

VILLAGE OF GRAYSLAKE, ILLINOIS
POLICE PENSION FUND

ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED
APRIL 30, 2016

**VILLAGE OF GRAYSLAKE, ILLINOIS
POLICE PENSION FUND**

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INDEPENDENT AUDITORS' REPORT



INDEPENDENT AUDITORS' REPORT

August 22, 2016

Members of the Pension Board of Trustees
Grayslake Police Pension Fund
Village of Grayslake, Illinois

We have audited the basic financial statements of the Grayslake Police Pension Fund (the "Pension Fund"), a pension trust fund of the Village of Grayslake, Illinois, as of and for the year ended April 30, 2016, and the related notes to the financial statements, which collectively comprise the Pension Fund's basic 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 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 of material misstatement.

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

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 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 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 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.

Opinions

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

Other Matters

Required Supplementary Information

In addition, accounting principles generally accepted in the United States of America require that the required supplementary information listed in the table of contents 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.

Lauterbach + Amen LLP

LAUTERBACH & AMEN, LLP

MANAGEMENT'S DISCUSSION AND ANALYSIS

GRAYSLAKE POLICE PENSION FUND
(A Pension Trust Fund of the Village of Grayslake, Illinois)

MANAGEMENT'S DISCUSSION AND ANALYSIS

April 30, 2016

This section presents management's discussion and analysis (MD&A) of the Grayslake Police Pension Funds' financial statements. The MD&A addresses the major factors affecting the operations and investment performance of the fund during the fiscal year ended April 30, 2016 and includes comparative information for the fiscal year ended April 30, 2015.

The Grayslake Police Pension Fund (the "Fund") is a defined benefit, single employer public employees' retirement system established pursuant to the Illinois Pension Code. It is a pension trust fund of the Village of Grayslake, Illinois. As of April 30, 2016, the Fund provided services to 30 active employees, and 9 benefit recipients.

Overview of the Financial Statements and Accompanying Information

This discussion and analysis is intended to serve as an introduction to the Fund's financial reporting which is comprised of the following components:

- **Financial Statements:** This information presents the plan net position held in trust for the pension benefits as of April 30, 2016. This financial information also summarizes the changes in plan net position held in trust for the pension benefits for the year ended.
- **Notes to the Financial Statements:** The notes to the financial statements provide additional information that is essential to achieve a full understanding of the data provided in the financial statements.
- **Required Supplementary Information:** The required supplementary information consists of schedules concerning funding progress and contributions.

Plan Net Position

The statement of plan net position is presented of the Fund as of April 30, 2016. The financial statement reflects the resources available to pay benefits to members, including retirees and beneficiaries, at the end of the year reported. A summary of the Fund's plan net position for the year as of April 30, 2016 and 2015 is presented below:

Condensed Statement of Plan Net Position (in Millions)

	<u>2016</u>	<u>2015</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Cash and Equivalents	\$0.143	\$0.433	(\$0.290)	-67%
Investments, at fair value	\$16.695	\$15.918	0.777	5%
Receivables	<u>0.063</u>	<u>0.047</u>	<u>0.170</u>	36%
Total Assets	16.901	16.397	0.503	3%
Liabilities	-	-	-	0%
Total Net Plan Position	<u>\$16.901</u>	<u>\$16.397</u>	<u>\$0.503</u>	3%

GRAYSLAKE POLICE PENSION FUND
(A Pension Trust Fund of the Village of Grayslake, Illinois)

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

Financial Highlights

The Fund's net position increased \$.503 million or 3% during the fiscal year ended April 30, 2016. The change in net position was due primarily to an increase in investments from \$15.918 million to \$16.695 million. The changes in other assets and liabilities were ordinary.

Funded Ratio

The funded ratio of the plan measures the ratio of net position against actuarially determined liabilities and is one indicator of the fiscal strength of a pension fund's ability to meet obligations to its members. An annual actuarial valuation is required by state statute. The most recent available valuation calculated using entry age normal (level % of pay) indicated that the funded status of the Fund as of April 30, 2016 decreased 1.07% to 77.07% from 78.14% on April 30, 2015. The unfunded actuarial accrued liability was \$4.53 million on April 30, 2015 as compared to \$5.27 million on April 30, 2016. This was an increase of \$.74 million, which can be attributed to lower investment gains paired with increasing pension costs due primarily to changes in actuarial assumptions. The Village made a \$167,000 contribution per resolution #852, above and beyond the requested amount of the Pension Fund to offset investment volatility and pension increases.

