

VILLAGE OF ITASCA, ILLINOIS

POLICE PENSION FUND

ANNUAL FINANCIAL REPORT

For the Year Ended
April 30, 2016



VILLAGE OF ITASCA, ILLINOIS
POLICE PENSION FUND
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INDEPENDENT AUDITOR'S REPORT

The Honorable President
Members of the Board of Trustees
Police Pension Fund
Village of Itasca, Illinois

We have audited the accompanying financial statements of the Police Pension Fund (the Fund), a pension trust fund of the Village of Itasca, Illinois (the Village) as of and for the year ended April 30, 2016 and the related notes to financial statements, which collectively comprise the basic financial statements of the Fund as listed in the accompanying 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 an opinion 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. Those standards require that we plan and perform the audit 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 Fund'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 Fund'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.

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the plan net position of the Police Pension Fund of the Village of Itasca, Illinois, as of April 30, 2016, and the changes in plan net position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 1, these basic financial statements present only the Fund and are not intended to present fairly the financial position and changes in financial position of the Village in conformity with accounting principles generally accepted in the United States of America.

Other Matters

The Fund has not presented a Management's Discussion and Analysis as required supplementary information 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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information 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.

Sikich LLP

Naperville, Illinois
October 18, 2016

BASIC FINANCIAL STATEMENTS

VILLAGE OF ITASCA, ILLINOIS

POLICE PENSION FUND

STATEMENT OF FIDUCIARY NET POSITION

April 30, 2016

ASSETS	
Cash and short-term investments	\$ 100,628
Investments, at fair value	
Mutual funds	7,835,823
U.S. Treasury securities	2,005,180
U.S. agency securities	624,646
Corporate bonds	1,836,923
Corporate equity securities	1,816,047
Money market mutual funds	211,103
Receivables (net, where applicable, of allowances for uncollectibles)	
Accrued interest	<u>26,266</u>
 Total assets	 <u>14,456,616</u>
 LIABILITIES	
Due to primary government	<u>11,993</u>
 Total liabilities	 <u>11,993</u>
 NET POSITION RESTRICTED FOR PENSIONS	
	<u><u>\$ 14,444,623</u></u>

See accompanying notes to financial statements.

VILLAGE OF ITASCA, ILLINOIS

POLICE PENSION FUND

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

For the Year Ended April 30, 2016

ADDITIONS

Contributions

Employer contributions	\$ 704,812
Employee contributions	<u>219,289</u>

Total contributions	<u>924,101</u>
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Investment income

Interest and dividends	406,443
Net depreciation in fair value of investments	<u>(713,512)</u>

Total investment income	(307,069)
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Less investment expense	<u>(103,667)</u>
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Net investment income	<u>(410,736)</u>
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Total additions	<u>513,365</u>
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DEDUCTIONS

Pension benefits	1,256,271
Administrative expenses	<u>45,250</u>

Total deductions	<u>1,301,521</u>
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NET DECREASE	(788,156)
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**NET POSITION RESTRICTED
FOR PENSIONS**

May 1	<u>15,232,779</u>
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April 30	<u><u>\$ 14,444,623</u></u>
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See accompanying notes to financial statements.

VILLAGE OF ITASCA, ILLINOIS

POLICE PENSION FUND

NOTES TO FINANCIAL STATEMENTS

April 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Police Pension Fund (the Fund), a pension trust fund of the Village of Itasca, Illinois (the Village), have been prepared in accordance with accounting principles generally accepted in the United States of America, as applied to government units (hereinafter referred to as generally accepted accounting principles (GAAP)). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the accounting policies are described below.

A. Reporting Entity

The Fund is a fiduciary fund of the Village pursuant to GASB Statement No. 61.

B. Fund Accounting

The Fund uses one fund to report on its fiduciary net position and the changes in its fiduciary net position. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The Fund is classified in this report in the fiduciary category.

Fiduciary funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the government. When pension plan assets are held under the terms of a formal trust agreement, a pension trust fund is used.

C. Basis of Accounting

The Fund is accounted for with a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the statement of fiduciary net position. Pension trust fund operating statements present increases (e.g., additions) and decreases (e.g., deductions) in net position restricted for pension benefits.

The accrual basis of accounting is utilized by the pension trust fund. Under this method, additions are recorded when earned and deductions are recorded at the time the liabilities are incurred.

VILLAGE OF ITASCA, ILLINOIS
POLICE PENSION FUND
NOTES TO FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Investments

Investments are stated at fair value at April 30, 2016. Securities traded on national exchanges are at the last reported sale price.

