

**Civilian Employees' Retirement System of the  
Police Department of Kansas City, Missouri**

A Component Unit of the City of Kansas City, Missouri

Auditors' Report and Financial Statements

April 30, 2009

# **Civilian Employees' Retirement System of the Police Department of Kansas City, Missouri**

**A Component Unit of the City of Kansas City, Missouri**

**April 30, 2009**

<b>Independent Auditors' Report on Financial Statements and Supplementary Information.....</b>	<b>1</b>
--	----------

## **Required Supplementary Information**

Management's Discussion and Analysis .....	2
--	---

## **Financial Statements**

Statement of Plan Net Assets .....	6
Statement of Changes in Plan Net Assets.....	7
Notes to Financial Statements .....	8

## **Required Supplementary Information**

Schedule of Funding Progress and Employer Contributions.....	19
--	----

## **Supplementary Information**

Schedule of Expenses .....	20
Schedule of Revenues by Source and Expenses by Type.....	21

## Independent Auditors' Report on Financial Statements and Supplementary Information

Retirement Board  
Civilian Employees' Retirement System  
of the Police Department of Kansas City, Missouri  
Kansas City, Missouri

We have audited the accompanying basic financial statements of the Civilian Employees' Retirement System of the Police Department of Kansas City, Missouri (the Plan), a component unit of the City of Kansas City, Missouri, as of and for the year ended April 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Civilian Employees' Retirement System of the Police Department of Kansas City, Missouri as of April 30, 2009, and changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described more fully in Note 4 to the financial statements, during 2009, the Plan implemented Governmental Accounting Standards Board Statement No. 50, *Pension Disclosures*.

The accompanying management's discussion and analysis and schedules of funding progress and employer contributions as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Plan's basic financial statements. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information for 2009 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. We previously expressed an unqualified opinion on the 2008, 2007, 2006, 2005 and 2004 financial statements.

*BKD, LLP*

Kansas City, Missouri  
July 31, 2009

**Civilian Employees' Retirement System of the  
Police Department of Kansas City, Missouri**  
A Component Unit of the City of Kansas City, Missouri

**Management's Discussion and Analysis**

**April 30, 2009**

The Civilian Employees' Retirement System of the Police Department of Kansas City, Missouri is the defined benefit retirement plan for civilian members of the Kansas City, Missouri Police Department. The Civilian Employees' Retirement System was established by the Missouri General Assembly in 1965 and is administered by the Retirement System Board to provide retirement, disability and survivor benefits to its members.

This discussion and analysis of the Civilian Employees' Retirement System's financial statements provides an overview of the Civilian Employees' Retirement System's operations and investment performance during the year ended April 30, 2009. Please read it in conjunction with the Civilian Employees' Retirement System's financial statements, which follow this section.

***Overview of the Financial Statements and Accompanying Information***

- The financial statements presented in this report are the Statement of Plan Net Assets as of April 30, 2009 and the Statement of Changes in Plan Net Assets for the year ended April 30, 2009. These statements reflect resources available for the payment of benefits as of the year-end, and the sources and use of those funds during the year.
- The notes to the financial statements are an integral part of the financial statements and provide facts and detailed information to assist the reader in understanding the statements. Information in the notes includes a description of the Plan, a summary of significant accounting policies, the method used to value investments, a summary of investments and actuarial methods and assumptions.
- Required supplementary information presents schedules related to employer contributions and the funding of the Plan.
- Other supplementary schedules consist of detailed information supporting administrative and investment expenses and a historical summary of revenues and expenses.

***Financial Analysis***

The Civilian Employees' Retirement System's benefits are funded through member and employer contributions, and investment income. The net assets of the Civilian Employees' Retirement System decreased by \$24,695,166 or (25.55%) from \$96,639,301 as of April 30, 2008 to \$71,944,135 as of April 30, 2009. The decrease was due to significant investment losses for the Plan.

