

**Villa Park Firefighters'  
Pension Fund**  
Villa Park, Illinois

**Annual Financial Report**

For the year ended  
**April 30, 2016**



**VILLA PARK FIREFIGHTERS' PENSION FUND**  
Villa Park, Illinois  
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*Independent Auditor's Report*

The Honorable President  
Members of the Board of Trustees  
Villa Park Firefighters' Pension Fund  
Villa Park, Illinois

We have audited the basic financial statements of the Village of Villa Park Firefighters' Pension Fund (the Fund), a fiduciary fund of the Village of Villa Park, Illinois (the Village), as of and for the year ended April 30, 2016, and the related notes to the financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

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

**Opinion**

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Firefighters' Pension Fund of the Village of Villa Park, Illinois, as of April 30, 2016, and the changes in plan net position for the year 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 Village of Villa Park Firefighters' Pension Fund and are not intended to present fairly the financial position and changes in financial position of the Village of Villa Park, Illinois, 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 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.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

*Klein Hall CPAs*

Klein, Hall CPAs  
Aurora, Illinois  
July 28, 2016

## VILLA PARK FIREFIGHTERS' PENSION FUND

Management's Discussion and Analysis  
For the Year Ended April 30, 2016

This section presents management's discussion and analysis (MD&A) of the Villa Park Firefighters' 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.

The Villa Park Firefighters' Pension Fund (the "Fund") is a defined benefit, single-employer public employees' retirement system in accordance with Illinois statutes. It is a pension trust fund of the Village of Villa Park, Illinois (the Village). As of April 30, 2016, the Fund's membership included 26 active employees, 20 benefit recipients, and no 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 for the Fund 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.

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.

### Plan Net Position

The statement of plan net position is presented for the Fund as of April 30, 2016 and 2015. 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

	2016	2015	Increase (Decrease)
Cash and equivalents	\$ 98,632	\$ 4,496	\$ 94,136
Investments, at fair value	14,375,955	14,685,672	(309,717)
Receivables	45,452	76,554	(31,102)
Prepaid expenses	2,263	2,240	23
Total Assets	14,522,302	14,768,962	(246,660)
Liabilities	4,452	9,488	(5,036)
Total Plan Net Position	\$ 14,517,850	\$ 14,759,474	\$ (241,624)

## VILLA PARK FIREFIGHTERS' PENSION FUND

Management's Discussion and Analysis  
For the Year Ended April 30, 2016

### Financial Highlights

The Fund's net position decreased \$241,624 or 1.6% during the fiscal year ended April 30, 2016. The change in net position was due primarily to a decrease in investments from \$14,685,672 to \$14,375,955.

Under the actuarial methodology required for accounting purposes in accordance with GASB Statement No. 67, the Fund was actuarially funded at 52.40% at April 30, 2016.

The annual money-weighted rate of return for the fund was -0.46% during 2016, net of fees, and -0.31% gross of fees. The long-term expected rate of return used to calculate the net pension liability was 7.00%.

### 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 was 52.40% based upon the actuarial parameters established in GASB Statement No. 67. The employer's net pension liability (NPL) was \$13,186,470 on April 30, 2016 as compared to \$11,556,473 on April 30, 2015. The increase in the employer's NPL was \$1,629,997 or 14%. The increase was due primarily to greater interest on the total pension liability of the employer, lower investment income in 2016 than in 2015 and the effect of the changes of actuarial assumptions. The actuarial assumptions of the Fund are different than those used by the Illinois Department of Insurance for its valuation of similar funds. The Fund assumes salary increases of 4.00% to 11.83% and an interest rate of 7.00% compared to a graduated rate of salary increases and 6.75% interest rate for the State of Illinois. Based upon the funding requirements of the Village, the Fund's funded ratio fell from 56.09% to 52.40% between April 30, 2015 and 2016. For more information, please refer to the Schedule of Changes in the Village'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 26 active employees, 20 benefit recipients, and no inactive plan members not yet receiving benefits, which did not change from the prior year.

