

**The Police Department of Kansas City, Missouri**  
A Component Unit of the City of Kansas City, Missouri

**Financial Statements**  
Together with Independent Auditor's Report

For the Year Ended April 30, 2017

# The Police Department of Kansas City, Missouri

A Component Unit of the City of Kansas City, Missouri

April 30, 2017

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**INDEPENDENT AUDITOR'S REPORT**

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To the Board of Police Commissioners  
The Police Department of Kansas City, Missouri

***Report on the Financial Statements***

**Other offices in  
Missouri and Kansas**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Police Department of Kansas City, Missouri (the Department), a component unit of the City of Kansas City, Missouri as of and for the year ended April 30, 2017, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

***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 opinions 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 and the standards applicable to the financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Department as of April 30, 2017, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of share of collective net pension liability, schedule of employer contributions and schedule of funding progress as listed in the table of contents be presented to supplement the basic financial statements. Such information, 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.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's financial statements. The combining nonmajor and agency fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements.

The combining nonmajor and agency fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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, the combining nonmajor and agency fund financial statements are fairly stated, in all material respects, in relation to the financial statements as a whole.

## **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated June 23, 2017, on our consideration of the Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Department's internal control over financial reporting and compliance.

*Cochran Head V. Dick & Co. P.C.*

Kansas City, Missouri  
June 23, 2017

# **The Police Department of Kansas City, Missouri**

**A Component Unit of the City of Kansas City, Missouri**

## **Management's Discussion and Analysis**

**April 30, 2017**

The Board of Police Commissioners (the Board), a state agency pursuant to the revised statutes of the State of Missouri, operates the Police Department of Kansas City, Missouri (the Department). Statutes provide the Board with exclusive management and control of the metropolitan police force for the City of Kansas City, Missouri (the City). The City is required to provide annual budgetary appropriations for this purpose. The Governor appoints and the Missouri Senate approves four Commissioners from the local community who, along with the Mayor of Kansas City, comprise the Board.

This discussion and analysis of the Department's financial performance provides an overview of the Department's financial activities for the fiscal year ended April 30, 2017. Please read it in conjunction with the Department's financial statements, which follow this section. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

### ***Financial Highlights***

The majority of Department operations are funded by the City, but the Department is statutorily required to issue financial statements. The accompanying financial statements are reflective of the fact future operations and payments of Department liabilities depend on the City for funding through the annual budget appropriations process.

- The net position of the Department (assets minus liabilities) at the close of the most recent fiscal year was \$48,095. Liabilities associated with compensated absences and other post-employment benefits totaling \$76,175 are the major reasons for the deficit.
- The Department's net position decreased by \$978 in the current year.
- Current year revenues of \$264,429 represented an increase of \$25,975 or 10.9% from the prior year. City revenues provided \$250,623 or 94.8% of this amount. Grants, the Jackson County anti-drug sales tax, charges for services, and other revenues provided \$13,806 or 5.2%.

### ***Overview of the Financial Statements***

Management's discussion and analysis introduces the Department's basic financial statements. The Department's basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to basic financial statements. This report also contains additional required supplementary information (other post-employment benefits and budgetary schedules) and other supplementary information (combining statements for nonmajor governmental and agency funds) in addition to the basic financial statements.

# The Police Department of Kansas City, Missouri

A Component Unit of the City of Kansas City, Missouri

## Management's Discussion and Analysis

April 30, 2017

### Basic Financial Statements

The Department operates a single governmental program (public safety) and presents the aforementioned government-wide financial statements and fund financial statements in combined form. The combined statements are: (1) *Governmental Funds Balance Sheet / Statement of Net Position*, (2) *Governmental Funds Revenues, Expenditures and Changes in Fund Balances and Statement of Activities*, and (3) *Statement of Assets and Liabilities – Fiduciary Funds*. These financial statements also include *Notes to Basic Financial Statements* that explain some of the information in the financial statements and provide more detail.

### Government-wide Financial Statements

The two government-wide financial statements report information about the Department as a whole using accounting methods similar to those used by private-sector companies. Government-wide financial statements provide both long-term and short-term information about the Department's overall financial status.

1. The statement of net position includes all of the Department's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in the Department's net position may serve as a useful indicator of whether financial position is improving or deteriorating.
2. The statement of activities reports how the Department's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as sick leave).

The government-wide financial statements reflect the Department's only program, public safety, which is a governmental activity. Governmental activities are supported mostly by City general revenues and intergovernmental revenues (grants). Complete financial statements of the City may be obtained from the City of Kansas City, Missouri, 414 East 12<sup>th</sup> Street, Kansas City, Missouri 64106.

### Fund Financial Statements

The Department, like other state and local governments, uses funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The fund financial statements provide more detailed information about the Department's most significant individual funds – not the Department as a whole. Major funds are separately reported while all other funds are combined into a single, aggregated presentation. Individual fund data for nonmajor funds is presented in the form of combining statements in a later section of this report.

# The Police Department of Kansas City, Missouri

A Component Unit of the City of Kansas City, Missouri

## Management's Discussion and Analysis

April 30, 2017

### ***The Department has two kinds of funds:***

1. Governmental funds focus on (1) how cash and other financial assets that can readily be converted to cash flow are available to meet current obligations and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements report short-term fiscal accountability focusing on the use of spendable resources during the year and balances of spendable resources available at the end of the year. Because this information does not encompass the additional long-term focus of the government-wide financial statements, additional information is provided on the subsequent page of the governmental fund financial statements that explains, and better identifies the relationship between them.

The Department's general fund, federal seizure & forfeiture fund, and federal and state grants fund are considered major funds and the activities of all other governmental funds are combined in a separate column in each of the basic fund financial statements.

2. Fiduciary funds are used to account for resources held for the benefit of parties outside the Department. The Department is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the Department's fiduciary activities are reported in a separate *Statement of Assets and Liabilities*. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the Department's own activity.

### Notes to Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

### Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information. This section includes schedules and notes related to the Department's pension plans, schedule of funding progress for other post-employment benefits and budgetary comparison schedules, which include reconciliations for the general fund, federal seizure & forfeiture fund, and federal and state grants fund for budgetary purposes and fund balances as presented in the governmental funds financial statements.

### Other Supplementary Information

The combining financial statements for nonmajor funds and agency funds follow the required supplementary information. The total columns of these combining financial statements carry to the applicable fund financial statements.

# The Police Department of Kansas City, Missouri

A Component Unit of the City of Kansas City, Missouri

## Management's Discussion and Analysis

April 30, 2017

### Government-Wide Financial Analysis

As noted earlier, increases or decreases in the Department's net position may serve as a useful indicator of whether financial position is improving or deteriorating. The Department's net position was a deficit \$48,095 at April 30, 2017 compared to a net position deficit of \$47,116 at the end of the previous year. This change totals \$979 and was caused primarily by increase in estimates for other post-employment benefits for health insurance in the amount of \$3,409 and decrease in compensated absences of \$758. Another contributing factor was depreciation.

The following table provides a breakdown of the Department's net position:

#### The Police Department of Kansas City, Missouri's Net Position (expressed in thousands)

	<u>Governmental Activities</u>	
	<u>2017</u>	<u>2016</u>
Current and other assets	\$ 14,831	\$ 12,644
Capital assets	32,591	31,706
Total assets	<u>47,422</u>	<u>44,350</u>
Other liabilities	14,191	14,101
Long-term debt	<u>81,326</u>	<u>77,365</u>
Total liabilities	<u>95,517</u>	<u>91,466</u>
Net position:		
Net investment in capital assets	32,591	31,706
Restricted	3,557	3,213
Unrestricted (deficit)	<u>(84,243)</u>	<u>(82,035)</u>
Total net position (deficit)	<u>\$ (48,095)</u>	<u>\$ (47,116)</u>

Liabilities such as compensated absences and other-post employment benefits totaling \$76,175 cause the deficit in unrestricted net position and will be liquidated as they come due using appropriations provided annually by the City. These items totaled \$73,524 last year.

# The Police Department of Kansas City, Missouri

A Component Unit of the City of Kansas City, Missouri

## Management's Discussion and Analysis

April 30, 2017

Net investment in capital assets of \$32,591 reflects the Department's capital assets (vehicles, helicopters, and equipment) net of accumulated depreciation. Capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. The increase of \$885 is due to new purchases of equipment exceeding depreciation.

The following table provides a summary of the Department's changes in net position:

### The Police Department of Kansas City, Missouri's Changes in Net Position (expressed in thousands)

	<u>Governmental Activities</u>	
	<u>2017</u>	<u>2016</u>
Revenues		
Program revenues	\$ 264,429	\$ 238,454
Expenses		
Public safety - police	<u>265,380</u>	<u>251,569</u>
Change in net position before asset disposals	(951)	(13,115)
Asset disposals	<u>(28)</u>	<u>31</u>
Change in net position	(979)	(13,084)
Net position (deficit), beginning of year	<u>(47,116)</u>	<u>(34,032)</u>
Net position (deficit), end of year	<u>\$ (48,095)</u>	<u>\$ (47,116)</u>

The Department's net position before capital asset disposals decreased \$951. The majority of this decrease is due to the aforementioned \$2,651 increase in estimates for liabilities related to compensated absences and other post-employment benefits. Revenue from the City increased \$25,847 and all other revenues increased \$128. Revenue from the City increased due to changes under a special funding situation, the total pension expense and related on behalf pension contributions from the City are reported.

Personnel costs increased 6.9% due to changes in pension contributions. Salaries and benefits represent 89.7% of the Department's governmental activity expenses, compared to 88.5% last year. Included in this are amounts paid into the pension systems on behalf of sworn and civilian employees. The two pension systems are separate State entities funded by the City and issue their own financial statements.

# The Police Department of Kansas City, Missouri

A Component Unit of the City of Kansas City, Missouri

## Management's Discussion and Analysis

April 30, 2017

Non-personnel costs decreased 5.4% mostly as a result of fewer new claims payable.

The Department was established by State statute to police the City of Kansas City, Missouri. The City's general revenues support most of this governmental activity. Other revenue sources include a ¼ cent sales tax for drug enforcement assessed by Jackson County; federal, state, and local grants; and charges for services such as police report reproduction. The State of Missouri provides assistance with risk management.

### ***Financial Analysis of the Department's Funds***

As noted earlier, the Department, like other state and local governments, uses funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money.

#### Governmental Funds

The focus of the Department's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the Department's financing requirements. In particular, unassigned fund balance at year-end may serve as a useful measure of a government's net resources available for spending.

At the end of the current fiscal year, governmental funds reported combined ending fund balances of \$4,081; an increase of \$4 in comparison with the prior year.

- Fund balance in the amount of \$3,557 is restricted for grants and state-required workers' compensation escrow.
- Board-authorized purchase commitments are \$240.

The general fund had an ending fund balance of \$2,240; a decrease of \$333 or 13% in comparison with the prior year. The decrease resulted from risk management activity.

The Department has two other major funds. The federal seizure & forfeiture fund had an ending fund balance of \$1,653; an increase of \$287 or 21% in comparison with the prior year. The increase is due to additional revenue, the receipt of which is dependent upon federal processes. The federal and state grants fund has no fund balance due to the fact revenues equal expenditures on an annual basis.

Other governmental funds are supported by Department-generated revenues. These funds supplement appropriations provided by the City and were established to comply with federal, state, and local requirements for revenues generated by policing activities such as licensing of private security officers, open records requests, and City ordinances for alarm licensing and parade/escort requests. Ending fund balance increased \$50 in the police drug enforcement fund.