2. PLAN DESCRIPTION

A. Plan Administration

Police sworn personnel are covered by the Police Pension Plan (the Plan), which is a defined benefit single-employer pension plan. Although the Plan is considered a single-employer pension plan, the defined benefits as well as the employee and employer contribution levels are mandated by Illinois Compiled Statutes (ILCS), 40 ILCS 5/3 and may be amended only by the Illinois legislature.

The Fund is governed by a five-member Board of Trustees. Two members of the Board of Trustees are appointed by the Village's Mayor, one members is elected by pension beneficiaries and two members are elected by active police employees.

B. Plan Membership

At April 30, 2016, the measurement date, membership consisted of:

Inactive plan members currently receiving benefits	23
Inactive plan members entitled to but not yet receiving benefits	-
Active plan members	22
 TOTAL	 45

C. Benefits Provided

The following is a summary of the Plan as provided for in ILCS:

The Plan provides retirement benefits as well as death and disability benefits. Tier 1 employees (those hired as a police officer prior to January 1, 2011) attaining the age of 50 or older with 20 or more years of creditable service are entitled to receive an annual retirement benefit equal to one-half of the salary attached to the rank held on the last day of service, or for one year prior to the last day, whichever is greater. The annual benefit shall be increased by 2.5% of such salary for each additional year of

VILLAGE OF ITASCA, ILLINOIS
POLICE PENSION FUND
NOTES TO FINANCIAL STATEMENTS (Continued)

2. PLAN DESCRIPTION

C. Benefits Provided (Continued)

service over 20 years up to 30 years to a maximum of 75% of such salary. Employees with at least eight years but less than 20 years of credited service may retire at or after age 60 and receive a reduced benefit. The monthly benefit of a police officer who retired with 20 or more years of service after January 1, 1977 shall be increased annually, following the first anniversary date of retirement and be paid upon reaching the age of at least 55 years, by 3% of the original pension, and 3% compounded annually thereafter.

Tier 2 employees (those hired on or after January 1, 2011) attaining the age of 55 or older with ten or more years of creditable service are entitled to receive an annual retirement benefit equal to the average monthly salary obtained by dividing the total salary of the police officer during the 96 consecutive months of service within the last 120 months of service in which the total salary was the highest by the number of months of service in that period. Police officers' salary for pension purposes is capped at \$106,800, plus the lesser of ½ of the annual change in the Consumer Price Index or 3% compounded. The annual benefit shall be increased by 2.5% of such salary for each additional year of service over 20 years up to 30 years to a maximum of 75% of such salary. Employees with at least ten years may retire at or after age 50 and receive a reduced benefit (i.e., ½% for each month under 55). The monthly benefit of a Tier 2 police officer shall be increased annually at age 60 on the January 1st after the police officer retires, or the first anniversary of the pension starting date, whichever is later. Noncompounding increases occur annually, each January thereafter. The increase is the lesser of 3% or ½ of the change in the Consumer Price Index for the proceeding calendar year.

D. Contributions

Employees are required by ILCS to contribute 9.91% of their base salary to the Plan. If an employee leaves covered employment with less than 20 years of service, accumulated employee contributions may be refunded without accumulated interest. The Village is required to contribute the remaining amounts necessary to finance the Plan as actuarially determined by an enrolled actuary. Effective January 1, 2011, the Village has until the year 2040 to fund 90% of the past service cost for the Plan. However, the Village has been contributing 100% of the past service costs by 2033. For the year ended April 30, 2016, the Village's contribution was 35.63% of covered payroll.

VILLAGE OF ITASCA, ILLINOIS
POLICE PENSION FUND
NOTES TO FINANCIAL STATEMENTS (Continued)

3. INVESTMENTS

The deposits and investments of the Fund are held separately from those of the Village.

A. Investment Policy

ILCS limits the Fund's investments to those allowable by ILCS and require the Fund's Board of Trustees to adopt an investment policy which can be amended by a majority vote of the Board of Trustees. ILCS and the Fund's investment policy authorize the Fund to make deposits/invest in insured commercial banks, savings and loan institutions, obligations of the U.S. Treasury and U.S. agencies, insured credit union shares, money market mutual funds with portfolios of securities issued or guaranteed by the United States Government or agreements to repurchase these same obligations, repurchase agreements, short-term commercial paper rated within the three highest classifications by at least two standard rating services, and Illinois Funds. The Fund may also invest in certain non-U.S. obligations, Illinois municipal corporations tax anticipation warrants, veteran's loans, obligations of the State of Illinois and its political subdivisions, Illinois insurance company general and separate accounts, mutual funds, and corporate equity and corporate debt securities, and real estate investment trusts.

