

City of Kansas City, Missouri
The Employees' Retirement System
A Component Unit of the City of Kansas City, Missouri
Independent Accountants' Report and Financial Statements
April 30, 2011 and 2010



City of Kansas City, Missouri
The Employees' Retirement System
A Component Unit of the City of Kansas City, Missouri
April 30, 2011 and 2010

Independent Accountants' Report on Financial Statements and Supplementary Information	1
Required Supplementary Information	
Management's Discussion and Analysis	2
Financial Statements	
Statements of Plan Net Assets	7
Statements of Changes in Plan Net Assets	8
Notes to Financial Statements	9
Required Supplementary Information	
Schedule of Funding Progress	24
Schedule of Employer Contributions	25

Independent Accountants' Report on Financial Statements and Supplementary Information

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

We have audited the accompanying basic financial statements of the City of Kansas City, Missouri The Employees' Retirement System (the Plan), a component unit of the City of Kansas City, Missouri, as of and for the years ended April 30, 2011 and 2010, 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 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 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 audits provide 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 City of Kansas City, Missouri The Employees' Retirement System as of April 30, 2011 and 2010, and changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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.

BKD, LLP

Kansas City, Missouri
October 26, 2011

City of Kansas City, Missouri
The Employees' Retirement System
A Component Unit of the City of Kansas City, Missouri
Management's Discussion and Analysis
April 30, 2011 and 2010

The City of Kansas City, Missouri The 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 ended April 30, 2011 and 2010, 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.

2011 and 2010 Summary Comparative Information of Plan Net Assets

	<u>April 30, 2011</u>	<u>April 30, 2010</u>	<u>Amount Change</u>	<u>Percentage Change</u>
Receivables	\$ 17,065,421	\$ 36,726,606	\$ (19,661,185)	-53.53%
Investments at fair value	915,790,424	804,428,898	111,361,526	13.84%
Securities lending collateral	79,536,046	71,214,321	8,321,725	11.69%
Total assets	<u>1,012,391,891</u>	<u>912,369,825</u>	<u>100,022,066</u>	10.96%
Due to broker for purchases of investments	45,186,833	44,972,643	214,190	0.48%
Administrative and investment expenses payable	1,340,876	854,327	486,549	56.95%
Securities lending collateral	79,536,046	71,214,321	8,321,725	11.69%
Total liabilities	<u>126,063,755</u>	<u>117,041,291</u>	<u>9,022,464</u>	7.71%
Net assets	<u>\$ 886,328,136</u>	<u>\$ 795,328,534</u>	<u>\$ 90,999,602</u>	11.44%

City of Kansas City, Missouri
The Employees' Retirement System
A Component Unit of the City of Kansas City, Missouri
Management's Discussion and Analysis
April 30, 2011 and 2010

2011 and 2010 Summary Comparative Information of Changes in Plan Net Assets

	April 30, 2011	April 30, 2010	Amount Change	Percentage Change
Member contributions	\$ 6,430,830	\$ 6,331,891	\$ 98,939	1.56%
Employer contributions	18,588,723	19,186,317	(597,594)	-3.11%
Net investment income	115,721,780	177,195,888	(61,474,108)	-34.69%
Total additions	<u>140,741,333</u>	<u>202,714,096</u>	<u>(61,972,763)</u>	-30.57%
Benefits paid to members	46,983,788	44,532,106	2,451,682	5.51%
Refunds of contributions	2,617,875	2,766,068	(148,193)	-5.36%
Administrative expenses	140,068	150,505	(10,437)	-6.93%
Total deductions	<u>49,741,731</u>	<u>47,448,679</u>	<u>2,293,052</u>	4.83%
Net Increase	90,999,602	155,265,417	(64,265,815)	-41.39%
Net Assets, Beginning of Year	<u>795,328,534</u>	<u>640,063,117</u>	<u>155,265,417</u>	24.26%
Net Assets, End of Year	<u>\$ 886,328,136</u>	<u>\$ 795,328,534</u>	<u>\$ 90,999,602</u>	11.44%

2011 Financial Highlights

Asset prices continued to rise during the fiscal year, paving the way to an 11.4% increase in net plan assets. As calculated by the Plan's investment consultant, the investment portfolio generated a return of 14.7% net of all fees. This exceeded the Policy Portfolio benchmark gain of 14.0% by a comfortable margin. Major contributors to this favorable variance were the active fixed income and opportunistic (global tactical asset allocation) segments of the portfolio, while the domestic equity component slightly underperformed. The real estate asset class rebounded strongly, and the Plan's two investments in that area fully participated in that rally.

