

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

FINANCIAL STATEMENTS

Years Ended December 31, 2010 and 2009

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

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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, 2010 and 2009, 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, 2010 and 2009, 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, 2010 and 2009 on pages 2 through 5 and the schedules of funding progress and employers' contributions for the years ended December 31, 2003 through 2010 on page 17 are not a required part of the 2010 and 2009 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, 2010 and 2009 supplementary information. However, such information has not been subjected to the auditing procedures applied in the audit of the 2010 and 2009 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, 2010, from which such partial, summarized information was derived.

A handwritten signature in black ink that reads "Mayer Hoffman McCann P.C." in a cursive, flowing script.

Leawood, Kansas
June 17, 2011

MANAGEMENT DISCUSSION AND ANALYSIS

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

MANAGEMENT DISCUSSION AND ANALYSIS

Years Ended December 31, 2010 and 2009

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, 2010 and 2009.

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 fair 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. 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
OF THE SCHOOL DISTRICT OF KANSAS CITY, MISSOURI**

MANAGEMENT DISCUSSION AND ANALYSIS

Years Ended December 31, 2010 and 2009

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

	<u>December 31,</u>		<u>Percentage Change</u>
	<u>2010</u>	<u>2009</u>	
Investments	\$ 712,095,271	\$ 675,234,231	5.46%
Receivables	14,842,815	21,086,646	-29.61%
Property and equipment, net of accumulated depreciation	3,547,523	3,497,194	1.44%
Cash	2,714,110	1,877,855	44.53%
Other	47,815	39,279	21.73%
Total assets	<u>733,247,534</u>	<u>701,735,205</u>	4.49%
Securities purchased	2,315,211	6,906,790	-66.48%
Accounts payable	603,697	811,241	-25.58%
Accrued expenses	95,920	87,912	9.11%
Total liabilities	<u>3,014,828</u>	<u>7,805,943</u>	-61.38%
Net assets held in trust for pension benefits	<u>\$ 730,232,706</u>	<u>\$ 693,929,262</u>	5.23%

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

MANAGEMENT DISCUSSION AND ANALYSIS

Years Ended December 31, 2010 and 2009

Comparative statements (continued)

Summary Comparative Statements of Changes in Plan Net Assets

	<u>Years Ended December 31,</u>		<u>Percentage Change</u>
	<u>2010</u>	<u>2009</u>	
Net investment income	\$ 82,209,536	\$ 91,178,216	-9.84%
Other income	46,120	13,333	245.91%
Contributions	27,096,408	29,764,452	-8.96%
 Total additions	 <u>109,352,064</u>	 <u>120,956,001</u>	 -9.59%
Benefits paid	64,638,721	59,231,920	9.13%
Refunds of contributions	6,712,465	4,016,669	67.12%
Depreciation expense	363,456	82,356	341.32%
Administrative expenses	1,333,978	1,230,470	8.41%
 Total deductions	 <u>73,048,620</u>	 <u>64,561,415</u>	 13.15%
 Increase in net assets held in trust for pension benefits	 36,303,444	 56,394,586	 -35.63%
 Net assets held in trust for pension benefits:			
Beginning of year	<u>693,929,262</u>	<u>637,534,676</u>	8.85%
End of year	<u>\$ 730,232,706</u>	<u>\$ 693,929,262</u>	5.23%

For the year ended December 31, 2010, the change in plan net assets for the Retirement System increased by almost 5% over those of December 31, 2009.

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
OF THE SCHOOL DISTRICT OF KANSAS CITY, MISSOURI**

MANAGEMENT DISCUSSION AND ANALYSIS

Years Ended December 31, 2010 and 2009

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.

In September 2009, the Retirement System entered into a one year lease of 2600 square feet in the amount of \$40,000 with a tenant. The lessee has extended the lease for an additional one-year term. This lease will be renegotiated in August of 2011.

The value of the building as reflected in the above Summary Comparative Statements of Plan Net Assets reflects the net book value at December 31, 2010 and 2009. The net book value includes original cost plus the construction costs, less accumulated depreciation costs.

