

**POLICE RETIREMENT SYSTEM
OF KANSAS CITY, MISSOURI**

A COMPONENT UNIT OF THE CITY OF
KANSAS CITY, MISSOURI

FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION

YEAR ENDED APRIL 30, 2021

AND

INDEPENDENT AUDITOR'S REPORT

Police Retirement System of Kansas City, Missouri
A Component Unit of the City of Kansas City, Missouri

Year Ended April 30, 2021

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INDEPENDENT AUDITOR'S REPORT

Retirement Board
Police Retirement System of Kansas City, Missouri
Kansas City, Missouri

Report on the Financial Statements

We have audited the accompanying financial statements of the Police Retirement System of Kansas City, Missouri (Plan), a component unit of the City of Kansas City, Missouri (City) which comprise the statement of fiduciary net position as of April 30, 2021, the related statement of changes in fiduciary net position for the year then ended, and the related notes to 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 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 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 Plan'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 Plan'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 fiduciary net position of the Police Retirement System of Kansas City, Missouri as of April 30, 2021, and the changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Prior Years Comparative Information

The financial statements as of and for the year ended 2016 and prior were audited by other auditors whose previous reports expressed an unmodified opinion on those statements.

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 a 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Plan's financial statements. The supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Allen, Gibbs & Houlik, L.C
CERTIFIED PUBLIC ACCOUNTANTS

October 13, 2021
Overland Park, Kansas

Police Retirement System of Kansas City, Missouri
A Component Unit of the City of Kansas City, Missouri
Management's Discussion and Analysis
April 30, 2021

This discussion and analysis of the Police Retirement System of Kansas City, Missouri (Police Retirement System or the Plan) financial statements provides an overview of its financial activities during the year ended April 30, 2021. Please read it in conjunction with the more detailed financial statements, notes and required supplementary information which follow this section.

The Police Retirement System is the defined benefit retirement plan for law enforcement members of the Kansas City, Missouri Police Department. The Plan was established by the Missouri General Assembly in 1946 and is administered by the Retirement Board to provide retirement, disability and survivor benefits to its members.

Overview of Financial Statements and Accompanying Information

- The financial statements presented in this report are the Statement of Fiduciary Net Position as of April 30, 2021, and the Statement of Changes in Fiduciary Net Position for the year ended April 30, 2021. 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 are intended to provide financial statement users with a description of the Plan, a summary of significant accounting policies, the method used to value investments and a summary of Plan investments, and the methods and assumptions used to develop the actuarial valuation.
- Required Supplementary Information consists of schedules and related notes concerning significant actuarial information and assumptions. Beginning on page 26, these schedules and notes emphasize the long-term nature of the Plan and show the progress of the Plan in accumulating sufficient assets to pay future benefits.
- The Schedule of Changes in Net Pension Liability and Related Ratios presents detailed information about the pension liabilities for which the Plan's assets are held and managed. The schedule is intended to assist financial statement users in understanding the magnitude of the pension liability and the degree to which net position restricted for pensions is sufficient to cover the liability for the Plan.
- The Schedule of Employer Contributions shows the amount of actuarially determined required contributions relative to the actual contributions made during the year. This schedule also presents covered payroll and contributions as a percentage of covered payroll to provide an economic context for the amount of contributions reported for the Plan.
- The Schedule of Investment Returns shows the money-weighted rate of return on investments, net of investment expense. The money-weighted rate of return is a method for calculating investment performance on Plan investments that adjusts for the changing amounts actually invested.
- The Supplementary Information includes the Schedule of Expenses and the Schedule of Additions by Source and Deductions by Type. The Schedule of Expenses includes the detail of the administrative and investment costs to operate the Plan. The Schedule of Additions by Source and Deductions by Type is a historical summary which shows how contributions and investments impact the additions to the Plan and how benefit payments and administrative expenses impact the deductions from the Plan.

Police Retirement System of Kansas City, Missouri
A Component Unit of the City of Kansas City, Missouri
Management's Discussion and Analysis
April 30, 2021

Fiduciary Net Position

The following is a summary comparative statement of Fiduciary Net Position:

	<u>April 30, 2021</u>	<u>April 30, 2020</u>	<u>Amount Change</u>
Cash	\$ 422,272	\$ 453,835	\$ (31,563)
Receivables	3,281,751	2,928,655	353,096
Investments	1,033,474,047	875,033,735	158,440,312
Securities lending collateral	82,374,965	65,103,616	17,271,349
Other assets	<u>13,662</u>	<u>17,671</u>	<u>(4,009)</u>
Total assets	<u>1,119,566,697</u>	<u>943,537,512</u>	<u>176,029,185</u>
Accounts and refunds payable	2,053,652	3,246,124	(1,192,472)
Due to broker for purchases of investments	323,192	735,488	(412,296)
Pending foreign exchange sales	1,172,020	113,976	1,058,044
Securities lending collateral	<u>82,374,965</u>	<u>65,103,616</u>	<u>17,271,349</u>
Total liabilities	<u>85,923,829</u>	<u>69,199,204</u>	<u>16,724,625</u>
Net Position Restricted for Pensions	<u>\$ 1,033,642,868</u>	<u>\$ 874,338,308</u>	<u>\$ 159,304,560</u>

Financial Analysis of Fiduciary Net Position

The Statement of Fiduciary Net Position presents information on the Plan's assets and liabilities with the difference between the two reported as Net Position Restricted for Pensions. This statement reflects, at fair value, the contributions and investments which are available to pay benefits.

The Police Retirement System's benefits are funded through member and City of Kansas City, Missouri (City) contributions, and investment income. Net position of the Plan increased to \$1,033,642,868 as of April 30, 2021 from \$874,338,308 as of April 30, 2020. Plan income is generated through the investment of contributions in stocks, bonds and alternative assets.

Assets – Total assets of the Police Retirement System were \$1.1 billion as of April 30, 2021 and included cash, receivables, investments and securities lending collateral. Total assets increased by \$176.0 million or 18.7% from FY 2020. Investable assets increased during the year by \$158.4 million while securities lending collateral increased by \$17.3 million. The increase in investable assets is due to strong positive investment performance in the stock, bonds and alternative assets as a result of the economic recovery. The recovery was spurred by continued fiscal support from the Federal Government, progress of vaccination distribution, and interest rates kept near zero by the Federal Reserve. The Plan's global stock portfolio returned 50.8% for the fiscal year and was the key contributor to an overall strong investment performance. The increase in securities lending collateral was due to volatility in the short selling markets which increased the demand for securities lending.

