

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

Financial Statements and  
Required Supplementary Information

For the Years Ended  
June 30, 2006 and 2005

(With Independent Auditor's Report Thereon)

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

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statement of plan net assets of the City of St. Joseph, Missouri Police Pension Fund (the Fund) as of June 30, 2006, and the related statements of changes in plan net assets for the year 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 audit. The financial statements of the Fund as of June 30, 2005 were audited by other auditors. Those auditors expressed an unqualified opinion on those financial statements in their report dated December 2, 2005.

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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. 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 audit provides 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, 2006 and 2005, 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, 2006, and the changes in its plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The schedules of funding progress, employer contributions, and actuarial valuation information on pages 8 and 9 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

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.

November 20, 2006

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

STATEMENTS OF PLAN NET ASSETS

JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
Assets:		
Cash and interest-bearing deposits	\$ 2,173,012	\$ 1,497,366
Employer contributions receivable	61,845	63,705
Member contributions receivable	7,828	7,675
Accrued interest and dividends	122,952	105,352
Investments, at fair value:		
Fixed income securities	6,848,753	6,730,224
Corporate stock	11,723,142	10,361,924
Total assets	<u>20,937,532</u>	<u>18,766,246</u>
Liabilities:		
Accrued liabilities	<u>4,668</u>	<u>4,183</u>
Net assets held in trust for pension benefits (an unaudited schedule of funding progress is presented on page 10)	<u>\$ 20,932,864</u>	<u>\$ 18,762,063</u>

See accompanying notes to the financial statements

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

STATEMENTS OF CHANGES IN NET ASSETS

JUNE 30, 2006 AND 2005

	<b>2006</b>	<b>2005</b>
Additions:		
Contributions:		
Member contributions	\$ 213,443	\$ 213,357
Employer contributions	1,671,950	1,695,887
Total contributions	1,885,393	1,909,244
Investment income (expense):		
Net appreciation in fair value of investments	967,725	1,070,874
Interest and dividends	740,502	578,538
Less investment expenses	(73,707)	(68,688)
Net investment income	1,634,520	1,580,724
Total additions	3,519,913	3,489,968
Deductions:		
Benefits	1,333,240	1,306,832
Refunds of contributions	6,422	10,918
Administrative expenses	9,450	16,821
Total deductions	1,349,112	1,334,571
Net increase	2,170,801	2,155,397
Net assets held in trust for pension benefits:		
Beginning of year	18,762,063	16,606,666
End of year	\$ 20,932,864	\$ 18,762,063

See accompanying notes to the financial statements

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

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

**1. Description of the Fund**

The City of St. Joseph, Missouri Police Pension Fund (the Fund) 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 financial reporting entity and is included in the City's basic financial statements as a pension trust fund.

Covered payroll for the actuarial years ended in 2006 and 2005 was \$5,280,636 and \$5,031,068, respectively.

Fund membership consisted of the following for the actuarial years 2006 and 2005:

	<b>2006</b>	<b>2005</b>
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving them	83	86
Currently active employees:		
Vested	21	20
Nonvested	93	93
Total currently active employees	114	113
Total membership	197	199

The Fund provides retirement benefits as well as disability and death benefits. Eligibility for retirement benefits commences upon attaining 20 years of service. Eligibility for duty-related disability commences at the time of permanent disability, while the eligibility for nonduty-related disability commences after attainment of five years 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 greater 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, 2006 and 2005, 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, 2006 AND 2005

**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 based upon quoted market prices at the valuation date.

**(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, 2006 and 2005, cash totaling \$2,173,012 and \$1,497,366, respectively, is uncollateralized.

