

**PUBLIC SCHOOL RETIREMENT SYSTEM  
OF THE SCHOOL DISTRICT OF KANSAS CITY, MISSOURI**

**FINANCIAL STATEMENTS**

Years Ended December 31, 2008 and 2007

**PUBLIC SCHOOL RETIREMENT SYSTEM**

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**INDEPENDENT AUDITORS' REPORT**

To the Board of Trustees  
Public School Retirement System of the School District of Kansas City, Missouri  
Kansas City, Missouri

We have audited the accompanying statements of plan net assets of the Public School Retirement System of the School District of Kansas City, Missouri (the "Retirement System"), which was created by the General Assembly of the State of Missouri, as of December 31, 2008 and 2007, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. 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 status of the Retirement System as of December 31, 2008 and 2007, and the changes in its financial status for the years then ended, in conformity with U.S. generally accepted accounting principles.

The management discussion and analysis for the years ended December 31, 2008 and 2007 on pages 2 through 5 and the schedules of funding progress and employer contributions for the years ended December 31, 2002 through 2008 on pages 16 and 17 are not a required part of the 2008 and 2007 basic financial statements but are supplementary information required by the U.S. 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 December 31, 2008 and 2007 supplementary information. However, such information has not been subjected to the auditing procedures applied in the audit of the 2008 and 2007 basic financial statements and, accordingly, we express no opinion on them.

The financial statements include summarized prior-year comparative information. Such information does not include all of the information required or sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Retirement System's financial statements for the year ended December 31, 2007, from which such partial, summarized information was derived.

*Mayer Hoffman McCann P.C.*

Leawood, Kansas  
October 28, 2009

## **MANAGEMENT DISCUSSION AND ANALYSIS**

**PUBLIC SCHOOL RETIREMENT SYSTEM**  
**MANAGEMENT DISCUSSION AND ANALYSIS**

Years Ended December 31, 2008 and 2007

Our discussion and analysis of the Public School Retirement System of the School District of Kansas City, Missouri's (the "Retirement System") financial performance provides an overview of the Retirement System's financial activities for the years ended December 31, 2008 and 2007.

**Financial statements**

**Statement of Plan Net Assets** - The statement of plan net assets reports the Retirement System's assets, liabilities, and the resultant net assets available at the end of the year (Assets - Liabilities = Net Assets). All assets and liabilities are recorded by use of the accrual basis of accounting. The assets are generally made up of cash, investments (at market value), and contributions receivable from participating employers and plan members. The liabilities include unpaid and/or accrued expenses as of the end of the year. Overall, this statement shows the financial position of the Retirement System at the specified year-end date.

**Statement of Changes in Plan Net Assets** - The statement of changes in plan net assets reports the transactions of the Retirement System that occurred during the year. All of the current year's revenue and expenses are taken into account when preparing this statement. This statement not only shows that Additions - Deductions = Net Changes in Plan Net Assets, but it also supports the change that has occurred to the prior year's net asset value as shown on the statement of plan net assets.

**Notes to the Financial Statements** - The notes to the financial statements are an integral part of the financial statements and include supplementary information (including this management discussion and analysis) that is not readily evident in the statements themselves. The required supplementary information provides historical and supplementary information, which is considered useful in the evaluation of the condition of the Plan, which is administered by the Retirement System.

**PUBLIC SCHOOL RETIREMENT SYSTEM**  
**MANAGEMENT DISCUSSION AND ANALYSIS**

Years Ended December 31, 2008 and 2007

**Comparative statements**

The following are summary comparative statements of the Retirement System. For the purpose of this report, these comparative statements have been condensed to give its users a quick overview of the Retirement System's net assets and changes in them. One can think of the Retirement System's net assets as a way to measure the Retirement System's financial health. Over time, increases or decreases in the Retirement System's net assets are indicators of whether its financial health is improving or deteriorating.

**Summary Comparative Statements of Plan Net Assets**

|  | <b>December 31,</b>   |                       | <b>Percentage<br/>Change</b> |
|--|-----------------------|-----------------------|------------------------------|
|  | <b>2008</b>           | <b>2007</b>           |                              |
| Investments  | \$ 615,885,525        | \$ 840,084,613        | -26.69%                      |
| Receivables  | 3,472,684             | 20,864,650            | -83.36%                      |
| Property and equipment, net of<br>accumulated depreciation | 2,837,721             | 1,756,633             | 61.54%                       |
| Cash   | 4,551,624             | 1,132,879             | 301.77%                      |
| Other  | 46,771                | 40,890                | 14.38%                       |
| <b>Total assets</b>  | <b>626,794,325</b>    | <b>863,879,665</b>    | <b>-27.44%</b>               |
| Securities purchased                                       | 1,453,814             | 9,264,599             | -84.31%                      |
| Accounts payable   | 620,993               | 832,760               | -25.43%                      |
| Accrued expenses   | 72,458                | 59,565                | 21.65%                       |
| <b>Total liabilities</b>                                   | <b>2,147,265</b>      | <b>10,156,924</b>     | <b>-78.86%</b>               |
| <b>Net assets held in trust for<br/>pension benefits</b>   | <b>\$ 624,647,060</b> | <b>\$ 853,722,741</b> | <b>-26.83%</b>               |