The Fund's investment policy in accordance with ILCS establishes the following target allocation across asset classes:

Asset Class	Target	Long-Term Expected Real Rate of Return
U.S. Cash	3.0%	0.00%
U.S. Fixed Income	32.0%	0.21%
Emerging Markets Debt	3.0%	2.36%
U.S. Large Cap Equity	5.0%	5.00%
U.S. Small/Mid Cap Equity	7.5%	6.04%
U.S. Preferred Securities	4.0%	3.02%
U.S. Convertible Bonds	6.0%	4.05%
International Developed Markets Equity	6.0%	5.97%
Emerging Markets Equity	9.0%	7.52%
Real Estate	7.5%	6.02%
Tactical All Asset	10.0%	3.70%
MLP's	4.0%	3.20%
Floating rate notes	3.0%	3.10%

VILLAGE OF ITASCA, ILLINOIS
POLICE PENSION FUND
NOTES TO FINANCIAL STATEMENTS (Continued)

3. INVESTMENTS (Continued)

A. Investment Policy (Continued)

ILCS limits the Fund's investments in equities, mutual funds, and variable annuities to 65%. Securities in any one company should not exceed 5% of the total fund. There were no changes to the investment policy during the year.

The long-term expected rate of return on the Fund's investments was determined using an asset allocation study conducted by the Fund's investment management consultant in which best-estimate ranges of expected future real rates of return (net of pension plan investment expense and inflation of 2.5%) were developed for each major assets class. These ranges were 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 or arithmetic real rates of return for each major asset class included in the Fund's target asset allocation as of April 30, 2016 are listed in the table above.

B. Concentrations

There are no significant investments (other than United States Government guaranteed obligations) in any one organization that represent 5% or more of the Fund's investments.

C. Rate of Return

For the year ended April 30, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was (2.68%). The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

D. Deposits with Financial Institutions

Custodial credit risk for deposits with financial institutions is the risk that in the event of a bank's failure, the Fund's deposits may not be returned to them. The Fund's investment policy does not require pledging of collateral for all bank balances in excess of federal depository insurance, since flow-through FDIC insurance is available for the Fund's deposits with financial institutions.

VILLAGE OF ITASCA, ILLINOIS
POLICE PENSION FUND
NOTES TO FINANCIAL STATEMENTS (Continued)

3. INVESTMENTS (Continued)

E. Interest Rate Risk

The following table presents the investments and maturities of the Fund's debt securities as of April 30, 2016:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1-5	6-10	Greater than 10
U.S. agency securities	\$ 624,646	\$ -	\$ -	\$ -	\$ 624,646
U.S. Treasury securities	2,005,180	-	1,235,940	452,546	316,694
Corporate bonds	1,836,923	10,420	487,900	950,418	388,185
TOTAL	\$ 4,466,749	\$ 10,420	\$ 1,723,840	\$ 1,402,964	\$ 1,329,525

Interest rate risk is the risk that change in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the Fund limits its exposure to interest rate risk by structuring the portfolio to provide liquidity for operating funds and maximizing yields for funds not needed for expected current cash flows. The investment policy does not limit the maximum maturity length of investments in the Fund.

F. Credit Risk

The Fund limits its exposure to credit risk, the risk that the issuer of a debt security will not pay its par value upon maturity, by primarily investing in obligations guaranteed by the United States Government or securities issued by agencies of the United States Government that are explicitly or implicitly guaranteed by the United States Government and corporate bonds. However, the investment policy is silent regarding exposure to credit risk. The U.S. agency obligations and corporate bonds are rated AA+ and CCC+ to AA, respectively, by Standard and Poor's.

G. Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to the investment, the Fund will not be able to recover the value of its investments that are in possession of an outside party. The Fund's investment policy requires a third party custodian. The money market mutual funds and equity mutual funds are not subject to custodial credit risk.

VILLAGE OF ITASCA, ILLINOIS
POLICE PENSION FUND
NOTES TO FINANCIAL STATEMENTS (Continued)

4. PENSION LIABILITY OF THE VILLAGE

A. Net Pension Liability

The components of the net pension liability of the Plan as of April 30, 2016 were as follows:

Total pension liability	\$ 31,586,328
Plan fiduciary net position	14,444,623
Village's net pension liability	17,141,705
Plan fiduciary net position as a percentage of the total pension liability	45.70%

See the schedule of changes in the employer's net pension liability and related ratios on page 14 of the required supplementary information for additional information related to the funded status of the Fund.

B. Actuarial Assumptions

The total pension liability above was determined by an actuarial valuation performed as of April 30, 2016 using the following actuarial methods and assumptions.

