

**City of Kansas City, Missouri**  
**Firefighters' Pension System**  
A Component Unit of the City of Kansas City, Missouri  
Independent Accountants' Report and Financial Statements  
April 30, 2009 and 2008



**City of Kansas City, Missouri**  
**Firefighters' Pension System**  
A Component Unit of the City of Kansas City, Missouri  
April 30, 2009 and 2008

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## Independent Accountants' Report on Financial Statements and Supplementary Information

Retirement Board  
City of Kansas City, Missouri  
Firefighters' Pension System  
Kansas City, Missouri

We have audited the accompanying basic financial statements of the City of Kansas City, Missouri Firefighters' Pension System (the Plan), a component unit of the City of Kansas City, Missouri, as of and for the year ended April 30, 2009, 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. The financial statements of the City of Kansas City, Missouri Firefighters' Pension System as of and for the year ended April 30, 2008, before they were retroactively restated for the matter discussed in Note 2, were audited by other accountants whose report dated October 31, 2008, expressed an unqualified opinion on those statements.

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 City of Kansas City, Missouri Firefighters' Pension System as of April 30, 2009, and changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2, in 2008 the Plan retroactively changed its method of accounting for securities lending transactions.

As described more fully in Note 3 to the financial statements, the Plan implemented Governmental Accounting Standards Board Statement No. 50, Pension Disclosures. The effect of this statement is reflected in additional note disclosures throughout the notes to the financial statements.

The accompanying management's discussion and analysis and schedules of funding progress and employer contributions as listed in the table of contents 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 required supplementary information. However, we did not audit the information and express no opinion on it.

*BKD, LLP*

Kansas City, Missouri  
October 30, 2009

**City of Kansas City, Missouri**  
**Firefighters' Pension System**  
**A Component Unit of the City of Kansas City, Missouri**  
**Management's Discussion and Analysis**  
**April 30, 2009 and 2008**

The Firefighters' Pension System of Kansas City, Missouri is the defined benefit retirement plan for firefighters of Kansas City, Missouri. The Firefighters' Pension System was established by City ordinance in 1953 and is administered by the Retirement System Board of Trustees to provide retirement, disability and survivor benefits to its members.

This discussion and analysis of the Firefighters' Pension System's financial statements provides an overview of the Firefighters' Pension System's operations and investment performance during the years ended April 30, 2009 and 2008. Please read it in conjunction with the Firefighters' Pension System's financial statements, which follow this section.

***Overview of the Financial Statements and Accompanying Information***

- The financial statements presented in this report are the Statements of Plan Net Assets as of April 30, 2009 and 2008 and the Statements of Changes in Plan Net Assets for the years ended April 30, 2009 and 2008. 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 and a summary of investments.
- Required supplementary information presents schedules related to employer contributions and the funding of the Plan.
- Other supplementary schedules consist of detailed information supporting administrative and investment expenses and a historical summary of revenues and expenses.

**City of Kansas City, Missouri**  
**Firefighters' Pension System**  
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**Management's Discussion and Analysis**  
**April 30, 2009 and 2008**

**2009 and 2008 Summary Comparative Information of Plan Net Assets**

	<b>April 30, 2009</b>	<b>(Restated) April 30, 2008</b>	<b>Amount Change</b>	<b>Percentage Change</b>
Cash and cash equivalents	\$ 9,138,157	\$ 14,610,755	\$ (5,472,598)	-37.46%
Receivables	1,509,862	1,833,450	(323,588)	-17.65%
Investments at fair value	283,215,160	415,264,451	(132,049,291)	-31.80%
Securities lending collateral	13,190,364	41,577,066	(28,386,702)	-68.27%
<b>Total assets</b>	<b>307,053,543</b>	<b>473,285,722</b>	<b>(166,232,179)</b>	<b>-35.12%</b>
Due to broker for purchases of investments	1,598,292	1,682,755	(84,463)	-5.02%
Administrative and investment expenses payable	719,815	809,605	(89,790)	-11.09%
Securities lending collateral	13,190,364	41,577,066	(28,386,702)	-68.27%
<b>Total liabilities</b>	<b>15,508,471</b>	<b>44,069,426</b>	<b>(28,560,955)</b>	<b>-64.81%</b>
<b>Net assets</b>	<b>\$ 291,545,072</b>	<b>\$ 429,216,296</b>	<b>\$ (137,671,224)</b>	<b>-32.08%</b>

