

City of Kansas City, Missouri
Firefighters' Pension System
A Component Unit of the City of Kansas City, Missouri
Auditor's Report and Financial Statements
April 30, 2014 and 2013

City of Kansas City, Missouri
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A Component Unit of the City of Kansas City, Missouri
April 30, 2014 and 2013

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the City of Kansas City, Missouri Firefighters' Pension System (the Plan), a component unit of the City of Kansas City, Missouri, which comprise the statements of plan net position as of April 30, 2014 and 2013, and the related statements of changes in plan net position for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2014 and 2013, and the changes in its financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension information listed in the table of contents be presented to supplement the financial statements. Such information, although not part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

BKD, LLP

Kansas City, Missouri
September 29, 2014

City of Kansas City, Missouri
Firefighters' Pension System
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Management's Discussion and Analysis
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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, 2014 and 2013, with selected comparative information for the fiscal year ended April 30, 2012. 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 Position as of April 30, 2014 and 2013 and the Statements of Changes in Plan Net Position for the years ended April 30, 2014 and 2013. These statements reflect resources available for the payment of benefits as of the year-end, and the sources and uses 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.

2014 and 2013 Summary Comparative Information of Plan Net Position

	April 30, 2014	April 30, 2013	Amount Change	Percentage Change
Receivables	\$ 1,339,588	\$ 2,105,759	\$ (766,171)	-36.38%
Investments at fair value	465,141,544	433,122,177	32,019,367	7.39%
Securities lending collateral	32,755,352	38,031,124	(5,275,772)	-13.87%
Total assets	499,236,484	473,259,060	25,977,424	5.49%
Due to broker for purchases of investments	625,445	362,116	263,329	72.72%
Administrative and investment expenses payable	639,660	723,288	(83,628)	-11.56%
Securities lending collateral	32,755,352	38,031,124	(5,275,772)	-13.87%
Total liabilities	34,020,457	39,116,528	(5,096,071)	-13.03%
Net position	\$ 465,216,027	\$ 434,142,532	\$ 31,073,495	7.16%

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2014 and 2013 Summary Comparative Information of Changes in Plan Net Position

	<u>April 30, 2014</u>	<u>April 30, 2013</u>	<u>Amount Change</u>	<u>Percentage Change</u>
Member contributions	\$ 6,283,355	\$ 6,206,339	\$ 77,016	1.24%
Employer contributions	14,526,088	14,244,943	281,145	1.97%
Net investment income	<u>46,050,767</u>	<u>44,021,105</u>	<u>2,029,662</u>	4.61%
Total additions	<u>66,860,210</u>	<u>64,472,387</u>	<u>2,387,823</u>	3.70%
Benefits paid to members	34,141,649	33,232,766	908,883	2.73%
Refunds of contributions	1,423,715	1,466,343	(42,628)	-2.91%
Administrative expenses	<u>221,351</u>	<u>135,984</u>	<u>85,367</u>	62.78%
Total deductions	<u>35,786,715</u>	<u>34,835,093</u>	<u>951,622</u>	2.73%
Net Increase	31,073,495	29,637,294	1,436,201	4.85%
Net Position, Beginning of Year	<u>434,142,532</u>	<u>404,505,238</u>	<u>29,637,294</u>	7.33%
Net Position, End of Year	<u>\$ 465,216,027</u>	<u>\$ 434,142,532</u>	<u>\$ 31,073,495</u>	7.16%

2014 Financial Highlights

Although fixed income returns were negligible during the period, prices surged in most equity markets. The investment portfolio attained a return of 11.6%, which modestly exceeded the Policy Index benchmark. The domestic equity, fixed income and real estate segments of the fund all bested performance expectations, while both the international equity and global equity managers, in aggregate, underperformed.

The 7.2% rise in plan net position, to \$465 million, was largely due to investment income of \$46 million. Contributions and benefits grew in ordinary fashion. Administrative expenses rose significantly, primarily due to staffing costs.

2014 Operational Highlights

Changes in key personnel at a fixed income manager prompted their removal. The two managers retained as replacements, coupled with a simultaneous reduction in passive fixed income exposure, should position the fund to generate slightly higher returns with less interest rate exposure. Ongoing cash needs were met mostly through the sale of appreciating equity securities.

Pension reform legislation was passed by the City Council on February 20, 2014 (Ordinance No. 140034). This legislation established a new tier of benefits for employees hired on or after April 20, 2014.

