



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

Financial Statements and Schedules

April 30, 2003 and 2002

(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 plan net assets of the Firefighters' Pension System of the City of Kansas City, Missouri (the Plan) as of April 30, 2003 and 2002, and the related statements of changes in plan net assets 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.

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 changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Firefighters' Pension System of the City of Kansas City, Missouri at April 30, 2003 and 2002, and its changes in financial position for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 2, the Plan adopted on May 1, 2002, the provisions of Governmental Accounting Standards Board (GASB) Statements No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*; GASB No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*; and GASB No. 38, *Certain Financial Statement Note Disclosures*.



Management's discussion and analysis on pages 3 through 6 and the schedules of funding progress and employer contributions on schedules 1 and 2 are not required parts of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. 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

Kansas City, Missouri
July 25, 2003

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

Management's Discussion and Analysis

April 30, 2003 and 2002
(Unaudited)

The Firefighters' Pension System of Kansas City, Missouri (FPS) is the defined benefit plan covering fire suppression personnel of the City of Kansas City, Missouri (City). FPS was established by City Ordinance in 1953 and is administered by a seven-person Board of Trustees (Board) to provide retirement, disability, death, and survivor benefits to members and beneficiaries. The discussion and analysis of the financial performance of FPS provides an overview of financial activities for the fiscal years ending April 30, 2003 and 2002 and should be read along with the financial statements.

The basic financial statements presented by FPS consist of: 1) statements of plan net assets where net assets equal assets less liabilities at fiscal year end; and 2) statements of changes in plan net assets in which the net change in net assets is equal to additions less deductions.

The notes to the financial statements are an integral part of the financial statements and include information not necessarily discernable in the statements themselves. Following the notes are required supplemental information and other schedules, which may be helpful in evaluating the financial condition of the plan.

2003 compared to 2002

Summary comparative information of plan net assets:

	April 30, 2003	April 30, 2002	Percentage change	
Cash and cash equivalents	\$ 7,953,145	7,972,102	(0.24)	%
Receivables	1,155,330	2,515,132	(54.06)	
Investments	292,722,520	321,891,155	(9.06)	
Total assets	301,830,995	332,378,389	(9.19)	
Purchase of investments	734,956	2,380,028	(69.12)	
Administrative and investment expense payable	521,432	542,336	(3.85)	
Total liabilities	1,256,388	2,922,364	(57.01)	
Plan net assets	\$ 300,574,607	329,456,025	(8.77)	

**CITY OF KANSAS CITY, MISSOURI
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Management's Discussion and Analysis

April 30, 2003 and 2002
(Unaudited)

Summary comparative information of changes in plan net assets:

	<u>April 30, 2003</u>	<u>April 30, 2002</u>	<u>Percentage change</u>	
Contributions	\$ 13,522,644	12,623,932	7.12	%
Investment income (loss), net	<u>(21,313,856)</u>	<u>2,405,888</u>	(985.90)	
Total additions (losses)	(7,791,212)	15,029,820	(151.84)	
Benefits paid to participants	19,217,629	17,783,014	8.07	
Refunds of contributions	1,838,523	1,422,323	29.26	
Administrative expenses	<u>34,054</u>	<u>40,531</u>	(15.98)	
Total deductions	<u>21,090,206</u>	<u>19,245,868</u>	9.58	
Net decrease	(28,881,418)	(4,216,048)	585.04	
Plan net assets—beginning of year	<u>329,456,025</u>	<u>333,672,073</u>	(1.26)	
Plan net assets—end of year	<u>\$ 300,574,607</u>	<u>329,456,025</u>	(8.77)	

Financial Highlights

Plan net assets of FPS, as reported in the statements of plan net assets, totaled \$300,574,607 at April 30, 2003. This represents a decrease of \$28,871,418, or approximately 8.8%, from the end of the prior fiscal year, and was due largely to weak global equity markets. To better diversify assets, FPS invested in the Real Estate Separate Account of Principal Global Investors. This action was in response to an asset allocation/liability study performed during the fiscal year that resulted in the Board adopting a target investment structure of 45% domestic equity, 20% international equity, 30% fixed income, and 5% real estate.

The statements of changes in plan net assets indicate a \$7,791,212 decrease in additions to net assets during the year ended April 30, 2003. A net investment loss of \$21,313,856 resulted from depreciation in the fair value of investments exceeding interest and dividend income. In aggregate, City and member contributions were \$13,522,644, an increase of approximately 7.1% from the prior period. Higher benefits and retirement refunds caused total deductions from net assets to rise approximately 9.6%, to \$21,090,206, during the year ended April 30, 2003.

