

CITY OF SPRINGFIELD, MISSOURI
POLICEMEN'S AND FIREMEN'S PENSION PLAN
FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION

June 30, 2004



DAVIS, LYNN &
MOOTS, P.C.

Certified Public
Accountants

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees
City of Springfield, Missouri
Policemen's and Firemen's Pension Plan
Springfield, Missouri

We have audited the accompanying statement of plan net assets of the City of Springfield, Missouri (the City) Policemen's and Firemen's Pension Plan (the Plan), a pension trust fund component unit of the City of Springfield, Missouri, as of June 30, 2004, and the related statement of changes in plan net assets for the year 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 audit.

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 net assets of the Plan as of June 30, 2004, and the changes in plan net assets for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 6 through 8 is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the method of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Board of Trustees
City of Springfield, Missouri
Policemen's and Firemen's Pension Plan
Springfield, Missouri

The schedules of funding progress and employer contributions on pages 17 and 18 are presented for additional analysis and are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied to the schedules of funding progress and employer contributions 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 and do not express an opinion on such information.

Davis, Lynn & Moots, P.C.

DAVIS, LYNN & MOOTS, P.C.
September 28, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Springfield we offer readers this narrative overview and analysis of the financial activities of the City of Springfield Policemen's and Firemen's Pension Plan for the fiscal year ending June 30, 2004. This information, in conjunction with the financial statements and the notes to the financial statements provides the reader with a clear assessment of the Plan's overall financial status.

FINANCIAL HIGHLIGHTS

- Plan net assets, which represent funds available to pay current and future benefits were \$124.3 million as of the end of the fiscal year. This is an increase of \$5.8 million or 4.9% over the prior year.
- The City of Springfield's employer contributions increased \$700,000. Member contributions increased \$71,000.
- Benefits paid to members increased \$621,000.
- During the fiscal year, the return on investments was 7.1%, on a market value basis, net of fees.
- The Plan's funded ratio, a comparison of the actuarial value of assets compared to the accrued pension liability was 55% as of June 30, 2004. The funded ratio as of June 30, 2003 was 66%.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to help the reader understand the purpose of the key components within the financial statements. The financial statements are comprised of the following:

The Statement of Plan Net Assets presents assets and liabilities by major categories as of the end of the fiscal year. The difference between assets and liabilities is the net assets held in trust for pension payments. Over time, increases or decreases in net assets can be monitored to determine whether the Plan's financial condition is improving or deteriorating.

The Statement of Changes to Plan Net Assets provides information on the increases and decreases that caused the change in net assets during the fiscal year.

The Notes to the Basic Financial Statements are an integral part of the financial statements. The notes provide important detailed and background information that is essential to the full understanding of the data provided in the financial statements.

Required Supplementary Information contains information and supporting schedules pertaining to the Plan's actuarial methods and assumptions including data on the funded status of the plan.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

FINANCIAL ANALYSIS

PLAN NET ASSETS

Table 1 is the condensed comparative statement of Plan Net Assets for the fiscal years ended June 30, 2003 and June 30, 2004.

TABLE 1 – NET ASSETS

	<u>6/30/2004</u>	<u>6/30/2003</u>	<u>Increase/ (Decrease)</u>
ASSETS			
Cash and interest bearing deposits	\$ 8,324,883	\$ 12,413	\$ 8,312,470
Investments	115,826,812	117,906,181	(2,079,369)
Other assets	<u>183,571</u>	<u>588,650</u>	<u>(405,079)</u>
TOTAL ASSETS	<u>124,335,266</u>	<u>118,507,244</u>	<u>5,828,022</u>
LIABILITIES			
Accounts payable and other liabilities	<u>32,560</u>	<u>18,972</u>	<u>13,588</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	<u>\$ 124,302,706</u>	<u>\$ 118,488,272</u>	<u>\$ 5,814,434</u>

Plan net assets increased \$5.8 million or 4.9% over fiscal year 2003. The increase was directly related to a combined increase in investments and interest bearing deposits of \$6.2 million, attributable to favorable market conditions and strong investment returns.

ADDITIONS TO PLAN NET ASSETS

Table 2 is the condensed comparative statement of additions to Plan Net Assets for the fiscal years ending June 30, 2004 and June 30, 2003.