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2013 and 2012 Summary Comparative Information of Plan Net Position

	<u>April 30, 2013</u>	<u>April 30, 2012</u>	<u>Amount Change</u>	<u>Percentage Change</u>
Receivables	\$ 2,105,759	\$ 2,120,074	\$ (14,315)	-0.68%
Investments at fair value	433,122,177	403,573,910	29,548,267	7.32%
Securities lending collateral	38,031,124	30,161,932	7,869,192	26.09%
Total assets	<u>473,259,060</u>	<u>435,855,916</u>	<u>37,403,144</u>	<u>8.58%</u>
Due to broker for purchases of investments	362,116	659,754	(297,638)	-45.11%
Administrative and investment expenses payable	723,288	528,992	194,296	36.73%
Securities lending collateral	38,031,124	30,161,932	7,869,192	26.09%
Total liabilities	<u>39,116,528</u>	<u>31,350,678</u>	<u>7,765,850</u>	<u>24.77%</u>
Net position	<u>\$ 434,142,532</u>	<u>\$ 404,505,238</u>	<u>\$ 29,637,294</u>	<u>7.33%</u>

2013 and 2012 Summary Comparative Information of Changes in Plan Net Position

	<u>April 30, 2013</u>	<u>April 30, 2012</u>	<u>Amount Change</u>	<u>Percentage Change</u>
Member contributions	\$ 6,206,339	\$ 5,648,528	\$ 557,811	9.88%
Employer contributions	14,244,943	12,748,990	1,495,953	11.73%
Net investment income	44,021,105	3,698,373	40,322,732	1090.28%
Total additions	<u>64,472,387</u>	<u>22,095,891</u>	<u>42,376,496</u>	<u>191.78%</u>
Benefits paid to members	33,232,766	30,922,511	2,310,255	7.47%
Refunds of contributions	1,466,343	1,113,257	353,086	31.72%
Administrative expenses	135,984	159,709	(23,725)	-14.86%
Total deductions	<u>34,835,093</u>	<u>32,195,477</u>	<u>2,639,616</u>	<u>8.20%</u>
Net Increase (Decrease)	<u>29,637,294</u>	<u>(10,099,586)</u>	<u>39,736,880</u>	<u>-393.45%</u>
Net Position, Beginning of Year	<u>404,505,238</u>	<u>414,604,824</u>	<u>(10,099,586)</u>	<u>-2.44%</u>
Net Position, End of Year	<u>\$ 434,142,532</u>	<u>\$ 404,505,238</u>	<u>\$ 29,637,294</u>	<u>7.33%</u>

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2013 Financial Highlights

A \$30 million (7.3%) gain in net position was registered, as most financial assets rose in value over the course of the year. However, the 11.8% return realized by the investment portfolio fell short of the 12.7% gain in the Policy Index. The fixed income and real estate asset classes were the only components of the portfolio to exceed their respective performance benchmarks, although the domestic equity fell short by only a narrow margin.

An investment gain of \$44 million was registered, which was over \$40 million more than in the prior year. Ongoing salary adjustments resulted in steady growth in contribution inflows. An incentive offered by the City resulted in the retirement of about 30 members; this contributed to both a 7.5% increase in benefit payments and 31.7% jump in contribution refunds. Administrative expenses actually declined modestly, primarily due to lower legal charges.

2013 Operational Highlights

The plan's non-U.S. small cap equity manager was replaced due to organizational issues. Also, investments were made in an additional real estate fund to increase the allocation to that asset class to 10%, and the domestic equity allocation was reduced in the process. An Actuarial Equivalence Factor study was conducted, which led to adoption of revised (lower) reduction factors used in benefit calculations. Cash needs were met by liquidation of a combination of fixed income and domestic equity investments.

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 12th Street, 12th 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
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Statements of Plan Net Position
April 30, 2014 and 2013

Assets

	2014	2013
Investments, At Fair Value		
Short-term investment funds	\$ 14,838,258	\$ 10,323,698
Domestic common stock	95,668,063	84,395,753
Foreign equities	2,757,077	1,301,456
Collective trusts - equities	199,066,079	141,040,140
Collective trusts - fixed income	64,453,398	115,432,006
Collective trusts - hedge funds	41,899,602	38,939,244
Collective trusts - real estate	46,459,067	41,689,880
Total investments	465,141,544	433,122,177
Securities Lending Collateral	32,755,352	38,031,124
Receivables		
Contributions	745,078	1,225,387
Investment income	49,875	22,151
Due from broker for sales of investments	544,635	858,221
Total receivables	1,339,588	2,105,759
Total assets	499,236,484	473,259,060

Liabilities

Due to broker for purchases of investments	625,445	362,116
Administrative and investment expenses payable	639,660	723,288
Securities lending collateral	32,755,352	38,031,124
Total liabilities	34,020,457	39,116,528
Net Position Restricted for Pensions	\$ 465,216,027	\$ 434,142,532

