

CITY OF ST. CHARLES, ILLINOIS

POLICE PENSION FUND

ANNUAL FINANCIAL REPORT

For the Years Ended
April 30, 2016 and 2015



CITY OF ST. CHARLES, ILLINOIS
POLICE PENSION FUND
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Certified Public Accountants & Advisors
Members of American Institute of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

The Honorable President
Members of the Board of Trustees
Police Pension Fund
City of St. Charles, Illinois

We have audited the financial statements of the St. Charles Police Pension Fund (the Fund), a fiduciary fund of the City of St. Charles, Illinois (the City) as of April 30, 2016 and 2015 for the years then ended and the related notes to financial statements which collectively comprise the basic financial statements of the Fund as listed in the accompanying table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City'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 City'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 basic financial statements referred to above present fairly, in all material respects, the plan net position of the St. Charles Police Pension Fund, a fiduciary fund of the City of St. Charles, Illinois, as of April 30, 2016 and 2015 and the changes in plan net position for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1A, these basic financial statements present only the Fund and are not intended to present fairly the financial position and changes in financial position of the City, as of April 30, 2016 and 2015, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Fund's basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Sikich LLP

Naperville, Illinois
October 4, 2016

City of St. Charles, Illinois

Police Pension Fund

Management's Discussion and Analysis

April 30, 2016

This section presents management's discussion and analysis (MD&A) of the St. Charles Police Pension Fund's 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, and April 30, 2014.

The St. Charles 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 City of St. Charles, Illinois (the "City"). As of April 30, 2016, the Fund provided services to 53 active vested and nonvested employees and 39 benefit recipients and 8 inactive plan members not yet receiving benefits.

Overview of 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:

1. **Basic Financial Statements:** This information presents the plan net position held in trust for pension benefits as of April 30, 2016. This financial information also summarizes the changes in plan net position held in trust for pension benefits for the year then ended.
2. **Notes to Basic Financial Statements:** The notes to basic financial statements provide additional information that is essential to achieve a full understanding of the data provided in the basic financial statements.
3. **Required Supplementary Information:** The required supplementary information consists of schedules and related notes concerning actuarial information, employer contributions, and investment returns.
4. **Other Supplementary Information:** This section includes a schedule of changes in plan net position with budget versus actual comparisons.

The Fund implemented Statement No. 67 of the Governmental Accounting Standards Board (GASB), *Financial Reporting for Pension Plans*, for the fiscal year ended April 30, 2015. The new financial reporting standard modified the Fund's notes to the basic financial statements and required supplementary information as well as required the calculation of a total pension liability and a net pension liability.

City of St. Charles, Illinois
Police Pension Fund
Management's Discussion and Analysis (Continued)

Plan Net Position

The statement of plan net position is presented for the Fund as of April 30, 2016, April 30, 2015, and April 30, 2014. The financial statement reflects the resources available to pay benefits to members, including retirees and beneficiaries, at the end of the years reported. A summary of the Fund's plan net position is presented below:

Condensed Statement of Plan Net Position

	FY 2016	FY 2015	Dollar Change	FY 2014
Cash and Equivalents	\$ 745,027	\$ 844,082	\$ (99,055)	\$ 1,177,139
Investments, at Fair Value	28,603,016	29,641,582	(1,038,566)	27,951,987
Receivables	60,977	68,541	(7,564)	66,901
Prepaid Expenses	19,644	21,135	(1,491)	33,870
Total Assets	<u>\$29,428,664</u>	<u>\$30,575,340</u>	<u>\$(1,146,676)</u>	<u>\$29,229,897</u>
Liabilities	<u>525</u>	<u>168</u>	<u>357</u>	<u>4,076</u>
Total Net Plan Position	<u><u>\$ 29,428,139</u></u>	<u><u>\$30,575,172</u></u>	<u><u>\$(1,147,033)</u></u>	<u><u>\$29,225,821</u></u>

Financial Highlights

The Fund's net position decreased \$1.15 million or 3.8% during the fiscal year ended April 30, 2016. The change in net position was due primarily to a decrease in investments from \$29.6 million to \$28.6 million. During the fiscal year ended April 30, 2015, the Fund's net position increased \$1.35 million, primarily due to an increase in the market value of the investments.