Actuarial valuation date	April 30, 2016
Actuarial cost method	Entry-age normal
Assumptions	
Inflation	2.50%
Salary increases	4.50%
Interest rate	7.55%
Cost of living adjustments	3.00% (Tier 1) 2.00% (Tier 2)
Asset valuation method	Market

Mortality rates were based on the RP 2014 Mortality Table (BCHA). The actuarial assumptions used in the April 30, 2016 valuation were based on the results of an actuarial experience study conducted by the Illinois Department of Insurance dated September 26, 2012.

VILLAGE OF ITASCA, ILLINOIS
POLICE PENSION FUND
NOTES TO FINANCIAL STATEMENTS (Continued)

4. PENSION LIABILITY OF THE VILLAGE (Continued)

C. Discount Rate

The discount rate used to measure the total pension liability was 7.55%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made at the current contribution rate and that Village contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the Fund'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.

D. Discount Rate Sensitivity

The following is a sensitive analysis of the net pension liability to changes in the discount rate. The table below presents the net pension liability of the Village calculated using the discount rate of 7.55% as well as what the Village's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.55%) or one percentage point higher (8.55%) than the current rate:

	1% Decrease (6.55%)	Current Discount Rate (7.55%)	1% Increase (8.55%)
Net pension liability	\$ 21,288,480	\$ 17,141,705	\$ 13,718,867

REQUIRED SUPPLEMENTARY INFORMATION

VILLAGE OF ITASCA, ILLINOIS

POLICE PENSION FUND

SCHEDULE OF EMPLOYER CONTRIBUTIONS

April 30, 2016

	<u>2015</u>	<u>2016</u>
Actuarially determined contribution	\$ 676,543	\$ 694,619
Contributions in relation to the actuarially determined contribution	<u>677,725</u>	<u>704,812</u>
CONTRIBUTION DEFICIENCY (Excess)	<u>\$ (1,182)</u>	<u>\$ (10,193)</u>
Covered-employee payroll	\$ 2,148,640	\$ 1,977,927
Contributions as a percentage of covered-employee payroll	31.54%	35.63%

Notes to Schedule

Valuation Date: Actuarially determined contribution rates are calculated as of May 1 of the prior fiscal year.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry-age normal
Amortization method	Level percent of pay, closed; 100%
Remaining amortization period	25 years
Asset valuation method	Market
Inflation	2.5%
Salary increases	4.5%
Investment rate of return	7.55%
Retirement age	See Note 2 in the Notes to Financial Statements
Mortality	Mortality rates were based on the RP 2014 BCHA Mortality Table

(See independent auditor's report.)

VILLAGE OF ITASCA, ILLINOIS

POLICE PENSION FUND

SCHEDULE OF CHANGES IN THE EMPLOYER'S
NET PENSION LIABILITY AND RELATED RATIOS

April 30, 2016

	2015	2016
TOTAL PENSION LIABILITY		
Service cost	\$ 360,963	\$ 409,850
Interest	1,739,122	2,074,655
Changes of benefit terms	-	-
Differences between expected and actual experience	814,832	316,067
Changes of assumptions*	1,724,772	1,935,023
Benefit payments, including refunds of member contributions	(1,041,152)	(1,256,271)
	3,598,537	3,479,324
Net change in total pension liability		
Total pension liability - beginning	24,508,467	28,107,004
TOTAL PENSION LIABILITY - ENDING	\$ 28,107,004	\$ 31,586,328
PLAN FIDUCIARY NET POSITION		
Contributions - employer	\$ 677,725	\$ 704,812
Contributions - member	215,723	219,289
Net investment income	759,851	(410,736)
Benefit payments, including refunds of member contributions	(1,041,152)	(1,256,271)
Administrative expense	(25,762)	(45,250)
	586,385	(788,156)
Net change in plan fiduciary net position		
Plan fiduciary net position - beginning	14,646,394	15,232,779
PLAN FIDUCIARY NET POSITION - ENDING	\$ 15,232,779	\$ 14,444,623
EMPLOYER'S NET PENSION LIABILITY	\$ 12,874,225	\$ 17,141,705
Plan fiduciary net position as a percentage of the total pension liability	54.20%	45.70%
Covered-employee payroll	\$ 2,148,640	\$ 1,977,927
Employer's net pension liability as a percentage of the total pension liability	599.20%	866.70%

* Changes in assumptions related to mortality were made since the prior measurement date.

(See independent auditor's report.)

VILLAGE OF ITASCA, ILLINOIS

POLICE PENSION FUND

SCHEDULE OF INVESTMENT RETURNS

April 30, 2016

	<u>2015</u>	<u>2016</u>
Annual money-weighted rate of return, net of investment expense	5.19%	(2.68%)

(See independent auditor's report.)