**Civilian Employees' Retirement System of the  
Police Department of Kansas City, Missouri**  
A Component Unit of the City of Kansas City, Missouri

**Management's Discussion and Analysis**

**April 30, 2009**

**Plan Net Assets**

The following is a summary comparative statement of Plan Net Assets for the System:

	<b>April 30, 2009</b>	<b>April 30, 2008</b>	<b>Amount Change</b>
Cash	\$ 15,916	\$ 11,041	\$ 4,875
Receivables	260,310	399,347	(139,037)
Investments	72,007,672	96,391,948	(24,384,276)
Securities lending collateral	12,077,291	22,053,208	(9,975,917)
Total assets	<u>84,361,189</u>	<u>118,855,544</u>	<u>(34,494,355)</u>
Accounts and refunds payable	144,030	163,035	(19,005)
Securities lending collateral	12,273,024	22,053,208	(9,780,184)
Total liabilities	<u>12,417,054</u>	<u>22,216,243</u>	<u>(9,799,189)</u>
Net assets	<u>\$ 71,944,135</u>	<u>\$ 96,639,301</u>	<u>\$ (24,695,166)</u>

**Changes in Plan Net Assets**

The following is a summary comparative statement of Changes in Plan Net Assets for the System:

	<b>April 30, 2009</b>	<b>April 30, 2008</b>	<b>Amount Change</b>
Member contributions	\$ 1,338,180	\$ 1,285,869	\$ 52,311
Employer contributions	3,470,682	3,372,411	98,271
Net investment loss	(25,282,608)	(63,658)	(25,218,950)
Total additions	<u>(20,473,746)</u>	<u>4,594,622</u>	<u>(25,068,368)</u>
Benefits paid to members	3,716,269	3,431,959	284,310
Refunds of contributions	381,590	218,281	163,309
Administrative expenses	123,561	111,993	11,568
Total deductions	<u>4,221,420</u>	<u>3,762,233</u>	<u>459,187</u>
Net Increase (Decrease)	(24,695,166)	832,389	(25,527,555)
Net Assets, Beginning of Year	<u>96,639,301</u>	<u>95,806,912</u>	<u>832,389</u>
Net Assets, End of Year	<u>\$ 71,944,135</u>	<u>\$ 96,639,301</u>	<u>\$ (24,695,166)</u>

**Civilian Employees' Retirement System of the  
Police Department of Kansas City, Missouri**  
A Component Unit of the City of Kansas City, Missouri

**Management's Discussion and Analysis**

**April 30, 2009**

***Financial Highlights***

Net assets held in trust by the Civilian Employees' Retirement System, as reported in the Statement of Plan Net Assets, totaled \$71,944,135 as of April 30, 2009. Net assets decreased by \$24,695,166 or (25.55%). Total assets decreased by \$34,494,355 or (29.02%) while total liabilities decreased by \$9,799,189 or (44.11%). The decrease in total assets included: 1) a \$24,384,276 decrease in investments due to investment performance, and 2) a \$9,975,917 decrease in securities lending collateral due to significant credit and liquidity problems in the investment markets.

The Statement of Changes in Plan Net Assets shows a change in net assets at the end of the year of (25.55%) compared to a gain of 0.87% at the end of fiscal year 2008. Total additions to the Plan decreased by \$25,068,368 or (546%) while total deductions from the plan increased by \$459,187 or 12.21%.

The decrease in total additions included: (1) A \$25,218,950 decrease in investment income which is the result of investment performance that was significantly less than the prior year. For FY2009, net investment loss was \$25,282,608. The portfolio's investment rate of return was (24.34%) with investment losses totaling \$24,855,252, investment expenses totaling \$427,356. (2) A \$52,311 increase in member contributions to the Plan and a \$98,271 increase in employer contributions from the City of Kansas City, Missouri. The increases in member and employer contributions are due to payroll growth rather than changes to the contribution rates.

The increase in total deductions included an increase of \$284,310 for benefits paid to members, which is made up of \$311,809 for increased benefit payments through new retirements and a cost of living increase, and a \$27,499 decrease in partial lump-sum option payments at the time of retirement. Refunds of contributions to members leaving the Police Department increased by \$163,309, while administrative expenses increased by \$11,568.

For the eighth year in a row, employer contributions did not equal the amount, or percentage of compensation, recommended by the Retirement System actuary. For the year ended April 30, 2009, employee contributions were 5.0% of compensation and employer contributions were 13.14%, which is 3.10% below the annual required contribution rate of 16.24%. For the year beginning May 1, 2009, employer contributions are budgeted to remain at 13.14% of compensation.