**City of Kansas City, Missouri**  
**Firefighters' Pension System**  
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**Management's Discussion and Analysis**

**April 30, 2009 and 2008**

**2009 and 2008 Summary Comparative Information of Changes in Plan Net Assets**

	<u>April 30, 2009</u>	<u>April 30, 2008</u>	<u>Amount Change</u>	<u>Percentage Change</u>
Member contributions	\$ 5,801,697	\$ 5,306,233	\$ 495,464	9.34%
Employer contributions	11,366,582	10,940,229	426,353	3.90%
Investment loss	<u>(128,064,562)</u>	<u>(20,393,616)</u>	<u>(107,670,946)</u>	527.96%
Total additions	<u>(110,896,283)</u>	<u>(4,147,154)</u>	<u>(106,749,129)</u>	2574.03%
Benefits paid to members	26,376,326	25,521,938	854,388	3.35%
Refunds of contributions	328,064	1,064,423	(736,359)	-69.18%
Administrative expenses	<u>70,551</u>	<u>52,051</u>	<u>18,500</u>	35.54%
Total deductions	<u>26,774,941</u>	<u>26,638,412</u>	<u>136,529</u>	0.51%
Net Decrease	(137,671,224)	(30,785,566)	(106,885,658)	347.19%
Net Assets, Beginning of Year	<u>429,216,296</u>	<u>460,001,862</u>	<u>(30,785,566)</u>	-6.69%
Net Assets, End of Year	<u>\$ 291,545,072</u>	<u>\$ 429,216,296</u>	<u>\$ (137,671,224)</u>	-32.08%

**2009 Financial Highlights**

Net plan assets fell by 32.1%, the worst year in the history of the System, as the credit crisis resulted in steep declines in the prices of stocks and many bonds. This performance fell short of the Composite Benchmark, with most segments of the portfolio falling short of target. The domestic equity, global equity, real estate and fixed income components all underperformed by wide margins, while the non-U.S. equity allocation performed largely in line with expectations. Among individual managers, the WAMCO Index Plus strategy posted the most disappointing relative results, while the best performance was registered by the small cap value portfolio managed by American Century.

The investment loss of \$128.1 million significantly impacted additions. Contributions continued to increase, even though headcount was virtually flat in the current period, due to salary increases. Benefit payments rose by 3.4%, largely reflecting cost-of-living adjustments. Refunds of contributions declined 69.1% as fewer members elected withdrawal at retirement. Administrative expenses advanced by a modest amount.

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**Management's Discussion and Analysis**  
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**2009 Operational Highlights**

No investment manager, or other service provider, changes were made in the period. At the height of the financial crisis, the Board temporarily suspended its asset rebalancing policy because of the excessive volatility and lack of liquidity plaguing the markets. This resulted in fixed income investments exceeding their target level at the end of the period. The Board also changed the unfunded actuarial liability amortization method and asset smoothing corridor. The collapse of Lehman Brothers, and related events, resulted in the booking of a \$0.5 million liability in connection with securities lending. It is possible that most of this liability will be recovered over time.

**2008 and 2007 Summary Comparative Information of Plan Net Assets**

	<i>(Restated)</i> April 30, 2008	<i>(Restated)</i> April 30, 2007	Amount Change	Percentage Change
Cash and cash equivalents	\$ 14,610,755	\$ 10,636,157	\$ 3,974,598	37.37%
Receivables	1,833,450	2,259,580	(426,130)	-18.86%
Investments at fair value	415,264,451	450,026,168	(34,761,717)	-7.72%
Securities lending collateral	41,577,066	37,031,267	4,545,799	12.28%
Total assets	<u>473,285,722</u>	<u>499,953,172</u>	<u>(26,667,450)</u>	-5.33%
Due to broker for purchases of investments	1,682,755	1,866,318	(183,563)	-9.84%
Administrative and investment expenses payable	809,605	1,053,725	(244,120)	-23.17%
Securities lending collateral	41,577,066	37,031,267	4,545,799	12.28%
Total liabilities	<u>44,069,426</u>	<u>39,951,310</u>	<u>4,118,116</u>	10.31%
Net assets	<u>\$ 429,216,296</u>	<u>\$ 460,001,862</u>	<u>\$ (30,785,566)</u>	-6.69%

