



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

Financial Statements and Schedules

April 30, 2004 and 2003

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 1000
1000 Walnut Street
Kansas City, MO 64106-2162

Independent Auditors' Report

To the Board of Directors
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, 2004 and 2003, 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 Firefighters' 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 as of April 30, 2004 and 2003, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 2 through 5 and the schedules of funding progress and employer contributions on pages 13 through 15 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
October 13, 2004

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

Management's Discussion and Analysis

April 30, 2004 and 2003

(Unaudited)

The Firefighters' Pension System of Kansas City, Missouri (FPS) is a single-employer 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, 2004 and 2003 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.

2004 compared to 2003

Summary comparative information of plan net assets:

	April 30		Percentage change
	2004	2003	
Cash and cash equivalents	\$ 12,804,003	7,953,145	60.99%
Receivables	2,671,024	1,155,330	131.19
Investments	342,999,918	292,722,520	17.18
Total assets	358,474,945	301,830,995	18.77
Purchase of investments	1,943,356	734,956	164.42
Administrative and investment expense payable	765,509	521,432	46.81
Total liabilities	2,708,865	1,256,388	115.61
Plan net assets	\$ 355,766,080	300,574,607	18.36

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

Management's Discussion and Analysis

April 30, 2004 and 2003

(Unaudited)

Summary comparative information of changes in plan net assets:

	April 30		Percentage change
	2004	2003	
Contributions	\$ 13,858,274	13,522,644	2.48%
Investment income (loss), net	64,922,785	(21,313,856)	(404.60)
Total additions (losses)	78,781,059	(7,791,212)	(1,111.15)
Benefits paid to participants	21,038,619	19,217,629	9.48
Refunds of contributions	2,505,195	1,838,523	36.26
Administrative expenses	45,772	34,054	34.41
Total deductions	23,589,586	21,090,206	11.85
Net increase (decrease)	55,191,473	(28,881,418)	(291.10)
Plan net assets—beginning of year	300,574,607	329,456,025	(8.77)
Plan net assets—end of year	\$ 355,766,080	300,574,607	18.36

2004 Financial Highlights

Plan net assets of FPS, as reported in the statements of plan net assets, totaled \$355,766,080 at April 30, 2004. This represents an increase of \$55,191,473, or approximately 18.4%, from the end of the prior fiscal year, which was due largely to a rebound in the global equity markets. No investment structure changes occurred during the period.

The statements of changes in plan net assets indicate a \$55,191,473 increase in additions to net assets during the year ended April 30, 2004. A net investment gain of \$64,908,684 resulted from appreciation in the fair value of investments together with interest and dividend income due to the rebound in global equity markets. In aggregate, City and member contributions were \$13,858,274, an increase of approximately 2.5% from the prior period, primarily due to an increase in firefighter salaries. The number of retirees increased approximately 7% and salaries increased approximately 3% which caused total deductions from net assets to rise approximately 11.9%, to \$23,589,586, during the year ended April 30, 2004.

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

Management's Discussion and Analysis

April 30, 2004 and 2003

(Unaudited)

2004 Operational Highlights

During the fiscal year ending April 30, 2004, the Board decided to replace large cap growth manager Goldman Sachs Asset Management with Essex Investment Management (Essex), with the expectation that Essex would generate a higher risk-adjusted rate of return over time. At the end of the period, negotiation of an investment management agreement with Essex was in progress.

2003 compared to 2002

Summary comparative information of plan net assets:

	April 30		Percentage change
	2003	2002	
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)

Summary comparative information of changes in plan net assets:

	April 30		Percentage change
	2003	2002	
Contributions	\$ 13,522,644	12,623,932	7.12%
Investment income (loss), net	(21,313,856)	2,405,888	(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	34,054	40,531	(15.98)
Total deductions	21,090,206	19,245,868	9.58
Net decrease	(28,881,418)	(4,216,048)	585.04
Plan net assets—beginning of year	329,456,025	333,672,073	(1.26)
Plan net assets—end of year	\$ 300,574,607	329,456,025	(8.77)

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

Management's Discussion and Analysis

April 30, 2004 and 2003

(Unaudited)

2003 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, which 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.

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.