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

#### Allocation of Investments

	2016		2015	
	Amount	Percentage	Amount	Percentage
Cash and cash equivalents	\$ 98,632	0.7%	\$ 4,496	0.0%
Money market mutual funds	-	0.0%	1,057,037	7.2%
Illinois Funds	-	0.0%	289,662	2.0%
U.S. Treasury and agency obligations	4,783,637	33.0%	864,250	5.9%
State and local obligations	1,024,212	7.1%	984,267	6.7%
Corporate obligations	425,500	2.9%	3,739,204	25.5%
Equity mutual funds	8,142,606	56.3%	7,451,813	50.7%
Equity securities	-	0.0%	299,439	2.0%
Total	\$ 14,474,587	100.0%	\$ 14,690,168	100.0%

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

**VILLA PARK FIREFIGHTERS' PENSION FUND**  
Management's Discussion and Analysis  
For the Year Ended April 30, 2016

investment portfolio, in consultation with SFAM LLC, on a quarterly basis. During 2016, the Fund retained SFAM LLC as the investment advisor to the Fund. The Fund adopted a revised Investment Policy and Asset Allocation Guidelines upon retaining SFAM LLC which resulted in changes to the allocation of investments during the fiscal year.

**Changes in Plan Net Position**

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

**Condensed Statement of Changes in Plan Net Position**

	2016	2015	Increase (Decrease)
<b>Additions</b>			
Employer contributions	\$ 706,719	\$ 610,756	\$ 95,963
Employee contributions	220,489	192,969	27,520
Net investment income	(70,248)	446,202	(516,450)
<b>Total Additions</b>	<b>856,960</b>	<b>1,249,927</b>	<b>(392,967)</b>
<b>Deductions</b>			
Benefits and refunds	1,042,784	992,649	50,135
Administrative expenses	55,800	47,635	8,165
<b>Total Deductions</b>	<b>1,098,584</b>	<b>1,040,284</b>	<b>58,300</b>
<b>Net Change in Plan Net Position</b>	<b>(241,624)</b>	<b>209,643</b>	<b>(451,267)</b>
<b>Plan Net Position</b>			
Beginning of year	14,759,474	14,549,831	209,643
End of year	\$ 14,517,850	\$ 14,759,474	\$ 241,624

**Additions**

Additions to plan net position include employer and employee contributions and net income from investment activities. Employer contributions rose from \$610,756 in 2015 to \$706,719 in 2016, an increase of \$95,963 or 15.7%. This is consistent with the Village's corresponding higher actuarially determined contribution for 2016.

Employee contributions in 2016 increased by \$27,520 or 14.3% from the prior year. The contributions required of employees are set by state statute as a percentage of gross salary. Employee contributions increased in 2016 primarily due to the timing of the implementation of the collective bargaining agreement. The contract was effective May 1, 2014 but not settled until fiscal year 2016. The contributions associated with retroactive pay increases were realized during fiscal year 2016.

The fund's net investment income for 2016 was (\$70,248) as compared to \$446,202 during 2015. The decline in investment income is due to lower positive returns in the fixed income market and negative returns in the equity market.



## **VILLA PARK FIREFIGHTERS' PENSION FUND**

Management's Discussion and Analysis

For the Year Ended April 30, 2016

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### **Deductions**

Deductions from plan net position are primarily benefit payments. During 2016 and 2015, the Fund paid out \$1,042,784 and \$992,649, respectively, in benefits and contribution refunds. This was an increase of approximately \$50,135 or 5% between the two fiscal years. This increase was due mainly to the cost of initial age 55 and recurring annual 3% benefit increases authorized by statute for pensioners. The administrative costs of the Fund represented a nominal 5.1% and 4.6% of total deductions in 2016 and 2015, respectively.

### **Future Outlook**

The Village has to balance its annual operating budget to pay for current services with making the full requested employer contributions each year, which has been a challenge. Even with the Village making greater than statutory minimum contributions, the funding level of the Fire Pension Fund is decreasing, exacerbated by negative investment returns in FY16.

It is also anticipated that employee contributions will decrease or remain flat in FY17 due to last year's retro pay, but 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 the Villa Park Firefighters' Pension Fund, 20 S. Ardmore Ave., Villa Park, IL 60181.

