



CITY OF ST. CHARLES, ILLINOIS

POLICE PENSION FUND
(A FIDUCIARY COMPONENT UNIT OF THE
CITY OF ST. CHARLES)

ANNUAL FINANCIAL REPORT

For the Years Ended April 30, 2021 and 2020



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CITY OF ST. CHARLES, ILLINOIS
POLICE PENSION FUND
TABLE OF CONTENTS

	<u>Page(s)</u>
INDEPENDENT AUDITOR’S REPORT	1-2
MANAGEMENT’S DISCUSSION AND ANALYSIS	MD&A 1-5
BASIC FINANCIAL STATEMENTS	
Statements of Fiduciary Net Position.....	3
Statements of Changes in Fiduciary Net Position.....	4
Notes to Financial Statements.....	5-13
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Changes in the Employer’s Net Pension Liability and Related Ratios.....	14-15
Schedule of Employer Contributions	16-17
Schedule of Investment Returns.....	18
SUPPLEMENTARY INFORMATION	
Schedule of Changes in Fiduciary Net Position - Budget and Actual	19

1415 West Diehl Road, Suite 400
Naperville, IL 60563
630.566.8400

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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 component unit of the City of St. Charles, Illinois (the City) as of April 30, 2021 and 2020 and 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 audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 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 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the St. Charles Police Pension Fund, a fiduciary component unit of the City of St. Charles, Illinois, as of April 30, 2021 and 2020 and the changes in fiduciary net position for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

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 audits 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 audits were 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 audits 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
September 28, 2021

City of St. Charles, Illinois

Police Pension Fund

Management's Discussion and Analysis

April 30, 2021

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, 2021 and includes comparative information for the fiscal year ended April 30, 2020, and April 30, 2019.

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 and a fiduciary component unit of the City of St. Charles, Illinois (the "City"). As of April 30, 2021, the Fund provided services to 58 active vested and nonvested employees and 51 benefit recipients and 12 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, 2021 and April 30, 2020. This financial information also summarizes the changes in plan net position held in trust for pension benefits for the years 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. The Fund adopted GASB Statement No. 84, *Fiduciary Activities*, for the fiscal year ended April 30, 2020. The implementation of this new reporting standard changed the reporting entity of the Fund which is now a fiduciary component unit of the City.

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, 2021, April 30, 2020, and April 30, 2019. 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 2021	FY 2020	Dollar Change	FY 2019
Cash and Equivalents	\$ 1,292,249	\$ 866,295	\$ 425,954	\$ 906,161
Investments, at Fair Value	45,323,496	34,392,804	10,930,692	35,177,635
Receivables	71,694	62,676	9,018	77,845
Prepaid Expenses	---	---	---	21,850
Total Assets	<u>\$46,687,439</u>	<u>\$35,321,775</u>	<u>\$11,365,664</u>	<u>\$36,183,491</u>
Liabilities	---	---	---	151
Total Net Plan Position	<u><u>\$46,687,439</u></u>	<u><u>\$35,321,775</u></u>	<u><u>\$11,365,664</u></u>	<u><u>\$36,183,340</u></u>

Financial Highlights

The Fund's net position grew \$11.4 million or 32.2% during the fiscal year ended April 30, 2021. The change in net position was due primarily to an increase in the fair value of investments from \$34.4 million to \$45.3 million. During the fiscal year ended April 30, 2020, the Fund's net position decreased \$861,565 because during the months of February 2020 and March 2020 the fair value of investments declined significantly due to the downturn in the economy resulting from the COVID-19 pandemic. During FY 20-21, the financial markets not only rebounded from the pandemic induced economic slowdown but rallied and produced substantial investment returns which increased market value.

The Fund was actuarially funded at 50.3% as of April 30, 2021, compared to 48.7% as of April 30, 2020, and 50.0% funded at April 30, 2019 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 56.05% at April 30, 2021, compared with 44.96% at April 30, 2020 and 48.9% at April 30, 2019. The difference in the funded status under these two methodologies is due to 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 under 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 30.14% during 2021, net of fees, as compared with -3.26% during 2020 and 4.76% during 2019.

