and amortization of the unfunded actuarially accrued liability in level percent of employee payroll installments over 30 years utilizing a closed period, layered approach. Based on this assumption, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

Note 6 – Retirement Plans

Section 401(a) Defined Benefit Plan

All full-time System employees holding valid Missouri educator certificates are covered by PSRS. All other eligible employees are members of PEERS. Both Systems provide retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Chapter 169 RSMo contains the statutory provisions of both Systems.

PSRS members were required to contribute 14.5% of their annual covered salary during fiscal years 2014, 2013 and 2012. PSRS, as the employer, was required to match that amount. The contribution rate is set each year by the Board of Trustees upon the recommendation of the independent actuary within the contribution restrictions set in Section 169.030 RSMo. Employer contributions to PSRS totaled $24,975 for the 2014 fiscal year, $30,474 for the 2013 fiscal year and $34,722 for the 2012 fiscal year. The amounts for these years are equal to the required contributions.

PEERS members were required to contribute 6.86% of their annual covered salary during fiscal years 2014, 2013 and 2012. PSRS, as the employer, was required to match that amount. The contribution rate is set each year by the Board of Trustees upon the recommendation of the independent actuary within the contribution restrictions in Section 169.620 RSMo. Employer contributions to PEERS totaled $625,876 for the 2014 fiscal year, $595,935 for the 2013 fiscal year and $555,144 for the 2012 fiscal year. The amounts for these years are equal to the required contributions.

Section 457 Deferred Compensation Plan

A voluntary Section 457 deferred compensation plan is administered to provide additional retirement benefits for employees. The plan provides for employer-matching contributions up to a set maximum. The total contributions are subject to the limitations established in IRC Section 457. The Board of Trustees has authority to establish the employer contribution levels. For most employees, the System will match $50 plus 0.52% of salary per month. For certain employees, the System will make employer-paid contributions of $17,000 per year plus $5,500 in catch up contributions, if eligible. This is governed by individual employment contracts as approved by the Board of Trustees.

All employees immediately vest in the employer-matching and employer-paid contributions. Employer-matching contributions totaled $97,924 and employer-paid contributions totaled $56,500 for the 2014 fiscal year. Employee contributions totaled $277,595 for the 2014 fiscal year.

Maintenance of individual member accounts and custody of assets have been contracted to a third-party administrator and investment custodian. Total contributions are sent directly to the third-party administrator by the employer. Employees can self-direct investments of their contributions and their respective share of matching contributions in a number of investment options. Because the System does not hold the plan's assets and does not have significant administrative responsibilities, the plan's assets and changes in net assets are not reported in the Systems' financial statements.

Note 7 – Other Post-Employment Benefit Plans

Post-Employment Staff Retiree Healthcare Plan

Plan Description and Funding Policy – The Public School Retirement System of Missouri Staff Retiree Healthcare Program (SRHP) is a single-employer defined benefit other post-employment benefit (OPEB) plan administered by PSRS. SRHP provides a healthcare premium implicit rate subsidy to eligible staff retirees and their dependents provided they pay 100% of the blended healthcare premium. The blended healthcare premium is based on all active and retired employees. Retiree healthcare benefits are funded on a pay-as-you-go basis, with premiums determined annually. The Board of Trustees determines the funding of benefits and any benefit amendments. There is no continuing obligation to provide benefits beyond each calendar year. SRHP does not issue a stand-alone public financial report.

Annual OPEB Cost and Net OPEB Obligation – PSRS' annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of Governmental Accounting Standards Board (GASB) Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

PSRS' annual OPEB cost, the amount actually contributed to the plan and changes in the net OPEB obligation are as follows:

Annual required contribution	$ 316,200
Interest on net OPEB obligation	39,600
Amortization of net OPEB obligation	(38,900)
Annual OPEB cost	316,900
Contributions made	63,800
Increase in net OPEB obligation	253,100
Net OPEB obligation - beginning of year	1,199,300
Net OPEB obligation - end of year	$ 1,452,400

PSRS' annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2014 and the two preceding years are as follows:

Fiscal Year Ended	Annual OPEB Cost (AOC)	% of AOC Contributed	Net OPEB Obligation
6/30/2012	$ 247,200	20.6 %	$ 949,200
6/30/2013	$ 305,800	18.2 %	$ 1,199,300
6/30/2014	$ 316,900	20.1 %	$ 1,452,400

Funded Status and Funding Progress - SRHP's funded status and funding progress are summarized below:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Payroll ((b-a)/c)
6/30/2014	$ -	$3,340,100	$ 3,340,100	0.0%	$8,803,200	37.9%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Method and Assumptions - Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the efforts of short–term volatility in actuarially accrued liabilities and the actuarial value of assets, consistent with the long-term perspectives of the calculations.