The Retirement Board reviews the allocation of investments on a quarterly basis and the Retirement Board Investment Policy calls for a rebalancing, back to a target allocation, when either the fixed income or equity asset classes are  $\pm 7\%$  from the target allocation. The portfolio was rebalanced in May 2008 and February 2009. In May 2008, PIMCO was hired as a commodity manager. In September 2008, Northern Trust declared a collateral deficiency in the Securities Lending collateral account and issued a \$199,296 long-term liability. At April 30, 2009, the liability was reduced to \$195,733 as Northern Trust had offset the original collateral deficiency

# **Civilian Employees' Retirement System of the Police Department of Kansas City, Missouri**

**A Component Unit of the City of Kansas City, Missouri**

## **Management's Discussion and Analysis**

**April 30, 2009**

with funds received from collateral liquidation. In December 2008, the board terminated investments in Systematic's small cap value fund and transferred the assets to small cap value exchange traded funds. The board also started the search process for a new small cap value manager and a high yield bond manager.

### ***Operational Highlights***

In August 2008, the provisions of Senate Bill 980 and House Bill 1710 became effective and provided that members must be in active status to be eligible for either a duty or non-duty disability retirement benefit.

The Retirement Board contracted with DeMarche Associates to assist with tactical asset allocation. On a monthly basis, DeMarche will provide guidance on the asset allocation of the Civilian Employees' Retirement System to tactically allocate fixed income and equity assets within a range set by the Retirement Board.

### ***Requests for Information***

This financial report is designed to provide members of the Civilian Employees' Retirement System, citizens, investors and creditors of the City of Kansas City, Missouri with a general overview of the Civilian Employees' Retirement System's finances and to demonstrate its accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Kansas City Police Employees' Retirement Systems, 1328 Agnes, Kansas City, Missouri 64127.

There are no other currently known facts, conditions or decisions that are expected to have a significant effect on the financial position or results of operations of the Civilian Employees' Retirement System.

# Civilian Employees' Retirement System of the Police Department of Kansas City, Missouri

## A Component Unit of the City of Kansas City, Missouri Statement of Plan Net Assets

April 30, 2009

### Assets

#### Investments

U.S. government securities	\$ 3,923,763
Corporate bonds and notes	13,954,598
Common and preferred stock	31,631,836
Government mortgage-backed securities	4,491,759
Real estate	2,245,812
Partnerships	1,331,021
Short-term investment funds	3,896,570
Emerging markets equities	721,545
Commodities funds	2,390,924
Foreign equities	7,419,844

Total investments	72,007,672
-------------------	------------

#### Securities Lending Collateral

	12,077,291
--	------------

#### Receivables

Member insurance premiums	33,418
Accrued interest and dividends	226,892

Total receivables	260,310
-------------------	---------

#### Cash

	15,916
--	--------

Total assets	84,361,189
--------------	------------

### Liabilities

Accounts and refunds payable	144,030
Securities lending liability	195,733
Securities lending collateral	12,077,291

Total liabilities	12,417,054
-------------------	------------

#### Net Assets Held in Trust for Pension Benefits

	\$ 71,944,135
--	---------------

*See Schedule of Funding Progress on Page 19*

**Civilian Employees' Retirement System of the  
Police Department of Kansas City, Missouri**  
A Component Unit of the City of Kansas City, Missouri

**Statement of Changes in Plan Net Assets  
April 30, 2009**

**Additions**

**Investment Income**

Net depreciation in fair value of investments	\$ (27,620,402)
Interest and dividends	2,651,320
Investment expense	<u>(427,356)</u>
Net investment loss	<u>(25,396,438)</u>

**Securities Lending Income**

Securities lending gross income	<u>336,846</u>
Securities lending expenses	
Borrower rebates	(188,915)
Management fees	<u>(34,101)</u>
Total securities lending expenses	<u>(223,016)</u>
Net securities lending income	<u>113,830</u>
Total net investment loss	<u>(25,282,608)</u>

**Contributions**

City	3,470,682
Members	<u>1,338,180</u>
Total contributions	<u>4,808,862</u>
Total additions	<u>(20,473,746)</u>

**Deductions**

**Benefits Paid**

Retired members	3,267,300
Spouses	169,021
Disabled members	199,860
Partial lump sum option	66,088
Death benefits	<u>14,000</u>
Total benefits paid	<u>3,716,269</u>

**Other Deductions**

Refunds of contributions	381,590
Administrative expenses	<u>123,561</u>
Total other deductions	<u>505,151</u>
Total deductions	<u>4,221,420</u>

