KPMG

CITY OF KANSAS CITY, MISSOURI
THE EMPLOYEES' RETIREMENT SYSTEM

Financial Statements and Schedules

April 30, 2008 and 2007

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 1000
1000 Walnut Street
Kansas City, MO 64106-2162

Independent Auditors' Report

The Board of Trustees
The Employees' Retirement System
Kansas City, Missouri:

We have audited the accompanying statements of plan net assets of the City of Kansas City, Missouri Employees' Retirement System (the Plan) as of April 30, 2008 and 2007, and the related statements of changes in plan net assets for the years then ended. 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in note 1 to the financial statements, the financial statements present only the City of Kansas City, Missouri Employees' Retirement System and are not intended to present fairly the financial position of the City of Kansas City, Missouri, and the changes in its financial position for the years then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Kansas City, Missouri Employees' Retirement System as of April 30, 2008 and 2007, and the changes in its financial position for the years then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis on pages 2 through 6 and the schedules of funding progress and employer contributions on pages 21 through 23 are not required parts of the basic financial statements, but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

Kansas City, Missouri
October 31, 2008

CITY OF KANSAS CITY, MISSOURI
THE EMPLOYEES' RETIREMENT SYSTEM

Management's Discussion and Analysis

April 30, 2008 and 2007

(Unaudited)

The City of Kansas City, Missouri Employees' Retirement System (ERS or the Plan) is a single-employer defined benefit plan covering general municipal employees and elected officials of the City of Kansas City, Missouri (the City). ERS was established by City ordinance in 1962 and is administered by a nine-person board of trustees (the Board) to provide retirement, death, and survivor benefits to members and beneficiaries. This discussion and analysis of the financial performance of ERS provides an overview of financial activities for the fiscal years ending April 30, 2008 and 2007 and should be read along with the financial statements and notes to the financial statements.

The basic financial statements presented by ERS consist of the: (1) statements of plan net assets where net assets equal assets less liabilities at fiscal year-end and (2) statements of changes in plan net assets in which the net change in net assets is equal to additions less deductions.

The notes to the financial statements are an integral part of the financial statements and include information not necessarily discernable in the statements themselves. Following the notes are required supplemental information and other schedules that may be helpful in evaluating the financial condition of the Plan.

2008 Compared to 2007

Summary comparative information of plan net assets:

	April 30		Percentage
	2008	**2007**	**change**
Cash and cash equivalents	$ 49,835,605	47,650,873	4.58%
Receivables	10,371,989	24,293,948	(57.31)
Investments at fair value	885,547,657	922,227,290	(3.98)
Total assets	945,755,251	994,172,111	(4.87)
Due to broker for purchases of investments	62,193,482	78,963,408	(21.24)
Administrative and investment expenses payable	461,536	748,502	(38.34)
Total liabilities	62,655,018	79,711,910	(21.40)
Plan net assets	$ 883,100,233	914,460,201	(3.43)

(Continued)

Summary comparative information of changes in plan net assets:

	Year ended April 30 2008	Year ended April 30 2007	Percentage change
Contributions	$ 26,539,621	24,577,114	7.99%
Investment income (loss), net	(15,594,149)	101,546,024	(115.36)
Total additions	10,945,472	126,123,138	(91.32)
Benefits paid to participants	39,980,654	38,349,323	4.25
Refunds	2,220,881	1,788,315	24.19
Administrative expenses	103,905	104,180	(0.26)
Total deductions	42,305,440	40,241,818	5.13
Net increase (decrease)	(31,359,968)	85,881,320	(136.52)
Plan net assets – beginning of year	914,460,201	828,578,881	10.36
Plan net assets – end of year	$ 883,100,233	914,460,201	(3.43)

2008 Financial Highlights

ERS plan net assets decreased by 3.43% in the period, as seen in the statement of plan net assets. The market environment began to deteriorate in the second half of calendar 2007, and got progressively worse through the balance of the fiscal year. Nearly all equity indices registered declines during the period, including both the Russell 3000 and MSCI Index, while bonds, as measured by the Lehman Aggregate Index, garnered modest positive returns. According to the Plan's investment consultant, the portfolio lost 2.7% net of all fees, compared to a 2.0% gain in the Policy Portfolio benchmark. Underperformance was widespread, with the fixed income and global tactical asset allocation components exhibiting particularly disappointing results. Additionally, only three of the Plan's eleven equity managers exceeded their respective performance targets.