In the June 30, 2014 actuarial valuation, the following assumptions and method were used:

Actuarial cost method	Entry Age Normal
Actuarial value of assets	No Assets (pay-as-you-go)
Amortization method	Level Percent Open
Remaining amortization period	30 Years
Actuarial assumptions:	
Investment rate of return	3.3 % per year
Wage inflation	3.5 % per year
Healthcare trend	7.0% in fiscal year 2014, decreasing by one-half percentage point per year to an ultimate of 4.5% in fiscal year 2019 and after

Post-Employment Health Plan

PSRS maintains a Post-Employment Health Plan ("PEHP") for employees. Upon termination, an employee will receive payment at the rate of one day of pay for each two days of accrued sick leave up to 100 days of accrued sick leave (50 days paid). Any days above 100 will be forfeited. All payments under the PEHP in excess of $1,000 will be transferred into a PEHP account which can be used to pay health insurance premiums for the employee or dependent at any time in the future. If an employee is retiring, the payments can be transferred back to PSRS on a monthly basis to cover the cost of health insurance for the retiree. The amount paid into the PEHP was $70,187 for six employees (four retirees and two terminations) during 2014. The cost was charged 62% to PSRS and 38% to PEERS.

Note 8 – Risk Management

The Systems are exposed to various risks of loss related to natural disasters, errors and omissions, loss of assets, torts, etc. The Systems have chosen to cover such losses through the purchase of commercial insurance. There have been no material insurance claims filed or paid during the past three years.

The Systems have a disaster recovery plan that provides for continued computer operations at a remote location should the retirement office be unavailable for normal operations.

Note 9 – Commitments and Contingencies

Commitments to the future purchase of investments at June 30, 2014 totaled $4,982,221,081.

Total unfunded capital commitments to private real estate, private equity and other alternative investments totaled approximately $3.8 billion as of June 30, 2014. The unfunded commitments are not recorded in the Statements of Fiduciary Net Assets.

During fiscal year 2010, PSRS entered into a contract with a consultant to provide and implement the software and training of an automated pension administration system. The total of the contract as of June 30, 2014 approximated $18.2 million. As of June 30, 2014, $14.9 million had been paid pursuant to this contract.

As discussed in Note 4 – *Deposits, Investments and Securities Lending Program*, the System's custodial bank is authorized to act as the Systems' agent regarding security lending transactions. The required collateral is then invested in collective investment pools, which are governed by Trust agreements. The Systems and their previous custodial bank are in dispute regarding the terms of the Trust agreement for the Quality D Short-Term Investment Fund (Quality D Fund). The previous custodial bank believes the Trust Agreement provides them the ability to re-value the Systems' investments in the Quality D Fund based on a series of prior, System authorized, Custodial bank approved, redemptions. The Systems strongly contest such action. On October 14, 2009, the custodial bank revalued the Systems' investments in the Quality D Fund by reducing the value by approximately $96 million. The Systems were then provided their revalued portion of the Quality D Fund as an in-kind distribution. The in-kind distribution was utilized to fund a customized collective investment pool to facilitate securities lending activity. The revaluation was based on net asset values as of October 13, 2009. The Systems strongly oppose such action and anticipate recovery of such amounts. The Systems filed a lawsuit in Cole County, Missouri Circuit Court against the custodial bank on September 18, 2009 in an attempt to prevent the custodial bank from taking such action. The Systems are proceeding with litigation to recover any amounts lost as a result of the custodial bank's action. The Systems terminated their custodial relationship with the previous custodian on October 1, 2010.

Certain other legal proceedings are pending with PSRS and PEERS arising from normal activities. Although unable to predict the outcome of these matters, the Systems believe the final outcome of these actions will not have a material adverse effect on the Systems' financial statements.

