

**City of Kansas City, Missouri**  
**The Employees' Retirement System**  
A Component Unit of the City of Kansas City, Missouri  
Auditor's Report and Financial Statements  
April 30, 2015 and 2014

**City of Kansas City, Missouri**  
**The Employees' Retirement System**  
A Component Unit of the City of Kansas City, Missouri  
April 30, 2015 and 2014

**Independent Auditor's Report**..... 1

**Required Supplementary Information**

Management's Discussion and Analysis ..... 3

**Financial Statements**

Statements of Fiduciary Net Position ..... 7

Statements of Changes in Fiduciary Net Position ..... 8

Notes to Financial Statements ..... 9

**Required Supplementary Information**

Schedule of Changes in the City's Net Pension Liability and Related Ratios ..... 28

Schedule of City Contributions ..... 29

Schedule of Investment Returns ..... 30

Notes to Required Supplementary Information ..... 31

## Independent Auditor's Report

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

We have audited the accompanying 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, which comprise the statements of fiduciary net position as of April 30, 2015 and 2014, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the City of Kansas City, Missouri The Employees' Retirement System as of April 30, 2015 and 2014, and the changes in fiduciary net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in *Note 1* to the financial statements, in 2015, the Plan adopted GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*. Our opinion is not modified with respect to this matter.

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension information listed in the table of contents be presented to supplement the financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**BKD, LLP**

Kansas City, Missouri  
October 29, 2015

**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, 2015 and 2014**

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 ten-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, 2015 and 2014, with selected comparative information for the fiscal year ended April 30, 2013, and should be read along with the financial statements and notes to the financial statements.

The financial statements presented by ERS consist of the: (1) Statements of Fiduciary Net Position, which reflects resources available for the payment of benefits as of year-end and (2) Statements of Changes in Fiduciary Net Position, which reflects the sources and uses of those funds during the year.

The notes to the financial statements are an integral part of the financial statements and include information not necessarily discernible 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.

***2015 and 2014 Summary Comparative Information of Fiduciary Net Position***

	<b>April 30, 2015</b>	<b>April 30, 2014</b>	<b>Amount Change</b>	<b>Percentage Change</b>
Receivables	\$ 6,174,744	\$ 7,534,711	\$ (1,359,967)	-18.05%
Investments at fair value	1,085,672,428	1,035,461,087	50,211,341	4.85%
Securities lending collateral	98,037,216	79,688,817	18,348,399	23.03%
Total assets	<u>1,189,884,388</u>	<u>1,122,684,615</u>	<u>67,199,773</u>	5.99%
Due to broker for purchases of investments	4,908,442	13,914,917	(9,006,475)	-64.73%
Administrative and investment expenses payable	1,805,453	1,425,847	379,606	26.62%
Securities lending collateral	98,037,216	79,688,817	18,348,399	23.03%
Total liabilities	<u>104,751,111</u>	<u>95,029,581</u>	<u>9,721,530</u>	10.23%
Net Position Restricted for Pensions	<u>\$ 1,085,133,277</u>	<u>\$ 1,027,655,034</u>	<u>\$ 57,478,243</u>	5.59%

**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, 2015 and 2014**

**2015 and 2014 Summary Comparative Information of Changes in Fiduciary Net Position**

	<b>April 30, 2015</b>	<b>April 30, 2014</b>	<b>Amount Change</b>	<b>Percentage Change</b>
Member contributions	\$ 8,610,268	\$ 6,849,988	\$ 1,760,280	25.70%
Employer contributions	27,569,434	25,987,662	1,581,772	6.09%
Net investment income	84,827,952	107,267,859	(22,439,907)	-20.92%
Total additions	<u>121,007,654</u>	<u>140,105,509</u>	<u>(19,097,855)</u>	-13.63%
Benefits paid to members	58,650,593	55,374,392	3,276,201	5.92%
Refunds of contributions	4,499,394	3,744,007	755,387	20.18%
Administrative expenses	379,424	401,702	(22,278)	-5.55%
Total deductions	<u>63,529,411</u>	<u>59,520,101</u>	<u>4,009,310</u>	6.74%
Net Increase in Net Position	57,478,243	80,585,408	(23,107,165)	-28.67%
Net Position, Restricted for Pensions, Beginning of Year	<u>1,027,655,034</u>	<u>947,069,626</u>	<u>80,585,408</u>	8.51%
Net Position, Restricted for Pensions, End of Year	<u>\$1,085,133,277</u>	<u>\$1,027,655,034</u>	<u>\$ 57,478,243</u>	5.59%

**2015 Financial Highlights**

All asset classes in the investment portfolio posted positive returns, with opportunistic investments posting the highest absolute returns. The investment portfolio attained an investment of return, net of expenses of 8.4%, which exceeded the policy index benchmark return of 7.2%. The international equity and opportunistic segments of the fund outperformed their respective benchmarks, while the domestic equity, global equity, fixed income and real estate managers, in aggregate, underperformed.

The 5.6% rise in plan net position, to \$1.085 billion was fueled by \$85 million of investment income. Contributions and benefits both trended slightly higher, while refunds of contributions increased by 20.2% as a higher number of retirements with partial lump sum distributions were processed. Administrative expenses decreased primarily due to staffing costs.

**2015 Operational Highlights**

One fixed income investment manager was terminated due to organizational changes and replaced by two new managers, one of which is a total return investment which should add broader exposures to the allocation. Also, another investment was made within the opportunistic segment to improve diversification. Ongoing cash needs were met through the sale of appreciating equity securities.

Same sex marriage legislation was passed by the City Council on December 11, 2014 (Ordinance No. 140976). This legislation requires the System to begin recognizing same sex marriages.