Total additions, as shown on the statement of changes in plan net assets, were $10.9 million, a 91.32% decline from the prior year. Although contributions rose 7.99%, attributable to both salary adjustments and a slightly higher number of employees, net investment income dropped by $117.1 million. Benefits paid climbed by 4.25%, due to cost-of-living adjustments and a higher number of retirees, while refunds (related to employee turnover) increased 24.19%. Administrative expenses remained consistent year over year.

2008 Operational Highlights

Two investment manager additions were made in the fiscal year in efforts to improve diversification. The GMO Core Plus Bond product was funded in May, by reducing the Plan's position in the passive NTGI Aggregate Bond Fund. In September, a position in the non-U.S. equity BGI Alpha Advantage Fund was established by cutting exposure to the non-U.S. equity BGI Alpha Tilts Fund. A special actuarial study was conducted, which resulted in adoption of changes in asset smoothing methodology and corridor, unfunded actuarial liability amortization method and investment return assumption. Also, an asset allocation study was completed that will lead to a modestly higher real estate allocation, at the expense of global tactical asset allocation, and a greater commitment to global equity to be achieved by reducing U.S. equity.

2007 Compared to 2006

Summary comparative information of plan net assets:

	April 30		Percentage
	2007	**2006**	**change**
Cash and cash equivalents	$ 47,650,873	36,449,360	30.73%
Receivables	24,293,948	18,863,239	28.79
Investments at fair value	922,227,290	838,582,960	9.97
Total assets	994,172,111	893,895,559	11.22
Due to broker for purchases of investments	78,963,408	64,235,875	22.93
Administrative and investment expenses payable	748,502	1,080,803	(30.75)
Total liabilities	79,711,910	65,316,678	22.04
Plan net assets	$ 914,460,201	828,578,881	10.36

 (Continued)

Summary comparative information of changes in plan net assets:

	Year ended April 30		Percentage
	2007	**2006**	**change**
Contributions	$ 24,577,114	23,090,226	6.44%
Investment income, net	101,546,024	127,381,834	(20.28)
Total additions	126,123,138	150,472,060	(16.18)
Benefits paid to participants	38,349,323	37,367,994	2.63
Refunds	1,788,315	1,759,255	1.65
Administrative expenses	104,180	110,229	(5.49)
Total deductions	40,241,818	39,237,478	2.56
Net increase	85,881,320	111,234,582	(22.79)
Plan net assets – beginning of year	828,578,881	717,344,299	15.51
Plan net assets – end of year	$ 914,460,201	828,578,881	10.36

2007 Financial Highlights

Plan net assets of ERS, as reported in the statements of plan net assets, totaled $914,460,201 at April 30, 2007. This represents an increase of $85,881,320, or approximately 10.36%, from 2006 to 2007. Throughout the period, a favorable investment climate remained in place and all major asset classes registered price gains. Domestic stocks, measured by the Russell 300 Index, rose 14.5%, but non-U.S. stocks (MSCI EAFE Index) gained 19.8%. Fixed income returns were also solid, with the Lehman Aggregate Index rising 7.4%, and a 16.5% increase was realized in the real estate sector (NCRIEF Property Index). As calculated by the Plan's investment consultant, on a market value basis, the Plan's portfolio earned 12.4% net of fees. While this exceeded the 7.75% net investment return assumed for actuarial purposes, it was slightly below the 12.8% Policy Portfolio benchmark. This modest shortfall was primarily attributable to the relative results posted by the Plan's domestic equity managers.

The statement of changes in net plan assets reports $126.1 million of total additions during the year ended April 30, 2007. Of this amount, approximately $101.5 million was net investment income. Contributions, from both the City and members, climbed 6.44%, to $24.6 million. The increase in contributions was due to a combination of an increase in the number of active employees and salary increases for continuing actives. Benefit payments escalated by 2.63%, to $38.3 million, driven by ongoing retirements and cost-of-living adjustments. Administrative expenses declined by 5.49%.

2007 Operational Highlights

Only two investment structure changes occurred in the most recent period. Oberweis Asset Management was retained to replace Provident Investment Counsel (Provident) as a domestic small cap growth manager. This replacement was made because of organizational concerns surrounding Provident. The Plan also made an investment in the J. P. Morgan Income and Growth real estate fund to diversify its real estate exposure. The only other material operational change made was the selection of Cheiron to replace The Segal Company as the Plan actuary.

