



**CITY OF KANSAS CITY, MISSOURI
FIREFIGHTERS' PENSION SYSTEM**

Financial Statements and Schedules

April 30, 2002 and 2001

(With Independent Auditors' Report Thereon)



1000 Walnut, Suite 1600
P.O. Box 13127
Kansas City, MO 64106

Independent Auditors' Report

To the Board of Trustees of the
Firefighters' Pension System
City of Kansas City, Missouri:

We have audited the accompanying statements of net assets available for benefits of the Firefighters' Pension System of the City of Kansas City, Missouri (the Plan) as of April 30, 2002 and 2001, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Firefighters' Pension System of the City of Kansas City, Missouri at April 30, 2002 and 2001, and its changes in net assets available for benefits for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1, the financial statements present only the Firefighter's Pension System of the City of Kansas City, Missouri, and are not intended to present fairly the financial position of the City of Kansas City, Missouri and the results of its operations of its Pension Trust Funds, in conformity with accounting principles generally accepted in the United States of America.

The schedules of funding progress and employer contributions on schedules 1 and 2 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the schedules. However, we did not audit the information and express no opinion on it.

KPMG LLP

August 8, 2002



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Statements of Net Assets Available for Benefits

April 30, 2002 and 2001

	2002	2001
Assets:		
Investments (notes 2 and 3):		
Cash and cash equivalents	\$ 7,972,102	10,676,797
Corporate bonds	112,412,501	107,463,827
Common stocks	206,869,160	213,589,228
Foreign securities	2,609,494	1,914,485
Total investments	329,863,257	333,644,337
Receivables:		
Contributions	873,008	715,406
Investment income	11,880	17,763
Sale of investments	1,630,244	2,256,864
Total receivables	2,515,132	2,990,033
Total assets	332,378,389	336,634,370
Liabilities:		
Purchase of investments	2,380,028	2,370,962
Administrative and investment expenses payable	542,336	591,335
Total liabilities	2,922,364	2,962,297
Net assets available for benefits (an unaudited schedule of funding progress is presented in schedule 1)	\$ 329,456,025	333,672,073

See accompanying notes to financial statements.

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Statements of Changes in Net Assets Available for Benefits

Years ended April 30, 2002 and 2001

	2002	2001
Additions:		
Contributions (note 4):		
Contributions from the City of Kansas City, Missouri	\$ 8,483,592	7,703,939
Contributions from firefighters	4,140,340	3,762,063
Total contributions	12,623,932	11,466,002
Investment income (loss) (notes 2 and 3):		
Interest income	2,496,401	6,332,450
Dividend income	1,667,620	1,804,527
Net appreciation (depreciation) in fair value of investments	1,162	(11,343,648)
Less investment expense	(1,759,295)	(1,853,778)
Net investment income (loss)	2,405,888	(5,060,449)
Total additions	15,029,820	6,405,553
Deductions:		
Benefits	17,749,014	16,614,551
Funeral benefits	34,000	32,000
Refunds:		
Termination	182,372	912,625
Retirement	1,239,951	132,096
Administrative expenses	40,531	39,236
Total deductions	19,245,868	17,730,508
Net decrease	(4,216,048)	(11,324,955)
Net assets available for benefits, beginning of year	333,672,073	344,997,028
Net assets available for benefits, end of year	\$ 329,456,025	333,672,073

See accompanying notes to financial statements.

**CITY OF KANSAS CITY, MISSOURI
FIREFIGHTERS' PENSION SYSTEM**

Notes to Financial Statements

April 30, 2002 and 2001

(1) Description of the Plan

(a) General

The Firefighters' Pension System (the Plan) is a contributory, single-employer, defined benefit public employee retirement system covering all employees of the Firefighting Division of the City of Kansas City, Missouri (the City). The Plan is considered part of the City's financial reporting entity and is included in the City's comprehensive annual financial report as a pension trust fund. Employees should refer to the Plan Agreement for more complete information.