The Fund was actuarially funded at 54.0 % as of April 30, 2016, compared to 55.3% as of April 30, 2015, and 60.9% funded at April 30, 2014 using the actuarial methodology for funding purposes. Under the new actuarial methodology required for accounting purposes in accordance with GASB Statement No. 67, the Fund was actuarially funded at 49.8% at April 30, 2016, compared with 53.5% at April 30, 2015. . The decline in the funded status is due the immediate recognition of certain transactions as part of the total pension liability under GASB Statement No. 67 that were deferred and amortized into contributions in the previous guidance (e.g., changes in fair values of investments not meeting the actuarial assumption).

The annual money-weighted rate of return for the Fund was -2.91% during 2016, net of fees, as compared with 5.12% during 2015.

City of St. Charles, Illinois
Police Pension Fund
Management's Discussion and Analysis (Continued)

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 statute. The most recent available valuation showed that the funded status of the Fund as of April 30, 2016 decreased slightly to 54.0% from 55.3% at April 30, 2015 and was 60.9% funded as of April 30, 2014. The employer's net pension liability (NPL), a new measure required by GASB Statement No. 67, is calculated by subtracting the Fiduciary Net Position from the Total Pension Liability. The NPL was \$29.7 million on April 30, 2016, as compared with \$26.5 million on April 30, 2015, an increase of \$3.2 million from the prior year. For more information, please refer to the Schedule of Changes in the Employer's Net Pension Liability and Related Ratios included in the Required Supplementary Information section of this report.

As of April 30, 2016, the Fund had 53 active employees and 39 benefit recipients and eight inactive members not yet receiving benefits. During the fiscal year 2015, the fund had 51 active participants and 37 benefit recipients. As of April 30, 2014, the Fund had 50 active participants and 38 benefit recipients.

Investments

The allocation of investment assets for the Police Pension Fund as of April 30, 2016, April 30, 2015, and April 30, 2014 were as follows:

		FY 2016		FY 2015		FY 2014
		<u>Amount</u>		<u>Amount</u>		<u>Amount</u>
Cash and Equivalents	\$	745,027	\$	844,082	\$	1,177,139
Certificates of Deposit	\$	635,758	\$	1,325,819	\$	1,115,258
Government Securities	\$	4,040,324	\$	3,902,920	\$	3,453,510
Corporate Bonds	\$	4,221,450	\$	4,479,054	\$	4,292,274
Preferred Securities	\$	1,396,696	\$	1,299,065	\$	1,182,382
Mutual Funds	\$	8,722,117	\$	8,338,272	\$	6,016,419
Equity Securities	\$	9,586,671	\$	10,296,452	\$	11,892,144
TOTAL		<u>\$ 29,348,043</u>		<u>\$ 30,485,664</u>		<u>\$ 29,129,126</u>

Proper implementation of the Fund's investment policy requires that the performance of the investment portfolio be periodically evaluated and that the portfolio be analyzed to insure compliance with established asset allocation targets and statutory requirements. The Board of Trustees of the Fund evaluates its investment portfolio, in consultation with UBS Financial Services, Inc. on a quarterly basis. As shown above, during FY 2016, the Fund expanded its position in mutual funds and reduced its allocation of certificates of deposit. The changes in the other asset classes were minor. In addition, the investment values as of April 30, 2016 reflect the challenging market conditions prevalent during FY 2016.

City of St. Charles, Illinois
Police Pension Fund
Management's Discussion and Analysis (Continued)

The changes in the individual asset classes above represent the Board of Trustees' ongoing evaluation of the investment portfolio and market conditions to balance statutory investment requirements, safety of principal, and liquidity needs for benefits payments while maximizing investment return. Adjustments to and rebalancing of the investment portfolio occurs on a quarterly basis in consultation with UBS Financial Services, Inc. and in conjunction with the Fund's Investment Policy Statement at the quarterly Board of Trustees Meeting.