TABLE 2 - CHANGES IN PLAN NET ASSETS

	<u>6/30/2004</u>	<u>6/30/2003</u>	<u>Increase/ (Decrease)</u>
ADDITIONS			
Employer Contributions	\$ 5,891,663	\$ 5,196,810	\$ 694,853
Member Contributions	2,631,550	2,560,157	71,393
Net Investment Income	<u>8,827,307</u>	<u>9,883,314</u>	<u>(1,056,007)</u>
TOTAL ADDITIONS	<u>17,350,520</u>	<u>17,640,281</u>	<u>(289,761)</u>
DEDUCTIONS			
Benefit Payments	10,747,489	10,126,772	620,717
Pension Refunds	740,961	1,162,740	(421,779)
Administrative Expenses	<u>47,636</u>	<u>17,433</u>	<u>30,203</u>
TOTAL DEDUCTIONS	<u>11,536,086</u>	<u>11,306,945</u>	<u>229,141</u>
Increase in Net Assets Held in Trust for Pension Benefits	<u>\$ 5,814,434</u>	<u>\$ 6,333,336</u>	<u>\$ (518,902)</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

The primary sources of financing benefits provided to Plan members are income on investments, employer and member contributions. These additions to the Plan totaled \$17.4 million for fiscal year 2004. This is a \$290,000 decline over 2003. Investment income declined \$1 million over the prior year. The decline in investment income was partially offset by an increase of \$694,000 in the employer contributions made by the City of Springfield. This increase was driven by an increase in the actuarial determined contribution rate of 3.09% for the City.

Benefit payments increased \$621,000 or 6% over fiscal year 2003. This is due to the 3% annual increase in pension benefits paid to members over age 56 and the number of new retirees receiving benefits increased by 7.

REQUESTS FOR ADDITIONAL INFORMATION

This financial report is designed to provide a general overview of the City of Springfield Policemen's and Firemen's Pension Plan to all parties with an interest, and to demonstrate accountability to the community. Questions regarding any information provided in this report or requests for additional financial information should be directed to the Director of Finance, City of Springfield Finance Department, 840 Boonville Avenue, Springfield, Missouri 65802.

Mary Mannix Decker
Director of Finance

CITY OF SPRINGFIELD, MISSOURI
POLICEMEN'S AND FIREMEN'S PENSION PLAN
STATEMENT OF PLAN NET ASSETS
June 30, 2004

ASSETS

Investments

Debt securities	\$ 32,974,381
Equity securities	62,631,305
Government securities	<u>20,221,126</u>

TOTAL INVESTMENTS 115,826,812

Cash and interest-bearing deposits	8,324,883
Accrued interest	<u>183,571</u>

TOTAL ASSETS 124,335,266

LIABILITIES

Accounts payable and other liabilities	<u>32,560</u>
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NET ASSETS \$ 124,302,706

See accompanying notes.

CITY OF SPRINGFIELD, MISSOURI
 POLICEMEN'S AND FIREMEN'S PENSION PLAN
 STATEMENT OF CHANGES IN PLAN NET ASSETS
 Year Ended June 30, 2004

ADDITIONS		
Employer contributions		\$ 5,891,663
Member contributions		<u>2,631,550</u>
	TOTAL CONTRIBUTIONS	8,523,213
Net investment income:		
Net appreciation of investments		2,270,601
Interest and dividend income		7,263,269
Investment expenses		<u>(706,563)</u>
	TOTAL INVESTMENT INCOME	<u>8,827,307</u>
	TOTAL ADDITIONS	<u>17,350,520</u>
DEDUCTIONS		
Benefit payments		10,747,489
Pension refunds		740,961
Administrative expenses		<u>47,636</u>
	TOTAL DEDUCTIONS	<u>11,536,086</u>
	INCREASE IN NET ASSETS	5,814,434
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS, July 1, 2003		<u>118,488,272</u>
NET ASSET HELD IN TRUST FOR PENSION BENEFITS, June 30, 2004		<u><u>\$ 124,302,706</u></u>

See accompanying notes.

CITY OF SPRINGFIELD, MISSOURI
POLICEMEN'S AND FIREMEN'S PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Plan's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits are recognized when due and payable under terms of the Plan.

Method Used to Value Investments

Investments are recorded at fair value, based on quoted market prices at the valuation date. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. There were no individual investments in excess of 5% of net assets as of June 30, 2004.

Net Investment Income

Security transactions are accounted for on the date the securities are purchased or sold. Dividend income is recorded on the ex-dividend date. Income from other investments is recorded as earned on an accrual basis.

