Police Retirement System of Kansas City, Missouri

A Component Unit of the City of Kansas City, Missouri

Auditors' Report and Financial Statements

April 30, 2012

BKD LLP

CPAs & Advisors

Police Retirement System of Kansas City, Missouri

A Component Unit of the City of Kansas City, Missouri

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1201 Walnut Street, Suite 1700
Kansas City, MO 64106-2246
816.221.6300 Fax 816.221.6380 www.bkd.com

Independent Auditors' Report on Financial Statements and Supplementary Information

Retirement Board
Police Retirement System of Kansas City, Missouri
Kansas City, Missouri

We have audited the accompanying basic financial statements of the Police Retirement System of Kansas City, Missouri (the Plan), a component unit of the City of Kansas City, Missouri, as of and for the year ended April 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Police Retirement System of Kansas City, Missouri as of April 30, 2012, and changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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 basic 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 audit 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The schedule of expenses and schedule of revenues by source and expenses by type listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information for 2012 has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole. We previously expressed an unqualified opinion on the 2011, 2010, 2009, 2008 and 2007 financial statements.

BKD, LLP

Kansas City, Missouri
August 16, 2012

Police Retirement System of Kansas City, Missouri

A Component Unit of the City of Kansas City, Missouri

Management's Discussion and Analysis

April 30, 2012

This discussion and analysis of the Police Retirement System of Kansas City, Missouri (Police Retirement System or the Plan) financial statements provides an overview of its financial activities during the year ended April 30, 2012. Please read it in conjunction with the more detailed financial statements, notes and required supplementary information which follow this section.

The Police Retirement System is the defined benefit retirement plan for law enforcement members of the Kansas City, Missouri Police Department. The Plan was established by the Missouri General Assembly in 1946 and is administered by the Retirement Board to provide retirement, disability and survivor benefits to its members.

Overview of Financial Statements and Accompanying Information

- The financial statements presented in this report are the Statement of Plan Net Assets as of April 30, 2012, and the Statement of Changes in Plan Net Assets for the year ended April 30, 2012. These statements reflect resources available for the payment of benefits as of the year-end, and the sources and use of those funds during the year.

- The notes to the financial statements are an integral part of the financial statements and provide facts and detailed information to assist the reader in understanding the statements. Information in the notes includes a description of the Plan, a summary of significant accounting policies, the method used to value investments, a summary of investments, a summary of derivative financial instruments and actuarial methods and assumptions.

- Schedules related to employer contributions and the funding of the Plan are included in the section entitled Required Supplementary Information.

- Other supplementary schedules consist of detailed information supporting administrative and investment expenses and a historical summary of revenues and expenses.

Plan Net Assets

The following is a summary comparative statement of Plan Net Assets:

	April 30, 2012	April 30, 2011	Amount Change
Cash	$ 10,887	$ 8,284	$ 2,603
Receivables	3,001,138	3,480,820	(479,682)
Investments	699,380,748	714,636,343	(15,255,595)
Securities lending collateral	151,951,330	166,295,508	(14,344,178)
Office equipment	8,739	1,606	7,133
Total assets	854,352,842	884,422,561	(30,069,719)
Accounts and refunds payable	1,198,290	886,292	311,998
Due to broker for purchases of investments	12,974,838	1,476,677	11,498,161
Commodity futures	357,727	-	357,727
Securities lending collateral	151,951,330	166,295,508	(14,344,178)
Total liabilities	166,482,185	168,658,477	(2,176,292)
Net assets	$ 687,870,657	$ 715,764,084	$ (27,893,427)

Financial Analysis of Plan Net Assets

The Police Retirement System's benefits are funded through member and employer contributions, and investment income. Net assets of the Plan decreased to $687,870,657 as of April 30, 2012 from $715,764,084 as of April 30, 2011. Plan income is generated through the investment of contributions in stocks, bonds and alternative assets. Members contributed 10.55% of annual covered salary to the Plan, while employer contributions totaled 19.7% of covered salary. Plan members do not contribute to Social Security although members hired after 1986 do contribute to Medicare.