**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, 2015 and 2014**

**2014 and 2013 Summary Comparative Information of Fiduciary Net Position**

	<b>April 30, 2014</b>	<b>April 30, 2013</b>	<b>Amount Change</b>	<b>Percentage Change</b>
Receivables	\$ 7,534,711	\$ 7,193,841	\$ 340,870	4.74%
Investments at fair value	1,035,461,087	951,857,852	83,603,235	8.78%
Securities lending collateral	79,688,817	74,753,441	4,935,376	6.60%
Total assets	<u>1,122,684,615</u>	<u>1,033,805,134</u>	<u>88,879,481</u>	8.60%
Due to broker for purchases of investments	13,914,917	10,984,392	2,930,525	26.68%
Administrative and investment expenses payable	1,425,847	997,675	428,172	42.92%
Securities lending collateral	79,688,817	74,753,441	4,935,376	6.60%
Total liabilities	<u>95,029,581</u>	<u>86,735,508</u>	<u>8,294,073</u>	9.56%
Net Position Restricted for Pensions	<u>\$ 1,027,655,034</u>	<u>\$ 947,069,626</u>	<u>\$ 80,585,408</u>	8.51%

**2014 and 2013 Summary Comparative Information of Changes in Fiduciary Net Position**

	<b>April 30, 2014</b>	<b>April 30, 2013</b>	<b>Amount Change</b>	<b>Percentage Change</b>
Member contributions	\$ 6,849,988	\$ 6,652,125	\$ 197,863	2.97%
EMS back service contributions	-	4,755,600	(4,755,600)	100.00%
Employer contributions	25,987,662	20,919,438	5,068,224	24.23%
Net investment income	107,267,859	105,996,710	1,271,149	1.20%
Total additions	<u>140,105,509</u>	<u>138,323,873</u>	<u>1,781,636</u>	1.29%
Benefits paid to members	55,374,392	52,346,221	3,028,171	5.78%
Refunds of contributions	3,744,007	3,348,203	395,804	11.82%
Administrative expenses	401,702	166,153	235,549	141.77%
Total deductions	<u>59,520,101</u>	<u>55,860,577</u>	<u>3,659,524</u>	6.55%
Net Increase in Net Position	80,585,408	82,463,296	(1,877,888)	-2.28%
Net Position, Restricted for Pensions, Beginning of Year	<u>947,069,626</u>	<u>864,606,330</u>	<u>82,463,296</u>	9.54%
Net Position, Restricted for Pensions, End of Year	<u>\$1,027,655,034</u>	<u>\$ 947,069,626</u>	<u>\$ 80,585,408</u>	8.51%

**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, 2015 and 2014**

***2014 Financial Highlights***

Although fixed income returns were negligible during the period, prices surged in most equity markets. This paved the way to a net return of 11.5% on the investment portfolio, which compared quite favorably to the 9.7% rise in the policy portfolio benchmark. All segments of the fund performed relatively well, with the single exception being the 10% opportunistic allocation. Domestic equities were the best performing asset class.

Fiduciary net position climbed by 8.5%, fueled by \$107 million of investment income. Contributions and benefits both trended slightly higher, while refunds of contributions increased by 11.8% as a higher number of retirements were processed. Administrative expenses rose significantly, primarily due to staffing costs.

***2014 Operational Highlights***

The only significant change to the investment structure was the addition of a risk parity fund to better diversify the opportunistic allocation. Ongoing cash needs were met mostly through the sale of appreciating equity securities.

Pension reform legislation was passed by the City Council on February 20, 2014 (Ordinance No. 140035). This legislation established a new tier of benefits for employees hired on or after April 20, 2014.

***Requests for Information***

This financial report is designed to provide members of the City of Kansas City, Missouri The 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 The Employees' Retirement System, City Hall, 414 East 12<sup>th</sup> Street, 10<sup>th</sup> 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 Fiduciary Net Position**  
**April 30, 2015 and 2014**

**Assets**

	<u>2015</u>	<u>2014</u>
<b>Investments, At Fair Value</b>		
Short-term investment funds	\$ 18,614,805	\$ 28,651,926
U.S. Treasuries	10,413,000	4,641,493
U.S. Federal agencies	-	2,571,336
U.S. government index linked bonds	-	1,563,271
U.S. government-backed mortgages	32,691,533	10,299,827
Municipal bonds	3,529,912	-
Asset-backed securities	5,413,754	2,666,217
Commercial mortgage-backed securities	212,351	2,833,587
Collateralized mortgage obligations	-	4,142,474
Foreign debt obligations	676,200	3,700,288
Corporate bonds - domestic	28,670,407	14,448,150
Corporate bonds - foreign	11,700,674	5,214,110
Domestic preferred equities	920,133	45,677
Domestic common equities	283,986,850	254,474,665
Foreign equities	8,035,489	3,087,660
Partnerships	26,911,474	25,361,304
Private investment funds	-	4,938,264
Derivative financial instruments	-	8,921,551
Hedge funds	25,000,000	-
Collective trusts - equities	426,999,935	444,653,753
Collective trusts - fixed income	172,018,690	185,463,398
Collective trusts - real estate	29,877,221	27,782,136
	<u>1,085,672,428</u>	<u>1,035,461,087</u>
Total investments		
	<u>98,037,216</u>	<u>79,688,817</u>
<b>Securities Lending Collateral</b>		
<b>Receivables</b>		
Contributions	1,136,292	1,104,566
Investment income	827,254	520,927
Due from broker for sales of investments	4,211,198	5,909,218
	<u>6,174,744</u>	<u>7,534,711</u>
Total receivables		
Total assets	<u>1,189,884,388</u>	<u>1,122,684,615</u>
<b>Liabilities</b>		
Due to broker for purchases of investments	4,908,442	13,914,917
Administrative and investment expenses payable	1,805,453	1,425,847
Securities lending collateral	98,037,216	79,688,817
	<u>104,751,111</u>	<u>95,029,581</u>
Total liabilities		
Net Position Restricted for Pensions	<u>\$1,085,133,277</u>	<u>\$1,027,655,034</u>

