

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

Financial Statements and
Required Supplementary Information

For the Years Ended
June 30, 2015 and 2014

(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

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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 financial statements of the City of St. Joseph, Missouri Police Pension Fund (the Pension Fund) as of June 30, 2015 and 2014, and the related notes to the 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to 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 audits to obtain reasonable assurance about whether the financial statements are free from 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 assessment 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 audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Pension Fund as of June 30, 2015 and 2014, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Emphasis of Matters

As discussed in Note 1, the financial statements present only the Pension 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, 2015 and 2014, and the changes in its financial position for the years ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of Changes in the Employer Net Pension Liability and Related Ratios and the Schedule of Employer Contributions on pages 12-13 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.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

St. Joseph, Missouri
December 23, 2015

City of St. Joseph, Missouri
Police Pension Fund
Statements of Fiduciary Plan Net Position
June 30, 2015 and 2014

	2015	2014
Assets:		
Employer contributions receivable	\$ 61,054	\$ 60,911
Member contributions receivable	9,251	9,125
Accrued interest and dividends	182,803	145,527
Investments, at fair value:		
Fixed income securities	15,801,321	12,661,753
Corporate stocks	21,340,402	24,098,862
Total assets	37,394,831	36,976,178
Liabilities:		
Accrued liabilities	13,974	3,943
Net position restricted for pension benefits	\$ 37,380,857	\$ 36,972,235

See accompanying notes to the financial statement

City of St. Joseph, Missouri
Police Pension Fund
Statements of Changes in Fiduciary Plan Net Position
For the Years Ending June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Additions:		
Contributions:		
Member contributions	\$ 243,701	\$ 219,628
Employer contributions	<u>1,625,738</u>	<u>1,752,686</u>
Total contributions	<u>1,869,439</u>	<u>1,972,314</u>
Investment income:		
Net appreciation (depreciation) in fair value of investments	(116,718)	4,377,415
Interest and dividends	1,075,521	1,071,608
Less investment expenses	<u>(78,095)</u>	<u>(73,017)</u>
Net investment income	<u>880,708</u>	<u>5,376,006</u>
Total additions	<u>2,750,147</u>	<u>7,348,320</u>
Deductions:		
Benefits	2,249,010	2,083,418
Refund of contribution	20,902	4,117
Administrative expenses	<u>71,613</u>	<u>67,737</u>
Total deductions	<u>2,341,525</u>	<u>2,155,272</u>
Net change in net position	408,622	5,193,048
Net position restricted for pension benefits		
Beginning of year	<u>36,972,235</u>	<u>31,779,187</u>
End of year	<u>\$ 37,380,857</u>	<u>\$ 36,972,235</u>

See accompanying notes to the financial statement

CITY OF ST. JOSEPH, MISSOURI
POLICE PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

1. Description of the Fund

The City of St. Joseph, Missouri Police Pension Fund (the Pension Fund, Fund or Plan) is a single-employer, defined benefit 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.

Fund membership consisted of the following for the actuarial years 2015 and 2014:

	2015	2014
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving them	102	99
Currently active employees:		
Vested	31	31
Nonvested	83	76
Total currently active employees	114	107
Total membership	216	206

The Fund provides retirement benefits as well as disability and death benefits. Eligibility for retirement benefits commences upon attaining 20 years of service. Vesting of benefits does not occur until such time as eligibility requirements are met. Disability benefits commence at the time of permanent disability. Death benefits are payable upon death of any active or retired participant.

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. Permanent disability benefits due to active service 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. In the event the disabled employee has served less than one year, the Board may authorize a monthly payment equal to 50% of the employee's monthly earnings as of the date the disability occurred. Participants may be entitled to a refund of 100% of the member's contributions if a permanent disability, necessitating retirement occurs while not on active service. Duty related death benefits are calculated at the greatest of 50% of the monthly plan benefit that would have been received had they been retired on the date death or \$500 payable monthly to the widowed spouse. The benefit is payable as long as the widowed spouse remains unmarried; however, if the widowed spouse remarries, benefits will continue until such time as the employee would have attained twenty-five (25) years of service. Death benefits for a retired member are calculated at the greatest of 50% of the current monthly benefit or \$500 payable monthly to the widowed spouse (if married prior to the member's retirement date) as long as the widowed spouse remains unmarried. 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, 2015 and 2014, 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, 2015 AND 2014

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.

In 2014, the Pension Plan adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement 67 – Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25. The requirements of this Statement will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information.

