

**Police Retirement System of
Kansas City, Missouri**
A Component Unit of the City of Kansas City, Missouri
Auditors' Report and Financial Statements
April 30, 2009

**Police Retirement System of
Kansas City, Missouri**
A Component Unit of the City of Kansas City, Missouri
April 30, 2009

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Independent Auditors' Report on Financial Statements and Supplementary Information

Retirement Board
Police Retirement System of Kansas City, Missouri
Kansas City, Missouri

We have audited the accompanying basic financial statements of the Police Retirement System 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 Police Retirement System 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

Police Retirement System of Kansas City, Missouri
A Component Unit of the City of Kansas City, Missouri
Management's Discussion and Analysis
April 30, 2009

The Police Retirement System of Kansas City, Missouri is the defined benefit retirement plan for law enforcement members of the Kansas City, Missouri Police Department. The Police Retirement System was established by the Missouri General Assembly in 1946 and is administered by the Retirement System Board to provide retirement, disability and survivor benefits to its members.

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

Overview of 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 Police Retirement System's benefits are funded through member and employer contributions, and investment income. The net assets of the Police Retirement System decreased by \$200,065,730 or (27.24%) from \$734,379,847 as of April 30, 2008 to \$534,314,117 as of April 30, 2009. The decrease was due to significant investment losses and negative cash flow for the Plan.

Police Retirement System 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:

	<u>April 30, 2009</u>	<u>April 30, 2008</u>	<u>Amount Change</u>
Cash and cash equivalents	\$ 24,251	\$ 19,586	\$ 4,665
Receivables	1,716,213	2,620,117	(903,904)
Investments	534,662,291	732,609,621	(197,947,330)
Securities lending collateral	79,967,193	130,312,491	(50,345,298)
Office equipment	4,306	5,323	(1,017)
Total assets	<u>616,374,254</u>	<u>865,567,138</u>	<u>(249,192,884)</u>
Accounts and refunds payable	579,974	874,800	(294,826)
Securities lending collateral	81,480,163	130,312,491	(48,832,328)
Total liabilities	<u>82,060,137</u>	<u>131,187,291</u>	<u>(49,127,154)</u>
Net assets	<u>\$ 534,314,117</u>	<u>\$ 734,379,847</u>	<u>\$ (200,065,730)</u>

Changes in Plan Net Assets

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

	<u>April 30, 2009</u>	<u>April 30, 2008</u>	<u>Amount Change</u>
Member contributions	\$ 8,982,366	\$ 8,459,762	\$ 522,604
Employer contributions	16,700,688	15,747,111	953,577
Net investment loss	(180,354,444)	(911,856)	(179,442,588)
Total additions	<u>(154,671,390)</u>	<u>23,295,017</u>	<u>(177,966,407)</u>
Benefits paid to members	44,097,817	42,802,584	1,295,233
Refunds of contributions	746,454	621,174	125,280
Administrative expenses	550,069	598,548	(48,479)
Total deductions	<u>45,394,340</u>	<u>44,022,306</u>	<u>1,372,034</u>
Net Decrease	(200,065,730)	(20,727,289)	(179,338,441)
Net Assets, Beginning of Year	<u>734,379,847</u>	<u>755,107,136</u>	<u>(20,727,289)</u>
Net Assets, End of Year	<u>\$ 534,314,117</u>	<u>\$ 734,379,847</u>	<u>\$ (200,065,730)</u>

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Financial Highlights

Net assets held in trust by the Police Retirement System, as reported in the Statement of Plan Net Assets, totaled \$534,314,117 as of April 30, 2009. Net assets decreased by \$200,065,730 or (27.24%). Total assets decreased by \$249,192,884 or (28.79%) while total liabilities decreased by \$49,127,154 or (37.45%). The decrease in total assets included: 1) a \$197,947,330 decrease in investments due to investment performance; and 2) a \$50,345,298 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 (27.24%) compared to a loss of 2.74% at the end of fiscal year 2008. Total additions to the Plan decreased by \$177,966,407 or (764%) while total deductions from the Plan increased by \$1,372,034 or 3.12%.