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

Statements of Plan Net Assets

April 30, 2004 and 2003

	2004	2003
Assets:		
Cash and cash equivalents	\$ 12,804,003	7,953,145
Investments:		
Collective trusts	255,579,932	229,806,693
Domestic common stocks	42,905,856	61,685,746
Foreign common stocks	44,514,130	1,230,081
Total investments	342,999,918	292,722,520
Receivables:		
Contributions	502,422	417,843
Investment income	67,554	63,545
Due from broker for sales of investments	2,101,048	673,942
Total receivables	2,671,024	1,155,330
Total assets	358,474,945	301,830,995
Liabilities:		
Due to broker for purchases of investments	1,943,356	734,956
Administrative and investment expenses payable	765,509	521,432
Total liabilities	2,708,865	1,256,388
Net assets held in trust for pension benefits (an unaudited schedule of funding progress is presented in schedule 1)	\$ 355,766,080	300,574,607

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, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Additions:		
Contributions:		
Contributions from the City of Kansas City, Missouri	\$ 9,312,272	9,084,764
Contributions from firefighters	4,546,002	4,437,880
Total contributions	<u>13,858,274</u>	<u>13,522,644</u>
Investment income (loss):		
Interest income	682,793	2,188,979
Dividend income	1,196,954	1,275,019
Net appreciation (depreciation) in fair value of investments	64,857,895	(23,166,190)
Investment expense	<u>(1,814,857)</u>	<u>(1,611,664)</u>
Total investment income (loss), net	<u>64,922,785</u>	<u>(21,313,856)</u>
Total additions (losses)	<u>78,781,059</u>	<u>(7,791,212)</u>
Deductions:		
Benefits paid to participants	21,012,619	19,187,629
Funeral benefits	26,000	30,000
Refunds:		
Termination	84,958	60,318
Retirement	2,420,237	1,778,205
Administrative expenses	<u>45,772</u>	<u>34,054</u>
Total deductions	<u>23,589,586</u>	<u>21,090,206</u>
Net increase (decrease)	55,191,473	(28,881,418)
Net assets held in trust for pension benefits:		
Beginning of year	<u>300,574,607</u>	<u>329,456,025</u>
End of year	\$ <u><u>355,766,080</u></u>	\$ <u><u>300,574,607</u></u>

See accompanying notes to financial statements.

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

Notes to Financial Statements

April 30, 2004 and 2003

(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, 2004 and 2003, the Plan's membership consisted of the following:

	2004	2003
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	880	819
Current employees:		
Vested	447	442
Nonvested	421	359
Total	1,748	1,620

(b) Retirement Benefits

Employees with 10 or more years of service are entitled to retirement benefits 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.

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

Notes to Financial Statements

April 30, 2004 and 2003

(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 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 contribute 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, 2004 and 2003 was \$180 and \$175, respectively.

The subsidy is invested in both fixed income and equity securities and is stated at fair value. Investments totaled approximately \$1,535,520 and \$972,000 at April 30, 2004 and 2003, respectively.

The May 1, 2004 and 2003 actuarial valuations do not consider the subsidy's plan net assets, which at April 30, 2004 and 2003 were approximately \$1,497,679 and \$998,000, 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.

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

Notes to Financial Statements

April 30, 2004 and 2003

(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. Certain amounts in the prior year's financial statements have been reclassified for consistent presentation.

(b) *New Accounting Standard*

In March 2003, the Governmental Accounting Standards Board (GASB) issued Statement No. 40, *Deposit and Investment Risk Disclosures—an amendment of GASB Statement No. 3*. This statement will revise the deposit and investment risks disclosed in the notes to the financial statements. The Plan will implement Statement No. 40 beginning with the fiscal year ended April 30, 2006.

(c) *Investments*

The Plan's investments in collective trust accounts have been reported to the Plan by the trustee at fair value which represents the quoted redemption value determined principally based on quoted market prices of the underlying investments. The Plan's investments in domestic and foreign common stocks are reported at fair value as follows: (1) listed—closing prices as reported on the composite summary of national securities exchanges; (2) over-the-counter—bid prices.

The cost of investments is stated at average cost, which includes discounts and/or premiums at the date of purchase. Investment transactions are accounted for on a trade date (date order to buy or sell is executed) and dividend income is recognized on the ex-dividend date. Interest income is recognized on an accrual basis. Realized gains and losses from investments are determined on an average cost basis.

(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.

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

Notes to Financial Statements

April 30, 2004 and 2003

(4) Funding Policy

Funding is provided by contributions from the Plan's 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, 2002 actuarial valuations, which was the most recent actuarial data available when the budget was developed for the year ended April 30, 2004, the actuary recommended a City contribution rate of 19.6%. The board of trustees recommended a City contribution rate of 19.6% for 2004. 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, 2004. The May 1, 2003 actuarial valuation which calculated the 2004 Annual Required Contribution recommended a City contribution rate of 22.76%.

The City's contribution rate of 19.6% of salary and firefighters' contributions of 9.55% is not 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

Last Six Fiscal Years

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
05/01/99	\$ 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
05/01/04	318,841,561	384,247,836	65,406,275	82.98	43,920,060	148.92

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

Last Six Fiscal Years

	<u>Annual required contributions</u>	<u>Percentage contributed</u>
Year ended April 30:		
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
2004	9,632,622	87.78

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

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

Notes to Required Supplementary Information

April 30, 2004 and 2003

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, 2004
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.