Investments for the Fund are as follows for the year ended June 30, 2006:

	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less than 1</u>	<u>1 thru 5</u>	<u>6 thru 10</u>
Investment type:				
Debt securities:				
U.S. treasuries	\$ 1,242,826	-	954,331	288,495
U.S. agencies	2,387,659	-	1,424,297	963,362
Corporate debt	3,218,268	1,204,564	2,013,704	-
	<u>6,848,753</u>	<u>\$ 1,204,564</u>	<u>4,392,332</u>	<u>1,251,857</u>
Other investments				
Corporate stock	<u>11,723,142</u>			
Total	<u>\$ 18,571,895</u>			

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

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

**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" securities held in the portfolio with an overall quality average AA or better allowed.

Credit ratings for the Fund investments that are rated are as follows:

	Fair Value	Quality Ratings			
		AAA	AA	A	BAA
Investment type:					
Debt securities:					
U.S. treasuries	\$ 1,242,826	1,242,826	-	-	-
U.S. agencies	2,387,659	2,387,659	-	-	-
Corporate debt	3,218,268	448,287	1,316,923	1,352,817	100,241
	<u>6,848,753</u>	<u>\$ 4,078,772</u>	<u>1,316,923</u>	<u>1,352,817</u>	<u>100,241</u>
Other investments					
Corporate stock	<u>11,723,142</u>				
Total	<u>\$ 18,571,895</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 10% 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. Convertible securities may represent attractive investment alternatives and are limited to 10% of the portfolio value. Equity securities should be diversified with no single equity issue exceeding 5% of the cost value of the total equity portfolio. 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	2006 Concentration
U.S. treasuries	\$ 1,242,826	18%
U.S. agencies	2,387,660	35%
Corporate debt:		
Bank One Corp	350,326	5%
BankBoston	424,872	6%
Bristol-Myers	398,936	6%
Campbell Soup Co	349,783	5%
Canada Government	350,354	5%

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

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

**Foreign Currency Risk** - The Fund's exposure to foreign currency risk is as follows:

<u>Investment</u>	<u>Currency</u>	<u>Maturity</u>	<u>Fair Value</u>
Canada government	Canadian dollar	11/5/2008	\$ 350,354

**Custodial Credit Risk** – 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.

**4. Contributions**

The Fund'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 are 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 18-year period.

Contributions totaling \$1,885,393 (\$1,671,950 employer and \$213,443 employee) were made during the year ended June 30, 2006. Contributions totaling \$1,909,244 (\$1,695,887 employer and \$213,357 employee) were made during the year ended June 30, 2005. Actual employer contribution rates, as a percent of covered payroll, were 31.6% and 33.2% for 2006 and 2005, 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.

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

Required Supplementary Information  
(Unaudited)

JUNE 30, 2006

**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
3/1/2001	\$ 13,917,081	\$ 25,204,061	\$ 11,286,980	55.2%	\$ 4,112,441	274.5%
3/1/2002	13,636,142	25,954,075	12,317,933	52.5%	4,256,330	289.4%
3/1/2003	13,013,882	26,313,571	13,299,689	49.5%	4,169,675	319.0%
3/1/2004	16,525,149	28,892,605	12,367,456	57.2%	4,607,684	268.4%
3/1/2005	18,233,797	30,819,539	12,585,742	59.2%	5,031,068	250.2%
3/1/2006	20,369,111	32,390,571	12,021,460	62.9%	5,136,368	234.0%

**Schedule of Employer Contributions**

Year ended June 30:	Annual required contributions	Percentage contributed
2001	\$ 994,184	100.0%
2002	1,173,490	100.0%
2003	1,505,895	100.0%
2004	1,641,927	100.0%
2005	1,695,887	100.0%
2006	1,671,950	100.0%

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

See accompanying independent auditors' report.

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

Required Supplementary Information  
(Unaudited)

JUNE 30, 2006

**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 March 1, 2006 is as follows:

Actuarial cost method	Individual entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	18 years
Asset valuation method	Market value
Actuarial assumptions:	
Inflation assumption	4%
Investment rate of return	7.5%
Salary increases	4%
Expenses	Anticipated expenses for current year are determined to be 0.6% of payroll
Mortality – healthy lives	1983 Group Annuity 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.

See accompanying independent auditors' report.