	December 31,	
	2010	2009
Cost		
Land, building and improvements	\$ 2,743,731	\$ 2,731,552
Equipment	16,679	16,679
Software	1,393,292	991,686
Total cost	4,153,702	3,739,917
Less: accumulated depreciation	(606,179)	(242,723)
Net property and equipment	\$ 3,547,523	\$ 3,497,194

AUDITED FINANCIAL STATEMENTS

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

STATEMENTS OF PLAN NET ASSETS

December 31, 2010 and 2009

	2010	2009
<u>ASSETS</u>		
Investments, at fair value:		
Cash and short term investments	\$ 21,494,136	\$ 21,346,065
U.S. treasury securities	-	1,496,202
Corporate fixed income	46,800,909	49,048,390
Government bonds & government mortgage-backed securities	28,164,081	29,922,287
Commingled domestic fixed income	51,851,218	57,713,813
Global fixed income	42,538,174	38,975,081
Domestic equity	304,373,618	273,489,450
International equity	113,298,147	101,726,593
Pooled real estate funds	24,746,073	21,329,561
Alternative fixed income	53,681,871	60,392,094
Private equity funds	25,147,044	19,794,695
	712,095,271	675,234,231
Receivables:		
Plan member contributions	310,045	274,091
Employers' contributions	10,373,559	12,177,842
Due from brokers for securities sold	2,565,137	6,980,281
Accrued interest and dividends	1,594,074	1,654,432
	14,842,815	21,086,646
Other:		
Property and equipment, at cost, less accumulated depreciation	3,547,523	3,497,194
Cash	2,714,110	1,877,855
Other assets	47,815	39,279
	6,309,448	5,414,328
 TOTAL ASSETS	 733,247,534	 701,735,205
 <u>LIABILITIES</u>		
Due to brokers for securities purchased	2,315,211	6,906,790
Accounts payable	603,697	811,241
Accrued payroll expenses	95,920	87,912
	3,014,828	7,805,943
 NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	 \$ 730,232,706	 \$ 693,929,262

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, 2010 and 2009

	<u>2010</u>	<u>2009</u>
ADDITIONS		
Investment income:		
Net realized and unrealized appreciation in fair value of investments	\$ 74,558,865	\$ 82,557,216
Interest	5,895,461	7,955,160
Dividends	4,076,472	2,719,241
Other income	46,120	13,333
	<u>84,576,918</u>	<u>93,244,950</u>
Less: investment expense	2,321,262	2,053,401
Net investment income	<u>82,255,656</u>	<u>91,191,549</u>
 Contributions:		
Plan members	13,282,350	14,995,429
Employers	13,814,058	14,769,023
Total contributions	<u>27,096,408</u>	<u>29,764,452</u>
 TOTAL ADDITIONS	<u>109,352,064</u>	<u>120,956,001</u>
 DEDUCTIONS		
Benefits paid	64,638,721	59,231,920
Refund of contributions	6,712,465	4,016,669
Depreciation expense	363,456	82,356
Administrative expenses	1,333,978	1,230,470
	<u>73,048,620</u>	<u>64,561,415</u>
 TOTAL DEDUCTIONS	<u>73,048,620</u>	<u>64,561,415</u>
 NET INCREASE	36,303,444	56,394,586
 NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Beginning of year	<u>693,929,262</u>	<u>637,534,676</u>
 End of year	<u>\$ 730,232,706</u>	<u>\$ 693,929,262</u>

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, 2010, 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, Allen Village Center, Alta Vista, Benjamin Banneker, Brookside Charter School, Brookside Frontier Math and Science School, DeLaSalle Charter High School, Della Lamb Elementary Charter School, Derrick Thomas Academy, Don Bosco High School, Frontier School of Innovation, Genesis School, Gordon Parks Elementary School, Hogan Preparatory Academy, Hope Academy, Imagine Renaissance Academy for Environmental Science and Math, Kipp Endeavor Academy, Lee Tolbert Academy, Pathway Academy, Tolbert Preparatory Academy, Scuola Vita Nuova, University Academy and Urban Community Leadership Academy.

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, 2010 and 2009, the Plan's membership consisted of:

	2010	2009
Active plan members	4,336	4,648
Retirees and beneficiaries receiving benefits	3,317	3,247
Terminated plan members entitled to but not yet receiving benefits	2,375	1,982
Total plan membership	10,028	9,877

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.

During the year ended December 31, 2010, active plan members decreased and terminated plan members increased due to the Kansas City School District's closing of some of the Retirement System's participating employers due to the "right-sizing plan" that was implemented in 2010.

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 years 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)

Early retirement (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. 25% 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 60.

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 the retiree's benefit. In the event 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 1st 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 year ended December 31, 2009, the Board of Trustees elected to award a Benefit Increase Adjustment and issue an extra check in the amount of \$800 to eligible retirees. For the year ended December 31, 2010 there was no Benefit Increase Adjustment or an extra check issued 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 their retirement payment one year in arrears. These amounts are included in the financial statements as contributions receivable. 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 based on the value determined in audited financial statements.

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, 2010.

