

**CIVILIAN EMPLOYEES' RETIREMENT
SYSTEM OF THE POLICE DEPARTMENT OF
KANSAS CITY, MISSOURI**

A COMPONENT UNIT OF THE CITY OF
KANSAS CITY, MISSOURI

FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION
YEAR ENDED APRIL 30, 2023

AND

INDEPENDENT AUDITOR'S REPORT

**Civilian Employees’ Retirement System of the
Police Department of Kansas City, Missouri**

A Component Unit of the City of Kansas City, Missouri

Financial Statements with Supplementary Information

Year Ended April 30, 2023

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INDEPENDENT AUDITOR'S REPORT

Retirement Board
Civilian Employees' Retirement System
of the Police Department of Kansas City, Missouri
Kansas City, Missouri

Opinion

We have audited the financial statements of the Civilian Employees' Retirement System of the Police Department of Kansas City, Missouri (Plan), a component unit of the City of Kansas City, Missouri (City), as of and for the year ended April 30, 2023, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Plan as of April 30, 2023, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Plan, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Plan's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Plan's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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 basic 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 basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Wichita, Kansas
September 18, 2023

Civilian Employees' Retirement System of the Police Department of Kansas City, Missouri

A Component Unit of the City of Kansas City, Missouri Management's Discussion and Analysis

April 30, 2023

This discussion and analysis of the Civilian Employees' Retirement System of the Police Department of Kansas City, Missouri (Civilian Employees' Retirement System or the Plan) financial statements provide an overview of its financial activities during the year ended April 30, 2023. Please read it in conjunction with the more detailed financial statements, notes, and required supplementary information, which follows this section.

The Civilian Employees' Retirement System is the defined benefit retirement plan for civilian members of the Kansas City, Missouri Police Department. Established by the Missouri General Assembly in 1965, the Retirement Board administers the Plan to provide its members with retirement, disability, and survivor benefits.

Overview of the Financial Statements and Accompanying Information

- The financial statements presented in this report are the Statement of Fiduciary Net Position as of April 30, 2023, and the Statement of Changes in Fiduciary Net Position for the year ended April 30, 2023. 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 intends to provide financial statement users with a description of the Plan, a summary of significant accounting policies, the method used to value investments, 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 28, 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 the 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 and net investment expense. The money-weighted rate of return is a method for calculating investment performance on Plan investments that adjusts for the changing amounts invested.

Civilian Employees' Retirement System of the Police Department of Kansas City, Missouri

A Component Unit of the City of Kansas City, Missouri
Management's Discussion and Analysis

April 30, 2023

- 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 that shows how contributions and investments impact the additions to the Plan and how benefit payments and administrative expenses impact the deductions from the Plan.

Fiduciary Net Position

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

| | <u>April 30, 2023</u> | <u>April 30, 2022</u> | <u>Amount Change</u> |
|---|-----------------------|-----------------------|--------------------------|
| Cash | \$ 41,610 | \$ 53,942 | \$ (12,332) |
| Receivables | 562,287 | 482,322 | 79,965 |
| Investments | 165,860,118 | 168,903,894 | (3,043,776) |
| Securities lending collateral | 18,697,698 | 15,258,352 | 3,439,346 |
| Total assets | 185,161,713 | 184,698,510 | 463,203 |
| Accounts and refunds payable | 670,172 | 656,988 | 13,184 |
| Securities lending collateral | 18,697,698 | 15,258,352 | 3,439,346 |
| Total liabilities | 19,367,870 | 15,915,340 | 3,452,530 |
| Net position Restricted for Pensions | \$ 165,793,843 | \$ 168,783,170 | \$ (2,989,327) |

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 available to pay benefits.

The Civilian Employees' Retirement System's benefits are funded through member contributions, City of Kansas City, Missouri (City) contributions, and investment income. The Plan's net position decreased to \$165,793,843 as of April 30, 2023, from \$168,783,170 as of April 30, 2022. Plan income is generated by investing contributions in stocks, bonds, and alternative assets.

Assets – As of April 30, 2023, the Civilian Employees' Retirement System had total assets worth \$185.2 million, comprising cash, investments, securities lending collateral, and receivables. The total assets increased by \$0.5 million or 0.3% compared to the previous year. However, investable assets decreased by \$3.0 million, while securities lending collateral increased by \$3.4 million. The decline in global stocks and bonds was attributable to a market environment where investors have been relatively cautious about future growth projections. Inflation has decreased but remained higher than historical values, leading to a decrease in investable assets. The Plan's global equity and absolute return portfolio returned positive performances for the fiscal year. Securities lending collateral rose due to heightened borrower demand for greater exposure to securities.

Civilian Employees' Retirement System of the Police Department of Kansas City, Missouri

A Component Unit of the City of Kansas City, Missouri
Management's Discussion and Analysis

April 30, 2023

Liabilities – As of April 30, 2023, the Civilian Employees' Retirement System had total liabilities of \$19.4 million. This amount includes payables for money manager fees, refunds, and amounts due to brokers for investment purchases and securities lending collateral. Over the course of the year, the total liabilities increased by \$3.5 million, primarily due to the \$3.4 million rise in the offsetting liability for securities lending activity.