The only change to the investment structure of the Plan that occurred during the fiscal year ending April 30, 2007 was the funding of the LSV Emerging Markets Fund in order to achieve some investment style diversification within that volatile area. An Actuarial Experience Study was conducted by the Plan's actuary, which resulted in changes to salary increase, withdrawal rate, and mortality assumptions, all of which are reflected in the May 1, 2007 actuarial valuation.

CITY OF KANSAS CITY, MISSOURI
THE EMPLOYEES' RETIREMENT SYSTEM

Statements of Plan Net Assets

April 30, 2008 and 2007

		2008	2007
Assets:			
Cash and cash equivalents	$	49,835,605	47,650,873
Investments at fair value:			
Government securities		98,890,692	74,157,634
Warrants		12,928	13,332
Corporate bonds		47,356,370	58,276,433
Domestic preferred stocks		878,392	160,782
Domestic common stock		265,089,559	288,389,496
Partnerships		15,437,154	15,000,000
Futures contracts and options		(313,491)	418,581
Indexed notes and bonds		5,802,247	3,521,166
Collective trusts – equities		282,210,072	317,463,371
Collective trusts – fixed income		138,994,696	135,901,066
Collective trusts – real estate		31,189,038	28,925,429
Total investments at fair value		885,547,657	922,227,290
Receivables:			
Contributions		1,017,505	847,650
Investment income		1,297,288	1,153,704
Due from broker for sales of investments		8,057,196	22,292,594
Total receivables		10,371,989	24,293,948
Total assets		945,755,251	994,172,111
Liabilities:			
Due to broker for purchases of investments		62,193,482	78,963,408
Administrative and investment expenses payable		461,536	748,502
Total liabilities		62,655,018	79,711,910
Net assets held in trust for pension benefits (an unaudited schedule of funding progress is presented in schedule 1)	$	883,100,233	914,460,201

See accompanying notes to financial statements.

CITY OF KANSAS CITY, MISSOURI
THE EMPLOYEES' RETIREMENT SYSTEM

Statements of Changes in Plan Net Assets

Years ended April 30, 2008 and 2007

		2008	2007
Additions:			
Contributions:			
Contributions from the City of Kansas City, Missouri	$	20,011,617	18,496,476
Contributions from employees		6,528,004	6,080,638
Total contributions		26,539,621	24,577,114
Investment income (loss):			
Interest income		13,860,773	7,495,662
Dividend income		5,906,590	6,142,609
Net appreciation (depreciation) in fair value of investments		(30,865,468)	92,049,182
Less investment expense		(4,496,044)	(4,141,429)
Total investment income (loss), net		(15,594,149)	101,546,024
Total additions		10,945,472	126,123,138
Deductions:			
Benefits paid to participants		39,980,654	38,349,323
Refunds:			
Termination		1,115,342	890,471
Retirement		1,105,539	897,844
Administrative expenses		103,905	104,180
Total deductions		42,305,440	40,241,818
Net increase (decrease)		(31,359,968)	85,881,320
Net assets held in trust for pension benefits:			
Beginning of year		914,460,201	828,578,881
End of year	$	883,100,233	914,460,201

See accompanying notes to financial statements.

(1) Description of the Plan

(a) General

The City of Kansas City, Missouri Employees' Retirement System (the Plan) is a contributory, single-employer, defined benefit, public employee retirement system covering employees and elected officials of the City of Kansas City, Missouri (the City). Members of the Police and Fire Departments' pension systems are excluded. The Plan is considered part of the City's financial reporting entity and is included in the City's comprehensive annual financial report as a pension trust fund. Employees should refer to the plan agreement for more complete information.

At May 1, 2008 and 2007, the Plan's membership consists of the following:

	2008	**2007**
Nonactive members – terminated members, pensioners, and survivors entitled to benefits	2,013	1,992
Current employees:		
Vested	2,397	2,318
Nonvested	1,291	1,255
Inactive	137	126
Total	5,838	5,691

(b) Retirement Benefits

Employees with five or more years of service are entitled to retirement benefits based on final average compensation multiplied by years and months of creditable service. If married at the time of retirement, the percentages are 2.0% for general employees and 2.2% for elected officials, and if unmarried at the date of retirement, the percentage is 2.2% up to a maximum of 70% of final average compensation. If the employee has at least 10 years of creditable service, the minimum benefit is $400 per month. If members terminate prior to retirement and before rendering five years of service, they forfeit the right to receive the portion of their accumulated plan benefits attributable to City contributions and are refunded their member contributions with interest. Such refunds result in the forfeiture of all other benefits under the Plan. Members terminating prior to retirement with 5 or more years of service may elect to receive a refund of their member contributions with interest as a lump-sum distribution, or they may elect to receive a deferred pension. An annual cost-of-living adjustment of 3% is provided annually.

