

Village of Grayslake, Illinois Police Pension Fund

Annual Financial Report

April 30, 2015

**Village of Grayslake, Illinois
Police Pension Fund**

April 30, 2015

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Independent Auditor's Report

Independent Auditor's Report

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

We have audited the accompanying basic financial statements of Village of Grayslake Police Pension Fund, a component unit of the Village of Grayslake, Illinois, which are comprised of the statement of fiduciary net position as of April 30, 2015, and the related statement of changes in fiduciary net position for the year then ended, and the related notes to basic financial statements.

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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Village of Grayslake Police Pension Fund, a fund of the Village of Grayslake, Illinois, as of and for the year ended April 30, 2015, and the respective change in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As disclosed in Note 1 to the financial statements, in 2015 the Fund adopted new accounting guidance required by Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25*. Our opinion is not modified with respect to this matter.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and certain historic pension 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.

BKD, LLP

Oakbrook Terrace, Illinois
October 30, 2015

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, 2015

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, 2015, and includes comparative information for the fiscal year ended April 30, 2014.

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, 2015, the Fund provided services to 30 active employees, 7 benefit recipients, and one plan member who is entitled to but is not receiving benefits.

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, 2015. 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 fiduciary net position is presented of the Fund as of April 30, 2015. 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 net position as of April 30, 2015 and 2014, is presented below:

Condensed Statement of Fiduciary Net Position (in Millions)

	2015	2014	Dollar Change	Percent Change
Cash and Equivalents	\$ 0.053	\$ 0.193	(0.140)	-73%
Investments, at Fair Value	16.298	14.264	2.034	14%
Receivables	<u>0.046</u>	<u>0.031</u>	<u>0.015</u>	48%
Total Assets	16.397	14.488	1.909	13%
Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	-
Total Net Plan Position	<u>\$ 16.397</u>	<u>\$ 14.488</u>	<u>\$ 1.909</u>	13.2%

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 \$1.91 million or 13% during the fiscal year ended April 30, 2015. The change in net position was due primarily to an increase in investments from \$14.2 million to \$16.2 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 preliminary actuarial valuation was prepared including historical criteria using GASB Statement No. 25 methodology, which is superseded by GASB Statement No. 67. Using the GASB Statement No. 25 methods, the funded status of the Plan at April 30, 2015, increased from 75.45% to 78.14%. The unfunded actuarial liability is \$4.53 million at April 30, 2015, compared to \$4.65 million at April 30, 2014. These amounts reflect additional contributions of \$360,000 from the Village per Board Resolution #836, above and beyond the requested amount of the Pension Fund.

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, 2015, was 7.33% slightly exceeding the actuarial assumption of 7%.

The allocation of investment assets for the Police Pension Fund as of April 30, 2015 and 2014, is as follows:

Allocation of Investments		
	2015	2014
Cash	0.41%	1.33%
U.S. Treasury Securities	26.51%	27.00%
U.S. Agencies Securities	1.01%	1.34%
Mortgage Back Securities	0.21%	0.12%
Corporate Bonds	12.41%	12.15%
Mutual Funds	59.46%	58.06%
Total	100%	100%

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, 2015 and 2014, 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>2015</u>	<u>2014</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Additions				
Employer Contributions	\$ 0.931	\$ 0.687	\$ 0.244	36%
Plan Member Contributions	0.284	0.284	-	-
Net Investment Income	1.098	1.181	(0.083)	-8%
Other Income	-	0.021	(0.021)	
Total Additions	<u>2.313</u>	<u>2.173</u>	<u>0.140</u>	7%
Deductions				
Benefits	0.380	0.425	(0.045)	-11%
Administrative Expense	<u>0.024</u>	<u>0.033</u>	<u>(0.009)</u>	-27%
Total Deductions	<u>0.404</u>	<u>0.458</u>	<u>(0.054)</u>	-8%
Net Increase in Plan Net Assets	<u>\$ 1.909</u>	<u>\$ 1.715</u>	<u>\$ 0.194</u>	12%

Additions

Additions to the plan net position include employer and employee contributions and net income from investment activities. Village contributions increased from \$687 thousand in 2014 to \$931 thousand in 2015, an increase of \$244 thousand or 35.6%. This is reflective of the Village consistently basing its Fund 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 Village has also consistently made employer contributions greater than the annual requested amounts.