**PUBLIC SCHOOL RETIREMENT SYSTEM**  
**MANAGEMENT DISCUSSION AND ANALYSIS**

Years Ended December 31, 2008 and 2007

**Comparative statements (continued)**

**Summary Comparative Statements of Changes in Plan Net Assets**

|   | <u>Years Ended December 31,</u> |                       | <u>Percentage<br/>Change</u> |
|---|---------------------------------|-----------------------|------------------------------|
|   | <u>2008</u>                     | <u>2007</u>           |                              |
| Net investment income (loss)  | \$ (195,311,935)                | \$ 51,433,113         | -479.74%                     |
| Securities lending income   | -                               | 208,221               | -100.00%                     |
| Other income  | -                               | 2,705                 | -100.00%                     |
| Contributions   | 31,501,230                      | 30,420,687            | 3.55%                        |
| <b>Total additions (reductions)</b>   | <b>(163,810,705)</b>            | <b>82,064,726</b>     | <b>-299.61%</b>              |
| Benefits paid   | 59,334,054                      | 55,534,728            | 6.84%                        |
| Refunds of contributions  | 4,536,201                       | 4,254,521             | 6.62%                        |
| Depreciation expense  | 51,481                          | 47,237                | 8.98%                        |
| Loss on sale of fixed asset   | 31,965                          | -                     |                              |
| Administrative expenses   | 1,311,275                       | 1,304,588             | 0.51%                        |
| <b>Total deductions</b>   | <b>65,264,976</b>               | <b>61,141,074</b>     | <b>6.74%</b>                 |
| <b>Increase (decrease) in net assets held in trust for pension benefits</b> | <b>(229,075,681)</b>            | <b>20,923,652</b>     | <b>-1194.82%</b>             |
| Net assets held in trust for pension benefits:                              |                                 |                       |                              |
| Beginning of year   | 853,722,741                     | 832,799,089           | 2.51%                        |
| End of year   | <b>\$ 624,647,060</b>           | <b>\$ 853,722,741</b> | <b>-26.83%</b>               |

For the year ended December 31, 2008, the change in plan net assets for the Retirement System decreased by almost 27% over those of December 31, 2007 (\$625 million compared to \$854 million).

**Office facility**

In October 2004, the Retirement System purchased the property located at 4600 Paseo Boulevard (a.k.a. 1331 Brush Creek and 4605 Virginia). The acquisition of this 14,200 square foot facility is to serve as the Retirement System's office space. The purchase price was \$884,050. The purchase of this facility affords the Retirement System the ability to cease paying rent for office space (which was \$5,668 per month for 3,400 square feet of downtown space) and parking. The new facility affords the Retirement System approximately 100 parking spaces along with a large, open meeting area. The facility is large enough to allow for the rental of office space to other entities, and consequently offers the possibility to reduce occupancy costs. Furthermore, real estate is generally an appreciating asset. The appreciation in this asset will serve to increase the net assets of the Retirement System.

**PUBLIC SCHOOL RETIREMENT SYSTEM**  
**MANAGEMENT DISCUSSION AND ANALYSIS**

Years Ended December 31, 2008 and 2007

**Office facility (continued)**

In August 2005, the Retirement System relocated its offices from downtown to the new facility at 4600 Paseo Boulevard. Remodeling construction had been completed on phase one when the Retirement System took occupancy. During the remainder of 2005, construction continued on phases two and three of the building. The Retirement System is aggressively working with a commercial realtor to solicit tenants to lease for the two wings that are currently unoccupied.