**City of Kansas City, Missouri**  
**The Employees' Retirement System**  
A Component Unit of the City of Kansas City, Missouri  
**Statements of Changes in Fiduciary Net Position**  
**Years Ended April 30, 2015 and 2014**

**Additions**

	<u>2015</u>	<u>2014</u>
<b>Investment Income</b>		
Interest income	\$ 7,523,960	\$ 5,513,309
Dividend income	7,994,782	6,712,214
Net increase in fair value of investments	73,340,199	98,356,812
Less investment expense	<u>(4,199,701)</u>	<u>(3,501,332)</u>
Net investment income	<u>84,659,240</u>	<u>107,081,003</u>
<b>Securities Lending Income</b>		
Securities lending gross income	<u>228,493</u>	<u>204,671</u>
Securities lending expenses		
Borrower rebates	12,351	62,172
Management fees	<u>(72,132)</u>	<u>(79,987)</u>
Total securities lending expenses	<u>(59,781)</u>	<u>(17,815)</u>
Net securities lending income	<u>168,712</u>	<u>186,856</u>
Total net investment income	<u>84,827,952</u>	<u>107,267,859</u>
<b>Contributions</b>		
Contributions from the City of Kansas City, Missouri	27,569,434	25,987,662
Contributions from members	<u>8,610,268</u>	<u>6,849,988</u>
Total contributions	<u>36,179,702</u>	<u>32,837,650</u>
Total additions	<u>121,007,654</u>	<u>140,105,509</u>
<b>Deductions</b>		
<b>Benefits Paid to Members</b>	58,650,593	55,374,392
<b>Refunds</b>		
Termination	1,057,184	1,315,059
Retirement	3,442,210	2,428,948
<b>Administrative Expenses</b>	<u>379,424</u>	<u>401,702</u>
Total deductions	<u>63,529,411</u>	<u>59,520,101</u>
<b>Net Increase in Net Position</b>	57,478,243	80,585,408
<b>Net Position Restricted for Pensions, Beginning of Year</b>	<u>1,027,655,034</u>	<u>947,069,626</u>
<b>Net Position Restricted for Pensions, End of Year</b>	<u>\$1,085,133,277</u>	<u>\$1,027,655,034</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, 2015 and 2014**

**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 pension plan, 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.

***Adoption of New Accounting Standard***

In 2015, the Plan adopted the provisions of GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*, which has as its objective improving the usefulness of pension information included in the general purpose external financial reports of state and local government pension plans for making decisions and assessing accountability. The Plan has treated adoption of GASB 67 as an adjustment of prior periods by restating the 2014 financial statements. Adoption of GASB 67 had no effect on net position restricted for pensions or net increase (decrease) in net position. It did, however, change the requirements for information disclosed in the footnotes to the financial statements and information required to be presented as required supplementary information.

***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.

***Investments***

Investments are valued at fair value as follows:

Government securities, asset-backed securities, commercial mortgage-backed securities, collateralized mortgage obligations and corporate bonds – Prices quoted by a major dealer in such securities.

Common stock, preferred stock, foreign common stock, derivatives, 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

**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, 2015 and 2014**

Collective trusts, partnerships, private investment funds and hedge funds consist primarily of non-marketable investments in various venture capital, corporate finance funds and private partnerships (collectively referred to as "Portfolio Funds"). These funds are primarily invested in a diversified portfolio of equities, real estate, U.S. fixed income instruments and alternative or non-traditional investments. These investments are recorded at fair value based on financial data, which is generally at an amount equal to the net asset value per share or the Fund's proportionate interest in the net assets or net equity of the Portfolio Funds as determined by each Portfolio Fund's general partner or investment manager. 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.

The Plan is obligated to pay certain capital commitments to the partnerships. These outstanding commitments totaled approximately \$45,690,000 as of April 30, 2015. All commitments were fulfilled as of April 30, 2014.

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.

***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.

***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, 2015 and 2014**

**Note 2: Plan Description**

The Plan is established by City ordinances enacted by the City Council. The Plan is administered by the Board of Trustees of the Employees' Retirement System of Kansas City, Missouri (the "Board"). The Board is composed of ten members, two of which are the Director of Human Resources and the Director of Finance, two shall be active employees and members of the retirement system, one retired member of the System and one member designated by Firefighters' IAFF Local 42. The remaining four members are prominent Kansas City business or civic leaders appointed by the mayor.

At April 30, 2015 and 2014, the Plan's membership consists of the following:

	<b>2015</b>		
	<b>Tier I Members</b>	<b>Tier II Members</b>	<b>Total</b>
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	2,394	-	2,394
Current employees			
Vested	2,326	-	2,326
Nonvested	578	284	862
Inactive	111	33	144
<b>Total</b>	<b>5,409</b>	<b>317</b>	<b>5,726</b>

  

	<b>2014</b>		
	<b>Tier I Members</b>	<b>Tier II Members</b>	<b>Total</b>
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	2,307	-	2,307
Current employees			
Vested	2,463	-	2,463
Nonvested	748	-	748
Inactive	133	-	133
<b>Total</b>	<b>5,651</b>	<b>-</b>	<b>5,651</b>

**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, 2015 and 2014**

**Contributions**

Funding is provided by contributions from Plan members, the City and earnings on investments. Members contribute 4% of their base salary through April 20, 2014, at which time member contributions were increased to 5% 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 the actuarially determined contribution rate set by the Plan's consulting actuary. For the year ended April 30, 2015, the City contributed at a rate of 16.52% of annual projected payroll. For the year ended April 30, 2014, the City contributed at a rate of 17.20% in all funds except the general fund, which contributed 12.03% of annual projected payroll.