Employee contributions were approximately \$284 thousand during FY2015. The contributions required of employees are set by state statute as a percentage of gross salary. Contributions were about the same due to a reduction of active plan members combined with the salary increase during FY2015.

The Fund's net investment income for FY2015 was \$1.10 million as compared to \$1.20 million during 2014. Investment returns continue to fluctuate in FY2015, but the overall rate of return continues to meet or exceed assumptions. This is due to the Fund's strong equity performance.

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, 2015, are primarily benefit payments. During 2015 and 2014 benefit payments of \$380 thousand and \$425 thousand were paid, respectively. The decrease of \$45 thousand in 2015 was due to the elimination of the costs associated with an additional benefit recipient, and the onetime retroactive increase to a benefit under 40 ILCS 5/3-111.1(c) entitling an additional cost of living increase as well as an added 3% increase in 2014. The administrative costs of the Fund represented approximately 1.25% of the total deductions in 2015.

Future Outlook

Employer contributions will remain consistent in 2016; 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, Illinois 60030.

Financial Statements

Village of Grayslake, Illinois
Police Pension Fund
Statement of Fiduciary Net Position
April 30, 2015

Assets

Cash and Cash Equivalents \$ 52,753

Investments

U.S. Government Securities	4,337,689
Federal National Mortgage Assoc.	165,069
Federal Home Loan Mortgage Corp.	21,481
Mortgage Backed Securities	12,632
Corporate Bonds	2,030,378
Equity Mutual Funds	9,350,680
Money Market Mutual Funds	379,833

Receivables

Due from Village	13,840
Accrued interest	32,983
	32,983

Total assets 16,397,338

Liabilities

Net Position

Net Position Restricted for Pensions \$ 16,397,338

Village of Grayslake, Illinois
Police Pension Fund
Statement of Changes in Fiduciary Net Position
Year Ended April 30, 2015

Additions

Contributions		
Employer	\$	931,452
Contributions - plan members		<u>283,529</u>
Total contributions		<u>1,214,981</u>
Investment income		
Investment earnings		172,206
Net change in fair value		<u>968,907</u>
		1,141,113
Less investment expenses		<u>(42,719)</u>
Net investment income		<u>1,098,394</u>
Total additions		<u>2,313,375</u>

Deductions

Pension benefits		379,974
Administration		<u>23,845</u>
Total deductions		<u>403,819</u>

Change in Net Position 1,909,556

Net Position Restricted for Pensions

Beginning		<u>14,487,782</u>
Ending		<u><u>\$ 16,397,338</u></u>

Village of Grayslake, Illinois

Police Pension Fund

Notes to Financial Statements

April 30, 2015

Note 1: Summary of Significant Accounting Policies

The financial statements of the Police Pension Fund (Pension Fund) of the Village of Grayslake, Illinois (Village) 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 blended component unit, and specifically, a pension trust fund, of the Village of Grayslake, Illinois (Village) pursuant to GASB Statement No. 61 and is reported as such in the Village's financial statement. The Pension Board administers the Police Pension Fund. 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 sworn Police personnel participate in the Police Pension Employees Retirement System (PPERS). PPERS functions for the benefit of these employees and is governed by a President and a five-member pension board. Two members appointed by the Village's Trustees, one elected pension beneficiary and two elected active police officers 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 Pension Fund accounts for the accumulation of resources to pay retirement and other related benefits for sworn members of the Police Department of the Village.

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.

Measurement Focus

Pension trust funds utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of changes in fiduciary net position. All assets/deferred outflows and liabilities/deferred inflows (whether current or noncurrent) associated

Village of Grayslake, Illinois
Police Pension Fund
Notes to Financial Statements
April 30, 2015

with their activities are reported. Pension trust fund equity is classified as net position restricted for pension benefits.

Basis of Accounting

The accrual basis of accounting is utilized by pension trust funds. Under this method, additions to fiduciary net position are recorded when earned and deductions from fiduciary 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, Liabilities and Fiduciary 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 contributions or services rendered. These receivables and payables, if any, which relate to the Pension Fund are classified as "Due from Village" or "Due to Village" on the Statement of Net Position.