Police Retirement System of Kansas City, Missouri

A Component Unit of the City of Kansas City, Missouri

Management's Discussion and Analysis

April 30, 2021

Liabilities – Total liabilities of the Police Retirement System were \$85.9 million as of April 30, 2021 and included payables for money manager fees and refunds, amounts due to brokers for purchases of investments, and securities lending collateral. Total liabilities increased by \$16.7 million during the year due to the \$17.2 million increase in the offsetting liability for securities lending activity.

Net Position – Police Retirement System assets exceeded liabilities at April 30, 2021 by \$1.0 billion. The Net Position increased by \$159.3 million or 18.2% from the prior year as a result of the positive market performance generated by the economic recovery.

Changes in Fiduciary Net Position

The following is a summary comparative statement of Changes in Fiduciary Net Position:

	<u>April 30, 2021</u>	<u>April 30, 2020</u>	<u>Amount Change</u>
Member contributions	\$ 12,489,543	\$ 11,386,606	\$ 1,102,937
City contributions	36,166,888	33,432,570	2,734,318
Total net investment income	186,630,367	9,535,314	177,095,053
Other income	108	-	108
Total additions	<u>235,286,906</u>	<u>54,354,490</u>	<u>180,932,416</u>
Benefits paid to members	73,963,464	69,341,685	4,621,779
Refunds of contributions	1,039,602	1,002,978	36,624
Administrative expenses	979,280	897,253	82,027
Total deductions	<u>75,982,346</u>	<u>71,241,916</u>	<u>4,740,430</u>
Net Increase / (Decrease) in Net Position	159,304,560	(16,887,426)	176,191,986
Net Position Restricted for Pensions, Beginning of Year	<u>874,338,308</u>	<u>891,225,734</u>	<u>(16,887,426)</u>
Net Position Restricted for Pensions, End of Year	<u>\$ 1,033,642,868</u>	<u>\$ 874,338,308</u>	<u>\$ 159,304,560</u>

Financial Analysis of Changes in Fiduciary Net Position

The Statement of Changes in Fiduciary Net Position presents information showing how the Plan's Net Position Restricted for Pensions changed during the year ended April 30, 2021. This statement reflects contributions made by members and the City of Kansas City, Missouri. Investment activities during the fiscal year are also presented which include interest and dividends and the net appreciation or depreciation in fair value of the investments. Benefits paid to members, refunds of contributions and administrative expenses are also reported in the statement.

Police Retirement System of Kansas City, Missouri

A Component Unit of the City of Kansas City, Missouri

Management's Discussion and Analysis

April 30, 2021

Revenues – Additions to Fiduciary Net Position – Member contributions, City contributions and investment income are the sources of revenue for the Police Retirement System. Member contributions totaled \$12.5 million or 11.55% of covered payroll to the Plan while City contributions totaled \$32.8 million or 32.60% of projected covered payroll. City contributions increased to pay the required contributions as determined by the Plan's actuary. The City also paid \$200 per month for each member eligible to receive the supplemental benefit which totaled \$3.4 million. Net investment income increased compared to the prior year. The portfolio's investment rate of return, net of investment expenses, was 22.41% with net investment income of \$186.6 million. Investment expenses, including custodial bank fees, manager fees, and investment consultation totaled \$5.4 million. Investments in global stocks, bonds, direct lending, real estate, absolute return and private equity all posted gains for the year.

Expenses – Deductions from Fiduciary Net Position – Benefits paid to members, refunds of member contributions and administrative expenses are the sources of expenses for the Police Retirement System. Benefit payments and refunds represent 98.7% of the total deductions. Benefits paid to members increased over the prior year because of new retirements. The amount of refunds to members leaving the Police Department increased over the prior year. Administrative expenses increased due to an increase in legal expenses.

City contributions continued to equal the amount recommended by the Plan's actuary. For the year beginning May 1, 2021, City contributions are budgeted to total the actuarial required contribution amount of \$34.7 million. The contribution amount is calculated at 34.44% of projected covered payroll.

The Retirement Board has approved an asset allocation which over time is expected to realize a long-term investment rate of return of 7.35%. Fiscal year 2021 was the third year of a five year step down to lower the actuarial assumed rate of return to 7.25%. The Retirement Board continues to review investment allocations on a monthly basis and to rebalance the portfolio, as needed, with guidance from an independent financial consulting firm.

Requests for Information

This financial report is designed to provide members of the Police Retirement System, citizens, investors and creditors of the City of Kansas City, Missouri with a general overview of the Plan 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 Kansas City Police Employees' Retirement Systems, 9701 Marion Park Drive B, Kansas City, Missouri 64137.

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 Police Retirement System.

Police Retirement System of Kansas City, Missouri
A Component Unit of the City of Kansas City, Missouri
Statement of Fiduciary Net Position

April 30, 2021

Assets

Investments

U.S. government securities	\$ 59,984,092
Corporate bonds and notes	133,982,083
Common and preferred stock	107,742,471
All country world index fund	197,601,867
Government mortgage-backed securities	3,501,420
Partnerships - equity	8,715,382
Partnerships - fixed income	166,867,607
Real estate funds	126,062,037
Short-term investment funds	9,891,909
Hedge fund of funds	109,123,937
Emerging market equity funds	39,332,231
Foreign equities	70,669,011
Total investments	<u>1,033,474,047</u>

Securities Lending Collateral	<u>82,374,965</u>
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Receivables

City contributions	286,000
Member contributions	16,054
Accrued interest and dividends	2,646,021
Due from broker for sales of investments	10,652
Pending foreign exchange purchases	323,024
Total receivables	<u>3,281,751</u>

Other assets	<u>13,662</u>
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Cash	<u>422,272</u>
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Total assets	<u>1,119,566,697</u>
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Liabilities

Accounts and refunds payable	2,053,652
Due to broker for purchases of investments	323,192
Pending foreign exchange sales	1,172,020
Securities lending collateral	82,374,965
Total liabilities	<u>85,923,829</u>

Net Position Restricted for Pensions	<u>\$ 1,033,642,868</u>
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See Notes to Financial Statements.

Police Retirement System of Kansas City, Missouri
A Component Unit of the City of Kansas City, Missouri
Statement of Changes in Fiduciary Net Position

Year Ended April 30, 2021

Additions

Investment Income

Net appreciation in fair value of investments	\$ 172,335,845
Interest and dividends	19,558,520
Investment expense	(5,419,802)
Net investment income	<u>186,474,563</u>

Securities Lending Income

Securities lending gross income	<u>256,497</u>
Securities lending expenses	
Borrower rebates	(33,945)
Management fees	(66,748)
Total securities lending expenses	<u>(100,693)</u>

Net securities lending income **155,804**

Total net investment income **186,630,367**

Contributions

City	36,166,888
Members	12,489,543
Total contributions	<u>48,656,431</u>

Other

Other	<u>108</u>
Total other income	<u>108</u>

Total additions **235,286,906**

Deductions

Benefits Paid

Retired members	50,904,911
Spouses	9,052,097
Children	116,428
Disabled	10,022,629
Partial lump sum option	3,822,399
Death benefits	45,000
Total benefits paid	<u>73,963,464</u>

Other Deductions

Refunds of contributions	1,039,602
Administrative expenses	979,280
Total other deductions	<u>2,018,882</u>

Total deductions **75,982,346**

Net Increase in Net Position **159,304,560**

Net Position Restricted for Pensions, Beginning of Year **874,338,308**

Net Position Restricted for Pensions, End of Year **\$ 1,033,642,868**

See Notes to Financial Statements.