**Net Decrease** (24,695,166)

**Net Assets Held in Trust for Pension Benefits, Beginning of Year** 96,639,301

**Net Assets Held in Trust for Pension Benefits, End of Year** \$ 71,944,135

# **Civilian Employees' Retirement System of the Police Department of Kansas City, Missouri**

**A Component Unit of the City of Kansas City, Missouri  
Notes to Financial Statements**

**April 30, 2009**

## **Note 1: Summary of Significant Accounting Policies**

### ***Reporting Entity***

The Civilian Employees' Retirement System of the Police Department of Kansas City, Missouri (the Plan) is considered a component unit of the City of Kansas City, Missouri financial reporting entity and included in the City's financial reports as a pension trust fund due to the nature of the Plan's reliance on funding from the City of Kansas City, Missouri. Accounting principles generally accepted in the United States of America require that the financial reporting entity include the primary government organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Based on these criteria, there are no other organizations or agencies whose financial statements should be combined and presented with these basic financial statements.

### ***Measurement Focus and Basis of Accounting***

The Plan uses a fund to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The Plan's fund is classified as a pension trust fund of fiduciary fund type. Pension trust funds account for assets held by the Plan in a trustee capacity, or as an agent on behalf of others and are accounted for on the flow of economic resources measurement focus and the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the Plan are recognized when due and the employer has made a formal commitment to provide the contributions. Interest and dividend income are recorded when earned. Expenses are recorded when the corresponding liabilities are incurred. Realized gains and losses on security transactions are based on the difference between sales proceeds and carrying value of the securities, and are recognized on the transaction date. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

### ***Contributions***

Contributions totaling \$4,808,862 (\$3,470,682 employer and \$1,338,180 employee) were made during the Plan year. The annual required contribution rate (ARC) was determined through an actuarial valuation performed at April 30, 2008. As a percentage of payroll, the amount contributed did not equal the ARC. Significant actuarial assumptions used include (a) rate of return on the investment of present and future assets of 7.75% per year compounded annually, (b) projected salary increases based on years of service and (c) post-retirement benefit increase of 3% per year of the original base pension granted annually.

# Civilian Employees' Retirement System of the Police Department of Kansas City, Missouri

A Component Unit of the City of Kansas City, Missouri

## Notes to Financial Statements

April 30, 2009

As a condition of participation in the Plan, members are required to contribute 5% of their salary to the plan. The computed City contribution rate of 16.24% was the balance required to pay pensions and maintain the Plan on an actuarially sound basis and was expected to fund the normal cost and amortize the net unfunded actuarial accrued liability. For the year ended April 30, 2009, the City contributed at a rate of 13.14% of members' salaries.

The actual contributions by the City have been less than the rates recommended by the actuary in nine of the last ten years. The Plan is dependent upon the relationship of actual Plan experience with the underlying actuarial assumptions and sufficient funding by the City to meet future cash flow needs.

The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due.

### Funded Status and Funding Progress

The funded status of the plan as of April 30, 2008, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL) Entry Age	(b - a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Covered Payroll	[(b - a)/c] UAAL as a Percentage of Covered Payroll
4/30/2008	\$ 97,989,985	\$ 117,626,995	\$ 19,637,010	83%	\$ 27,045,762	73%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

### **Valuation of Investments and Income Recognition**

Marketable securities, including mutual funds, are stated at fair value. Securities traded on a national securities exchange are valued at the last reported sales price on the last business day of the Plan year; investments traded in the over-the-counter market and listed securities for which no sale was reported on that date are valued at the average of the last reported bid and ask prices.

For certain investments consisting of corporate bonds and notes that do not have an established fair value, the Plan has established a fair value based on yields currently available on comparable securities of issuers with similar credit ratings and quotations are obtained from brokerage firms or national pricing services.

# **Civilian Employees' Retirement System of the Police Department of Kansas City, Missouri**

**A Component Unit of the City of Kansas City, Missouri  
Notes to Financial Statements**

**April 30, 2009**

The private equity partnerships consist primarily of non-marketable investments in various venture capital, corporate finance funds and private partnerships. These funds are primarily invested in the technology, communications, energy and real estate markets. A portion of these funds is also invested in foreign operations under certain partnership agreements. The plan is obligated to pay certain capital commitments to the partnerships. These outstanding commitments totaled \$2,874,841 at April 30, 2009. The fair value of these investments is estimated based on the estimated fair values of the underlying securities. These estimates could change materially in the near term.

Securities which are not traded on a national security exchange are valued by the respective investment manager or other third parties based on similar sales.

Mortgages have been valued on the basis of their future principal and interest payments discounted at prevailing interest rates for similar instruments.