The value of the building as reflected in the above summary comparative statement of plan net assets compares the net book value at December 31, 2008 and 2007. The net book value includes original cost plus the construction costs less accumulated depreciation costs.

|                                 | <b>December 31,</b> |              |
|---------------------------------|---------------------|--------------|
|                                 | <b>2008</b>         | <b>2007</b>  |
| Cost                            |                     |              |
| Land, building and improvements | \$ 2,483,684        | \$ 1,851,674 |
| Equipment                       | 16,679              | 16,679       |
| Software                        | 497,725             | -            |
| Total cost                      | 2,998,088           | 1,868,353    |
| Less: accumulated depreciation  | (160,367)           | (111,720)    |
| Net property and equipment      | \$ 2,837,721        | \$ 1,756,633 |



**AUDITED FINANCIAL STATEMENTS**

**PUBLIC SCHOOL RETIREMENT SYSTEM  
OF THE SCHOOL DISTRICT OF KANSAS CITY, MISSOURI**

**STATEMENTS OF PLAN NET ASSETS**

December 31, 2008 and 2007

|   | 2008                  | 2007                  |
|---|-----------------------|-----------------------|
| <b><u>ASSETS</u></b>  |                       |                       |
| Investments, at fair value:   |                       |                       |
| Money market investments  | \$ 24,018,599         | \$ 19,609,693         |
| US treasury securities  | 2,330,326             | -                     |
| Corporate fixed income  | 42,398,675            | 36,437,012            |
| Government bonds & government<br>mortgage-backed securities   | 29,754,615            | 40,202,955            |
| Commingled domestic fixed income  | 70,753,720            | 90,370,834            |
| Global fixed income   | 45,328,622            | 57,284,634            |
| Domestic equity   | 211,295,122           | 378,069,579           |
| International equity  | 77,336,802            | 134,004,629           |
| Pooled real estate funds  | 37,770,419            | 44,781,951            |
| Alternative fixed income  | 54,657,462            | 24,141,773            |
| Private equity funds  | 20,241,163            | 14,965,380            |
| Foreign exchange contracts  | -                     | 216,173               |
|   | 615,885,525           | 840,084,613           |
| Receivables:  |                       |                       |
| Plan member contributions   | 721,139               | 686,963               |
| Employers contributions   | 218,393               | 141,599               |
| Due from brokers for securities sold  | 830,080               | 18,197,399            |
| Accrued interest and dividends  | 1,703,072             | 1,790,707             |
| Other receivables   | -                     | 47,982                |
|   | 3,472,684             | 20,864,650            |
| Property and equipment, at cost, net of<br>accumulated depreciation of \$160,367 and<br>\$111,720, respectively | 2,837,721             | 1,756,633             |
| Cash  | 4,551,624             | 1,132,879             |
| Other assets  | 46,771                | 40,890                |
|   | 7,436,116             | 2,930,402             |
| <b>TOTAL ASSETS</b>   | <b>626,794,325</b>    | <b>863,879,665</b>    |
| <b><u>LIABILITIES</u></b>   |                       |                       |
| Due to brokers for securities purchased   | 1,453,814             | 9,264,599             |
| Accounts payable  | 620,993               | 832,760               |
| Accrued payroll expenses  | 72,458                | 59,565                |
|   | 2,147,265             | 10,156,924            |
| <b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>  | <b>\$ 624,647,060</b> | <b>\$ 853,722,741</b> |

See Notes to Financial Statements

**PUBLIC SCHOOL RETIREMENT SYSTEM  
OF THE SCHOOL DISTRICT OF KANSAS CITY, MISSOURI**

**STATEMENTS OF CHANGES IN PLAN NET ASSETS**

Years Ended December 31, 2008 and 2007

|   | 2008              | 2007           |
|---|-------------------|----------------|
| <b>ADDITIONS</b>  |                   |                |
| Investment income:  |                   |                |
| Net realized and unrealized appreciation<br>(depreciation) in fair value of investments | \$ (207,027,453)  | \$ 35,379,410  |
| Interest  | 10,087,029        | 14,119,780     |
| Dividends   | 3,955,579         | 5,260,286      |
| Securities lending income   | -                 | 208,221        |
| Other income  | -                 | 2,705          |
|   | (192,984,845)     | 54,970,402     |
| Less: investment expense  | 2,327,090         | 3,326,363      |
| Net investment income (loss)  | (195,311,935)     | 51,644,039     |
| Contributions:  |                   |                |
| Plan members  | 15,612,996        | 15,055,452     |
| Employers   | 15,888,234        | 15,365,235     |
| Total contributions   | 31,501,230        | 30,420,687     |
| <br>TOTAL ADDITIONS (DEDUCTIONS)  | <br>(163,810,705) | <br>82,064,726 |
| <br><b>DEDUCTIONS</b>   |                   |                |
| Benefits paid   | 59,334,054        | 55,534,728     |
| Refund of contributions   | 4,536,201         | 4,254,521      |
| Depreciation expense  | 51,481            | 47,237         |
| Loss on sale of fixed asset   | 31,965            | -              |
| Administrative expenses   | 1,311,275         | 1,304,588      |
|   | 65,264,976        | 61,141,074     |
| <br>TOTAL DEDUCTIONS  | <br>65,264,976    | <br>61,141,074 |
| <br>NET INCREASE (DECREASE)   | <br>(229,075,681) | <br>20,923,652 |
| <br><b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>                                |                   |                |
| Beginning of year   | 853,722,741       | 832,799,089    |
| End of year   | \$ 624,647,060    | \$ 853,722,741 |