Assets – Total assets of the Police Retirement System were $854.4 million as of April 30, 2012 and included cash, investments and receivables. Total assets decreased by $30.1 million or (3.4%) from FY 2011 because benefit payments exceeded member and employer contributions and investment income. Investable assets decreased during the year by $15.3 million while securities lending collateral decreased by $14.3 million.

Liabilities – Total liabilities of the Police Retirement System were $166.5 million as of April 30, 2012 and included payables for money manager fees and benefit payments, amounts due to brokers for purchases of investments and securities lending collateral. Total liabilities decreased by $2.2 million during the year mainly due to the $14.3 million decrease in the offsetting liability for securities lending activity.

Net Assets – Police Retirement System assets exceeded liabilities at April 30, 2012 by $687.9 million. This was a decrease of $27.9 million or (3.9%) from the prior year.

Changes in Plan Net Assets

The following is a summary comparative statement of Changes in Plan Net Assets:

	April 30, 2012	April 30, 2011	Amount Change
Member contributions	$ 8,894,208	$ 9,223,994	$ (329,786)
Employer contributions	16,476,608	16,532,015	(55,407)
Net investment income (loss)	(3,584,270)	82,002,086	(85,586,356)
Total additions	21,786,546	107,758,095	(85,971,549)
Benefits paid to members	48,578,196	46,377,135	2,201,061
Refunds of contributions	549,026	557,214	(8,188)
Administrative expenses	552,751	631,281	(78,530)
Total deductions	49,679,973	47,565,630	2,114,343
Net Increase (Decrease)	(27,893,427)	60,192,465	(88,085,892)
Net Assets, Beginning of Year	715,764,084	655,571,619	60,192,465
Net Assets, End of Year	$ 687,870,657	$ 715,764,084	$ (27,893,427)

Financial Highlights of Changes in Plan Net Assets

Revenues – Additions to Plan Net Assets – Member contributions, employer contributions and investment income are the sources of revenue for the Police Retirement System. Members contribute 10.55% of covered salary to the Plan. Employer contributions are 19.7% of covered salary to the Plan. The amount of member and employer contributions and net investment income all decreased from FY 2011. Contributions decreased because of lower total payroll. The net investment loss of $3.6 million is the result of flat investment performance and investment expenses. The portfolio's investment rate of return was 0.1% with investment income of $534,000 and investment expenses of $4.1 million. Investments in bonds posted gains and investments in stocks and alternative assets posted losses for the year.

Expenses – Deductions from Plan Net Assets – Benefits paid to members, refunds of member contributions and administrative expenses are the sources of expenses for the Police Retirement System. Benefit payments and refunds represent 99% of the total deductions. Benefits paid to members increased over the prior year because of new retirements and a cost of living adjustment for retirees. The amount of refunds decreased due to fewer longer-term members leaving the Police Department. Administrative expenses decreased because of a legal judgment in the prior year.

For the ninth year in a row, employer contributions did not equal the amount and percentage of compensation recommended by the Retirement System actuary. The employer contribution rate was 14.05% below the annual required contribution rate of 33.75%. For the year beginning May 1, 2012, employer contributions are budgeted to remain at 19.70% of covered pay, while the annual required contribution rate increases to 36.79%.

The Retirement Board has approved an asset allocation, which over time is expected to realize an assumed actuarial rate of investment return of 7.75%. While the asset allocation is structured to provide some control over volatility, investment returns of 0.1% in FY 2012 and 13.3% in FY 2011 provide an indication of how dramatically the markets can move from year to year. The Retirement Board continues to review investment allocations on a quarterly basis and to make tactical allocations on a more frequent basis with guidance from an independent financial consulting firm.

Requests for Information

This financial report is designed to provide members of the Police Retirement System, citizens, investors and creditors of the City of Kansas City, Missouri with a general overview of the Plan 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 Kansas City Police Employees' Retirement Systems, 1328 Agnes, Kansas City, Missouri 64127.

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 Police Retirement System.

