

VILLAGE OF ITASCA, ILLINOIS

POLICE PENSION FUND

ANNUAL FINANCIAL REPORT

For the Year Ended
April 30, 2014



VILLAGE OF ITASCA, ILLINOIS
POLICE PENSION FUND
TABLE OF CONTENTS

| | <u>Page(s)</u> |
|--|----------------|
| INDEPENDENT AUDITOR’S REPORT | 1-2 |
| BASIC FINANCIAL STATEMENTS | |
| Statement of Plan Net Position | 3 |
| Statement of Changes in Plan Net Position..... | 4 |
| Notes to Financial Statements | 5-10 |
| Required Supplementary Information | |
| Schedule of Funding Progress | 11 |
| Schedule of Employer Contributions | 12 |



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Certified Public Accountants & Advisors
Members of American Institute of Certified Public Accountants

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, a pension trust fund of the Village of Itasca, Illinois (the Village) as of and for the year ended April 30, 2014 and the related notes to the financial statements, which collectively comprise the Police Pension Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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.

Auditor's Responsibility

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 Police Pension 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 Police Pension 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 financial statements referred to above present fairly, in all material respects, the respective financial position of the Police Pension Fund of the Village of Itasca, Illinois, as of April 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

As discussed in Note 1A, these basic financial statements present only the Police Pension 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.

The Police Pension Fund of the Village has not presented a Management's Discussion and Analysis as required supplementary information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

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.



Naperville, Illinois
October 24, 2014

BASIC FINANCIAL STATEMENTS

VILLAGE OF ITASCA, ILLINOIS

POLICE PENSION FUND

STATEMENT OF PLAN NET POSITION

April 30, 2014

ASSETS

| | | |
|--|----|------------|
| Cash and short-term investments | \$ | 42,495 |
| Investments, at fair value | | |
| Mutual funds | | 3,259,854 |
| U.S. Treasury securities | | 2,344,710 |
| U.S. agency securities | | 1,955,293 |
| Corporate bonds | | 709,353 |
| Corporate equity securities | | 5,765,022 |
| Money market mutual funds | | 540,985 |
| Receivables (net, where applicable, of allowances for uncollectibles) | | |
| Accrued interest | | 24,362 |
| Due from primary government | | 4,320 |
| | | <hr/> |
| Total assets | | 14,646,394 |

LIABILITIES

| | | |
|-------------------|--|-------|
| None | | <hr/> |
| | | - |
| | | <hr/> |
| Total liabilities | | - |

**NET PLAN POSITION HELD IN TRUST FOR
PENSION BENEFITS (A schedule of funding
progress is presented on page 11)**

\$ 14,646,394

See accompanying notes to financial statements.

VILLAGE OF ITASCA, ILLINOIS

POLICE PENSION FUND

STATEMENT OF CHANGES IN PLAN NET POSITION

For the Year Ended April 30, 2014

ADDITIONS

Contributions

| | |
|------------------------|------------|
| Employer contributions | \$ 578,545 |
| Employee contributions | 199,030 |

| | |
|---------------------|----------------|
| Total contributions | <u>777,575</u> |
|---------------------|----------------|

Investment income

| | |
|--|----------------|
| Interest and dividends | 417,696 |
| Net appreciation in fair value of investments | <u>755,563</u> |

| | |
|-------------------------|------------------|
| Total investment income | 1,173,259 |
| Less investment expense | <u>(125,460)</u> |

| | |
|-----------------------|------------------|
| Net investment income | <u>1,047,799</u> |
|-----------------------|------------------|

| | |
|-----------------|------------------|
| Total additions | <u>1,825,374</u> |
|-----------------|------------------|

DEDUCTIONS

| | |
|-------------------------|---------------|
| Pension benefits | 932,254 |
| Administrative expenses | <u>29,190</u> |

| | |
|------------------|----------------|
| Total deductions | <u>961,444</u> |
|------------------|----------------|

| | |
|--------------|---------|
| NET INCREASE | 863,930 |
|--------------|---------|

**NET POSITION HELD IN TRUST
FOR PENSION BENEFITS**

| | |
|-------|-------------------|
| May 1 | <u>13,782,464</u> |
|-------|-------------------|

| | |
|----------|-----------------------------|
| April 30 | <u><u>\$ 14,646,394</u></u> |
|----------|-----------------------------|

See accompanying notes to financial statements.