At May 1, 2001 and 2000, the Plan's membership consisted of the following:

	2001	2000
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	808	799
Current employees:		
Vested	467	466
Nonvested	285	314
Total	1,560	1,579

(b) Retirement Benefits

Employees with ten or more years of service are entitled to retirement benefits based on an average of 2% of final compensation per year of service up to 60%. Effective January 1, 2000, retirement benefits are based on an average of 2.5% of final compensation per year of service up to 80%. If members terminate prior to retirement and before rendering ten years of service, they forfeit the right to receive the portion of their accumulated plan benefits attributable to City contributions and are refunded their member contributions with interest. Such refunds result in the forfeiture of all other benefits under the Plan and are reduced by a service charge if the terminated employee has less than five years of service. Members terminating prior to retirement with ten or more years of service may elect to receive a refund of their member contributions with interest as a lump-sum distribution, or they may elect to receive a deferred pension. An annual cost of living adjustment of 3% per year is provided in the Plan. The Plan also provides for a minimum monthly payment of \$600 to all current and future service and disability retirees.

(c) Death Benefits

If an active member dies, the following benefits shall be paid:

- A funeral benefit of \$2,000 to the spouse or named beneficiary.
- To the member's spouse until death, a pension equal to one-half of the member's accrued pension, but not less than 25% of the member's average final compensation. The minimum monthly benefit is \$275 to all widows. Certain benefit provisions have been established for

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Notes to Financial Statements

April 30, 2002 and 2001

deaths sustained in the performance of a member's duties, or deaths of active members prior to retirement who have achieved twenty-five years or more of creditable service.

- To the member's children, an allowance of \$100 a month each until the attainment of age eighteen, unless certain conditions are met whereby benefits may continue.
- To the member's designated beneficiary or estate, if there is no surviving spouse or qualifying child, any remaining member contributions and interest.

If a retired member dies, the following benefits shall be paid:

- To the member's spouse until death, a retirement benefit equal to one-half of the member's normal retirement benefit.
- To the member's designated beneficiary or estate, if there is no surviving spouse, any remaining member contributions and interest.

(d) Disability Benefits

Disability benefits are available for members and are based on an average final compensation. The Plan provides for a minimum monthly payment of \$600 to all current and future disability retirees.

(e) Health Insurance

Effective May 1, 1991, the Plan established a health insurance subsidy fund (subsidy). The City and active firefighters each contributed 2% and 1% of salary, respectively. Prior to April 1 of each year, the board of trustees of the Plan establishes the dollar value of the monthly subsidy. The monthly subsidy for the years ended April 30, 2002 and 2001 was \$152 and \$151, respectively.

The subsidy is invested in both fixed income and equity securities and is stated at market value. Investments totaled approximately \$993,000 and \$702,000 at April 30, 2002 and 2001, respectively.

The May 1, 2001 and 2000 actuarial valuations do not consider the subsidy's net assets available for benefits which at April 30, 2002 and 2001 were approximately \$1,075,000 and \$769,000, respectively. According to the City ordinance which established the subsidy, if the net assets available for the subsidy is zero, the subsidy will no longer be available.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The financial statements are prepared on the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the Plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when paid in accordance with the terms of each plan.

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April 30, 2002 and 2001

(b) Investments

All investments are stated at fair value. The fair value of marketable securities is based on quotations which are generally obtained from national securities exchanges. Where marketable securities are not listed on an exchange, quotations are obtained from brokerage firms or national pricing services.

(c) Administrative Expenses

Plan administrative salary, duplicating, telecommunications, and travel expenses are included in the Plan's administrative expenses when incurred. The City provides office space, administrative and clerical services of the Human Resources Department, and accounting services of the Finance Department without any direct charge to the Plan.

(d) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Plan Administrator to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

(3) Investments

The City Administrative Code and ordinances passed by the City Council provide that plan investments may include, but are not limited to, securities of the United States government and agencies, state and municipal bonds, corporate bonds, equipment trust securities, preferred or guaranteed stock, real estate mortgages, or common stocks. The Plan purchases investments from Securities and Exchange Commission registered securities broker-dealers and banks through its investment managers. Investments in United States treasury obligations are held at the Federal Reserve Bank through the customer account of a financial institution.