Net assets grew by \$91.0 million, fueled by \$116 million of investment income. Despite constant contribution rates, net contributions decreased modestly due to retirements of generally higher paid employees coupled with a lack of salary increases. Member contributions increased while employer contributions declined. Included in member contributions were contributions from former employees of the Metropolitan Ambulance Services Trust (MAST) through the end of calendar year 2010 which were not accompanied by the related sponsor contribution. Benefit payments climbed at a fairly typical rate, with the annual cost-of-living adjustment responsible for much of that increase. Contribution refunds were down slightly, as were administrative expenses.

City of Kansas City, Missouri
The Employees' Retirement System
A Component Unit of the City of Kansas City, Missouri
Management's Discussion and Analysis
April 30, 2011 and 2010

2011 Operational Highlights

No service provider changes occurred throughout the year, although the Board did authorize an additional investment in a real estate fund. Cash needed to make benefit payments was withdrawn largely from bond investments, with the remainder coming from the opportunistic allocation. An Actuarial Experience Study was conducted, resulting in the modification of certain demographic assumptions that, in aggregate, will reduce reported Plan liabilities prospectively. The pension benefits to be offered by the City to former employees of the MAST, which might result in at least some of those employees becoming members of the Plan, had not been determined by the City at the end of the fiscal year.

2010 and 2009 Summary Comparative Information of Plan Net Assets

	April 30, 2010	April 30, 2009	Amount Change	Percentage Change
Receivables	\$ 36,726,606	\$ 11,064,539	\$ 25,662,067	231.93%
Investments at fair value	804,428,898	655,462,007	148,966,891	22.73%
Securities lending collateral	71,214,321	35,078,779	36,135,542	103.01%
Total assets	<u>912,369,825</u>	<u>701,605,325</u>	<u>210,764,500</u>	30.04%
Due to broker for purchases of investments	44,972,643	24,921,381	20,051,262	80.46%
Administrative and investment expenses payable	854,327	1,542,048	(687,721)	-44.60%
Securities lending collateral	71,214,321	35,078,779	36,135,542	103.01%
Total liabilities	<u>117,041,291</u>	<u>61,542,208</u>	<u>55,499,083</u>	90.18%
Net assets	<u><u>\$ 795,328,534</u></u>	<u><u>\$ 640,063,117</u></u>	<u><u>\$ 155,265,417</u></u>	24.26%

City of Kansas City, Missouri
The Employees' Retirement System
A Component Unit of the City of Kansas City, Missouri
Management's Discussion and Analysis
April 30, 2011 and 2010

2010 and 2009 Summary Comparative Information of Changes in Plan Net Assets

	<u>April 30, 2010</u>	<u>April 30, 2009</u>	<u>Amount Change</u>	<u>Percentage Change</u>
Member contributions	\$ 6,331,891	\$ 6,994,133	\$ (662,242)	-9.47%
Employer contributions	19,186,317	20,330,486	(1,144,169)	-5.63%
Net investment income (loss)	177,195,888	(225,310,754)	402,506,642	-178.65%
Total additions	<u>202,714,096</u>	<u>(197,986,135)</u>	<u>400,700,231</u>	-202.39%
Benefits paid to members	44,532,106	41,673,938	2,858,168	6.86%
Refunds of contributions	2,766,068	3,263,505	(497,437)	-15.24%
Administrative expenses	150,505	113,538	36,967	32.56%
Total deductions	<u>47,448,679</u>	<u>45,050,981</u>	<u>2,397,698</u>	5.32%
Net Increase (Decrease)	155,265,417	(243,037,116)	398,302,533	-163.89%
Net Assets, Beginning of Year	<u>640,063,117</u>	<u>883,100,233</u>	<u>(243,037,116)</u>	-27.52%
Net Assets, End of Year	<u>\$ 795,328,534</u>	<u>\$ 640,063,117</u>	<u>\$ 155,265,417</u>	24.26%

2010 Financial Highlights

Stock and bond prices rebounded steadily throughout the period as global economic conditions began to show signs of improvement. This was largely responsible for the 24.3% increase in net assets. The investment portfolio returned 27.8% (net of all related fees), according to the Plan's investment consultant, which compared quite favorably to the 25.5% return for the Policy Portfolio benchmark. The primary drivers of the excess return were the active fixed income segment and the global tactical asset allocation program, areas that had detracted from the prior year's results. The non-U.S. equity and emerging markets equity components also outperformed, to a lesser degree, but the U.S. equity and global equity portions underperformed. Real estate performance remained weak on an absolute basis over much of the year, although prices appeared to be in the process of stabilizing at the end of the period.