**Retirement Benefits**

Benefit terms for the Plan are established in the City administrative code and can only be amended by the City Council. The Plan provides retirement benefits as well as pre-retirement death benefits as noted below:

Tier I Members

The Plan provides retirement benefits, for those employees hired before April 20, 2014 (Tier I Members). Employees become vested for retirement benefits after five years of service. Members who retire with total age and creditable service equal to 80, or the later of age 60 and 10 years of creditable service, are entitled to an annual pension based on a percentage of final average compensation multiplied by years and months of creditable service. If married at the time of retirement, the percentages is 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 as defined in the Plan. 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 automatic annual cost-of-living adjustment of 3%, non-compounded, is provided annually.

Tier II Members

The Plan provides retirement benefits, for those employees hired on or after April 20, 2014 (Tier II Members). Employees become vested for retirement benefits after ten years of service. Members who retire with total age and creditable service equal to 85, or the later of age 62 and 10 years of creditable service are entitled to an annual pension of 1.75% of final average compensation multiplied by the number of years of creditable service, subject to a maximum limit of 70% of final average compensation as defined in the Plan.

**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, 2015 and 2014**

If employees terminate prior to retirement and before rendering ten 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.

An annual cost-of-living adjustment, not to exceed 2.5%, non-compounded, per year is provided to pensioners age 62 and older if the prior year funding ratio is equal to or greater than 80% and will be equal to the percentage increase in the prior 12 months of the final national consumer price index.

***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.

**Note 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.

**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, 2015 and 2014**

***Investment Policy***

The asset type and classes, target allocation and ranges that have been approved by the Board are shown below. All percentages are based on market values. The Board has authorized Plan staff, with the guidance from the investment consultant, to rebalance the portfolio in accordance with the strategy guidelines below:

<b>Asset Type and Class</b>	<b>Range</b>	<b>Target</b>
Equities		
Large Cap Equity	13% - 17%	15%
Small Cap Equity	4% - 9%	6.5%
Non-U.S. Equity	5% - 9%	7%
Global Equity	17% - 21%	19%
Emerging Markets Equity	1% - 5%	3%
Opportunistic Equity	10% - 14%	12%
Fixed Income	23% - 30%	26.5%
Alternatives		
Real Assets	7% - 13%	10%
Cash	0% - 5%	1%

***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, 2015 and 2014, 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.

	<b>2015</b>	<b>2014</b>
Market value of securities loaned	<u>\$ 95,030,091</u>	<u>\$ 78,131,673</u>
Market value of cash collateral received from borrowers	<u>\$ 98,037,216</u>	<u>\$ 79,688,817</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, 2015 and 2014**

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

At April 30, 2015, 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	\$ 10,413,000	\$ 10,413,000	\$ -	\$ -	\$ -	\$ 10,413,000
U.S. government-backed mortgages	32,691,533	-	-	251,579	32,439,954	-
Municipal bonds	3,529,912	-	1,228,890	-	2,301,022	-
Asset-backed securities	5,413,754	-	4,118,122	421,979	873,653	-
Commercial mortgage-backed securities	212,351	-	212,351	-	-	-
Foreign debt obligations	676,200	-	-	-	676,200	8,012
Corporate bonds - domestic	28,670,407	932,625	4,730,661	15,067,672	7,939,449	5,180,310
Corporate bonds - foreign	11,700,674	-	1,679,877	6,915,930	3,104,867	2,241,396
Money market funds	18,614,805	18,614,805	-	-	-	-
Collective trusts - fixed income	172,018,690	172,018,690	-	-	-	-
		<u>\$ 201,979,120</u>	<u>\$ 11,969,901</u>	<u>\$ 22,657,160</u>	<u>\$ 47,335,145</u>	
Domestic preferred equities	920,133					-
Domestic common equities	283,986,850					75,394,691
Foreign equities	8,035,489					1,792,682
Partnerships	26,911,474					-
Collective trusts - equities	426,999,935					-
Collective trusts - real estate	29,877,221					-
Hedge Funds	25,000,000					-
	<u>\$ 1,085,672,428</u>					<u>\$ 95,030,091</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, 2015 and 2014**

At April 30, 2014, 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	\$ 4,641,493	\$ -	\$ 478,052	\$ 832,543	\$ 3,330,898	\$ 4,246,438
U.S. Federal agencies	2,571,336	-	1,197,067	522,175	852,094	870,887
U.S. government index linked bonds	1,563,271	-	-	1,261,024	302,247	1,563,271
U.S. government-backed mortgages	10,299,827	-	-	-	10,299,827	-
Asset-backed securities	2,666,217	-	277,699	289,046	2,099,472	-
Commercial mortgage-backed securities	2,833,587	-	1,000	165,752	2,666,835	-
Collateralized mortgage obligations	4,142,474	-	-	-	4,142,474	-
Foreign debt obligations	3,700,288	507,300	1,177,489	1,186,074	829,425	1,134,366
Corporate bonds - domestic	14,448,150	711,382	4,245,857	4,923,290	4,567,621	2,846,162
Corporate bonds - foreign	5,214,110	486,440	1,672,430	2,108,484	946,756	1,209,404
Money market funds	28,651,926	28,651,926	-	-	-	-
Collective trusts - fixed income	185,463,398	185,463,398	-	-	-	-
		<u>\$ 215,820,446</u>	<u>\$ 9,049,594</u>	<u>\$ 11,288,388</u>	<u>\$ 30,037,649</u>	
Domestic preferred equities	45,677					-
Domestic common equities	254,474,665					65,452,645
Foreign equities	3,087,660					808,500
Partnerships	25,361,304					-
Private investment funds	4,938,264					-
Derivative financial instruments	8,921,551					-
Collective trusts - equities	444,653,753					-
Collective trusts - real estate	27,782,136					-
	<u>\$ 1,035,461,087</u>					<u>\$ 78,131,673</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, \$95,030,091 and \$78,131,673 at April 30, 2015 and 2014, 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, 2015 and 2014**

***Investment Concentrations***

The following presents investments that represent 5% or more of the fiduciary net position of the Plan, as of April 30, 2015:

<b>Investment</b>	<b>Fair Value</b>
Investments managed by GMO	\$ 144,525,371
American Century Global Growth Equity Trust - Tier 2	100,453,024
Northern Trust Collective Aggregate Bond Index Fund - Lending - Tier H	88,279,221
Blackrock Alpha Advantage International Fund	73,914,743
Mellon EB DV Global Exp Alpha I Fund	67,266,071
Investments managed by JP Morgan	56,788,695

The following presents investments that represent 5% or more of the fiduciary net position of the Plan, as of April 30, 2014:

<b>Investment</b>	<b>Fair Value</b>
Investments managed by GMO	\$ 142,493,165
American Century Global Growth Equity Trust - Tier 2	92,613,538
Northern Trust Collective Aggregate Bond Index Fund - Lending - Tier H	133,229,772
Blackrock Alpha Advantage International Fund	68,781,068
Mellon EB DV Global Exp Alpha I Fund	76,684,123
Investments managed by JP Morgan	53,143,440

**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, 2015 and 2014**

**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, 2015 and 2014, the Plan's fixed income assets that are not explicitly government guaranteed represented 84.82% and 96.5%, respectively, of the fixed income portfolio. The following tables summarize the Plan's fixed income portfolio exposure levels and credit qualities at April 30, 2015 and 2014:

**Average Credit Quality and Exposure Levels of Nongovernmental Guaranteed Securities**

<b>Fixed Income Security Type</b>	<b>Fair Value April 30, 2015</b>	<b>Percentage of all Fixed Income Assets</b>	<b>S&amp;P Weighted Average Credit Quality</b>
Municipal bonds	\$ 3,529,912	1.24%	A
Asset-backed securities	5,413,754	1.91%	AAA
Commercial mortgage-backed securities	212,351	0.07%	Not Rated
Foreign debt obligations	676,200	0.24%	BBB+
Corporate bonds - domestic	28,670,407	10.10%	BBB
Corporate bonds - foreign	11,700,674	4.12%	BBB
Money market funds	18,614,805	6.56%	Not rated
Collective trusts - fixed income	172,018,690	60.58%	Not rated
	<u>\$ 240,836,793</u>	<u>84.82%</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, 2015 and 2014**

<b>Fixed Income Security Type</b>	<b>Fair Value April 30, 2014</b>	<b>Percentage of all Fixed Income Assets</b>	<b>S&amp;P Weighted Average Credit Quality</b>
U.S. Federal agencies	\$ 1,338,168	0.51%	AA
U.S. government backed mortgages	8,424,023	3.16%	AA+
Asset-backed securities	2,666,217	1.00%	BBB-
Commercial mortgage-backed securities	2,833,587	1.06%	Not rated
Collateralized mortgage obligations	4,142,474	1.56%	CCC
Foreign debt obligations	3,700,288	1.39%	A
Corporate bonds - domestic	14,448,150	5.43%	BBB+
Corporate bonds - foreign	5,214,110	1.96%	BBB+
Money market funds	28,651,926	10.76%	Not rated
Collective trusts - fixed income	185,463,398	69.67%	Not rated
	<u>\$ 256,882,341</u>	<u>96.50%</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 4.

***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, 2015 and 2014**

**Effective Duration of Fixed Income Assets by Security Type at April 30, 2015**

Fixed Income Security Type	Fair Value April 30, 2015	Percentage of all Fixed Income Assets	Weighted Average Effective Duration (Years)
U.S. Treasuries	\$ 10,413,000	3.7%	0.8
U.S. government-backed mortgages	32,691,533	11.5%	20.9
Municipal bonds	3,529,912	1.2%	16.3
Asset-backed securities	5,413,754	1.9%	6.9
Commercial mortgage-backed securities	212,351	0.1%	2.6
Foreign debt obligations	676,200	0.2%	20.1
Corporate bonds - domestic	28,670,407	10.1%	9.9
Corporate bonds - foreign	11,700,674	4.1%	10.8
Money market funds**	18,614,805	6.6%	**
Collective trusts - fixed income	172,018,690	60.6%	5.5
	<u>\$ 283,941,326</u>	<u>100.0%</u>	

**Effective Duration of Fixed Income Assets by Security Type at April 30, 2014**

Fixed Income Security Type	Fair Value April 30, 2014	Percentage of all Fixed Income Assets	Weighted Average Effective Duration (Years)
U.S. Treasuries	\$ 4,641,493	1.7%	23.3
U.S. Federal agencies	2,571,336	1.0%	8.4
U.S. government index linked bonds	1,563,271	0.6%	12.8
U.S. government-backed mortgages	10,299,827	3.9%	27.4
Asset-backed securities	2,666,217	1.0%	18.8
Commercial mortgage-backed securities	2,833,587	1.1%	26.7
Collateralized mortgage obligations	4,142,474	1.6%	23.7
Foreign debt obligations	3,700,288	1.4%	10.1
Corporate bonds - domestic	14,448,150	5.4%	12.9
Corporate bonds - foreign	5,214,110	2.0%	9.6
Money market funds**	28,651,926	10.7%	**
Collective trusts - fixed income	185,463,398	69.6%	6.5
	<u>\$ 266,196,077</u>	<u>100.0%</u>	

\*\*The Plan actually owns an interest in the underlying assets of the money market funds and the unit values are based on the fair value of their underlying assets. The money market funds do not have a maturity date, even though their underlying assets do have maturity dates of less than one year.

**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, 2015 and 2014**

***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.

***Annual Money-Weighted Rate of Return***

For the years ended April 30, 2015 and 2014, the annual money-weighted rate of return on the pension plan investments, net of pension plan investment expense, was 8.36% and 11.50%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**Note 4: 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, swaps and mortgage derivatives. 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 and mortgage derivatives 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 or mortgage derivative rather than the underlying security (arbitrage). Financial futures contracts and mortgage derivatives 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.

**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, 2015 and 2014**

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.

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.



