

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

Financial Statements and
Required Supplementary Information

For the Years Ended
June 30, 2012 and 2011

(With Independent Auditor's Report Thereon)

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

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COCHRAN HEAD VICK & CO., P.C.

& Co

Certified Public Accountants

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, 2012 and 2011, 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 on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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, 2012 and 2011, 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, 2012 and 2011, 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 14, 2012

Cochran Head Vick & Co., P.C.

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

STATEMENTS OF PLAN NET ASSETS

JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Assets:		
Cash and interest-bearing deposits	\$ 2,634	\$ 3,292
Employer contributions receivable	65,164	67,689
Member contributions receivable	16,023	7,988
Accrued interest and dividends	120,507	120,467
Investments, at fair value:		
Fixed income securities	11,728,550	10,927,481
Corporate stocks	16,528,949	16,868,245
Total assets	<u>28,461,827</u>	<u>27,995,162</u>
Liabilities:		
Accrued liabilities	<u>3,220</u>	<u>3,190</u>
Net assets held in trust for pension benefits (an unaudited schedule of funding progress is presented on page 10)	<u>\$ 28,458,607</u>	<u>\$ 27,991,972</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, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Additions:		
Contributions:		
Member contributions	\$ 221,041	\$ 212,538
Employer contributions	1,715,703	1,786,550
Total contributions	<u>1,936,744</u>	<u>1,999,088</u>
Investment income:		
Net appreciation (depreciation) in fair value of investments	(346,508)	3,981,730
Interest and dividends	757,579	710,175
Less investment expenses	<u>(63,511)</u>	<u>(60,677)</u>
Net investment income	<u>347,560</u>	<u>4,631,228</u>
Total additions	<u>2,284,304</u>	<u>6,630,316</u>
Deductions:		
Benefits	1,744,596	1,737,473
Administrative expenses	73,073	51,763
Total deductions	<u>1,817,669</u>	<u>1,789,236</u>
Net increase	466,635	4,841,080
Net assets held in trust for pension benefits:		
Beginning of year	<u>27,991,972</u>	<u>23,150,892</u>
End of year	<u>\$ 28,458,607</u>	<u>\$ 27,991,972</u>

See accompanying notes to the financial statements

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

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

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 2012 and 2011 was \$5,316,390 and \$5,321,142, respectively.

Fund membership consisted of the following for the actuarial years 2012 and 2011:

	2012	2011
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving them	95	94
Currently active employees:		
Vested	28	27
Nonvested	83	83
Total currently active employees	111	110
Total membership	206	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. Upon death of an active or retired member, a lump-sum payment in the amount of \$2,000 is paid toward the funeral expense.

Participant contributions are set by the Board of Trustees under provisions of RSMo. Chapter 86.520 and, for the years ended June 30, 2012 and 2011, 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, 2012 AND 2011

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, 2012 and 2011, the Plan was not exposed to such risks.

Investments for the Fund are as follows for the year ended June 30, 2012:

	Fair Value	Investment Maturities (in Years)		
		Less than 1	1 thru 5	6 thru 10
Investment type:				
Debt securities:				
Treasury bonds	\$ 255,687	\$ -	\$ 255,687	\$ -
U.S. agencies	2,595,690	2,344,595	251,095	-
Municipal bonds	108,240	-	108,240	-
Credit bond fund	157,065	157,065		
Foreign obligations	316,506	-	316,506	-
Corporate debt	8,295,362	1,127,794	6,558,606	608,962
	<u>11,728,550</u>	<u>\$ 3,629,454</u>	<u>\$ 7,490,134</u>	<u>\$ 608,962</u>
Other investments				
Corporate stocks	<u>16,528,949</u>			
Total	<u>\$ 28,257,499</u>			

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

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

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

Investment type:	Fair Value	Investment Maturities (in Years)		
		Less than 1	1 thru 5	6 thru 10
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>			

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, 2012 for the Fund’s investments that are rated are as follows:

Investment type:	Fair Value	Quality Ratings			
		AAA	AA	A	BAA
Debt securities:					
Treasury bonds	\$ 255,687	\$ -	\$ 255,687	\$ -	\$ -
U.S. agencies	2,595,690	-	2,595,690	-	-
Municipal bonds	108,240	-	108,240	-	-
Credit bond fund	157,065	-	157,065	-	-
Foreign obligations	316,506	-	316,506	-	-
Corporate debt	8,295,362	412,709	1,422,126	4,059,037	2,401,490
	<u>11,728,550</u>	<u>\$ 412,709</u>	<u>\$ 4,855,314</u>	<u>\$ 4,059,037</u>	<u>\$ 2,401,490</u>
Other investments					
Corporate stocks	<u>16,528,949</u>				
Total	<u>\$ 28,257,499</u>				

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

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

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

	<u>Fair Value</u>	<u>Quality Ratings</u>			
		<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>BAA</u>
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>				

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, with a variance of no more than +/- 5%. (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, with a variance of no more than +/- 5%. (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. The fair value of individual investments that represent 5% or more of the plan's net assets are as follows:

	<u>Fair Value</u>	<u>2012 Concentration</u>
Federal Farm Credit Bank	\$ 756,615	6%
Goldman Sachs Financial		
Square Government Fund	1,839,075	16%

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, 2012 AND 2011

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 \$1,936,744 (\$1,715,703 employer and \$221,041 member) were made during the year ended June 30, 2012. Contributions totaling \$1,999,088 (\$1,786,550 employer and \$212,538 member) were made during the year ended June 30, 2011. Actual employer contribution rates, as a percent of covered payroll, were 31.6% and 33.7% for 2012 and 2011, 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 that such 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, 2012, 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)
1/1/2012	\$ 27,093,193	\$ 40,267,507	\$ 13,174,314	67.3%	\$ 5,200,069	253.3%

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, 2012 AND 2011

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, 2012 is as follows:

Actuarial cost method	Individual entry age
Amortization method	Level percentage of payroll, open
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	RP 2000 Mortality Table 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.

8. Subsequent Events

The Plan evaluated subsequent events through the date the financial statements were available to be issued.

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

Required Supplementary Information
(Unaudited)

JUNE 30, 2012

Schedule of Funding Progress

	(a)	(b)	(b) - (a)	(a) / (b)	(c)	[(b)-(a)]/(c)
Actuarial valuation date	Actuarial value of assets	Actuarial accrued liability (AAL)	Unfunded AAL (UAAL)	Funded ratio	Covered payroll	UAAL as a percent of covered payroll
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%
1/1/2012	27,093,193	40,267,507	13,174,314	67.3%	5,200,069	253.3%

Schedule of Employer Contributions

	Annual required contributions	Percentage contributed
Year ended June 30:		
2007	\$ 1,675,384	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%
2012	1,715,703	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.