Changes in Plan Net Position

A condensed statement of changes in plan net position for the years ended April 30, 2016, April 30, 2015, and April 30, 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

	<u>FY 2016</u>	<u>FY 2015</u>	<u>Dollar Change</u>	<u>FY 2014</u>
Additions:				
Employer Contributions	\$ 1,540,294	\$ 1,495,524	\$ 44,770	\$ 1,317,164
Employee Contributions	506,838	479,600	479,600	458,352
Net Investment Income	<u>(906,415)</u>	<u>1,465,604</u>	<u>(2,372,019)</u>	<u>1,401,174</u>
Total Additions	<u>1,140,717</u>	<u>3,440,728</u>	<u>(2,300,011)</u>	<u>3,176,690</u>
Deductions:				
Pension Benefits & Refunds	\$ 2,263,911	\$ 2,073,010	\$ 190,901	\$ 1,881,019
Administrative Expenses	<u>23,839</u>	<u>18,367</u>	<u>5,572</u>	<u>30,709</u>
Total Deductions	<u>2,287,750</u>	<u>2,091,377</u>	<u>196,373</u>	<u>1,911,728</u>
Net Change in Plan Net Position	<u><u>(\$1,147,033)</u></u>	<u><u>\$ 1,349,351</u></u>	<u><u>\$ (2,496,384)</u></u>	<u><u>\$ 1,264,962</u></u>

Additions

Additions to plan net position include employer and employee contributions and net income from investment activities. Employer contributions rose slightly from \$1.50 million in FY 2015 to \$1.54 million in 2016, an increase of \$0.04 million or 3.0%. During FY 2015, employer contributions rose by approximately \$178,000. Employer contributions are based on each year's actuarially determined contribution as determined by the City's actuary. The City has a long standing practice of funding 100% of each year's actuarially determined contribution.

Employee contributions reflected in the table above have shown an increase of approximately \$48,000. The contributions required of employees are set by statute as a percentage of gross salary. The increased contributions reflect police officers moving to higher salary steps by acquiring greater seniority and the hiring of one additional officer during fiscal year 2015.

City of St. Charles, Illinois
Police Pension Fund
Management's Discussion and Analysis (Continued)

The Fund's net investment income for 2016 was a loss of \$0.9 million as compared to a \$1.5 million gain during 2015 and a \$1.4 million gain during fiscal year 2014. The change in investment income amounts each year is due primarily to market prevailing market conditions. Fiscal year 2016 saw negative returns across nearly all equity asset classes.

Deductions

Deductions from plan net position are primarily benefit payments. Payouts have increased by approximately \$382,000 since fiscal year 2014. The Fund paid out \$2.3 million in benefits and refunds during FY 2016, \$2.0 million during FY 2015, and 1.9 million during FY 2014. The administrative costs of the Fund represented a nominal 1.04%, 0.88%, and 1.60% of total deductions in 2016, 2015, and 2014 respectively.

Future Outlook

Employer contributions are expected to increase in 2017 and the Fund's funded ratio is expected to rise over the course of the next several years based upon the City's commitment to fully fund the Actuarial Unfunded Liability in accordance with the timelines established in state statute and the City's commitment to make the full actuarially determined contribution each year. It is also anticipated that employee contributions will increase modestly over the next few years consistent with increases in employee salaries. With respect to investment income, the Fund will continue to structure its portfolio with the goal of maximizing returns over the long term within the investment policy guidelines established by the Fund's Board of Trustees and the constraints on allowable investments imposed by state statutes.

Request for Information

This financial report is designed to provide a general overview of Fund finances for interested parties. Questions concerning any information provided in this report or requests for additional financial information should be addressed to Christopher Minick, Trustee, St. Charles Police Pension Fund, 2 East Main Street, St. Charles, IL 60174.

BASIC FINANCIAL STATEMENTS

CITY OF ST. CHARLES, ILLINOIS

POLICE PENSION FUND

STATEMENT OF FIDUCIARY NET POSITION

April 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and Short-Term Investments	\$ 745,027	\$ 844,082
Investments, at Fair Value		
Certificates of Deposit	635,758	1,325,819
U.S. Treasury and U.S. Agency Securities	4,040,324	3,902,920
Corporate Bonds	4,221,450	4,479,054
Preferred Securities	1,396,696	1,299,065
Mutual Funds	8,722,117	8,338,272
Equity Securities	9,586,671	10,296,452
Receivables (Net, Where Applicable, of Allowances for Uncollectibles)		
Accrued Interest	60,977	68,541
Prepaid Expenses	19,644	21,135
Total Assets	<u>29,428,664</u>	<u>30,575,340</u>
LIABILITIES		
Accounts Payable	<u>525</u>	<u>168</u>
Total Liabilities	<u>525</u>	<u>168</u>
NET POSITION RESTRICTED FOR PENSION BENEFITS		
	<u>\$ 29,428,139</u>	<u>\$ 30,575,172</u>

See accompanying notes to financial statements.