Accounting Pronouncement

Effective for the April 30, 2015 Plan year, the Police Pension Fund has adopted the provisions of GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*. Statement No. 67 requires new disclosures and changes to the Required Supplemental Information for Pension Plans administered through trust agreements.

Village of Grayslake, Illinois
Police Pension Fund
Notes to Financial Statements
April 30, 2015

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 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 fiduciary 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 fiduciary net position of \$2.5 million or more may invest up to 45% of fiduciary net position in separate accounts of life insurance companies and mutual funds. Pension Funds with fiduciary net position of at least \$5 million that have appointed an investment advisor, may through that investment advisor invest up to 45% of the fiduciary net position in common and preferred stocks that meet specific restrictions. In addition, pension funds with fiduciary net position of at least \$10 million that have appointed an investment advisor, may invest up to 55% of its fiduciary net position in common and preferred stocks and mutual funds that meet specific restrictions effective July 1, 2012.

Credit Risk, Custodial Credit Risk and Concentration Risk

Deposits

At year-end the carrying amount and the bank balances of the Police Pension Fund's deposits totaled \$52,752.

Village of Grayslake, Illinois
Police Pension Fund
Notes to Financial Statements
April 30, 2015

Investments

At year-end the Pension Fund has the following debt investments and maturities:

Investment Type	Fair Value	Investment Maturities - in Years			
		Less Than 1	1-5	6-10	More Than 10
U.S. Treasury Notes	\$ 4,337,689	1,312,351	1,921,663	1,103,675	
Federal National Mortgage Assoc.	165,069	165,069			
Federal Home Loan Mortgage Corp.	21,481				21,481
Mortgage Backed Securities	12,632		1,313	1,614	9,705
Corporate Bonds	2,030,378	86,391	691,805	1,252,182	
Fixed Income Total	6,567,249	1,563,811	2,614,781	2,357,471	31,186
Not Subject to Interest Rate Risk					
Equity Mutual Funds	9,350,680				
Money Market Mutual Funds	379,833				
Total	\$ 16,297,762				

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 the Pension Fund’s investment policy, the Pension Fund limits its exposure to interest rate risk by structuring the portfolio to provide liquidity while at the same time matching investment maturities to projected fund liabilities.

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Pension Fund helps limit its exposure to credit risk by primarily investing in securities issued by the United States Government and/or its agencies that are implicitly guaranteed by the United States Government. The Pension Fund’s investment policy establishes criteria for allowable investments; those criteria follow the requirements of the Illinois Pension Code. The investments in the securities of the U.S. Government Agencies were all rated AAA by Standard & Poor’s or by Moody’s Investors Services.

The Pension Fund’s investment policy also prescribes to the “prudent person” rule, which states, “Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the primary objective of safety as well as the secondary objective of the attainment of market rates of return.”

Custodial Credit Risk - Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Pension Fund’s deposits may not be returned to it. At April 30, 2015, the entire amount of the bank balance of the deposits was covered by federal depository insurance. The Pension Fund’s investment policy requires that all deposits in excess of FDIC insurable limits be secured by collateral in order to protect deposits from default.

Village of Grayslake, Illinois

Police Pension Fund

Notes to Financial Statements

April 30, 2015

Custodial Credit Risk - Investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the Pension Fund will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Money market mutual funds and equity mutual funds are not subject to custodial credit risk. The Pension Fund's investment policy requires limiting the Pension Fund's exposure to custodial credit risk by utilizing an independent third party institution, selected by the Pension Fund, to act as custodian for its securities and collateral.

Concentration of Credit Risk. This is the risk of loss attributed to the magnitude of the Pension Fund's investment in a single issuer. The Pension Fund's investment policy states, "Investments of the Plan shall be diversified so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so." At April 30, 2015, the Pension Fund has over 5%, (\$819,867), of fiduciary net position invested in various agency securities as indicated in the following table. Agency investments represent a large portion of the portfolio; however, the investments are diversified by maturity date and as mentioned earlier, are backed by the issuing organization. Although unlike Treasuries, agency securities do not have the "full faith and credit" backing of the U.S. Government, they are considered to have a moral obligation of implicit backing and are supported by Treasury lines of credit and increasingly stringent federal regulation.