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Statements of Changes in Plan Net Position
Years Ended April 30, 2014 and 2013

Additions	2014	2013
Investment Income		
Interest income	\$ 895,124	\$ 732,029
Dividend income	1,435,945	1,351,130
Net appreciation in fair value of investments	46,234,967	43,953,197
Less investment expense	<u>(2,606,116)</u>	<u>(2,116,513)</u>
Net investment income	<u>45,959,920</u>	<u>43,919,843</u>
Securities Lending Income		
Securities lending gross income	<u>98,335</u>	<u>102,939</u>
Securities lending expenses		
Borrower rebates	31,287	41,555
Management fees	<u>(38,775)</u>	<u>(43,232)</u>
Total securities lending expenses	<u>(7,488)</u>	<u>(1,677)</u>
Net securities lending income	<u>90,847</u>	<u>101,262</u>
Total net investment income	<u>46,050,767</u>	<u>44,021,105</u>
Contributions		
Contributions from the City of Kansas City, Missouri	14,526,088	14,244,943
Contributions from members	<u>6,283,355</u>	<u>6,206,339</u>
Total contributions	<u>20,809,443</u>	<u>20,451,282</u>
Total additions	<u>66,860,210</u>	<u>64,472,387</u>
Deductions		
Benefits Paid		
Members	34,109,649	33,193,766
Funeral benefits	<u>32,000</u>	<u>39,000</u>
Total benefits paid	34,141,649	33,232,766
Refunds		
Termination	268,548	44,567
Retirement	1,155,167	1,421,776
Administrative Expenses	<u>221,351</u>	<u>135,984</u>
Total deductions	<u>35,786,715</u>	<u>34,835,093</u>
Net Increase	31,073,495	29,637,294
Net Position Restricted for Pensions, Beginning of Year	<u>434,142,532</u>	<u>404,505,238</u>
Net Position Restricted for Pensions, End of Year	<u>\$ 465,216,027</u>	<u>\$ 434,142,532</u>

City of Kansas City, Missouri
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Notes to Financial Statements
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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, 2014 and 2013, the Plan's membership consisted of the following:

	<u>2014</u>	<u>2013</u>
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	888	887
Current employees		
Vested	631	560
Nonvested	300	374
Inactive	<u>2</u>	<u>12</u>
Total	<u>1,821</u>	<u>1,833</u>

All members as of April 30, 2014 and 2013 were Tier I members.

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 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.

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Investments

Investments owned are valued at fair value as follows:

Common Stock

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

Over-the-counter – bid prices

Collective Trusts and Short-term Investment Funds

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 through April 20, 2014. Contributions were increased as of April 20, 2014, where Firefighter's contributions increased to 10.55% 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, 2013 actuarial valuation, the actuary recommended a City contribution rate of 27.73%. The board of trustees recognized a scheduled City contribution rate of 19.6% for 2014 and 2013. 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, 2014 and 2013.

City of Kansas City, Missouri
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Funded Status and Funding Progress

The funded status of the Plan as of April 30, 2013, 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
4/30/2013	\$ 418,711,963	\$ 547,787,899	\$ 129,075,936	76%	\$ 58,356,072	221%

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

Tier I Members

The Plan provides retirement benefits, for those employees hired before April 20, 2014 (Tier I Members). Members become vested for retirement benefits after 10 years of service. Members who retire with 25 years or more of creditable service are entitled to an annual pension of 2.5% of final average compensation multiplied by the number of years of creditable service, subject to a maximum limit of 80% of final compensation as defined in the Plan.

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.

An annual cost-of-living adjustment of 3.0%, non-compounded, 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.

Tier II Members

The Plan provides retirement benefits, for those employees hired on or after April 20, 2014 (Tier II Members). Members become vested for retirement benefits after 10 years of service. Members who retire with 27 years or more of creditable service are entitled to an annual pension of 2.5% of final average compensation multiplied by the number of years of creditable service, subject to a maximum limit of 80% of final compensation as defined in the Plan.

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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.

An annual cost-of-living adjustment, not to exceed 2.5%, non-compounded, per year is provided in the Plan if the prior year funding ratio is equal to or greater than 80% and will be equal to the percentage increase in the prior 12 months of the final national consumer price index. 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.

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.

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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, 2014 and 2013 was \$420.

The subsidy is invested in both fixed income and equity securities and is stated at fair value. Investments totaled \$2,630,561 and \$2,228,294 at April 30, 2014 and 2013, respectively.