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, 2021 increased to 50.3% from 48.7% at April 30, 2020 and was 50.0% funded as of April 30, 2019. 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 \$36.6 million on April 30, 2021, as compared with \$43.2 million on April 30, 2020, a decrease of \$6.6 million from the prior year. The latest valuation reported that plan experience was unfavorable overall when compared to the plan’s actuarial assumptions. Specifically, the number of actual retirements were greater than expected. However, the loss generated by the larger number of retirees was partially offset by the investment return of 8.45% which exceeded the 6.75% assumption. 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, 2021, the Fund had 58 active employees, 51 benefit recipients and 12 inactive members not yet receiving benefits. During the fiscal year 2020, the fund had 58 active participants, 48 benefit recipients and 10 inactive members not yet receiving benefits. As of April 30, 2019, the Fund had 53 active participants and 48 benefit recipients as well as 11 inactive members not yet receiving benefits.

Investments

The allocation of cash and investment assets for the Police Pension Fund as of April 30, 2021, April 30, 2020, and April 30, 2019 were as follows:

	<u>FY 2021</u>	<u>FY 2020</u>	<u>FY 2019</u>
Cash and Equivalents	\$ 1,292,249	\$ 866,295	\$ 906,161
Certificates of Deposit	1,318,449	853,424	846,310
Government Securities	8,600,177	6,063,577	6,312,358
Corporate Bonds	3,119,937	4,128,879	4,052,810
Municipal Bonds	2,181,426	---	-
Mutual Funds	30,103,507	23,346,924	16,667,014
Equity Securities	---	---	7,299,143
Total	<u>\$46,615,745</u>	<u>\$ 35,259,099</u>	<u>\$ 36,083,796</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 ensure compliance with established asset allocation targets and statutory requirements. On a quarterly basis the Board of Trustees of the Fund evaluates its investment portfolio, in consultation with Sawyer Falduto Asset Management, LLC. As shown in the table above, during FY 2021 the Fund expanded its position in mutual funds, government securities, municipal bonds and certificates of deposit while reducing its allocation to corporate bonds.

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

The changes in the individual asset classes 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 benefit payments while maximizing investment return. Adjustments to and rebalancing of the investment portfolio occurs in consultation with the Fund's investment manager 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, 2021, April 30, 2020, and April 30, 2019 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

	FY 2021	FY 2020	Dollar Change	FY 2019
Additions:				
Employer Contributions	\$ 3,287,436	\$ 2,873,209	\$ 414,227	\$ 2,664,366
Employee Contributions	762,772	653,274	109,498	979,623
Other	---	226	(226)	-
Net Investment Income (Loss)	<u>10,942,139</u>	<u>(1,085,503)</u>	<u>12,027,642</u>	<u>1,595,253</u>
Total Additions	<u>\$14,992,347</u>	<u>\$ 2,441,206</u>	<u>\$12,551,141</u>	<u>5,239,242</u>
Deductions:				
Pension Benefits & Refunds	\$ 3,600,276	\$ 3,278,482	\$ 321,794	\$ 2,984,568
Administrative Expenses	<u>26,407</u>	<u>24,289</u>	<u>2,118</u>	<u>36,856</u>
Total Deductions	<u>\$ 3,626,683</u>	<u>\$3,302,771</u>	<u>\$ 323,912</u>	<u>3,021,424</u>
Net Change in Plan Net Position	<u>\$11,365,664</u>	<u>\$(861,565)</u>	<u>\$12,227,229</u>	<u>\$ 2,217,818</u>

Additions

Additions to plan net position include employer and employee contributions and net income from investment activities. Employer contributions rose from \$2.9 million in FY 2020 to \$3.3 million in 2021, an increase of \$0.41 million or 14.4%. During FY 2020, employer contributions rose by \$0.21 million. 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.

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

The employee contributions reflected in the table above include the contributions required of employees, as set by statute as a percentage of gross salary, as well as portable contributions from other pension funds. In total, employee contributions increased \$109,498 in FY 2021 as compared to FY 2020. During the past two fiscal years, contributions from other municipal pension funds were transferred into the St. Charles Police Pension Fund. These contribution transfers were approximately \$148,000 and \$75,000 in FY 2021 and FY 2020, respectively. The year over year change in required employee contributions, after removing the \$148,000 and \$75,000, is \$36,285 or an increase of 6.3%. The increase was driven by the annual market and merit increases which are stipulated in the union contract.