Public School Retirement System of Missouri and Public Education Employee Retirement System of Missouri

Required Supplementary Information

Schedules of Changes in the Employers' Net Pension Liability

	For the year ended June 30, 2014 PSRS	PEERS
Total pension liability		
Service cost	$ 849,712,130	$ 159,672,364
Interest cost	2,885,182,982	315,131,402
Difference between actual and expected experience	226,591,816	(14,308,876)
Assumption changes	-	-
Plan amendments/benefit changes	-	-
Benefit payments	(2,236,468,407)	(216,624,810)
Net change in total pension liability	1,725,018,521	243,870,080
Total pension liability - beginning of year	36,758,165,411	3,967,618,752
Total pension liability - end of year (a)	$ 38,483,183,932	$ 4,211,488,832
Plan Fiduciary Net Position		
Employer contributions	$ 643,989,869	$ 100,699,735
Member contributions	679,390,918	106,420,656
Net investment return	4,927,198,588	544,154,941
Benefit payments, including refunds of member contributions	(2,236,468,407)	(216,624,810)
Administrative and other expenses	(8,919,201)	(4,840,432)
Net change in plan fiduciary net position	4,005,191,767	529,810,090
Plan fiduciary net position - beginning of year	30,375,416,793	3,316,512,796
Plan fiduciary net position - end of year (b)	$ 34,380,608,560	$ 3,846,322,886
Net pension liability - end of year (a-b)	$ 4,102,575,372	$ 365,165,946

Note: This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

Public School Retirement System of Missouri and Public Education Employee Retirement System of Missouri

Required Supplementary Information

Schedules of Employers' Net Pension Liability

Public School Retirement System of Missouri

Year Ended	Total Pension Liability (TPL) (a)	Plan Fiduciary Net Position- Restricted for Pensions (b)	Net Pension Liability (NPL) (a - b)	Plan Fiduciary Net Position as a % of TPL (b/a)	Covered Employee Payroll (c)	Employers' NPL as a % of Covered Payroll ((b-a)/c)
6/30/2014	$ 38,483,183,932	$ 34,380,608,560	$ 4,102,575,372	89.3%	$ 4,425,567,630	92.7%

Public Education Employee Retirement System of Missouri

Year Ended	Total Pension Liability (TPL) (a)	Plan Fiduciary Net Position- Restricted for Pensions (b)	Net Pension Liability (NPL) (a - b)	Plan Fiduciary Net Position as a % of TPL (b/a)	Covered Employee Payroll (c)	Employers' NPL as a % of Covered Payroll ((b-a)/c)
6/30/2014	$ 4,211,488,832	$ 3,846,322,886	$ 365,165,946	91.3%	$ 1,442,700,979	25.3%

Note: This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

Public School Retirement System of Missouri and Public Education Employee Retirement System of Missouri

Required Supplementary Information

Schedules of Employer Contributions

Public School Retirement System of Missouri

Year Ended June 30	Actuarially Determined Contribution	Actual Employer Contributions	Contribution Excess/ (Deficiency) [1]	Actual Covered Member Payroll	Contributions as a Percentage of Covered Payroll
2005	$ 593,328,374	$ 389,415,997	$(203,912,377)	$ 3,540,145,427	11.00%
2006	608,134,319	429,578,911	(178,555,408)	3,735,468,791	11.50%
2007	644,969,214	472,216,630	(172,752,584)	3,935,138,583	12.00%
2008	656,347,298	521,241,501	(135,105,797)	4,169,932,008	12.50%
2009	669,643,988	563,454,487	(106,189,501)	4,334,265,285	13.00%
2010	658,161,150	594,326,122	(63,835,028)	4,402,415,719	13.50%
2011	684,366,766	594,732,137	(89,634,629)	4,248,086,693	14.00%
2012	720,303,976	620,214,231	(100,089,745)	4,277,339,524	14.50%
2013	507,232,268	634,040,335	126,808,067	4,372,691,966	14.50%
2014	608,459,393	643,989,869	35,530,476	4,441,309,441	14.50%

Public Education Employee Retirement System of Missouri

Year Ended June 30	Actuarially Determined Contribution	Actual Employer Contributions	Contribution Excess/ (Deficiency) [1]	Actual Covered Member Payroll	Contributions as a Percentage of Covered Payroll
2005	$ 73,948,917	$ 53,109,687	$ (20,839,230)	$ 1,011,613,086	5.25%
2006	79,707,834	61,745,505	(17,962,329)	1,122,645,545	5.50%
2007	89,945,503	69,235,160	(20,710,343)	1,204,089,739	5.75%
2008	90,727,016	77,988,839	(12,738,177)	1,299,813,983	6.00%
2009	96,775,289	85,915,562	(10,859,727)	1,374,648,992	6.25%
2010	95,560,084	91,478,725	(4,081,359)	1,407,365,000	6.50%
2011	90,816,155	90,816,155	-	1,369,776,094	6.63%
2012	95,094,785	95,094,785	-	1,386,221,356	6.86%
2013	87,013,816	97,059,313	10,045,497	1,414,858,790	6.86%
2014	98,497,846	100,699,735	2,201,889	1,467,926,166	6.86%