Police Retirement System of Kansas City, Missouri

A Component Unit of the City of Kansas City, Missouri

Statement of Plan Net Assets

April 30, 2012

Assets

Investments	
U.S. government securities	$ 114,856,782
Corporate bonds and notes	77,376,986
Common and preferred stock	144,269,607
Equity exchange-traded-funds	44,401,928
Fixed income exchange-traded-funds	21,506,419
Government mortgage-backed securities	14,613,204
Partnerships - equity	21,373,747
Partnerships - fixed income	22,810,724
Real estate funds	28,543,714
Hedge fund of funds	67,322,493
Short-term investment funds	33,095,254
Short-term investment funds held for commodity futures	27,655,094
Emerging market equities	29,640,085
Foreign equities	51,914,711
Total investments	699,380,748
Securities Lending Collateral	151,951,330
Receivables	
Member contributions	351,582
Accrued interest and dividends	1,716,322
Due from broker for sales of investments	932,655
Other	579
Total receivables	3,001,138
Office Equipment, net of accumulated depreciation of $41,109	8,739
Cash	10,887
Total assets	854,352,842

Liabilities

Accounts and refunds payable	1,198,290
Due to broker for purchases of investments	12,974,838
Commodity futures	357,727
Securities lending collateral	151,951,330
Total liabilities	166,482,185
Net Assets Held in Trust for Pension Benefits	$ 687,870,657

Police Retirement System of Kansas City, Missouri
A Component Unit of the City of Kansas City, Missouri
Statement of Changes in Plan Net Assets
Year Ended April 30, 2012

Additions	
Investment Income (Loss)	
Net depreciation in fair value of investments	$ (13,249,705)
Interest and dividends	13,563,643
Investment expense	(4,118,018)
Net investment income (loss)	(3,804,080)
Securities Lending Income	
Securities lending gross income	384,569
Securities lending expenses	
Borrower rebates	(70,657)
Management fees	(94,102)
Total securities lending expenses	(164,759)
Net securities lending income	219,810
Total net investment income (loss)	(3,584,270)
Contributions	
City	16,476,608
Members	8,894,208
Total contributions	25,370,816
Total additions	21,786,546
Deductions	
Benefits Paid	
Retired members	34,794,455
Spouses	5,788,162
Children	147,912
Disabled	6,124,737
Partial lump sum option	1,697,930
Death benefits	25,000
Total benefits paid	48,578,196
Other Deductions	
Refunds of contributions	549,026
Administrative expenses	552,751
Total other deductions	1,101,777
Total deductions	49,679,973
Net Decrease	(27,893,427)
Net Assets Held in Trust for Pension Benefits, Beginning of Year	715,764,084
Net Assets Held in Trust for Pension Benefits, End of Year	$ 687,870,657

Note 1: Summary of Significant Accounting Policies

Reporting Entity

The Police Retirement System of Kansas City, Missouri (the Plan) is considered a component unit of the City of Kansas City, Missouri financial reporting entity and included in the City's financial reports as a pension trust fund due to the nature of the Plan's reliance on funding from the City of Kansas City, Missouri. Accounting principles generally accepted in the United States of America require that the financial reporting entity include the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Based on these criteria, there are no other organizations or agencies whose financial statements should be combined and presented with these basic financial statements.

Measurement Focus and Basis of Accounting

The Plan uses a fund to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The Plan's fund is classified as a pension trust fund of fiduciary fund type. Pension trust funds account for assets held by the Plan in a trustee capacity or as an agent on behalf of others and are accounted for on the flow of economic resources measurement focus and 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. Interest and dividend income are recorded when earned. Expenses are recorded when the corresponding liabilities are incurred. Realized gains and losses on security transactions are based on the difference between sales proceeds and carrying value of the securities, and are recognized on the transaction date. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Contributions

Contributions totaling $25,370,816 ($16,476,608 employer and $8,894,208 employees) were made during the Plan year. The annual required contribution rate (ARC) was determined through an actuarial valuation performed at April 30, 2011. As a percentage of payroll, the amount contributed did not equal the ARC. Significant actuarial assumptions used include (a) rate of return on the investment of present and future assets of 7.75% per year compounded annually, (b) projected salary increases based on years of service and (c) post-retirement benefit increase of 3% per year of the original base pension granted annually.