**City of Kansas City, Missouri**  
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**2008 and 2007 Summary Comparative Information of Changes in Plan Net Assets**

	April 30, 2008	April 30, 2007	Amount Change	Percentage Change
Member contributions	\$ 5,306,233	\$ 5,058,880	\$ 247,353	4.89%
Employer contributions	10,940,229	10,426,335	513,894	4.93%
Investment income (loss)	(20,393,616)	44,449,160	(64,842,776)	-145.88%
Total additions	<u>(4,147,154)</u>	<u>59,934,375</u>	<u>(64,081,529)</u>	-106.92%
Benefits paid to members	25,521,938	24,870,247	651,691	2.62%
Refunds of contributions	1,064,423	570,835	493,588	86.47%
Administrative expenses	52,051	72,349	(20,298)	-28.06%
Total deductions	<u>26,638,412</u>	<u>25,513,431</u>	<u>1,124,981</u>	4.41%
Net Increase (Decrease)	(30,785,566)	34,420,944	(65,206,510)	-189.44%
Net Assets, Beginning of Year	<u>460,001,862</u>	<u>425,580,918</u>	<u>34,420,944</u>	8.09%
Net Assets, End of Year	<u>\$ 429,216,296</u>	<u>\$ 460,001,862</u>	<u>\$ (30,785,566)</u>	-6.69%

**2008 Financial Highlights**

FPS net plan assets contracted by 6.69% in the period, as seen in the statement of net plan assets. The market environment began to deteriorate in the second half of calendar 2007, and got progressively worse through the balance of the fiscal year. Nearly all equity indices registered declines during the period, including both the Russell 3000 and MSCI Index, while bonds, as measured by the Lehman Aggregate Index garnered modest positive returns. The Plan's investment performance did not meet expectations, as the overall loss posted exceeded that of the Composite Benchmark. Underperformance was widespread, with the fixed income and domestic equity components exhibiting particularly disappointing results. Within fixed income, credit and mortgage exposure detracted significantly from relative results. The real estate allocation proved beneficial, as that asset class continued to experience steady appreciation.

Total additions, as shown on the statement of changes in net plan assets, were negative \$4.1 million, a 106.92% decline from the prior year. Although Contributions rose 4.92%, attributable primarily to salary adjustments, net investment income dropped by \$64.1 million. Benefits paid climbed by 2.62%, due in large part to cost-of-living adjustments, while Refunds (mostly related to retirements) increased 86.47%. Administrative expenses actually declined, by 28.06%, but much of that reduction is related to the timing of payables.



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***2008 Operational Highlights***

Several investment manager changes took place during the period. Acadian Asset Management was hired for a global equity mandate, replacing a non-U.S. product managed by Morgan Stanley. A position in the Western Asset Management Core Plus Bond Fund was also established, initially with funds drawn from the NTGI Aggregate Bond Fund, and increased late in the fiscal year in conjunction with the termination of J.P. Morgan Asset Management. A special actuarial study was also conducted, which resulted in changes in the asset smoothing corridor, investment return assumption and unfunded actuarial liability amortization method.

***Requests for Information***

This financial report is designed to provide members of the Firefighters' Pension System, citizens, investors and creditors of the City of Kansas City, Missouri with a general overview of the Firefighters' Pension System's 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 Firefighters' Pension System, City Hall, 414 East 12<sup>th</sup> Street, 12<sup>th</sup> Floor, Kansas City, Missouri 64106-2705.

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 Firefighters' Pension System.