# **The Police Department of Kansas City, Missouri**

## **A Component Unit of the City of Kansas City, Missouri**

### **Management's Discussion and Analysis**

**April 30, 2017**

#### General Fund Budgetary Highlights

The Department is required to prepare its budget in form and detail similar to City departments. However, the Department's governing body, the Board, has sole authority to manage the Department's budget.

The schedule in the required supplementary information provides information about the Department's general fund budget, including original and final budget, actual amounts on the budgetary basis and reconciliation to amounts reported in the statement of governmental fund revenues, expenditures, and changes in fund balance. Year-end commitments totaling \$240 are not reflected in the actual amounts reported under budgetary basis or the generally accepted accounting principles (GAAP) basis since they will be reappropriated in the subsequent year. Personal services were under budget by \$223 as a result of savings due to holding open positions while waiting for additional funding from the City which did not occur until the last month of the fiscal year. Contractual services were under budget by \$1,393 due mostly from appropriations for legal claims exceeding costs incurred paying claims and outside training being less than anticipated. Commodities were under budget by \$418 due to costs being less in minor equipment.

Over the course of the year, the Department's General Fund budget was revised, which, excluding the impact of reestablishment of encumbrances, can be briefly summarized as follows:

- Increases to revenues and appropriations for costs related to staffing and overtime were \$2,650.
- Increases to revenues and appropriations from support by the Police Foundation were \$350.
- Increases to appropriations for computer equipment were \$32.

#### ***Capital Assets***

##### Capital Assets

The Department invests in capital assets necessary for policing efforts, including automotive, communication, computer, and helicopter equipment. Improvements to City-owned facilities, if any, are donated annually to the City. At April 30, 2017, the Department's capital assets were \$99,266 and accumulated depreciation was \$66,675. More detailed information about the Department's capital assets is presented in Notes 1 and 3 to the basic financial statements. The Department has no debt related to the acquisition of capital assets. The City issued general obligation (G.O.) and special obligation (S.O.) debt to provide appropriations to the Department for equipping new/remodeled facilities.

# **The Police Department of Kansas City, Missouri**

**A Component Unit of the City of Kansas City, Missouri**

**Management's Discussion and Analysis**

**April 30, 2017**

## ***Economic Factors and Next Year's Budgets and Rates***

The statutes establishing the Board require submission of an annual budget to the City estimating the sum of money necessary to operate the Department in the ensuing year. The City considers the Board's submission as part of its budget process and oftentimes provides a different, generally lesser amount. In addition, the Missouri State Legal Expense Fund provides supplemental funding to cover some risk management costs for judgments resulting from lawsuits against members of the Board or law enforcement officers, and the Board receives other self-generated revenues to support appropriations.

As stated earlier, the Department is dependent on the City for most of its funding and any discussion of next year activity needs to focus on City operations. For the fiscal year beginning May 1, 2017, City general revenues will fund \$216,279 for the Department, an increase of \$6,568 or 3.1%. This increase restores amounts previously provided by budget amendments, and the balance covers pay, health, and pension increases. In next year's budget, non-City funding sources support costs of \$26,736, an increase of \$3,623 attributable mostly to more grant funding. The Department's operating budget is 3.9% and represents 21.5% of City governmental funds, compared to 21.8% last year. Personnel costs represent 86.2% of the Department budget.

## ***Requests for Information***

This financial report is designed to provide citizens, taxpayers, customers, and investors and creditors of the City of Kansas City, Missouri with a general overview of the Department's finances and to demonstrate the Department's accountability for the funding it receives. If you have questions about this report or need additional financial information, contact the Kansas City Police Department, Fiscal Division, 1125 Locust, Kansas City, MO 64106.

**The Police Department of Kansas City, Missouri**

A Component Unit of the City of Kansas City, Missouri  
 Governmental Funds Balance Sheet and Statement of Net Position  
 April 30, 2017

	<b>General Fund</b>	<b>Federal Seizure &amp; Forfeiture</b>	<b>Federal and State Grants</b>	<b>Other Funds</b>	<b>Total</b>	<b>Adjustments</b>	<b>Statement of Net Position</b>
<b>Assets</b>							
Cash and short-term investments	\$ 3,067,128	\$ 1,652,878	\$ 307,582	\$ 372,288	\$ 5,399,876	\$ -	\$ 5,399,876
Receivables:							
Accounts	288,000	-	-	-	288,000	-	288,000
Interest	2,002	549	-	-	2,551	-	2,551
Due from City of Kansas City, Missouri	1,308,000	-	3,292	159,542	1,470,834	-	1,470,834
Due from other governments	2,503,403	-	1,453,612	36,439	3,993,454	-	3,993,454
Advance to other funds	4,000	-	-	-	4,000	-	4,000
Inventories	2,052,060	-	-	-	2,052,060	-	2,052,060
Restricted deposits	1,620,971	-	-	-	1,620,971	-	1,620,971
Capital assets, net of accumulated depreciation	-	-	-	-	-	32,590,517	32,590,517
<b>Total assets</b>	<b>\$ 10,845,564</b>	<b>\$ 1,653,427</b>	<b>\$ 1,764,486</b>	<b>\$ 568,269</b>	<b>\$ 14,831,746</b>	<b>\$ 32,590,517</b>	<b>\$ 47,422,263</b>
<b>Liabilities</b>							
Accounts payable	\$ 224,281	\$ -	\$ 3,292	\$ 159,542	\$ 387,115	\$ -	\$ 387,115
Accrued payroll	2,894,392	-	39,590	36,439	2,970,421	-	2,970,421
Unearned revenue	64,398	-	14,099	51,870	130,367	-	130,367
Due to City of Kansas City, Missouri	777,712	-	1,707,505	57,956	2,543,173	-	2,543,173
Due to other governments	-	-	-	74,646	74,646	-	74,646
Compensated absences - current	443,740	-	-	-	443,740	7,641,805	8,085,545
Compensated absences - noncurrent	-	-	-	-	-	35,187,755	35,187,755
Net OPEB obligation	-	-	-	-	-	32,901,903	32,901,903
Claims payable	1,698,113	-	-	-	1,698,113	11,538,000	13,236,113
<b>Total liabilities</b>	<b>6,102,636</b>	<b>-</b>	<b>1,764,486</b>	<b>380,453</b>	<b>8,247,575</b>	<b>87,269,463</b>	<b>95,517,038</b>
<b>Deferred Inflows of Resources</b>							
Unavailable revenue	2,503,403	-	-	-	2,503,403	(2,503,403)	-
<b>Fund Balances/Net Position</b>							
Fund balances:							
Restricted for workers compensation escrow	1,620,971	-	-	-	1,620,971	(1,620,971)	-
Restricted for programs	94,678	1,653,427	-	187,816	1,935,921	(1,935,921)	-
Committed to capital outlay	239,948	-	-	-	239,948	(239,948)	-
Unassigned	283,928	-	-	-	283,928	(283,928)	-
<b>Total fund balances</b>	<b>2,239,525</b>	<b>1,653,427</b>	<b>-</b>	<b>187,816</b>	<b>4,080,768</b>	<b>(4,080,768)</b>	<b>-</b>
<b>Total liabilities, deferred inflows, and fund balances</b>	<b>\$ 10,845,564</b>	<b>\$ 1,653,427</b>	<b>\$ 1,764,486</b>	<b>\$ 568,269</b>	<b>\$ 14,831,746</b>		
<b>Net position:</b>							
Net investment in capital assets						32,590,517	32,590,517
Restricted for special programs						3,556,892	3,556,892
Unrestricted (deficit)						(84,242,184)	(84,242,184)
<b>Total net position (deficit)</b>						<b>(48,094,775)</b>	<b>(48,094,775)</b>
<b>Total liabilities and net position</b>						<b>\$ 32,590,517</b>	<b>\$ 47,422,263</b>

**The Police Department of Kansas City, Missouri**

A Component Unit of the City of Kansas City, Missouri  
Reconciliation of the Statement of Net Position with  
Governmental Funds Balance Sheet  
April 30, 2017

Total fund balances - governmental funds \$ 4,080,768

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$99,265,526, and the accumulated depreciation is \$66,675,008 32,590,517

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.

Compensated absences (42,829,560)  
Net OPEB obligation (32,901,903)  
Claims payable (11,538,000)

Revenues that are deferred in the governmental funds due to not receiving cash within 60 days are recognized in the statement of net position. 2,503,403

Total net position (deficit) \$ (48,094,775)

**The Police Department of Kansas City, Missouri**

A Component Unit of the City of Kansas City, Missouri  
 Governmental Funds Revenues, Expenditures, and  
 Changes in Fund Balances and Statement of Activities  
 For the year ended April 30, 2017

	<u>General Fund</u>	<u>Federal Seizure &amp; Forfeiture</u>	<u>Federal and State Grants</u>	<u>Other Funds</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
<b>Revenues:</b>							
Revenues received from City of Kansas City, Missouri	\$ 209,121,524	\$ -	\$ -	\$ 9,388,942	\$ 218,510,466	\$ 32,112,153	\$ 250,622,619
Operating grants	56,807	-	5,730,994	-	5,787,801	-	5,787,801
Capital grants	-	-	-	-	-	43,800	43,800
Other intergovernmental	141,371	-	39,590	2,670,064	2,851,025	969,953	3,820,978
Charges for services	2,673,011	966,278	-	-	3,639,289	-	3,639,289
Interest	16,930	4,753	-	-	21,683	-	21,683
Other	493,023	-	-	-	493,023	-	493,023
<b>Total revenues</b>	<u>212,502,666</u>	<u>971,031</u>	<u>5,770,584</u>	<u>12,059,006</u>	<u>231,303,287</u>	<u>33,125,906</u>	<u>264,429,193</u>
<b>Expenditures/expenses:</b>							
<b>Public safety - police:</b>							
<b>Current:</b>							
Personal services	192,451,628	-	4,306,529	1,956,729	198,714,886	34,802,333	233,517,219
Contractual services	15,430,568	1,904	1,374,514	936,821	17,743,807	(3,814,779)	13,929,028
Commodities	4,094,262	-	72,461	168,132	4,334,855	(171,125)	4,163,730
Depreciation	-	-	-	-	-	8,754,141	8,754,141
Capital outlay	665,473	680,593	258,693	8,947,485	10,552,244	(5,535,952)	5,016,292
<b>Total expenditures/expenses</b>	<u>212,641,931</u>	<u>682,497</u>	<u>6,012,197</u>	<u>12,009,167</u>	<u>231,345,792</u>	<u>34,034,618</u>	<u>265,380,410</u>
<b>Excess (deficiency) of revenues over expenditures/expenses</b>	<u>(139,265)</u>	<u>288,534</u>	<u>(241,613)</u>	<u>49,839</u>	<u>(42,505)</u>	<u>(908,712)</u>	<u>(951,217)</u>
<b>Other financing sources (uses):</b>							
Disposal of capital assets	45,148	1,500	-	-	46,648	(73,902)	(27,254)
Transfers - internal activities	(239,138)	(2,475)	241,613	-	-	-	-
<b>Total other financing sources and uses</b>	<u>(193,990)</u>	<u>(975)</u>	<u>241,613</u>	<u>-</u>	<u>46,648</u>	<u>(73,902)</u>	<u>(27,254)</u>
<b>Change in fund balances/ net position</b>	<u>(333,255)</u>	<u>287,559</u>	<u>-</u>	<u>49,839</u>	<u>4,143</u>	<u>(982,614)</u>	<u>(978,471)</u>
<b>Fund balances/net position:</b>							
Beginning of year	2,572,780	1,365,868	-	137,977	4,076,625	(51,192,929)	(47,116,304)
<b>End of year</b>	<u>\$ 2,239,525</u>	<u>\$ 1,653,427</u>	<u>\$ -</u>	<u>\$ 187,816</u>	<u>\$ 4,080,768</u>	<u>\$ (52,175,543)</u>	<u>\$ (48,094,775)</u>