Risks and Uncertainties

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

NOTE B – INVESTMENTS

The Plan's investment policies are governed by the City Charter and management policies. Permissible investments include obligations of the U.S. government, State of Missouri, City of Springfield, bonds, bills, or notes guaranteed by the U.S., state or city governments, certificates of deposit, repurchase agreements, bankers' acceptances, and commercial paper. The Plan purchases investments from SEC-registered broker-dealers and banks. Plan investments also include investments in external investment pools and mutual funds that cannot be categorized because the entity is not issued securities but rather is a registered shareholder.

CITY OF SPRINGFIELD, MISSOURI
 POLICEMEN'S AND FIREMEN'S PENSION PLAN
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2004

NOTE B – INVESTMENTS (continued)

Investments of public funds made by the Plan are summarized below. The investments that are represented by specific securities are classified as to credit risk by the three categories described below:

Category 1 - Insured or registered, or securities held by the Plan or its agent in the Plan's name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Plan's name.

Category 3 - Uninsured and unregistered, with securities held by the counterparty, or by its trust department but not in the Plan's name.

The Plan's investments at June 30, 2004 are as follows:

	Category			Cost	Fair Value
	1	2	3		
U.S. Treasury Obligations	\$ 20,110,854	\$ -	\$ -	\$ 20,110,854	\$ 20,221,126
Domestic Corporate Debt Obligations	-	32,834,070	-	32,834,070	32,451,649
Domestic Corporate Equity Securities	-	48,600,082	-	48,600,082	57,332,370
Foreign Corporate Debt Obligations	-	508,004	-	508,004	522,732
Foreign Corporate Equity Securities	-	4,585,778	-	4,585,778	5,298,935
	<u>\$ 20,110,854</u>	<u>\$ 86,527,934</u>	<u>\$ -</u>	<u>\$ 106,638,788</u>	<u>\$ 115,826,812</u>

NOTE C – PLAN DESCRIPTION AND PROVISIONS

The City of Springfield, Missouri's policemen and firemen become members in the Policemen's and Firemen's Pension Plan, a single-employer, defined benefit pension plan, as a condition of their employment. Operations of the Plan are governed by City ordinance and are administered by the Plan's Board of Trustees. The Board of Trustees consists of the Mayor or a member of the City Council designated by the Mayor to act in his absence, the chief of the police department, the chief of the fire department, two members of the police department, two members of the fire department, and one former employee who is currently receiving benefits from the system. The Plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974. The Plan is considered part of the City financial reporting entity and is included in the City's basic financial statements as a pension trust fund.

CITY OF SPRINGFIELD, MISSOURI
 POLICEMEN'S AND FIREMEN'S PENSION PLAN
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2004

NOTE C – PLAN DESCRIPTION AND PROVISIONS (continued)

Membership in the Plan as of June 30, 2004 is comprised of the following:

Retirees and beneficiaries currently receiving benefits and terminated vested members	422
Active members:	
Fully vested	335
Nonvested	232
TOTAL ACTIVE MEMBERS	567

The following description of the Plan provides only general information. Participants should refer to the plan document and the pamphlet, *City of Springfield Policemen's and Firemen's Pension Plan Summary Plan Description*, for a more complete description of the Plan's provisions. Copies of the pamphlet are available from the City's Finance Department.

Retirement Benefits

Members become vested in the Plan after five years of service. Members are entitled to retirement benefits after 25 years of service, at age 50 after 20 years of service, or at age 60. Members with at least 5 years of service may elect to receive early retirement at reduced benefits at age 55. Normal retirement benefits are 2.8% of the average of a member's highest 3 years of salary within the last 10 years for each year of credited service, limited to 70% of average annual salary.

Disability Benefits

Non-duty disability benefits are available to members having at least three years of service who become totally and permanently disabled from non-duty causes. These benefits are 1 3/4% of the member's average salary for each year of service, subject to a minimum of 25% and a maximum of 50%. Duty disability benefits are available to members, irrespective of the length of service, who become disabled as a direct result of occupational duties. Duty disability benefits are 66 2/3% of the member's salary in effect at the date of the disability, with an offset for any amounts payable under worker's compensation.