As a condition of participation in the Plan, members are required to contribute a certain percentage of their compensation until they retire. For the year ended April 30, 2012, the member contribution rate was 10.55% of compensation. The computed City contribution rate of 33.75% was the balance required to pay pensions and maintain the Plan on an actuarially sound basis and would fund the normal cost and amortize the net unfunded actuarial accrued liability. For the year ended April 30, 2012, the City contributed at a rate of 19.70% of members' salaries.

The actual contributions by the City have been less than the rates recommended by the actuary for the past nine years. The Plan is dependent upon the relationship of actual plan experience with the underlying actuarial assumptions and sufficient funding by the City to meet future cash flow needs.

The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due.

<u>Funded Status and Funding Progress</u>

The funded status of the Plan as of April 30, 2011, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL) Entry Age	(b - a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Active Member Covered Payroll	[(b - a)/c] UAAL as a Percentage of Covered Payroll
4/30/2011	$ 715,764,084	$ 940,609,092	$224,845,008	76%	$ 88,444,971	254%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Valuation of Investments and Income Recognition

Marketable securities, including mutual funds, are stated at fair value. Securities traded on a national securities exchange are valued at the last reported sales price on the last business day of the Plan year; investments traded in the over-the-counter market and listed securities for which no sale was reported on that date are valued at the average of the last reported bid and ask prices.

For certain investments consisting of corporate bonds and notes that do not have an established fair value, the Plan has established a fair value based on yields currently available on comparable securities of issuers with similar credit ratings and quotations are obtained from brokerage firms or national pricing services.

The hedge fund of funds are invested in a non-marketable limited liability company which operates as a commodity pool, with the fund investing a majority of its assets in related commodity pools. The private equity partnerships and real estate funds consist primarily of non-marketable investments in various venture capital, corporate finance funds and private partnerships. These funds are primarily invested in the technology, communications, energy and real estate markets. A portion of these funds is also invested in foreign operations under certain partnership agreements. The Plan is obligated to pay certain capital commitments to the partnerships. These outstanding commitments totaled $17,865,033 at April 30, 2012. The fair value of these investments is estimated based on the estimated fair values of the underlying securities. These estimates could change materially in the near term.

Securities, which are not traded on a national security exchange, are valued by the respective investment manager or other third parties based on similar sales.

Mortgages have been valued on the basis of their future principal and interest payments discounted at prevailing interest rates for similar instruments.

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

Administrative Expenses

Actuarial, investment management and bank trustee fees and expenses are included in the Plan's expenses when incurred. These expenses are financed through investment income. The Kansas City, Missouri Police Department provides office space without any direct cost 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 management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, disclosure of contingent assets and liabilities and the actuarial present value of accumulated plan benefits at the date of the financial statements. Actual results could differ from those estimates.

Plan Tax Status

The Plan obtained its most recent determination letter on November 15, 2010, in which the Internal Revenue Service stated that the Plan, as designed, was in compliance with the applicable requirements of the Internal Revenue Code and, therefore, not subject to tax.

Note 2: Plan Description

The following description of the Police Retirement System of Kansas City, Missouri provides only general information. Participants should refer to the Plan Statutes (Sections 86.900 to 86.1280 RSMo) for a more complete description of the Plan's provisions.

The Plan is a single-employer, contributory, defined benefit plan established by the State of Missouri's General Assembly and administered by the Retirement Board of the Police Retirement System of Kansas City, Missouri.