Police Retirement System of Kansas City, Missouri

A Component Unit of the City of Kansas City, Missouri

Notes to Financial Statements

April 30, 2021

Note 1: Summary of Significant Accounting Policies

Reporting Entity

The Police Retirement System of Kansas City, Missouri (Plan) is considered a component unit of the City of Kansas City, Missouri (City) financial reporting entity and included in the City's financial reports as a pension trust fund due to the nature of the Plan's reliance on funding from the City of Kansas City, Missouri. Accounting principles generally accepted in the United States of America require that the financial reporting entity include the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Based on these criteria, there are no other organizations or agencies whose financial statements should be combined and presented with these financial statements.

Measurement Focus and Basis of Accounting

The Plan uses a fund to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The Plan's fund is classified as a pension trust fund of fiduciary fund type. Pension trust funds account for assets held by the Plan in a trustee capacity or as an agent on behalf of others and are accounted for on the flow of economic resources measurement focus and the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. City contributions to the Plan are recognized when due and the City has made a formal commitment to provide the contributions. Interest and dividend income are recorded when earned. Expenses are recorded when the corresponding liabilities are incurred. Realized gains and losses on security transactions are based on the difference between sales proceeds and carrying value of the securities, and are recognized on the transaction date. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Valuation of Investments and Income Recognition

Marketable securities, including mutual funds, are stated at fair value. Securities traded on a national securities exchange are valued at the last reported sales price on the last business day of the Plan year; investments traded in the over-the-counter market and listed securities for which no sale was reported on that date are valued at the average of the last reported bid and ask prices.

For certain investments consisting of corporate bonds and notes, U.S. Treasury obligations, U.S. agency obligations and government mortgage-backed securities that do not have an established fair value, the Plan has established a fair value based on yields currently available on comparable securities of issuers with similar credit ratings and quotations are obtained from brokerage firms or national pricing services.

Police Retirement System of Kansas City, Missouri
A Component Unit of the City of Kansas City, Missouri
Notes to Financial Statements
April 30, 2021

The private equity partnerships, equity funds, hedge fund of funds and real estate funds consist primarily of non-marketable investments in various venture capital, corporate finance funds and private partnerships (collectively referred to as “Portfolio Funds”). These funds are primarily invested in the technology, communications, energy, real estate markets, as well as U.S. fixed income instruments and alternative or non-traditional investments. A portion of these funds is also invested in foreign operations under certain partnership agreements. These investments are recorded at fair value based on financial data, which is generally at an amount equal to the net asset value per share on the Fund’s proportionate interest in the net position or net equity of the Portfolio Funds as determined by each Portfolio Fund’s general partner or investment manager.

The Plan is obligated to pay certain capital commitments to the partnerships. These unfunded commitments totaled approximately \$600,508 at April 30, 2021.

Securities, which are not traded on a national security exchange, are valued by the respective investment manager or other third parties based on similar sales.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Administrative Expenses

Actuarial, investment management and bank trustee fees and expenses are included in the Plan’s expenses when incurred. These expenses are financed through investment income. The Kansas City, Missouri Police Department provides office space without any direct cost to the Plan.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Plan Tax Status

The Plan obtained its most recent determination letter on December 17, 2014, in which the Internal Revenue Service stated that the Plan, as designed, was in compliance with the applicable requirements of the Internal Revenue Code (IRC) and, therefore, not subject to tax. The Plan’s management believes that the Plan is designed and is being operated in compliance with the applicable requirements of the IRC exempting it from federal income taxes.

Police Retirement System of Kansas City, Missouri

A Component Unit of the City of Kansas City, Missouri

Notes to Financial Statements

April 30, 2021

Note 2: Plan Description

The following summary description of the Police Retirement System of Kansas City, Missouri provides only general information. Participants should refer to the Plan Statutes (Sections 86.900 to 86.1280 RSMo) for a more complete description of the Plan's provisions.

The Plan is a single-employer, contributory, defined benefit plan established by the State of Missouri's General Assembly and administered by the Retirement Board of the Police Retirement System of Kansas City, Missouri (Board). The Board is composed of nine members, two are appointed by the Board of Police Commissioners, two are appointed by the City Council and five are elected by the membership of the Retirement Systems. The elected members must include one member of the Civilian Employees' Retirement System, one member retired from active service in the Police Retirement System and one active member of the Police Retirement System who has not attained the rank of Sergeant or higher. Elections are held annually and Board members are elected to serve for three-year terms.

Eligibility – All police officers who serve as law enforcement officers for compensation become members as a condition of employment.

Tier I member – A person who became a member prior to August 28, 2013 and remained a member on August 28, 2013.

Tier II member – A person who became a member on or after August 28, 2013. At April 30, 2021, the Plan's membership consisted of the following:

	<u>Tier I</u> <u>Members</u>	<u>Tier II</u> <u>Members</u>	<u>Total</u>
Retirees and beneficiaries currently receiving benefits	1,447	2	1,449
Terminated members entitled to but not yet receiving benefits	26	-	26
Active members			
Vested	613	-	613
Non-vested	262	377	639
Total	<u>2,348</u>	<u>379</u>	<u>2,727</u>

Contributions – State statutes set out the funding requirements for the Plan which can only be amended by the Missouri General Assembly. The Retirement Board establishes a rate based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by Plan members during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the employer actuarially determined contribution rate. For the year ended April 30, 2021, active members contributed at a rate of 11.55% of base pay, and the City contributed at a rate of 32.60% of annual projected covered payroll. In addition, the City was obligated to make contributions of \$200 per month of supplemental benefit for eligible members.

Police Retirement System of Kansas City, Missouri
A Component Unit of the City of Kansas City, Missouri
Notes to Financial Statements
April 30, 2021

Benefits Provided – Benefit terms for the Plan are established in Missouri Revised Statutes 86.900 to 86.1280 and can only be amended by the Missouri General Assembly. The Plan provides retirement benefits, as well as pre-retirement death benefits, duty and non-duty related disability benefits and termination benefits to sworn law enforcement employees of the Kansas City, Missouri Police Department.