**City of Kansas City, Missouri**  
**Firefighters' Pension System**  
**Statements of Plan Net Assets**  
**April 30, 2009 and 2008**

<b>Assets</b>	<b>2009</b>	<b>(Restated) 2008</b>
	<hr/>	<hr/>
<b>Cash and Cash Equivalents</b>	\$ 9,138,157	\$ 14,610,755
<b>Investments, At Fair Value</b>		
Domestic common stock	83,658,579	125,147,212
Collective trusts - equities	55,871,354	103,240,656
Collective trusts - fixed income	125,300,743	162,315,431
Collective trusts - real estate	18,384,484	24,561,152
	<hr/>	<hr/>
Total investments	283,215,160	415,264,451
	<hr/>	<hr/>
<b>Securities Lending Collateral</b>	13,190,364	41,577,066
	<hr/>	<hr/>
<b>Receivables</b>		
Contributions	889,171	548,701
Investment income	86,926	113,946
Due from broker for sales of investments	533,765	1,170,803
	<hr/>	<hr/>
Total receivables	1,509,862	1,833,450
	<hr/>	<hr/>
Total assets	307,053,543	473,285,722
	<hr/>	<hr/>
<b>Liabilities</b>		
Due to broker for purchases of investments	1,598,292	1,682,755
Administrative and investment expenses payable	236,622	809,605
Securities lending liability	483,193	-
Securities lending collateral	13,190,364	41,577,066
	<hr/>	<hr/>
Total liabilities	15,508,471	44,069,426
	<hr/>	<hr/>
<b>Net Assets Held in Trust for Pension Benefits</b>	\$ 291,545,072	\$ 429,216,296
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<i>See Schedule of Funding Progress on Page 19</i>		

**City of Kansas City, Missouri**  
**Firefighters' Pension System**  
**Statements of Changes in Plan Net Assets**  
**April 30, 2009 and 2008**

**Additions**

	2009	2008
<b>Investment Income (Loss)</b>		
Interest income	\$ 521,239	\$ 854,116
Dividend income	2,137,675	2,163,953
Net depreciation in fair value of investments	(129,339,260)	(20,707,195)
Less investment expense	(1,384,216)	(2,704,490)
Net investment loss	(128,064,562)	(20,393,616)
<b>Contributions</b>		
Contributions from the City of Kansas City, Missouri	11,366,582	10,940,229
Contributions from members	5,801,697	5,306,233
Total contributions	17,168,279	16,246,462
Total additions (deductions)	(110,896,283)	(4,147,154)

**Deductions**

<b>Benefits Paid</b>		
Members	26,315,326	25,471,938
Funeral benefits	61,000	50,000
Total benefits paid	26,376,326	25,521,938
<b>Refunds</b>		
Termination	207,942	128,500
Retirement	120,122	935,923
<b>Administrative Expenses</b>	70,551	52,051
Total deductions	26,774,941	26,638,412
<b>Net Decrease</b>	(137,671,224)	(30,785,566)
<b>Net Assets Held in Trust for Pension Benefits, Beginning of Year</b>	429,216,296	460,001,862
<b>Net Assets Held in Trust for Pension Benefits, End of Year</b>	\$ 291,545,072	\$ 429,216,296

# City of Kansas City, Missouri Firefighters' Pension System

**Notes to Financial Statements  
April 30, 2009 and 2008**

## **Note 1: Summary of Significant Accounting Policies**

### ***Reporting Entity***

The City of Kansas City, Missouri 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 April 30, 2009 and 2008, the Plan's membership consisted of the following:

	<b>2009</b>	<b>2008</b>
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	865	867
Current employees:		
Vested	757	506
Nonvested	174	426
Inactive	-	8
Total	1,796	1,807

### ***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.

### ***Use of Estimates***

The preparation of financial statements in conformity with accounting practices 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, 2009 and 2008

### ***Investments***

Investments owned are valued at fair value as follows:

#### Common and Preferred Stock

Listed – closing prices are reported on the composite summary of national securities exchanges

Over-the-counter – bid prices

#### Collective Trusts

Represent quoted redemption values determined principally based on quoted market prices of the underlying investments.

Where investment securities are not listed on the exchange, quotations are estimated by management based on information obtained from brokerage firms or national pricing services. The estimated value of such investments is subject to uncertainty and, therefore, may differ from the value that would have been used had a market for such investments existed.

Investment transactions are accounted for on a trade-date basis (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.

### ***Contributions***

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 April 30, 2008 actuarial valuation, the actuary recommended a City contribution rate of 21.46%. The board of trustees recognized a scheduled City contribution rate of 19.6% for 2009 and 2008. The City Council approved a City contribution rate of 19.6% (and 2% to fund the health insurance subsidy) for the years ended April 30, 2009 and 2008.