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

## ***Administrative Expenses***

Actuarial, investment management and bank trustee fees and expenses are included in the Plan's expenses when incurred. These expenses are financed through investment income. The Kansas City, Missouri Police Department provides office space without any direct cost to the Plan.

## ***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, disclosure of contingent assets and liabilities and the actuarial present value of accumulated plan benefits at the date of the financial statements. Actual results could differ from those estimates.

## ***Plan Tax Status***

The Plan obtained its determination letter on February 14, 2006, in which the Internal Revenue Service stated that the Plan, as designed, was in compliance with the applicable requirements of the Internal Revenue Code and, therefore, not subject to tax.

# Civilian Employees' Retirement System of the Police Department of Kansas City, Missouri

A Component Unit of the City of Kansas City, Missouri  
Notes to Financial Statements

April 30, 2009

## Note 2: Plan Description

The following description of the Civilian Employees' Retirement System of the Police Department of Kansas City, Missouri provides only general information. Participants should refer to the Plan Statutes (Sections 86.1310 to 86.1640 RSMo) for a more complete description of the Plan's provisions.

The Plan is a single-employer, contributory, defined benefit plan established by the State of Missouri's General Assembly and administered by the Retirement Board of the Civilian Employees' Retirement System of the Police Department of Kansas City, Missouri.

The Plan covers the regularly appointed full-time civilian employees of the Police Department of Kansas City, Missouri whose eligibility is effective on their hire date.

At April 30, 2009, the Plan's membership consisted of the following:

Retirees and beneficiaries currently receiving benefits	163
Terminated plan members entitled to but not yet receiving benefits	13
Active employees	
Vested	416
Non-vested	<u>203</u>
 Total	 <u><u>795</u></u>

The Plan provides retirement benefits and disability benefits. All benefits vest after five years of creditable service for those employees. A member is then entitled to an annual pension beginning at the latter of age 65, or 10<sup>th</sup> anniversary of employment, equal to 2% of final average compensation multiplied by the number of years of creditable service. A married member may elect an optional 100% joint and survivor annuity equivalent to the actuarial value of the normal pension for such member at the date of retirement.

The Plan provides active members three early retirement options:

- (A) Employee's total of age and years of service equals or exceeds 80 years.
- (B) Employee's age equals or exceeds 55 and years of service equals or exceeds 10 years.
- (C) Employee's age equals or exceeds 60 and years of service equals or exceeds five years but is not greater than 10 years.

Early retirement monetary reductions may be applicable to items (B) and (C) above.

When a member terminates employment prior to retirement, accumulated contributions of the member are refundable, with interest. Such refunds result in forfeiture of all other benefits under the Plan. Members with five or more years of creditable service who terminate employment prior to retirement may choose to leave their accumulated contributions in the Retirement System fund

# **Civilian Employees' Retirement System of the Police Department of Kansas City, Missouri**

**A Component Unit of the City of Kansas City, Missouri**

## **Notes to Financial Statements**

**April 30, 2009**

and receive a pension upon the member's normal retirement date or upon the member's early retirement date subject to any applicable adjustment.

The Plan provides for duty disability pension based on 50% of the member's final average compensation for the remainder of his or her life or so long as the disability continues. The Plan also provides for non-duty disability benefits calculated at a minimum of 30% of the member's final average compensation for the remainder of his or her life or so long as the disability continues.

Upon the death of a member in service with less than five years of service, the Plan provides for refunding the accumulated member contributions plus interest to the member's surviving spouse. If a member dies in service and has at least five but less than twenty years of service, the member's surviving spouse may elect either the lump-sum payment of accumulated contributions above or a pension payable for life equal to 50% of the member's accrued pension at the date of death calculated for normal retirement. The surviving spouse's pension may be deferred until what would have been the member's earliest possible retirement date. If a member dies in service and has at least 20 years of service, the member's surviving spouse may elect either the lump-sum payment of accumulated contributions or, the larger of the 50% pension calculated for normal retirement or a pension determined on a joint and survivor's basis from the actuarial value of the member's accrued pension at the date of death. If there is no surviving spouse, the accumulated member contributions plus interest will be paid to the member's designated beneficiary.

An annual cost of living adjustment, not to exceed 3%, may be provided for members receiving benefits.

The Plan also provided a \$160 monthly supplemental retirement benefit to all retirees, disability recipients and eligible surviving spouses for the year ended April 30, 2009.

The Plan is permitted by state statute to withhold amounts on behalf of members receiving benefits, including amounts for health and life insurance premiums. The Plan does not contract with insurance carriers on behalf of its members; instead, all insurance premiums are remitted through the Kansas City Police Department.