The Pension Fund has diversified its equity mutual fund holdings as follows:

Equity Mutual Funds	Fair Value
Vanguard 500 Index Fund	\$ 2,178,568 *
T. Rowe Price Growth Stock	2,115,086 *
Pioneer Equity Income	1,033,587 *
LSV Value Equity Fund	1,008,639 *
Homestead Small Company Stock	658,187
Baron Small Cap Fd Inst	604,654
Oppenheimer International Growth Fund	302,825
Hennessy Focus Fd I	290,799
Bridgeway Ultra-Small Company Market	282,781
Cohen & Steers Realty	240,665
Oppenheimer Developing Markets	155,910
First Eagle Overseas	145,656
American Beacon International Equity Fund	137,645
Fidelity Advisor Materials Fund	105,523
RS Global Natural	90,156
	\$ 9,350,680

*Represents over 5% of net position.

Village of Grayslake, Illinois
Police Pension Fund
Notes to Financial Statements
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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	50.0%	2.1%
Large Cap Domestic Equities	35.0%	6.9%
Small Cap Domestic Equities	10.0%	9.0%
International Equities	5.0%	7.1%
	100.0%	

Illinois Compiled Statutes (ILCS) limit 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 fiduciary net position.

The long-term expected rate of return on the Fund's investments was determined 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) 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, 2015, are listed in the table above.

Rate of Return

For the year ended April 30, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 7.33%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Note 3: Other Information

Contingent Liabilities

Litigation

The Pension Fund is not currently involved with any lawsuits.

Village of Grayslake, Illinois
Police Pension Fund
Notes to Financial Statements
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Compliance Audit

The Pension Fund is subject to a program compliance audit by the Illinois Department of Insurance. The compliance audit by the Illinois Department of Insurance for the year ended April 30, 2015, has not yet been conducted. Accordingly, the 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 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 Sections 5/1 and 5/3) 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 President and five-member Board of Trustees. Two members of the Board are appointed by the Village's Trustees, one member is elected by pension beneficiaries and two members are elected by active police officers.

Plan Membership

At April 30, 2015, the measurement date, the Police Pension Plan membership consisted of the following:

Inactive plan members currently receiving benefits	7
Inactive plan members entitled to but not receiving benefits	1
Active plan members	
Vested	26
Nonvested	4
	38

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 as well as death and disability benefits. Covered employees hired before January 1, 2011 (Tier 1), attaining the age of 50 or more with 20 or more years of creditable service are entitled to receive an annual retirement benefit of ½ 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 services may retire at

Village of Grayslake, Illinois
Police Pension Fund
Notes to Financial Statements
April 30, 2015

or after age 60 and receive a reduced benefit. The monthly benefit of a firefighter 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.

Covered employees hired on or after January 1, 2011 (Tier 2), 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 the pension purposes is capped at \$106,800 for the calendar year of 2011, 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 a 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. Non-compounding increases occur annually, effective each January 1st thereafter. The increase is the lesser of 3% or ½ 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. For the year-ended April 30, 2015, the Village's contribution was 32.57% of covered payroll. The Village is required to contribute the remaining amounts necessary to finance the plan 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.

Net Pension Liability

The components of the net pension liability of the Village as of April 30, 2015, were as follows:

Total pension liability	\$ 23,449,435
Plan fiduciary net position	16,397,338
Employer's net pension liability	7,052,097
Plan fiduciary net position as a percentage of the total pension liability	69.93%

Village of Grayslake, Illinois
Police Pension Fund
Notes to Financial Statements
April 30, 2015

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, 2015, using the following actuarial methods and assumptions:

Actuarial valuation date	4/30/2015
Actuarial cost method	Entry Age Normal (Level % Pay)
Asset valuation method	Market Value
Actuarial assumptions	
Interest rate	7.00%
Salary increases	4.25% - 13.00%
Cost of living adjustments	3.00%
Inflation	3.00%

Mortality rates were based on the Lauterbach & Amen Illinois Police Mortality Table. The actuarial assumptions used in the April 30, 2015, valuation were based on the results of an actuarial experience study conducted by Lauterbach & Amen dated 2012.