# City of Kansas City, Missouri Firefighters' Pension System

## Notes to Financial Statements April 30, 2009 and 2008

### Funded Status and Funding Progress

The funded status of the Plan as of April 30, 2008, the most recent actuarial valuation date, is as follows:

	(a)	(b)	(b - a)	(a/b)	(c)	[(b - a)/c]
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
4/30/2008	\$ 447,209,064	\$ 478,734,450	\$ 31,525,386	93%	\$ 51,168,515	62%

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.

### **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 80.0%. 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 contribution 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 3.0% 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.

### **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.

# City of Kansas City, Missouri Firefighters' Pension System

## Notes to Financial Statements April 30, 2009 and 2008

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.

### ***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.

### ***Subsidy***

Effective May 1, 1991, the Plan established a 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, 2009 and 2008 was \$210.

The subsidy is invested in both fixed income and equity securities and is stated at fair value. Investments totaled \$1,137,398 and \$1,578,902 at April 30, 2009 and 2008, respectively.

The April 30, 2009 and 2008 actuarial valuations do not consider the subsidy's plan net assets, which at April 30, 2009 and 2008 were \$1,137,398 and \$1,578,902, respectively. According to the City ordinance that established the subsidy, if the net assets available for the subsidy are zero, the subsidy will not longer be available. For the years ended April 30, 2009 and 2008, employer contributions for the subsidy were \$1,046,696 and \$1,002,546, respectively, and employee contributions were \$523,348 and \$501,273, respectively.

### ***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, a portion of administrative and clerical services of the Human Resources Department and accounting services of the Finance Department without any direct charge to the Plan.

# City of Kansas City, Missouri Firefighters' Pension System

## Notes to Financial Statements April 30, 2009 and 2008

### ***Reclassifications***

Certain reclassifications have been made to the 2008 financial statements to conform to the 2009 financial statement presentation. These reclassifications had no effect on the statements of changes in plan net assets.

### **Note 2: Deposits and Investments**

The City administrative code and ordinances passed by the City Council provide that Plan investments may include, but are not limited to, obligations of the U.S. government, state of Missouri, and municipal corporations, including school districts, corporate bonds, real estate mortgages and common and preferred stocks. The Plan purchases investments from Securities and Exchange Commission registered securities broker dealers and banks through its investment managers. Investments in U.S. Treasury obligations are held at the Federal Reserve Bank through the customer account of a financial institution.

### ***Securities Lending Transactions (Restated)***

The 2008 financial statements have been restated to include required disclosures related to Securities Lending Transactions. The restatement to the 2008 financial statements increased assets and liabilities by \$41,577,066 on the statement of plan net assets with no effect on the statement of changes in plan net assets.

City ordinances 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. At April 30, 2009, management believes the Plan has no credit risk exposure to borrowers because the amounts the Plan owes the borrowers exceed the amounts the borrowers owe the Plan. 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.



**City of Kansas City, Missouri**  
**Firefighters' Pension System**  
**Notes to Financial Statements**  
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	<b>2009</b>	<b>(Restated) 2008</b>
Market value of securities loaned	\$ 12,903,093	\$ 41,532,166
Market value of cash collateral received from borrowers	\$ 13,190,364	\$ 41,577,066
Market value of non-cash collateral received from borrowers	-	970,369
Total market value of collateral	\$ 13,190,364	\$ 42,547,435

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, 2009, the Plan, under its securities lending agreement with Northern Trust, was responsible for a collateral deficiency of \$483,193, which is recorded as a liability on the Plan's statement of plan assets. This obligation is due to certain market events that have driven the markets into a highly illiquid condition. The obligation may be reduced over time as holdings mature and investment valuations return to normal; however, the liability will continue to exist reflecting any impaired holdings which are expected to pay out at a percentage of par.

***Custodial Credit Risk***

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 investments or collateral securities that are in the possession of an outside party. The deposits are held by the investment custodian in a short-term money market account and are not insured by the Federal Deposit Insurance Corporation (FDIC). The Plan has not established a policy with regard to custodial credit risk. At April 30, 2009 and 2008, \$9,138,157 and \$14,610,755 of deposits were uncollateralized, respectively.