Investments

Market fluctuations have made navigating investment options challenging. Illinois Pension Code restricts investment authorities to no more than 60% in Agency/MBS with duration ranges between +/- 25% of the index, and cash less than 10%. It also limits mutual funds / equities as a percentage based on fund assets. Expanded investment authority in 2011 has allowed the inclusion of corporate bonds further diversifying the portfolio. Overall the rate of return on the actuarial value of the assets ending April 30, 2016 was 5.8%, this incorporates portions of gains and losses over multiple years.

The allocation of investment assets for the Police Pension Fund as of April 30, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Cash	0.85%	2.65%
U.S. Treasury Securities	31.50%	26.53%
U.S. Agencies Securities	1.57%	1.01%
Corporate Bonds	11.51%	12.42%
Mutual Funds	54.58%	57.19%
Total	<u>100%</u>	<u>100%</u>

GRAYSLAKE POLICE PENSION FUND
(A Pension Trust Fund of the Village of Grayslake, Illinois)

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

Changes in Plan Net Position

A condensed statement of changes in plan net position for the years ended April 30, 2016 and 2015 is presented below. The financial statement reflects the changes in the resources available to pay benefits to plan participants, including retirees and beneficiaries.

Condensed Statement of Changes in Plan Net Position (in Millions)

	<u>2016</u>	<u>2015</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Additions:				
Employer Contributions	\$0.723	\$0.931	(0.09)	0%
Plan Member Contributions	0.288	0.284	0.00	2%
Net Investment Income	(0.025)	1.098	(1.12)	-102%
Other Income	<u>0.026</u>	-	<u>0.026</u>	100%
Total Additions	1.011	2.313	(1.302)	-56%
Deductions:				
Benefits	0.467	0.380	0.09	23%
Administrative Expense	<u>0.041</u>	<u>0.024</u>	<u>0.02</u>	73%
Total Deductions	0.508	0.404	<u>(\$0.31)</u>	26%
Net Increase in Plan Net Position	<u>\$0.503</u>	<u>\$1.910</u>	<u>(\$1.406)</u>	-74%

Additions

Additions to the plan net position include employer and employee contributions and net income from investment activities. Employee contributions were approximately \$288 thousand during 2016 and \$284 thousand in 2015. The contributions required of employees are set by state statute as a percentage of gross salary. Contributions were about the same due to a consistent number of active plan members combined with the salary increase during 2016.

Employer contributions decreased from \$931 thousand in 2015 to \$723 thousand in 2016. Irrespective employer contributions remained higher than the statutory and the actuary amounts by \$315 and \$167 thousand respectively. This is reflective of the Village consistently basing its contributions on actuarial estimates that consider the relevant unique statistical information of its Fund members rather than relying on the generalized Illinois Division of Insurance valuations.

The Fund's net increase in plan position for 2016 was \$ 0.503 million as compared to \$1.910 million during 2015. Investment returns were very volatile FY2016, but the additional employer contributions made by the Village offset further losses. Total contributions are comprised of property tax revenues, replacement tax monies received and additional voluntary Village contributions. The Village has contributed an additional \$727,000 to the fund since 2011, this financing strategy has helped maintain the Funds financial health.

GRAYSLAKE POLICE PENSION FUND
(A Pension Trust Fund of the Village of Grayslake, Illinois)

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONT.)

Deductions

Deductions from the plan for the year ended April 30, 2016 are primarily benefit payments. During 2016 and 2015 benefit payments of \$467 thousand and \$380 thousand were paid, respectively. The increase of \$87 thousand in 2016 was as a result of two new annuitants and an increase in legal fees due a disability application.

The administrative costs of the Fund represented approximately 2.0% of the total deductions in 2016.