See Notes to Basic Financial Statements

**The Police Department of Kansas City, Missouri**

A Component Unit of the City of Kansas City, Missouri  
 Reconciliation of the Governmental Funds Revenues,  
 Expenditures, and Changes in Fund Balances  
 with the Statement of Activities  
 For the year ended April 30, 2017

Net change in fund balances - total governmental funds	\$	4,143
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
Capital grant revenue consisted of capital assets donated by grantors		43,800
Revenues that are deferred in the governmental funds due to not receiving cash within 60 days are recognized as revenue in the statement of activities.		969,953
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital expenditures (\$9,627,334) exceeded depreciation (\$8,754,141), and aircraft parts that were installed (\$41,522) in the current period.		914,715
Governmental funds report the actual pension contributions. In the statement of activities, under a special funding situation, the total pension expense and related on behalf pension contributions from the City are reported.		
Pension contribution from City		32,112,153
Pension expense		(32,112,153)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This is the amount by which liabilities changed in the current period.		
Compensated absences		718,382
Net OPEB obligation		(3,408,562)
Claims payable		(147,000)
In the statement of activities, only the gain from disposal of assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the cost of assets sold.		(73,902)
Change in net position in governmental activities	<u>\$</u>	<u>(978,471)</u>

**The Police Department of Kansas City, Missouri**

A Component Unit of the City of Kansas City, Missouri  
Statement of Assets and Liabilities - Fiduciary Funds - Agency  
April 30, 2017

	<u>Agency Funds</u>
<b>Assets</b>	
Cash and short-term investments	\$ 2,890,803
Receivables:	
Accounts	1,072
Interest	606
Total assets	<u>\$ 2,892,481</u>
<b>Liabilities</b>	
Advance from other funds	\$ 4,000
Other accrued liabilities	2,888,481
Total liabilities	<u>\$ 2,892,481</u>

See Notes to Basic Financial Statements

# The Police Department of Kansas City, Missouri

A Component Unit of the City of Kansas City, Missouri

Notes to Basic Financial Statements

April 30, 2017

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

### ***Organization and Nature of Operations***

The Police Department of Kansas City, Missouri (the Department) is regulated under the Missouri Revised Statutes. The Department operates under the direction of the Board of Police Commissioners of the City of Kansas City, Missouri (the Board). Members are appointed by the Governor of the State of Missouri. The Mayor of the City of Kansas City, Missouri (the City) is an ex-officio member of the Board. The Department is responsible for protecting and serving the citizens of the City. The Department receives the majority of its revenues from the City. The Department is considered to be and reported as a component unit of the City.

### ***Reporting Entity***

In evaluating how to define the Department for financial reporting purposes, management has considered all potential component units for which financial accountability may exist. The determination of financial accountability includes consideration of a number of criteria, including: (1) the Department's ability to appoint a voting majority of another entity's governing body and to impose its will on that entity, (2) the potential for that entity to provide specific financial benefits to or impose specific financial burdens on the Department and (3) the entity's fiscal dependency on the Department. Based on these criteria, there are no component units.

### ***Accounting Method, Management Focus, Basis of Accounting and Accounting and Financial Statement Presentation***

#### Fund Accounting

The accounts of the Department are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts, which comprise its assets, liabilities, fund equity, revenues and expenditures or expenses.

#### Government-wide and Fund Financial Statements

The Department's basic financial statements consist of government-wide financial statements and governmental and fiduciary fund financial statements and notes. The government-wide financial statements report information on all the non-fiduciary activities of the Department.

The government-wide financial statements are presented on an economic resources measurement focus and the accrual basis of accounting. Accordingly, all of the Department's assets and liabilities, including capital assets as well as long-term liabilities, are included in the statement of net position. The statement of activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues and receivables are recognized when measurable and available for payment of current liabilities. The Department considers revenues to be available if they are anticipated to be collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred.

# The Police Department of Kansas City, Missouri

A Component Unit of the City of Kansas City, Missouri

Notes to Basic Financial Statements

April 30, 2017

The Department records transactions during the year on the basis of cash receipts and disbursements. At year-end, entries are recorded for financial reporting purposes to reflect the modified accrual basis of accounting for Governmental Funds. Certain revenues are recorded when cash is received because they are generally not measurable until actually received. Interest is recorded when earned since it is measurable and available. Certain grant revenues are recorded to the extent eligible expenditures have been incurred.

Major individual governmental funds are reported as separate columns in the fund financial statements. Non-major funds are aggregated and presented in a single column. The types of funds maintained by the Department are as follows:

## **Governmental Fund Types**

- *General Fund* – Used to account for all financial transactions that are a part of the Department's annual operating budget and are primarily funded through receipts received from the City.
- *Federal Seizure and Forfeiture* - This fund accounts for monetary instruments and other property submitted through the U.S. Department of Justice or U.S. Department of Treasury for forfeiture, either administratively or by means of criminal indictment.
- *Federal and State Grants* – Used to account for various grant revenues received from the federal government and the State of Missouri.
- *Special Revenue Funds* – Used to account for the proceeds of specific revenue sources that are restricted by law or administrative action to expenditures for specified purposes. The primary sources of revenue are the City, Jackson County, grants and charges for services.

## **Fiduciary Fund Types**

- *Agency Funds* – Used to account for assets held by the Department as trustee or agent for others. Agency Funds are custodial in nature and do not involve the measurement of results of operations.

## **Inventory**

At year-end, physical counts are made of significant inventory. Inventory valuation methods vary by element. Fleet Operations and Communication Support use weighted average, Supply uses first-in first-out (FIFO).

## **Short-Term Investments**

Investments consisting of U.S. treasury bills that have original maturities of three months or less are stated at cost, which approximates fair value.

Investment income consists of interest income. Investment income is assigned to the funds with which the related investment asset is associated.

## The Police Department of Kansas City, Missouri

A Component Unit of the City of Kansas City, Missouri

Notes to Basic Financial Statements

April 30, 2017

### **Capital Assets**

The City provides real property, including land and buildings, to the Department at no cost. As a result, the Department's capital assets consist of policing equipment such as vehicles, furniture, fixtures, communication equipment, computers and software, and aircraft. Capital assets are capitalized at historical cost. Donated capital assets are valued at estimated fair value as of the date received. Major outlays for building improvements to City owned buildings, made with Department internally generated funds, are donated to the City. All capital assets over the capitalization levels are depreciated on a straight-line basis over the following useful lives. The Department's capitalization threshold is five thousand dollars.

	<b>Useful Life/Range</b>
Furniture and equipment	5-10 years
Automotive and light trucks	3 years
Large trucks, RVs, specialized vehicles	10 years
Communications equipment	8 years
Computer hardware	3- 5 years
Computer software	2 years
Lab equipment	10 years
Helicopters	20 years

### **Interfund Activity**

Interfund transfers are reported as other financing sources/uses in governmental funds. On the fund financial statements, the only interfund loans are between the special services fund and various agency funds. Transfers between governmental funds have been eliminated in the government-wide statement of activities.

### **Compensated Absences**

Employees earn sick leave in accordance with Department policy based upon the options described below. Option 2 covers employees hired on or after November 1, 1987. Employees hired prior to November 1, 1987, may choose Option 1 or 2. The policy also provides employees, working for at least one year prior to retirement or termination, payment of a portion of their accumulated sick leave.

	<b>Option 1</b>		<b>Option 2</b>	
	<b>Law</b>	<b>Civilian</b>	<b>Law</b>	<b>Civilian</b>
	<b>Enforcement</b>	<b>Civilian</b>	<b>Enforcement</b>	<b>Civilian</b>
Days earned per year	30	15	18	12
Percent payable upon retirement	25.0%	50.0%	50.0%	50.0%
Percent payable upon termination	12.5%	25.0%	25.0%	25.0%

## The Police Department of Kansas City, Missouri

A Component Unit of the City of Kansas City, Missouri

Notes to Basic Financial Statements

April 30, 2017

Employees earn vacation leave in accordance with the Department's policy. Upon termination or retirement the amount of currently earned and unused vacation time becomes payable to the employee.

The accrued compensated absence liability represents only the vested portion of the earned compensation days. It is calculated using the above percentages and assumptions made by the Department as to whether employees would resign or retire. This assumption is based upon years of service. The current portion of the liability of \$8,085,545 is calculated based upon management's estimate of the amount to be paid during the year ending April 30, 2018.

The following is a summary of changes in the compensated absence liabilities of the Department for the year ending April 30, 2017:

<b>Balance April 30, 2016</b>	<b>Current Year Earned and Changes in Estimates</b>	<b>Payments</b>	<b>Balance, April 30, 2017</b>	<b>Due Within One Year</b>
\$ 44,031,024	\$ 12,709,436	\$ 13,467,160	\$ 43,273,300	\$ 8,085,545

### ***Risk Management***

The Department retains some risk of loss for workers' compensation, general professional, and automobile liability losses. The Missouri State Legal Expense Fund covers some of the costs of judgments resulting from lawsuits against members of the Board or law enforcement officers. These activities are accounted for in the general fund, except for long-term liabilities for obligations for claims and claims incurred but not reported.

### ***Fund Balances/Net Position***

The governmental funds report the following fund balance classifications:

**Non-Spendable** – Legally or contractually required to be maintained. Not in spendable form, including but not limited to prepaid supplies, inventory, and long-term receivables. Such constraint is binding until legal or contractual requirements are repealed or amounts become spendable.

**Restricted** – Externally imposed constraints, including but not limited to grantors, contributors, and constraints by law and regulations. Such constraints are binding unless modified or rescinded by external body, laws, or regulations.

**Committed** – Specific purpose imposed by a formal vote approval by the Board of Police Commissioners. Such constraint is binding unless modified or rescinded by the Board of Police Commissioners.

**Assigned** – Constrained by the express intent of the Board of Police Commissioners, Chief of Police, Deputy Chief of Executive Services Bureau, and/or the Major of the Fiscal Division. Includes all remaining amounts not classified in governmental funds, except the general fund.

**Unassigned** – All amounts not included in other fund balance classifications. The general fund shall be the only fund to report positive unassigned fund balance. All other governmental funds may report negative unassigned fund balance.

## The Police Department of Kansas City, Missouri

A Component Unit of the City of Kansas City, Missouri

Notes to Basic Financial Statements

April 30, 2017

The Department has a fund balance policy that provides guidance for programs with multiple revenue sources. The policy is to use restricted resources first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. For purposes of fund balance classification expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance and lastly unassigned fund balance.

### Net Position Classifications

In the government-wide statements, equity is shown as net position and classified into three components:

**Net investment in capital assets** – consisting of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgage notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

**Restricted net position** – consisting of net position with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation. The Department first utilizes restricted resources to finance qualifying activities.

**Unrestricted net position** – All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

### ***Deferred Outflow and Deferred Inflows of Resources***

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses/expenditure) until then. As of April 30, 2017, the Department does not have any items that qualify as a deferred outflow of resources

In addition to liabilities, the statement of net position and the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position/fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Under the modified accrual basis of accounting, revenues and other fund financial resources are recognized in the period in which they become both measurable and available. The governmental funds reported unavailable intergovernmental revenues.

