

**CITY OF ST. JOSEPH, MISSOURI
POLICE PENSION FUND**

Financial Statements and
Required Supplementary Information

For the Years Ended
June 30, 2011 and 2010

(With Independent Auditor's Report Thereon)

**CITY OF ST. JOSEPH, MISSOURI
POLICE PENSION FUND**

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INDEPENDENT AUDITOR'S REPORT

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The Board of Trustees
City of St. Joseph, Missouri
Police Pension Fund:

We have audited the accompanying statements of plan net assets of the City of St. Joseph, Missouri Police Pension Fund (the Fund) as of June 30, 2011 and 2010, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion as the result of our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Fund and do not purport to, and do not, present fairly the financial position of the City of St. Joseph, Missouri as of June 30, 2011 and 2010, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Fund as of June 30, 2011 and 2010, and the changes in its plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the schedules of funding progress and employer contributions 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.

The Fund has not presented the management's discussion and analysis that accounting principles generally accepted in the United States of America require to supplement, although not be a part of, the basic financial statements.

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December 23, 2011

**CITY OF ST. JOSEPH, MISSOURI
POLICE PENSION FUND**

STATEMENTS OF PLAN NET ASSETS

JUNE 30, 2011 AND 2010

| | <u>2011</u> | <u>2010</u> |
|---|----------------------|----------------------|
| Assets: | | |
| Cash and interest-bearing deposits | \$ 3,292 | \$ 2,828 |
| Employer contributions receivable | 67,689 | 95,248 |
| Member contributions receivable | 7,988 | 13,606 |
| Accrued interest and dividends | 120,467 | 111,324 |
| Investments, at fair value: | | |
| Fixed income securities | 10,927,481 | 10,228,782 |
| Corporate stocks | 16,868,245 | 12,703,803 |
| Total assets | <u>27,995,162</u> | <u>23,155,591</u> |
| Liabilities: | | |
| Accrued liabilities | <u>3,190</u> | <u>4,699</u> |
| Net assets held in trust for pension benefits (an unaudited schedule of funding progress is presented on page 10) | <u>\$ 27,991,972</u> | <u>\$ 23,150,892</u> |

See accompanying notes to the financial statements

**CITY OF ST. JOSEPH, MISSOURI
POLICE PENSION FUND**

STATEMENTS OF CHANGES IN PLAN NET ASSETS

FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

| | <u>2011</u> | <u>2010</u> |
|---|----------------------|----------------------|
| Additions: | | |
| Contributions: | | |
| Member contributions | \$ 212,538 | \$ 218,121 |
| Employer contributions | 1,786,550 | 1,980,812 |
| Total contributions | <u>1,999,088</u> | <u>2,198,933</u> |
| Investment income (expense): | | |
| Net appreciation (depreciation) in fair value of investments | 3,981,730 | 1,543,518 |
| Interest and dividends | 710,175 | 669,324 |
| Less investment expenses | <u>(60,677)</u> | <u>(56,716)</u> |
| Net investment income (expense) | <u>4,631,228</u> | <u>2,156,126</u> |
| Total additions | <u>6,630,316</u> | <u>4,355,059</u> |
| Deductions: | | |
| Benefits | 1,737,473 | 1,722,538 |
| Refunds of contributions | - | 1,609 |
| Administrative expenses | 51,763 | 45,604 |
| Total deductions | <u>1,789,236</u> | <u>1,769,751</u> |
| Net increase | 4,841,080 | 2,585,308 |
| Net assets held in trust for pension benefits: | | |
| Beginning of year | <u>23,150,892</u> | <u>20,565,584</u> |
| End of year | <u>\$ 27,991,972</u> | <u>\$ 23,150,892</u> |

See accompanying notes to the financial statements

**CITY OF ST. JOSEPH, MISSOURI
POLICE PENSION FUND**

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

1. Description of the Fund

The City of St. Joseph, Missouri Police Pension Fund (the Fund or Plan) is a single-employer, public employee retirement system established by the City of St. Joseph, Missouri (the City) to provide retirement benefits for employees of its police department. The Fund was established and operates under the provisions of Chapter 86 Revised Statutes of Missouri (RSMo.). It is administered by the board of trustees of the Fund. The Fund is considered part of the City's financial reporting entity and is included in the City's basic financial statements as a pension trust fund.

Covered payroll for the fiscal years ended in 2011 and 2010 was \$5,321,142 and \$5,315,839, respectively.