[1] *The annual statutory increase in total contribution rate may not exceed 1% of pay for PSRS and 0.5% of pay for PEERS. The limitation on contribution increases resulted in a deficiency for some of the years presented. Contributions were funded to the maximum statutory limit each year.*

Public School Retirement System of Missouri and Public Education Employee Retirement System of Missouri

Required Supplementary Information

Schedules of Investment Returns

Year ended:	**2014**
Annual money-weighted rate of return, net of all investment expenses	16.7%
Time-weighted rate of return, net of all investment expenses	16.7%

Note: This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

Public School Retirement System of Missouri and Public Education Employee Retirement System of Missouri

Notes to the Schedules of Required Supplementary Information

The information presented in the required supplementary schedule was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows:

Changes in benefit terms:

PSRS:	The 25-and-Out and 2.55% provisions were extended in 2007 through 2013. In 2013 the state legislature provided a permanent extension of the 25-and Out provision and extended the 2.55% provision to 2014.
PEERS:	The 25-and-Out provision was extended in 2007 through 2013. In 2013 the state legislature provided a permanent extension of the 25-and- Out provision.
Changes of assumptions:	In 2006 and 2011, payroll growth, salary increases, assumed life expectancies and mortality were adjusted to more closely reflect actual experienced. In 2011, the inflation rate was adjusted to 2.5% from 3.25% and annual cost- of-living adjustments were calculated in accordance with the newly adopted funding policy.
Actuarially Methods and Assumptions:	The actuarially determined contribution rates in the schedule of employers' contributions are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine contribution rates reported in the schedule.
Actuarial Cost Method	Entry Age Normal Level Percent of Payroll
Amortization Method	Closed, level percent for 30 years
Remaining amortization period	
PSRS	24.2 years
PEERS	24.1 years
Asset valuation method	5-year smoothing of actual returns above or below expected returns
Inflation	2.50%
Total Payroll Growth	
PSRS	3.50% per annum, consisting of 2.50% inflation, 0.50% additional inflation due to the inclusion of health care costs in pension earnings, and 0.50% of real wage growth.
PEERS	3.75% per annum, consisting of 2.50% inflation, 0.75% additional inflation due to the inclusion of health care costs in pension earnings, and 0.50% of real wage growth.
Future Salary Increases	
PSRS	4.00% - 10.00%, depending on service and including 2.50% inflation, 0.50% additional inflation due to the inclusion of health care costs in pension earnings, and real wage growth of 1.00% to 7.00%.
PEERS	5.00% - 12.00%, depending on service and including 2.50% inflation, 0.75% additional inflation due to the inclusion of health care costs in pension earnings, and real wage growth of 1.75% to 8.75%.
Cost-of-Living Increases	
PSRS	2.0% compounded annually, beginning on the second January after retirement and capped at 80% lifetime increase.
PEERS	2.0% compounded annually, beginning on the fourth January after retirement and capped at 80% lifetime increase.
Mortality Assumption	
Actives:	
PSRS	RP 2000 Mortality Table set back one year for males and six years for females, then projected to 2016 using Scale AA.
PEERS	RP 2000 Mortality Table set back one year for males and six years for females, then projected to 2016 using Scale AA.
Non-Disabled Retirees, Beneficiaries and Survivors:	
PSRS	RP 2000 Mortality Table set back one year for both males and females, then projected to 2016 using Scale AA.
PEERS	RP 2000 Mortality Table set forward one year for males and no set back/forward for females, then projected to 2016 using Scale AA.
Disabled Retirees:	RP 2000 Disabled Mortality Table
Investment Rate of Return	8.0% net of investment and administrative expresses

Public School Retirement System of Missouri and
Public Education Employee Retirement System of Missouri

Required Supplementary Information

Staff Retiree Health Plan – Defined Benefit OPEB Plan

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)– (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Payroll ((b-a)/c)
6/30/2012	$ -	$ 2,532,800	$ 2,532,800	0.0%	$ 7,825,200	32.4%
6/30/2013	$ -	$ 3,192,700	$ 3,192,700	0.0%	$ 8,425,400	37.9%
6/30/2014	$ -	$ 3,340,100	$ 3,340,100	0.0%	$ 8,803,200	37.9%