### ***Budgetary Accounting***

The Department plans disbursements and controls operations through the use of an annual operating budget, which is prepared by Department personnel and approved by the Board and the City Council prior to the beginning of each fiscal year.

The Department is required to legally adopt a budget at the appropriation unit level. However, for management control purposes, the Department follows the practice of budgeting disbursements by account code. Certain disbursements applicable to more than one bureau or division are not allocated among the various groups receiving benefits from these disbursements because they are charged to the group with responsibility for budget control.

# The Police Department of Kansas City, Missouri

A Component Unit of the City of Kansas City, Missouri

Notes to Basic Financial Statements

April 30, 2017

As permitted by Missouri law, it is the Department's practice to transfer the budgeted amounts within the general fund and special revenue funds when disbursements within a particular appropriation unit exceed the amount originally budgeted. These transfers are approved by the Board.

## ***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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most sensitive estimates affecting the Department's financial statements are the automotive and general liability claims payable, estimated useful lives of capital assets, and the actuarial determined valuation of the workers' compensation claims liability and other post-employment benefit obligations. Actual results may differ from those estimates.

## **Note 2: Deposits, Investments and Investment Income**

At April 30, 2017, the carrying values of cash and investment are summarized as follows:

Carrying value:	
Deposits	\$ 2,888,276
Restricted Deposits	1,620,971
Investments	5,195,867
Cash on hand	<u>209,693</u>
	<u>\$ 9,914,807</u>

The carrying values are reflected on the financial statements as follows:

Cash and short-term investments – Governmental Funds	\$ 5,399,876
Restricted deposits – Governmental Funds	1,620,971
Interest receivable – Governmental Funds	2,551
Cash and short-term investments – Agency Funds	2,890,803
Interest receivable – Agency Funds	<u>606</u>
	<u>\$ 9,914,807</u>

## **Deposits**

**Custodial Credit Risk.** Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be recoverable. The Department'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 and other acceptable collateral having an aggregate value at least equal to the amount of the deposits.

At April 30, 2017, none of the Department's bank balances were exposed to custodial credit risk.

## The Police Department of Kansas City, Missouri

A Component Unit of the City of Kansas City, Missouri

Notes to Basic Financial Statements

April 30, 2017

### **Investments**

The Department is authorized to invest in legally permissible investments, as provided by Missouri Statute, which include securities and obligations issued by the United States government, repurchase agreements, collateralized time deposit accounts and certificates of deposits.

At April 30, 2017, the Department had the following investments and maturities:

	<b>Fair Value</b>
U.S. government securities with maturities of 90 days or less	\$ 5,195,867

**Interest Rate Risk.** As a means of limiting its exposure to fair value losses arising from rising interest rates, the Department's investment policy limits its investment portfolio to maturities of 90 days.

**Credit Risk.** Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At April 30, 2017, the Department's investments were all in U.S. government obligations which are not subject to such risks.

**Custodial Credit Risk.** For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Department will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. All of the underlying securities for the Department's investments at April 30, 2017 are held by the third-party custodians in the Department's name.

**Concentration of Credit Risk.** The Department places no limit on the amount that may be invested in any one issuer. At April 30, 2017, the Department's investments were all in U.S. government obligations.

**Fair Value Measurements.** The Department categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted in active markets for identical assets; Level 2 inputs are significant other observable inputs such as third party pricing services for identical assets; Level 3 inputs are significant unobservable inputs. The Department has the following recurring fair value measurements as of April 30, 2017:

	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Investments				
U.S. government securities	\$ 5,195,867	\$ 5,195,867	\$ -	\$ -

U.S. government securities are classified as Level 1 of the fair value hierarchy and are valued using prices quoted in active markets for those securities.

**Restricted Deposit.** Included in deposits are money market funds in the amount of \$1,620,971. These funds are intended to provide additional assurance that the Department will provide funding for excess workers' compensation, if required.

## The Police Department of Kansas City, Missouri

A Component Unit of the City of Kansas City, Missouri

Notes to Basic Financial Statements

April 30, 2017

### Note 3: Changes in Capital Assets

A summary of changes in the Capital Assets for the year ended April 30, 2017 follows:

	<u>Balance</u> <u>April 30, 2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance,</u> <u>April 30, 2017</u>
Police equipment	\$ 91,883,692	\$ 10,041,704	\$ (2,659,870)	\$ 99,265,526
Accumulated depreciation	(60,177,788)	(8,754,141)	2,256,920	(66,675,009)
Net depreciable assets	<u>\$ 31,705,904</u>	<u>\$ 1,287,563</u>	<u>\$ (402,950)</u>	<u>\$ 32,590,517</u>

### Note 4: Risk Management

The Department and certain officers of the Department, the Chief of Police, and/or the members of the Board, in official and individual capacity, have been named as defendants in various legal proceedings as of April 30, 2017. The Department and its legal counsel are vigorously defending these matters. It is the Department's policy to budget for estimated litigation costs. Large litigation disbursements are funded by the General Fund or through supplemental appropriations approved by the City and the Board. According to Missouri State Statute, the Department is entitled to reimbursements of settlements of certain claims up to \$1,000,000 annually based on the State of Missouri fiscal year.

The Department purchases commercial insurance for non-realty property, employee life and health coverage, and civilian employee disability. There have been no significant reductions in insurance coverage. Settlements have not exceeded insurance coverage for these items in any of the past three years.

#### ***Automobile, General Professional, and Workers' Compensation Liabilities***

The Department self-retains the risk of loss for liability and comprehensive damage claims arising from its motor vehicle fleet and general professional liability. The claims are administered by the Department's Office of General Counsel. The Department budgets amounts in the General Fund. Claims paid in excess of the budgeted amounts are paid by the General Fund if sufficient resources exist; otherwise, amounts are paid by the City. Estimates for outstanding liabilities are based upon advice of the Department's Office of General Counsel.

The Department also retains the risk of loss for workers' compensation claims. The Department has purchased a specific excess insurance policy that covers workers' compensation claims for each accident in excess of \$1,000,000 up to \$500,000 per individual claim. The claims are administered by a third party administrator. The Department has recorded an estimated liability for claims based upon an actuarial study.

The Department expects to pay certain claims within the next year using expendable available resources. Accordingly, the Department recorded a liability for these claims of \$1,698,113 in the General Fund as of April 30, 2017. Remaining estimated claims of \$11,538,000 have been reported as a long-term obligation of the Department.

**The Police Department of Kansas City, Missouri**  
A Component Unit of the City of Kansas City, Missouri  
Notes to Basic Financial Statements  
April 30, 2017

The following is a summary of changes in risk management liabilities of the Department:

	<u>Automobile Liability</u>	<u>General Professional</u>	<u>Workers' Compensation</u>	<u>Total</u>
Balance, April 30, 2015	\$ 1,010,941	\$ 2,100,000	\$ 8,096,000	\$ 11,206,941
Claims payments	(627,092)	(1,558,009)	(1,976,318)	(4,161,419)
Claims and changes in estimates	<u>397,764</u>	<u>1,758,009</u>	<u>3,331,318</u>	<u>5,487,091</u>
Balance, April 30, 2016	<u>781,613</u>	<u>2,300,000</u>	<u>9,451,000</u>	<u>12,532,613</u>
Claims payments	(213,453)	(794,114)	(2,530,723)	(3,538,290)
Claims and changes in estimates	<u>529,953</u>	<u>744,114</u>	<u>2,967,723</u>	<u>4,241,790</u>
Balance, April 30, 2017	<u>\$ 1,098,113</u>	<u>\$ 2,250,000</u>	<u>\$ 9,888,000</u>	<u>\$ 13,236,113</u>

**Note 5: Federal and State Grant Funds**

Various special grant projects utilize the specialized talents of certain Department personnel. In these instances, time records are maintained and the Department is reimbursed by the federal and state grant funds for the cost of these employees' time. The amount of annual salary reimbursements received by the Department is contingent upon the numbers and types of special grants awarded to the Department each year.

The Department has received financial assistance from various federal and state agencies in the form of grants and entitlements. These programs are subject to audit by agents of the granting authority. Management does not believe that liabilities for reimbursements, if any, will have a materially adverse effect upon the financial condition of the Department.

**Note 6: Commitments and Contingencies**

**Leases**

The Department rents various vehicles, copiers, software, and office facilities under cancelable operating leases. Rent expenditures for the year ended April 30, 2017 was \$1,107,003. As of April 30, 2017, minimum future rental payments required under these leases for subsequent fiscal years were:

2018	\$ 1,055,509
2019	838,704
2020	846,378
2021	461,185
2022	115,782
	<u>\$ 3,317,558</u>

# The Police Department of Kansas City, Missouri

A Component Unit of the City of Kansas City, Missouri

Notes to Basic Financial Statements

April 30, 2017

## **Other Commitments**

The Department has contractual and purchase order commitments relating to various commodities, contractual services, and capital outlay totaling \$5,318,893 as of April 30, 2017. These contractual and purchase order commitments will be liquidated during 2018.

## **Litigation**

The State of Missouri (State) has filed a suit and the Department has filed a counter suit related to certain legal fees charged by the State to the Department. The amount in dispute was approximately \$1,170,000 at April 30, 2017.

On June 27, 2016, the Circuit Court of Jackson County, Missouri entered a judgement against the Department in the above suit. The judgement includes a decision that the Department owes an amount to the State for legal fees. Also on October 7, 2016 the Circuit Court entered a judgement finding that the attorney fee rate of \$125 per hour charged by the state was a reasonable charge. The Department is in the process of appealing both judgements. Management believes that amounts, if any, that might be determined to be due to the state, would not have a material effect on the Department's financial position.

## **Note 7: Interfund Activity**

### **Due to/from Other Funds**

A summary of interfund obligations at April 30, 2017 is shown below:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
<b>Governmental Funds</b>		
General Fund	\$ 4,000	\$ -
<b>Fiduciary Funds</b>		
Misdemeanor Bond	-	3,000
Dental Program	-	1,000
Total	<u>\$ 4,000</u>	<u>\$ 4,000</u>

**The Police Department of Kansas City, Missouri**

A Component Unit of the City of Kansas City, Missouri

Notes to Basic Financial Statements

April 30, 2017

***Interfund Transfers***

Transfers are substantially for the purposes of subsidizing operating functions such as grant matches and self-insurance.

The Department had the following types of transfers among funds for the year ended April 30, 2017:

<u>Transfers from</u>	<u>Transfers to</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Federal and State Grants Fund	Grant Match	\$ 239,138
Federal Seizure and Forfeiture Fund	Federal and State Grants Fund	Grant Match	<u>2,475</u>
			<u>\$ 241,613</u>

**Note 8: Employee Benefit Commitments**

***Payments Made on Behalf of the Department***

During the year ended April 30, 2017, the City's contribution for the Department's FICA for law enforcement and civilian personnel was \$3,603,684 and is included as an expenditure/expense in the accompanying financial statements.

***Defined Benefit Pension Plans***

The employer contributions for the Department, as established by Missouri Statute are funded by the City. Therefore, the Department is considered to be in a special funding situation as defined by Governmental Accounting Standards Board (GASB) Statement No. 68.