Operational Highlights

During the fiscal year ending April 30, 2003, the Board completed a strategic planning study that focused on the feasibility of implementing a Deferred Retirement Option Plan benefit feature. The study did not result in any benefit changes being pursued.

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FIREFIGHTERS' PENSION SYSTEM**

Management's Discussion and Analysis

April 30, 2003 and 2002
(Unaudited)

2002 compared to 2001

Summary comparative information of plan net assets:

	April 30, 2002	April 30, 2001	Percentage change	
Cash and cash equivalents	\$ 7,972,102	10,676,797	(25.33)	%
Receivables	2,515,132	2,990,033	(15.88)	
Investments	321,891,155	322,967,540	(0.33)	
Total assets	332,378,389	336,634,370	(1.26)	
Purchase of investments	2,380,028	2,370,962	0.38	
Administrative and investment expense payable	542,336	591,335	(8.29)	
Total liabilities	2,922,364	2,962,297	(1.35)	
Plan net assets	\$ 329,456,025	333,672,073	(1.26)	

Summary comparative information of changes in plan net assets:

	April 30, 2002	April 30, 2001	Percentage change	
Contributions	\$ 12,623,932	11,466,002	10.10	%
Investment income (loss), net	2,405,888	(5,060,449)	147.54	
Total additions (losses)	15,029,820	6,405,553	134.64	
Benefits paid to members	17,783,014	16,646,551	7.92	
Refunds of contributions	1,422,323	1,044,721	36.14	
Administrative expenses	40,531	39,236	3.30	
Total deductions	19,245,868	17,730,508	8.55	
Net decrease	(4,216,048)	(11,324,955)	(62.77)	
Plan net assets—beginning of year	333,672,073	344,997,028	(3.28)	
Plan net assets—end of year	\$ 329,456,025	333,672,073	(1.26)	

Financial Highlights

Plan net assets of FPS, as reported in the statements of plan net assets, totaled \$329,456,025 at April 30, 2002. This represents a decrease of \$4,216,048, or 1.26%, from the end of the prior fiscal year, and was exclusively due to benefits exceeding contributions. During the year, Fidelity Management Trust Company was retained to manage growth oriented international equities. This move was made to achieve better diversification within the international equity component of the investment portfolio.

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FIREFIGHTERS' PENSION SYSTEM**

Management's Discussion and Analysis

April 30, 2003 and 2002
(Unaudited)

The statements of changes in plan net assets indicate an \$8,624,267 increase in additions to net assets during the year ended April 30, 2002. Although a net investment gain of \$2,405,888 was experienced, benefits exceeded contributions. In aggregate, City and member contributions were \$12,623,932 during the year ended April 30, 2002, an increase of 10.10% from the prior period. Higher benefits and retirement refunds caused total deductions from net assets during the year ended April 30, 2002 to rise 8.55%, to \$19,245,868.

Operational Highlights

During the year, the Board commissioned its investment consultant, Callan Associates, to conduct an asset allocation/liability study. This study had not been completed at April 30, 2002.

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

Statements of Plan Net Assets

April 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Assets:		
Investments:		
Cash and cash equivalents	\$ 7,953,145	7,972,102
Corporate bonds	99,121,958	112,412,501
Common stocks	192,370,481	206,869,160
Foreign securities	<u>1,230,081</u>	<u>2,609,494</u>
Total investments	<u>300,675,665</u>	<u>329,863,257</u>
Receivables:		
Contributions	417,843	873,008
Investment income	63,545	11,880
Sale of investments	<u>673,942</u>	<u>1,630,244</u>
Total receivables	<u>1,155,330</u>	<u>2,515,132</u>
Total assets	<u>301,830,995</u>	<u>332,378,389</u>
Liabilities:		
Purchase of investments	734,956	2,380,028
Administrative and investment expenses payable	<u>521,432</u>	<u>542,336</u>
Total liabilities	<u>1,256,388</u>	<u>2,922,364</u>
Plan net assets (an unaudited schedule of funding progress is presented in schedule 1)	<u>\$ 300,574,607</u>	<u>329,456,025</u>

See accompanying notes to financial statements.