CITY OF ST. CHARLES, ILLINOIS

POLICE PENSION FUND

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

For the Years Ended April 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ADDITIONS		
Contributions		
Employer Contributions	\$ 1,540,294	\$ 1,495,524
Employee Contributions	506,838	479,600
	<u>2,047,132</u>	<u>1,975,124</u>
Investment Income		
Net Appreciation (Depreciation) in Fair Value of Investments	(1,648,777)	580,864
Interest and Dividends	875,409	1,043,337
	<u>(773,368)</u>	<u>1,624,201</u>
Less Investment Expense	(133,047)	(158,597)
	<u>(906,415)</u>	<u>1,465,604</u>
Total Additions	<u>1,140,717</u>	<u>3,440,728</u>
DEDUCTIONS		
Pension Benefits and Refunds	2,263,911	2,073,010
Administrative Expenses	23,839	18,367
	<u>2,287,750</u>	<u>2,091,377</u>
NET INCREASE (DECREASE)	(1,147,033)	1,349,351
NET POSITION RESTRICTED FOR PENSION BENEFITS		
May 1	<u>30,575,172</u>	<u>29,225,821</u>
April 30	<u>\$ 29,428,139</u>	<u>\$ 30,575,172</u>

See accompanying notes to financial statements.

CITY OF ST. CHARLES, ILLINOIS

POLICE PENSION FUND

NOTES TO FINANCIAL STATEMENTS

April 30, 2016 and 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

B. Fund Accounting

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

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

C. Basis of Accounting

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

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.

CITY OF ST. CHARLES, ILLINOIS
POLICE PENSION FUND
NOTES TO FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Investments

Investment purchases are recorded as of the trade date. Investments are stated at fair value at April 30, 2016 and 2015 for both reporting and actuarial purposes. Securities traded on national exchanges are at the last reported sale price.

2. PLAN DESCRIPTION

A. Plan Administration

Police sworn personnel are covered by the Fund, a single-employer defined benefit pension plan sponsored by the City. The defined benefits and employee and minimum employer contribution levels are governed by Illinois Compiled Statutes (ILCS) (40 ILCS 5/3-1) and may be amended only by the Illinois legislature. The City accounts for the Police Pension Plan as a pension trust fund.

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

B. Plan Membership

At April 30, 2016 and 2015, the measurement date, membership consisted of:

	2016	2015
Inactive Plan Members Currently Receiving Benefits	39	37
Inactive Plan Members Entitled to but not yet Receiving Benefits	8	-
Active Plan Members	53	51
TOTAL	100	88

C. Benefits Provided

The Fund provides retirement benefits as well as death and disability benefits in two tiers depending on when a participant enters a plan. Tier 1 employees (those hired prior to January 1, 2011) attaining the age of 50 or older with 20 or more years of creditable service are entitled to receive an annual retirement benefit equal to one-half of the salary attached to the rank held on the last day of service, or for one

CITY OF ST. CHARLES, ILLINOIS
POLICE PENSION FUND
NOTES TO FINANCIAL STATEMENTS (Continued)

2. PLAN DESCRIPTION (Continued)

C. Benefits Provided (Continued)

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 75.0% 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 3.0% of the original pension and 3.0% compounded annually thereafter.

Tier 2 employees (those hired on or after January 1, 2011) attaining the age of 55 or older with ten or more years of creditable service are entitled to receive an annual retirement benefit equal to the average monthly salary obtained by dividing the total salary of the police officer during the 96 consecutive months of service within the last 120 months of service in which the total salary was the highest by the number of months of service in that period. Police officers' salary for pension purposes is capped at \$106,800, plus the lesser of ½ of the annual change in the Consumer Price Index or 3.0% compounded. The annual benefit shall be increased by 2.5% of such salary for each additional year of service over 20 years up to 30 years to a maximum of 75.0% of such salary. Employees with at least ten years may retire at or after age 50 and receive a reduced benefit (i.e., ½% for each month under 55). The monthly benefit of a Tier 2 police officer shall be increased annually at age 60 on the January 1st after the police officer retires, or the first anniversary of the pension starting date, whichever is later. Noncompounding increases occur annually, each January thereafter. The increase is the lesser of 3.0% or ½ of the change in the Consumer Price Index for the proceeding calendar year.