Future Outlook

Employer contributions will remain consistent in 2017; the Village has historically contributed more than the minimum Illinois Division of Insurance statutory required amounts and also more than the Funds' independent actuary contribution calculations, and may continue to do so. The Fund's funded ratio is expected to rise over the course of the next several years based upon the impact of the entry age normal cost method and the Village making or exceeding the full actuarially determined contribution each year. It is also anticipated that employee contributions will increase consistent with their increases in salaries. The Fund will continue to maintain its portfolio investments with the primary financial objectives of preservation of principal from the impact of inflation growth and the provision of liquidity needed to meet the pension benefit payment requirements, while following the investment policy guidelines established by the Fund's Board of Trustees and the State statutes that dictate allowable investments.

Request for Information

This financial report is designed to provide a general overview of the Fund Finances for interested parties. Questions concerning any information provided in this report or requests for additional financial information should be addressed to Bettina K O'Connell, Treasurer, Grayslake Police Pension Fund, 10 S. Seymour, Grayslake, IL 60030.

FINANCIAL STATEMENTS

**VILLAGE OF GRAYSLAKE, ILLINOIS
POLICE PENSION FUND**

**Statement of Fiduciary Net Position
April 30, 2016**

ASSETS

Cash and Cash Equivalents	\$	142,656
Investments, at Fair Value		
U.S. Treasury Obligations		5,303,025
U.S. Agency Obligations		264,045
Corporate Bonds		1,937,994
Mutual Funds		9,189,508
Receivables		
Accrued Interest		44,937
Due from Other Funds		<u>18,533</u>
Total Assets		16,900,698

NET POSITION

Net Position Restricted for Pensions		<u><u>16,900,698</u></u>
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The notes to the financial statements are an integral part of this statement.

**VILLAGE OF GRAYSLAKE, ILLINOIS
POLICE PENSION FUND**

**Statement of Changes in Fiduciary Net Position
For the Year Ended April 30, 2016**

Additions	
Contributions - Employer	\$ 722,699
Contributions - Plan Members	288,233
Other Income	<u>25,620</u>
Total Contributions	<u>1,036,552</u>
Investment Income	
Interest Earned	145,063
Net Change in Fair Value	<u>(131,979)</u>
	13,084
Less Investment Expenses	<u>(38,385)</u>
Net Investment Income	<u>(25,301)</u>
Total Additions	<u>1,011,251</u>
Deductions	
Administration	41,210
Benefits and Refunds	<u>466,681</u>
Total Deductions	<u>507,891</u>
Change in Fiduciary Net Position	503,360
Net Position Restricted for Pensions	
Beginning	<u>16,397,338</u>
Ending	<u><u>16,900,698</u></u>

The notes to the financial statements are an integral part of this statement.

**VILLAGE OF GRAYSLAKE, ILLINOIS
POLICE PENSION FUND**

**Notes to the Financial Statements
April 30, 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Police Pension Fund (the “Pension Fund”) of the Village of Grayslake, Illinois have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. 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 Pension Fund's accounting policies are described below.

REPORTING ENTITY

The Pension Fund is a fiduciary fund, and specifically, a pension trust fund, of the Village of Grayslake, Illinois (the “Village”) pursuant to GASB Statement No. 61. The decision to include the Pension Fund in the Village's reporting entity was made based upon the significance of their operational or financial relationships with the Village.

The Village's police employees participate in the Police Pension Employees Retirement System (PPERS). PPERS functions for the benefit of these employees and is governed by a five-member pension board. Two members appointed by the Village's Mayor, one elected pension beneficiary, and two elected police employees constitute the pension board. The Village and PPERS participants are obligated to fund all PPERS costs based upon actuarial valuations. The State of Illinois is authorized to establish benefit levels and the Village is authorized to approve the actuarial assumptions used in the determination of contribution levels.

BASIS OF PRESENTATION

Pension Trust Funds

Pension trust funds are used to account for assets held in a trustee capacity for pension benefit payments. The Police Pension Fund accounts for the accumulation of resources to pay retirement and other related benefits for sworn members of the Village's Police Department.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe “which” transactions are recorded. Basis of accounting refers to “when” transactions are recorded, regardless of the measurement focus applied.