Schedule of Employer Contributions

Year Ended	Annual Required Contribution (ARC)	Employer Contributions	Percentage Contributed
6/30/2012	$ 246,800	$ 50,900	20.6%
6/30/2013	$ 305,300	$ 55,700	18.2%
6/30/2014	$ 316,200	$ 63,800	20.2%

Schedule of Percentage of OPEB Cost Contributed

Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
6/30/2012	$ 247,200	20.6%	$ 949,200
6/30/2013	$ 305,800	18.2%	$ 1,199,300
6/30/2014	$ 316,900	20.1%	$ 1,452,400

Notes to the Schedules of Required Supplementary Information

The information presented in the required supplementary schedule was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows:

Actuarial cost method	Entry Age Normal
Actuarial value of assets	No Assets (pay-as-you-go)
Amortization method	Level Percent Open
Remaining amortization period	30 Years
Actuarial assumptions:	
Investment rate of return	3.3% per year
Wage inflation	3.5% per year
Healthcare trend	7.0% in fiscal year 2014, decreasing by one-half percentage point per year to an ultimate of 4.5% in fiscal year 2019 and after

Public School Retirement System of Missouri and
Public Education Employee Retirement System of Missouri

Schedules of Administrative Expenses

for the year ended June 30, 2014

	PSRS	PEERS	Combined Totals
Personnel services	$ 5,548,045	$ 3,441,494	$ 8,989,539
Professional services			
Actuarial services	131,195	70,817	202,012
Legal services	298,982	14,666	313,648
Technology consulting	151,330	92,751	244,081
Financial audit services	43,087	26,408	69,495
Legislative consulting	25,575	15,675	41,250
Other consultants	25,494	15,626	41,120
Insurance consulting	4,009	2,457	6,466
Total professional services	679,672	238,400	918,072
Communications			
Information and publicity	214,867	149,085	363,952
Postage	262,347	176,249	438,596
Member education	22,988	12,801	35,789
Telephone	33,921	20,784	54,705
Total communications	534,123	358,919	893,042
Miscellaneous			
Building and utilities	147,860	90,624	238,484
Insurance	71,744	63,303	135,047
Office	796,301	488,027	1,284,328
Staff development	143,998	83,637	227,635
Miscellaneous	180,878	73,516	254,394
Total miscellaneous	1,340,781	799,107	2,139,888
Depreciation expense	799,990	-	799,990
Total administrative expenses	$ 8,902,611	$ 4,837,920	$ 13,740,531

Public School Retirement System of Missouri and Public Education Employee Retirement System of Missouri

Schedules of Investment Expenses

for the year ended June 30, 2014

	PSRS	PEERS	Combined Totals
Investment management expenses			
U.S. Treasuries and TIPS	$ 3,377,968	$ 375,330	$ 3,753,298
U.S. public equities	84,322,513	9,369,208	93,691,721
Non-U.S. public equities	18,777,985	2,086,443	20,864,428
Public debt	6,977,700	775,349	7,753,049
Private equity	173,366,157	19,262,906	192,629,063
Private credit	22,407,574	2,489,730	24,897,304
Private real estate	55,713,838	6,190,428	61,904,266
Hedged assets	138,137,690	15,348,650	153,486,340
Total investment management expenses	503,081,425	55,898,044	558,979,469
Investment consultant fees	3,699,394	411,044	4,110,438
Custodial bank fees	482,285	53,587	535,872
Investment staff expenses	6,309,637	700,656	7,010,293
Commission recapture income	(210,751)	(23,350)	(234,101)
Total investment expenses	$ 513,361,990	$ 57,039,981	$ 570,401,971
Security lending expenses			
Agent fees	$ 774,659	$ 86,073	$ 860,732
Broker rebates	(3,089,939)	(343,327)	(3,433,266)
Total security lending expenses (income)	$ (2,315,280)	$ (257,254)	$ (2,572,534)

Public School Retirement System of Missouri and Public Education Employee Retirement System of Missouri

Schedules of Professional Services

for the year ended June 30, 2014

	PSRS	PEERS	Combined Totals
Actuarial services	$ 131,195	$ 70,817	$ 202,012
Legal expenses	298,982	14,666	313,648
Technology consulting	151,330	92,751	244,081
Financial audit services	43,087	26,408	69,495
Legislative consulting	25,575	15,675	41,250
Other consulting	25,494	15,626	41,120
Insurance consulting	4,009	2,457	6,466
Total fees	$ 679,672	$ 238,400	$ 918,072