

VILLAGE OF ITASCA, ILLINOIS

POLICE PENSION FUND

ANNUAL FINANCIAL REPORT

For the Year Ended
April 30, 2011



Certified Public Accountants & Advisors

VILLAGE OF ITASCA, ILLINOIS
POLICE PENSION FUND
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998 Corporate Boulevard • Aurora, IL 60502

INDEPENDENT AUDITOR'S REPORT

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

We have audited the basic financial statements of the Police Pension Fund, a blended component unit of the Village of Itasca, Illinois as of April 30, 2011, and for the year then ended as listed in the accompanying table of contents. These basic financial statements are the responsibility of Police Pension Fund's management. Our responsibility is to express an opinion on these basic 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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 of Itasca, Illinois, in conformity with accounting principles generally accepted in the United States of America.

The Police Pension Fund of the Village of Itasca, Illinois, 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.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the plan net assets of the Police Pension Fund of the Village of Itasca, Illinois, as of April 30, 2011, and the changes in plan net assets for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The required supplementary information listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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 the information and express no opinion on it.

A handwritten signature in black ink that reads "Sebeck LLP". The signature is written in a cursive, professional style.

Aurora, Illinois
October 20, 2011

BASIC FINANCIAL STATEMENTS

VILLAGE OF ITASCA, ILLINOIS

POLICE PENSION FUND

STATEMENT OF PLAN NET ASSETS

April 30, 2011

ASSETS	
Cash and short-term investments	\$ 709,293
Investments, at fair value	
Corporate bonds	148,093
Mutual funds	2,623,646
U.S. Treasury securities	1,490,549
U.S. agency securities	4,332,059
Corporate equity securities	3,623,817
Receivables (net, where applicable, of allowances for uncollectibles)	
Accrued interest	35,374
Due from primary government	<u>135</u>
Total assets	<u>12,962,966</u>
LIABILITIES	
None	<u>-</u>
Total liabilities	<u>-</u>
NET PLAN ASSETS HELD IN TRUST FOR PENSION BENEFITS (A schedule of funding progress is presented on page 12)	<u>\$ 12,962,966</u>

See accompanying notes to financial statements.

VILLAGE OF ITASCA, ILLINOIS

POLICE PENSION FUND

STATEMENT OF CHANGES IN PLAN NET ASSETS

For the Year Ended April 30, 2011

ADDITIONS	
Contributions	
Employer contributions	\$ 606,037
Employee contributions	<u>204,698</u>
Total contributions	<u>810,735</u>
Investment income	
Interest and dividends	314,861
Net appreciation in fair value of investments	<u>1,157,931</u>
Total investment income	1,472,792
Less investment expense	<u>(90,683)</u>
Net investment income	<u>1,382,109</u>
Total additions	<u>2,192,844</u>
DEDUCTIONS	
Pension benefits	722,631
Administrative expenses	<u>25,036</u>
Total deductions	<u>747,667</u>
NET INCREASE	1,445,177
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	
May 1	<u>11,517,789</u>
April 30	<u><u>\$ 12,962,966</u></u>

See accompanying notes to financial statements.

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

April 30, 2011

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 a blended component unit 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 assets and the changes in its net assets. 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 assets. Pension trust fund operating statements present increases (e.g., additions) and decreases (e.g., deductions) in net total assets.

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, 2011 for both reporting and actuarial purposes. 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, 2011:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1-5	6-10	Greater than 10
U.S. agency securities	\$ 4,332,059	\$ -	\$ -	\$ -	\$ 4,332,059
U.S. Government securities	1,490,549	351,527	354,963	56,228	727,831
Corporate bonds	148,093	-	148,093	-	-
Money market mutual funds	460,689	460,689	-	-	-
TOTAL	\$ 6,431,390	\$ 812,216	\$ 503,056	\$ 56,228	\$ 5,059,890

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, corporate bonds, and money market mutual funds are rated AAA 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	24%	0-35%
Domestic SC Equity	11%	0-20%
Equity Funds	3%	0-7.5%
International Equity Funds	7%	0-7.5%
Fixed Income	55%	0-100%
Cash and Cash Equivalents	0-2%	0-5%

The aggregate of domestic equities can not exceed 35%. All other equity funds and annuities in aggregate can not exceed 10% of the portfolio. Equity securities in total can not exceed 45% 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, 2011, membership consisted of:

Retirees and beneficiaries currently receiving benefits	15
Terminated employees entitled to benefits but not yet receiving them	1
Employees	
Vested	18
Nonvested	5
	<hr/>
TOTAL	<u>39</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. Employees attaining the age of 50 or more with 20 or more years of creditable service are entitled to receive an annual retirement benefit of 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 pension 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 creditable service may retire at or after age 60 and receive a reduced benefit. The monthly pension 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 upon reaching the age of 55, by 3% of the original pension and 3% annually thereafter. If the retiree is not yet 55, no increase is made until reaching age 55, at which time the increase is one-twelfth (1/12) of 3% for each full month that the retiree has been receiving a pension.

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

3. POLICE PENSION PLAN (Continued)

A. Plan Description (Continued)

Covered employees are required 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. By the year 2033, the Village's contributions must accumulate to the point where the past service cost for the Plan is fully funded.

B. Related Party Transactions

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

C. Funded Status

The funded status of the Plan as of April 30, 2011 was as follows:

Actuarial accrued liability (AAL)	\$ 20,442,904
Actuarial value of plan assets	12,962,967
Unfunded actuarial accrued liability (UAAL)	7,479,937
Funded ratio (actuarial value of plan assets/AAL)	63.4%
Covered payroll (active plan members)	\$ 1,973,692
UAAL as a percentage of covered payroll	379.0%

See the schedule of funding progress on page 12 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, 2011. 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 30 years; the asset valuation method was market value; and the significant actuarial assumptions were an investment rate of return at 8.0% annually, a projected salary increases assumption of 5.0% 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, 2011

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 Actuarial Accrued Liability (2) - (1)	(5) Annual Covered Payroll	(6) Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll (4) / (5)
2005	\$ 9,563,243	\$ 14,516,439	65.88%	\$ 4,953,196	\$ 1,758,226	281.72%
2006	N/A	N/A	N/A	N/A	N/A	N/A
2007	11,356,609	15,727,868	72.21%	4,371,259	1,875,186	233.11%
2008	11,416,985	17,166,902	66.51%	5,749,917	1,968,202	292.14%
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	12,962,967	20,442,904	63.41%	7,479,937	1,973,692	378.98%

N/A - no actuarial valuation performed for this year

(See independent auditor's report.)

VILLAGE OF ITASCA, ILLINOIS
SCHEDULE OF EMPLOYER CONTRIBUTIONS
POLICE PENSION FUND
APRIL 30, 2011

Year Ended April 30,	Employer Contributions	Annual Required Contribution (ARC)	Percent Contributed
2005	\$ 390,442	\$ 371,850	105.00%
2006	N/A	N/A	N/A
2007	388,050	369,220	105.10%
2008	386,414	371,812	103.93%
2009	394,890	384,556	102.69%
2010	502,722	490,884	102.41%
2011	606,037	620,922	97.60%

N/A - no actuarial valuation performed for this year

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 May 1 of the prior fiscal year. 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 30 years; the asset valuation method was at market value; and the significant actuarial assumptions were an investment rate of return at 8% annually, a projected salary increases assumption of 5% compounded annually, and postretirement benefit increases of 3% compounded annually.

(See independent auditor's report.)