Fund membership consisted of the following for the actuarial years 2011 and 2010:

| | 2011 | 2010 |
|---|-------------|-------------|
| Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving them | 94 | 92 |
| Currently active employees: | | |
| Vested | 27 | 22 |
| Nonvested | 83 | 90 |
| Total currently active employees | 110 | 112 |
| Total membership | 204 | 204 |

The Fund provides retirement benefits as well as disability and death benefits. Eligibility for retirement benefits commences upon attaining 20 years of service. Benefits for duty-related disability commences at the time of permanent disability, while the eligibility for nonduty-related disability commences after attainment of five years of service. Death benefits are payable upon death of any active or retired participant. Vesting of benefits does not occur until such time as eligibility requirements are met.

Retirement benefits are calculated at 40% of a retiree's average monthly salary over the highest 12-month span in the previous 120 months, plus additional benefits for members that continue employment between 20 and 35 years on a pro rata basis. Duty disability benefits are 50% of the average salaries paid during the highest 12 consecutive months of service within the past 120 months of service preceding the effective date of disability. Nonduty disability benefits are comprised of a refund of two-thirds of the member's contributions. Death benefits are calculated at the greatest of 50% of the current (or anticipated) pension or \$500 payable monthly to the widow for life or until remarriage. In addition, an amount of \$100 per month is paid for each unmarried child under 18.

Participant contributions are set by the Board of Trustees under provisions of RSMo. Chapter 86.520 and, for the years ended June 30, 2011 and 2010, were set at 4.0% of annual covered payroll. In the event of a resignation or dismissal, any covered police employee who has served less than 20 years shall receive a 100% refund from the pension fund of the police employee's contributions made. No refund shall be made if the covered police employee is eligible for plan benefits.

**CITY OF ST. JOSEPH, MISSOURI
POLICE PENSION FUND**

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

2. Summary of Significant Accounting Policies

(a) Basis of Accounting and Presentation

The accounting and reporting policies of the Fund conform to accounting principles generally accepted in the United States of America applicable to governments and are prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which employee services are performed. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

(b) Method Used to Value Investments

Investments are reported at fair value. Short-term investments are recorded at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

(c) 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 the disclosure of contingencies at the date of the financial statements and the reporting of revenue and expenses during the reporting period. Actual results could differ from those estimates.

3. Cash Deposits and Investments

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that, in the event of a bank failure, the Fund's deposits may not be returned to it. At June 30, 2011 and 2010, the Plan was not exposed to such risks.

Investments for the Fund are as follows for the year ended June 30, 2011:

| | Fair Value | Investment Maturities (in Years) | | |
|---------------------|----------------------|----------------------------------|---------------------|-------------------|
| | | Less than 1 | 1 thru 5 | 6 thru 10 |
| Investment type: | | | | |
| Debt securities: | | | | |
| Treasury bonds | \$ 245,019 | \$ - | \$ 245,019 | \$ - |
| U.S. agencies | 3,602,046 | 3,077,806 | 524,240 | - |
| Municipal bonds | 104,175 | - | 104,175 | - |
| Foreign obligations | 314,589 | - | 314,589 | - |
| Corporate debt | 6,661,652 | 1,278,731 | 4,988,640 | 394,281 |
| | <u>10,927,481</u> | <u>\$ 4,356,537</u> | <u>\$ 6,176,663</u> | <u>\$ 394,281</u> |
| Other investments | | | | |
| Corporate stocks | <u>16,868,245</u> | | | |
| Total | <u>\$ 27,795,726</u> | | | |

**CITY OF ST. JOSEPH, MISSOURI
POLICE PENSION FUND**

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

Investments for the Fund are as follows for the year ended June 30, 2010:

| | Fair Value | Investment Maturities (in Years) | | |
|-------------------|----------------------|----------------------------------|---------------------|-------------|
| | | Less than 1 | 1 thru 5 | 6 thru 10 |
| Investment type: | | | | |
| Debt securities: | | | | |
| U.S. agencies | \$ 3,259,799 | \$ 2,091,089 | \$ 1,168,710 | \$ - |
| Corporate debt | 6,968,983 | 1,848,460 | 5,120,523 | - |
| | <u>10,228,782</u> | <u>\$ 3,939,549</u> | <u>\$ 6,289,233</u> | <u>\$ -</u> |
| Other investments | | | | |
| Corporate stocks | <u>12,703,803</u> | | | |
| Total | <u>\$ 22,932,585</u> | | | |

Interest Rate Risk – Interest rate risk is the risk that the fair value of the Fund’s investments will decrease as a result of an increase in interest rates. Given this relationship between risk and return, the investment objective of the Fund is to provide attractive investment returns from income and capital appreciation consistent with the moderate level of risk taken in the portfolio. This is a goal of relatively stable returns over the longer term, with some potential of negative returns in any given year. According to the Fund investment policy statement, the average maturity of the portfolio’s fixed income component will not exceed 10 years.