The City is treated as a non-employer contributing entity to the Police Retirement System and the Civilian Employees' Retirement System and is required to recognize its proportionate share of the net pension liability, deferred outflows of resources, deferred inflow of resources, and expense for the pension plans related to the Department. At April 30, 2017 the proportionate share (100%) of the net pension liability recognized by the City totaled \$487,908,633 (Police Retirement System \$429,829,252 and Civilian Employees' Retirement System \$58,079,381, respectively).

Since the Department does not contribute directly to the pension plans there is no net pension liability or deferred inflows or outflows to report in the Department's Governmental Funds Balance Sheet and Statement of Net Position or the Department's Governmental Funds Revenues, Expenditures, and Changes in Fund Balances and Statement of Activities.

Total pension expense for the year ended April 30, 2017 was \$68,134,440 (Police Retirement System \$59,075,516 and Civilian Employees' Retirement System \$9,058,924, respectively). Since the City is required to make 100% of the contributions, the Department has recorded the pension expense as both revenues and expenses/expenditures. Accordingly, a net reconciling adjustment of \$32,112,153 was necessary to reconcile the Governmental Fund Revenues, Expenditures, and Changes in Fund Balances with the Statement of Activities and the total pension expense of \$68,134,440.

## **The Police Department of Kansas City, Missouri**

A Component Unit of the City of Kansas City, Missouri

Notes to Basic Financial Statements

April 30, 2017

Information about the plans are as follows:

### ***Police Retirement System of Kansas City, Missouri***

#### Plan Description

The Department's law enforcement personnel participate in a single employer defined benefit retirement plan that was created by Missouri Statute. The retirement plan is managed by the Retirement Board, a separate independent board from that of the Department. Employer contributions are made directly by the City, as Missouri Statute requires the City to transfer the contribution directly to the retirement plan, but are included in the Department's budget. Thus, the Department does not exercise control over the retirement plan, nor is the plan dependent on the Department for funding. The pension plan issues a stand-alone financial report that may be obtained at [www.kcpers.org](http://www.kcpers.org).

#### Benefits Provided

The benefits are established in Missouri Revised Statutes 86.900 to 86.1280 and can only be amended by the Missouri General Assembly. The benefits include retirement, disability, and death benefits for all Department law enforcement personnel. Retirement is at age 60 with 10 years of service or 25 years of service regardless of age for Tier 1 members and age 60 with 15 years of service or 27 years of service regardless of age for Tier 2 members (became members on/after August 28, 2013). Benefits for Tier 1 members are calculated using their average annual compensation for the two highest years of service during their career, multiplied by the total years of service and a formula factor of 2.50 percent subject to a maximum benefit of 80% of Final Compensation and are payable as a joint and 80% survivor annuity. Benefits for Tier 2 members are the same as Tier 1 members except the average annual compensation is based on their average annual compensation for the three highest years of service during their career and benefits are paid as a joint and 50% survivor annuity. Benefits vest after 15 years of service.

Under state statute, the Retirement Board has the authority to provide post-retirement benefit adjustments, referred to as ad hoc cost of living adjustments (ad hoc COLAs). Based on the Board's policy, an ad hoc cost of living adjustment may be granted if the definition of "actuarially sound," which requires at least one of the three following conditions, is met based on the results of the annual actuarial funding valuation:

- The plan's funded ratio (actuarial value of assets/actuarial accrued liability), rounded to the nearest whole percentage, is 75% or greater.
- For each of the three most recently completed plan years, the plan has received a combination of City and employee contributions that in total are, rounded to the nearest whole percentage, 90% or greater of the plan's total actuarial required contributions.
- For at least three out of the last five completed plan years, the plan has received City contributions that equal or exceed the plan's actuarially required contribution amount.

## The Police Department of Kansas City, Missouri

A Component Unit of the City of Kansas City, Missouri

Notes to Basic Financial Statements

April 30, 2017

### Employees Covered by Benefit Terms

As of the measurement date of April 30, 2016, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	1,252
Inactive employees entitled to but no yet receiving benefits	20
Active employees	1,397
	<u>2,669</u>

### Contributions

Contribution provisions are established by the Revised Statutes of Missouri. Employee contribution rates are determined by the Retirement Board. The employee contribution rates during the year ended April 30, 2017 was 11.55% of each participant's annual base earnings without consideration for overtime or other incentive pay amounts. A Missouri Statute requires the City to contribute such amounts as necessary to meet the actuarially determined annual required contribution plus two hundred dollars per month for every member entitled to receive a supplemental benefit. For the fiscal year ending April 30, 2016 (measurement date) the pension plan received \$30,272,063 in contributions from the City.

### Net Pension Liability

The net pension liability was measured as of April 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of April 30, 2015, which was rolled forward to April 30, 2016.

### Actuarial Assumptions

The total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Price inflation	3.0%
Wage inflation	3.75%
Salary increases, including wage inflation	3.75 to 8.75%
Long-term rate of return, net of investment expense, including price inflation	7.50%
Municipal bond index rate	3.30%
Year Fiduciary Net Position is projected to be depleted	2067
Single Equivalent Interest Rate, net of investment expense, including price inflation	6.97%
Post-retirement benefit increases	Simple COLA of 2.5% per year

Pre-retirement mortality rates were based on the RP-2000 Employee Table using Scale AA generational projections to model future mortality improvement.

Post-retirement mortality rates were based on the RP-2000 Healthy Annuitant Table using Scale AA generational projections to model future mortality improvement.

## The Police Department of Kansas City, Missouri

A Component Unit of the City of Kansas City, Missouri

Notes to Basic Financial Statements

April 30, 2017

Disability mortality rates were based on the RP-2000 Healthy Annuitant Table with a 5-year age set-forward using Scale AA generational projections to model future mortality improvement.

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, 2012. The experience study report is dated October 3, 2013.

### Discount Rate

The discount rate used to measure the total pension liability as of the measurement date was 6.97%. 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. On that basis, the pension plans fiduciary net position was projected to be depleted in 2067 and, as a result, the Municipal Bond Index Rate was used in the determination of the Single Equivalent Interest Rate (SEIR). The long-term expected rate of return of 7.50% on plan investments was applied to periods before 2067 and the Municipal Bond Index Rate of 3.30% was applied to periods on and after 2067, resulting in an SEIR of 6.97%. There was a change in the Municipal Bond Index Rate from the Prior Measurement Date (3.51%) to the Measurement Date (3.30%), as well as a change in the projected depletion date of the FNP. This resulted in a decrease in the SEIR from 7.25% in the prior year to 6.97%.

The long-term expected rate of return on pension plan investments is reviewed as part of regular experience studies prepared for the pension plan about every five years. The results of the most recent experience study were presented in a report dated October 3, 2013. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and an analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation), along with estimates of variability and correlations for each asset class, were developed by the pension plan's investment consultant. These ranges were combined to develop the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption (30 to 50 years) and is not expected to change absent a significant change in the asset allocation, a change in the underlying inflation assumption, or a fundamental change in the market that alters expected returns in future years. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class is summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	35.00%	5.40%
Intermediate Duration Fixed Income	30.00%	1.00%
Real Return	5.00%	3.00%
Core Real Estate	10.00%	4.00%
Diversified Hedge Funds	10.50%	4.00%
Global Tactical Asset Allocation	4.50%	4.00%
Private Equity	5.00%	7.75%
Total	<u>100.00%</u>	

Projected future benefit payments for all current plan members were projected through 2114.

## The Police Department of Kansas City, Missouri

A Component Unit of the City of Kansas City, Missouri

Notes to Basic Financial Statements

April 30, 2017

### Sensitivity of the Net Pension Liability to Changes in Discount Rate

The following presents the Net Pension Liability of the City, calculated using the discount rate of 6.97%, as well as what the City's Net Pension Liability would be using a discount rate that is one percentage point lower (5.97%) or one percentage point higher (7.97%) than the current rate.

	1% Decrease 5.97%	Current Single Discount Rate Assumption 6.97%	1% Increase 7.97%
Net Pension Liability	\$ 594,737,741	\$ 429,829,252	\$ 294,476,425

### Change in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
	Balances at beginning of year	\$ 1,125,373,861	\$ 793,880,318
Changes for the year:			
Service cost	27,423,797	-	27,423,797
Interest	79,502,922	-	79,502,922
Differences between expected and actual experience	(11,656,885)	-	(11,656,885)
Assumption/SEIR changes	40,565,354	-	40,565,354
Contributions - non-employer	-	30,272,063	(30,272,063)
Contributions - employee	-	10,748,236	(10,748,236)
Net investment income	-	(2,959,229)	2,959,229
Benefit payments, including refunds	(58,588,761)	(58,588,761)	-
Administrative expense	-	(561,591)	561,591
Net changes	77,246,427	(21,089,282)	98,335,709
Balances at end of year	\$ 1,202,620,288	\$ 772,791,036	\$ 429,829,252

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

#### Plan Description

The Department's civilian employees personnel participate in a single employer defined benefit retirement plan that was created by Missouri Statute. The retirement plan is managed by the Retirement Board, a separate independent board from that of the Department. Employer contributions are made directly by the City, as Missouri Statute requires the City to transfer the contribution directly to the retirement plan, but are included in the Department's budget. Thus, the Department does not exercise control over the retirement plan, nor is the plan dependent on the Department for funding. The pension plan issues a stand-alone financial report that may be obtained at [www.kcpers.org](http://www.kcpers.org).

# The Police Department of Kansas City, Missouri

A Component Unit of the City of Kansas City, Missouri

Notes to Basic Financial Statements

April 30, 2017

## Benefits Provided

The benefits are established in Missouri Revised Statutes 86.1310 to 86.1640 and can only be amended by the Missouri General Assembly. The benefits include retirement, disability, and death benefits for all Department law enforcement personnel. Retirement is at age 65 with 10 years of service for Tier 1 members and age 67 with 20 years of service for Tier 2 members (became members on/after August 28, 2013). Benefits for Tier 1 members are calculated using their average annual compensation for the two highest years of service during their career, multiplied by the total years of service and a formula factor of 2.00 percent. Benefits for Tier 2 members are the same as Tier 1 members except the average annual compensation is based on their average annual compensation for the three highest years of service during their career. The calculated amount is reduced for early retirement. Benefits vest after 5 years of service.

Under state statute, the Retirement Board has the authority to provide post-retirement benefit adjustments, referred to as ad hoc cost of living adjustments (ad hoc COLAs). Based on the Board's policy, an ad hoc cost of living adjustment may be granted if the definition of "actuarially sound," which requires at least one of the three following conditions, is met based on the results of the annual actuarial funding valuation:

- The plan's funded ratio (actuarial value of assets/actuarial accrued liability), rounded to the nearest whole percentage, is 75% or greater.
- For each of the three most recently completed plan years, the plan has received a combination of City and employee contributions that in total are, rounded to the nearest whole percentage, 90% or greater of the plan's total actuarial required contributions.
- For at least three out of the last five completed plan years, the plan has received City contributions that equal or exceed the plan's actuarially required contribution amount.

## Employees Covered by Benefit Terms

As of the measurement date of April 30, 2016, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	235
Inactive employees entitled to but no yet receiving benefits	27
Active employees	551
	<hr/>
	813
	<hr/>

## Contributions

Contribution provisions are established by the Revised Statutes of Missouri. Employee contribution rates are determined by the Retirement Board. The employee contribution rates during the year ended April 30, 2017 was 5.0% of each participant's annual base earnings without consideration for overtime or other incentive pay amounts. A Missouri Statute requires the City to contribute such amounts as necessary to meet the actuarially determined annual required contribution. For the fiscal year ending April 30, 2016 (measurement date) the pension plan received \$5,048,167 in contributions from the City.