Net Position – As of April 30, 2023, the Civilian Employees' Retirement System had assets worth \$165.8 million more than its liabilities. However, it experienced a decrease of \$3.0 million or -1.8% in its Net Position from the previous year due to the underperformance of the stock and bond markets.

Changes in Fiduciary Net Position

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

| | <u>Year Ended</u> <u>April 30, 2023</u> | <u>Year Ended</u> <u>April 30, 2022</u> | <u>Amount</u> <u>Change</u> |
|--|--|--|--------------------------------|
| Member contributions | \$ 1,526,083 | \$ 1,510,871 | \$ 15,212 |
| City contributions | 6,441,244 | 5,800,468 | 640,776 |
| Total net investment income (loss) | <u>(277,958)</u> | <u>(2,332,986)</u> | <u>2,055,028</u> |
| Total additions | <u>7,689,369</u> | <u>4,978,353</u> | <u>2,711,016</u> |
| | | | |
| Benefits paid to members | 10,178,903 | 9,994,750 | 184,153 |
| Refunds of contributions | 335,144 | 244,534 | 90,610 |
| Administrative expenses | <u>164,649</u> | <u>143,652</u> | <u>20,997</u> |
| Total deductions | <u>10,678,696</u> | <u>10,382,936</u> | <u>295,760</u> |
| | | | |
| Net Increase / (Decrease) in Net Position | (2,989,327) | (5,404,583) | 2,415,256 |
| | | | |
| Net Position Restricted for Pensions, Beginning of Year | <u>168,783,170</u> | <u>174,187,753</u> | <u>(5,404,583)</u> |
| | | | |
| Net Position Restricted for Pensions, End of Year | <u>\$ 165,793,843</u> | <u>\$ 168,783,170</u> | <u>\$ (2,989,327)</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, 2023. This statement reflects contributions made by members and the City. Investment activities during the fiscal year are also presented, including interest and dividends and the net appreciation or depreciation in the fair value of the investments. Benefits paid to members, refunds of contributions, and administrative expenses are also reported in the statement.

Civilian Employees' Retirement System of the Police Department of Kansas City, Missouri

A Component Unit of the City of Kansas City, Missouri

Management's Discussion and Analysis

April 30, 2023

Revenues – The Civilian Employees' Retirement System receives revenue from member contributions, City contributions, and investment income. Member contributions amounted to \$1.5 million, equivalent to 5% of the covered payroll, while City contributions totaled \$6.4 million, or 21.22% of the projected covered payroll. City contributions increased to meet the required contributions as determined by the Plan's actuary. Additionally, the net investment loss for the current year has decreased compared to the previous year. The portfolio's investment rate of return, net of investment expenses, was .29%, with a net investment income of -\$0.3 million. Investment expenses, which include custodial bank fees, manager fees, and investment consultation, totaled \$1.0 million. The fiscal year saw gains in stocks, bonds, and hedge fund investments, while direct lending, real estate, and private equity investments experienced losses.

Expenses – Deductions from Fiduciary Net Position – The Civilian Employees' Retirement System expenses come from benefits paid to members, refunds of member contributions, and administrative expenses. Benefit payments and refunds make up 98.5% of the total deductions. There was an increase in benefits and refunds paid to members compared to the prior year due to new retirements, members leaving the Police Department, and a 1.25% cost of living adjustment for retirees.

City contributions continued to equal the amount recommended by the Plan's actuary. For the year beginning May 1, 2023, the Plan has budgeted City contributions to total the actuarial required contribution amount of \$6.6 million. The calculated contribution rate is 21.78% of the projected covered payroll.

The Retirement Board recently approved an asset allocation plan that is expected to yield a 7.05% long-term investment rate of return. Additionally, the Board has decided to gradually lower the actuarially assumed rate of return from 7.05% to 6.50% over a five-year period. To ensure optimal investment performance, the Board regularly reviews investment allocations monthly and adjusts the portfolio as needed with the help of an independent financial consulting firm.

Requests for Information

The design of this financial report is to provide members of the Civilian Employees' Retirement System, citizens, investors, and creditors of the City of Kansas City, Missouri, a general overview of the Plan's finances. It also demonstrates 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 expected to significantly affect the financial position or results of operations of the Civilian Employees' Retirement System.

Civilian Employees' Retirement System of the Police Department of Kansas City, Missouri

A Component Unit of the City of Kansas City, Missouri

Statement of Fiduciary Net Position

April 30, 2023

Assets

Investments

| | |
|---------------------------------------|---------------------------|
| U.S. government securities | \$ 8,539,929 |
| Corporate bonds and notes | 22,845,693 |
| Common and preferred stock | 9,325,628 |
| All country world index fund | 25,918,379 |
| Government-mortgage backed securities | 293,867 |
| Real estate funds | 26,085,287 |
| Partnerships - equity | 609,193 |
| Partnerships - fixed income | 29,333,442 |
| Short-term investment funds | 3,802,198 |
| Hedge fund of funds | 16,860,212 |
| Equity funds | 11,569,304 |
| Emerging markets equity funds | 5,625,376 |
| Foreign equities | 5,051,610 |
| Total investments | <u>165,860,118</u> |

| | |
|--------------------------------------|--------------------------|
| Securities Lending Collateral | <u>18,697,698</u> |
|--------------------------------------|--------------------------|

Receivables

| | |
|--------------------------------|-----------------------|
| Accrued interest and dividends | 562,287 |
| Total receivables | <u>562,287</u> |

| | |
|-------------|----------------------|
| Cash | <u>41,610</u> |
|-------------|----------------------|

| | |
|---------------------|---------------------------|
| Total assets | <u>185,161,713</u> |
|---------------------|---------------------------|

Liabilities

| | |
|-------------------------------|--------------------------|
| Accounts and refunds payable | 670,172 |
| Securities lending collateral | 18,697,698 |
| Total liabilities | <u>19,367,870</u> |

| | |
|---|------------------------------|
| Net Position Restricted for Pensions | <u>\$ 165,793,843</u> |
|---|------------------------------|

See Notes to Financial Statements.