The \$177.2 million investment gain drove the gain in net assets. Contributions actually declined, even though contribution rates were unchanged, because membership declined further and salaries were generally frozen. Benefits rose by 6.9%, with rising numbers of retirees/beneficiaries and cost-of-living adjustments responsible for the increase. Contribution refunds decreased 15.2% from the somewhat elevated level experienced in the previous year, while administrative expenses climbed a further \$37,000.

City of Kansas City, Missouri
The Employees' Retirement System
A Component Unit of the City of Kansas City, Missouri
Management's Discussion and Analysis
April 30, 2011 and 2010

2010 Operational Highlights

There were no service provider changes during the year. Cash needs, in excess of contribution inflows, were generally fulfilled through withdrawals from fixed income accounts as the weighting of that asset class remained above its strategic target. A study of the fixed income component of the portfolio resulted in a decision by the Board to reallocate \$30 million into passive management in an effort to reduce risk; however, this action was not implemented until after the end of the fiscal year. The \$1.0 million securities lending liability reported on the April 30, 2009 financial statements was fully recovered. On April 26, 2010, more than 300 individuals previously employed by MAST became employees of the City. The precise pension benefits to be provided to the former MAST employees were yet to be finalized as of April 30, 2010.

Requests for Information

This financial report is designed to provide members of the City of Kansas City, Missouri Employees' Retirement System, citizens, investors and creditors of the City of Kansas City, Missouri with a general overview of the 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 City of Kansas City, Missouri Employees' Retirement System, City Hall, 414 East 12th Street, 10th Floor, Kansas City, Missouri 64106-2705.

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 Plan.

City of Kansas City, Missouri
The Employees' Retirement System
A Component Unit of the City of Kansas City, Missouri
Statements of Plan Net Assets
April 30, 2011 and 2010

Assets

	<u>2011</u>	<u>2010</u>
Investments, At Fair Value		
Short-term investment funds	\$ 41,697,810	\$ 19,526,496
U.S. Treasuries	4,523,868	3,710,643
U.S. Federal agencies	10,176,911	14,612,418
U.S. government index linked bonds	1,971,201	4,066,447
U.S. government backed mortgages	36,441,821	34,382,437
Municipal bonds	2,293,426	287,037
Asset backed securities	2,894,069	5,192,486
Commercial mortgage backed securities	3,357,018	3,157,201
Collateralized mortgage obligations	7,257,366	11,641,131
Foreign debt obligations	5,034,965	6,348,806
Warrants	23,408	13,244
Corporate bonds - domestic	21,772,405	36,301,538
Corporate bonds - foreign	8,558,728	8,960,965
Domestic preferred equities	253,140	334,557
Domestic common equities	283,758,818	242,503,651
Foreign equities	6,417,263	4,298,762
Partnerships	6,631,510	5,853,701
Private investment funds	8,119,731	7,765,920
Futures contracts and options	(251,102)	(25,687)
Collective trusts - equities	286,458,640	247,858,504
Collective trusts - fixed income	156,461,688	128,170,996
Collective trusts - real estate	21,937,740	19,467,645
	<u>915,790,424</u>	<u>804,428,898</u>
Securities Lending Collateral	<u>79,536,046</u>	<u>71,214,321</u>
Receivables		
Contributions	1,399,967	1,439,191
Investment income	774,598	1,225,040
Due from broker for sales of investments	14,890,856	34,062,375
	<u>17,065,421</u>	<u>36,726,606</u>
Total assets	<u>1,012,391,891</u>	<u>912,369,825</u>
Liabilities		
Due to broker for purchases of investments	45,186,833	44,972,643
Administrative and investment expenses payable	1,340,876	854,327
Securities lending collateral	79,536,046	71,214,321
	<u>126,063,755</u>	<u>117,041,291</u>
Net Assets Held in Trust for Pension Benefits	<u>\$ 886,328,136</u>	<u>\$ 795,328,534</u>

City of Kansas City, Missouri
The Employees' Retirement System
A Component Unit of the City of Kansas City, Missouri
Statements of Changes in Plan Net Assets
Years Ended April 30, 2011 and 2010