The Fund experienced a net investment gain of \$10.9 million during fiscal year 2021 as compared to a loss of \$1.1 million in fiscal year 2020 and a gain of \$1.6 million during fiscal year 2019. The change in investment income amounts each year is due primarily to prevailing market conditions.

Deductions

Deductions from plan net position are primarily benefit payments. The Fund paid out approximately \$3.6 million in benefits and refunds during FY 2021, \$3.3 million during FY 2020, and \$3.0 million during FY 2019. Payouts have increased by \$321,794 since fiscal year 2020. Four additional retirees are receiving benefits in FY 2021 as compared to FY 2020. The annual cost of living adjustment also increases the amount of benefit payments. The administrative costs of the Fund represented a nominal 0.73%, 0.74%, and 1.22% of total deductions in 2021, 2020, and 2019 respectively.

Future Outlook

Employer contributions are expected to increase approximately \$114,000 in 2022 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 Brooks Boyce, President, St. Charles Police Pension Fund, 2 East Main Street, St. Charles, IL 60174.

BASIC FINANCIAL STATEMENTS

CITY OF ST. CHARLES, ILLINOIS

POLICE PENSION FUND

STATEMENTS OF FIDUCIARY NET POSITION

April 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and Short-Term Investments	\$ 1,292,249	\$ 866,295
Investments, at Fair Value		
Certificates of Deposit	1,318,449	853,424
U.S. Treasury and U.S. Agency Securities	8,600,177	6,063,577
Corporate Bonds	3,119,937	4,128,879
Municipal Bonds	2,181,426	-
Mutual Funds	30,103,507	23,346,924
Receivables (Net, Where Applicable, of Allowances for Uncollectibles)		
Accrued Interest	71,694	62,676
	<hr/>	<hr/>
Total Assets	46,687,439	35,321,775
	<hr/>	<hr/>
LIABILITIES		
None	-	-
	<hr/>	<hr/>
Total Liabilities	-	-
	<hr/>	<hr/>
NET POSITION RESTRICTED FOR PENSION BENEFITS	<u>\$ 46,687,439</u>	<u>\$ 35,321,775</u>

See accompanying notes to financial statements.

CITY OF ST. CHARLES, ILLINOIS

POLICE PENSION FUND

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION

For the Years Ended April 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ADDITIONS		
Contributions		
Employer Contributions	\$ 3,287,436	\$ 2,873,209
Employee Contributions	762,772	653,274
Other	-	226
	<hr/>	<hr/>
Total Contributions	4,050,208	3,526,709
	<hr/>	<hr/>
Investment Income		
Net Appreciation (Depreciation) in Fair Value of Investments	10,034,782	(2,063,900)
Interest and Dividends	970,847	1,101,625
	<hr/>	<hr/>
Total Investment Income (Loss)	11,005,629	(962,275)
Less Investment Expense	(63,490)	(123,228)
	<hr/>	<hr/>
Net Investment Income (Loss)	10,942,139	(1,085,503)
	<hr/>	<hr/>
Total Additions	14,992,347	2,441,206
	<hr/>	<hr/>
DEDUCTIONS		
Pension Benefits and Refunds	3,600,276	3,278,482
Administrative Expenses	26,407	24,289
	<hr/>	<hr/>
Total Deductions	3,626,683	3,302,771
	<hr/>	<hr/>
NET INCREASE (DECREASE)	11,365,664	(861,565)
	<hr/>	<hr/>
NET POSITION RESTRICTED FOR PENSION BENEFITS		
May 1	35,321,775	36,183,340
	<hr/>	<hr/>
April 30	\$ 46,687,439	\$ 35,321,775
	<hr/>	<hr/>

See accompanying notes to financial statements.

CITY OF ST. CHARLES, ILLINOIS

POLICE PENSION FUND

NOTES TO FINANCIAL STATEMENTS

April 30, 2021 and 2020

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 component unit reported as a pension trust fund of the City of St. Charles, Illinois pursuant to GASB Statement No. 84.

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. When pension plan assets are held under the terms of a formal trust agreement, a pension trust fund is used.