At April 30, 2012, the Plan's membership consisted of the following:

Retirees and beneficiaries currently receiving benefits:	1,209
Terminated members entitled to but not yet receiving benefits:	13
Active members: Vested: Non-contributing (30 yr. max)	6
Contributing	565
Non-vested	801
Total	2,594

The Plan provides retirement benefits and disability benefits. Members become vested for retirement benefits after 15 years of service or the combination of 10 years of service and age 60. Members who retire with 25 or more years of creditable service or those who retire at age 60 with 10 or more years of service are entitled to an annual pension of 2.5% of final average compensation multiplied by the number of years of creditable service, subject to a maximum limit of 75% of final compensation as defined in the Plan. When an officer voluntarily resigns with 15 years of service or more, the member is entitled to an annual pension, beginning at age 55, of 2.5% of final average compensation multiplied by the number of years of creditable service. All benefits vest after 15 years of creditable service and members shall not earn creditable service beyond 30 years of service. In April 2011, the Board of Police Commissioners changed its policy to allow members to work up to 32 years of service. However, the Plan will not receive contributions from either the City or the Member, after they have completed 30 years of creditable service.

When members terminate employment prior to becoming vested in the Plan or when vested members elect to withdraw their accumulated contributions, they shall be paid their accumulated contributions in one lump sum.

The Plan provides for a disability pension based on the member's final average compensation for the remainder of his or her natural life or so long as the disability continues. The Plan also provides for death benefits when an accident or occupational disease, arising out of and in the course of regular duties, is the natural and proximate cause of the death of the member. This benefit amounts to $50,000.

An annual cost of living adjustment, not to exceed 3%, may be provided for members receiving benefits.

Current and future retired and disabled members and their surviving spouses were eligible to receive $420 per month as a supplemental benefit for the year ended April 30, 2012.

The minimum monthly benefit for retired members and surviving spouses is $600 in combined pension benefit amounts and cost of living adjustments. To be eligible for the $600 monthly minimum, the officer must have retired with at least 25 years of creditable service or due to a disability, or have died while in service.

Surviving spouses are eligible to receive 80% of the pension amount being received by the retiree at the time of death.

The Plan is permitted by state statute to withhold amounts on behalf of members receiving benefits, including amounts for health and life insurance premiums. The Plan does not contract with insurance carriers on behalf of its members; instead, all insurance premiums are remitted through the Kansas City Police Department.

Note 3: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The Plan's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the State of Missouri; bonds of any city, county, school district or special road district of the State of Missouri; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

The Plan had no bank balances exposed to custodial credit risk at April 30, 2012.

Investments

For the year ended April 30, 2012, Northern Trust was the master custodian for substantially all of the securities of the Plan. The investments held by the Plan are managed by thirteen Board-appointed money managers. Each of the money managers has a different asset allocation based on Board-approved policy. The Plan may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities, real estate, partnerships, corporate bonds, commodities and equity securities.

Securities Lending Transactions

State statutes 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. 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.

Market value of securities loaned	$ 148,449,440
Market value of cash collateral received from borrowers	$ 151,951,330
Market value of non-cash collateral received from borrowers	37,537
Total market value of collateral	$ 151,988,867

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, 2012, the Plan had the following investments and maturities:

		Maturities in Years				Loaned Under Securities Lending Agreements
Type	**Fair Value**	**Less than 1**	**1 - 5**	**6 - 10**	**More than 10**	
U.S. Treasury obligations	$ 79,374,744	$ 13,072,111	$ 32,868,722	$ 20,077,582	$ 13,356,329	$ 77,233,220
U.S. agencies obligations	14,802,601	4,045,616	3,513,090	3,653,280	3,590,615	-
Corporate bonds	77,376,986	4,732,900	26,102,406	30,627,668	15,914,012	11,399,549
Government mortgage-backed securities	14,613,204	-	-	1,264,038	13,349,166	-
Index linked government bonds	20,679,437	664,179	10,747,216	9,268,042	-	20,353,179
Money market mutual funds	60,750,348	60,750,348	-	-	-	-
Fixed income exchange-traded-funds	21,506,419	21,506,419	-	-	-	-
		$ 104,771,573	$ 73,231,434	$ 64,890,610	$ 46,210,122	
Equity exchange-traded-funds	44,401,928					-
Corporate stocks	144,269,607					38,887,001
Real estate funds	28,543,714					-
Hedge fund of funds	67,322,493					-
Partnerships - equity	21,373,747					-
Partnerships - fixed income	22,810,724					-
Foreign equities	51,914,711					576,491
Emerging markets equity	29,640,085					-
	$ 699,380,748					$ 148,449,440