Additions	2011	2010
Investment Income		
Interest income	\$ 8,832,075	\$ 11,568,022
Dividend income	5,061,214	4,775,445
Net appreciation in fair value of investments	104,859,474	163,588,225
Less investment expense	<u>(3,235,946)</u>	<u>(2,936,883)</u>
Net investment income	<u>115,516,817</u>	<u>176,994,809</u>
Securities Lending Income		
Securities lending gross income	225,136	193,213
Securities lending expenses		
Borrower rebates	67,580	81,182
Management fees	<u>(87,753)</u>	<u>(73,316)</u>
Total securities lending expenses	<u>(20,173)</u>	<u>7,866</u>
Net securities lending income	<u>204,963</u>	<u>201,079</u>
Total net investment income	<u>115,721,780</u>	<u>177,195,888</u>
Contributions		
Contributions from the City of Kansas City, Missouri	18,588,723	19,186,317
Contributions from members	<u>6,430,830</u>	<u>6,331,891</u>
Total contributions	<u>25,019,553</u>	<u>25,518,208</u>
Total additions	<u>140,741,333</u>	<u>202,714,096</u>
Deductions		
Benefits Paid to Members	46,983,788	44,532,106
Refunds		
Termination	1,287,002	1,332,574
Retirement	1,330,873	1,433,494
Administrative Expenses	<u>140,068</u>	<u>150,505</u>
Total deductions	<u>49,741,731</u>	<u>47,448,679</u>
Net Increase	90,999,602	155,265,417
Net Assets Held in Trust for Pension Benefits, Beginning of Year	<u>795,328,534</u>	<u>640,063,117</u>
Net Assets Held in Trust for Pension Benefits, End of Year	<u>\$ 886,328,136</u>	<u>\$ 795,328,534</u>

City of Kansas City, Missouri
The Employees' Retirement System
A Component Unit of the City of Kansas City, Missouri
Notes to Financial Statements
April 30, 2011 and 2010

Note 1: Summary of Significant Accounting Policies

Reporting Entity

The City of Kansas City, Missouri The 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 April 30, 2011 and 2010, the Plan's membership consists of the following:

	2011	2010
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	2,141	2,102
Current employees:		
Vested	2,354	2,311
Nonvested	830	980
Inactive	147	99
Total	5,472	5,492

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.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

City of Kansas City, Missouri
The Employees' Retirement System
A Component Unit of the City of Kansas City, Missouri
Notes to Financial Statements
April 30, 2011 and 2010

Investments

Investments are valued at fair value as follows:

Government securities and corporate bonds – Prices quoted by a major dealer in such securities.

Common stock, preferred stock, foreign preferred stock, warrants, futures contracts and options, and indexed notes and bonds: (A) Listed – closing prices as reported on the composite summary of national securities exchanges (B) Over-the-counter – bid prices

Partnerships – The partnerships consist primarily of non-marketable investments in the real estate markets. The Plan is obligated to pay certain capital commitments to the partnerships. These outstanding commitments totaled \$12,000,000 at April 30, 2011. All commitments were fulfilled as of April 30, 2010. The fair value of these investments is estimated based on the estimated fair values of the underlying securities.

Collective trusts and private investment funds – 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 the 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.

Contributions

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 assumptions used to compute contribution requirements are the same as those used to compute the actuarial accrued liability.

Based upon the April 30, 2010 actuarial valuation, which was the most recent actuarial data available, the actuary recommended a City contribution rate of 18.04%. The City contributed at a rate of 12.11% in 2011 and 2010 for general employees. The City's contribution rate was 19.5% for judges and elected officials for 2011 and 2010.

City of Kansas City, Missouri
The Employees' Retirement System
A Component Unit of the City of Kansas City, Missouri
Notes to Financial Statements
April 30, 2011 and 2010

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. Level percentage of payroll employer contribution rates are determined using the individual entry age normal method.

Funded Status and Funding Progress

The funded status of the Plan as of April 30, 2010, the most recent actuarial valuation date, is as follows:

	(a)	(b)	(b - a)	(a/b)	(c)	[(b - a)/c]
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
4/30/2010	\$ 749,551,649	\$ 994,767,684	\$ 245,216,035	75%	\$ 153,948,044	159%

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.

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 five 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.

City of Kansas City, Missouri
The Employees' Retirement System
A Component Unit of the City of Kansas City, Missouri
Notes to Financial Statements
April 30, 2011 and 2010

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.

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, a portion of administrative and clerical services of the Human Resources Department and accounting services of the Finance Department without any direct charge to the Plan.

Reclassifications

Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 financial statement presentation. These reclassifications had no effect on the changes in plan net assets.

Note 2: 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.

City of Kansas City, Missouri
The Employees' Retirement System
A Component Unit of the City of Kansas City, Missouri
Notes to Financial Statements
April 30, 2011 and 2010

Securities Lending Transactions

City ordinances 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. At April 30, 2011 and 2010, management believes the Plan has no credit risk exposure to borrowers because the amounts the Plan owes the borrowers exceed the amounts the borrowers owe the Plan. 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.