C. Measurement Focus and 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, 2021 and 2020 for both reporting and actuarial purposes. Securities traded on national exchanges are at the last reported sale price.

The Fund categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

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 (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, 2021 and 2020, the measurement date, membership consisted of:

	2021	2020
Inactive Plan Members Currently Receiving Benefits	51	48
Inactive Plan Members Entitled to but not yet Receiving Benefits	12	10
Active Plan Members	58	58
TOTAL	121	116

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

2. PLAN DESCRIPTION (Continued)

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 year prior to the last day, whichever is greater. The annual benefit shall be increased by 2.50% of such salary for each additional year of service over 20 years up to 30 years to a maximum of 75% of such salary. Employees with at least eight years but less than 20 years of credited service may retire at or after age 60 and receive a reduced benefit. The monthly benefit of a police officer who retired with 20 or more years of service after January 1, 1977 shall be increased annually, following the first anniversary date of retirement and be paid upon reaching the age of at least 55 years, by 3% of the original pension and 3% compounded annually thereafter.

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 greater of the average monthly salary obtaining by dividing the total salary during the 48 consecutive months of service within the last of 60 months in which the total salary was the highest by the number of months in that period; or the average monthly salary obtained by dividing the total salary of the police officer during the 96 consecutive months of service within the last 120 months of service in which the total salary was the highest by the number of months of service in that period. Police officers' salary for pension purposes is capped at \$106,800, plus the lesser of ½ of the annual change in the Consumer Price Index or 3% compounded. The annual benefit shall be increased by 2.50% of such salary for each additional year of service over 20 years up to 30 years to a maximum of 75% of such salary. Employees with at least ten years may retire at or after age 50 and receive a reduced benefit (i.e., ½% for each month under 55). The monthly benefit of a Tier 2 police officer shall be increased annually at age 60 on the January 1st after the police officer retires, or the first anniversary of the pension starting date, whichever is later. Noncompounding increases occur annually, each January thereafter. The increase is the lesser of 3% or ½ of the change in the Consumer Price Index for the proceeding calendar year.

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

2. PLAN DESCRIPTION (Continued)

D. Contributions

Employees are required by Illinois Compiled Statutes (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 51.69% and 46.68% of covered payroll for the years ended April 30, 2021 and 2020, respectively.

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 The 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.

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

3. INVESTMENTS (Continued)

A. Investment Policy (Continued)

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
Large Cap Domestic Equity	45.50%	5.90%
Small Cap Domestic Equity	13.00%	7.70%
International Equity	6.50%	7.20%
Fixed Income	35.00%	1.40%

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.

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 2.20%) 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, 2021 and 2020 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, 2021 and 2020, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 30.14% and (3.26%), respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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

3. INVESTMENTS (Continued)

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, 2021 and 2020 are covered by federal depository insurance.

E. Interest Rate Risk

The following table presents the investments and maturities of the Fund's fixed income securities as of April 30, 2021 and 2020:

Investment Type	April 30, 2021					
	Fair Value	Investment Maturities (in Years)				
		Less than 1	1-5	6-10	Greater than 10	
U.S. Treasury Obligations	\$ 2,351,926	\$ 142,198	\$ 1,341,757	\$ 690,260	\$ 177,711	
U.S. Agency Obligations	6,248,251	-	1,973,963	3,265,784	1,008,504	
Corporate Bonds	3,119,937	313,256	2,372,150	434,531	-	
Municipal Bonds	2,181,426	-	811,538	1,369,888	-	
Negotiable Certificates of Deposit	1,318,449	-	992,141	326,308	-	
TOTAL	\$ 15,219,989	\$ 455,454	\$ 7,491,549	\$ 6,086,771	\$ 1,186,215	

Investment Type	April 30, 2020					
	Fair Value	Investment Maturities (in Years)				
		Less than 1	1-5	6-10	Greater than 10	
U.S. Treasury Obligations	\$ 3,325,077	\$ 129,100	\$ 1,263,005	\$ 1,510,839	\$ 422,133	
U.S. Agency Obligations	2,738,500	-	120,666	335,196	2,282,638	
Corporate Bonds	4,128,879	245,358	2,367,885	1,348,762	166,874	
Negotiable Certificates of Deposit	853,424	119,630	733,794	-	-	
TOTAL	\$ 11,045,880	\$ 494,088	\$ 4,485,350	\$ 3,194,797	\$ 2,871,645	

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

F. Fair Value Measurements

The Fund has the following recurring fair value measurements as of April 30, 2021: The U.S. Treasury obligations and mutual funds are valued using quoted prices in active markets for identical assets (Level 1 inputs). The U.S. agency obligations, the corporate bonds, the municipal bonds, and the negotiable CDs are valued using quoted matrix pricing models (Level 2 inputs).