D. Contributions

Employees are required by ILCS to contribute 9.91% of their base salary to the Fund. If an employee leaves covered employment with less than 20 years of service, accumulated employee contributions may be refunded without accumulated interest. The City is required to contribute the remaining amounts necessary to finance the Fund, as actuarially determined by an enrolled actuary. However, effective January 1, 2011, ILCS requires the City 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. The City has adopted a funding policy using the entry-age normal cost method that will result in 100% funding by 2040. The City's contribution was 30.11% and 30.67% of covered payroll, respectively, for the years ending April 30, 2016 and 2015.

CITY OF ST. CHARLES, ILLINOIS
POLICE PENSION FUND
NOTES TO FINANCIAL STATEMENTS (Continued)

3. INVESTMENTS

The deposits and investments of the Fund are held separately from those of the City and are under the control of the Fund’s Board of Trustees.

A. Investment Policy

ILCS limits the Fund’s investments to those allowable by ILCS and require the Fund’s Board of Trustees to adopt an investment policy which can be amended by a majority vote of the Board of Trustees. The Fund’s investment policy authorizes the Fund to make deposits/invest in insured commercial banks, savings and loan institutions, obligations of the U.S. Treasury and U.S. Agencies, insured credit union shares, money market mutual funds with portfolios of securities issued or guaranteed by the United States Government or agreements to repurchase these same obligations, repurchase agreements, short-term commercial paper rated within the three highest classifications by at least two standard rating services, investment-grade corporate bonds 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, corporate equity and corporate debt securities and real estate investment trusts.

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

Asset Class	Target	Long-Term Expected Real Rate of Return
Fixed Income	32%	1.21%
Preferred Securities	4%	4.02%
Equity Securities	55%	6.33%
Other Debt Securities	6%	3.00%
Cash and Cash Equivalents	3%	1.00%

ILCS limits the Fund’s investments in equities, mutual funds and variable annuities to 65%. Securities in any one company should not exceed 5% of the total fund. The blended asset class is comprised of all other asset classes to allow for rebalancing the portfolio.

CITY OF ST. CHARLES, ILLINOIS
POLICE PENSION FUND
NOTES TO FINANCIAL STATEMENTS (Continued)

3. INVESTMENTS (Continued)

A. Investment Policy (Continued)

The long-term expected rate of return on the Fund's investments was determined using an asset allocation study conducted by the Fund's investment management consultant in which best-estimate ranges of expected future real rates of return (net of pension plan investment expense and inflation of 2.5%) were developed for each major assets class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates or arithmetic real rates of return for each major asset class included in the Fund's target asset allocation as of April 30, 2016 and 2015 are listed in the table above.

B. Concentrations

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

C. Rate of Return

For the years ended April 30, 2016 and 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was (2.91%) and 5.12%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

D. Deposits with Financial Institutions

Custodial credit risk for deposits with financial institutions is the risk that in the event of a bank's failure, the Fund's deposits may not be returned to them. The Fund's investment policy does not require pledging of collateral for its deposits in excess of federal depository insurance. However, all deposits at April 30, 2016 and 2015 are covered by federal depository insurance.

CITY OF ST. CHARLES, ILLINOIS
POLICE PENSION FUND
NOTES TO FINANCIAL STATEMENTS (Continued)

3. INVESTMENTS (Continued)

E. Interest Rate Risk

The following table presents the investments and maturities of the Fund's fixed income securities as of April 30, 2016 and 2015:

Investment Type	April 30, 2016					
	Fair Value	Investment Maturities (in Years)				
		Less than 1	1-5	6-10	Greater than 10	
U.S. Treasury Obligations	\$ 2,015,432	\$ 226,684	\$ 691,993	\$ 987,736	\$ 109,019	
U.S. Agency Obligations	2,024,892	210,110	160,129	214,942	1,439,711	
Corporate Bonds	4,221,450	-	1,668,135	2,294,164	259,151	
TOTAL	\$ 8,261,774	\$ 436,794	\$ 2,520,257	\$ 3,496,842	\$ 1,807,881	

Investment Type	April 30, 2015					
	Fair Value	Investment Maturities (in Years)				
		Less than 1	1-5	6-10	Greater than 10	
U.S. Treasury Obligations	\$ 1,101,878	\$ 184,272	\$ 557,085	\$ 171,527	\$ 188,994	
U.S. Agency Obligations	2,801,042	290,432	560,411	574,947	1,375,252	
Corporate Bonds	4,479,054	114,619	1,549,085	2,443,765	371,585	
TOTAL	\$ 8,381,974	\$ 589,323	\$ 2,666,581	\$ 3,190,239	\$ 1,935,831	

The investment policy does not limit the maximum maturity length of investments in the Fund or address interest rate risk.