The new information will enhance the decision-usefulness of the financial reports of these pension plans, their value for assessing accountability, and their transparency by providing information about measures of net pension liabilities and explanations of how and why those liabilities changed from year to year. The net pension liability information, including ratios, will offer an up-to-date indication of the extent to which the total pension liability is covered by the fiduciary net position of the pension plan. The comparability of the reported information for similar types of pension plans will be improved by the changes related to the attribution method used to determine the total pension liability. The contribution schedule will provide measures to evaluate decisions related to the assessment of contribution rates in comparison to actuarially determined rates, when such rates are determined. In that circumstance, it also will provide information about whether employers and nonemployer contributing entities, if applicable, are keeping pace with actuarially determined contribution measures. In addition, new information about rates of return on pension plan investments will inform financial report users about the effects of market conditions on the pension plan's assets over time and provide information for users to assess the relative success of the pension plan's investment strategy and the relative contribution that investment earnings provide to the pension plan's ability to pay benefits to plan members when they come due.

(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.

CITY OF ST. JOSEPH, MISSOURI
POLICE PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

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, 2015 and 2014, the Plan was not exposed to such risks.

Investments for the Fund are as follows for the year ended June 30, 2015:

	Fair Value	Investment Maturities (in years)		
		Less Than 1	1 - 5	6 - 10
Investment type:				
Debt Securities				
US Agencies	\$ 2,012,237	\$ -	\$ 2,012,237	\$ -
US Treasuries	3,413,721	100,055	3,168,447	145,219
Muni Obligations	102,065	102,065	-	-
Foreign debt	99,602	-	99,602	-
Corporate debt	10,173,696	1,349,006	6,996,687	1,828,003
	15,801,321	\$ 1,551,126	\$ 12,276,973	\$ 1,973,222
Other Investments:				
Corporate stock	21,340,402			
Total	\$ 37,141,723			

Investments for the Fund are as follows for the year ended June 30, 2014:

	Fair Value	Investment Maturities (in Years)		
		Less than 1	1 thru 5	6 thru 10
Investment type:				
Debt securities:				
Treasury bonds	\$ 2,095,853	\$ -	\$ 2,095,853	\$ -
U.S. agencies	1,835,073	-	1,835,073	-
Credit bond fund	104,222	-	104,222	-
Foreign obligations	225,475	127,024	98,451	-
Corporate debt	8,401,130	1,368,176	6,243,922	789,032
	12,661,753	\$ 1,495,200	\$ 10,377,521	\$ 789,032
Other investments				
Corporate stocks	24,098,862			
Total	\$ 36,760,615			

CITY OF ST. JOSEPH, MISSOURI
POLICE PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

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, 2015 for the Fund's investments that are rated are as follows:

	Fair Value	Quality Ratings			
		AAA	AA	A	BAA
Investment type:					
Debt securities:					
US Agencies	\$ 2,012,237	\$ 721,722	\$ -	\$ 1,290,515	\$ -
US Treasuries	3,413,721	3,413,721	-	-	-
Muni Obligations	102,065	-	102,065	-	-
Foreign obligations	99,602	-	99,602	-	-
Corporate debt	10,173,696	539,163	1,059,207	4,334,275	4,241,051
	<u>15,801,321</u>	<u>\$ 4,674,606</u>	<u>\$ 1,260,874</u>	<u>\$ 5,624,790</u>	<u>\$ 4,241,051</u>
Other investments					
Corporate stocks	<u>21,340,402</u>				
Total	<u>\$ 37,141,723</u>				

Credit ratings at June 30, 2014 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	\$ 2,095,853	\$ 2,095,853	\$ -	\$ -	\$ -
U.S. agencies	1,835,073	1,835,073	-	-	-
Municipal bonds	-				
Credit bond fund	104,222	-	104,222	-	-
Foreign obligations	225,475	-	225,475	-	-
Corporate debt	8,401,130	558,447	1,211,447	4,416,423	2,214,813
	<u>12,661,753</u>	<u>\$ 4,489,373</u>	<u>\$ 1,541,144</u>	<u>\$ 4,416,423</u>	<u>\$ 2,214,813</u>
Other investments					
Corporate stocks	<u>24,098,862</u>				
Total	<u>\$ 36,760,615</u>				

CITY OF ST. JOSEPH, MISSOURI
POLICE PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

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 +/- 10%. (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 +/- 10%. (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.

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.

Rate of return

For the year ended June 30, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 2.41 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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 \$1,869,439 (\$1,625,738 employer and \$243,701 member) were made during the year ended June 30, 2015. Contributions totaling \$1,972,314 (\$1,752,686 employer and \$219,628 member) were made during the year ended June 30, 2014. Actual employer contribution rates, as a percent of covered payroll, were 26.70% and 31.90% for 2015 and 2014, 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 change could materially affect the amounts reported in the statements of plan net position.