## The Police Department of Kansas City, Missouri

A Component Unit of the City of Kansas City, Missouri

Notes to Basic Financial Statements

April 30, 2017

### Net Pension Liability

The net pension liability was measured as of April 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of April 30, 2015, which was rolled forward to April 30, 2016.

### Actuarial Assumptions

The total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Price inflation	3.0%
Wage inflation	3.75%
Salary increases, including wage inflation	3.75 to 7.75%
Long-term rate of return, net of investment expense, including price inflation	7.50%
Municipal bond index rate	3.30%
Year Fiduciary Net Position is projected to be depleted	2070
Single Equivalent Interest Rate, net of investment expense, including price inflation	7.08%
Post-retirement benefit increases	Simple COLA of 2.5% per year

Pre-retirement mortality rates were based on the RP-2000 Employee Table with a 1-year age set-forward using Scale AA generational projections to model future mortality improvement.

Post-retirement mortality rates were based on the RP-2000 Healthy Annuitant Table with a 1-year age set-forward using Scale AA generational projections to model future mortality improvement.

Disability mortality rates were based on the RP-2000 Healthy Annuitant Table with a 5-year age set-forward using Scale AA generational projections to model future mortality improvement.

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, 2012. The experience study report is dated October 3, 2013.

### Discount Rate

The discount rate used to measure the total pension liability as of the measurement date was 7.08%. 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. On that basis, the pension plans fiduciary net position (FNP) was projected to be depleted in 2070 and, as a result, the Municipal Bond Index Rate was used in the determination of the Single Equivalent Interest Rate (SEIR). The long-term expected rate of return of 7.50% on plan investments was applied to periods before 2070 and the Municipal Bond Index Rate of 3.30% was applied to periods on and after 2070, resulting in an SEIR of 7.08%. There was a change in the Municipal Bond Index Rate from the Prior Measurement Date (3.51%) to the Measurement Date (3.30%), as well as a change in the projected depletion date of the FNP. This resulted in a decrease in the SEIR from 7.23% in the prior year to 7.08%.

## The Police Department of Kansas City, Missouri

A Component Unit of the City of Kansas City, Missouri

Notes to Basic Financial Statements

April 30, 2017

The long-term expected rate of return on pension plan investments is reviewed as part of regular experience studies prepared for the pension plan about every five years. The results of the most recent experience study were presented in a report dated October 3, 2013. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and an analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation), along with estimates of variability and correlations for each asset class, were developed by the pension plan's investment consultant. These ranges were combined to develop the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption (30 to 50 years) and is not expected to change absent a significant change in the asset allocation, a change in the underlying inflation assumption, or a fundamental change in the market that alters expected returns in future years. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class is summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	35.00%	5.40%
Intermediate Duration Fixed Income	30.00%	1.00%
Real Return	5.00%	3.00%
Core Real Estate	10.00%	4.00%
Diversified Hedge Funds	10.50%	4.00%
Global Tactical Asset Allocation	4.50%	4.00%
Private Equity	5.00%	7.75%
Total	100.00%	

Projected future benefit payments for all current plan members were projected through 2114.

### Sensitivity of the Net Pension Liability to Changes in Discount Rate

The following presents the Net Pension Liability of the City, calculated using the discount rate of 7.08%, as well as what the City's Net Pension Liability would be using a discount rate that is one percentage point lower (6.08%) or one percentage point higher (8.08%) than the current rate.

	1% Decrease 6.08%	Current Single Discount Rate Assumption 7.08%	1% Increase 8.08%
Net Pension Liability	\$ 82,974,549	\$ 58,079,381	\$ 37,372,681

## The Police Department of Kansas City, Missouri

A Component Unit of the City of Kansas City, Missouri

Notes to Basic Financial Statements

April 30, 2017

### Change in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balances at beginning of year	\$ 169,732,772	\$ 123,941,108	\$ 45,791,664
Changes for the year:			
Service cost	4,630,006	-	4,630,006
Interest	12,015,197	-	12,015,197
Differences between expected and actual experience	(2,293,671)	-	(2,293,671)
Assumption/SEIR changes	3,350,712	-	3,350,712
Contributions - non-employer	-	5,048,167	(5,048,167)
Contributions - employee	-	1,287,388	(1,287,388)
Net investment income	-	(794,104)	794,104
Benefit payments, including refunds	(7,220,946)	(7,220,946)	-
Administrative expense	-	(126,924)	126,924
Net changes	10,481,298	(1,806,419)	12,287,717
Balances at end of year	\$ 180,214,070	\$ 122,134,689	\$ 58,079,381

### ***Post-Employment Benefits Other than Pensions***

#### Plan Description

The Board sponsors a single-employer, defined benefit healthcare plan that provides healthcare benefits to Department retirees and their dependents, including medical and pharmacy coverage. Participants include police and civilian members of the Department.

Retirees (including any elected coverage for spouses and dependents) are eligible for the same benefits as active employees. Retiree coverage terminates either when the retiree becomes covered under another employer health plan, when the retiree elects to participate in Medicare, or dies. Retirees have the option of utilizing the Department's healthcare plan as secondary coverage to Medicare benefits. Additionally, retirees have a one-time option, before the age of 65, to rejoin the plan should they ever terminate coverage.

Under Governmental Accounting Standards Board Statement (GASB) No. 45, the difference between the premium rate charged to retirees and the estimated rate that would be applicable to those retirees if acquired for them as a separate group is an implicit rate subsidy, which is considered an other post-employment benefits (OPEB) under the standard.

## The Police Department of Kansas City, Missouri

A Component Unit of the City of Kansas City, Missouri

Notes to Basic Financial Statements

April 30, 2017

### Annual OPEB Cost and Net OPEB Obligation

The Board's annual OPEB cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize the unfunded actuarial liability over a period not to exceed thirty years. The following table shows the components of the Board's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Board's net OPEB obligation.

Normal Cost	\$ 2,246,001
Amortization of unfunded actuarial accrued liability	<u>2,475,397</u>
Annual required contribution (ARC)	4,721,398
Interest on net OPEB obligation	1,327,200
Adjustment to annual required contribution	<u>(1,771,085)</u>
Annual OPEB cost	4,277,513
Contributions made:	
Net employer contributions	<u>868,951</u>
Change in net OPEB obligation	3,408,562
Net OPEB obligation, April 30, 2016	<u>29,493,341</u>
Net OPEB obligation, April 30, 2017	<u><u>\$ 32,901,903</u></u>

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Annual OPEB Cost Contributed	Net OPEB Obligation
April 30, 2015	\$ 5,184,740	21.54%	\$ 25,454,904
April 30, 2016	5,232,570	22.82%	29,493,341
April 30, 2017	4,277,513	20.31%	32,901,903

### Funded Status and Funding Progress

GASB Statement 45 does not require funding of an OPEB liability and, at this time, the liability is unfunded. Contributions are made to the plan on a pay-as-you-go basis.

## The Police Department of Kansas City, Missouri

A Component Unit of the City of Kansas City, Missouri

Notes to Basic Financial Statements

April 30, 2017

As of April 30, 2016, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$41,222,046, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$41,422,046. The covered payroll (annual payroll of active employees covered by the plan) was \$118.7 million, and the ratio of UAAL to the covered payroll was 35 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funding status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the basic financial statements, presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

### Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarially determined amounts, consistent with the long-term perspective of the calculations.

In the April 30, 2016, actuarial valuation, the individual entry age actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return. An annual healthcare cost trend rate, reduced by decrements to an ultimate rate of 4.85 percent after thirteen years. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at April 30, 2016, was thirty years.

### **Note 9: Pending Governmental Accounting Standards Board (GASB) Statements**

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, improves the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. The Department is required to implement GASB Statement No. 73 beginning with the year ending April 30, 2018.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes financial reporting standards for state and local governmental OPEB plans that are administered through trusts or equivalent arrangements and for governments that hold assets accumulated for purposes of providing OPEB through defined benefit OPEB plans that are not administered through a trust or equivalent arrangement. The Department is required to implement GASB Statement No. 74 beginning with the year ending April 30, 2018.

## The Police Department of Kansas City, Missouri

A Component Unit of the City of Kansas City, Missouri

Notes to Basic Financial Statements

April 30, 2017

GASB Statement No. 75, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions* and requires governments to report a liability on the face of the financial statements for the OPEB that they provide. Statement No. 75 requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements. The Department is required to implement GASB Statement No. 75 beginning with the year ending April 30, 2019.

GASB Statement No. 80, *Blending Requirements for Certain Component Units*, amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The Department is required to implement GASB Statement No. 80 beginning with the year ending April 30, 2018.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The Department is required to implement GASB Statement No. 81 beginning with the year ending April 30, 2018.

GASB Statement No. 82, *Pension Issues – an Amendment of GASB Statements No. 67, No. 68, and No. 73*, addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The Department is required to implement GASB Statement No. 82 beginning with the year ending April 30, 2019.

GASB Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations. The Department is required to implement GASB Statement No. 83 beginning with the year ending April 30, 2020.

GASB Statement No. 84, *Fiduciary Activities*, improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The Department is required to implement GASB Statement No. 84 beginning with the year ending April 30, 2020.

GASB Statement No. 85, *Omnibus 2017*, addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The Department is required to implement GASB Statement No. 85 beginning with the year ending April 30, 2019.

## **The Police Department of Kansas City, Missouri**

A Component Unit of the City of Kansas City, Missouri

Notes to Basic Financial Statements

April 30, 2017

GASB Statement No.86, *Certain Debt Extinguishment Issues*, improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources-resources other than the proceeds of refunding debt-are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The Department is required to implement GASB Statement No. 86 beginning with the year ending April 30, 2019.

The Department has not completed its assessment of the impact of the adoption of these statements.

### **Note 10: Subsequent Events**

The Department has evaluated subsequent events through June 23, 2017, the date the financial statements were available to be issued. No events were identified that required adjustment to or disclosure in the financial statements.

## The Police Department of Kansas City, Missouri

### A Component Unit of the City of Kansas City, Missouri Schedule of Share of Collective Net Pension Liability

<b>Police Retirement System</b>	<u><b>2017*</b></u>	<u><b>2016*</b></u>	<u><b>2015*</b></u>
Total pension liability	\$ 1,202,620,288	\$ 1,125,373,861	\$ 1,062,680,857
Plan fiduciary net position	<u>772,791,036</u>	<u>793,880,318</u>	<u>763,076,453</u>
Collective net pension liability	<u><u>\$ 429,829,252</u></u>	<u><u>\$ 331,493,543</u></u>	<u><u>\$ 299,604,404</u></u>
City's total proportionate share of the collective net pension liability	<u><u>\$ 429,829,252</u></u>	<u><u>\$ 331,493,543</u></u>	<u><u>\$ 299,604,404</u></u>
Department's proportionate share of the collective net pension liability	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
Department's covered payroll	\$ 91,951,939	\$ 91,749,770	\$ 89,320,031
Department's proportionate share of the collective net pension liability as a percentage of its covered-employee payroll	0%	0%	0%
Plan fiduciary net position as a percentage of the total pension liability	64.26%	70.54%	71.81%
<b>Civilian Employees' Retirement System</b>	<u><b>2017*</b></u>	<u><b>2016*</b></u>	<u><b>2015*</b></u>
Total pension liability	\$ 180,214,070	\$ 169,732,772	\$ 157,964,859
Plan fiduciary net position	<u>122,134,689</u>	<u>123,941,108</u>	<u>117,341,038</u>
Collective net pension liability	<u><u>\$ 58,079,381</u></u>	<u><u>\$ 45,791,664</u></u>	<u><u>\$ 40,623,821</u></u>
City's total proportionate share of the collective net pension liability	<u><u>\$ 58,079,381</u></u>	<u><u>\$ 45,791,664</u></u>	<u><u>\$ 40,623,821</u></u>
Department's proportionate share of the collective net pension liability	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>
Department's covered payroll	\$ 25,747,787	\$ 26,461,305	\$ 25,616,923
Department's proportionate share of the collective net pension liability as a percentage of its covered-employee payroll	0%	0%	0%
Plan fiduciary net position as a percentage of the total pension liability	67.77%	73.02%	74.28%

\* Amounts presented above are measured as of the measurement date ending April 30 of the prior year.