Credit risk – Credit risk is the risk that the Fund will not recover its investments due to the inability of the counterparty to fulfill their obligation. The Fund follows the prudent person rule with certain fixed income securities portfolio constraints. According to the Fund investment policy statement, only “investment-grade” debt securities are allowed, limited to government and agency issues, mortgage-backed securities, asset-backed securities, corporate bonds, and money market instruments.

Credit ratings at June 30, 2011 for the Fund’s investments that are rated are as follows:

| | Fair Value | Quality Ratings | | | |
|---------------------|----------------------|---------------------|---------------------|---------------------|---------------------|
| | | AAA | AA | A | BAA |
| Investment type: | | | | | |
| Debt securities: | | | | | |
| Treasury bonds | \$ 245,019 | \$ 245,019 | \$ - | \$ - | \$ - |
| U.S. agencies | 3,602,046 | 3,602,046 | - | - | - |
| Municipal bonds | 104,175 | - | 104,175 | - | - |
| Foreign obligations | 314,589 | - | 314,589 | - | - |
| Corporate debt | 6,661,652 | 394,281 | 1,044,223 | 4,142,127 | 1,081,021 |
| | <u>10,927,481</u> | <u>\$ 4,241,346</u> | <u>\$ 1,462,987</u> | <u>\$ 4,142,127</u> | <u>\$ 1,081,021</u> |
| Other investments | | | | | |
| Corporate stocks | <u>16,868,245</u> | | | | |
| Total | <u>\$ 27,795,726</u> | | | | |

**CITY OF ST. JOSEPH, MISSOURI
POLICE PENSION FUND**

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

Credit ratings at June 30, 2010 for the Fund's investments that are rated are as follows:

| | Fair Value | Quality Ratings | | | |
|-------------------|----------------------|---------------------|-------------------|---------------------|---------------------|
| | | AAA | AA | A | BAA |
| Investment type: | | | | | |
| Debt securities: | | | | | |
| U.S. agencies | \$ 3,259,799 | \$ 3,259,799 | \$ - | \$ - | \$ - |
| Corporate debt | 6,968,983 | - | 805,343 | 3,929,337 | 2,234,303 |
| | <u>10,228,782</u> | <u>\$ 3,259,799</u> | <u>\$ 805,343</u> | <u>\$ 3,929,337</u> | <u>\$ 2,234,303</u> |
| Other investments | | | | | |
| Corporate stocks | <u>12,703,803</u> | | | | |
| Total | <u>\$ 22,932,585</u> | | | | |

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Police Pension Board established asset allocation guidelines in its investment policy statement to achieve the long-term investment objectives. The asset allocation mix should be maintained as follows: (1) Equity investments will range between a maximum of 60% and a minimum of 40% of the total portfolio within the total equity exposure. (2) Investments in international securities may comprise up to 15% of the total portfolio value. (3) Fixed income investments will range between a maximum of 60% and a minimum of 40% of the total portfolio. (4) Cash investments will range between 0% and 20% of the total portfolio. (5) Convertible securities may represent attractive investment alternatives and are limited to 10% of the portfolio value. To ensure diversification of the fixed incomes securities, credit exposure to any individual issuer, other than the U.S. government, shall not exceed 10% of the total fixed income portfolio assets.

| | Fair Value | 2011 Concentration |
|---|---------------|-----------------------|
| Federal Farm Credit Bank | \$ 524,240 | 5% |
| Goldman Sachs Financial Square Government Fund | 3,077,806 | 28% |
| Corporate debt: | | |
| Astrazeneca | 529,040 | 5% |
| Walt Disney | 528,140 | 5% |
| Dell | 444,880 | 4% |

Custodial Credit Risk – Investments - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Fund will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Fund's investments are held by its investment custodian in the Fund's name.

**CITY OF ST. JOSEPH, MISSOURI
POLICE PENSION FUND**

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

4. Contributions

The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. Level percentage of payroll employer contribution rates is determined using the entry age actuarial funding method. The Fund also uses the level percentage of payroll method to amortize the unfunded liability over the remaining 20-year period.