Interest Rate Risk - The money market mutual funds and fixed income exchange-traded-funds are presented as an investment with a maturity of less than one year because they are redeemable in full immediately. The debt securities are presented in their respective category based on final maturity date. The Plan's investment policy does not specifically address exposure to fair value losses arising from rising interest rates.

Credit Risk - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. It is the Plan's policy to limit its investments in corporate bonds to those that are rated Baa or better by credit rating agencies. The Plan's portfolio must have an average rating of A or better in the aggregate as measured by at least one credit rating agency. At April 30, 2012, the Plan's investments in corporate bonds were rated BBB+ or better by *Standard & Poor's*. U.S. Treasury obligations and index linked government bonds were explicitly guaranteed by the U.S. Government. At the same date, the Plan's investments in U.S. agencies obligations not directly guaranteed by the U.S. Government (including Federal National Mortgage Association, Federal Home Loan Banks and Federal Home Loan Mortgage Corporation) were rated A or better by *Standard & Poor's*. The Plan's investments in government mortgage-backed securities, money market mutual funds and fixed income exchange-traded-funds were not rated by *Standard &*

Poor's. These bond rating requirements do not apply to the high yield portion of the fixed income portfolio.

Custodial Credit Risk - For an investment, 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 investment or collateral securities that are in the possession of an outside party. Consistent with the Plan's securities lending policy, $148,449,440 was held by the counterparty that was acting as the Plan's agent in securities lending transactions.

Concentration of Credit Risk - The Plan limits the amount that may be invested in any one security at 5% to 15% of total plan assets.

Foreign Currency Risk - This risk relates to adverse effects on the fair value of an investment from changes in exchange rates. The Plan's investment policy permits investments in international equities, American Depository Receipts (ADRs), warrants, rights, 144A securities, convertible bonds and U.S. registered securities whose principal markets are outside of the United States. All foreign equities and emerging market equities held are denominated in U.S. dollars.

Investment Income (Loss)

Investment income (loss) for the year ended April 30, 2012, consisted of:

Interest and dividend income	$ 13,563,643
Net decrease in fair value of investments	(13,249,705)
	313,938
Less investment expense	4,118,018
	$ (3,804,080)

Note 4: Derivative Financial Instruments

Some of the Plan's managers invest in derivative securities. A derivative security is an investment where settlement depends upon the value of the underlying assets, such as bond and stock prices, a market index or commodity prices. During the year, derivative investments included only commodity futures. 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 investing in derivatives that are regulated by overseeing agencies and are guaranteed by clearinghouses. 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 Plan's investment managers utilize commodity futures to obtain market exposure and to take advantage of mis-pricing opportunities. In certain instances, it may be beneficial to own a futures contract rather than the underlying security. Commodity futures contracts are agreements to buy or sell a specified amount at a specified delivery or maturity date for an agreed-upon price. When a position is taken in a futures contract, a margin is posted and the contract is subject to daily mark-to-market adjustments.

The fair value and notional amounts of investment derivative instruments outstanding at April 30, 2012 are as follows:

Commodity Future	Number of Contracts Long (Short)	Maturity Date	Fair Value
Aluminum	8	December 2012	$ (23,085)
Aluminum	18	June 2012	(107,254)
Brent Crude Oil	11	December 2012	85,175
Brent Crude Oil	3	July 2012	(12,026)
Cattle	15	August 2012	(61,952)
Cattle	8	June 2012	(34,088)
Cocoa	8	July 2012	(5,041)
Coffee	8	July 2012	(123,459)
Copper	2	August 2012	4,947
Copper	4	December 2012	(3,605)
Copper	1	June 2012	(3,851)
Corn	33	December 2012	(21,635)
Corn	6	July 2012	3,638
Corn	3	September 2012	1,981
Cotton	9	December 2012	(30,429)
Cotton	5	July 2012	(9,849)
Crude Oil	24	December 2013	73,723
Crude Oil	13	December 2014	5,756
Feeder Cattle	3	August 2012	(8,975)
Gas Natural	30	August 2012	(88,491)
Gas Natural	14	July 2012	27,429
Gas Natural	12	October 2012	(27,018)
Gas Oil	3	December 2012	(10,575)
Gas Oil	1	June 2012	6,073
Gas RBOB	6	June 2012	80,137
Gas RBOB	1	September 2012	(1,399)
Gold	17	June 2012	10,162
Heating Oil	8	December 2012	(2,621)
Hogs	14	December 2012	(27,155)
Hogs	1	October 2012	(2,563)
Kansas City Wheat	8	July 2012	(12,279)
Lead	4	June 2012	13,009
Minn Wheat	6	July 2012	(11,054)
NY Copper	7	December 2012	5,877
NY Copper	8	September 2012	30,770
Nickel	4	June 2012	(54,777)
Palladium	2	June 2012	(4,494)
Platinum	3	July 2012	(16,282)
Robusta Coffee	8	July 2012	(2,584)
Silver	6	July 2012	(21,703)
Soybean Meal	9	December 2012	13,377
Soybean Meal	4	July 2012	17,169
Soybean Oil	7	December 2012	(3,527)

Commodity Future	Number of Contracts Long (Short)	Maturity Date	Fair Value
Soybean Oil	5	July 2012	$ 8,430
Soybeans	4	March 2013	3,885
Soybeans	17	November 2012	110,273
Sugar	38	July 2012	(108,214)
Wheat	11	December 2012	(8,811)
Wheat	4	July 2012	(2,141)
Zinc	4	December 2012	5,082
Zinc	4	June 2012	(13,683)
			$ (357,727)

The changes in fair value of the commodity futures approximates their fair value at April 30, 2012 and are reported in net depreciation in fair value of investments in the Statement of Changes in Plan Net Assets.

Note 5: Actuarial Methods and Assumptions

An actuary from Cavanaugh Macdonald Consulting, LLC determines the actuarial present value of accumulated plan benefits, which is the amount that results from applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawal or retirement) between the valuation date and the expected date of payment.

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

Valuation date	April 30, 2011
Actuarial cost method	Individual entry age
Amortization method	Level percent closed
Equivalent single amortization period	15 years

Actuarial Assumptions

Investment rate of return	7.75% per annum
Inflation rate	3.00% per annum
Cost of living adjustments	3.00%, simple

Projected salary increases based on years of service as follows:

Years of Service	General Wage Growth	Merit and Longevity	Total
0	4.00%	5.75%	9.75%
1	4.00%	5.50%	9.50%
2	4.00%	4.50%	8.50%
3	4.00%	4.00%	8.00%
4	4.00%	4.00%	8.00%
5	4.00%	4.00%	8.00%
10	4.00%	3.50%	7.50%
15	4.00%	0.00%	4.00%
20	4.00%	0.00%	4.00%
25	4.00%	0.00%	4.00%

Actuarial accrued liability as of April 30, 2011:

Active employees accruing benefits	
Present value of future benefits	$ 603,359,391
Present value of future normal costs	211,459,533
Total active employees accruing benefits	391,899,858
Retired and inactive members	
Members with deferred benefits	11,038,857
Members receiving benefits	478,458,620
Retired member supplemental benefits	59,211,757
Total retired and inactive members	548,709,234
Total actuarial accrued liability	940,609,092
Assets, at actuarial value	715,764,084
Unfunded actuarial accrued liability	$ 224,845,008

The actuarial value of assets is calculated using an asset smoothing method. The difference between the actual and assumed investment returns on the market value of assets is recognized evenly over a five-year period. The resulting actuarial value of assets is constrained to fall within a corridor of 80% to 120% of market value.

Note 6: Risks and Uncertainties

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statement of net assets available for benefits.