**VILLAGE OF GRAYSLAKE, ILLINOIS
POLICE PENSION FUND**

**Notes to the Financial Statements
April 30, 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING – Continued

Measurement Focus

Pension trust funds utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of changes in net position. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Pension trust fund equity is classified as net position restricted for pensions.

Basis of Accounting

The accrual basis of accounting is utilized by pension trust funds. Under this method, additions to net position are recorded when earned and deductions from net position are recorded when the time related liabilities are incurred. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

ASSETS/DEFERRED OUTFLOWS, LIABILITIES/DEFERRED INFLOWS AND NET POSITION

Cash and Investments

For the purpose of the Statement of Net Position, cash and cash equivalents are considered to be cash on hand and demand deposits.

Pension Fund investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on national exchanges are valued at the last reported sales price. Investments that do not have any established market, if any, are reported at estimated fair value.

Receivables

Pension Fund receivables consist of all revenues earned at year-end and not yet received. The major receivable balance for the Pension Fund is accrued interest from cash and investments.

Short-Term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds of the Village for goods provided or services rendered. These receivables and payables, if any, which relate to the Pension Fund are classified as "Due from the Village" or "Due to the Village" on the Statement of Net Position.

**VILLAGE OF GRAYSLAKE, ILLINOIS
POLICE PENSION FUND**

**Notes to the Financial Statements
April 30, 2016**

NOTE 2 – DETAIL NOTES ON FINANCIAL STATEMENTS

DEPOSITS, INVESTMENTS AND CONCENTRATIONS

The deposits and investments of the Pension Fund are held separately from those of other Village funds. Statutes authorize the Pension Fund to make deposits/invest in interest bearing direct obligations of the United States of America; obligations that are fully guaranteed or insured as to the payment of principal and interest by the United States of America; bonds, notes, debentures, or similar obligations of agencies of the United States of America; savings accounts or certificates of deposit issued by banks or savings and loan associations chartered by the United States of America or by the State of Illinois, to the extent that the deposits are insured by the agencies or instrumentalities of the federal government; credit unions, to the extent that the deposits are insured by the agencies or instrumentalities of the federal government; State of Illinois bonds; pooled accounts managed by the Illinois Funds Market Fund (Formerly known as IPTIP, Illinois Public Treasurer's Investment Pool), or by banks, their subsidiaries or holding companies, in accordance with the laws of the State of Illinois; bonds or tax anticipation warrants of any county, township, or municipal corporation of the State of Illinois; direct obligations of the State of Israel; money market mutual funds managed by investment companies that are registered under the Federal Investment Company Act of 1940 and the Illinois Securities Law of 1953 and are diversified, open-ended management investment companies, provided the portfolio is limited to specified restrictions; general accounts of life insurance companies; and separate accounts of life insurance companies and mutual funds, the mutual funds must meet specific restrictions, provided the investment in separate accounts and mutual funds does not exceed ten percent of the Pension Fund's net position; and corporate bonds managed through an investment advisor, rated as investment grade by one of the two largest rating services at the time of purchase. Pension Funds with a net position of \$2.5 million or more may invest up to forty-five percent of their net position in separate accounts of life insurance companies and mutual funds. Pension Funds with a net position of at least \$5 million that have appointed an investment advisor, may through that investment advisor invest up to forty-five percent of the plan net position in common and preferred stocks that meet specific restrictions. In addition, Pension Funds with a net position of at least \$10 million that have appointed an investment advisor, may invest up to fifty percent of its net plan position in common and preferred stocks and mutual funds that meet specific restrictions effective July 1, 2011 and up to fifty-five percent effective July 1, 2012.

**VILLAGE OF GRAYSLAKE, ILLINOIS
POLICE PENSION FUND**

**Notes to the Financial Statements
April 30, 2016**

NOTE 2 – DETAIL NOTES ON FINANCIAL STATEMENTS – Continued

DEPOSITS, INVESTMENTS AND CONCENTRATIONS – Continued

Credit Risk, Custodial Credit Risk, and Concentration Risk

Deposits. At year-end, the carrying amount of the Fund’s deposits totaled \$142,656 and the bank balances totaled \$130,287.