See Notes to Financial Statements

**PUBLIC SCHOOL RETIREMENT SYSTEM  
OF THE SCHOOL DISTRICT OF KANSAS CITY, MISSOURI**

**NOTES TO FINANCIAL STATEMENTS**

**( 1 ) Description of plan**

The following description of the Public School Retirement System of the School District of Kansas City, Missouri (the "Retirement System") provides only general information. Participants should refer to the Missouri Revised Statutes regarding the Retirement System or the Summary Plan Description for a more complete description of the Retirement System's provisions, which are available from the Retirement System's administrator.

**General** - The Retirement System is a cost-sharing multiple-employer defined benefit pension plan (the "Plan"), which was established by the General Assembly of the State of Missouri and is exempt from the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). The Board of Trustees of the Retirement System administers and operates the Plan in accordance with the statutes of the State of Missouri. At December 31, 2008, participating employers consisted of the School District of Kansas City, Missouri; the Kansas City, Missouri Public Library District; the Retirement System; and the following charter schools: Academie LaFayette, Academy of Kansas City, Allen Village Center, Alta Vista, Benjamin Banneker, Brookside Day School, Della Lamb Elementary Charter School, Derrick Thomas Academy, Don Bosco High School, Genesis School, Gordon Parks Elementary School, Hogan Preparatory Academy, Lee Tolbert Academy, Scuola Vita Nuova, University Academy and Urban Community Leadership Academy. During 2007, Brookside Frontier Math and Science School and Kipp Endeavor Academy were added as participating employers.

**Eligibility** - All regular, full-time employees of the participating employers become members of the Plan as a condition of employment if they are in a position requiring at least 25 hours of work per week and nine calendar months per year. Employees hired before or during 1961 are members of Plan A. Employees hired after 1961 are members of Plan B. At January 1, 2008 and 2007, the Plan's membership consisted of:

|  | <b>2008</b> | <b>2007</b> |
|--|-------------|-------------|
| Active plan members  | 4,862       | 4,757       |
| Retirees and beneficiaries receiving benefits                      | 3,283       | 3,198       |
| Terminated plan members entitled to but not yet receiving benefits | 1,924       | 1,877       |
| Total plan membership  | 10,069      | 9,832       |

Terminated plan members entitled to but not yet receiving benefits include former members who are entitled to a refund of their contributions plus accrued interest.

**Contributions** - Members of Plan A contribute 5% of annual compensation up to \$3,000, for a maximum annual contribution of \$150. Effective January 1, 1999, members of Plan B contribute 7.5% of annual compensation, as defined.

Effective January 1, 1999, employers contribute 7.5% of annual compensation, as defined.

**Service** - Creditable service is membership service. This is service for which required contributions have been made. For members in Plan A, creditable service is limited to 40 years. Members of Plan B are effectively limited to 30 years of creditable service, regardless of the number of years actually worked, unless the member earned more than 30 years prior to August 28, 1993.

**PUBLIC SCHOOL RETIREMENT SYSTEM  
OF THE SCHOOL DISTRICT OF KANSAS CITY, MISSOURI**

**NOTES TO FINANCIAL STATEMENTS**

**(1) Description of plan (continued)**

**Compensation**

*Annual compensation* - For members of Plan A, annual compensation is limited to \$3,000. There is not a limitation on annual compensation for years after 1988 for members of Plan B. However, for years prior to 1989, members of Plan B's annual compensation are limited to the scheduled compensation for a school principal who holds a master's degree. A member's annual compensation is the member's regular compensation.

*Average final compensation* - For members of Plan A, the average final compensation is the average annual compensation paid in the five years of creditable service when a member's compensation is greatest, subject to a maximum of \$3,000. For members of Plan B, the average final compensation is the highest average compensation paid during any four consecutive years of creditable service.

**Normal retirement**

*Eligibility* - A member of Plan A may retire after the completion of five years of creditable service, provided such member has attained the age of 62. A member of Plan B may retire (a) after the completion of five years of creditable service, provided such member has attained at least the age of 60 or (b) after the member has accumulated a minimum of 75 credits (effective August 28, 1998), where each year of creditable service plus a member's age equals 75 credits.