This schedule is intended to present 10 years of information. Additional years will be added as information becomes available.

**The Police Department of Kansas City, Missouri**

A Component Unit of the City of Kansas City, Missouri  
Schedule of Non-employer Contributions

<b>Police Retirement System</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Actuarially determined contribution	\$ 30,979,978	\$ 30,272,063	\$ 28,933,261	\$ 35,062,322	\$ 31,652,713	\$ 28,277,060	\$ 32,019,847	\$ 22,154,209	\$ 24,618,680	\$ 23,181,026
Contributions in relation to the actuarially determined contribution - non-employer	30,979,978	30,272,063	28,933,261	22,241,769	16,933,694	16,476,608	16,532,015	16,645,229	16,700,688	15,747,111
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ 12,820,553	\$ 14,719,019	\$ 11,800,452	\$ 15,487,832	\$ 5,508,980	\$ 7,917,992	\$ 7,433,915
Department's covered-employee payroll*	\$ 90,641,258	\$ 91,951,939	\$ 91,749,770	\$ 89,320,031	\$ 86,036,186	\$ 83,783,881	\$ 87,105,133	\$ 84,493,549	\$ 84,775,068	\$ 79,934,573
Contributions as a percentage of covered-employee payroll	34.18%	32.92%	31.53%	24.90%	19.68%	19.67%	18.98%	19.70%	19.70%	19.70%
<b>Civilian Employees' Retirement System</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Actuarially determined contribution	\$ 5,063,240	\$ 5,048,167	\$ 4,930,686	\$ 5,657,924	\$ 4,956,189	\$ 4,361,223	\$ 4,748,151	\$ 3,616,073	\$ 4,289,488	\$ 4,137,262
Contributions in relation to the actuarially determined contribution - non-employer	5,063,240	5,048,167	4,930,686	4,122,375	3,283,458	3,146,124	3,185,041	3,329,727	3,470,682	3,372,411
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ 1,535,549	\$ 1,672,731	\$ 1,215,099	\$ 1,563,110	\$ 286,346	\$ 818,806	\$ 764,851
Department's covered-employee payroll*	\$ 25,060,944	\$ 25,747,787	\$ 26,461,305	\$ 25,616,923	\$ 25,005,998	\$ 23,975,937	\$ 25,162,434	\$ 25,340,387	\$ 26,413,102	\$ 25,665,396
Contributions as a percentage of covered-employee payroll	20.20%	19.61%	18.63%	16.09%	13.13%	13.12%	12.66%	13.14%	13.14%	13.14%

\*Covered payroll is measured as of the fiscal year end April 30.

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

## **The Police Department of Kansas City, Missouri**

A Component Unit of the City of Kansas City, Missouri

Notes to Required Supplementary Information

April 30, 2017

### **Police Retirement System of Kansas City, Missouri**

#### Changes in Benefit and Funding Terms

The following changes 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 pension plan:

- 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 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.

2008 – The plan provisions were changed, effective August 28, 2008, to require that a member must be in active service to be eligible for either a duty related or non-duty related disability retirement benefit.

2007 – Creditable service for military leave may be granted without payment of member contributions under certain conditions.

#### Changes in Actuarial Assumptions

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 market value of assets as of April 30, 2011. The new smoothing method recognizes the difference between the actual and expected return on the market value of assets evenly over a five-year period.

## The Police Department of Kansas City, Missouri

A Component Unit of the City of Kansas City, Missouri

Notes to Required Supplementary Information

April 30, 2017

4/30/2008 valuation:

- Changed the mortality table to the RP-2000 Table. Scale AA is used to project mortality improvements in future years.
- Adjusted the retirement rates to better fit observed experience.
- Increased the probability of disability for active members.
- Decreased the termination of employment rates.
- Changed from an age-based to a service-based salary increase assumption.
- Assume that all vested terminating members will elect a deferred benefit.

### Method and Assumptions Used in Calculations of Actuarially Determined Contributions

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 the 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 fiscal year 2014, the City contributed a fixed contribution rate (19.70%) of covered payroll, regardless of the actuarial determined contribution rate. Beginning September 1, 2013, the City began to contribute the full dollar amount of the Actuarial 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, 2017), which was based on the results of the April 30, 2015 actuarial valuation:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, open
Remaining amortization period	30 years
Asset valuation method value	5-year smoothing of actual vs expected return on market
Price Inflation	3.00 percent
Salary increase, including inflation	3.75 to 8.75 percent
Investment rate of return, net of Investment expense, and including inflation	7.50 percent
Future Cost-of-Living Adjustment	2.50 percent (simple)

## The Police Department of Kansas City, Missouri

A Component Unit of the City of Kansas City, Missouri

Notes to Required Supplementary Information

April 30, 2017

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

#### Changes in Benefit and Funding Terms

The following changes 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 created a new benefit tier for members hired on or after August 28, 2013. The plan provisions changed were:

- Normal retirement changed from age 65 to age 67.
- Early retirement, without a reduction in benefit amount changed from Rule of 80 (age plus service equal or exceeds 80) or age 60 with 10 years of creditable service to Rule of 85 or age 62 with 20 years of creditable service.
- Final compensation changed from an average of the highest two years to the highest three years.

2008 – The plan provisions were changed, effective August 28, 2008, to require that a member must be in active service to be eligible for either a duty related or non-duty related disability retirement benefit.

2007 – The plan provisions were changed as follows:

- Creditable service for military leave may be granted without payment of member contributions under certain conditions.
- The eligibility requirement for the supplemental benefit was changed from 5 to 15 years of creditable service for members retiring after August 28, 2007.

#### Changes in Actuarial Assumptions

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 both early and normal retirement assumptions to better reflect actual, observed experience.
- Termination of employment assumption was changed to a pure service-based assumption with one set of rates applicable to both male and females.
- The assumption regarding vested members who terminated employment was modified to value the greater of the value of the deferred monthly benefit or the value payable as a refund.
- 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 market value of assets as of April 30, 2011. The new smoothing method recognizes the difference between the actual and expected return on the market value of assets evenly over a five-year period.

4/30/2008 valuation:

- Changed the mortality table to the RP-2000 Table, with a one year age set forward. Scale AA is used to project mortality improvements in future years.

## The Police Department of Kansas City, Missouri

A Component Unit of the City of Kansas City, Missouri

Notes to Required Supplementary Information

April 30, 2017

- Adjusted the retirement rates to better fit observed experience.
- Adjusted the termination of employment rates based on experience from the current and prior years.
- Changed from an age-based to a service-based salary increase assumption.
- Lowered the assumption at ages 42 to 54 that vested terminating members will take a refund and forfeit their vested benefit.

### Method and Assumptions Used in Calculations of Actuarially Determined Contributions

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 the April 30, two years prior to the end of the year in which Actuarially Determined Contribution amounts are reported. In the six years prior to fiscal year 2014, the City contributed a fixed contribution rate (13.14%) of covered payroll, regardless of the actuarial determined contribution rate. Beginning September 1, 2013, the City began to contribute the full dollar amount of the Actuarial 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, 2017), which was based on the results of the April 30, 2015 actuarial valuation:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, open
Remaining amortization period	30 years
Asset valuation method value	5-year smoothing of actual vs expected return on market
Price Inflation	3.00 percent
Salary increase, including inflation	3.75 to 7.75 percent
Investment rate of return, net of Investment expense, and including inflation	7.50 percent
Future Cost-of-Living Adjustment	2.50 percent (simple)

**The Police Department of Kansas City, Missouri**

A Component Unit of the City of Kansas City, Missouri

Schedule of Funding Progress

April 30, 2017

**Other Post Employment Benefits (OPEB)**

<b>Actuarial Valuation Date</b>	<b>(a) Actuarial Value of Assets</b>	<b>(b) Actuarial Accrued Liability (AAL) Entry Age</b>	<b>(b) - (a) Unfunded Actuarial Accrued Liability (UAAL)</b>	<b>(a)/(b) Funded Ratio</b>	<b>(c) Annual Covered Payroll</b>	<b>(b)-(a)/(c) UAAL as a percentage of Covered Payroll</b>
April 30, 2012	\$ -	\$ 55,129,304	\$ 55,129,304	0%	\$ 108,002,676	51%
April 30, 2014	-	46,300,933	46,300,933	0%	114,197,450	41%
April 30, 2016	-	41,222,046	41,222,046	0%	118,767,756	35%

**The Police Department of Kansas City, Missouri**

A Component Unit of the City of Kansas City, Missouri  
 Schedule of Revenues, Expenditures, and  
 Changes in Fund Balances - Budget and Actual  
 General Fund  
 For the year ended April 30, 2017

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Budget to GAAP Differences	Actual Amounts, GAAP Basis
	Original	Final			
<b>Revenues:</b>					
Revenues received from City of Kansas City, Missouri	\$ 208,511,360	\$ 211,161,360	\$ 210,269,078	\$ (1,147,554)	\$ 209,121,524
Operating grants	-	-	56,807	-	56,807
Other intergovernmental	1,153,000	1,153,000	1,111,324	(969,953)	141,371
Charges for services	2,940,580	2,940,580	2,673,011	-	2,673,011
Interest	4,000	4,000	16,930	-	16,930
Other	10,000	360,000	493,023	-	493,023
<b>Total revenues</b>	<b>212,618,940</b>	<b>215,618,940</b>	<b>214,620,173</b>	<b>(2,117,507)</b>	<b>212,502,666</b>
<b>Expenditures:</b>					
Public safety - police:					
Current:					
Personal services	191,500,074	194,025,361	193,802,044	1,350,416	192,451,628
Contractual services	16,880,372	17,297,316	15,904,554	473,986	15,430,568
Commodities	5,590,693	4,518,026	4,100,225	5,963	4,094,262
Capital outlay	628,998	736,487	665,473	-	665,473
<b>Total expenditures</b>	<b>214,600,137</b>	<b>216,577,190</b>	<b>214,472,296</b>	<b>1,830,365</b>	<b>212,641,931</b>
Excess (deficiency) of revenues over expenditures	(1,981,197)	(958,250)	147,877	(287,142)	(139,265)
<b>Other financing sources (uses):</b>					
Disposal of capital assets	96,000	96,000	45,148	-	45,148
Transfers out	-	-	-	(239,138)	(239,138)
<b>Total other financing sources and uses</b>	<b>96,000</b>	<b>96,000</b>	<b>45,148</b>	<b>(239,138)</b>	<b>(193,990)</b>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(1,885,197)	(862,250)	193,025	(526,280)	(333,255)
Fund balance, beginning of year	-	2,572,780	2,572,780	-	2,572,780
Available prior year encumbrances	1,381,687	1,381,687	-	-	-
<b>Fund balance, end of year</b>	<b>\$ (503,510)</b>	<b>\$ 3,092,217</b>	<b>\$ 2,765,805</b>	<b>\$ (526,280)</b>	<b>\$ 2,239,525</b>