The decrease in total additions included: (1) A \$179,442,588 decrease in net investment income which is the result of even greater investment losses than the prior year. For FY2009, net investment loss was \$180,354,444. The portfolio's investment rate of return was (24.34%) with investment losses totaling \$177,401,864 and investment expenses totaling \$2,952,580. (2) A \$522,604 increase in member contributions to the Plan and a \$953,577 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 \$1,295,233 for benefits paid to members, which is made up of \$1,127,893 for increased benefit payments through new retirements and a cost of living increase, and a \$167,340 increase in partial lump-sum option payments to members at the time of retirement. Refunds of contributions to members leaving the Police Department increased by \$125,280 while administrative expenses decreased by \$48,479 mainly due to legal expenses.

For the sixth 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 10.55% of compensation and employer contributions were 19.70%, which is 9.34% below the annual required contribution rate of 29.04%. For the year beginning May 1, 2009, employer contributions are budgeted to remain at 19.70% 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, Gresham was hired as a commodity manager. In September 2008, Northern Trust declared a collateral deficiency in the Securities Lending collateral account and issued a \$1.5 million long term liability. 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.

Police Retirement System of Kansas City, Missouri
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Operational Highlights

In August 2008, the provisions of Senate Bill 980 and House Bill 1710 became effective and deleted duplicate language related to the equalizing supplemental benefit and provided that members must be in active status to be eligible for either a duty or non-duty disability retirement benefit. In January 2009, House Bill 397 was introduced in the Missouri General Assembly to provide a \$600 minimum pension to certain widows and a member who retired on a non-duty disability. The bill was signed into law by the Governor and became law on July 9, 2009.

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 Police 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 Police Retirement System, citizens, investors and creditors of the City of Kansas City, Missouri with a general overview of the Police 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 Police Retirement System.

Police Retirement System of Kansas City, Missouri
A Component Unit of the City of Kansas City, Missouri
Statement of Plan Net Assets
April 30, 2009

Assets

Investments, At Fair Value

U.S. government securities	\$ 30,354,321
Corporate bonds and notes	100,275,262
Common and preferred stock	243,831,328
Government mortgage-backed securities	34,180,981
Partnerships	10,907,191
Real estate	19,104,233
Short-term investment funds	21,134,223
Emerging market equities	5,497,660
Commodities	10,805,735
Foreign equities	58,571,357

Total investments	534,662,291
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Securities Lending Collateral	79,967,193
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Receivables

Accrued interest and dividends	1,715,486
Other	727

Total receivables	1,716,213
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Office Equipment , net of accumulated depreciation of \$57,834	4,306
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Cash	24,251
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Total assets	616,374,254
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Liabilities

Accounts and refunds payable	579,974
Securities lending liability	1,512,970
Securities lending collateral	79,967,193

Total liabilities	82,060,137
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Net Assets Held in Trust for Pension Benefits	\$ 534,314,117
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See Schedule of Funding Progress on Page 18

Police Retirement System of Kansas City, Missouri
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Statement of Changes in Plan Net Assets
April 30, 2009

Additions

Investment Income (Loss)

Net depreciation in fair value of investments	\$ (197,510,339)
Interest and dividends	19,221,334
Investment expense	(2,952,580)
Net investment loss	<u>(181,241,585)</u>

Securities Lending Income

Securities lending gross income	<u>2,375,750</u>
Securities lending expenses	
Borrower rebates	(1,220,783)
Management fees	(267,826)
Total securities lending expenses	<u>(1,488,609)</u>
Net securities lending income	<u>887,141</u>
Total net investment loss	<u>(180,354,444)</u>

Contributions

City	16,700,688
Members	8,982,366
Total contributions	<u>25,683,054</u>
Total additions	<u>(154,671,390)</u>

Deductions

Benefits Paid

Retired members	31,911,809
Spouses	5,117,427
Children	116,403
Disabled	5,978,251
Partial lump sum option	957,927
Death benefits	16,000
Total benefits paid	<u>44,097,817</u>

Other Deductions

Refunds of contributions	746,454
Administrative expenses	550,069
Total other deductions	<u>1,296,523</u>
Total deductions	<u>45,394,340</u>

Net Decrease (200,065,730)

Net Assets Held in Trust for Pension Benefits, Beginning of Year 734,379,847

Net Assets Held in Trust for Pension Benefits, End of Year \$ 534,314,117

Police Retirement System 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 Police Retirement System 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 \$25,683,054 (\$16,700,688 employer and \$8,982,366 employees) 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.