### **Note 3: Deposits, Investments and Investment Return**

#### ***Deposits***

Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The Plan's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Missouri;

# Civilian Employees' Retirement System of the Police Department of Kansas City, Missouri

## A Component Unit of the City of Kansas City, Missouri Notes to Financial Statements

April 30, 2009

bonds of any city, county, school district or special road district of the state of Missouri; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

The Plan had no bank balances exposed to custodial credit risk at April 30, 2009.

### **Investments**

For the year ended April 30, 2009, Northern Trust was the master custodian for substantially all of the securities of the Plan. The investments held by the Plan are managed by ten Board-appointed money managers. Each of the money managers has a different asset allocation based on Board-approved policy. The Plan may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities, real estate, partnerships, corporate bonds, commodities and equity securities.

### **Securities Lending Transactions**

State statutes and the Plan's Board policies permit the Plan to use investments of the Plan to enter into securities lending transactions – loans of securities to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future.

The Plan has contracted with Northern Trust as its third-party lending agent to lend domestic equity and debt securities for cash collateral of not less than 102% of the market value and international debt and equity securities of not less than 105% of the market value. Contracts with the lending agent requires it to indemnify the Plan if borrowers fail to return the securities, if the collateral is inadequate to replace the securities lent or if the borrowers fail to pay the Plan for income distributions by the securities' issuers while the securities are on loan; therefore, non-cash collateral is not recorded as an asset or liability on the financial statements.

Market value of securities loaned	\$ 11,828,733
Market value of cash collateral received from borrowers	\$ 12,077,291
Market value of non-cash collateral received from borrowers	12,962
Total market value of collateral	\$ 12,090,253

All securities loans can be terminated on demand by either the Plan or the borrower. The cash collateral received on each security loan was invested, in accordance with the Plan investment guidelines, in short-term funds. The maturities of the resulting investments generally match the maturities of the securities lending arrangement themselves. The Plan is not permitted to pledge or sell collateral received unless the borrower defaults.

# Civilian Employees' Retirement System of the Police Department of Kansas City, Missouri

A Component Unit of the City of Kansas City, Missouri

## Notes to Financial Statements

April 30, 2009

At April 30, 2009, the Plan under its securities lending agreement with Northern Trust was responsible for a collateral deficiency of \$195,733, which is recorded as a liability on the Plan's Statement of Plan Assets. This obligation is due to certain market events that have driven the markets into a highly illiquid condition. The obligation may be reduced over time as holdings mature and investment valuations return to normal; however, the liability will continue to exist reflecting any impaired holdings which are expected to pay out at a percentage of par.

At April 30, 2009, the Plan had the following investments and maturities:

Type	Fair Value	Maturities in Years				Loaned Under Securities Lending Agreements
		Less than 1	1 - 5	6 - 10	More than 10	
U.S. Treasury obligations	\$ 2,537,123	\$ -	\$ 937,762	\$ 1,051,330	\$ 548,031	\$ 2,537,123
U.S. agencies obligations	1,386,640	-	1,386,640	-	-	1,010,697
Corporate bonds	13,954,598	6,073,936	3,867,029	2,371,212	1,642,421	2,278,066
Government mortgage- backed securities	4,491,759	-	-	-	4,491,759	-
Money market mutual funds	3,896,570	3,896,570	-	-	-	-
		<u>\$ 9,970,506</u>	<u>\$ 6,191,431</u>	<u>\$ 3,422,542</u>	<u>\$ 6,682,211</u>	
Corporate stocks	31,631,836					6,002,847
Real estate	2,245,812					-
Partnerships	1,331,021					-
Emerging market equities	721,545					-
Commodities funds	2,390,924					-
Foreign equities	7,419,844					-
	<u>\$72,007,672</u>					<u>\$ 11,828,733</u>

**Interest Rate Risk** - The money market mutual funds are presented as an investment with a maturity of less than one year because they are redeemable in full immediately. The debt securities are presented in their respective category based on final maturity date. The Plan's investment policy does not specifically address exposure to fair value losses arising from rising interest rates.