**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, 2015 and 2014**

The Plan's collective trusts also invest in various derivatives; however, these holdings are not reflected in the following table. There were no investment derivatives held by the Plan as of April 30, 2015. The following table presents the investment derivatives held by the Plan as of April 30, 2014:

	<b>Number of Contracts</b>	<b>Contract Principal*</b>	<b>Fair Value</b>
<b>Domestic</b>			
Fixed income futures purchased			
90-day Euro Due Dec 2016	55	\$ 13,448,875	\$ -
U.S. Ultra bond Due June 2014	1	147,281	-
5-year note Due June 2014	49	5,853,203	-
Fixed income futures sold			
90-day Euro Due June 2018	27	6,525,900	-
10-year note Due June 2014	21	2,612,859	-
U.S. Long Bond Due June 2014	8	1,079,500	-
Fixed income written call options			
U.S. 5-year future option Due June 2014	6	92,392	(469)
U.S. 5-year future option Due June 2014	6	278,864	(2,203)
U.S. 5-year future option Due June 2014	6	197,085	(1,547)
U.S. 5-year future option Due June 2014	6	110,620	(797)
U.S. 5-year future option Due May 2014	7	77,434	(438)
U.S. 10-year future Due May 2014	4	173,954	(1,375)
U.S. 10-year future option Due May 2014	7	38,091	(219)
U.S. 10-year future option Due May 2014	4	94,346	(688)
U.S. 10-year future option Due May 2014	6	115,350	(1,219)
U.S. 10-year future option Due June 2014	6	419,791	(10,031)
Interest rate swaps - pay 3.295% fixed			
for three-month LIBOR maturing March 2017	5,940,000	5,689,112	(4,315)
Pay 1.89% fixed for three-month LIBOR maturing March 2019	5,680,000	5,660,330	5,513
Mortgage derivatives purchased			
DBUBS Mortgage Trust Due August 2044	473,334	14,811	14,811
FNMA 2012 74 SA 6.5% Due March 2042	149,354	24,225	24,225
FNMA 2012 75 6.45% Due July 2042	71,204	12,994	12,994
FNMA 2012 70 YS 6.5% Due February 2041	82,664	15,214	15,214
FNMA 2012 93 SG 5.95% Due September 2042	178,647	39,016	39,016
FNMA 2012 128 SQ 6.00% Due November 2042	91,519	20,500	20,500
FNMA 2013 67 KS 5.95% Due July 2043	94,853	20,532	20,532
FNMA 409 C2 3.0% Due April 2027	275,191	34,112	34,112
FNMA 409 C13 3.5% Due November 2041	125,269	27,189	27,189
FNMA 409 C17 4.0% Due November 2041	59,288	14,353	14,353
FNMA 409 C18 4.0% Due April 2042	318,709	77,570	77,570
FNMA 409 C22 4.5% Due November 2039	245,340	51,367	51,367
FHLMC Multifamily Structured Pass Through Cert K009 1.660% Due June 2020	191,462	15,203	15,203

**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, 2015 and 2014**

	<b>Number of Contracts</b>	<b>Contract Principal*</b>	<b>Fair Value</b>
FHLMC 3947 SG 5.798% Due October 2041	164,443	\$ 32,259	\$ 32,259
FHMS K016 X1 K016 X1 1.570% Due October 2021	331,242	31,666	31,666
FHLMC 3997 SK 6.448% Due November 2041	317,521	58,033	58,033
FHMS K017 X1 1.440% Due December 2021	263,843	23,040	23,040
FHLMC 4013 AI 4.00% Due February 2039	503,507	97,315	97,315
FHLMC 4092 AI 3.00% Due September 2031	977,890	143,720	143,720
FHLMC Multifamily Structured Pass Through Cert K007 X1 1.193% Due April 2020	538,288	29,437	29,437
FNMA 2010 142 SM 6.38% Due December 2040	53,091	6,612	6,612
FHLMC K006 AX1 1.033% Due January 2020	1,417,999	70,554	70,554
GS Mortgage Securities Trust 2011 GC5 XA 1.709% Due August 2044	212,306	14,793	14,793
GNMA 2010 85 HS 6.500% Due January 2040	50,779	8,512	8,512
GNMA 2010 31 GS 6.350% Due March 2039	45,977	6,069	6,069
GNMA 2012 100 IO .825% Due August 2052	206,482	13,727	13,727
GNMA 2012 66 CI 3.50% Due February 2038	590,079	85,013	85,013
GNMA 2013 178 IO .946% Due June 2055	216,856	14,285	14,285
GNMA 2013 187 S 6.000% Due December 2043	95,730	18,723	18,723
JPMBB Commercial Mortgage Securities			
TRUST 2014 C19 XA 1.453% Due April 2047	1,530,000	99,854	99,854
MSBAM 2012-C5 XA 1.875% Due August 2045	195,577	18,502	18,502
WF-RBS Commercial Mortgage Trust 2011 C2 XA 1.105% Due February 2044	271,553	10,096	10,096
WF-RBS Commercial Mortgage Trust 2012 C7 XA 1.583% Due June 2045	29,205	2,777	2,777
Mortgage derivatives purchased (TBAs)			
FNMA 15 yr. May Fwd 2.50% Due May 2029	500,000	503,125	503,125
FNMA 15 yr. May Fwd 3.0% Due May 2029	500,000	515,977	515,977
FNMA 15 yr. May Fwd 3.5% Due May 2029	200,000	210,625	210,625
FNMA 30 yr. May Fwd 4.50% Due May 2044	1,800,000	1,931,270	1,931,270
FNMA 30 yr. Jun Fwd 4.5% Due June 2044	900,000	963,000	963,000
FNMA 30 yr. Jun Fwd 5.0% Due June 2044	300,000	328,172	328,172
GNMA 30 yr. May Fwd 3.5% Due May 2044	300,000	308,438	308,438
FHLMC Gold 30 yr. May Fwd 3.00% Due May 2044	500,000	486,738	486,738
GNMA II 30 yr. May Fwd 3.5% Due May 2044	600,000	617,250	617,250
GNMA II 30 yr. May Fwd 4.0% Due May 2044	1,100,000	1,163,937	1,163,937
GNMA II 30 yr. May Fwd 4.50% Due May 2044	700,000	758,734	758,734
			<u>\$ 8,921,551</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 fiduciary net position values.