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

3. INVESTMENTS (Continued)

G. 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 and municipal bonds by at least two of the three rating agencies. The U.S. agency obligations are rated AA+. The corporate bonds are rated AAA to BBB. The municipal bonds are rated AAA to AA or are not rated. The negotiable certificates of deposit are not rated.

H. 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. As of April 30, 2021, the Fund's investment policy requires third party custody agreements for all securities owned by the Fund.

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, 2021 and 2020 were as follows:

	2021	2020
Total Pension Liability	\$ 83,297,231	\$ 78,556,020
Plan Fiduciary Net Position	46,687,439	35,321,775
City's Net Pension Liability	36,609,792	43,234,245
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	56.05%	44.96%

See the schedule of changes in the employer's net pension liability and related ratios on pages 14 and 15 of the required supplementary information for additional information related to the funded status of the Fund.

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

4. PENSION LIABILITY OF THE CITY (Continued)

B. Actuarial Assumptions

The total pension liability above was determined by an actuarial valuation performed as of April 30, 2021 and 2020 using the following actuarial methods and assumptions.

Actuarial Valuation Dates	April 30, 2021	April 30, 2020
Actuarial Cost Method	Entry-Age Normal	Entry-Age Normal
Assumptions		
Inflation	2.50%	2.50%
Salary Increases	3.50% - 11.00%	3.50% - 11.00%
Interest Rate	6.75%	6.75%
Cost of Living Adjustments	3.00% (Tier 1) 1.25% (Tier 2)	3.00% (Tier 1) 1.25% (Tier 2)
Asset Valuation Method	Fair Value	Fair Value

Mortality rates were based on the PubS-2010 Mortality Table. The actuarial assumptions used in the April 30, 2020 valuation were based on the results of an actuarial experience study conducted by the Illinois Department of Insurance dated October 5, 2017.

C. Discount Rate

The discount rate used to measure the total pension liability for years ended April 30, 2021 and 2020 was 6.75%. 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.

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

4. PENSION LIABILITY OF THE CITY (Continued)

D. Discount Rate Sensitivity

The following is a sensitive analysis of the net pension liability to changes in the discount rate for years ended April 30, 2021 and 2020.

The table below presents the pension liability of the City, for year ended April 30, 2021, 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	\$ 48,729,864	\$ 36,609,792	\$ 26,735,981

The table below presents the pension liability of the City, for year ended April 30, 2020, 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	\$ 54,728,194	\$ 43,234,245	\$ 33,868,866