(c) Death Benefits

If a retired member dies, the following benefits shall be paid:

- To the member's spouse until death, a retirement benefit equal to one-half of the member's normal retirement benefit.
- To the member's designated beneficiary or estate, if there is no surviving spouse, any remaining member contributions and interest.

If an active member dies, the member contributions and interest are distributed to the surviving spouse or, if none, to the designated beneficiary. The surviving spouse, however, may elect to receive monthly benefit payments instead of the lump-sum distribution if the member had five or more years of creditable service.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The financial statements are prepared on 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. Benefits and refunds are recognized when paid in accordance with the terms of the Plan.

(b) Investments

Investments are valued at fair value as follows:

(1) Government securities and corporate bonds – prices quoted by a major dealer in such securities

(2) Common stock, preferred stock, foreign preferred stock, warrants, futures contracts and options, and indexed notes and bonds:

- Listed – closing prices as reported on the composite summary of national securities exchanges
- Over the counter – bid prices

(3) Collective trusts:

- Represent quoted redemption values determined principally based on quoted market prices of the underlying investments.
- Where investment securities are not listed on an exchange, quotations are estimated by management based on information obtained from brokerage firms or national pricing services. The estimated value of such investments is subject to uncertainty and, therefore, may differ from the value that would have been used had a market for such investments existed.

Investment transactions are accounted for on a trade-date basis (the date the order to buy or sell is executed), and dividend income is recognized on the ex-dividend date. Interest income is recognized on an accrual basis. Realized gains and losses from investments are determined on an average-cost basis.

(c) Administrative Expenses

Plan administrative salary, duplicating, telecommunications, and travel expenses are included in the Plan's administrative expenses when incurred. The City provides office space, administrative, and clerical services of the Human Resources Department and accounting services of the Finance Department without any direct charge to the Plan.

(d) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires the plan administrator to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

(3) Deposits and Investments

The City administrative code and ordinances passed by the City Council provide that Plan investments may include, but are not limited to, obligations of the U.S. government, state of Missouri, and municipal corporations, including school districts, corporate bonds, real estate mortgages, common and preferred stocks, partnerships, collective trusts, and derivatives. The Plan purchases investments from Securities and Exchange Commission registered securities broker-dealers and banks through its investment managers. Investments in U.S. Treasury obligations are held at the Federal Reserve Bank through the customer account of a financial institution.

(a) Custodial Credit Risk

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 investments or collateral securities that are in the possession of an outside party. The deposits are held in multiple financial institutions with a balance of up to $100,000 insured by the Federal Deposit Insurance Corporation (FDIC). The Plan has not established a policy with regard to custodial credit risk. At April 30, 2008, $1,142,892 of deposits were uncollateralized; at April 30, 2007, $441,533 of deposits were uncollateralized.

Cash balances represent both operating cash accounts held by the banks and investment cash on deposit with the investment custodian.

(b) Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the Plan. The Plan's policy is that fixed income securities must have a minimum investment quality of "B" at the time of purchase. The weighted average credit rating of the portfolio must have a minimum investment quality of "A." As of April 30, 2008 and 2007, the Plan's fixed income assets that are not government guaranteed represented 87.9% and 93.4%, respectively, of the fixed income portfolio. The following table summarizes the Plan's fixed income portfolio exposure levels and credit qualities at April 30, 2008:

Average Credit Quality and Exposure Levels of Nongovernmental Guaranteed Securities

Fixed income security type		Fair value April 30, 2008	Percentage of all fixed income assets	S&P weighted average credit quality	Ratings dispersion requiring further exposure
Corporate bonds	$	47,356,370	18.50%	A	See below
Government securities – nonguaranteed		63,850,305	24.94	AAA	None
Indexed notes and bonds		5,802,247	2.27	AAA	See below
Collective trusts		138,994,696	54.29	Not rated	None
Total investments	$	256,003,618	100.00%		

The following table summarizes ratings dispersion requiring further exposure at April 30, 2008:

Credit rating level		Corporate bonds	Indexed notes and bonds
AAA	$	235,021	5,802,247
AA		2,654,535	—
A		5,336,895	—
BBB		11,619,880	—
BB		5,670,317	—
B		6,747,420	—
CCC		1,149,703	—
Not rated		13,942,599	—
Total	$	47,356,370	5,802,247

(Continued)

The following table summarizes the Plan's fixed income portfolio exposure levels and credit qualities at April 30, 2007:

Average Credit Quality and Exposure Levels of Nongovernmental Guaranteed Securities

Fixed income security type	Fair value April 30, 2007	Percentage of all fixed income assets	S&P weighted average credit quality	Ratings dispersion requiring further exposure
Corporate bonds	$ 58,276,433	22.95%	A	See below
Government securities – nonguaranteed	56,240,940	22.15	AAA	None
Indexed notes and bonds	3,521,166	1.39	AAA	See below
Collective trusts	135,901,066	53.52	Not rated	None
Total investments	$ 253,939,605	100.00%		

The following table summarizes ratings dispersion requiring further exposure at April 30, 2007:

Credit rating level	Corporate bonds	Indexed notes and bonds
AAA	$ 28,161,765	3,521,166
AA	1,199,974	—
A	3,121,557	—
BBB	8,983,189	—
BB	6,193,570	—
B	5,225,226	—
CCC	648,063	—
Not rated	4,743,089	—
Total	$ 58,276,433	3,521,166

Each portfolio is managed in accordance with operational guidelines that are specific as to permissible credit quality ranges, exposure levels within individual quality tiers, and the average credit quality of the overall portfolios.

Credit risk for derivative instruments held by the Plan results from counterparty risk assumed by the Plan. This is essentially the risk that the borrower will be unable to meet its obligation. Information regarding the Plan's credit risk related to derivatives is found under the derivatives disclosures found in note 5.

(c) Concentration of Credit Risk

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of a government's investment in a single issue. The Plan's policy for each specific portfolio limits investments in any corporate entity to no more than 5% of the market value of the account for actively managed portfolios, excluding U.S. government and agency obligations. As of April 30, 2008 and 2007, there were no investments in any corporate entity greater than 5%. Approximately 5.5% of the Plan's investments are in Federal National Mortgage Association as of April 30, 2008.

(d) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. This risk is managed within the portfolio using the effective duration of option-adjusted methodology. The Plan's policy is to manage duration to a maximum 25% of underweighting/overweighting relative to the Lehman Aggregate Bond Index.

Effective Duration of Fixed Income Assets by Security Type at April 30, 2008

Fixed income security type	Fair value April 30, 2008	Percentage of all fixed income assets	Weighted average effective duration (yrs)
Government securities	$ 98,890,692	34.0%	18.2
Corporate bonds	47,356,370	16.3	12.8
Indexed notes and bonds	5,802,247	2.0	16.4
Collective trusts	138,994,696	47.8	4.7
Total investments	$ 291,044,005	100.0%	

Effective Duration of Fixed Income Assets by Security Type at April 30, 2007

Fixed income security type	Fair value April 30, 2007	Percentage of all fixed income assets	Weighted average effective duration (yrs)
Government securities	$ 74,157,634	27.3%	4.7
Corporate bonds	58,276,433	21.4	23.0
Indexed notes and bonds	3,521,166	1.3	15.1
Collective trusts	135,901,066	50.0	4.4
Total investments	$ 271,856,299	100.0%	

(e) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The Plan's currency risk exposures, or exchange rate risk, primarily reside within the Plan's cash and cash equivalent holdings through the Plan's various asset managers. The Plan's policy for each specific portfolio does not place limits on the amount of foreign exposure that can be held by the individual asset managers. As noted in note 5, the Plan invested in foreign derivative financial instruments of $(104,538) and $397,333 at April 30, 2008 and 2007, respectively.

(4) Funding Policy

Funding is provided by contributions from Plan members, the City, and earnings on investments. Members contribute 4% of their base salary. The City's contribution is set by the City Council in conjunction with its approval of the annual budget, based on information provided by the Plan's consulting actuary and board of trustees (the Board).

The recommended contribution rate is determined by the Plan's consulting actuary using the entry age normal actuarial cost funding method. Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the actuarial accrued liability.

Based upon the May 1, 2006 actuarial valuation, which was the most recent actuarial data available when the budget was developed for the year ended April 30, 2008, the actuary recommended a City contribution rate of 12.06%. Beginning in May 2003, the City increased its contribution rate to 12.03% for general employees. The City's contribution rate was 19.5% for elected officials for 2008 and 2007.