*Benefit* - For a member of Plan A, the normal monthly retirement benefit equals the product of one-twelfth of 1.25% of the member's average final compensation and years of creditable service. For a member of Plan B, the normal monthly retirement benefit equals the product of one-twelfth of 2.00% (1.75% for members who retired prior to June 30, 1999) of the member's average final compensation and years of creditable service, subject to a maximum of 60% of their average final compensation. The normal monthly retirement benefit for a member of Plan B whose years of creditable service exceeded 34.25 years on August 28, 1993, shall equal the product of 1.75% and the member's years of creditable service on August 28, 1993.

*Minimum benefit* - Effective January 1, 1996, any member with at least ten years of service, but less than twenty years, is entitled to a minimum monthly retirement benefit equal to the sum of \$150 and \$15 for each full year of creditable service in excess of ten years or the actuarial equivalent if an option is elected. Any member with at least twenty years of creditable service at retirement is entitled to a minimum monthly retirement benefit of \$300 or the actuarial equivalent of \$300 if an option is elected. Beneficiaries of deceased members who retired with at least ten year of creditable service and elected one of the optional plans for payment of benefits may receive the actuarial equivalent of the minimum monthly retirement benefit available for the option chosen.

Under either Plan, if a member's accumulated contributions provide more than one-half of the member's monthly retirement benefit (under the actuarial assumptions adopted by the Board of Trustees), the member's benefit will be increased by this excess.

**Early retirement**

*Eligibility* - A member with at least five years of creditable service and a minimum age of fifty-five is eligible for early retirement. A member with at least thirty years of creditable service may retire at any time regardless of age.

**PUBLIC SCHOOL RETIREMENT SYSTEM  
OF THE SCHOOL DISTRICT OF KANSAS CITY, MISSOURI**

**NOTES TO FINANCIAL STATEMENTS**

**(1) Description of plan (continued)**

*Benefit* - A member eligible for early retirement will receive a reduced benefit, calculated as for normal retirement, which recognizes service and compensation to the actual retirement date. The reduction in benefit will provide a benefit which is actuarially equivalent to the normal retirement benefit that would be payable at the member's normal retirement date.

**Disability retirement**

*Eligibility* - A member with at least five years of creditable service who is certified to be totally incapacitated for performance of duty by the Medical Board (as designated by the Board of Trustees) is eligible for disability retirement.

*Benefit* - A disabled member will receive an unreduced benefit, calculated as for normal retirement, based on service and average final compensation at the actual retirement date. The minimum disability retirement allowance shall be the lesser of:

1. Twenty-five percent of the person's average compensation; or
2. The member's service retirement allowance calculated based on the member's final average compensation and the maximum number of years of creditable service the member would have earned had the member remained an employee until attaining the age of sixty.

**Termination benefits - vested**

*Eligibility* - A member who has at least five years of creditable service earns a vested interest in their accrued benefit, provided the member leaves their contributions in the Plan.

*Benefit* - The vested benefit is calculated as a normal retirement benefit based on a member's creditable service and average final compensation on the termination date. The benefit is payable, at minimum, on the member's normal retirement date.

**Termination benefits - non-vested**

If the member's termination is for reasons other than death or retirement, and if the member has not met the vesting or retirement requirements, only the member's contributions with interest will be refunded.

**Death benefit**

*Prior to retirement* - For a member who passes away while actively employed, the member's accumulated contributions with interest will be paid to the member's beneficiary. Certain beneficiaries of a member of Plan B have the option to receive a monthly retirement benefit or a refund of the member's contributions with interest. All beneficiaries are guaranteed to receive at least the member's accumulated contributions at retirement, if a member passes away before electing an option.

*Post retirement* - The optional form of benefit payment selected under either Plan A or Plan B will determine what, if any, benefits are payable upon death after retirement.

Option 1 - The retiree's beneficiary will receive, for life, the same level of monthly retirement benefit. In the event that the retiree's beneficiary predeceases the retiree, the retiree's monthly retirement benefit will be adjusted to the amount it would have been, had the retiree not elected Option 1.

**PUBLIC SCHOOL RETIREMENT SYSTEM  
OF THE SCHOOL DISTRICT OF KANSAS CITY, MISSOURI**

**NOTES TO FINANCIAL STATEMENTS**

**(1) Description of plan (continued)**

**Death benefit (continued)**

Option 2 - The retiree's beneficiary will receive, for life, a monthly retirement benefit equal to one-half that the retiree's benefit. In the event of the retiree's beneficiary predeceases the retiree, the retiree's monthly benefit will be adjusted to the amount it would have been, had the retiree not elected Option 2.

Option 3 - No benefits are payable to the retiree's estate or any beneficiary. Retirement benefits payable under this option will be actuarially increased from the normal formula.