Civilian Employees' Retirement System of the Police Department 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, 2023

Additions

Investment Income (Loss)

| | |
|---|-------------------------|
| Net depreciation in fair value of investments | \$ (3,433,320) |
| Interest and dividends | 4,171,002 |
| Investment expense | <u>(1,047,967)</u> |
| Net investment income (loss) | <u>(310,285)</u> |

Securities Lending Income

| | |
|--|-------------------------|
| Securities lending gross income | <u>545,331</u> |
| Securities lending expenses | |
| Borrower rebates | (499,189) |
| Management fees | <u>(13,815)</u> |
| Total securities lending expenses | <u>(513,004)</u> |

Net securities lending income 32,327

Total net investment income (loss) (277,958)

Contributions

| | |
|----------------------------|-------------------------|
| City | 6,441,244 |
| Members | <u>1,526,083</u> |
| Total contributions | <u>7,967,327</u> |

Total additions 7,689,369

Deductions

Benefits Paid

| | |
|----------------------------|--------------------------|
| Retired members | 9,269,362 |
| Spouses | 431,620 |
| Disabled members | 104,751 |
| Partial lump sum option | 368,170 |
| Death benefits | <u>5,000</u> |
| Total benefits paid | <u>10,178,903</u> |

Other Deductions

| | |
|-------------------------------|-----------------------|
| Refunds of contributions | 335,144 |
| Administrative expenses | <u>164,649</u> |
| Total other deductions | <u>499,793</u> |

Total deductions 10,678,696

Net Decrease in Net Position **(2,989,327)**

Net Position Restricted for Pensions, Beginning of Year 168,783,170

Net Position Restricted for Pensions, End of Year **\$ 165,793,843**

See Notes to Financial Statements

Civilian Employees' Retirement System of the Police Department of Kansas City, Missouri

**A Component Unit of the City of Kansas City, Missouri
Notes to Financial Statements**

April 30, 2023

Note 1: Summary of Significant Accounting Policies

Reporting Entity

The Civilian Employees' Retirement System of the Police Department of Kansas City, Missouri (the Plan) is considered a component unit of the City of Kansas City, Missouri (City) financial reporting entity and is 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 that are obtained from brokerage firms or national pricing services.

Civilian Employees' Retirement System of the Police Department of Kansas City, Missouri

A Component Unit of the City of Kansas City, Missouri

Notes to Financial Statements

April 30, 2023

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 assets 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. There were no unfunded commitments at April 30, 2023.

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.

Subsequent Events

These financial statements considered subsequent events through September 18, 2023, the date the financial statements were available to be issued.

Civilian Employees' Retirement System of the Police Department of Kansas City, Missouri

A Component Unit of the City of Kansas City, Missouri
Notes to Financial Statements

April 30, 2023

Note 2: Plan Description

The following summary description of the Civilian Employees' Retirement System of the Police Department of Kansas City, Missouri provides only general information. Participants should refer to the Plan Statutes (Sections 86.1310 to 86.1640 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 Civilian Employees' Retirement System of the Police Department 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 regularly appointed full-time civilian employees of the Kansas City, Missouri Police Department who are not eligible to receive a pension from any other City-funded retirement system, shall become members as a condition of their 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, 2023, the Plan's membership consisted of the following:

| | Tier I Members | Tier II Members | Total |
|---|---------------------------|----------------------------|--------------|
| Retirees and beneficiaries currently receiving benefits | 321 | 3 | 324 |
| Terminated members entitled to but not yet receiving benefits | 48 | 6 | 54 |
| Active members | | | |
| Vested | 261 | 79 | 340 |
| Non-vested | - | 152 | 152 |
| Total | 630 | 240 | 870 |

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, 2023, active members contributed at a rate of 5% of base pay, and the City contributed at a rate of 21.22% of annual projected covered payroll.

Civilian Employees' Retirement System of the Police Department of Kansas City, Missouri

A Component Unit of the City of Kansas City, Missouri
Notes to Financial Statements

April 30, 2023

Benefits Provided – Benefit terms for the Plan are established in Missouri Revised Statutes 86.1310 to 86.1640 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 civilian employees of the Kansas City, Missouri Police Department.

Service Retirement

Eligibility –

Tier I member – Later of age 65 or member's 10th anniversary of employment.

Tier II member – Later of age 67 or member's 20th anniversary of employment.

Amount of Pension – Benefit equal to 2% of Final Compensation multiplied by years of creditable service.

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.