Police Retirement System of Kansas City, Missouri
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As a condition of participation in the Plan, members are required to contribute a certain percentage of their compensation until they retire. For the year ended April 30, 2009, the member contribution rate was 10.55 % of compensation. The computed City contribution rate of 29.04% was the balance required to pay pensions and maintain the Plan on an actuarially sound basis and would 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 19.70% of members' salaries.

The actual contributions by the City have been less than the rates recommended by the actuary in six 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	\$742,060,223	\$ 850,763,745	\$ 108,703,522	87%	\$ 86,700,836	125%

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 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.

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Notes to Financial Statements
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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 \$23,328,765 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.

Note 2: Plan Description

The following description of the Police Retirement System of Kansas City, Missouri provides only general information. Participants should refer to the Plan Statutes (Sections 86.900 to 86.1280 RSMo) for a more complete description of the Plan's provisions.

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Notes to Financial Statements
April 30, 2009

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 Police Retirement System of Kansas City, Missouri.

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

Retirees and beneficiaries currently receiving benefits	1,186
Terminated plan members entitled to but not yet receiving benefits	11
Active employees	
Vested	463
Non-vested	<u>947</u>
Total	<u>2,607</u>

The Plan provides retirement benefits and disability benefits. Members become vested for retirement benefits after 15 years of service or the combination of 10 years of service and age 60. Members who retire with 25 or more years of creditable service or those who retire at age 60 with 10 or more years of service are entitled to an annual pension of 2.5% of final average compensation multiplied by the number of years of creditable service, subject to a maximum limit of 75% of final compensation as defined in the Plan. When an officer voluntarily resigns with 15 years of service or more, the member is entitled to an annual pension, beginning at age 55, of 2.5% of final average compensation multiplied by the number of years of creditable service. All benefits vest after 15 years of creditable service and members shall retire upon completion of 30 years of creditable service.

When members terminate employment prior to becoming vested in the Plan or when vested members elect to withdraw their accumulated contributions, they shall be paid their accumulated contributions in one lump sum.

The Plan provides for a disability pension based on the member's final average compensation for the remainder of his or her natural life or so long as the disability continues. The Plan also provides for death benefits when an accident or occupational disease, arising out of and in the course of regular duties, is the natural and proximate cause of the death of the member. This benefit amounts to \$50,000.

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

Current and future retired and disabled members and their surviving spouses were eligible to receive \$420 per month as a supplemental benefit for the year ended April 30, 2009.

The minimum monthly benefit for retired members and surviving spouses is \$600 in combined pension benefit amounts and cost of living adjustments. To be eligible for the \$600 monthly minimum, the officer must have had at least 25 years of creditable service or be retired or have died as a result of an accident or illness occurring in the line of duty or course of employment.

Surviving spouses are eligible to receive 80% of the pension amount being received by the retiree at the time of death.

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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; 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 require 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.

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Market value of securities loaned	\$ 78,175,996
Market value of cash collateral received from borrowers	\$ 79,967,193
Market value of non-cash collateral received from borrowers	-
Total market value of collateral	\$ 79,967,193

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 arrangements themselves. The Plan is not permitted to pledge or sell collateral received unless the borrower defaults.

At April 30, 2009, the Plan under its securities lending agreement with Northern Trust was responsible for a collateral deficiency of \$1,512,970, 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	\$ 20,309,017	\$ 1,022,891	\$ 8,252,930	\$ 6,995,071	\$ 4,038,125	\$ 20,309,017
U.S. agencies obligations	10,045,304	-	10,045,304	-	-	7,431,262
Corporate bonds	100,275,262	40,762,664	28,740,386	18,047,972	12,724,240	5,570,579
Government mortgage-backed securities	34,180,981	-	-	-	34,180,981	-
Money market mutual funds	21,134,223	21,134,223	-	-	-	-
		<u>\$62,919,778</u>	<u>\$47,038,620</u>	<u>\$25,043,043</u>	<u>\$50,943,346</u>	
Corporate stocks	243,831,328					44,865,138
Real estate	19,104,233					-
Partnerships	10,907,191					-
Emerging market equities	5,497,660					-
Commodities	10,805,735					-
Foreign equities	58,571,357					-
	<u>\$ 534,662,291</u>					<u>\$ 78,175,996</u>

Police Retirement System of Kansas City, Missouri

A Component Unit of the City of Kansas City, Missouri

Notes to Financial Statements

April 30, 2009

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, 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 and 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, \$78,175,996 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	\$ 19,221,334
Net decrease in fair value of investments	(197,510,339)
	<hr/>
	(178,289,005)
Less investment expense	2,952,580
	<hr/>
	\$ (181,241,585)
	<hr/>

Police Retirement System of Kansas City, Missouri
A Component Unit of the City of Kansas City, Missouri
Notes to Financial Statements
April 30, 2009

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 contributions, the funded status and funding progress are based.