(5) Derivative Financial Instruments

Some of the Plan's managers invest in derivative securities. A derivative security is an investment whose payoff depends upon the value of other assets, such as bond and stock prices, a market index, or commodity prices. During the year, derivative investments included futures and options. These derivatives are used to add incremental value at the margin and to hedge or reduce risk. They were used mainly to adjust yield curve exposure, add yield, and adjust the duration of the portfolio. Derivative transactions involve, to varying degrees, credit risk and market risk. Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to terms. This risk is minimized by using exchange-traded futures and options. Market risk is the possibility that a change in interest or currency rates will cause the value of a financial instrument to decrease or become more costly to settle. The market risk associated with derivatives, the prices of which are constantly fluctuating, is regulated by imposing strict limits as to the types, amounts, and degree of risk that investment managers may undertake. The Board and senior management approve these limits. The Plan's investment consultant reviews the risk positions of the investment managers on a regular basis to monitor compliance with the limits.

The Plan's investment managers utilize financial futures to replicate an underlying security they desire to hold (sell) in the portfolio. In certain instances, it may be beneficial to own a futures contract rather than the underlying security (arbitrage). Financial future contracts are also used to improve the yield or adjust the duration of the portfolio. Financial futures contracts are agreements to buy or sell a specified amount at a specified delivery or maturity date for an agreed-upon price. The market values of the futures contracts vary from the original contract price; a gain or loss is recognized and paid to or received from the clearinghouse. Financial futures represent an off-balance-sheet obligation, as there are no balance sheet assets or liabilities associated with those contracts. The cash or securities to meet these obligations are held in the investment portfolio.

The Board's investment managers utilize options in an effort to add value to the portfolio (collect premiums) or protect (hedge) a position in the portfolio. Options are agreements that give one party the right, but not the obligation, to buy or sell a specific amount of an asset for a specific price (called the strike price) on or before a specified expiration date. As the writer of financial options, the Plan receives a premium at the outset of the agreement and bears the risk of an unfavorable change in the price of the instrument underlying the option. As the purchaser, the Plan pays 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.

The Plan's collective trusts also invest in various derivatives; however, these holdings are not reflected in the following table. As of April 30, 2008, the Plan held 1,158,000 par of a Fannie Mae discount note as collateral for futures. The following table presents the futures and options positions held by the Plan as of April 30, 2008 and 2007:

	April 30, 2008		
	Number of contracts	**Contract principal***	**Fair value of futures/ options**
Domestic:			
Fixed income futures purchased:			
5-year note due June 2008	133	$ 14,893,922	$ —
U.S. long bond due June 2008	61	7,130,328	—
Fixed income futures sold:			
10-year note due June 2008	162	18,761,625	—
Fixed income purchased call options:			
U.S. bond future option due June 2008	10	1,158,125	156
U.S. bond future option due June 2008	2	233,781	594
Fixed income written call options:			
U.S. 10-year future option due June 2008	10	1,158,125	(3,906)
U.S. 10-year future option due June 2008	78	9,033,375	(14,625)
U.S. 10-year future option due June 2008	6	694,875	(563)
U.S. 10-year future option due June 2008	4	463,250	(63)
U.S. 10-year future option due June 2008	39	4,461,844	(26,813)
U.S. 10-year future option due June 2008	10	1,144,063	(10,938)
U.S. bond future option due June 2008	12	1,402,688	(9,563)
Fixed income written put options:			
U.S. 10-year future option due June 2008	8	895,875	(5,000)
U.S. 10-year future option due June 2008	18	2,015,719	(22,641)
U.S. 10-year future option due June 2008	41	4,748,313	(5,125)
U.S. 10-year future option due June 2008	26	3,011,125	(13,406)
U.S. 10-year future option due June 2008	10	1,158,125	(9,531)
U.S. 10-year future option due June 2008	36	4,169,250	(56,813)
U.S. 10-year future option due June 2008	6	694,875	(563)
U.S. bond future option due June 2008	4	467,563	(188)
U.S. bond future option due June 2008	26	3,039,156	(14,219)
U.S. bond future option due June 2008	12	1,402,688	(15,750)
			$ (208,957)

* Contract principal amounts shown represent the fair value of the underlying assets the contracts control. These are shown to present the volumes of the transactions, but do not reflect the extent to which positions may offset one another. These amounts do not represent the much smaller amounts potentially subject to risk. Contract principal values also do not represent actual statement of plan net asset values.