Early Retirement

Tier I member – Eligible for early retirement as follows:

- a) Beginning at age 55, if member has at least 10 years of creditable service. Pension computed as service retirement and then reduced by 0.50% for each month the benefit commences prior to the month following that in which the member turns age 60.
- b) Beginning at age 60, if member has at least five years of creditable service. Pension computed as service retirement and then reduced by 0.50% for each month the benefit commences prior to the month following that in which the member turns age 65.
- c) Beginning at age 60, if member has at least 10 years of creditable service. Pension computed as service retirement without reduction.
- d) At any time after the member's age plus years of creditable service equals or exceeds 80 (Rule of 80). Pension computed as service retirement without reduction.

Civilian Employees' Retirement System of the Police Department of Kansas City, Missouri

A Component Unit of the City of Kansas City, Missouri
Notes to Financial Statements

April 30, 2023

Tier II member – Eligible for early retirement as follows:

- a) Beginning at age 62, if member has at least five years of creditable service. Pension computed as service retirement and then reduced by 0.50% for each month the benefit commences prior to the month following that in which the member turns age 67.
- b) Beginning at age 62, if member has at least 20 years of creditable service. Pension computed as service retirement without reduction.
- c) At any time after the member's age plus years of creditable service equals or exceeds 85 (Rule of 85). Pension computed as service retirement without reduction.

Deferred Retirement (Vested Termination)

Eligibility – Five or more years of creditable service.

Amount of Pension – Computed as service retirement but based upon service, Final Compensation and benefit formula in effect at termination of employment. Benefits may begin at early retirement age, adjusted by applicable reductions.

Disability

Duty Disability Eligibility – A member in active service who has a total and permanent disability that prevents the member from engaging in any occupation or performing any work for remuneration or profit for the remainder of their life. The disability must be the direct result of performance of duties with the Police Department. No age or service requirement.

Amount of Pension – 50% of Final Compensation payable for the remainder of the member's 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 a total and permanent disability that prevents the member from engaging in any occupation or performing any work for remuneration or profit for the remainder of their life. Disability is not the direct result of performance of duties with the Police Department.

Amount of Pension – 30% of Final Compensation but in no event less than the amount the member would have been entitled to as a pension if the member had retired on the same date with equivalent age and creditable service.

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.

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Death in Service (less than 20 years of service)

Eligibility – Death of an active member with at least five but less than 20 years of service.

Amount of Pension – 50% of the member's accrued pension payable to the surviving spouse for spouse's lifetime. The effective date shall be the later of the first day of the month after the member's death or what would have been the member's earliest retirement date.

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

Death in Service (20 or more years of service)

Eligibility – Death of an active member with 20 or more years of service.

Amount of Pension – Surviving spouse may elect the greater of 50% of the member's accrued pension commencing as described above, or a monthly benefit determined on a joint and survivor's basis from the actuarial value of the member's accrued pension at date of death.

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

Death After Retirement

Eligibility – Death of a retired member who was receiving a benefit.

Amount of Pension – Eligible surviving spouse receives a pension equal to 50% of the member's benefit at the time of actual retirement plus cost of living adjustments. Benefit is payable for the life of the surviving spouse.

In lieu of the 50% surviving spouse death benefit, a member may elect, at the time of retirement, a reduced actuarially equivalent 100% surviving spouse annuity. In such case, the surviving spouse shall receive the same amount as the benefit being paid to the member and such benefit is payable for the life of the surviving spouse.

If the total amount paid to a member and surviving spouse is less than the member's accumulated contributions, with interest, an amount equal to the difference shall be paid to the member's named beneficiary.

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 with interest.

Post-Retirement Benefit Increases

Eligibility – Members and surviving spouses eligible if member's pension commenced by December 31 of prior calendar year.

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Amount of Benefit – May receive an annual cost-of-living adjustment (COLA) 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.

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

Supplemental Retirement Benefit

Retirement on or before August 28, 2007 – current retired and disabled members and their surviving spouses are eligible to receive the supplemental benefit of \$160 per month in addition to pension benefits.

Retirements after August 28, 2007 – current and future retired and disabled members and their surviving spouses are eligible to receive the supplemental benefit of \$160 per month if the member had 15 years of creditable service.

Optional Form of Benefit Payment

Members retiring with at least one or more years of service beyond their eligible retirement date may elect to take a portion of their 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 participate in Social Security and Medicare.

Tier II member – Members participate in Social Security and 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, 2023.

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Investments

For the year ended April 30, 2023, 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% |
| 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% |

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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.

| | |
|---|-----------------------------|
| Fair value of securities loaned | <u>\$ 18,393,452</u> |
| Fair value of cash collateral received from borrowers | <u>18,697,698</u> |
| Total fair value of collateral | <u>\$ 18,697,698</u> |

All securities loans can be terminated on demand by either the Plan or the borrower. The cash collateral received on each security loan was invested, in accordance with the Plan investment guidelines, in short-term funds. The maturities of the resulting investments generally match the maturities of the securities lending arrangements themselves. The Plan is not permitted to pledge or sell collateral received unless the borrower defaults.