	<u>2011</u>	<u>2010</u>
Market value of securities loaned	\$ 78,716,352	\$ 68,969,011
Market value of cash collateral received from borrowers	\$ 79,536,046	\$ 71,214,321
Market value of non-cash collateral received from borrowers	<u>857,892</u>	<u>144,280</u>
Total market value of collateral	<u>\$ 80,393,938</u>	<u>\$ 71,358,601</u>

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.

City of Kansas City, Missouri
The Employees' Retirement System
A Component Unit of the City of Kansas City, Missouri
Notes to Financial Statements
April 30, 2011 and 2010

At April 30, 2011, 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. Treasuries	\$ 4,523,868	\$ -	\$ 273,755	\$ 1,767,838	\$ 2,482,275	\$ 3,225,363
U.S. Federal agencies	10,176,911	-	4,770,928	3,617,123	1,788,860	2,060,794
U.S. government index linked bonds	1,971,201	-	-	-	1,971,201	1,725,814
U.S. government backed mortgages	36,441,821	-	-	1,659,648	34,782,173	-
Municipal bonds	2,293,426	-	-	228,482	2,064,944	-
Asset backed securities	2,894,069	-	-	367,968	2,526,101	-
Commercial mortgage backed securities	3,357,018	-	-	225,899	3,131,119	-
Collateralized mortgage obligations	7,257,366	-	-	-	7,257,366	-
Foreign debt obligations	5,034,965	-	3,615,303	1,102,650	317,012	685,223
Corporate bonds - domestic	21,772,405	560,061	5,234,691	8,896,021	7,081,632	4,106,095
Corporate bonds - foreign	8,558,728	23,400	3,924,376	3,194,339	1,416,613	1,724,077
Money market funds	41,697,810	41,697,810	-	-	-	-
Collective trusts - fixed income	156,461,688	156,461,688	-	-	-	-
		<u>\$198,742,959</u>	<u>\$ 17,819,053</u>	<u>\$ 21,059,968</u>	<u>\$ 64,819,296</u>	
Warrants	23,408					-
Domestic preferred stocks	253,140					-
Domestic common stocks	283,758,818					62,876,439
Foreign equities	6,417,263					2,312,547
Partnerships	6,631,510					-
Private investment funds	8,119,731					-
Futures contracts and options	(251,102)					-
Collective trusts - equities	286,458,640					-
Collective trusts - real estate	21,937,740					-
	<u>\$ 915,790,424</u>					<u>\$ 78,716,352</u>

City of Kansas City, Missouri
The Employees' Retirement System
A Component Unit of the City of Kansas City, Missouri
Notes to Financial Statements
April 30, 2011 and 2010

At April 30, 2010, 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. Treasuries	\$ 3,710,643	\$ -	\$ 2,502,270	\$ 774,406	\$ 433,967	\$ 2,892,685
U.S. Federal agencies	14,612,418	-	9,596,470	3,236,675	1,779,273	2,543,700
U.S. government index linked bonds	4,066,447	-	-	-	4,066,447	3,220,950
U.S. government backed mortgages	34,382,437	-	-	62,165	34,320,272	-
Municipal bonds	287,037	-	-	-	287,037	-
Asset backed securities	5,192,486	-	-	435,971	4,756,515	-
Commercial mortgage backed securities	3,157,201	-	-	-	3,157,201	-
Collateralized mortgage obligations	11,641,131	-	-	-	11,641,131	-
Foreign debt obligations	6,348,806	-	4,834,734	872,208	641,864	4,619,286
Corporate bonds - domestic	36,301,538	1,141,581	11,577,894	14,751,808	8,830,255	8,026,336
Corporate bonds - foreign	8,960,965	454,305	3,737,303	3,316,796	1,452,561	-
Money market funds	19,526,496	19,526,496	-	-	-	-
Collective trusts - fixed income	128,170,996	128,170,996	-	-	-	-
		<u>\$149,293,378</u>	<u>\$ 32,248,671</u>	<u>\$ 23,450,029</u>	<u>\$ 71,366,523</u>	
Warrants	13,244					-
Domestic preferred stocks	334,557					-
Domestic common stocks	242,503,651					46,314,994
Foreign equities	4,298,762					-
Partnerships	5,853,701					1,351,060
Private investment funds	7,765,920					-
Futures contracts and options	(25,687)					-
Collective trusts - equities	247,858,504					-
Collective trusts - real estate	19,467,645					-
	<u>\$ 804,428,898</u>					<u>\$ 68,969,011</u>

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. Consistent with the Plan's securities lending policy, \$78,716,352 and \$68,969,011 at April 30, 2011 and 2010, respectively, was held by the counterparty that was acting as the Plan's agent in securities lending transactions.