CITY OF ST. JOSEPH, MISSOURI
POLICE PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

6. Net Pension Liability of the City

Components of the net pension liability of the City include the following:

	2015	2014
Total pension liability	\$ 46,599,916	\$ 42,633,907
Plan fiduciary net position	(37,380,857)	(36,972,235)
City's net pension liability	<u>\$ 9,219,059</u>	<u>\$ 5,661,672</u>
Plan fiduciary net position as a percentage of the total pension liability	80.2%	86.7%

Actuarial Valuation Information

The total pension liability was determined by an actuarial valuation as of January 1, 2015, using the following actuarial assumptions, applied to all prior periods included in the measurement:

Actuarial cost method	Individual entry age
Amortization method	Level percentage of payroll over 20 years
Actuarial assumptions:	
Inflation assumption	2.5%
Investment rate of return	7.5%
Salary increases	4.0% including 2.0% assumed future COLA
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 did not significantly change from those use in the prior valuation.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015 are summarized in the following table:

	<u>Long-term Expected Real Rate of Return</u>
Fixed Income	3.5%
Domestic equity	8.0%
International equity	8.0%
Cash	1.5%

CITY OF ST. JOSEPH, MISSOURI
POLICE PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

Discount rate

The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from the City will be made at the actuarially determined amounts. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate.

The following presents the net pension liability of the City calculated using the discount rate of 7.50 percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
	6.50%	7.50%	8.50%
City's net pension liability	\$ 14,817,758	\$ 9,219,059	\$ 4,567,366
	\$ 14,817,758	\$ 9,219,059	\$ 4,567,366

8. Subsequent Events

The Plan evaluated subsequent events through December 23, 2015, the date the financial statements were available to be issued. No subsequent events were identified that required disclosure in the financial statements.

Required Supplementary Information

City of St. Joseph, Missouri
Police Pension Fund
Required Supplementary Information

Schedule of Changes in the Employer Net Pension Liability
and Related Ratios

	<u>2015</u>	<u>2014</u>
Total Pension Liability		
Service costs	\$ 884,293	\$ 882,284
Interest	3,180,140	3,037,990
Difference between expected and actual experience	2,171,488	176,916
Benefit payments	<u>(2,269,912)</u>	<u>(2,087,535)</u>
Net change in pension liability	3,966,009	2,009,655
Total pension liability - beginning of year	<u>42,633,907</u>	<u>40,624,252</u>
Total pension liability - end of year (a)	<u><u>\$ 46,599,916</u></u>	<u><u>\$ 42,633,907</u></u>
 Plan Fiduciary Net Position		
Member contributions	\$ 243,701	\$ 219,628
Employer contributions	1,625,738	1,752,686
Net investment income	880,708	5,376,006
Benefit payments and refunds	(2,269,912)	(2,087,535)
Administrative expenses	<u>(71,613)</u>	<u>(67,737)</u>
Net change in plan fiduciary net position	408,622	5,193,048
 Plan fiduciary net position - beginning of year	<u>36,972,235</u>	<u>31,779,187</u>
Plan fiduciary net position - end of year (b)	<u><u>\$ 37,380,857</u></u>	<u><u>\$ 36,972,235</u></u>
 Employer's net pension liability (a) - (b)	<u><u>\$ 9,219,059</u></u>	<u><u>\$ 5,661,672</u></u>
 Plan net position as a percentage of the total pension liability	 80.2%	 86.7%
 Covered employee payroll	 \$ 6,087,055	 \$ 5,494,313
 City's net pension liability as a percentage of covered payroll	 151.5%	 103.0%

City of St. Joseph, Missouri
Police Pension Fund
Required Supplementary Information

Schedule of Employer Contributions

	2015	2014
Actuarially determined contributions	\$ 1,625,738	\$ 1,752,686
Contributions in relation to the actuarially determined contributions	(1,625,738)	(1,752,686)
Contributions deficiency (excess)	\$ -	\$ -
 Covered employee payroll	 \$ 6,087,055	 \$ 5,494,313
 Contributions as a percentage of Covered employee payroll	 26.7%	 31.9%

Notes to Required Supplementary Information

Actuarially determined contributions rates are calculated as of January 1, eighteen months prior to the end of the fiscal year in which contributions are reported

Methods and assumptions used to determine contributions rates:

Actuarial cost method	Individual entry age
Amortization method	Level percentage of payroll, open
Remaining amortization period	20 years
Investment rate of return	7.50%
Inflation assumption	2%
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