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At April 30, 2023, the Plan had the following investments and maturities:

| Type | Fair Value | Maturities in Years | | | More than 10 | Loans Under Securities Lending Agreements |
|---------------------------------------|-----------------------|---------------------|----------------------|----------------------|---------------------|---|
| | | Less than 1 | 1 - 5 | 6 - 10 | | |
| U.S. Treasury obligations | \$ 8,539,929 | \$ 1,119,564 | \$ 2,625,076 | \$ 226,336 | \$ 4,568,953 | \$ 254,376 |
| Corporate bonds and notes | 22,845,693 | 524,785 | 8,754,006 | 10,974,392 | 2,592,510 | 11,809,960 |
| Government mortgage-backed securities | 293,867 | - | - | - | 293,867 | 3,116,648 |
| Short term investment funds | 3,802,198 | 3,802,198 | - | - | - | 3,212,468 |
| | | <u>\$ 5,446,547</u> | <u>\$ 11,379,082</u> | <u>\$ 11,200,728</u> | <u>\$ 7,455,330</u> | |
| Common and preferred stocks | 9,325,628 | | | | | - |
| All country world index fund | 25,918,379 | | | | | - |
| Real estate funds | 26,085,287 | | | | | - |
| Hedge fund of funds | 16,860,212 | | | | | - |
| Partnerships - equity | 609,193 | | | | | - |
| Partnerships - fixed income | 29,333,442 | | | | | - |
| Foreign equities | 5,051,610 | | | | | - |
| Equity funds | 11,569,304 | | | | | - |
| Emerging markets equity funds | 5,625,376 | | | | | - |
| Total | <u>\$ 165,860,118</u> | | | | | <u>\$ 18,393,452</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.

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, 2023, the Plan's investments in corporate bonds were rated BBB or better by *Standard & Poor's*. 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 & Federal Home Loan Mortgage Corporation) and in government mortgage-backed securities were rated AA+ or better by *Standard & Poor's*. U.S. Treasury obligations were explicitly guaranteed by the U.S. government. The Plan's investments in short term investment funds were not rated by *Standard & Poor's*.

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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, 2023:

| <u>Fixed Income Security Type</u> | <u>Fair Value April 30, 2023</u> | <u>S&P Weighted Average Credit Quality</u> |
|---------------------------------------|--------------------------------------|--|
| Corporate bonds and notes | \$ 2,333,912 | AA |
| Corporate bonds and notes | 9,254,068 | A |
| Corporate bonds and notes | 11,257,713 | BBB |
| Government mortgage-backed securities | 293,867 | US Gov't Guaranteed |
| Government bonds | 8,539,929 | US Gov't Guaranteed |
| Short term investment funds | 3,802,198 | 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, \$18,393,452 was held by the counterparty that was acting as the Plan's agent in securities lending transactions.

Investment Concentrations – The following presents investments that represent 5% or more of the Plan's net position as of April 30, 2023:

| <u>Investment</u> | <u>Fair Value</u> |
|---|-------------------|
| FCI Core Fixed Income | \$ 31,679,490 |
| PIMCO - Fixed Income Fund | 18,710,237 |
| Grosvenor FOB Fund, L.P. | 16,860,212 |
| Northern Trust Collective All Country World Investable Market Index Fund - Non Lending | 15,796,886 |
| LSV Global Value | 14,377,238 |
| Morgan Stanley - Prime Property Fund, LLC | 13,087,759 |
| Prudential PRISA II | 12,997,528 |
| Artisan Global Opportunities Trust Fund | 11,569,304 |
| White Oak Fixed Income Fund C, L.P. | 10,623,205 |
| Wellington Global Perspectives | 10,121,493 |

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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 (Loss)

Investment income (loss) for the year ended April 30, 2023 consisted of:

| | | |
|---|----|-------------|
| Interest and dividend income | \$ | 4,171,002 |
| Net depreciation in fair value of investments | | (3,433,320) |
| | | 737,682 |
| Less investment expense | | 1,047,967 |
| | \$ | (310,285) |

Annual Money-Weighted Rate of Return – For the year ended April 30, 2023, the annual money-weighted rate of return on the pension plan investments, net of pension plan investment expense, was 0.29%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Note 4: Net Pension Liability

The components of the net pension liability of the City at April 30, 2023, were as follows:

| | | |
|--|----|---------------|
| Total pension liability | \$ | 234,175,863 |
| Plan fiduciary net position | | (165,793,843) |
| City's net pension liability | \$ | 68,382,020 |
| Fiduciary net position as a % of total pension liability | | 70.80% |

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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, 2023 was determined based on an actuarial valuation prepared as of April 30, 2022, rolled forward one year to April 30, 2023, using the following actuarial assumptions:

| | |
|---|----------------|
| Inflation | 2.50% |
| Salary Increases, including inflation | 3.25% to 6.00% |
| Long-term investment rate of return, net of Plan investment expense, including inflation | 6.95% |

Post-retirement benefit increases Simple COLA of 2.5% per year

Pre-retirement mortality rates were based on the Pub-2010 General Members (Below Median) Employee Mortality Table with Future Mortality improvements projected generationally using Scale MP-2021.

Mortality rates for beneficiaries were based on the Pub-2010 (Below Median) Contingent Survivor Mortality Table with future mortality improvements projected generationally using Scale MP-2021.

Disability mortality rates were based on the Pub-2010 Non-Safety Disabled Retiree Mortality Table with future mortality improvements projected generationally using Scale MP-2021.

The actuarial assumptions used in the valuation are based on the results of the most recent actuarial experience study, which covered the five-year period ending April 30, 2022. The experience study results were presented to the Board on June 8, 2023.