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ST. CHARLES, ILLINOIS

POLICE PENSION FUND

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

Last Seven Fiscal Years

MEASUREMENT DATE APRIL 30,	2015	2016	2017	2018	2019	2020	2021
TOTAL PENSION LIABILITY							
Service Cost	\$ 1,071,070	\$ 1,227,434	\$ 1,314,030	\$ 1,399,417	\$ 1,256,243	\$ 1,277,083	\$ 1,483,004
Interest	3,400,545	4,004,458	3,996,291	4,326,878	4,532,453	4,969,740	5,281,125
Changes of Benefit Terms	-	-	-	-	-	333,992	-
Differences Between Expected and Actual Experience	1,114,981	(2,832,641)	452,268	1,126,204	1,098,091	1,265,747	1,577,358
Changes of Assumptions	3,981,759	1,858,133	1,607,217	(828,107)	2,702,221	-	-
Benefit Payments, Including Refunds of Member Contributions	(2,073,010)	(2,263,911)	(2,428,491)	(2,686,739)	(2,984,568)	(3,278,482)	(3,600,276)
Net Change in Total Pension Liability	7,495,345	1,993,473	4,941,315	3,337,653	6,604,440	4,568,080	4,741,211
Total Pension Liability - Beginning	49,615,714	57,111,059	59,104,532	64,045,847	67,383,500	73,987,940	78,556,020
TOTAL PENSION LIABILITY - ENDING	\$ 57,111,059	\$ 59,104,532	\$ 64,045,847	\$ 67,383,500	\$ 73,987,940	\$ 78,556,020	\$ 83,297,231
PLAN FIDUCIARY NET POSITION							
Contributions - Employer	\$ 1,495,524	\$ 1,540,294	\$ 1,980,740	\$ 2,281,640	\$ 2,664,366	\$ 2,873,435	\$ 3,287,436
Contributions - Member	479,600	506,838	626,881	531,282	979,623	653,274	762,772
Other	-	-	-	-	-	-	-
Net Investment Income	1,465,605	(906,417)	2,372,287	1,901,160	1,595,253	(1,085,503)	10,942,139
Benefit Payments, Including Refunds of Member Contributions	(2,073,010)	(2,263,911)	(2,428,491)	(2,686,739)	(2,984,568)	(3,278,482)	(3,600,276)
Administrative Expense	(18,367)	(23,839)	(22,018)	(19,359)	(36,856)	(24,289)	(26,407)
Net Change in Plan Fiduciary Net Position	1,349,352	(1,147,034)	2,529,399	2,007,984	\$ 2,217,818	\$ (861,565)	\$ 11,365,664
Plan Fiduciary Net Position - Beginning	29,225,821	30,575,173	29,428,139	31,957,538	33,965,522	36,183,340	35,321,775
PLAN FIDUCIARY NET POSITION - ENDING	\$ 30,575,173	\$ 29,428,139	\$ 31,957,538	\$ 33,965,522	\$ 36,183,340	\$ 35,321,775	\$ 46,687,439
EMPLOYER'S NET PENSION LIABILITY	\$ 26,535,886	\$ 29,676,393	\$ 32,088,309	\$ 33,417,978	\$ 37,804,600	\$ 43,234,245	\$ 36,609,792

MEASUREMENT DATE APRIL 30,	2015	2016	2017	2018	2019	2020	2021
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	53.54%	49.79%	49.90%	50.41%	48.90%	44.96%	56.05%
Covered Payroll	\$ 4,875,741	\$ 5,115,650	\$ 5,364,361	\$ 5,428,931	\$ 5,507,462	\$ 6,155,692	\$ 6,359,386
Employer's Net Pension Liability as a Percentage of Covered Payroll	544.24%	580.11%	598.18%	615.55%	686.43%	702.35%	575.68%

Changes of benefit terms

For measurement date April 30, 2020, amounts reported as changes of benefit terms resulted from the following changes:
Changes to tier two benefits.

Changes of assumptions

For measurement date April 30, 2019, amounts reported as changes of assumptions resulted from the following changes:
The mortality rates were updated to reflect the PubS-2010 tables.

For measurement date April 30, 2018, amounts reported as changes of assumptions resulted from the following changes:

Updated retirement, termination and disability rate tables.

Updated assumed salary increase rates.

Updated the percentage of disabilities assumed to be in the line of duty from 70% to 60%.

Updated the percentage of deaths assumed to be in the line of duty from 5% to 10%.

For measurement date April 30, 2017, amounts reported as changes of assumptions resulted from the following changes:

The mortality assumptions were updated to include a projection to the valuation date using Scale BB.

The salary scale was updated from a flat 5% to a service based schedule.

The assumed payroll growth rate was reduced from 5.00% to 4.50%.

For measurement date April 30, 2016, amounts reported as changes of assumptions, resulted from lowering the interest rate from 7.00% to 6.75%.

For measurement date April 30, 2015, there was a change with respect to actuarial assumptions to reflect revised expectations with respect to mortality rates, disability rates, turnover rates and retirement rates.

Ultimately, this schedule should present information for the last ten years. However, until ten years of information can be compiled, information will be presented for as many year as is available.

(See independent auditor's report.)