VILLAGE OF ITASCA, ILLINOIS

POLICE PENSION FUND

NOTES TO FINANCIAL STATEMENTS

April 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Police Pension Fund of the Village of Itasca, Illinois (the Fund), 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 reported as a pension trust fund of the Village of Itasca, Illinois (the Village) pursuant to GASB Statement No. 14.

B. Fund Accounting

The Plan uses funds to report on its net position and the changes in its 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. Funds are classified in this report into 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 pension trust 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 plan net position. Pension trust fund operating statements present increases (e.g., additions) and decreases (e.g., deductions) in net total position.

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, 2014. Securities traded on national exchanges are at the last reported sale price.

2. DEPOSITS AND INVESTMENTS

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

Permitted Deposits and Investments - Statutes 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 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 securities.

Police Pension Fund 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.

Police Pension Fund Investments

The following table presents the investments and maturities of the Fund's debt securities as of April 30, 2014:

| Investment Type | Fair Value | Investment Maturities (in Years) | | | |
|--------------------------|---------------------|----------------------------------|---------------------|---------------------|---------------------|
| | | Less than 1 | 1-5 | 6-10 | Greater than 10 |
| U.S. agency securities | \$ 1,955,293 | \$ 93,187 | \$ 169,116 | \$ 74,347 | \$ 1,618,643 |
| U.S. Treasury securities | 2,344,710 | 237,095 | 958,034 | 592,047 | 557,534 |
| Corporate bonds | 709,353 | - | 229,538 | 458,826 | 20,989 |
| TOTAL | \$ 5,009,356 | \$ 330,282 | \$ 1,356,688 | \$ 1,125,220 | \$ 2,197,166 |

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

2. DEPOSITS AND INVESTMENTS (Continued)

Police Pension Fund Investments (Continued)

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.

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. 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.

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 investment policy is silent regarding exposure to custodial credit risk. The money market mutual funds and equity mutual funds are not subject to custodial credit risk.

Concentration of credit risk - the Fund's investment policy limits the amount of the portfolio that can be invested in any one investment vehicle as follows:

| Diversification by Instrument | Targeted Percent of Portfolio | Range |
|-------------------------------|-------------------------------|---------|
| Domestic LC Equity | 5% | 0-55% |
| Domestic SC Equity | 7.5% | 0-55% |
| International Equity Funds | 6% | 0-55% |
| Emerging Markets Equity | 9% | 0-55% |
| Preferred Securities | 4% | 0-55% |
| Tactical All Asset | 10% | 0-55% |
| Real Estate | 7.5% | 0-55% |
| MLPs | 4% | 0-55% |
| Floating Rate Notes | 3% | 0-55% |
| Emerging Markets Debt | 3% | 0-55% |
| Convertible Bonds | 6% | 0-55% |
| Fixed Income and Cash | 35% | 35-100% |

Equity securities in total can not exceed 55% of the Fund's investments.

The Fund's investment policy does not prohibit the investment in derivatives.

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

3. POLICE PENSION PLAN

A. Plan Description

Police sworn personnel are covered by the Police Pension Plan (the Plan), which is a defined benefit single-employer pension plan. Although this 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.

At April 30, 2014, membership consisted of:

| | |
|--|-------------------------|
| Retirees and beneficiaries currently receiving benefits | 18 |
| Terminated employees entitled to benefits but not yet receiving them | 1 |
| Employees | |
| Vested | 16 |
| Nonvested | <u>6</u> |
| TOTAL | <u><u>41</u></u> |

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 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.

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

3. POLICE PENSION PLAN (Continued)

A. Plan Description (Continued)

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.

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. For the year ended April 30, 2014, the Village's contribution was 29.05% of covered payroll.

B. Related Party Transactions

There are no securities of the employer or any other related parties included in plan assets, including any loans.