If the death of any retiree who has not elected an option occurs before they have received total benefits at least as large as their accumulated contributions, the difference shall be paid to the deceased's beneficiary, if living, or to their estate.

**Benefit increase adjustments** - The Board of Trustees shall determine annually whether or not the Retirement System can provide an increase in benefits for those retirees who, as of January 1 preceding the date of such increase, have been retired at least one year (three years prior to January 1, 2002). Any increase also applies to optional retirement allowances paid to a retiree's beneficiary. Before any increases are made, the following requirements must be satisfied:

1. The Retirement System funded ratio as of January 1<sup>st</sup> of the preceding year of the proposed increase must be at least 100% after adjusting for the effect of the proposed increase. The funded ratio is the ratio of assets to the pension benefit obligation.
2. The actuarially required contribution rate, after adjusting for the effect of the proposed increase, may not exceed the statutory contribution rate.
3. The actuary must certify that the proposed increase will not impair the actuarial soundness of the Retirement System.

In accordance with the Benefit Increase Adjustments Policy, if an increase is permissible, the amount of the increase will be equal to the lesser of 3% or the percentage increase in the CPI for the preceding year, subject to a cumulative increase of 100% subsequent to December 31, 2000.

The Board of Trustees reserves the right, at its sole discretion, not to award any Benefit Increase Adjustment or other supplements for any year, even if the statutory requirements for an increase are satisfied, or to provide increases in greater or lesser amounts than prescribed by this policy. For the years ended December 31, 2008 and 2007, the Board of Trustees elected to award a Benefit Increase Adjustment and issue an extra check in the amount of \$800 to eligible retirees.

**Administration of the Retirement System** - The Board of Trustees is responsible for the general administration and proper operation of the Retirement System. The Board consists of twelve members: four members appointed by the Board of Education, one member appointed by the Board of Trustees of the Library District, four members elected by and from the members of the Retirement System, two members elected by and from the retirees of the Retirement System, and the Superintendent of Schools of the School District of Kansas City, Missouri. The Board hires an Executive Director to manage the day-to-day operations and implement strategic plans as set by the Board.

**PUBLIC SCHOOL RETIREMENT SYSTEM  
OF THE SCHOOL DISTRICT OF KANSAS CITY, MISSOURI**

**NOTES TO FINANCIAL STATEMENTS**

**( 2 ) Summary of significant accounting policies**

**Basis of accounting** - The financial statements of the Retirement System are prepared under the accrual method of accounting. Plan member and employer contributions are recognized in the period in which the contributions are due. Based on an agreement with the State of Missouri, the School District of Kansas City, Missouri and the Kansas City, Missouri Public Library District pay the employer portions of the retirement payment one year in arrears and are not included in receivables. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

**Use of estimates** - The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and changes therein, and disclosures of contingent assets and liabilities. Accordingly, actual results may differ from those estimates.

**Investment valuation and income recognition** - Investments are stated at fair value. Quoted market prices, if available, are used to value investments. The net unrealized appreciation or depreciation in the fair value of investments for the period reflects the net increase or decrease in the fair value of the investments, on an aggregate basis, between the beginning and the end of the reporting period. The net realized gain or loss on sale of investments is the difference between the proceeds received and the cost of the investment sold. The net realized gains and losses have been combined with the net unrealized appreciation and depreciation for purposes of this report. The fair value of private equity funds, which are not readily marketable, is estimated by the general partner of the respective funds.

Pooled real estate funds consist of funds invested in income producing real estate. These pooled real estate funds are valued at current value based on information received from the sponsor. The value of underlying real estate is generally determined by independent appraisal. Such value may differ from a price at which the real estate could be sold because market prices are negotiated by willing buyers and sellers.

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

**Concentration risk** - The Retirement System does not have investments in individual securities that represent more than five percent of the total net asset value as of December 31, 2008.

**Custodial credit risk** - Custodial credit risk is when, in the event a financial institution or counterparty fails, the Retirement System would not be able to recover the value of deposits, investments or collateral securities that are in the possession of an outside party. All investments are held in the Retirement System's name and are not subject to creditors of the custodial financial institution.