The actuarial valuations do not consider the subsidy's plan net position, which at April 30, 2014 and 2013 were \$2,630,561 and \$2,282,294, respectively. According to the City ordinance that established the subsidy, if the net position available for the subsidy is zero, the subsidy will no longer be available. For the years ended April 30, 2014 and 2013, City contributions for the subsidy were \$2,730,205 and \$2,724,129, respectively, and employee contributions were \$594,202 and \$586,265, 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.

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

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.

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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, 2014 and 2013, 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.

	2014	2013
Market value of securities loaned	\$ 32,098,932	\$ 37,268,831
Market value of cash collateral received from borrowers	\$ 32,755,352	\$ 38,031,124

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.

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. Consistent with the Plan's securities lending policy, \$32,098,932 and \$37,268,831 at April 30, 2014 and 2013, respectively, was held by the counterparty that was acting as the Plan's agent in securities lending transactions.

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, 2014 and 2013, the Plan's fixed income assets that are not government guaranteed represented 100% of the fixed income portfolio. The Plan has not established a policy with regard to credit risk. The following tables summarize the Plan's fixed income portfolio exposure levels and credit qualities at April 30, 2014 and 2013:

**City of Kansas City, Missouri
Firefighters' Pension System**

A Component Unit of the City of Kansas City, Missouri

Notes to Financial Statements

April 30, 2014 and 2013

Average Credit Quality and Exposure Levels of Nongovernment Guaranteed Securities

Fixed Income Security Type	Fair Value April 30, 2014	Percentage of all Fixed Income Assets	Weighted Average Credit Quality
Money market funds	\$ 14,838,258	19%	Not rated
Collective trusts - fixed income	64,453,398	81%	Not rated
	<u>\$ 79,291,656</u>	<u>100%</u>	

Fixed Income Security Type	Fair Value April 30, 2013	Percentage of all Fixed Income Assets	Weighted Average Credit Quality
Money market funds	\$ 10,323,698	8%	Not rated
Collective trusts - fixed income	115,432,006	92%	Not rated
	<u>\$ 125,755,704</u>	<u>100%</u>	

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 issuer. 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, 2014 and 2013, there were no investments not directly guaranteed by the U.S. government in any issuer greater than 5%.

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. The Plan actually owns an interest in the underlying assets of the collective trusts and the money market funds and the unit values are based on the fair value of their underlying assets.

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Effective Duration of Fixed Income Assets by Security Type at April 30, 2014

Fixed Income Security Type	Fair Value April 30, 2014	Percentage of all Fixed Income Assets	Weighted Average Effective Duration (Years)
Money market funds	\$ 14,838,258	18.7%	**
Collective trusts - fixed income	64,453,398	81.3%	3.21
	<u>\$ 79,291,656</u>	<u>100.0%</u>	

Effective Duration of Fixed Income Assets by Security Type at April 30, 2013

Fixed Income Security Type	Fair Value April 30, 2013	Percentage of all Fixed Income Assets	Weighted Average Effective Duration (Years)
Money market funds	\$ 10,323,698	8.2%	**
Collective trusts - fixed income	115,432,006	91.8%	5.36
	<u>\$ 125,755,704</u>	<u>100.0%</u>	

**The Plan actually owns an interest in the underlying assets of the money market funds and the unit values are based on the fair value of their underlying assets. The money market funds do not have a maturity date, even though their underlying assets do have maturity dates of less than one year.

Note 3: Actuarial Methods and Assumptions

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.

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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, 2013 and 2012
Actuarial cost method	Entry age normal cost
Amortization method	30-year layered level percent of pay amortization for changes to the UAL on or after 5/1/2008
Remaining amortization period	Weighted average of 25.8 and 26.4 years as of April 30, 2013 and 2012, respectively
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 2.5%.

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 80% or more than 120% 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 position.

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.

Required Supplementary Information

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Required Supplementary Information
Schedule of Funding Progress
Last Ten 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
4/30/2004	\$ 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%
4/30/2009	348,489,209	500,193,509	151,704,300	70%	53,612,509	283%
4/30/2010	435,427,953	516,599,916	81,171,963	84%	51,934,305	156%
4/30/2011	432,540,955	528,481,037	95,940,082	82%	51,983,293	185%
4/30/2012	420,336,845	535,215,109	114,878,264	79%	60,062,558	191%
4/30/2013	418,711,963	547,787,899	129,075,936	76%	58,356,072	221%

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Schedule of Employer Contributions
Last Ten Fiscal Years

Year Ended <u>April 30,</u>	Annual Required Contributions	Percentage Contributed
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%
2009	9,476,409	109%
2010	17,123,835	61%
2011	12,827,773	80%
2012	14,045,886	83%
2013	15,400,040	85%