Discount Rate

The discount rate used to measure the total pension liability was 6.22%. 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 District 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.

Village of Grayslake, Illinois
Police Pension Fund
Notes to Financial Statements
April 30, 2015

Discount Rate Sensitivity

The following is a sensitivity 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 6.22% 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 (5.22%) or one percentage point higher (7.22%) than the current rate:

	1% Decrease (5.22%)	Current Discount Rate (6.22%)	1% Increase (7.22%)
Net pension liability	\$ 11,280,022	\$ 7,052,098	\$ 3,642,116

Required Supplementary Information

**Village of Grayslake
Police Pension Fund
Required Supplementary Information
Schedule of Changes in the Employer's Net Pension Liability
April 30, 2015**

Total pension liability	
Service cost	\$ 742,034
Interest	1,340,818
Changes in benefit terms	-
Differences between expected and actual experience	-
Change of assumptions	-
Benefit payments, including refunds of member contributions	<u>(379,974)</u>
Net change in total pension liability	1,702,878
Total pension liability - beginning	<u>21,746,557</u>
Total pension liability - ending	<u><u>\$ 23,449,435</u></u>
Plan fiduciary net position	
Contributions - village	\$ 931,452
Contributions - members	283,529
Contributions - other	-
Net investment income	1,098,394
Benefit payments, including refunds of member contributions	(379,974)
Administrative expense	<u>(23,845)</u>
Net change in plan net position	1,909,556
Plan net position, beginning	<u>14,487,782</u>
Plan net position, ending	<u><u>\$ 16,397,338</u></u>
Village's net pension liability	<u><u>\$ 7,052,097</u></u>
Plan net position as a percentage of the total pension liability	69.93%
Covered - employee payroll	2,859,924
Village's net pension liability as a percentage of covered - employee payroll	246.58%

GASB Statement No. 67 requires the presentation of the last 10 prior fiscal years completed under these pronouncements. The fiscal years completed prior to the enactment of these pronouncements are not required to be presented in this schedule.

Village of Grayslake, Illinois
Police Pension Fund
Required Supplementary Information - Last Five Fiscal Years
Schedule of Employer Contributions
April 30, 2015

Fiscal Year	Actuarially Determined Contribution	Contributions in Relation to the Actuarial Determined Contribution	Contribution Excess/ (Deficiency)	Covered - Employee Payroll	Contributions as a Percentage of Covered - Employee Payroll
4/30/2015	\$ 500,917	\$ 931,452	\$ 430,535	\$ 2,859,924	32.57%
4/30/2014	541,309	686,640	145,331	2,775,882	24.74%
4/30/2013	509,137	536,871	27,734	2,659,193	20.19%
4/30/2012	606,289	597,202	(9,087)	2,658,263	22.47%
4/30/2011	539,283	665,667	126,384	2,796,041	23.81%

Notes to the required supplementary information

Actuarial cost method	Entry age
Amortization method	Level % pay (closed)
Remaining amortization period	19 years
Asset valuation method	Market Value
Discount rate used for liability	6.22%
Long-term expected rate of return	7.00%
High quality 20 year bond rate	3.62%
Inflation	3.00%
Salary increases	4.25% -13.00%
Investment rate of return	6.22%
Retirement age	See the Notes to Financial Statements
Mortality	Mortality rates were based on the L&A Illinois Police Tables. The actuarial assumptions used in the April 30, 2015 valuation were based on the results of an actuarial experience study conducted by Lauterbach & Amen dated 2012.

GASB Statement No. 67 requires the presentation of the last 10 prior fiscal years completed under these pronouncements. The fiscal years completed prior to the enactment of these pronouncements are not required to be presented in this schedule.

Village of Grayslake, Illinois
Police Pension Fund
Required Supplementary Information
Schedule of Investment Returns
April 30, 2015

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

GASB Statement No. 67 requires the presentation of the last 10 prior fiscal years completed under these pronouncements. The fiscal years completed prior to the enactment of these pronouncements are not required to be presented in this schedule.