Investments. At year-end, the Pension Fund has the following investments and maturities:

Investment Instrument	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More Than 10
U.S. Treasury Obligations	\$ 5,303,025	491,639	3,581,980	1,229,406	-
U.S. Agency Obligations	264,045	157,748	840	-	105,457
Corporate Bonds	1,937,994	60,430	867,391	999,985	10,188
	<u>7,505,064</u>	<u>709,817</u>	<u>4,450,211</u>	<u>2,229,391</u>	<u>115,645</u>

The Pension Fund assumes any callable securities will not be called.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the Police Pension Fund limits its exposure to interest rate risk by structuring the portfolio to provide liquidity for all reasonably anticipated operating requirements while providing a reasonable rate of return based on the current market.

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Fund’s investment policy requires all fixed income investments to be of investment grade quality or higher at purchase. Also, according to the provisions of the Illinois compiled Statutes, fixed income purchases shall be limited to obligations issued or guaranteed as to principal and interest by the U.S. Government or any agency or instrumentality thereof, or to corporate and municipal issues. All securities shall be of “investment grade” quality; that is, at the time of purchases, rated no lower than “Baa” by the Moody’s and no lower than “BBB” by Standard and Poor’s. The Board, at their discretion, may impose a higher standard on an individual investment manager basis as circumstances or investment objectives dictate. At year-end, the Fund’s investments in U.S. Government Agencies were not rated, and Corporate Bonds were rated BAA3 to AAA by Moody’s.

**VILLAGE OF GRAYSLAKE, ILLINOIS
POLICE PENSION FUND**

**Notes to the Financial Statements
April 30, 2016**

NOTE 2 – DETAIL NOTES ON FINANCIAL STATEMENTS – Continued

DEPOSITS, INVESTMENTS AND CONCENTRATIONS – Continued

Credit Risk, Custodial Credit Risk, and Concentration Risk – Continued

Custodial Credit Risk. For deposits, the Fund’s investment policy does not address custodial credit risk. In the case of investments, the Fund’s investment policy requires that all amounts in excess of any insurance limits be collateralized by securities eligible for Police Pension Trust Fund investment or any other high-quality, interest-bearing security rated at least AA/Az by one or more standard rating service to include Standard and Poor’s, Moody’s or Fitch. The market value of the pledge securities shall equal or exceed the portion of the deposit requiring collateralization. At year-end, the entire carrying amount of the bank balance of deposits is covered by federal depository or equivalent insurance.

Concentration Risk. The Fund’s investment policy limits the amount it may invest in U.S. Government guaranteed obligations or investment guaranteed by federal agencies of the U.S. Government. Although no specific clause within the pension board’s investment policy limits the amount it may invest in any one issuer, the pension board actively monitors the holdings selected by the investment advisor.

In addition to the securities and fair values listed above, the Fund also has \$9,189,508 invested in mutual funds. At year-end, the Fund’s investment in in the following represented over 5 percent of net plan position available for retirement benefits (other than U.S. Government guaranteed obligations):

Investment	Amount
Vanguard 500 Index	\$ 2,179,672
T. Rowe Price High Growth Stock	1,945,316
Pioneer Equity Income Y	1,085,556
LSV Value Equity	1,015,684

The Fund’s investment policy in accordance with Illinois Compiled Statutes (ILCS) establishes the following target allocation across asset classes:

Asset Class	Target	Long-Term Expected Real Rate of Return
Fixed Income	50%	2.10%
Domestic Equities	10% - 35%	6.90% - 9.00%
International Equities	5%	7.10%
Cash and Cash Equivalents	0%	0.00%

**VILLAGE OF GRAYSLAKE, ILLINOIS
POLICE PENSION FUND**

**Notes to the Financial Statements
April 30, 2016**

NOTE 2 – DETAIL NOTES ON FINANCIAL STATEMENTS – Continued

DEPOSITS, INVESTMENTS AND CONCENTRATIONS – Continued

Credit Risk, Custodial Credit Risk, and Concentration Risk – Continued

Concentration Risk – Continued. Illinois Compiled Statutes (ILCS) limit the Fund's investments in equities, mutual funds and variable annuities to 55%. Securities in any one company should not exceed 5% of the total fund. The blended asset class is comprised of all other asset classes to allow for rebalancing the portfolio.