City of Kansas City, Missouri
The Employees' Retirement System
A Component Unit of the City of Kansas City, Missouri
Notes to Financial Statements
April 30, 2011 and 2010

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, 2011 and 2010, the Plan's fixed income assets that are not government guaranteed represented 86% and 84%, respectively, of the fixed income portfolio. The following tables summarize the Plan's fixed income portfolio exposure levels and credit qualities at April 30, 2011 and 2010:

Average Credit Quality and Exposure Levels of Nongovernmental Guaranteed Securities

Fixed Income Security Type	Fair Value April 30, 2011	Percentage of all Fixed Income Assets	S&P Weighted Average Credit Quality
U.S. Federal agencies	\$ 7,814,951	2.58%	AAA
U.S. government index linked bonds	1,971,201	0.65%	AAA
Municipal bonds	2,293,426	0.76%	AA
Asset backed securities	2,894,069	0.96%	BBB
Commercial mortgage backed securities	3,357,018	1.11%	AA
Collateralized mortgage obligations	7,257,366	2.40%	BB
Foreign debt obligations	5,034,965	1.66%	A
Corporate bonds	30,331,133	10.03%	A
Money market funds	41,697,810	13.79%	Not rated
Collective trusts - fixed income	156,461,688	51.73%	Not rated
	<u>\$ 259,113,627</u>	<u>85.67%</u>	

City of Kansas City, Missouri
The Employees' Retirement System
A Component Unit of the City of Kansas City, Missouri
Notes to Financial Statements
April 30, 2011 and 2010

Fixed Income Security Type	Fair Value April 30, 2010	Percentage of all Fixed Income Assets	S&P Weighted Average Credit Quality
U.S. Federal agencies	\$ 8,330,132	3.01%	AAA
U.S. government index linked bonds	4,066,447	1.47%	AAA
Municipal bonds	287,037	0.10%	AA
Asset backed securities	5,192,486	1.88%	A
Commercial mortgage backed securities	3,157,201	1.14%	AA
Collateralized mortgage obligations	11,641,131	4.21%	B
Foreign debt obligations	6,348,806	2.30%	A
Corporate bonds	45,262,503	16.38%	A
Money market funds	19,526,496	7.07%	Not rated
Collective trusts - fixed income	128,170,996	46.38%	Not rated
	<u>\$ 231,983,235</u>	<u>83.94%</u>	

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 3.

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 issuer. 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, 2011 and 2010, there were no investments not directly guaranteed by the U.S. government in any issuer greater than 5%.

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 Barclays Aggregate Bond Index.

City of Kansas City, Missouri
The Employees' Retirement System
A Component Unit of the City of Kansas City, Missouri
Notes to Financial Statements
April 30, 2011 and 2010

Effective Duration of Fixed Income Assets by Security Type at April 30, 2011

Fixed Income Security Type	Fair Value April 30, 2011	Percentage of all Fixed Income Assets	Weighted Average Effective Duration (Years)
U.S. Treasuries	\$ 4,523,868	1.5%	11.1
U.S. Federal agencies	10,176,911	3.4%	14.4
U.S. government index linked bonds	1,971,201	0.6%	22.4
U.S. government backed mortgages	36,441,821	12.0%	26.4
Municipal bonds	2,293,426	0.8%	19.4
Asset backed securities	2,894,069	1.0%	22.4
Commercial mortgage backed securities	3,357,018	1.1%	31.0
Collateralized mortgage obligations	7,257,366	2.4%	27.5
Foreign debt obligations	5,034,965	1.7%	4.9
Corporate bonds - domestic	21,772,405	7.2%	13.2
Corporate bonds - foreign	8,558,728	2.8%	10.1
Money market funds	41,697,810	13.8%	**
Collective trusts - fixed income	156,461,688	51.7%	**
	<u>\$ 302,441,276</u>	<u>100.0%</u>	