Contributions totaling \$1,999,088 (\$1,786,550 employer and \$212,538 member) were made during the year ended June 30, 2011. Contributions totaling \$2,198,933 (\$1,980,812 employer and \$218,121 member) were made during the year ended June 30, 2010. Actual employer contribution rates, as a percent of covered payroll, were 33.7% and 36.9% for 2011 and 2010, respectively.

5. Risks and Uncertainties

The Fund invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and those changes could materially affect the amounts reported in the statements of plan net assets.

6. Funded Status and Funding Progress

The funded status of the plan at January 1, 2011, the most recent actuarial valuation date, is as follows:

| Actuarial valuation date | Actuarial value of assets (a) | Actuarial accrued liability (AAL) - entry age (b) | Unfunded AAL (UAAL) (b) - (a) | Funded ratio (a) / (b) | Covered payroll (c) | UAAL as a percent of covered payroll [(b)-(a)]/(c) |
|-----------------------------|-------------------------------------|---|-------------------------------------|---------------------------|--------------------------|---|
| 1/1/2011 | \$ 26,333,980 | \$ 38,762,271 | \$ 12,428,291 | 67.9% | \$ 5,234,079 | 237.4% |

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**CITY OF ST. JOSEPH, MISSOURI
POLICE PENSION FUND**

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

7. Actuarial Valuation Information

The information presented in the required supplementary schedules was determined as part of the actuarial valuations. Additional information as of the latest actuarial valuation as of January 1, 2011 is as follows:

| | |
|-------------------------------|---|
| Actuarial cost method | Individual entry age |
| Amortization method | Level percentage of payroll, closed |
| Remaining amortization period | 20 years |
| Asset valuation method | Market value |
| Actuarial assumptions: | |
| Inflation assumption | 4% |
| Investment rate of return | 7.5% |
| Salary increases | 4% |
| Mortality – healthy lives | RP 2000 Mortality Table |
| Mortality – disabled lives | Mortality – healthy lives set forward 10 years |
| Termination of employment | Rate of turnover from 0.75% to 5.00% based on age |
| Disablement | Rates from 0.17% to 1.93% based on age |

The actuarial assumptions and methods and the provisions of the plan used in this valuation are the same as those used in the prior valuation.

**CITY OF ST. JOSEPH, MISSOURI
POLICE PENSION FUND**

Required Supplementary Information
(Unaudited)

JUNE 30, 2011

Schedule of Funding Progress

| | (a) | (b) | (b) - (a) | (a) / (b) | (c) | [(b)-(a)]/(c) |
|---------------------------------|----------------------------------|--|----------------------------|---------------------|------------------------|---|
| <u>Actuarial valuation date</u> | <u>Actuarial value of assets</u> | <u>Actuarial accrued liability (AAL)</u> | <u>Unfunded AAL (UAAL)</u> | <u>Funded ratio</u> | <u>Covered payroll</u> | <u>UAAL as a percent of covered payroll</u> |
| 3/1/2006 | \$ 20,369,111 | \$ 32,390,571 | \$ 12,021,460 | 62.9% | \$ 5,136,368 | 234.0% |
| 1/1/2007 * | 22,953,206 | 33,248,289 | 10,295,083 | 69.0% | 5,104,658 | 201.7% |
| 1/1/2008 | 24,580,275 | 34,763,770 | 10,183,495 | 70.7% | 5,043,081 | 201.9% |
| 1/1/2009 | 20,158,258 | 36,492,434 | 16,334,176 | 55.2% | 5,137,480 | 317.9% |
| 1/1/2010 | 23,454,239 | 37,703,762 | 14,249,523 | 62.2% | 5,276,973 | 270.0% |
| 1/1/2011 | 26,333,980 | 38,762,271 | 12,428,291 | 67.9% | 5,234,079 | 237.4% |

Schedule of Employer Contributions

| | <u>Annual required contributions</u> | <u>Percentage contributed</u> |
|---------------------|--------------------------------------|-------------------------------|
| Year ended June 30: | | |
| 2006 | \$ 1,671,950 | 100.0% |
| 2007 | 1,675,386 | 100.0% |
| 2008 | 1,536,575 | 100.0% |
| 2009 | 1,550,095 | 100.0% |
| 2010 | 1,980,812 | 100.0% |
| 2011 | 1,786,550 | 100.0% |

Pension contributions were made in accordance with actuarially determined contribution requirements determined through an actuarial valuation.

* The plan changed its actuarial valuation date to January 1.