	April 30, 2008		
	Number of contracts	**Contract principal***	**Fair value of futures/ options**
Foreign:			
Fixed income futures purchased:			
90-day Euro future due September 2008	51	$ 51,000,000	$ —
90-day Euro future due June 2008	131	131,000,000	—
90-day Euro future due June 2008	30	30,000,000	—
90-day Euro future due June 2008	37	37,000,000	—
Fixed income futures sold:			
90-day Euro future due December 2008	1	1,000,000	—
90-day Euro future due September 2008	2	2,000,000	—
Fixed income written call options:			
Euro future option due June 2008	4	4,000,000	(25)
Euro future option due June 2008	20	20,000,000	(125)
Euro future option due June 2008	11	11,000,000	(69)
Euro future option due June 2008	8	8,000,000	(150)
Euro future option due June 2008	28	28,000,000	(5,425)
Euro future option due June 2008	32	32,000,000	(35,000)
Euro future option due September 2008	6	6,000,000	(1,575)
Euro future option due September 2008	49	49,000,000	(62,169)
			$ (104,538)

* Contract principal amounts shown represent the fair value of the underlying assets the contracts control. These are shown to present the volumes of the transactions, but do not reflect the extent to which positions may offset one another. These amounts do not represent the much smaller amounts potentially subject to risk. Contract principal values also do not represent actual statement of plan net asset values.

	April 30, 2007		
	Number of contracts	**Contract principal***	**Fair value of futures/ options**
Domestic:			
Fixed income futures purchased:			
5-year note due June 2007	197	$ 20,848,141	$ —
Fixed income futures sold:			
5-year note due Sept 2007	6	635,906	—
10-year note due June 2007	66	7,149,656	—
U.S. long bond due June 2007	4	447,000	—
U.S. long bond due Sept 2007	2	223,563	—
Fixed income purchased call options:			
U.S. 5-year future option due August 2007	39	4,133,391	116,390
U.S. 10-year future option due June 2007	3	32,984	891
U.S. bond future option due June 2007	9	1,005,750	5,063
Fixed income written call options:			
U.S. 5-year future option due June 2007	12	1,269,938	(2,813)
U.S. 10-year future option due June 2007	33	3,574,828	(21,625)
U.S. 10-year future option due June 2007	47	5,091,421	(9,812)
U.S. 10-year future option due June 2007	102	11,049,469	(3,188)
U.S. 10-year future option due June 2007	8	866,625	(125)
U.S. 10-year future option due September 2007	37	4,011,031	(25,438)
U.S. 10-year future option due September 2007	30	3,252,188	(17,969)
U.S. bond future option due June 2007	13	1,452,750	(3,047)
U.S. bond future option due June 2007	35	3,911,250	(3,281)
U.S. bond future option due June 2007	42	4,693,500	(656)
U.S. bond future option due June 2007	19	2,123,250	(297)
U.S. bond future option due September 2007	10	1,117,813	(9,219)
U.S. bond future option due September 2007	4	447,125	(1,625)
Fixed income written put options:			
U.S. 10-year future option due June 2007	11	1,191,609	(172)
U.S. 10-year future option due June 2007	4	433,313	(63)
U.S. 10-year future option due June 2007	13	1,408,266	(1,016)
U.S. bond future option due June 2007	16	1,788,000	(750)
			$ 21,248

* Contract principal amounts shown represent the fair value of the underlying assets the contracts control. These are shown to present the volumes of the transactions, but do not reflect the extent to which positions may offset one another. These amounts do not represent the much smaller amounts potentially subject to risk. Contract principal values also do not represent actual statement of plan net asset values.