Effective Duration of Fixed Income Assets by Security Type at April 30, 2010

Fixed Income Security Type	Fair Value April 30, 2010	Percentage of all Fixed Income Assets	Weighted Average Effective Duration (Years)
U.S. Treasuries	\$ 3,710,643	1.3%	12.9
U.S. Federal agencies	14,612,418	5.3%	4.6
U.S. government index linked bonds	4,066,447	1.5%	18.7
U.S. government backed mortgages	34,382,437	12.5%	26.4
Municipal bonds	287,037	0.1%	7.6
Asset backed securities	5,192,486	1.9%	24.4
Commercial mortgage backed securities	3,157,201	1.1%	31.5
Collateralized mortgage obligations	11,641,131	4.2%	29.0
Foreign debt obligations	6,348,806	2.3%	9.5
Corporate bonds - domestic	36,301,538	13.1%	10.6
Corporate bonds - foreign	8,960,965	3.2%	9.1
Money market funds	19,526,496	7.1%	**
Collective trusts - fixed income	128,170,996	46.4%	**
	<u>\$ 276,358,601</u>	<u>100.0%</u>	

** A common or commingled collective trust (CCT) is a vehicle that provides for collective investment and reinvestment of assets contributed from the Plan. The Plan actually owns an interest in the underlying assets of the CCT and the money market funds and the unit values are based on the fair value of their underlying assets. The CCT and money market funds do not have a maturity date, even though their underlying assets do have maturity dates. Therefore, the effective duration of the assets is not applicable.

City of Kansas City, Missouri
The Employees' Retirement System
A Component Unit of the City of Kansas City, Missouri
Notes to Financial Statements
April 30, 2011 and 2010

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 exposure, or exchange rate risk, primarily reside within the Plan's foreign debt obligations and foreign equity 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 3, the Plan had no derivative investments at April 30, 2011 and 2010 invested in foreign financial instruments.

Note 3: 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. The Plan's derivative investments included futures, options, and swaps. 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 Plan'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.

City of Kansas City, Missouri
The Employees' Retirement System
A Component Unit of the City of Kansas City, Missouri
Notes to Financial Statements
April 30, 2011 and 2010

The Plan's investment managers utilize swaps in an effort to adjust interest rate and yield curve exposure and substitute for physical securities. Interest rate swaps are agreements between two counter-parties to exchange future cash flows. These are generally fixed vs. variable flows, and can be either received or paid. Long swap positions (receive fixed) increase exposure to long-term interest rates; short positions (pay fixed) decrease exposure.

The Plan's collective trusts also invest in various derivatives; however, these holdings are not reflected in the following table. The following table presents the investment derivatives held by the Plan as of April 30, 2011 and 2010:

	April 30, 2011		
	Number of Contracts	Contract Principal*	Fair Value of Futures/Options
Domestic:			
Fixed income futures purchased			
10-year note due June 2011	87	\$ 10,539,234	\$ -
U.S. Ultra bond due June 2011	10	1,258,750	-
5-year note due June 2011	7	829,281	-
90-day Eurodollar due June 2013	21	21,000,000	-
Fixed income futures sold			
2-year note due June 2011	31	6,792,875	-
Fixed income written call options			
U.S. 10-year future option due June 2011	30	3,634,219	21,563
Interest rate swaps			
Pay 3.25% fixed for 3-month LIBOR matures September 2019	710	710,000	(10,742)
Pay 3.25% fixed for 3-month LIBOR matures September 2019	710	710,000	(10,742)
Pay 3.25% fixed for 3-month LIBOR matures February 2025	340	340,000	(20,053)
Pay 3.25% fixed for 3-month LIBOR matures February 2025	440	440,000	(28,204)
Pay 3.25% fixed for 3-month LIBOR matures February 2025	1,950	1,950,000	(128,467)
Pay 3.25% fixed for 3-month LIBOR matures February 2025	1,100	1,100,000	(71,846)
Index swaps			
Pay Markit IOS.FN30.400.09 - 4% Coupon for 1-month LIBOR matures January 2040	178	178,366	(1,145)
Pay Markit IOS.FN30.500.09 - 5% Coupon for 1-month LIBOR matures January 2040	152	152,270	(977)
Pay Markit IOS.FN30.500.09 - 5% Coupon for 1-month LIBOR matures January 2040	76	76,135	(489)
			<u>\$ (251,102)</u>

City of Kansas City, Missouri
The Employees' Retirement System
A Component Unit of the City of Kansas City, Missouri
Notes to Financial Statements
April 30, 2011 and 2010