CITY OF SPRINGFIELD, MISSOURI
POLICEMEN'S AND FIREMEN'S PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE C – PLAN DESCRIPTION AND PROVISIONS (continued)

Survivor's Benefits

A pension equal to 50% of the member's average salary in effect at the date of death is payable to the surviving spouse until the spouse remarries if death occurs as a direct result of an act of duty. A pension of 10% of the member's salary is payable to each surviving child under the age of 18, subject to a maximum payment to a surviving spouse and children of 75% of the member's salary, with an offset for any amounts payable under workers' compensation. Survivor's pensions for non-duty connected deaths are 25% of average salary plus 1 and 1/8% of average salary for each year of service, provided the member had at least five years of service, subject to a maximum of 50% of average salary paid to the surviving spouse. 10% of the member's salary is payable to each surviving child under the age of 18, subject to a maximum payment of 60% of the member's salary to a surviving spouse and children for a non-duty death.

Termination

A member who terminates employment with the City and is not eligible for benefits from the Plan is paid on demand and without interest, the member's contributions into the Plan. If the member has five years of service, the member may remain vested and elect to receive benefits payable commencing at the member's normal retirement date.

Annual Adjustments

Pension benefits are increased 3% each July over the amount paid in the preceding month of June, provided that the pension has been paid at least 12 months prior to the July change. For age and service retirement pensions, the 3% increase does not begin until the calendar year of the employee's 56th birthday. Surviving spouses and dependent children receiving benefits are also eligible for the increase.

NOTE D – EMPLOYER AND EMPLOYEE CONTRIBUTIONS

The City's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due.

CITY OF SPRINGFIELD, MISSOURI
POLICEMEN'S AND FIREMEN'S PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE D – EMPLOYER AND EMPLOYEE CONTRIBUTIONS (continued)

Members were required to contribute 10.64% of their annual salary to the Plan for the year ended June 30, 2004. The City is required to contribute the remaining amounts necessary to fund the Plan using the entry age normal actuarial method as specified by ordinance.

During the year ended June 30, 2004, contributions totaling \$8,523,213 were made in accordance with contribution requirements determined by an actuarial valuation of the Plan as of June 30, 2004. The annual pension cost was equal to the required and actual contribution. Employer contributions represented 23.83% of the current year covered payroll, and employee contributions represented 10.64% of covered payroll. Administrative costs of the Plan are funded by investment income.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SPRINGFIELD, MISSOURI
 POLICEMEN'S AND FIREMEN'S PENSION PLAN
 SCHEDULE OF FUNDING PROGRESS (IN THOUSANDS)
 June 30, 2004

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Entry Age Actuarial Accrued Liability	(a/b) Funded Ratio	(b-a) Unfunded Accrued Liability (UAL)	(c) Annual Covered Payroll	[(b-a)/c] UAL as a Percentage of Covered Payroll
6/30/98	\$ 107,955	\$ 136,533	79%	\$ 28,578	\$ 17,894	160%
6/30/99	116,425	150,253	77%	33,828	18,448	183%
6/30/00	124,462	155,782	80%	31,320	19,046	164%
6/30/01	129,480	168,345	77%	38,865	20,222	192%
6/30/02	129,854	179,126	72%	49,271	22,142	223%
6/30/03	129,849	195,975	66%	66,126	22,817	290%
6/30/04	130,419	238,755	55%	108,336	24,105	449%

CITY OF SPRINGFIELD, MISSOURI
POLICEMEN'S AND FIREMEN'S PENSION PLAN
SCHEDULE OF EMPLOYER CONTRIBUTIONS (IN THOUSANDS)
June 30, 2004

<u>Year Ended June 30,</u>	<u>Annual Required Contribution</u>	<u>Percent Contributed</u>
1998	\$ 3,686	100%
1999	3,945	100%
2000	4,050	100%
2001	4,497	100%
2002	4,494	100%
2003	5,197	100%
2004	5,892	100%

CITY OF SPRINGFIELD, MISSOURI
 POLICEMEN'S AND FIREMEN'S PENSION PLAN
 ACTUARIAL VALUATION
 June 30, 2004

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	June 30, 2004
Actuarial cost method	Entry age
Amortization method	Level percent; closed
Remaining amortization period	30 years
Asset valuation method	Four-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases, depending on age, attributable to seniority/merit	7.5% per year, decreasing to 3.0% after ten years for fire and twelve years for police.
Projected salary increases, attributable to inflation	3.0%
Increase in benefits per year after retirement	3.0%
Average salary at retirement	Increased by a factor of 1.03 for fire and 1.12 for police