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 May 2016 in which best-estimate ranges of expected future real rates of return (net of pension plan investment expense and inflation) were developed for each major asset 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 the 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.

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 (0.42%). The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**VILLAGE OF GRAYSLAKE, ILLINOIS
POLICE PENSION FUND**

**Notes to the Financial Statements
April 30, 2016**

NOTE 3 – OTHER INFORMATION

CONTINGENT LIABILITIES

Litigation

The Pension Fund is not currently involved with any lawsuits.

Compliance Audit

The Police Pension Fund is subject to a program compliance audit by the Illinois Department of Insurance. The compliance audit by the Illinois Division of Insurance for the year ended April 30, 2016 has not yet been conducted. Accordingly, the Police Pension Fund's compliance with applicable requirements will be established at some future date. The amount of any adjustments to be made by the Illinois Department of Insurance cannot be determined at this time however, the Police Pension Fund expects such adjustments, if any, to be immaterial.

EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PENSION PLAN

Plan Administration

The Police Pension Plan is a single-employer defined benefit pension plan that covers all sworn police personnel. The defined benefits and employee and minimum employer contribution levels are governed by Illinois Compiled Statutes (40 ILCS 5/3-1) and may be amended only by the Illinois legislature. The Village accounts for the Fund as a pension trust fund. The Fund is governed by a five-member pension board. Two members of the Board are appointed by the Village President, one member is elected by pension beneficiaries and two members are elected by active police employees.

Plan Membership

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

Inactive Plan Members Currently Receiving Benefits	9
Inactive Plan Members Entitled to but not yet Receiving Benefits	-
Active Plan Members	<u>30</u>
Total	<u><u>39</u></u>

**VILLAGE OF GRAYSLAKE, ILLINOIS
POLICE PENSION FUND**

**Notes to the Financial Statements
April 30, 2016**

NOTE 3 – OTHER INFORMATION – Continued

EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PENSION PLAN – Continued

Benefits Provided

The following is a summary of the Police Pension Plan as provided for in Illinois State Statutes.

The Police Pension Plan provides retirement benefits through two tiers of benefits as well as death and disability benefits. Covered employees hired before January 1, 2011 (Tier 1), attaining the age of 50 or older with 20 or more years of creditable service are entitled to receive an annual retirement benefit of $\frac{1}{2}$ 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 percent of such salary for each additional year of service over 20 years up to 30 years, to a maximum of 75 percent 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 percent of the original pension and 3 percent compounded annually thereafter.

Covered employees hired on or after January 1, 2011 (Tier 2), attaining the age of 55 or older with 10 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 officer salary for the pension purposes is capped at \$106,800, plus the lesser of $\frac{1}{2}$ of the annual change in the Consumer Price Index or 3 percent compounded. The annual benefit shall be increased by 2.5 percent of such a salary for each additional year of service over 20 years up to 30 years to a maximum of 75 percent of such salary. Employees with at least 10 years may retire at or after age 50 and receive a reduced benefit (i.e., $\frac{1}{2}$ percent 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 office 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% of $\frac{1}{2}$ of the change in the Consumer Price Index for the proceeding calendar year.

Contributions

Covered employees are required to contribute 9.91% of their base salary to the Police Pension 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 and the administrative costs as actuarially determined by an enrolled actuary. However, effective January 1, 2011, ILCS requires the Village to contribute a minimum amount annually calculated using the projected unit credit actuarial cost method that will result in the funding of 90% of the past service cost by the year 2040. For the year-ended April 30, 2016, the Village's contribution was 24.89% of covered payroll.

**VILLAGE OF GRAYSLAKE, ILLINOIS
POLICE PENSION FUND**

**Notes to the Financial Statements
April 30, 2016**

NOTE 3 – OTHER INFORMATION – Continued

EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PENSION PLAN – Continued

Net Pension Liability

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

Total Pension Liability	\$ 23,000,787
Plan Fiduciary Net Position	<u>16,900,698</u>
Village's Net Pension Liability	<u><u>6,100,089</u></u>
Plan Fiduciary Net Position as a Percentage of the total Pension Liability	73.5%

See the Schedule of Changes in the Employer's Net Pension Liability and Related Ratios in the required supplementary information for additional information related to the funded status of the Fund.