**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, 2015 and 2014**

The changes in fair value of the investment derivative instruments approximate their fair value at April 30, 2014 and are reported in the net appreciation in fair value of investments in the statements of changes in fiduciary net position.

**Note 5: Net Pension Liability**

The components of the net pension liability of the City at April 30, were as follows:

	<u>2015</u>	<u>2014</u>
Total pension liability	\$ 1,191,821,071	\$ 1,149,883,725
Plan fiduciary net position	<u>(1,085,133,277)</u>	<u>(1,027,655,034)</u>
City's net pension liability	<u>\$ 106,687,794</u>	<u>\$ 122,228,691</u>
Fiduciary net position as a % of total pension liability	91.05%	89.37%

**Note 6: Actuarial Methods and Assumptions**

An actuary from Cheiron determines the total pension liability. The total pension liability as of April 30, 2015 and 2014 was determined based on an actuarial valuation prepared as of April 30, 2014 and 2013, respectively, rolled forward one year, using the following actuarial assumptions:

Inflation	3.0% per annum
Projected salary increases, including inflation	4.0% to 8.0% per annum, depending on age
Long-term investment rate of return, net of plan investment expenses, including inflation	7.50%
Mortality Tables:	
Healthy	1994 Group Annuity Mortality Table
Disabled	1983 Railroad Retirement Board Disabled Life Mortality Table

The actuarial assumptions used in both valuations were based on the results of the most recent actuarial experience study for the period May 1, 2006 through April 30, 2010. The actuarial experience study is dated February 22, 2011.

For purposes of calculating the total pension liability, future ad hoc COLAs of 3.0% (simple COLA) were assumed to be granted in all future years, for both Tier I and Tier II employees.

**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, 2015 and 2014**

***Long-Term Expected Rate of Return***

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best-estimates arithmetic real rates of return for each major asset class included in the Plan's target asset allocation as of April 30, 2015 and 2014 are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Large Cap Equity	15%	4.8%
Small Cap Equity	6.5%	6.0%
Non-U.S. Equity	7%	5.7%
Global Equity	19%	5.5%
Emerging Markets Equity	3%	8.8%
Opportunistic Equity	12%	3.7%
Fixed Income	26.5%	0.0%
Real Assets	10%	3.9%
Cash	1%	-0.9%

***Discount Rate***

The discount rate used to measure the total pension liability was 7.5%. A cash flow projection done through the year 2017 by the Plan's actuary shows that continuation of the City's funding policy will result in the Plan's projected fiduciary net position being greater than or equal to the benefit payments projected for each future period. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments.

**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, 2015 and 2014**

**Sensitivity Analysis**

The following sensitivity analysis presents the net pension liability of the City, calculated using the discount rate of 7.50% as well as what the City's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50%) or one percentage point higher (8.50%) than the current rate as of April 30, 2015 and 2014:

	<b>2015</b>		
	<b>1% Decrease (6.50%)</b>	<b>Current Discount Rate (7.50%)</b>	<b>1% Increase (8.50%)</b>
Total pension liability	\$ 1,333,317,844	\$ 1,191,821,071	\$ 1,072,510,550
Fiduciary net position	<u>(1,085,133,277)</u>	<u>(1,085,133,277)</u>	<u>(1,085,133,277)</u>
Net pension liability	<u>\$ 248,184,567</u>	<u>\$ 106,687,794</u>	<u>\$ (12,622,727)</u>
	<b>2014</b>		
	<b>1% Decrease (6.50%)</b>	<b>Current Discount Rate (7.50%)</b>	<b>1% Increase (8.50%)</b>
Total pension liability	\$ 1,288,025,651	\$ 1,149,883,725	\$ 1,033,505,039
Fiduciary net position	<u>(1,027,655,034)</u>	<u>(1,027,655,034)</u>	<u>(1,027,655,034)</u>
Net pension liability	<u>\$ 260,370,617</u>	<u>\$ 122,228,691</u>	<u>\$ 5,850,005</u>

**Note 7: 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 fiduciary net position.

Plan contributions are made and the total pension liability 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.

## **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 Changes in the City's Net Pension Liability and Related Ratios**  
**April 30, 2015**

<b>Total pension liability</b>	
Service cost	\$ 19,694,295
Interest on total pension liability	85,393,038
Benefit payments, including member refunds	<u>(63,149,987)</u>
<b>Net change in total pension liability</b>	41,937,346
<b>Total pension liability - beginning</b>	<u>1,149,883,725</u>
<b>Total pension liability - ending</b>	<u>1,191,821,071</u>
<b>Fiduciary net position</b>	
Net investment income	84,827,952
City contributions	27,569,434
Member contributions	8,610,268
Benefits paid	(58,650,593)
Refunds of contributions	(4,499,394)
Administrative expenses	<u>(379,424)</u>
<b>Net change in fiduciary net position</b>	57,478,243
<b>Fiduciary net position - beginning</b>	<u>1,027,655,034</u>
<b>Fiduciary net position - ending</b>	<u>1,085,133,277</u>
<b>Net pension liability, ending</b>	<u><u>\$ 106,687,794</u></u>
<b>Fiduciary net position as a percentage of total pension liability</b>	91.05%
<b>Covered - employee payroll</b>	\$ 182,851,617
<b>Net pension liability as a percentage of covered - employee payroll</b>	58.35%

**Note to schedule:** This schedule is intended to show a 10-year trend. Additional years will be reported as they become available.