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, 2010, were distributed among the following currencies:

<u>USD Equivalent</u>	<u>Currency</u>	<u>Percent</u>
\$ 2,722,630	Australian Dollar	0.4%
13,544,751	Euro Currency Unit	1.9%
4,027,297	Italy	0.6%
14,629,218	Japanese Yen	2.1%
1,680,630	Poland	0.2%
23,799	Swiss Franc	0.0%
675,466,946	U.S. Dollar	94.9%
<u>\$ 712,095,271</u>	Total Currencies	<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 and 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, 2010 subject to credit risk are shown with current credit ratings below:

Government	\$	34,170,287	34.0%
AAA		13,083,813	13.0%
AA		20,612,985	20.5%
A		21,909,818	21.8%
BAA		6,917,640	6.9%
BA		2,176,661	2.2%
B		1,274,688	1.3%
Not Rated		326,002	0.3%
		<u>\$ 100,471,894</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	\$ 30,622,210	\$ 326,000	\$ 11,863,527	\$ 14,311,071	\$ 4,121,612
Europe	5,856,410	-	1,724,302	2,647,665	1,484,443
Government bonds:					
United States	34,170,287	476,309	8,010,674	6,829,647	18,853,657
Europe	13,785,080	970,173	5,332,712	5,989,771	1,492,424
Asia/Pacific	16,037,907	879,647	9,130,351	2,957,092	3,070,817
	<u>\$ 100,471,894</u>	<u>\$ 2,652,129</u>	<u>\$ 36,061,566</u>	<u>\$ 32,735,246</u>	<u>\$ 29,022,953</u>

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
Software	5 years

At such time that the Retirement System enters into a long term lease with a tenant for a significant portion of the building, the recorded value will be split between the portion used in the Retirement System's operations and the portion that is leased. The portion that is used in operations will continue to be recorded at cost and depreciated over the estimated useful life. The portion that is leased will be adjusted to fair value as determined at the time the lease is executed.

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NOTES TO FINANCIAL STATEMENTS

(3) Property and equipment

Property and equipment consisted of the following at December 31, 2010 and 2009:

	December 31,	
	2010	2009
Cost		
Land, building and improvements	\$ 2,743,731	\$ 2,731,552
Equipment	16,679	16,679
Software	1,393,292	991,686
Total cost	4,153,702	3,739,917
Less: accumulated depreciation	(606,179)	(242,723)
Net property and equipment	\$ 3,547,523	\$ 3,497,194

Depreciation expense for the years ended December 31, 2010 and 2009 was \$363,456 and \$82,356, respectively.

(4) 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.

(5) Actuarial information

The Retirement System engages an independent actuarial firm to perform an annual actuarial valuation. The information displayed below presents the funded status as of the most recent actuarial valuation. The Schedule of Funding Progress in the Required Supplementary Information section, immediately following the notes to the financial statements, presents multiyear trend information regarding whether the actuarial value of plan assets is increasing or decreasing over time, relative to the actuarial accrued liability of benefits.

Actuarial Valuation Date	Actuarial Value of Assets A	Actuarial Accrued Liability B	Unfunded Actuarial Accrued Liability (UAAL) B-A	Funded Ratio A/B	Covered Payroll C	UAAL as a Percentage of Covered Payroll (B-A)/C
1/1/2010	\$814,536,473	\$ 819,534,391	\$ 4,997,918	99.39%	\$ 194,474,437	2.57%

The actuarial assumptions used for the most recent valuation are as follows:

Valuation Date	January 1, 2010
Actuarial Cost Method	Entry Age Normal Level Percentage of Pay
Amortization Method	Level dollar, open period
Remaining Amortization Period	30 years
Asset Valuation Method	5 year smoothed market
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%

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

NOTES TO FINANCIAL STATEMENTS

(6) Tax status

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

(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 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 pension plan funding requirements and related expenses.

(8) Subsequent events

The Retirement System has evaluated subsequent events through June 17, 2011, which is the date the financial statements were available to be issued, no items for disclosure were noted during this evaluation.

REQUIRED SUPPLEMENTARY INFORMATION

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

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS**

Actuarial Valuation Date	Actuarial Value of Assets A	Actuarial Accrued Liability B	Unfunded Actuarial Accrued Liability (UAAL) B-A	Funded Ratio A/B	Covered Payroll C	UAAL as a Percentage of Covered Payroll (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%
1/1/2009	832,609,879	804,623,080	(27,986,799)	103.48%	205,326,108	-13.63%
1/1/2010	814,536,473	819,534,391	4,997,918	99.39%	194,474,437	2.57%

SCHEDULE OF EMPLOYERS' CONTRIBUTIONS

Year Ended December 31,	Annual Required Contribution	Percentage 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	385.4%
2009	3,797,954	388.9%
2010	7,779,060	177.6%

See Independent Auditors' Report