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	4/30/16
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	Market
Actuarial Assumptions	
Interest Rate	7.00%
Salary Increases	3.75% to 15.60%
Cost of Living Adjustments	2.50%
Inflation	2.50%

Mortality rates are based on the observed experience of Illinois Police Officers with the RP-2014 mortality table for blue collar workers. Mortality improvements have been made to 5 years past the valuation date.

**VILLAGE OF GRAYSLAKE, ILLINOIS
POLICE PENSION FUND**

**Notes to the Financial Statements
April 30, 2016**

NOTE 3 – OTHER INFORMATION – Continued

EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PENSION PLAN – Continued

Discount Rate

The discount rate used to measure the total pension liability was 7.00%, the same as the prior valuation. 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 the 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 project future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the total pension liability.

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 pension liability of the Village calculated using the discount rate of 7.00% 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 (6.00%) or one percentage point higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Net Pension Liability	\$ 10,342,738	6,100,089	2,718,267

REQUIRED SUPPLEMENTARY INFORMATION

**VILLAGE OF GRAYSLAKE, ILLINOIS
POLICE PENSION FUND**

**Required Supplementary Information - Last Ten Fiscal Years
Schedule of Employer Contributions**

April 30, 2016

Fiscal Year	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Excess/ (Deficiency)	Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2015	\$ 500,917	\$ 931,452	\$ 430,535	\$ 2,859,924	32.57%
2016	586,805	722,699	135,894	2,903,959	24.89%

Notes to the Required Supplementary Information:

Actuarial Valuation Date	April 30, 2016
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level % Pay (Closed)
Remaining Amortization Period	24 Years
Asset Valuation Method	Market
Inflation	2.50%
Salary Increases	3.75 % - 15.60%
Investment Rate of Return	7.00%
Retirement Age	See the Notes to the Financial Statements
Mortality	2016 Illinois Police Mortality Rates

Notes:

This schedule is intended to show information for ten years and additional year's information will be displayed as it becomes available.

**VILLAGE OF GRAYSLAKE, ILLINOIS
POLICE PENSION FUND**

**Required Supplementary Information
Schedule of Changes in the Employer's Net Pension Liability**

April 30, 2016

	2015	2016
Total Pension Liability		
Service Cost	\$ 742,034	579,888
Interest	1,340,818	1,625,127
Differences Between Expected and Actual Experience	-	82,963
Change of Assumptions	-	(2,269,945)
Benefit Payments, Including Refunds of Member Contributions	(379,974)	(466,681)
Net Change in Total Pension Liability	1,702,878	(448,648)
Total Pension Liability - Beginning	21,746,557	23,449,435
Total Pension Liability - Ending	23,449,435	23,000,787
Plan Fiduciary Net Position		
Contributions - Employer	\$ 931,452	722,699
Contributions - Members	283,529	288,233
Contributions - Other	-	25,620
Net Investment Income	1,098,394	(25,301)
Benefit Payments, Including Refunds of Member Contributions	(379,974)	(466,681)
Administrative Expense	(23,845)	(41,210)
Net Change in Plan Fiduciary Net Position	1,909,556	503,360
Plan Net Position - Beginning	14,487,782	16,397,338
Plan Net Position - Ending	16,397,338	16,900,698
Employer's Net Pension Liability	\$ 7,052,097	6,100,089
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.93%	73.48%
Covered-Employee Payroll	\$ 2,859,924	2,903,959
Employer's Net Pension Liability as a Percentage of Covered-Employee Payroll	246.58%	210.06%

Note:

This schedule is intended to show information for ten years and additional year's information will be displayed as it becomes available.

**VILLAGE OF GRAYSLAKE, ILLINOIS
POLICE PENSION FUND**

**Required Supplementary Information
Schedule of Investment Returns**

April 30, 2016

Fiscal Year	Annual Money- Weighted Rate of Return, Net of Investment Expense
2015	7.33%
2016	(0.42%)

Note:

This schedule is intended to show information for ten years and additional year's information will be displayed as it becomes available.