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, 2023 are summarized in the following table:

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| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|----------------|----------------------|--|
| Global Equity | 38% | 5.35% |
| Fixed Income | 31% | 1.50% |
| Direct Lending | 7% | 4.50% |
| Real Estate | 13% | 3.25% |
| Hedge Funds | 11% | 2.50% |

Discount Rate – The discount rate used to measure the total pension liability was 6.95%. 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 3.44% 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 6.95% 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 (5.95%) or one percentage point higher (7.95%) than the current rate:

| | 1% Decrease (5.95%) | Current Discount Rate (6.95%) | 1% Increase (7.95%) |
|-----------------------|------------------------|----------------------------------|------------------------|
| Net pension liability | \$ 101,315,590 | \$ 68,382,020 | \$ 41,097,449 |

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.

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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

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, 2023:

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| | Fair Value | Level 1 | Level 2 | Level 3 |
|--|-----------------------|----------------------|----------------------|-------------|
| Investments by fair value level | | | | |
| U.S. government securities | \$ 8,539,929 | \$ - | \$ 8,539,929 | \$ - |
| Corporate bonds and notes | 22,845,693 | - | 22,845,693 | - |
| Common and preferred stock | 9,325,628 | 9,325,628 | - | - |
| Government mortgage-backed securities | 293,867 | - | 293,867 | - |
| Short-term investment funds | 3,802,198 | 3,802,198 | - | - |
| All country world index fund | 25,918,379 | - | 25,918,379 | - |
| Foreign equities | 5,051,610 | 5,051,610 | - | - |
| Total Investments by fair value level | 75,777,304 | \$ 18,179,436 | \$ 57,597,868 | \$ - |
| Investments measured at the net asset value (NAV) (A) | | | | |
| Real estate funds | 26,085,287 | | | |
| Partnerships - equity | 609,193 | | | |
| Partnerships - fixed income | 29,333,442 | | | |
| Hedge fund of funds | 16,860,212 | | | |
| Emerging markets equity funds | 5,625,376 | | | |
| Equity funds | 11,569,304 | | | |
| Total investments measured at the NAV | 90,082,814 | | | |
| Total investments | \$ 165,860,118 | | | |

(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, 2023. 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.

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.

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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) | \$ 26,085,287 | \$ - | Quarterly | 90 Days |
| Partnerships - equity (B) | 609,193 | - | N/A | N/A |
| Partnerships - fixed income (C) | 29,333,442 | - | Monthly | 10 Days |
| Hedge fund of funds (D) | 16,860,212 | - | Quarterly | 70 Days |
| Emerging markets equity funds (E) | 5,625,376 | - | Monthly | 10 Days |
| Equity funds (F) | <u>11,569,304</u> | - | Daily | 1 Day |
| Total investments measured at the NAV | <u>\$ 90,082,814</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 funds 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, 12% Credit, 28% Relative Value, 12% Quantitative, 9% Macro and Commodities and 9% 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.
- (F) This category includes commingled equity funds which 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 \$14,690 for fiscal year 2023.

Required Supplementary Information

Civilian Employees' Retirement System of the Police Department of Kansas City, Missouri

A Component Unit of the City of Kansas City, Missouri Schedule of Changes in Net Pension Liability and Related Ratios Year Ended April 30

| | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Total pension liability | | | | | | | | | |
| Service cost | \$ 4,500,035 | \$ 4,247,669 | \$ 4,173,342 | \$ 4,071,855 | \$ 4,091,838 | \$ 3,914,244 | \$ 4,598,304 | \$ 4,630,006 | \$ 4,403,101 |
| Interest on total pension liability | 15,233,812 | 14,865,769 | 14,365,113 | 13,812,626 | 13,152,701 | 12,742,742 | 12,509,148 | 12,015,197 | 11,366,771 |
| Difference between expected and actual experience | (1,002,415) | (3,113,432) | (1,850,773) | (1,484,462) | (2,871,806) | (3,213,708) | (7,303,863) | (2,293,671) | - |
| Effect of assumption/SEIR changes | 6,230,865 | 6,682,650 | 1,270,712 | 1,214,799 | 3,950,960 | - | (9,116,555) | 3,350,712 | 2,318,394 |
| Benefit payments, including member refunds | (10,514,047) | (10,239,284) | (9,426,383) | (8,383,336) | (8,196,411) | (7,765,679) | (7,185,237) | (7,220,946) | (6,320,353) |
| Net change in total pension liability | <u>14,448,250</u> | <u>12,443,372</u> | <u>8,532,011</u> | <u>9,231,482</u> | <u>10,127,282</u> | <u>5,677,599</u> | <u>(6,498,203)</u> | <u>10,481,298</u> | <u>11,767,913</u> |
| Total pension liability - beginning | <u>219,727,613</u> | <u>207,284,241</u> | <u>198,752,230</u> | <u>189,520,748</u> | <u>179,393,466</u> | <u>173,715,867</u> | <u>180,214,070</u> | <u>169,732,772</u> | <u>157,964,859</u> |
| Total pension liability - ending | <u>234,175,863</u> | <u>219,727,613</u> | <u>207,284,241</u> | <u>198,752,230</u> | <u>189,520,748</u> | <u>179,393,466</u> | <u>173,715,867</u> | <u>180,214,070</u> | <u>169,732,772</u> |
| Plan fiduciary net position | | | | | | | | | |
| Net investment income | (310,285) | (2,359,229) | 31,475,633 | 1,415,281 | 5,693,834 | 11,661,350 | 11,383,598 | (815,408) | 6,756,442 |
| Net securities lending income | 32,327 | 26,243 | 33,249 | 27,258 | 27,404 | 25,377 | 36,760 | 21,305 | 23,157 |
| City contributions | 6,441,244 | 5,800,468 | 5,358,552 | 4,849,708 | 4,778,854 | 4,994,191 | 5,063,240 | 5,048,167 | 4,930,686 |
| Member contributions | 1,526,083 | 1,510,871 | 1,514,076 | 1,416,742 | 1,415,677 | 1,271,683 | 1,253,047 | 1,287,388 | 1,323,061 |
| Benefits paid | (10,178,903) | (9,994,750) | (9,199,657) | (8,209,456) | (7,974,964) | (7,424,849) | (6,888,499) | (6,887,482) | (6,185,573) |
| Refunds of contributions | (335,144) | (244,534) | (226,726) | (173,880) | (221,447) | (340,830) | (296,738) | (333,464) | (134,780) |
| Administrative expenses | (164,649) | (143,652) | (132,117) | (148,744) | (136,633) | (147,653) | (120,257) | (126,924) | (112,924) |
| Net change in fiduciary net position | <u>(2,989,327)</u> | <u>(5,404,583)</u> | <u>28,823,010</u> | <u>(823,091)</u> | <u>3,582,725</u> | <u>10,039,269</u> | <u>10,431,151</u> | <u>(1,806,418)</u> | <u>6,600,069</u> |
| Plan fiduciary net position - beginning | <u>168,783,170</u> | <u>174,187,753</u> | <u>145,364,743</u> | <u>146,187,834</u> | <u>142,605,109</u> | <u>132,565,840</u> | <u>122,134,689</u> | <u>123,941,107</u> | <u>117,341,038</u> |
| Plan fiduciary net position - ending | <u>165,793,843</u> | <u>168,783,170</u> | <u>174,187,753</u> | <u>145,364,743</u> | <u>146,187,834</u> | <u>142,605,109</u> | <u>132,565,840</u> | <u>122,134,689</u> | <u>123,941,107</u> |
| Net pension liability - ending | <u>\$ 68,382,020</u> | <u>\$ 50,944,443</u> | <u>\$ 33,096,488</u> | <u>\$ 53,387,487</u> | <u>\$ 43,332,914</u> | <u>\$ 36,788,357</u> | <u>\$ 41,150,027</u> | <u>\$ 58,079,381</u> | <u>\$ 45,791,665</u> |
| Fiduciary net position as a percentage of total pension liability | 70.80% | 76.81% | 84.03% | 73.14% | 77.14% | 79.49% | 76.31% | 67.77% | 73.02% |
| Covered payroll | \$ 30,543,000 | \$ 29,287,000 | \$ 28,859,000 | \$ 28,266,000 | \$ 27,108,000 | \$ 25,434,000 | \$ 25,061,000 | \$ 25,748,000 | \$ 26,461,000 |
| Net pension liability as a percentage of covered payroll | 223.89% | 173.95% | 114.68% | 188.88% | 159.85% | 144.64% | 164.20% | 225.57% | 173.05% |

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

Civilian Employees' Retirement System of the Police Department of Kansas City, Missouri

A Component Unit of the City of Kansas City, Missouri Schedule of Employer Contributions Last Ten Fiscal Years

| | <u>2023</u> | <u>2022</u> | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|---------------------|
| Actuarially determined employer contribution | \$ 6,441,000 | \$ 5,800,000 | \$ 5,359,000 | \$ 4,850,000 | \$ 4,779,000 | \$ 4,994,000 | \$ 5,063,000 | \$ 5,048,000 | \$ 4,931,000 | \$ 5,658,000 |
| Actual employer contributions | <u>6,441,000</u> | <u>5,800,000</u> | <u>5,359,000</u> | <u>4,850,000</u> | <u>4,779,000</u> | <u>4,994,000</u> | <u>5,063,000</u> | <u>5,048,000</u> | <u>4,931,000</u> | <u>4,122,000</u> |
| Annual contribution deficiency | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,536,000</u> |
| Covered payroll | \$ 30,543,000 | \$ 29,287,000 | \$ 28,859,000 | \$ 28,266,000 | \$ 27,108,000 | \$ 25,434,000 | \$ 25,061,000 | \$ 25,748,000 | \$ 26,461,000 | \$ 25,617,000 |
| Actual contributions as a percentage of covered payroll | 21.09% | 19.80% | 18.57% | 17.16% | 17.63% | 19.64% | 20.20% | 19.61% | 18.63% | 16.09% |

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

**Civilian Employees' Retirement System of the
Police Department of Kansas City, Missouri**
A Component Unit of the City of Kansas City, Missouri
Schedule of Investment Returns

| Fiscal Year Ending April 30 | <u>2023</u> | <u>2022</u> | <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 | 0.29% | -1.72% | 22.67% | 1.05% | 4.15% | 8.93% | 9.47% | -0.64% | 5.74% |

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

Civilian Employees' Retirement System of the Police Department of Kansas City, Missouri

A Component Unit of the City of Kansas City, Missouri

Notes to Required Supplementary Information

April 30, 2023

Changes of benefit and funding terms – There were no changes to the plan provisions reflected in the valuation years presented in this report.