**The Police Department of Kansas City, Missouri**

A Component Unit of the City of Kansas City, Missouri  
 Schedule of Revenues, Expenditures, and  
 Changes in Fund Balances - Budget and Actual  
 General Fund  
 For the year ended April 30, 2017

**Explanation of differences:**

The department retained the risk of loss related to workers compensation claims and certain legal claims. The State of Missouri provided legal representation for some legal claims and was responsible for claims up to \$1.0 million annually. Certain estimated claims obligations are reported for GAAP purposes but not for budget purposes until paid.	\$ 443,500
Revenues not expected to be collected within 60 days are reported as deferred inflows for GAAP purposes.	(969,953)
The following budgetary differences do not have an impact on the excess (deficiency) of revenues and other financing sources over expenditures and other financing uses as the differences offset revenues, expenditures, or other financing sources equally.	
Liability self-retention activities are accounted for in subsidiary accounts of the general fund. Payments of \$3,620,000 made to subsidiary accounts are treated as revenue in the subsidiary account and expenditures in the general fund for budgetary purposes. Only the amount used to pay for expenses in the subsidiary accounts is reported for GAAP purposes.	-
The department budgets for compensated absences on the cash basis, rather than on the modified accrual basis. The change of \$483,082 to the amount expected to be paid related to termination benefits from current resources is reported for GAAP purposes.	-
Cash to be used in investigations is reported when given to investigative elements for budgetary purposes, but reported when spent by investigative elements for GAAP purposes. The unspent amount increased by \$1,799	-
Inventory acquisitions are reported as expenditures for budgetary purposes, but only the change in inventory used of \$8,991 is reported for GAAP purposes.	-
The amount of \$239,138 for grant matches charged in from another fund is reported with personal services for budgetary purposes, but is reported as a transfer out for GAAP purposes.	-
The department uses estimates to accrue payroll and certain other items for budgetary purposes, but reports subsequent changes for GAAP purposes. Subsequent changes were \$569,318 for accrued payroll and inventory of which all but \$173 is offset by revenue	173
	<u>\$ (526,280)</u>

**The Police Department of Kansas City, Missouri**  
A Component Unit of the City of Kansas City, Missouri  
Budgetary Comparison Schedule - Federal Seizure and Forfeiture Fund  
For the Year Ended April 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts Budgetary Basis</u>	<u>Budget to GAAP Differences</u>	<u>Actual Amounts GAAP Basis</u>
	<u>Original</u>	<u>Final</u>			
<b>Revenues</b>					
Charges for services	\$ 190,000	\$ 190,000	\$ 966,278	\$ -	\$ 966,278
Interest	-	-	4,753	-	4,753
Total revenues	190,000	190,000	971,031	-	971,031
<b>Expenditures / Expenses</b>					
Public safety – police					
Contractual services	11,300	11,550	1,904	-	1,904
Capital outlay	440,000	832,454	680,593	-	680,593
Total expenditures / expenses	451,300	844,004	682,497	-	682,497
Excess (deficiency) of revenues over expenditures / expenses	(261,300)	(654,004)	288,534	-	288,534
<b>Other Financing Sources (Uses)</b>					
Disposal of capital assets	-	-	1,500	-	1,500
Transfers out	-	(14,392)	(2,475)	-	(2,475)
Total other financing sources and uses	-	(14,392)	(975)	-	(975)
Change in Fund balance	(261,300)	(668,396)	287,559	-	287,559
<b>Fund Balance, Beginning of Year</b>	-	-	1,365,868	-	1,365,868
<b>Available Prior Year Encumbrances</b>	230,060	230,060	-	-	-
<b>Fund Balance, End of Year</b>	\$ (31,240)	\$ (438,336)	\$ 1,653,427	\$ -	\$ 1,653,427

**The Police Department of Kansas City, Missouri**

A Component Unit of the City of Kansas City, Missouri  
 Schedule of Revenues, Expenditures, and  
 Changes in Fund Balances - Budget and Actual  
 Federal & State Grants Fund  
 For the year ended April 30, 2017

	Budgeted Amounts		Actual Amounts, Budgetary Basis	Budget to GAAP Differences	Actual Amounts, GAAP Basis
	Original	Final			
Revenues:					
Operating grants	\$ 5,997,072	\$ 7,237,905	\$ 5,730,994	\$ -	\$ 5,730,994
Other intergovernmental	-	-	-	39,590	39,590
Total revenues	<u>5,997,072</u>	<u>7,237,905</u>	<u>5,730,994</u>	<u>39,590</u>	<u>5,770,584</u>
Expenditures:					
Public safety - police:					
Current:					
Personal services	4,272,399	4,875,553	4,027,801	(278,728)	4,306,529
Contractual services	1,210,453	1,778,504	1,374,514	-	1,374,514
Commodities	150,720	101,924	72,462	-	72,462
Capital outlay	363,500	348,866	258,692	-	258,692
Total expenditures	<u>5,997,072</u>	<u>7,104,847</u>	<u>5,733,469</u>	<u>(278,728)</u>	<u>6,012,197</u>
Excess (deficiency) of revenues over expenditures	-	133,058	(2,475)	(239,138)	(241,613)
Other financing sources (uses):					
Transfers in	-	14,392	2,475	239,138	241,613
Total other financing sources and uses	<u>-</u>	<u>14,392</u>	<u>2,475</u>	<u>239,138</u>	<u>241,613</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>-</u>	<u>147,450</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, beginning of year	-	-	-	-	-
Available prior year encumbrances	<u>188,511</u>	<u>188,511</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u>\$ 188,511</u>	<u>\$ 335,961</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**Explanation of differences:**

The amount of \$239,138 for grant matches charged out to another fund is reported with personal services for budgetary purposes, but is reported as a transfer in for GAAP purposes.

\$ -

The department uses estimates to accrue payroll and certain other items for budgetary purposes, but reports subsequent changes for GAAP purposes. Subsequent changes were \$42,507 for accrued payroll.

\$ -

**The Police Department of Kansas City, Missouri**

A Component Unit of the City of Kansas City, Missouri

Combining Balance Sheet - Nonmajor Funds

April 30, 2017

	<b>Public Safety Sales Tax</b>	<b>Police Drug Enforcement</b>	<b>City G.O. Bond</b>	<b>City S.O. Bond</b>	<b>City Tax-Exempt Bond</b>	<b>Byrne JAG Grant</b>	<b>Non-Major Funds Total</b>
<b>Assets</b>							
Cash and short-term investments	\$ -	\$ 372,288	\$ -	\$ -	\$ -	\$ -	\$ 372,288
Receivables:							
Due from City of Kansas City, Missouri	2,247	-	119,599	1,472	25,773	10,451	159,542
Due from other governments	-	36,439	-	-	-	-	36,439
Total assets	<u>\$ 2,247</u>	<u>\$ 408,727</u>	<u>\$ 119,599</u>	<u>\$ 1,472</u>	<u>\$ 25,773</u>	<u>\$ 10,451</u>	<u>\$ 568,269</u>
<b>Liabilities</b>							
Accounts payable	\$ 2,247	\$ -	\$ 119,599	\$ 1,472	\$ 25,773	\$ 10,451	\$ 159,542
Accrued payroll	-	36,439	-	-	-	-	36,439
Unearned revenue	-	51,870	-	-	-	-	51,870
Due to City of Kansas City, Missouri	-	57,956	-	-	-	-	57,956
Due to other governments	-	74,646	-	-	-	-	74,646
Total liabilities	<u>2,247</u>	<u>220,911</u>	<u>119,599</u>	<u>1,472</u>	<u>25,773</u>	<u>10,451</u>	<u>380,453</u>
<b>Fund Balances</b>							
Fund balances:							
Restricted	-	187,816	-	-	-	-	187,816
Total fund balance	<u>-</u>	<u>187,816</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>187,816</u>
Total liabilities and fund balances	<u>\$ 2,247</u>	<u>\$ 408,727</u>	<u>\$ 119,599</u>	<u>\$ 1,472</u>	<u>\$ 25,773</u>	<u>\$ 10,451</u>	<u>\$ 568,269</u>

**The Police Department of Kansas City, Missouri**

A Component Unit of the City of Kansas City, Missouri  
 Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Funds  
 For the Year Ended April 30, 2017

	<b>Public Safety Sales Tax</b>	<b>Police Drug Enforcement</b>	<b>City G.O. Bond</b>	<b>City S.O. Bond</b>	<b>City Tax-Exempt Bond</b>	<b>Byrne JAG Grant</b>	<b>Non-Major Funds Total</b>
Revenues:							
Revenues received from City of Kansas City, Missouri	\$ 3,036,303	\$ -	\$ 748,718	\$ 988,456	\$ 4,615,465	\$ -	\$ 9,388,942
Other intergovernmental	-	2,530,210	-	-	-	139,854	2,670,064
Total revenues	<u>3,036,303</u>	<u>2,530,210</u>	<u>748,718</u>	<u>988,456</u>	<u>4,615,465</u>	<u>139,854</u>	<u>12,059,006</u>
Expenditures:							
Public safety - police:							
Current:							
Personal services		1,956,729					1,956,729
Contractual services	641,479	177,645				117,697	936,821
Commodities	2,300	165,832					168,132
Capital outlay	<u>2,392,524</u>	<u>180,165</u>	<u>748,718</u>	<u>988,456</u>	<u>4,615,465.00</u>	<u>22,157</u>	<u>8,947,485</u>
Total expenditures	<u>3,036,303</u>	<u>2,480,371</u>	<u>748,718</u>	<u>988,456</u>	<u>4,615,465.00</u>	<u>139,854</u>	<u>12,009,167</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>49,839</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>49,839</u>
Fund balance, beginning of year	<u>-</u>	<u>137,977</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>137,977</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ 187,816</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 187,816</u>

**The Police Department of Kansas City, Missouri**

A Component Unit of the City of Kansas City, Missouri  
 Combining Statement of Assets and Liabilities - Fiduciary Funds - Agency Funds  
 April 30, 2017

	<u>Major Case Squad</u>	<u>ETAC</u>	<u>Depository</u>	<u>Seizure Retention</u>	<u>Misdemeanor Bond</u>	<u>Dental Program</u>	<u>Agency Funds Total</u>
<b>Assets</b>							
Cash and short-term investments	\$ 222	\$ 855,743	\$ 343,289	\$ 1,596,704	\$ 4,100	\$ 90,745	\$ 2,890,803
Receivables:							-
Accounts						1,072	1,072
Interest	-	-	107	499	-	-	606
Total assets	<u>\$ 222</u>	<u>\$ 855,743</u>	<u>\$ 343,396</u>	<u>\$ 1,597,203</u>	<u>\$ 4,100</u>	<u>\$ 91,817</u>	<u>\$ 2,892,481</u>
<b>Liabilities</b>							
Liabilities:							
Due to other funds	\$ -	\$ -	\$ -	\$ -	\$ 3,000	\$ 1,000	\$ 4,000
Other accrued liabilities	222	855,743	343,396	1,597,203	1,100	90,817	2,888,481
Total liabilities	<u>\$ 222</u>	<u>\$ 855,743</u>	<u>\$ 343,396</u>	<u>\$ 1,597,203</u>	<u>\$ 4,100</u>	<u>\$ 91,817</u>	<u>\$ 2,892,481</u>