Service Retirement

Eligibility –

Tier I member – 25 years of service, without regard to age, or at age 60 with at least 10 years of service.

Tier II member – 27 years of service, without regard to age, or at age 60 with at least 15 years of service.

All members must retire at the completion of 35 years of service, or at age 65, whichever occurs first.

Amount of Pension – For a member retiring prior to August 28, 2000, benefit equal to 2% of Final Compensation multiplied by years of creditable service, subject to a maximum benefit of 60% of Final Compensation.

For a member retiring on or after August 28, 2000 and before August 28, 2013, benefit equal to 2.5% of Final Compensation multiplied by years of creditable service, subject to a maximum benefit of 75% of Final Compensation.

For a member retiring on or after August 28, 2013, benefit equal to 2.5% of Final Compensation multiplied by years of creditable service, subject to a maximum benefit of 80% of Final Compensation.

Final Compensation –

Tier I member – Average annual compensation during the two years of service with the highest salary, whether consecutive or otherwise, or during the entire period of service if less than two years.

Tier II member – Average annual compensation during the three years of service with the highest salary, whether consecutive or otherwise, or during the entire period of service if less than three years.

Deferred Retirement (Vested Termination)

Eligibility – 15 years of creditable service.

Tier I member – Benefit begins at age 55.

Tier II member – Benefit begins at age 60.

Amount of Pension – Computed as service retirement but based on service, Final Compensation and benefit formula in effect at termination of employment. Benefits are unreduced.

Police Retirement System of Kansas City, Missouri
A Component Unit of the City of Kansas City, Missouri
Notes to Financial Statements
April 30, 2021

Disability

Duty Disability Eligibility – A member in active service who has become permanently unable to perform the full and unrestricted duties of a police officer, as determined by the Board of Police Commissioners, as the exclusive result of an accident or disease occurring in the line of duty.

Amount of Pension – For a member retiring on or after August 28, 2001 and before August 28, 2013, benefit equal to 75% of Final Compensation payable for life or as long as the permanent disability continues.

For a member retiring on or after August 28, 2013, benefit equal to 80% of Final Compensation payable for life or as long as the permanent disability continues.

Non-Duty Disability Eligibility – A member in active service, with a minimum of 10 years of service, who has become permanently unable to perform the full and unrestricted duties of a police officer as determined by the Board of Police Commissioners. Disability is not exclusively caused by the actual performance of official duties.

Amount of Pension – 2.5% of Final Compensation multiplied by years of creditable service payable for life or as long as the permanent disability continues.

Disability benefits may be subject to offset or reduction by amounts paid or payable under any Workers' Compensation law. A disability retiree who is not age 60 may be required by the Retirement Board to undergo continuing eligibility reviews once every three years which may include a medical re-examination.

Death in Service – Duty or Non-Duty

Eligibility – Benefit payable to a surviving spouse, if any, upon the death of an active member. Benefit payable for the life of the surviving spouse. If there is no surviving spouse, benefit payable to an eligible child or children in equal shares until age 18. No service requirement.

Amount of Pension – 40% of Final Compensation payable to surviving spouse for life.

Child Benefit – \$600 annually for each child under the age of 18, if any, until the child reaches age 18 or age 21, if a full time student. A child who is mentally or physically incapacitated from wage earning at the time of a member's death shall qualify, without regard to age, for life or so long as the incapacity existing at time of member's death continues.

Funeral Benefit – \$1,000 payable upon the death of an active member.

Line of Duty Death

Eligibility – Benefit payable to a surviving spouse. If no surviving spouse, benefit payable to children under age 21 or children over age 21 if mentally or physically incapacitated from wage earning, in equal shares. Death resulting from performance of official duties; no service requirement.

Amount of Benefit – In addition to benefits payable under Death in Service shown above, a lump sum of \$50,000.

Police Retirement System of Kansas City, Missouri
A Component Unit of the City of Kansas City, Missouri
Notes to Financial Statements
April 30, 2021

Death After Retirement

Eligibility – Benefit payable to an eligible surviving spouse, if any, upon the death of a retired member. Benefit payable for the life of the surviving spouse. If there is no surviving spouse, benefit payable to an eligible child or children in equal shares until age 18.

Amount of Pension –

Tier I member – Benefit equal to 80% of the straight life pension the deceased member was receiving at time of death.

Tier II member – Benefit equal to 50% of the straight life pension the deceased member was receiving at time of death. In lieu of the 50% surviving spouse benefit, a Tier II member may elect, at the time of retirement, a reduced actuarially equivalent annuity of either a 75% or 100% surviving spouse benefit.

Funeral Benefit – \$1,000 payable upon the death of a retired member.

Non-Vested Termination

Eligibility – Termination of employment and no pension is or will become payable.

Amount of Benefit – Refund of member's contributions without interest.

Minimum Pension Benefit

Eligibility – Any retired member who is entitled to a pension benefit and who either has at least 25 years of creditable service or is retired as a result of an injury or illness. A surviving spouse qualifies for the minimum monthly benefit if the member had at least 25 years of creditable service, died in service or was retired as a result of an injury or illness.

Amount of Benefit – Minimum monthly benefit of not less than \$600 in combined pension benefit and cost-of-living adjustments. The minimum monthly pension benefit is in addition to the Supplemental Retirement Benefit.

Post-Retirement Benefit Increases

Eligibility –

Tier I members and surviving spouses – Member's pension must have commenced by December 31 of prior calendar year.

Tier II members and surviving spouses – Service retirements generally eligible in the year following the year in which member would have attained thirty-two years of service. Duty Disability retirements eligible in year following retirement. Non-duty Disability retirements eligible earlier of year following fifth year after retirement or year following the year in which they would have attained thirty-two years of service. Surviving spouses of retired members eligible at same time member would have been if living.

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Amount of Benefit – May receive an annual cost-of-living adjustment (COLA) in an amount not to exceed 3% of their respective base pension. Base pension is the pension computed under the provisions of the law at the date of retirement, without regard to COLAs. The COLA is normally effective with the May 31st benefit payment.

Statutes require that the Retirement Board must act upon the advice of a qualified actuary when granting cost of living adjustments.

Supplemental Retirement Benefit

Tier I member – Current and future retired and disabled members and their surviving spouses are eligible to receive \$420 per month in addition to pension benefits.

Tier II member – Current and future retired and disabled members and their surviving spouses are eligible to receive \$200 per month in addition to pension benefits.

Optional Form of Benefit Payment

Tier I member – Member retiring with at least 26 or more years of service may elect to take a portion of their lifetime benefit as a lump-sum distribution (PLOP).

Tier II member – Member retiring with at least 28 or more years of service may elect to take a portion of their lifetime benefit as a lump-sum distribution (PLOP).