***Credit Risk***

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the Plan. As of April 30, 2009 and 2008, the Plan's fixed income assets that are not government guaranteed represented 100% of the fixed income portfolio. The Plan has not

# City of Kansas City, Missouri Firefighters' Pension System

## Notes to Financial Statements April 30, 2009 and 2008

established a policy with regard to credit risk. The following table summarizes the Plan's fixed income portfolio exposure levels and credit qualities at April 30, 2009:

### ***Average Credit Quality and Exposure Levels of Nongovernment Guaranteed Securities***

<b>Fixed Income Security Type</b>	<b>Fair Value April 30, 2009</b>	<b>Percentage of all Fixed Income Assets</b>	<b>Weighted Average Credit Quality</b>
Collective trusts	\$ 125,300,743	100%	Not rated

The following table summarizes the Plan's fixed income portfolio exposure levels and credit qualities at April 30, 2008:

### ***Average Credit Quality and Exposure Levels of Nongovernment Guaranteed Securities***

<b>Fixed Income Security Type</b>	<b>Fair Value April 30, 2008</b>	<b>Percentage of all Fixed Income Assets</b>	<b>Weighted Average Credit Quality</b>
Collective trusts	\$ 162,315,431	100%	Not rated

Each portfolio is managed in accordance with operational guidelines that are specific as to permissible credit quality ranges, exposure levels within individual quality tiers, and the average credit quality of the overall portfolios.

### ***Concentration of Credit Risk***

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of a government's investment in a single issue. The Plan's policy for each specific portfolio limits investments in any corporate entity to no more than 5% of the market value of the account for actively managed portfolios, excluding U.S. government and agency obligations. As of April 30, 2009 and 2008, there were no investments in any corporate entity or government agency greater than 5%.

# City of Kansas City, Missouri Firefighters' Pension System

## Notes to Financial Statements April 30, 2009 and 2008

### ***Interest Rate Risk***

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Plan has not established a policy with regard to interest rate risk.

### **Note 3: Actuarial Methods and Assumptions**

During the current year, the Plan adopted Governmental Accounting Standards Board Statement No. 50, Pension Disclosures. The effect of the adoption was to require additional disclosures about the actuarial methods and assumptions used in the valuations on which reported information about the annual required contributions, the funded status and funding progress are based.

An actuary from Cheiron 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 the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	April 30, 2008 and 2007
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, open
Remaining amortization period	30 years
Actuarial assumptions:	
Investment rate of return	7.75% 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%.

# City of Kansas City, Missouri Firefighters' Pension System

## Notes to Financial Statements April 30, 2009 and 2008

### ***Actuarial Value of Assets***

The Plan 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 at the beginning of the year; plus
- b. The contributions less benefits paid during the year; plus
- c. Interest at the assumed net rate of investment return on an actuarial basis; plus
- d. 20% of the gain/(loss) (difference between the market value of assets and the expected value of assets) for the year plus 20% of each of the four prior years gains/(losses).

If the actuarial value of assets is less than 85% or more than 110% of the market value, an adjustment is made to the actuarial value to bring the value within this corridor.

### **Note 4: 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 that such changes could materially affect the amounts reported in the statement of plan net assets.

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

### ***Current Economic Conditions***

The current economic environment presents pension systems with unprecedented circumstances and challenges, which in some cases have resulted in large declines in the fair value of investments. 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.

## **Required Supplementary Information**

**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
4/30/2003	\$ 306,204,360	\$ 371,993,884	\$ 65,789,524	82%	\$ 42,315,396	155%
4/30/2004	318,841,561	384,247,836	65,406,275	83%	43,920,060	149%
4/30/2005	332,415,711	392,856,425	60,440,714	85%	45,700,578	132%
4/30/2006	381,404,249	434,033,285	52,629,036	88%	47,022,072	112%
4/30/2007	412,407,949	447,939,116	35,531,167	92%	49,420,823	72%
4/30/2008	447,209,064	478,734,450	31,525,386	93%	51,168,515	62%

**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>
<b>Year Ended April 30,</b>		
2003	\$ 8,215,224	100%
2004	9,632,622	88%
2005	9,808,923	89%
2006	9,807,644	93%
2007	9,419,485	101%
2008	8,734,919	114%