	April 30, 2007		
	Number of contracts	**Contract principal***	**Fair value of futures/ options**
Foreign:			
Fixed income futures purchased:			
90-day Euro future due March 2008	42	$ 42,000,000	$ —
90-day Euro future due September 2007	31	31,000,000	—
90-day Euro future due December 2007	17	17,000,000	—
Fixed income futures sold:			
90-day Euro future due June 2007	8	8,000,000	—
Fixed income purchased call options:			
Euro future option due June 2007	105	105,000,000	177,188
Euro future option due June 2007	18	18,000,000	675
Euro future option due June 2007	8	8,000,000	(1,800)
Euro future option due September 2007	102	102,000,000	204,000
Euro future option due September 2007	22	22,000,000	16,638
Euro future option due September 2007	40	40,000,000	12,500
Euro future option due September 2007	29	29,000,000	(5,438)
Fixed income written call options:			
Euro future option due June 2007	8	8,000,000	(150)
Euro future option due June 2007	20	20,000,000	(125)
Euro future option due September 2007	6	6,000,000	(825)
Euro future option due September 2007	39	39,000,000	(2,438)
Euro future option due September 2007	3	3,000,000	19
Euro future option due December 2007	12	12,000,000	(2,911)
			$ 397,333

* Contract principal amounts shown represent the fair value of the underlying assets the contracts control. These are shown to present the volumes of the transactions, but do not reflect the extent to which positions may offset one another. These amounts do not represent the much smaller amounts potentially subject to risk. Contract principal values also do not represent actual statement of plan net asset values.

(6) 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 that such changes could materially affect the amounts reported in the statements of Plan net assets.

(7) Subsequent Event

Recent market conditions have resulted in an unusually high degree of volatility and increased the risks and short-term liquidity associated with certain investments held by the Plan, which could impact the value of investments after the date of these financial statements. The market value of the Plan assets declined by approximately $174 million through September 30, 2008, which could ultimately effect the funded status of the Plan. The ultimate impact on the funded status will be determined based upon market conditions in effect when the annual valuation is performed. However, it should be noted that the Plan's current actuarial valuation policies require the immediate recognition of losses when the fair value of the Plan's assets fall below 85% of the actuarial value of Plan assets.

Schedule 1

CITY OF KANSAS CITY, MISSOURI
THE EMPLOYEES' RETIREMENT SYSTEM

Required Supplementary Information (Unaudited)

Schedule of Funding Progress

Last Six Fiscal Years

Actuarial valuation date	(a) Actuarial value of assets	(b) Actuarial accrued liability (AAL) entry age	(b)-(a) Unfunded (overfunded) AAL	(a)/(b) Funded ratio	(c) Covered payroll	[(b)-(a)]/(c) Unfunded (overfunded) AAL as a percentage of covered payroll
05/1/03	$ 624,897,653	707,513,176	82,615,523	88.32%	$ 130,028,040	63.54%
05/1/04	627,078,139	740,186,346	113,108,207	84.72	137,207,640	82.44
05/1/05	645,609,869	781,899,987	136,290,118	82.57	141,605,640	96.25
05/1/06	745,720,993	800,839,808	55,118,815	93.12	146,365,332	37.66
05/1/07	823,014,181	847,393,167	24,378,986	97.12	158,779,836	15.35
05/1/08	873,680,276	934,333,865	60,653,589	93.51	169,867,066	35.71

See accompanying independent auditors' report and notes to required supplementary information.

Schedule 2

CITY OF KANSAS CITY, MISSOURI
THE EMPLOYEES' RETIREMENT SYSTEM

Required Supplementary Information (Unaudited)

Schedule of Employer Contributions

Last Six Fiscal Years

Year ended April 30	Annual required contributions	Percentage contributed
2003	$ 13,996,455	66.34%
2004	20,018,740	60.44
2005	23,406,798	63.34
2006	25,770,978	68.10
2007	17,652,900	104.80
2008	15,623,936	128.10

See accompanying independent auditors' report and notes to required supplementary information.

The information presented in the required supplementary schedules 1 and 2 was determined as part of the actuarial valuations as of the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	May 1, 2008
Actuarial cost method	Entry age normal cost
Amortization method	20-year layered amortization, level percent of pay
Remaining amortization period	20 years
Actuarial assumptions:	
Investment rate of return	7.50% per annum
Projected salary increases *	4.0% to 6.0% per annum, depending on age
Cost-of-living adjustments *	3.0% per annum

* Includes inflation rate of 3%.

Actuarial Value of Assets

The Plan has adopted a smoothed market method of valuing assets called the "Expected Asset Method," which recognizes the fair market value of assets. The following represents the components of the asset valuation:

(a) The actuarial value of the beginning of the year; plus

(b) The contributions less benefits paid during the year; plus

(c) Interest at the assumed net rate of investment return on an actuarial basis; plus

(d) 25% of the difference between market value and the sum of (a), (b), and (c).

(e) If the actuarial value of assets is less than 85% or more than 110% of the market value, an adjustment is made to the actuarial value to bring the value within the corridor.