**PUBLIC SCHOOL RETIREMENT SYSTEM  
OF THE SCHOOL DISTRICT OF KANSAS CITY, MISSOURI**

**NOTES TO FINANCIAL STATEMENTS**

**(2) Summary of significant accounting policies (continued)**

**Currency risk** - Currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Retirement System's investments at December 31, 2008, were distributed among the following currencies:

| <u>USD</u><br><u>Equivalent</u> | <u>Currency</u>         | <u>Percent</u> |
|---------------------------------|-------------------------|----------------|
| \$ 2,362,271                    | Australian Dollar       | 0.4%           |
| 4,854,191                       | Belgium Franc           | 0.8%           |
| 4,456,555                       | Euro Currency Unit      | 0.7%           |
| 3,824,128                       | French Franc            | 0.6%           |
| 2,584,096                       | German Mark             | 0.4%           |
| 660,101                         | Hungarian Forint        | 0.1%           |
| 14,667,252                      | Japanese Yen            | 2.4%           |
| 2,174,816                       | Mexican New Peso        | 0.4%           |
| 314,429                         | Netherlands Gelder      | 0.1%           |
| 2,441,708                       | Polish Zloty            | 0.4%           |
| 6,871,821                       | British Pound Sterling  | 1.1%           |
| 570,674,157                     | U.S. Dollar             | 92.6%          |
| <u>\$ 615,885,525</u>           | <b>Total Currencies</b> | <u>100.0%</u>  |

**Credit risk** - Credit risk is the risk that an issuer or other counterparty to a debt investment will not fulfill its obligations. The Retirement System's investment policies require that any investment manager have at least 80% of holdings in issues rated A or higher by both Standard & Poor's Corporation or Moody's Investors Service or their equivalents. Each portfolio is required to maintain a reasonable risk level relative to its benchmark. The Retirement System's assets as of December 31, 2008, subject to credit risk are shown with current credit ratings below:

|            |                       |               |
|------------|-----------------------|---------------|
| Government | \$ 32,805,832         | 30.5%         |
| AAA        | 35,812,014            | 33.3%         |
| AA         | 17,489,614            | 16.3%         |
| A          | 10,639,929            | 9.9%          |
| BAA        | 8,761,363             | 8.2%          |
| BA         | 1,493,386             | 1.4%          |
| B          | 419,600               | 0.4%          |
|            | <u>\$ 107,421,738</u> | <u>100.0%</u> |

**PUBLIC SCHOOL RETIREMENT SYSTEM  
OF THE SCHOOL DISTRICT OF KANSAS CITY, MISSOURI**

**NOTES TO FINANCIAL STATEMENTS**

**( 2 ) Summary of significant accounting policies (continued)**

**Interest rate risk** - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Retirement System's assets subject to interest rate risk are shown below grouped by effective duration ranges:

| Security Description | Current Market Value  | Investment Maturities (in years) |                      |                      |                      |
|----------------------|-----------------------|----------------------------------|----------------------|----------------------|----------------------|
|                      |                       | Less Than 1                      | 1 - 5                | 6 - 10               | Greater Than 10      |
| Corporate bonds:     |                       |                                  |                      |                      |                      |
| United States        | \$ 31,861,639         | \$ 672,406                       | \$ 9,199,731         | \$ 9,667,985         | \$ 12,321,517        |
| Europe               | 3,762,564             | -                                | 2,128,897            | 1,004,933            | 628,734              |
| Asia/Pacific         | 5,748,573             | -                                | 3,301,693            | 2,079,950            | 366,930              |
| Government bonds:    |                       |                                  |                      |                      |                      |
| United States        | 32,805,833            | 2,333,929                        | 2,118,548            | 7,912,337            | 20,441,019           |
| Europe               | 20,391,004            | -                                | 8,085,330            | 8,300,143            | 4,005,531            |
| Latin America        | 2,086,775             | -                                | 783,965              | -                    | 1,302,810            |
| Asia/Pacific         | 10,765,350            | 330,367                          | 6,718,231            | 1,886,881            | 1,829,871            |
|                      | <u>\$ 107,421,738</u> | <u>\$ 3,336,702</u>              | <u>\$ 32,336,395</u> | <u>\$ 30,852,229</u> | <u>\$ 40,896,412</u> |

**Securities lending program** - The Board of Trustees entered into a securities lending agreement and guarantee with Metropolitan West Securities, LLC ("Met West") under which certain securities, which are owned by the Retirement System, are loaned to brokers (borrowers) which participate in the bank's securities lending program. The borrower shall provide collateral in the form of government securities, letters of credit, and/or cash in an amount equal to 102% of the then current market value of loaned securities, which are the subject of loans as of the close of trading on the preceding business day. In September 2003, the Retirement System terminated the securities lending program with Met West. Subsequent to that agreement, Met West was purchased by Wachovia Securities and the Retirement System acknowledged the purchase with an amendment to that agreement. As of December 31, 2008 and 2007, there were no securities on loan to participating brokers. For the year ended December 31, 2007, the Plan recognized \$208,221 of securities lending income. On September 12, 2007, the Board of Trustees of the Retirement System instructed Wachovia Securities to suspend all further securities lending activity.