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Actuarially determined employer contribution	\$ 27,568,194	\$ 27,568,194	\$ 27,682,872	\$ 26,326,555	\$ 27,772,227	\$ 29,589,060	\$ 19,364,846	\$ 15,623,936	\$ 17,652,900	\$ 25,770,978
Actual City contributions	<u>27,569,434</u>	<u>25,987,662</u>	<u>23,744,372</u>	<u>20,543,487</u>	<u>18,822,709</u>	<u>19,186,317</u>	<u>20,330,486</u>	<u>20,011,617</u>	<u>18,496,476</u>	<u>17,557,758</u>
Annual contribution deficiency (excess)	<u>\$ (1,240)</u>	<u>\$ 1,580,532</u>	<u>\$ 3,938,500</u>	<u>\$ 5,783,068</u>	<u>\$ 8,949,518</u>	<u>\$ 10,402,743</u>	<u>\$ (965,640)</u>	<u>\$ (4,387,681)</u>	<u>\$ (843,576)</u>	<u>\$ 8,213,220</u>
Covered-employee payroll	\$182,851,617	\$167,629,048	\$166,877,689	\$161,134,295	\$163,113,722	\$153,948,044	\$160,200,649	\$169,867,066	\$158,779,836	\$146,365,332
Actual contributions as a percentage of covered-employee payroll	15.08%	15.50%	14.23%	12.75%	11.54%	12.46%	12.69%	11.78%	11.65%	12.00%



**City of Kansas City, Missouri**  
**The Employees' Retirement System**  
A Component Unit of the City of Kansas City, Missouri  
**Required Supplementary Information**  
**Schedule of Investment Returns**  
**April 30, 2015 and 2014**

Fiscal Year Ending April 30	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	8.36%	11.50%

**Note to schedule:** This schedule is intended to show a 10-year trend. Additional years will be reported as they become available.

**City of Kansas City, Missouri**  
**The Employees' Retirement System**  
A Component Unit of the City of Kansas City, Missouri  
**Notes to Required Supplementary Information**  
**April 30, 2015 and 2014**

**Changes of benefit and funding terms** – The following changes to the plan provisions were reflected in the valuation as listed below:

4/30/2014 Valuation

- Effective April 20, 2014, Tier I member contribution rates increased by 1.00% and the interest credited to employee account balances decreased to 5.00%.
- Tier II members were added.

4/30/2013 Valuation

- The City contribution rate changed from 9.50% of payroll for General Employees and 19.50% of payroll for Judges and Elected Officials to the prior year's actuarially determined contribution rate.

4/30/2012 Valuation

- The plan was amended to provide MAST employees with service prior to April 25, 2010 and to implement a special benefit schedule for these employees.

4/30/2011 Valuation

- The Plan was amended according to Ordinance No. 110218, so that unless otherwise provided, no members of the Council, including the Mayor, who commence a term of office after April 30, 2011 shall participate in this plan for any service after April 30, 2011. However, members of the Council, including the Mayor, elected on March 27, 2007 for a term beginning May 1, 2007 and also elected on March 22, 2011 for a term beginning on May 1, 2011 are members of this plan as long as they are continuously a member of the Council, including the Mayor.

**Changes in actuarial assumptions and methods** – The following changes to the plan provisions were reflected in the valuations as listed below:

4/30/2011 Valuation

- Actuarial assumptions were changed based on recommendations from the May 1, 2006 through April 30, 2010 actuarial experience study that was adopted by the Board. The changes affected withdrawal rates, retirement rates, age of spouse assumptions, salary increases and J&S election assumptions.

**City of Kansas City, Missouri**  
**The Employees' Retirement System**  
A Component Unit of the City of Kansas City, Missouri  
**Notes to Required Supplementary Information (Continued)**  
**April 30, 2015 and 2014**

4/30/2009 Valuation

- The Amortization of UAL changed from a 20-year level percent of pay amortization method to a 30-year layered level percent of pay amortization method for the 5/1/2009 change to the unfunded actuarial liability.

4/30/2008 Valuation

- The Asset Smoothing Method switched from the prior method of using preliminary asset value plus 20% of the difference between the market value and the preliminary asset value to the new method of using 100% of expected returns plus 25% of actual returns above or below the expected return. The minimum asset corridor also changed from 90% to 85%.
- The Amortization of UAL changed from a 30-year rolling level dollar amortization method to a 20-year layered level percent of pay amortization method.
- The Investment Return Assumption changed from 7.75% to 7.50%.

4/30/2006 Valuation

- The salary increase rates for ages 35 and above for General Employees were decreased.
- Changed to a select and ultimate table with a four year select period, and lowered the current age-based withdrawal rates for the ultimate period for General Employees.
- Updated mortality for healthy lives to 1994 Group Annuity Mortality Table from the 1983 Group Annuity Mortality Table.

**City of Kansas City, Missouri**  
**The Employees' Retirement System**  
A Component Unit of the City of Kansas City, Missouri  
**Notes to Required Supplementary Information (Continued)**  
**April 30, 2015 and 2014**

The following actuarial methods and assumptions were used to determine the actuarially determined employer contribution reported in the most recent fiscal year, which was based on the April 30, 2014 actuarial valuation:

Valuation Date	5/1/2014
Timing	Actuarially determined contribution rates are calculated based on the actuarial valuation one year prior to the beginning of the plan year.

Key Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry Age
Asset valuation method	4-year smoothing using Expected Value Method. 85% / 110% corridor around market value.
Amortization method	20-year layered amortization as a level percent of pay. Changes to the 5/1/2009 unfunded actuarial liability was amortized over 30 years.
Discount rate	7.50%
Amortization growth rate	4.00%
Price inflation	3.00%
Salary increases	Ranges from 8.0% to 4.0%
Cost-of-living adjustments	3.00% simple
Mortality	Healthy: 1994 Group Annuity Mortality Table Disabled: 1983 Railroad Retirement Board Disabled Life Mortality Table