Members electing PLOP will receive an actuarially reduced monthly benefit for their lifetime.

Social Security and Medicare

Tier I member – Members do not participate in Social Security although members hired after 1986 do contribute to Medicare.

Tier II member – Members do not participate in Social Security but do contribute to Medicare.

Note 3: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The Plan's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities of the State of Missouri; bonds of any city, county, school district or special road district of the State of Missouri; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

The Plan had no bank balances exposed to custodial credit risk at April 30, 2021.

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Investments

For the year ended April 30, 2021, The Northern Trust Company (Northern Trust) was the master custodian for substantially all of the securities of the Plan. The investments held by the Plan are managed by 13 Board-appointed money managers. Each of the money managers has a different asset allocation based on Board- approved policy. The Plan may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities, real estate, partnerships, corporate bonds, commodities and equity securities.

The asset type and classes, target asset allocation and ranges to be used in the Plan are shown below. All percentages are based on fair values. The Board has authorized Plan staff, with guidance from the Investment Consultant, to rebalance the portfolio in accordance with the strategy guidelines below:

<u>Asset Type and Class</u>	<u>Range</u>	<u>Target</u>
Equities		
Global Equity	33% - 43%	38%
Private Equity	0% - 0%	0%
Fixed Income	26% - 36%	31%
Alternatives		
Real Estate	9% - 17%	13%
Absolute Return	7% - 15%	11%
Direct Lending	4% - 10%	7%
Cash	0% - 5%	0%

Securities Lending Transactions

State statutes 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 fair value and international debt and equity securities of not less than 105% of the fair value. 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.

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Fair value of securities loaned	\$ 80,056,574
Fair value of cash collateral received from borrowers	82,374,965
Total fair value of collateral	\$ 82,374,965

All securities lent 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, 2021, the Plan had the following investments and maturities:

Type	Fair Value	Maturities in Years				Loans Under Securities Lending Agreements
		Less than 1	1 - 5	6 - 10	More than 10	
U.S. Treasury obligations	\$ 59,984,092	\$ 1,514,531	\$ 24,159,984	\$ 9,429,688	\$ 24,879,889	\$ 55,278,438
Corporate bonds and notes	133,982,083	-	55,617,244	59,543,736	18,821,103	18,724,474
Government mortgage-backed securities	3,501,420	-	-	-	3,501,420	-
Short term investment funds	9,891,909	9,891,909	-	-	-	-
		<u>\$ 11,406,440</u>	<u>\$ 79,777,228</u>	<u>\$ 68,973,424</u>	<u>\$ 47,202,412</u>	
Common and preferred stocks	107,742,471					4,801,787
All country world index fund	197,601,867					-
Real estate funds	126,062,037					-
Hedge fund of funds	109,123,937					-
Partnerships - equity	8,715,382					-
Partnerships - fixed income	166,867,607					-
Foreign equities	70,669,011					1,251,875
Emerging markets equity funds	39,332,231					-
Total	<u>\$ 1,033,474,047</u>					<u>\$ 80,056,574</u>

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The short term investment funds are presented as an investment with a maturity of less than one year because they are redeemable in full immediately. The debt securities are presented in their respective category based on final maturity date. The Plan’s investment policy does not specifically address exposure to fair value losses arising from rising interest rates.

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Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. It is the Plan’s policy to invest in corporate bonds that are rated BBB or better by credit rating agencies. Core fixed income managers may hold bonds with a rating equal to or above BB. At April 30, 2021, the Plan’s investments in corporate bonds were rated BBB or better by *Standard & Poor’s*. U.S. Treasury obligations were explicitly guaranteed by the U.S. Government. At the same date, the Plan’s investments in U.S. agencies obligations not directly guaranteed by the U.S. Government (including Federal National Mortgage Association, Federal Home Loan Banks and Federal Home Loan Mortgage Corporation) and in government mortgage-backed securities were rated AA+ or better by *Standard & Poor’s*. The Plan’s investments in short term investment funds were not rated by *Standard & Poor’s*.

These bond rating requirements do not apply to the high yield portion of the fixed income portfolio. The following table summarizes the Plan’s fixed income portfolio exposure level and credit qualities at April 30, 2021:

<u>Fixed Income Security Type</u>	<u>Fair Value</u> <u>April 30, 2021</u>	<u>S&P</u> <u>Weighted</u> <u>Average</u> <u>Credit</u> <u>Quality</u>
Corporate bonds and notes	\$ 5,212,944	AAA
Corporate bonds and notes	9,058,119	AA
Corporate bonds and notes	46,149,925	A
Corporate bonds and notes	70,965,849	BBB
Corporate bonds and notes	2,595,246	Not rated
Government mortgage-backed securities	3,501,420	AA+
Short term investment funds	9,891,909	Not rated

Custodial Credit Risk – For an investment, 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 investment or collateral securities that are in the possession of an outside party. Consistent with the Plan’s securities lending policy, \$80,056,574 was held by the counterparty that was acting as the Plan’s agent in securities lending transactions.

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Investment Concentrations – The following presents investments that represent 5% or more of the Plan’s net position as of April 30, 2021:

<u>Investment</u>	<u>Fair Value</u>
FCI Core Fixed Income	\$ 197,467,595
Northern Trust Collective All Country World Investable Market Index Fund - Non Lending	118,185,934
PIMCO - Fixed Income Fund	114,435,223
Grosvenor FOB Fund, L.P.	109,123,937
LSV Global Value	92,735,412
Artisan Global Opportunities Trust Fund	85,676,070
Wellington Global Perspectives	79,415,933
Prudential PRISA II	66,245,990
Morgan Stanley - Prime Property Fund, LLC	59,816,047
White Oak Fixed Income Fund C, L.P.	52,432,384

Foreign Currency Risk – This risk relates to adverse effects on the fair value of an investment from changes in exchange rates. The Plan’s investment policy permits investments in international equities, American Depository Receipts (ADRs), warrants, rights, 144A securities, convertible bonds and U.S. registered securities whose principal markets are outside of the United States. All foreign equities and emerging market equities held are denominated in U.S. dollars.

Investment Income

Investment income for the year ended April 30, 2021, consisted of:

Interest and dividend income	\$ 19,558,520
Net increase in fair value of investments	172,335,845
	<u>191,894,365</u>
Less investment expense	5,419,802
	<u><u>\$ 186,474,563</u></u>

Annual Money-Weighted Rate of Return – For the year ended April 30, 2021, the annual money-weighted rate of return on the pension plan investments, net of pension plan investment expense, was 22.41%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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Note 4: Net Pension Liability

The components of the net pension liability of the City at April 30, 2021, were as follows:

Total pension liability	\$ 1,341,742,993
Plan fiduciary net position	(1,033,642,868)
City's net pension liability	308,100,125

Fiduciary net position as a % of total pension liability	77.04%
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Subsequent to the completion of the actuary valuation report for the year ended April 30, 2021, the Board of Trustees voted to decrease the long-term investment rate of return from 7.35% to 7.25% as of year ended April 30, 2021. This change resulted in an increase to the Total Pension Liability of approximately \$16.1 million. Revised actuary reports were not completed prior to the issuance of the Plan's financial statements and therefore amounts were not adjusted in the footnotes or Required Supplementary Information schedules.