	April 30, 2010		
	Number of Contracts	Contract Principal*	Fair Value of Futures/Options
Domestic:			
Fixed income futures purchased			
10-year note due June 2010	2	\$ 235,813	\$ -
U.S. Ultra bond due June 2010	45	5,581,406	-
Fixed income futures sold			
5-year note due June 2010	61	7,067,422	-
U.S. Long bond due June 2010	4	476,250	-
Fixed income written call options			
U.S. 10-year future option due June 2010	28	3,301,375	7,000
U.S. 10-year future option due June 2010	7	825,344	4,266
U.S. 10-year future option due June 2010	7	825,344	6,344
U.S. 10-year future option due June 2010	88	10,263,000	26,125
U.S. 10-year future option due June 2010	(88)	(10,263,000)	(16,500)
U.S. bond future option due June 2010	3	357,188	937
Interest rate swaps			
Pay 3.25% fixed for 3-month LIBOR matures September 2019	710	710,000	16,000
Pay 3.25% fixed for 3-month LIBOR matures September 2019	710	710,000	16,000
Pay 3.25% fixed for 3-month LIBOR matures February 2025	340	340,000	(6,007)
Pay 3.25% fixed for 3-month LIBOR matures February 2025	440	440,000	(10,013)
Pay 3.25% fixed for 3-month LIBOR matures February 2025	1,950	1,950,000	(43,490)
Pay 3.25% fixed for 3-month LIBOR matures February 2025	1,100	1,100,000	(26,349)
			<u>\$ (25,687)</u>

* 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.

The changes in fair value of the investment derivative instruments approximates their fair value at April 30, 2011 and 2010 and are reported in net appreciation in fair value of investments in the Statement of Changes in Plan Net Assets.

City of Kansas City, Missouri
The Employees' Retirement System
A Component Unit of the City of Kansas City, Missouri
Notes to Financial Statements
April 30, 2011 and 2010

Note 4: Actuarial Methods and Assumptions

An actuary from Cheiron 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, 2010 and 2009
Actuarial cost method	Entry age normal cost
Amortization method	20-year layered amortization, level percent of pay for all years except the 5/1/09 Plan Year (30-year layer).
Remaining amortization period	27.1 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 Value Method," which recognizes the fair market value of assets. The following represents the components of the asset valuation:

- (a) The actuarial value at 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).

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.

City of Kansas City, Missouri
The Employees' Retirement System
A Component Unit of the City of Kansas City, Missouri
Notes to Financial Statements
April 30, 2011 and 2010

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 that such changes could materially affect the amounts reported in the statement of plan net assets. Subsequent to year end, the Plan's investments declined by approximately \$138 million through September 30, 2011.

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 protracted economic environment continues to present pension systems with unprecedented circumstances and challenges, which in some cases have resulted in large declines in the fair value of investments. 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: Former MAST Employees

On April 26, 2010, more than 300 individuals previously employed by the Metropolitan Ambulance Services Trust (MAST) became employees of the City. The former MAST employees became eligible to participate in the Plan if they elected to not participate in a separate defined contribution plan. The precise pension benefits to be provided to the former MAST employees were not finalized as of April 30, 2011. As the employees had not made a formal election to participate they are not included as members in the actuarial valuation.

Subsequent to year end, the City passed an ordinance defining the pension benefits and contributions rates for the former MAST employees that choose to participate in the Plan effective April 26, 2010. The employees must remain employed for 18 months following this date to be vested in the prior service benefit. Assuming all former MAST employees remain employed for this time period and elect to participate in the Plan, the actuary has estimated that the increase in the actuarial accrued liability would be approximately \$27,900,000 at April 30, 2011.

Required Supplementary Information

City of Kansas City, Missouri
The Employees' Retirement System
A Component Unit of the City of Kansas City, Missouri
Required Supplementary Information
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 AAL (UAAL)	(a/b) Funded Ratio	(c) Covered Payroll	[(b - a)/c] UAAL as a Percentage of Covered Payroll
4/30/2005	\$ 645,609,869	\$ 781,899,987	\$ 136,290,118	83%	\$ 141,605,640	96%
4/30/2006	745,720,993	800,839,808	55,118,815	93%	146,365,332	38%
4/30/2007	823,014,181	847,393,167	24,378,986	97%	158,779,836	15%
4/30/2008	873,680,276	934,333,865	60,653,589	94%	169,867,066	36%
4/30/2009	704,069,429	966,779,322	262,709,893	73%	160,200,649	164%
4/30/2010	749,551,649	994,767,684	245,216,035	75%	153,948,044	159%

City of Kansas City, Missouri
The Employees' Retirement System
A Component Unit of the City of Kansas City, Missouri
Required Supplementary Information
Schedule of Employer Contributions
Last Six Fiscal Years

Year Ended April 30,	Annual Required Contributions	Percentage Contributed
2005	\$ 23,406,798	63%
2006	25,770,978	68%
2007	17,652,900	105%
2008	15,623,936	128%
2009	19,364,846	105%
2010	29,589,060	65%