F. Credit Risk

The Fund limits its exposure to credit risk, the risk that the issuer of a debt security will not pay its par value upon maturity, by primarily investing in obligations guaranteed by the United States Government, securities issued by agencies of the United States Government that are explicitly or implicitly guaranteed by the United States Government, and investment grade corporate bonds by at least two of the three rating agencies. The U.S. agency obligations are rated AAA to AA. The corporate bonds are rated AA+ to BBB+.

G. Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to the investment, the Fund will not be able to recover the value of its investments that are in possession of an outside party. The Fund's investment policy does not address custodial credit risk over investments. In addition, the Fund allows the investment broker to also serve as custodian, but requires the investment broker to acquire an excess SIPC policy to provide the same coverage over the portfolio as SIPC.

CITY OF ST. CHARLES, ILLINOIS
POLICE PENSION FUND
NOTES TO FINANCIAL STATEMENTS (Continued)

4. PENSION LIABILITY OF THE CITY

A. Net Pension Liability

The components of the net pension liability of the Police Pension Plan as of April 30, 2016 and 2015 were as follows:

	2016	2015
Total Pension Liability	\$ 59,104,532	\$ 57,111,059
Plan Fiduciary Net Position	29,428,139	30,575,172
City's Net Pension Liability	29,676,393	26,535,887
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	49.79%	53.54%

See the Schedule of Changes in the Employer's Net Pension Liability and Related Ratios on page 14 of the required supplementary information for additional information related to the funded status of the Fund.

B. Actuarial Assumptions

The total pension liability above was determined by an actuarial valuation performed as of April 30, 2016 and 2015 using the following actuarial methods and assumptions.

Actuarial Valuation Dates	April 30, 2016	April 30, 2015
Actuarial Cost Method	Entry-Age Normal	Entry-Age Normal
Assumptions		
Inflation	2.50%	3.00%
Salary Increases	5.00%	5.00%
Interest Rate	6.75%	7.00%
Cost of Living Adjustments	3.00% (Tier 1) 2.00% (Tier 2)	3.00% (Tier 1) 2.00% (Tier 2)
Asset Valuation Method	Market	Market

CITY OF ST. CHARLES, ILLINOIS
POLICE PENSION FUND
 NOTES TO FINANCIAL STATEMENTS (Continued)

4. PENSION LIABILITY OF THE CITY (Continued)

B. Actuarial Assumptions (Continued)

Mortality rates were based on the RP-2000 Mortality Table (CHBCA). The actuarial assumptions used in the April 30, 2016 valuation were based on the results of an actuarial experience study conducted by the Illinois Department of Insurance dated September 26, 2012.

C. Discount Rate

The discount rate used to measure the total pension liability for years ending April 30, 2016 and 2015 was 6.75% and 7.00%, respectively. 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 City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the Fund's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

D. Discount Rate Sensitivity

The following is a sensitive analysis of the net pension liability to changes in the discount rate for years ending April 30, 2016 and 2015, respectively.

The table below presents the pension liability of the City, for year ending April 30, 2016, calculated using the discount rate of 6.75% as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (5.75%) or 1 percentage point higher (7.75%) than the current rate:

	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
Net Pension Liability	\$ 38,093,703	\$ 29,676,393	\$ 22,747,537

CITY OF ST. CHARLES, ILLINOIS
POLICE PENSION FUND
 NOTES TO FINANCIAL STATEMENTS (Continued)

4. PENSION LIABILITY OF THE CITY (Continued)

D. Discount Rate Sensitivity (Continued)

The table below presents the pension liability of the City, for year ending April 30, 2015, calculated using the discount rate of 7.00% as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.00%) or 1 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	\$ 34,220,411	\$ 26,535,887	\$ 20,163,118