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 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%	5.50%	9.50%
2	4.00%	4.50%	8.50%
3	4.00%	4.00%	8.00%
4	4.00%	4.00%	8.00%
5	4.00%	4.00%	8.00%
10	4.00%	3.50%	7.50%
15	4.00%	0.00%	4.00%
20	4.00%	0.00%	4.00%
25	4.00%	0.00%	4.00%

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Actuarial accrued liability as of April 30, 2008:

Active employees accruing benefits	
Present value of future benefits	\$ 563,061,143
Present value of future normal costs	<u>226,605,156</u>
Total active employees accruing benefits	<u>336,455,987</u>
Retired and inactive members	
Members with deferred benefits	2,736,001
Members receiving benefits	453,324,758
Retired and inactive members with supplemental benefits	<u>58,246,999</u>
Total retired and inactive members	<u>514,307,758</u>
Total actuarial accrued liability	850,763,745
Assets, at actuarial value	<u>742,060,223</u>
Unfunded actuarial accrued liability	<u><u>\$ 108,703,522</u></u>

Actuarial Value of Assets are 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.

Police Retirement System of Kansas City, Missouri
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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.

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.

Required Supplementary Information

Police Retirement System of Kansas City, Missouri

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Required Supplementary Information

Schedule of Funding Progress

April 30, 2009

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
4/30/2003	\$ 611,246,928	\$ 682,690,968	\$ 71,444,040	90%	\$ 62,425,468	114%
4/30/2004	603,418,620	712,273,616	108,854,996	85%	66,230,606	164%
4/30/2005	604,560,607	741,001,020	136,440,413	82%	67,575,902	202%
4/30/2006	635,621,582	775,271,985	139,650,403	82%	71,835,495	194%
4/30/2007	698,078,688	807,902,176	109,823,488	86%	80,111,515	137%
4/30/2008	742,060,223	850,763,745	108,703,522	87%	86,700,836	125%

Schedule of Employer Contributions

April 30, 2009

<u>Year Ended April 30</u>	<u>Annual Required Contributions</u>	<u>Percentage Contributed</u>
2004	\$ 15,095,290	85%
2005	15,774,578	84%
2006	18,992,671	72%
2007	21,444,703	68%
2008	22,749,385	69%
2009	24,311,281	69%

Supplementary Information

Police Retirement System of Kansas City, Missouri

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Supplementary Information

Schedule of Expenses

April 30, 2009

Investment Expenses

Bank custodial fees and expenses	\$ 127,528
Financial management expenses	2,761,156
Financial consultation	<u>63,896</u>
Total	<u><u>\$ 2,952,580</u></u>

Administrative Expenses

Salaries and payroll taxes	\$ 306,509
Legal	50,434
Audit	15,104
Medical fees	16,195
Actuarial fees	53,083
Fringe benefits	42,145
Printing and office expense	12,989
Postage	7,334
Board meetings	1,299
Travel and education expense	15,376
Insurance	2,893
Depreciation	2,423
Legislative consultation	20,684
Other	<u>3,601</u>
Total	<u><u>\$ 550,069</u></u>

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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	\$ 6,972,986	\$ 12,817,176	\$ 91,313,225	\$ 111,103,387
2005	7,212,990	13,297,605	45,338,145	65,848,740
2006	7,472,503	13,729,225	107,627,267	128,828,995
2007	7,814,142	14,526,734	83,730,123	106,070,999
2008	8,459,762	15,747,111	(911,856)	23,295,017
2009	8,982,366	16,700,688	(180,354,444)	(154,671,390)

Fiscal Year Ended	Expenses by Type			Total
	Benefits	Administrative Expenses		
		General	Refunds	
2004	\$ 36,061,330	\$ 478,498	\$ 442,327	\$ 36,982,155
2005	37,754,187	470,866	609,138	38,834,191
2006	39,443,788	495,613	457,355	40,396,756
2007	42,293,180	515,720	694,903	43,503,803
2008	42,802,584	598,548	621,174	44,022,306
2009	44,097,817	550,069	746,454	45,394,340