Note 5: Actuarial Methods and Assumptions

An actuary from Cavanaugh Macdonald Consulting, LLC determines the total pension liability. The total pension liability as of April 30, 2021 was determined based on an actuarial valuation prepared as of April 30, 2020, rolled forward one year to April 30, 2021, using the following actuarial assumptions:

Inflation	2.50%
Salary increases, including inflation	3.00% -19.00%
Long-term investment rate of return, net of plan investment expense, including inflation	7.35%

For purposes of calculating the total pension liability, future ad hoc COLAs of 2.5% (simple COLA) were assumed to be granted in all future years.

Pre-retirement mortality rates were based on the RP-2000 Employee Table, projected to 2017 using Scale AA. Future mortality improvement is projected generationally using the ultimate projection scale of MP-2017.

Post-retirement mortality rates were based on the RP-2000 Healthy Annuitant Table, projected to 2017 using Scale AA. Future mortality improvement is projected generationally using the ultimate projection scale of MP-2017.

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Disability mortality rates were based on the RP-2000 Healthy Annuitant Table with a 5-year age set-forward, projected to 2017 using Scale AA (also set forward 5 years). Future mortality improvement is projected generationally using the ultimate projection scale of MP-2017 and reflects the 5-year age set-forward.

The actuarial assumptions used in the valuation are based on the results of the most recent actuarial experience study, which covered the 5-year period ending April 30, 2017. The actuarial experience study is dated December 11, 2018.

Long-term Expected Rate of Return – The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best-estimates arithmetic real rates of return for each major asset class included in the Plan’s target asset allocation as of April 30, 2021 are summarized in the following table:

	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	38%	5.05%
Fixed Income	31%	0.00%
Absolute Return	11%	2.25%
Real Estate	13%	3.75%
Direct Lending	7%	3.75%
Private Equity	0%	6.75%

Discount Rate – The discount rate used to measure the total pension liability was 7.35%. The projection of cash flows used to determine the discount rate assumed that Plan member contributions will be made at the current contribution rate and the City contributions will be made at rates equal to the employer actuarially determined contribution rate.

A municipal bond rate was not used in determining the discount rate. If it were required, the rate would be 2.29% on the measurement date.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the net pension liability of the City, calculated using the discount rate of 7.35% as well as what the City’s net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.35%) or one percentage point higher (8.35%) than the current rate:

	1% Decrease (6.35%)	Current Discount Rate (7.35%)	1% Increase (8.35%)
Net pension liability	\$ 484,812,501	\$ 308,100,125	\$ 162,913,494

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Note 6: 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 such changes could materially affect the amounts reported in the statement of fiduciary 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.

Note 7: Litigation

The Plan is subject to claims and lawsuits that arise primarily in the ordinary course of operating a retirement system. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the net position of the Plan.

Note 8: Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

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Recurring Measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at April 30, 2021:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level				
U.S. government securities	\$ 59,984,092	\$ -	\$ 59,984,092	\$ -
Corporate bonds and notes	133,982,083	-	133,982,083	-
Common and preferred stock	107,742,471	107,742,471	-	-
Government mortgage-backed securities	3,501,420	-	3,501,420	-
Short-term investment funds	9,891,909	9,891,909	-	-
All country world index fund	197,601,867	-	197,601,867	-
Foreign equities	70,669,011	70,669,011	-	-
Total Investments by fair value level	<u>583,372,853</u>	<u>\$ 188,303,391</u>	<u>\$ 395,069,462</u>	<u>\$ -</u>
Investments measured at the net asset value (NAV) (A)				
Real estate funds	126,062,037			
Partnerships - equity	8,715,382			
Partnerships - fixed income	166,867,607			
Hedge fund of funds	109,123,937			
Emerging markets equity funds	39,332,231			
Total investments measured at the NAV	<u>450,101,194</u>			
Total investments	<u>\$ 1,033,474,047</u>			

(A) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of fiduciary net position.

Equity and short-term investment funds classified as Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Corporate and Governmental debt securities classified as Level 2 of the fair value hierarchy are valued using third-party pricing services based on market observable information such as market quotes for similar assets, as well as normal market pricing considerations such as duration, interest rates and prepayment assumptions.

The fair value estimates presented herein are based on pertinent information available to management as of April 30, 2021. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date, and current estimates of fair value may differ significantly from the amounts presented herein.

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Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

The valuation method for investments measured at the net asset value (NAV) per share (or its equivalent) is presented below.

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Real estate funds (A)	\$ 126,062,037	\$ -	Quarterly	90 Days
Partnerships - equity (B)	8,715,382	600,508	N/A	N/A
Partnerships - fixed income (C)	166,867,607	-	Monthly	10 Days
Hedge fund of funds (D)	109,123,937	-	Quarterly	70 Days
Emerging markets equity funds (E)	<u>39,332,231</u>	-	Monthly	10 Days
Total investments measured at the NAV	<u>\$ 450,101,194</u>			

- (A) This category includes two open-ended real estate funds that invest in U.S. commercial real estate. Periodic distributions from each fund are made as the underlying investments of the funds are liquidated. Redemptions can be made quarterly.
- (B) This category includes two private equity fund of funds that invest primarily in U.S. and International Corporate Finance and Venture Capital. Distributions from each fund are made as the underlying investments of the funds are liquidated. It is estimated the underlying assets of the funds will be liquidated over the next three to five years.
- (C) This category includes a commingled core fixed income fund and comingled private debt fund. The fixed income fund is a mutual fund that invests in core fixed income. The underlying bonds, and mutual fund, trade daily on public markets. The private debt fund focuses on lending to U.S. based middle market and small cap companies. The underlying loans have an average duration of 2-4 years. Periodic distributions from the fund are made as underlying loans are repaid. Redemptions can be made monthly.
- (D) This category includes a hedge fund of funds which invests in 27 hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The hedge funds' composite portfolio for this type includes investments in approximately 30% Equities, 28% Credit, 13% Relative Value, 5% Quantitative, 13% Macro and Commodities and 11% Multi- Strategy. Redemptions can be made quarterly.
- (E) This category includes a commingled emerging markets equity fund which trades monthly. The underlying emerging market stocks trade daily on public markets.