**Property and equipment** - Property and equipment are carried at cost. Purchases are depreciated over their estimated useful lives by use of the straight-line method. The useful lives for the purpose of computing depreciation are:

|                           |          |
|---------------------------|----------|
| Building and improvements | 40 years |
| Equipment                 | 7 years  |

Depreciation expense for the years ended December 31, 2008 and 2007 was \$51,481 and \$47,237, respectively.

**Reclassification** - Certain items in the 2007 presentation have been reclassified to conform to the 2008 presentation.

**PUBLIC SCHOOL RETIREMENT SYSTEM  
OF THE SCHOOL DISTRICT OF KANSAS CITY, MISSOURI**

**NOTES TO FINANCIAL STATEMENTS**

**(3) Funding policy**

The Missouri Revised Statutes 169.350.1(1) and 169.291.16 specify that the employee and the employer each contribute 7.5% of compensation, as defined.

**(4) Tax status**

The Retirement System is exempt from federal income tax under Section 501 of the Internal Revenue Code.

**(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 risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of plan net assets.

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.

Changes in the discount rate and investment returns can have a significant effect on the funded status of the Plan. Management continues to monitor these changes and the potential impact on the future plan funding requirements that could materially and adversely affect the participating employers' financial condition and cash flows.

**REQUIRED SUPPLEMENTARY INFORMATION**

**PUBLIC SCHOOL RETIREMENT SYSTEM  
OF THE SCHOOL DISTRICT OF KANSAS CITY, MISSOURI**

**REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF FUNDING PROGRESS**

| Actuarial<br>Valuation<br>Date | Actuarial<br>Value<br>of Assets<br>A | Actuarial<br>Accrued<br>Liability<br>B | Unfunded Actuarial<br>Accrued Liability<br>(UAAL)<br>B-A | Funded<br>Ratio<br>A/B | Covered<br>Payroll<br>C | UAAL as a<br>Percentage of<br>Covered Payroll<br>(B-A)/C |
|--------------------------------|--------------------------------------|--|--|------------------------|-------------------------|--|
| 1/1/2003                       | \$ 717,681,067                       | \$ 701,114,370                         | \$ (16,566,697)  | 102.36%                | \$ 168,391,474          | -9.84%   |
| 1/1/2004                       | 738,612,110                          | 716,126,707                            | (22,485,403)   | 103.14%                | 186,528,530             | -12.05%  |
| 1/1/2005                       | 763,684,602                          | 747,711,194                            | (15,973,408)   | 102.14%                | 195,866,663             | -8.16%   |
| 1/1/2006                       | 788,788,666                          | 780,663,389                            | (8,125,277)  | 101.04%                | 187,445,140             | -4.33%   |
| 1/1/2007                       | 824,302,795                          | 818,027,315                            | (6,275,480)  | 100.77%                | 199,221,110             | -3.15%   |
| 1/1/2008                       | 854,123,580                          | 781,284,025                            | (72,839,555)   | 109.32%                | 202,311,837             | -36.00%  |

**SCHEDULE OF EMPLOYERS' CONTRIBUTIONS**

| Year<br>Ended<br>December 31, | Annual<br>Required<br>Contribution | Percentage<br>Contributed |
|-------------------------------|------------------------------------|---------------------------|
| 2003                          | \$ 10,984,595                      | 122.3%                    |
| 2004                          | 12,338,049                         | 113.5%                    |
| 2005                          | 12,769,634                         | 112.8%                    |
| 2006                          | 11,774,051                         | 122.6%                    |
| 2007                          | 11,523,380                         | 133.3%                    |
| 2008                          | 3,832,178                          | 414.6%                    |

See Notes to Required Supplementary Information

**PUBLIC SCHOOL RETIREMENT SYSTEM  
OF THE SCHOOL DISTRICT OF KANSAS CITY, MISSOURI**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

December 31, 2008

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

|                               |  |
|-------------------------------|--|
| Valuation Date                | January 1, 2008  |
| Actuarial Cost Method         | Entry Age Actuarial Cost Method  |
| Amortization Method           | Level dollar, open amortization period   |
| Remaining Amortization Period | 30 years   |
| Asset Valuation Method        | Assume yield method  |
| Actuarial Assumptions:        |  |
| Investment Rate of Return     | 8.00%  |
| Projected Salary Increases    | Salaries are assumed to increase at the rate of 5% per year                        |
| Benefit Increase Adjustments  | Maximum of 3% per year will be provided up to a lifetime cumulative maximum of 10% |

See Notes to Required Supplementary Information