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

3. POLICE PENSION PLAN (Continued)

C. Funded Status

The funded status of the Plan as of April 30, 2014 was as follows:

| | |
|---|---------------|
| Actuarial accrued liability (AAL) | \$ 24,508,467 |
| Actuarial value of plan assets | 14,646,394 |
| Unfunded actuarial accrued liability (UAAL) | 9,862,073 |
| Funded ratio (actuarial value of plan assets/AAL) | 59.8% |
| Covered payroll (active plan members) | \$ 1,991,755 |
| UAAL as a percentage of covered payroll | 495.1% |

See the schedule of funding progress on page 11 of the required supplementary information for additional information related to the funded status of the Plan.

This information is presented in accordance with GASB Statement No. 25. The information presented was determined as part of the actuarial valuations as of April 30, 2014. Additional information as of the latest actuarial valuation presented is as follows: the actuarial cost method was entry-age normal; the amortization method was level percent of pay, closed, and the remaining amortization period was 27 years; the asset valuation method was market value; and the significant actuarial assumptions were an investment rate of return at 7.55% annually, a projected salary increases assumption of 4.5% compounded annually, and postretirement benefit increases of 3% compounded annually.

REQUIRED SUPPLEMENTARY INFORMATION

VILLAGE OF ITASCA, ILLINOIS

SCHEDULE OF FUNDING PROGRESS

POLICE PENSION FUND

April 30, 2014

| Actuarial Valuation Date April 30, | (1) Actuarial Value of Plan Assets | (2) Actuarial Accrued Liability (AAL) Entry-Age | (3) Funded Ratio (1) / (2) | (4) Unfunded Accrued Liability (2) - (1) | (5) Annual Covered Payroll | (6) Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll (4) / (5) |
|---|--|--|-------------------------------------|--|-------------------------------------|---|
| 2009 | \$ 9,847,482 | \$ 17,730,329 | 55.54% | \$ 7,882,847 | \$ 1,926,683 | 409.14% |
| 2010 | 11,517,789 | 19,130,207 | 60.21% | 7,612,418 | 1,987,850 | 382.95% |
| 2011 | 12,962,966 | 20,442,904 | 63.41% | 7,479,938 | 1,973,692 | 378.98% |
| 2012 | 12,922,072 | 21,583,226 | 59.87% | 8,661,154 | 1,877,990 | 461.19% |
| 2013 | 13,782,647 | 23,655,529 | 58.26% | 9,872,882 | 1,998,734 | 493.96% |
| 2014 | 14,646,394 | 24,508,467 | 59.76% | 9,862,073 | 1,991,755 | 495.14% |

Notes to the Required Supplementary Information

This information is presented in accordance with GASB Statement No. 25. The information presented was determined as part of the actuarial valuations as of April 30. Additional information as of the latest actuarial valuation presented is as follows: the actuarial cost method was entry-age normal; the amortization method was level percent of pay, closed, and the remaining amortization period was 28 years; the asset valuation method was at market value; and the significant actuarial assumptions were an investment rate of return at 7.55% annually, a projected salary increases assumption of 4.5% compounded annually, and postretirement benefit increases of 3% compounded annually.

(See independent auditor's report.)

VILLAGE OF ITASCA, ILLINOIS

SCHEDULE OF EMPLOYER CONTRIBUTIONS

POLICE PENSION FUND

April 30, 2014

| Year Ended April 30, | Employer Contributions | Annual Required Contribution (ARC) | Percent Contributed |
|---------------------------------|-----------------------------------|---|--------------------------------|
| 2009 | \$ 394,890 | \$ 384,556 | 102.69% |
| 2010 | 502,722 | 490,884 | 102.41% |
| 2011 | 606,037 | 620,922 | 97.60% |
| 2012 | 596,937 | 621,324 | 96.07% |
| 2013 | 545,817 | 537,359 | 101.57% |
| 2014 | 578,545 | 576,591 | 100.34% |

Notes to the Required Supplementary Information

This information is presented in accordance with GASB Statement No. 25. The information presented was determined as part of the actuarial valuations as of April 30. Additional information as of the latest actuarial valuation presented is as follows: the actuarial cost method was entry-age normal; the amortization method was level percent of pay, closed, and the remaining amortization period was 28 years; the asset valuation method was at market value; and the significant actuarial assumptions were an investment rate of return at 7.55% annually, a projected salary increases assumption of 4.5% compounded annually, and postretirement benefit increases of 3% compounded annually.

(See independent auditor's report.)