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

Statements of Changes in Plan Net Assets

Years ended April 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Additions:		
Contributions:		
Contributions from the City of Kansas City, Missouri	\$ 9,084,764	8,483,592
Contributions from firefighters	4,437,880	4,140,340
Total contributions	<u>13,522,644</u>	<u>12,623,932</u>
Investment income (loss):		
Interest income	2,188,979	2,496,401
Dividend income	1,275,019	1,667,620
Net appreciation (depreciation) in fair value of investments	(23,166,190)	1,162
Investment expense	<u>(1,611,664)</u>	<u>(1,759,295)</u>
Investment income (loss), net	<u>(21,313,856)</u>	<u>2,405,888</u>
Total additions (losses)	<u>(7,791,212)</u>	<u>15,029,820</u>
Deductions:		
Benefits paid to participants	19,187,629	17,749,014
Funeral benefits	30,000	34,000
Refunds:		
Termination	60,318	182,372
Retirement	1,778,205	1,239,951
Administrative expenses	<u>34,054</u>	<u>40,531</u>
Total deductions	<u>21,090,206</u>	<u>19,245,868</u>
Net decrease	<u>(28,881,418)</u>	<u>(4,216,048)</u>
Plan net assets available for benefits, beginning of year	<u>329,456,025</u>	<u>333,672,073</u>
Plan net assets available for benefits, end of year	<u>\$ 300,574,607</u>	<u>329,456,025</u>

See accompanying notes to financial statements.

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

Notes to Financial Statements

April 30, 2003 and 2002

(1) Description of the Plan

(a) General

The Firefighters' Pension System of the City of Kansas City, Missouri (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, 2003 and 2002, the Plan's membership consisted of the following:

	2003	2002
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	819	808
Current employees:		
Vested	442	467
Nonvested	359	285
Total	1,620	1,560

(b) Retirement Benefits

Employees with 10 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 10 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 10 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 spouses. Certain benefit provisions have been established for

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Notes to Financial Statements

April 30, 2003 and 2002

deaths sustained in the performance of a member's duties, or deaths of active members prior to retirement who have achieved 25 years or more of creditable service.

- To the member's children, an allowance of \$100 a month each until the attainment of age 18, 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, 2003 and 2002 was \$175 and \$152, respectively.

The subsidy is invested in both fixed income and equity securities and is stated at market value. Investments totaled approximately \$972,000 and \$993,000 at April 30, 2003 and 2002, respectively.

The May 1, 2002 and 2001 actuarial valuations do not consider the subsidy's plan net assets, which at April 30, 2003 and 2002 were approximately \$998,000 and \$1,075,000, respectively. According to the City ordinance that established the subsidy, if the net assets available for the subsidy are 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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Notes to Financial Statements

April 30, 2003 and 2002

(b) *New Accounting Pronouncements*

On May 1, 2002, the Plan adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*; GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus—an amendment of GASB Statements No. 21 and No. 34*; and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*.

(c) *Investments*

All investments are stated at fair value. The fair value of marketable securities is based on quotations that 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.

(d) *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.

(e) *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.

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

Notes to Financial Statements

April 30, 2003 and 2002

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:

	2003	2002
Plan or custodial agent in the Plan's name	\$ 62,898,075	85,599,410
Money market fund of the custodial agent's trust department	7,953,145	7,972,102
Commingled vehicles	229,824,445	236,291,745
	\$ 300,675,665	329,863,257

(4) Funding Policy

Funding is provided by contributions from Plan members, the City, and earnings on investments. Firefighters contribute 9.55% of their 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.

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, 2001 actuarial valuations, which was the most recent actuarial data available when the budget was developed for the year ended April 30, 2003, 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, 2003.

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

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

Required Supplementary Information (Unaudited)

Schedule of Funding Progress

April 30, 2003 and 2002

<u>Actuarial valuation date</u>	<u>(a) Actuarial value of assets</u>	<u>(b) Actuarial accrued liability (AAL) entry age</u>	<u>(b)-(a) Unfunded AAL (UAAL)</u>	<u>(a)/(b) Funded ratio</u>		<u>(c) Covered payroll</u>	<u>[(b)-(a)]/(c) UAAL as a percentage of covered payroll</u>	
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	
05/01/02	313,619,727	358,688,291	45,068,564	87.44		41,698,908	108.08	
05/01/03	306,204,360	371,993,884	65,789,524	82.31		42,315,396	155.47	

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

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

Required Supplementary Information (Unaudited)

Schedule of Employer Contributions

April 30, 2003 and 2002

Year ended April 30:		<u>Annual required contributions</u>	<u>Percentage contributed</u>	
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	
2003		8,215,224	100.00	

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

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Notes to Required Supplementary Information

April 30, 2003 and 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, 2003
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, open
Remaining amortization period	30 years
Actuarial assumptions:	
Investment rate of return	8.0% per annum
Projected salary increases *	3.0% to 8.0% per annum, depending on age
Cost of living adjustments *	3.0%, simple per annum

* Includes inflation rate of 3%.

Actuarial Value of Assets

The City has adopted the five-year, smoothed market method of valuing assets that 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.