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

4/30/2023 Valuation

- Reduction of the investment return assumption from 7.10% to 6.95%.
- Salary merit increases were adjusted to better reflect the actual, observed experience.
- Modification of retirement rates to better reflect the actual, observed experience.
- Modification of termination rates to better reflect the actual, observed experience.
- Elimination of the disability assumption.
- Changed the mortality assumption to the Pub-2010 General Members (Below Median) Mortality Tables projected generationally using Scale MP-2021.

4/30/2022 Valuation:

- Reduction of the investment return assumption from 7.35% to 7.10%.

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 0.50%.
- Modification of both early and normal retirement assumptions 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 termination rates to better reflect the actual, observed experience.
- The merit salary assumption was modified to reflect the current pay scales.

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.

Civilian Employees' Retirement System of the Police Department of Kansas City, Missouri

A Component Unit of the City of Kansas City, Missouri

Notes to Required Supplementary Information

April 30, 2023

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. The City contributes the full dollar amount of the Actuarial Determined Contribution.

The following actuarial methods and assumptions were used to determine the Actuarially Determined City Contribution reported in the most recent fiscal year (April 30, 2023), which was based on the results of the April 30, 2021 actuarial valuation:

| | |
|-----------------------------------|---|
| Actuarial cost method | Entry age normal |
| Amortization method | Level percentage of payroll, closed |
| Remaining amortization period | 30 years closed for Legacy UAAL (26 remaining as of April 30, 2021) 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 | 3.6% to 6.5% per year, including wage inflation |
| Investment rate of return | 7.10%, net of investment expenses and including price inflation |
| Future cost-of-living adjustments | 2.50% (simple) |

Supplementary Information

**Civilian Employees' Retirement System of the
Police Department of Kansas City, Missouri**
A Component Unit of the City of Kansas City, Missouri

**Schedule of Expenses
Year Ended April 30, 2023**

Investment Expenses

| | |
|----------------------------------|-----------|
| Bank custodial fees and expenses | \$ 36,447 |
| Financial management expenses | 983,962 |
| Financial consultation | 27,558 |

Total \$ 1,047,967

Administrative Expenses

| | |
|------------------------------|-----------|
| Salaries and payroll taxes | \$ 93,568 |
| Legal | 2,009 |
| Audit | 4,800 |
| Actuarial fees | 41,875 |
| Printing and office expense | 2,083 |
| Postage | 1,284 |
| Travel and education expense | 5,452 |
| Legislative consultation | 4,580 |
| Other | 8,998 |

Total \$ 164,649

**Civilian Employees' Retirement System of the
Police Department of Kansas City, Missouri**

A Component Unit of the City of Kansas City, Missouri

**Schedule of Additions by Source and Deductions by Type
Years Ended April 30, 2016 through 2023**

| <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> | |
| 2014 | \$ 1,313,816 | \$ 4,122,375 | \$ 9,764,444 | \$ 15,200,635 |
| 2015 | 1,323,061 | 4,930,686 | 6,779,599 | 13,033,346 |
| 2016 | 1,287,388 | 5,048,167 | (794,103) | 5,541,452 |
| 2017 | 1,253,047 | 5,063,240 | 11,420,358 | 17,736,645 |
| 2018 | 1,271,683 | 4,994,191 | 11,686,727 | 17,952,601 |
| 2019 | 1,415,677 | 4,778,854 | 5,721,238 | 11,915,769 |
| 2020 | 1,416,742 | 4,849,708 | 1,442,539 | 7,708,989 |
| 2021 | 1,514,076 | 5,358,552 | 31,508,882 | 38,381,510 |
| 2022 | 1,510,871 | 5,800,468 | (2,332,986) | 4,978,353 |
| 2023 | 1,526,083 | 6,441,244 | (277,958) | 7,689,369 |

| <u>Fiscal Year Ended</u> | <u>Deductions by Type</u> | | | <u>Total</u> |
|---------------------------------|----------------------------------|---------------------------------------|-----------------------|---------------------|
| | <u>Benefits</u> | <u>Administrative Expenses</u> | | |
| | | <u>General</u> | <u>Refunds</u> | |
| 2014 | \$ 5,929,841 | \$ 125,025 | \$ 322,680 | \$ 6,377,546 |
| 2015 | 6,185,573 | 112,924 | 134,780 | 6,433,277 |
| 2016 | 6,887,482 | 126,924 | 333,464 | 7,347,870 |
| 2017 | 6,888,499 | 120,257 | 296,738 | 7,305,494 |
| 2018 | 7,424,849 | 147,653 | 340,830 | 7,913,332 |
| 2019 | 7,974,964 | 136,633 | 221,447 | 8,333,044 |
| 2020 | 8,209,456 | 148,744 | 173,880 | 8,532,080 |
| 2021 | 9,199,657 | 132,117 | 226,726 | 9,558,500 |
| 2022 | 9,994,750 | 143,652 | 244,534 | 10,382,936 |
| 2023 | 10,178,903 | 164,649 | 335,144 | 10,678,696 |