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Note 9: Retirement Plan

The Plan has a 408(k) SEP retirement plan covering its employees that meet certain eligibility requirements. The Plan's contributions to its employees' SEP are determined by the Retirement Board. Contributions to the SEP were \$79,374 for fiscal year 2021.

Required Supplementary Information

Police Retirement System of Kansas City, Missouri
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Schedule of Changes in Net Pension Liability and Related Ratios
Year Ended April 30

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total pension liability							
Service cost	\$ 25,174,409	\$ 24,380,475	\$ 25,427,633	\$ 24,997,759	\$ 28,978,200	\$ 27,423,797	\$ 26,900,131
Interest on total pension liability	92,988,908	90,956,233	87,869,790	84,867,808	81,761,243	79,502,922	76,210,579
Differences between expected and actual experience	(2,798,182)	(14,630,427)	(1,263,810)	(4,446,480)	(13,081,322)	(11,656,885)	-
Effect of assumption/SEIR changes	7,941,764	7,647,937	5,435,086	-	(76,763,170)	40,565,354	14,987,963
Benefit payments, including member refunds	<u>(75,003,066)</u>	<u>(70,344,663)</u>	<u>(66,078,009)</u>	<u>(64,731,647)</u>	<u>(60,163,764)</u>	<u>(58,588,761)</u>	<u>(55,405,669)</u>
Net change in total pension liability	48,303,833	38,009,555	51,390,690	40,687,440	(39,268,813)	77,246,427	62,693,004
Total pension liability - beginning	<u>1,293,439,160</u>	<u>1,255,429,605</u>	<u>1,204,038,915</u>	<u>1,163,351,475</u>	<u>1,202,620,288</u>	<u>1,125,373,861</u>	<u>1,062,680,857</u>
Total pension liability - ending	<u>1,341,742,993</u>	<u>1,293,439,160</u>	<u>1,255,429,605</u>	<u>1,204,038,915</u>	<u>1,163,351,475</u>	<u>1,202,620,288</u>	<u>1,125,373,861</u>
Plan fiduciary net position							
Net investment income	186,474,563	9,384,258	34,772,357	73,985,926	72,448,615	(3,094,475)	46,824,719
Net securities lending income	155,804	151,056	143,663	116,726	182,798	135,246	126,375
City contributions	36,166,888	33,432,570	32,280,943	32,103,207	30,979,978	30,272,063	28,933,261
Member contributions	12,489,543	11,386,606	11,412,617	11,390,571	11,751,066	10,748,236	10,874,921
Benefits paid	(73,963,464)	(69,341,685)	(65,504,670)	(63,777,210)	(59,554,625)	(57,970,768)	(55,006,617)
Refunds of contributions	(1,039,602)	(1,002,978)	(573,339)	(954,437)	(609,139)	(617,993)	(399,052)
Administrative expenses	(979,280)	(897,253)	(802,705)	(714,956)	(642,688)	(561,591)	(549,742)
Other	108	-	-	-	-	-	-
Net change in fiduciary net position	159,304,560	(16,887,426)	11,728,866	52,149,827	54,556,005	(21,089,282)	30,803,865
Plan fiduciary net position - beginning	<u>874,338,308</u>	<u>891,225,734</u>	<u>879,496,868</u>	<u>827,347,041</u>	<u>772,791,036</u>	<u>793,880,318</u>	<u>763,076,453</u>
Plan fiduciary net position - ending	<u>1,033,642,868</u>	<u>874,338,308</u>	<u>891,225,734</u>	<u>879,496,868</u>	<u>827,347,041</u>	<u>772,791,036</u>	<u>793,880,318</u>
Net pension liability, ending	<u>\$ 308,100,125</u>	<u>\$ 419,100,852</u>	<u>\$ 364,203,871</u>	<u>\$ 324,542,047</u>	<u>\$ 336,004,434</u>	<u>\$ 429,829,252</u>	<u>\$ 331,493,543</u>
Fiduciary net position as a percentage of total pension liability	77.04%	67.60%	70.99%	73.05%	71.12%	64.26%	70.54%
Covered payroll	\$ 94,267,000	\$ 95,096,000	\$ 94,574,000	\$ 91,598,000	\$ 90,571,000	\$ 91,952,000	\$ 91,750,000
Net pension liability as a percentage of covered payroll	326.84%	440.71%	385.10%	354.31%	370.98%	467.45%	361.30%

Note to Schedule: This schedule is intended to show a 10-year trend. Additional years will be reported as they become available.

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Schedule of Employer Contributions
Last Ten Fiscal Years

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Actuarially determined employer contribution	\$ 36,167,000	\$ 33,433,000	\$ 32,281,000	\$ 32,103,000	\$ 30,980,000	\$ 30,272,000	\$ 28,933,000	\$ 35,062,000	\$ 31,653,000	\$ 28,277,000
Actual employer contributions	<u>36,167,000</u>	<u>33,433,000</u>	<u>32,281,000</u>	<u>32,103,000</u>	<u>30,980,000</u>	<u>30,272,000</u>	<u>28,933,000</u>	<u>22,242,000</u>	<u>16,934,000</u>	<u>16,477,000</u>
Annual contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,820,000</u>	<u>\$ 14,719,000</u>	<u>\$ 11,800,000</u>
Covered payroll	\$ 94,267,000	\$ 95,096,000	\$ 94,574,000	\$ 91,598,000	\$ 90,571,000	\$ 91,952,000	\$ 91,750,000	\$ 89,320,000	\$ 86,036,000	\$ 83,784,000
Actual contributions as a percentage of covered payroll	38.37%	35.16%	34.13%	35.05%	34.21%	32.92%	31.53%	24.90%	19.68%	19.67%

Note: Effective with FY 2015, the actuarially determined contribution is developed as a dollar amount rather than a percent of actual pensionable payroll.

Police Retirement System of Kansas City, Missouri
A Component Unit of the City of Kansas City, Missouri
Schedule of Investment Returns

Fiscal Year Ending April 30	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Annual money-weighted rate of return, net of investment expense	22.41%	1.08%	4.13%	9.06%	9.62%	-0.41%	6.08%

Note to Schedule: This schedule is intended to show a 10-year trend. Additional years will be reported as they become available.

Police Retirement System of Kansas City, Missouri
A Component Unit of the City of Kansas City, Missouri
Notes to Required Supplementary Information
April 30, 2021

Changes of benefit and funding terms – The following changes to the plan provisions were reflected in the valuation performed as of April 30 listed below:

2013: The 2013 Missouri General Assembly passed Senate Bill 215/House Bill 418 which provided for the following changes to the System:

- Increased the number of years of creditable service from 30 to 32 (which results in the maximum benefit increasing from 75% to 80% of final average pay).
- Created a new benefit tier for new hires with the same benefit structure except final compensation is based on the average of the highest three years, eligibility for service retirement is the earlier of 27 years of service or age 60 with 15 years of service, and the form of payment is a joint and 50% survivor benefit, if married.
- Required the City to contribute the full employer actuarial contribution plus an additional \$200 per month for every member entitled to receive a supplemental benefit.