The following description of investments is presented to give an indication of the level of custodial risk assumed by the Plan at year-end. Investments were held as follows:

	2002	2001
Plan or custodial agent in the Plan's name	\$ 85,599,410	74,634,439
Money market fund of the custodial agent's trust department	7,972,102	10,676,797
Commingled vehicles	236,291,745	248,333,141
	\$ 329,863,257	333,644,377

(4) Funding Policy

Funding is provided by contributions from plan members, the City, and earnings on investments. Firefighters contribute 9.55% of base salary and an additional 1% to fund the health insurance subsidy. The City's contribution is set by the City Council in conjunction with its approval of the City's annual budget, based on information provided by the Plan's consulting actuary and board of trustees.

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April 30, 2002 and 2001

The recommended contribution rate is determined by the Plan's consulting actuary using the entry age normal actuarial cost funding method. Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the actuarial accrued liability.

Based upon the May 1, 2000 actuarial valuations, which was the most recent actuarial data available when the budget was developed for the year ended April 30, 2002, the board of trustees recommended a City contribution rate of 19.6% for 2002. The City Council approved a City contribution rate of 19.6% (and 2% to fund the health insurance subsidy) for the year ended April 30, 2002.

For the year ending April 30, 2003, the board of trustees recommended a City contribution rate of 19.6% based upon the May 1, 2001 actuarial valuation, which was the most recent actuarial data available when the budget was developed. The City Council has approved a 19.6% rate (and 2% to fund the health insurance subsidy) for the City's contribution to the Plan in fiscal 2003.

The City contribution rate of 19.6% of salary and firefighters' contribution of 9.55% is expected to fund the normal cost and amortize the unfunded actuarial accrued liability by April 30, 2011.

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Required Supplementary Information (Unaudited)

Schedule of Funding Progress

Actuarial valuation date	(a) Actuarial value of assets	(b) Actuarial accrued liability (AAL) entry age	(b)-(a) Unfunded AAL (UAAL)	(a)/(b) Funded ratio		(c) Covered payroll	[(b)-(a)]/(c) UAAL as a percentage of covered payroll	
05/01/96	\$ 180,567,200	245,149,400	64,582,200	73.66	% \$	30,948,200	208.68	%
05/01/97	197,169,200	255,316,500	58,147,300	77.23		31,597,200	184.03	
05/01/98	243,759,000	261,215,900	17,456,900	93.32		31,535,100	55.36	
05/01/99	260,479,100	269,962,700	9,483,600	96.49		33,092,300	28.66	
05/01/00	310,012,200	326,277,600	16,265,400	95.01		33,712,200	48.25	
05/01/01	314,419,934	334,755,464	20,335,530	93.93		36,046,956	56.41	

See accompanying independent auditors' report and notes to required supplementary information.

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Required Supplementary Information (Unaudited)

Schedule of Employer Contributions

	<u>Annual required contributions</u>	<u>Percentage contributed</u>	
Year ended April 30:			
1997	\$ 6,319,669	100.00	%
1998	6,261,872	100.00	
1999	6,732,893	100.00	
2000	6,798,148	100.00	
2001	6,990,611	100.00	
2002	7,709,082	100.00	

See accompanying independent auditors' report and notes to required supplementary information.

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Notes to Required Supplementary Information

April 30, 2002

The information presented in the required supplementary schedules 1 and 2 was determined as part of the actuarial valuations as of the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	May 1, 2001
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, open
Remaining amortization period	
Actuarial assumptions:	
Investment rate of return	8.0% per annum
Projected salary increases *	6.0% per annum
Cost of living adjustments *	3.0%, simple

* Includes inflation rate of 3%.

Actuarial Value of Assets

The City has adopted the five-year smoothed market method of valuing assets which recognizes the fair market value of assets. The following represents the components of the asset valuation:

- a. The actuarial value of the beginning of the year; plus
- b. The increase in cost value during the year excluding realized capital gains and losses; plus
- c. Interest at the assumed net rate of investment return for those invested assets for which accounting does not reflect investment income; plus
- d. 20% of the difference between market value and the sum of a, b, and c.
- e. If the actuarial value of assets is less than 90% or more than 110% of the market value, an adjustment is made to the actuarial value to bring the value within this corridor.