**Credit Risk** - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. It is the Plan's policy to limit its investments in corporate bonds to those that are rated Baa or better by credit rating agencies. The Plan's portfolio must have an average rating of A or better in the aggregate as measured by at least one credit rating agency. At April 30, 2009,

# Civilian Employees' Retirement System of the Police Department of Kansas City, Missouri

A Component Unit of the City of Kansas City, Missouri

## Notes to Financial Statements

April 30, 2009

the Plan's investments in corporate bonds were rated Baa or better by *Standard & Poor's*. At the same date, the Plan's investments in U.S. agencies obligations not directly guaranteed by the U.S. government (including Federal National Mortgage Association, Federal Home Loan Banks & Federal Home Loan Mortgage Corporation) were rated AAA by *Standard & Poor's* and its investments in money market mutual funds were rated AAA by *Standard & Poor's*.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Plan will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Consistent with the Plan's securities lending policy, \$11,828,733 was held by the counterparty that was acting as the Plan's agent in securities lending transactions.

Concentration of Credit Risk - The Plan limits the amount that may be invested in any one security at 5% to 15% of total Plan assets.

Foreign Currency Risk - This risk relates to adverse effects on the fair value of an investment from changes in exchange rates. The Plan's investment policy permits investments in international equities, American Depository Receipts (ADRs), warrants, rights, 144A securities, convertible bonds and U.S. registered securities whose principal markets are outside of the United States. All foreign equities and emerging market equities held are denominated in U.S. dollars.

### **Investment Income (Loss)**

Investment loss for the year ended April 30, 2009 consisted of:

Interest and dividend income	\$ 2,651,320
Net decrease in fair value of investments	(27,620,402)
	<u>(24,969,082)</u>
Less investment expense	427,356
	<u><u>\$(25,396,438)</u></u>

### **Note 4: Actuarial Methods and Assumptions**

During the current year, the Plan adopted Governmental Accounting Standards Board Statement No. 50, *Pension Disclosures*. The effect of the adoption was to require additional disclosures about the actuarial methods and assumptions used in the valuations on which reported information about the annual required contribution, the funded status and funding progress are based.

# Civilian Employees' Retirement System of the Police Department of Kansas City, Missouri

A Component Unit of the City of Kansas City, Missouri

## Notes to Financial Statements

April 30, 2009

An actuary from Milliman determines the actuarial present value of accumulated plan benefits, which is the amount that results from applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawal or retirement) between the valuation date and the expected date of payment.

The information presented in the required supplemental schedules was determined as part of the actuarial valuations as of the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	April 30, 2008
Actuarial cost method	Individual entry age
Amortization method	Level percent closed
Equivalent single amortization period	17 years

Actuarial Assumptions

Investment rate of return	7.75% per annum
Inflation rate	3.00% per annum
Cost of living adjustments	3.00%, simple

Projected salary increases based on years of service as follows:

Years of Service	General Wage Growth	Merit and Longevity	Total
0	4.00%	5.75%	9.75%
1	4.00%	4.75%	8.75%
2	4.00%	3.75%	7.75%
3	4.00%	2.75%	6.75%
4	4.00%	2.25%	6.25%
5	4.00%	2.10%	6.10%
10	4.00%	1.60%	5.60%
15	4.00%	1.00%	5.00%
20	4.00%	0.55%	4.55%
25	4.00%	0.25%	4.25%

# Civilian Employees' Retirement System of the Police Department of Kansas City, Missouri

A Component Unit of the City of Kansas City, Missouri

## Notes to Financial Statements

April 30, 2009

Actuarial accrued liability as of April 30, 2008:

Active employees accruing benefits	
Present value of future benefits	\$ 105,462,111
Present value of future normal costs	29,365,940
Total active employees accruing benefits	76,096,171
Retired and inactive members	
Members with deferred benefits	1,071,863
Members receiving benefits	37,647,795
Retired and inactive members with supplemental benefits	2,811,166
Total retired and inactive members	41,530,824
Total actuarial accrued liability	117,626,995
Assets, at actuarial value	97,989,985
Unfunded actuarial accrued liability	\$ 19,637,010

Actuarial Value of Assets is defined as follows:

### Market Value of Assets on the Valuation Date

- Minus 75% of net Realized and Unrealized Gain (Loss) during the prior plan year
- Minus 50% of net Realized and Unrealized Gain (Loss) during the plan year two years prior
- Minus 25% of net Realized and Unrealized Gain (Loss) during the plan year three years prior

## Note 5: Risks and Uncertainties

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

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

# **Civilian Employees' Retirement System of the Police Department of Kansas City, Missouri**

**A Component Unit of the City of Kansas City, Missouri**

**Notes to Financial Statements**

**April 30, 2009**

## ***Current Economic Conditions***

The current economic environment, which in some cases have resulted in large declines in the fair value of investments, presents employee benefit plans with unprecedented circumstances and challenges. The financial statements have been prepared using values and information currently available to the Plan.