The Retirement Board increased the employee contribution rate by 1.00% from 10.55% to 11.55%.

2011: A new employer policy allowed police officers to continue working until they reach 32 years of service, although benefit accruals and member contributions ended at 30 years.

Changes in actuarial assumptions and methods – The following changes to the Plan provisions were reflected in the valuations as listed below:

4/30/2021 Valuation:

- Reduction of the investment return assumption from 7.40% to 7.35%.

4/30/2020 Valuation:

- Reduction of the investment return assumption from 7.45% to 7.40%.

4/30/2019 Valuation:

- Reduction of the investment return assumption from 7.50% to 7.45%.
- Reduction of the price inflation assumption from 3.00% to 2.50%.
- Reduction of the general wage increase assumption from 3.75% to 3.00%.
- Reduction of the payroll growth assumption from 3.75% to 3.00%.
- Increased the administrative expense assumption from 0.40% to 0.60%.
- Modification of retirement rates to better reflect the actual, observed experience.
- Changed the mortality improvement scale prospectively from Scale AA to the ultimate projection scale of MP-2017.
- Modification of the disability assumption and increase of the percentage of disabilities that are assumed to be duty-related.
- Modification of termination rates to better reflect the actual, observed experience.

Police Retirement System of Kansas City, Missouri
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Notes to Required Supplementary Information
April 30, 2021

4/30/2017 Valuation:

- The amortization of the unfunded actuarial accrued liability at April 30, 2017 is amortized over a closed 30-year period. Subsequent changes in the unfunded actuarial liability due to experience are amortized in a separate base with payments over a closed 20-year period.

4/30/2013 Valuation:

- Reduction of the investment return assumption from 7.75% to 7.50%.
- Reduction of the assumed cost of living adjustment from 3.00% to 2.50%.
- Reduction of the general wage increase assumption from 4.00% to 3.75%.
- Modification of retirement rates to reflect the change in the benefit structure (years of creditable service increasing from 30 to 32), the change in the mandatory retirement policy of the Police Department (from 32 to 35 years of service), and to better reflect the actual, observed experience.
- Lowered termination rates.
- Adjusted the merit scale component of the salary scale to reflect the current pay scale.
- The amortization of the UAAL was changed to be a single base, recalculated each year and amortized as a level percentage of payroll over an open 30-year period.

4/30/2011 Valuation:

- The Board of Trustees adopted a change in the asset smoothing method and implemented it by resetting the actuarial value of assets equal to the fair value of assets as of April 30, 2011. The new smoothing method recognizes the difference between the actual and expected return on the fair value of assets evenly over a five-year period.

Police Retirement System of Kansas City, Missouri
A Component Unit of the City of Kansas City, Missouri
Notes to Required Supplementary Information
April 30, 2021

The Actuarially Determined Contribution rates, as a percentage of pensionable payroll, used to determine the Actuarially Determined Contribution amounts in the Schedule of Employer Contributions are calculated as of April 30, two years prior to the end of the year in which Actuarially Determined Contribution amounts are reported. In the 12 years prior to FY 2014, the City contributed a fixed contribution rate (19.70%) of covered payroll, regardless of the amount of the actuarial determined contribution rate. Beginning September 1, 2013, the City began to contribute the full dollar amount of the Actuarially Determined Contribution.

The following actuarial methods and assumptions were used to determine the Actuarially Determined Employer Contribution reported in the most recent fiscal year (April 30, 2021), which was based on the April 30, 2019 actuarial valuation:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	30 years closed for Legacy UAAL (28 remaining as of April 30, 2019)
	20 years closed for experience bases
Asset valuation method	5-year smoothing of actual vs. expected return on fair (market) value
Price inflation	2.50%
Wage inflation	3.00%
Salary increases	3.00% to 19.00% per year, including wage inflation
Investment rate of return	7.45%, net of investment expenses and including price inflation
Future cost-of-living adjustments	2.50% (simple)

Supplementary Information

Police Retirement System of Kansas City, Missouri
A Component Unit of the City of Kansas City, Missouri
Supplementary Information
Schedule of Expenses

Year Ended April 30, 2021

Investment Expenses

Bank custodial fees and expenses	\$ 111,221
Financial management expenses	5,169,842
Financial consultation	138,739
	138,739
Total	\$ 5,419,802

Administrative Expenses

Salaries and payroll taxes	\$ 505,619
Legal	166,290
Audit	25,670
Medical fees	72,296
Actuarial fees	37,000
Fringe benefits	100,938
Printing and office expense	25,777
Postage	6,601
Board meetings	1,586
Travel and education expense	-
Insurance	3,777
Legislative consultation	25,500
Other	8,226
	8,226
Total	\$ 979,280

Police Retirement System of Kansas City, Missouri
A Component Unit of the City of Kansas City, Missouri
Supplementary Information

Schedule of Additions by Source and Deductions by Type
Years Ended April 30, 2014 through 2021

<u>Fiscal Year Ended</u>	<u>Additions by Source</u>				<u>Total</u>
	<u>Employee Contributions</u>	<u>City Contributions</u>	<u>Investment Income (Loss)</u>	<u>Other</u>	
2014	\$ 10,198,831	\$ 22,241,769	\$ 66,842,964	\$ -	\$ 99,283,564
2015	10,874,921	28,933,261	46,951,094	-	86,759,276
2016	10,748,236	30,272,063	(2,959,229)	-	38,061,070
2017	11,751,066	30,979,978	72,631,413	-	115,362,457
2018	11,390,571	32,103,207	74,102,652	-	117,596,430
2019	11,412,617	32,280,943	34,916,020	-	78,609,580
2020	11,386,606	33,432,570	9,535,314	-	54,354,490
2021	12,489,543	36,166,888	186,630,367	108	235,286,906

<u>Fiscal Year Ended</u>	<u>Deductions by Type</u>			
	<u>Benefits</u>	<u>General</u>	<u>Refunds</u>	<u>Total</u>
2014	\$ 52,627,501	\$ 535,628	\$ 361,910	\$ 53,525,039
2015	55,006,617	549,742	399,052	55,955,411
2016	57,970,768	561,591	617,993	59,150,352
2017	59,554,625	642,688	609,139	60,806,452
2018	63,777,210	714,956	954,437	65,446,603
2019	65,504,670	802,705	573,339	66,880,714
2020	69,341,685	897,253	1,002,978	71,241,916
2021	73,963,464	979,280	1,039,602	75,982,346