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ST. CHARLES, ILLINOIS

POLICE PENSION FUND

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

April 30, 2016

	<u>2015</u>	<u>2016</u>
TOTAL PENSION LIABILITY		
Service Cost	\$ 1,071,070	\$ 1,227,434
Interest	3,400,545	4,004,458
Changes of Benefit Terms	-	-
Differences Between Expected and Actual Experience	1,114,981	(2,832,641)
Changes of Assumptions	3,981,759	1,858,133
Benefit Payments, Including Refunds of Member Contributions	<u>(2,073,010)</u>	<u>(2,263,911)</u>
Net Change in Total Pension Liability	7,495,345	1,993,473
Total Pension Liability - Beginning	<u>49,615,714</u>	<u>57,111,059</u>
TOTAL PENSION LIABILITY - ENDING	<u>\$ 57,111,059</u>	<u>\$ 59,104,532</u>
PLAN FIDUCIARY NET POSITION		
Contributions - Employer	\$ 1,495,524	\$ 1,540,294
Contributions - Member	479,600	506,838
Net Investment Income	1,465,605	(906,417)
Benefit Payments, Including Refunds of Member Contributions	(2,073,010)	(2,263,911)
Administrative Expense	<u>(18,367)</u>	<u>(23,839)</u>
Net Change in Plan Fiduciary Net Position	1,349,352	(1,147,034)
Plan Fiduciary Net Position - Beginning	<u>29,225,821</u>	<u>30,575,173</u>
PLAN FIDUCIARY NET POSITION - ENDING	<u>\$ 30,575,173</u>	<u>\$ 29,428,139</u>
EMPLOYER'S NET PENSION LIABILITY	<u>\$ 26,535,886</u>	<u>\$ 29,676,393</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	53.54%	49.79%
Covered-Employee Payroll	\$ 4,875,741	\$ 5,115,650
Employer's Net Pension Liability as a Percentage of Covered-Employee Payroll	544.24%	580.11%

(See independent auditor's report.)

CITY OF ST. CHARLES, ILLINOIS

POLICE PENSION FUND

SCHEDULE OF INVESTMENT RETURNS

April 30, 2016

	<u>2015</u>	<u>2016</u>
Annual Money-Weighted Rate of Return, Net of Investment Expense	5.12%	(2.91%)

(See independent auditor's report.)

SUPPLEMENTARY INFORMATION

CITY OF ST. CHARLES, ILLINOIS

POLICE PENSION FUND

SCHEDULE OF CHANGES IN PLAN NET POSITION -
BUDGET AND ACTUAL

For the Year Ended April 30, 2016

	Original Budget	Final Budget	Actual	Variance Over (Under)
ADDITIONS				
Contributions				
Employer Contributions	\$ 1,557,000	\$ 1,557,000	\$ 1,540,294	\$ (16,706)
Employee Contributions	489,996	489,996	506,838	16,842
Total Contributions	<u>2,046,996</u>	<u>2,046,996</u>	<u>2,047,132</u>	<u>136</u>
Investment Income				
Net Appreciation (Depreciation) in Fair Value of Investments	-	-	(1,648,777)	(1,648,777)
Interest and Dividends	1,010,412	1,010,412	875,409	(135,003)
Total Investment Income	<u>1,010,412</u>	<u>1,010,412</u>	<u>(773,368)</u>	<u>(1,783,780)</u>
Less Investment Expense	<u>(225,096)</u>	<u>(225,096)</u>	<u>(133,047)</u>	<u>92,049</u>
Net Investment Income	<u>785,316</u>	<u>785,316</u>	<u>(906,415)</u>	<u>(1,691,731)</u>
Total Additions	<u>2,832,312</u>	<u>2,832,312</u>	<u>1,140,717</u>	<u>(1,691,595)</u>
DEDUCTIONS				
Pension Benefits	2,130,192	2,130,192	2,263,911	133,719
Administrative Expenses	44,904	44,904	23,839	(21,065)
Total Deductions	<u>2,175,096</u>	<u>2,175,096</u>	<u>2,287,750</u>	<u>112,654</u>
NET INCREASE (DECREASE)	<u>\$ 657,216</u>	<u>\$ 657,216</u>	<u>(1,147,033)</u>	<u>\$ (1,804,249)</u>
NET POSITION RESTRICTED FOR PENSION BENEFITS				
May 1			<u>30,575,172</u>	
April 30			<u>\$ 29,428,139</u>	

Notes to Supplementary Information

Budgets

An annual budget is adopted for the Fund by the City Council of the City. The budget is adopted on a basis consistent with GAAP. The budget, which may not be legally exceeded at the fund level, lapses at the end of the fiscal year. Once adopted, the budget may be amended by the City Council.

(See independent auditor's report.)