Plan contributions are made and the actuarial present value of accumulated plan benefits are reported based on certain assumptions pertaining to interest rates, inflation rates and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimation and assumption process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.

Current Economic Conditions

The current protracted economic environment, which in some cases, have resulted in large declines in the fair value of investments, continues to present employee benefit plans with difficult circumstances and challenges. The financial statements have been prepared using values and information currently available to the Plan.

Given the volatility of current economic conditions, the values of assets recorded in the financial statements could change rapidly, resulting in material future adjustments in investment values that could negatively impact the Plan.

Note 7: Litigation

The Plan is subject to claims and lawsuits that arise primarily in the ordinary course of operating a retirement system. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the net assets of the Plan.

Required Supplementary Information

Police Retirement System of Kansas City, Missouri

A Component Unit of the City of Kansas City, Missouri

Required Supplementary Information

Schedule of Funding Progress

April 30, 2012

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL) Entry Age	(b - a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Active Member Covered Payroll	[(b - a)/c] UAAL as a Percentage of Covered Payroll
4/30/2006	$ 635,621,582	$ 775,271,985	$139,650,403	82%	$ 71,835,495	194%
4/30/2007	698,078,688	807,902,176	109,823,488	86%	80,111,515	137%
4/30/2008	742,060,223	850,763,745	108,703,522	87%	86,700,836	125%
4/30/2009	641,176,940	893,559,090	252,382,150	72%	89,884,411	281%
4/30/2010	722,464,003	915,463,037	192,999,034	79%	90,475,241	213%
4/30/2011	715,764,084	940,609,092	224,845,008	76%	88,444,971	254%

Schedule of Employer Contributions

Year Ended April 30	Annual Required Contributions	Percentage Contributed
2007	$ 21,444,703	68%
2008	22,749,385	69%
2009	24,311,281	69%
2010	23,642,278	70%
2011	34,363,170	48%
2012	31,756,810	52%

Supplementary Information

Police Retirement System of Kansas City, Missouri
A Component Unit of the City of Kansas City, Missouri
Supplementary Information
Schedule of Expenses
Year Ended April 30, 2012

Investment Expenses		
Bank custodial fees and expenses	$	194,131
Financial management expenses		3,791,812
Financial consultation		132,075
Total	$	4,118,018
Administrative Expenses		
Salaries and payroll taxes	$	363,588
Legal		38,671
Audit		13,023
Medical fees		3,414
Actuarial fees		34,573
Fringe benefits		47,657
Printing and office expense		10,694
Postage		3,705
Board meetings		1,199
Travel and education expense		5,624
Insurance		2,555
Depreciation		2,948
Legislative consultation		22,728
Other		2,372
Total	$	552,751

Police Retirement System of Kansas City, Missouri

A Component Unit of the City of Kansas City, Missouri

Supplementary Information

Schedule of Revenues by Source and Expenses by Type

Years Ended April 30, 2007 through 2012

	Revenues by Source			
Fiscal Year Ended	Employee Contributions	Employer Contributions	Investment Income (Loss)	Total
2007	$ 7,814,142	$ 14,526,734	$ 83,730,123	$ 106,070,999
2008	8,459,762	15,747,111	(911,856)	23,295,017
2009	8,982,366	16,700,688	(180,354,444)	(154,671,390)
2010	8,934,700	16,645,229	142,765,846	168,345,775
2011	9,223,994	16,532,015	82,002,086	107,758,095
2012	8,894,208	16,476,608	(3,584,270)	21,786,546

	Expenses by Type			
		Administrative Expenses		
Fiscal Year Ended	Benefits	General	Refunds	Total
2007	$ 42,293,180	$ 515,720	$ 694,903	$ 43,503,803
2008	42,802,584	598,548	621,174	44,022,306
2009	44,097,817	550,069	746,454	45,394,340
2010	46,290,964	565,362	231,947	47,088,273
2011	46,377,135	631,281	557,214	47,565,630
2012	48,578,196	552,751	549,026	49,679,973