CITY OF ST. CHARLES, ILLINOIS

POLICE PENSION FUND

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Last Seven Fiscal Years

FISCAL YEAR ENDED APRIL 30,	2015	2016	2017
Actuarially Determined Contribution	\$ 1,505,771	\$ 1,553,197	\$ 1,988,762
Contributions in Relation to the Actuarially Determined Contribution	1,495,524	1,540,294	1,980,740
CONTRIBUTION DEFICIENCY (Excess)	\$ 10,247	\$ 12,903	\$ 8,022
Covered Payroll	\$ 4,875,741	\$ 5,115,650	\$ 5,364,361
Contributions as a Percentage of Covered Payroll	30.67%	30.11%	36.92%

Notes to Required Supplementary Information

Valuation Date Actually Determined Contribution Rates are Calculated as May 1 of the Prior Fiscal Year.

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry-Age Normal
Amortization Method	Level Percent of Pay
Remaining Amortization Period	20 Years
Asset Valuation Method	Five-Year Smoothed Market
Inflation	2.50%
Salary Increases	3.50%
Investment Rate of Return	6.75%
Retirement Age	50 to 70
Mortality	PubS-2010 Table

Ultimately, this schedule should present information for the last ten years. However, until ten years of information can be compiled, information will be presented for as many year as is available.

2018	2019	2020	2021
\$ 2,303,017	\$ 2,676,082	\$ 2,892,514	\$ 3,296,585
2,281,640	2,664,336	2,873,435	3,287,436
\$ 21,377	\$ 11,746	\$ 19,079	\$ 9,149
\$ 5,428,931	\$ 5,507,462	\$ 6,155,692	\$ 6,359,386
42.03%	48.38%	46.68%	51.69%

(See independent auditor's report.)

CITY OF ST. CHARLES, ILLINOIS

POLICE PENSION FUND

SCHEDULE OF INVESTMENT RETURNS

Last Seven Fiscal Years

FISCAL YEAR ENDED APRIL 30,	2015	2016	2017	2018	2019	2020	2021
Annual Money-Weighted Rate of Return, Net of Investment Expense	5.12%	(2.91%)	7.91%	5.84%	4.76%	(3.26%)	30.14%

Ultimately, this schedule should present information for the last ten years. However, until ten years of information can be compiled, information will be presented for as many year as is available.

(See independent auditor's report.)

SUPPLEMENTARY INFORMATION

CITY OF ST. CHARLES, ILLINOIS

POLICE PENSION FUND

SCHEDULE OF CHANGES IN FIDUCIARY NET POSITION -
BUDGET AND ACTUAL

For the Year Ended April 30, 2021

	Original Budget	Final Budget	Actual	Variance Over (Under)
ADDITIONS				
Contributions				
Employer Contributions	\$ 3,296,586	\$ 3,296,586	\$ 3,287,436	\$ (9,150)
Employee Contributions	593,280	593,280	762,772	169,492
Total Contributions	<u>3,889,866</u>	<u>3,889,866</u>	<u>4,050,208</u>	<u>160,342</u>
Investment Income				
Net Depreciation in Fair Value of Investments	-	-	10,034,782	10,034,782
Interest and Dividends	1,253,712	1,253,712	970,847	(282,865)
Total Investment Income	<u>1,253,712</u>	<u>1,253,712</u>	<u>11,005,629</u>	<u>9,751,917</u>
Less Investment Expense	<u>(155,104)</u>	<u>(155,104)</u>	<u>(63,490)</u>	<u>91,614</u>
Net Investment Income	<u>1,098,608</u>	<u>1,098,608</u>	<u>10,942,139</u>	<u>9,843,531</u>
Total Additions	<u>4,988,474</u>	<u>4,988,474</u>	<u>14,992,347</u>	<u>10,003,873</u>
DEDUCTIONS				
Pension Benefits	3,389,508	3,389,508	3,600,276	210,768
Administrative Expenses	50,004	50,004	26,407	(23,597)
Total Deductions	<u>3,439,512</u>	<u>3,439,512</u>	<u>3,626,683</u>	<u>187,171</u>
NET INCREASE (DECREASE)	<u>\$ 1,548,962</u>	<u>\$ 1,548,962</u>	11,365,664	<u>\$ 9,816,702</u>

**NET POSITION RESTRICTED
FOR PENSION BENEFITS**

May 1	<u>35,321,775</u>
April 30	<u>\$ 46,687,439</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.)