Given the volatility of current economic conditions, the values of assets recorded in the financial statements could change rapidly, resulting in material future adjustments in investment values that could negatively impact the Plan.

## **Note 6: Litigation**

The Plan is subject to claims and lawsuits that arise primarily in the ordinary course of operating a retirement system. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the net assets of the Plan. There are currently no claims or lawsuits pending against the Plan.

## **Required Supplementary Information**

**Civilian Employees' Retirement System of the  
Police Department of Kansas City, Missouri**

A Component Unit of the City of Kansas City, Missouri  
Required Supplementary Information

**Schedule of Funding Progress**

**April 30, 2009**

<b>Actuarial Valuation Date</b>	<b>(a) Actuarial Value of Assets</b>	<b>(b) Actuarial Accrued Liability (AAL) Entry Age</b>	<b>(b - a) Unfunded AAL (UAAL)</b>	<b>(a/b) Funded Ratio</b>	<b>(c) Covered Payroll</b>	<b>[(b - a)/c] UAAL as a Percentage of Covered Payroll</b>
4/30/2003	\$ 68,182,691	\$ 83,044,509	\$ 14,861,818	82%	\$ 21,944,040	68%
4/30/2004	69,868,024	89,141,414	19,273,390	78%	22,058,127	87%
4/30/2005	72,382,548	97,103,806	24,721,258	75%	22,239,092	111%
4/30/2006	78,846,717	105,928,172	27,081,455	74%	23,875,937	113%
4/30/2007	89,110,860	110,394,115	21,283,255	81%	25,472,341	84%
4/30/2008	97,989,985	117,626,995	19,637,010	83%	27,045,762	73%

**Schedule of Employer Contributions**

**April 30, 2009**

<b><u>Year Ended April 30</u></b>	<b><u>Annual Required Contributions</u></b>	<b><u>Percentage Contributed</u></b>
2004	\$ 2,944,407	54%
2005	3,076,906	52%
2006	3,480,720	62%
2007	3,854,132	70%
2008	4,202,987	80%
2009	4,322,860	80%

## **Supplementary Information**

**Civilian Employees' Retirement System of the  
Police Department of Kansas City, Missouri**

**A Component Unit of the City of Kansas City, Missouri  
Supplementary Information**

**Schedule of Expenses**

**April 30, 2009**

**Investment Expenses**

Bank custodial fees and expenses	\$ 79,761
Financial management expenses	341,469
Financial consultation	<u>6,126</u>
Total	<u>\$ 427,356</u>

**Administrative Expenses**

Salaries and payroll taxes	\$ 54,193
Legal	10,644
Audit	10,937
Medical fees	279
Actuarial fees	36,687
Governmental fees	1,000
Printing and office expense	3,957
Postage	1,347
Travel and education expense	159
Legislative consultation	3,650
Other	<u>708</u>
Total	<u>\$ 123,561</u>

**Civilian Employees' Retirement System of the  
Police Department of Kansas City, Missouri**

A Component Unit of the City of Kansas City, Missouri  
Supplementary Information

**Schedule of Revenues by Source and Expenses by Type  
April 30, 2009**

Fiscal Year Ended	Revenues by Source			Total
	Employee Contributions	Employer Contributions	Investment Income (Loss)	
2004	\$ 1,247,257	\$ 1,601,243	\$ 9,992,199	\$ 12,840,699
2005	1,188,564	1,612,080	5,231,299	8,031,943
2006	1,262,297	2,175,167	12,714,840	16,152,304
2007	1,212,401	2,681,732	10,373,345	14,267,478
2008	1,285,869	3,372,411	(63,658)	4,594,622
2009	1,338,180	3,470,682	(25,282,608)	(20,473,746)

Fiscal Year Ended	Expenses by Type			Total
	Benefits	Administrative Expenses		
		General	Refunds	
2004	\$ 2,313,851	\$ 97,489	\$ 240,121	\$ 2,651,461
2005	2,688,395	109,068	166,110	2,963,573
2006	2,844,258	105,030	267,959	3,217,247
2007	3,351,956	111,050	253,358	3,716,364
2008	3,431,959	111,993	218,281	3,762,233
2009	3,716,269	123,561	381,590	4,221,420