**VILLA PARK FIREFIGHTERS' PENSION FUND**  
Villa Park, Illinois  
Statement of Fiduciary Net Position  
April 30, 2016

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**Assets**

Cash and cash equivalents	\$ 98,632
Investment, at fair value	
U.S. Treasury and agency obligations	4,783,637
State and local obligations	1,024,212
Corporate obligations	425,500
Equity mutual funds	8,142,606
Accrued interest receivable	45,452
Prepaid expenses	<u>2,263</u>
 Total Assets	 <u>14,522,302</u>

**Liabilities**

Accounts Payable	<u>4,452</u>
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**Net Position Restricted for Pension Benefits** \$ 14,517,850

*See Accompanying Notes to Financial Statements*

**VILLA PARK FIREFIGHTERS' PENSION FUND**  
**Villa Park, Illinois**  
Statement of Changes in Fiduciary Net Position  
Year Ended April 30, 2016

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**Additions**

Contributions	
Contributions - Village	\$ 706,719
Contributions - plan members	<u>220,489</u>
Total Contributions	<u>927,208</u>
Investment income	
Net appreciation (depreciation) in fair value of investments	(571,858)
Interest and dividends earned	526,700
Less investment expenses	<u>(25,090)</u>
Net investment income	<u>(70,248)</u>
Total additions	<u>856,960</u>

**Deductions**

Pension benefits	1,041,885
Refunds of contributions	899
Administrative	<u>55,800</u>
Total deductions	<u>1,098,584</u>

Net increase (decrease) (241,624)

**Net Position Restricted for Pension Benefits**

Beginning of Year	<u>14,759,474</u>
End of Year	<u><u>\$ 14,517,850</u></u>

*See Accompanying Notes to Financial Statements*

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Villa Park Firefighters' Pension Fund (the Pension Fund), a fund of the Village of Villa Park, 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.

**a. Reporting Entity**

The Pension Fund is a blended component unit, and specifically a pension trust fund, of the Village. 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 Pension Board administers the Firefighters' Pension Plan of the Village of Villa Park, Illinois.

The Village's sworn firefighters participate in the Firefighters' Pension Employees Retirement System (FPERS). FPERS functions for the benefit of those employees and is governed by a five-member pension board, with two members appointed by the Village's President, two elected from active participants of the Fund, and one elected from the retired members of the Fund. The Village and FPERS participants are obligated to fund all FPERS 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.

**b. 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 Village's Fire Department.

**c. 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.

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

*Basis of Accounting*

The accrual basis of accounting is utilized by pension trust funds. Under this method, additions to net position are recorded when earned and deductions from net position are recorded when the time related liabilities/deferred inflows are incurred. Plan member contributions are recognized in the period in which the contributions are due. Village 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.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**d. Investments**

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national exchange are valued as of the last reported sales price.

**e. Receivables**

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

**f. Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

**2. DEPOSITS AND INVESTMENTS**

The deposits and investments of the Firefighters' 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, Illinois Public Treasurer's Investment Pool) or by banks, their subsidiaries or holding companies, in accordance with the laws of the State of Illinois; bonds or tax anticipation warrants of any county, township or municipal corporation of the State of Illinois; direct obligations of the State of Israel; money market mutual funds managed by investment companies that are registered under the Federal Investment Company Act of 1940 and the Illinois Securities Law of 1953 and are diversified, open-ended management investment companies, provided the portfolio is limited to specified restrictions; general accounts of life insurance companies; and separate accounts of life insurance companies and mutual funds, the mutual funds must meet specific restrictions, provided the investment in separate accounts and mutual funds does not exceed 10% of the Pension Fund's net position; and corporate bonds managed through an investment advisor, rated as investment grade by one of the two largest rating services at the time of purchase. Pension funds with net position of \$2.5 million or more may invest up to 45% of net position in separate accounts of life insurance companies and mutual funds. Pension funds with net position of at least \$5 million that have appointed an investment advisor, may through that investment advisor invest up to 45% of the net position in common and preferred stocks that meet specific restrictions. In addition, pension funds with net position of at least \$10 million that have appointed an investment advisor, may invest up to 55% of its net position in common and preferred stocks and mutual funds that meet specific restrictions.

**VILLA PARK FIREFIGHTERS' PENSION FUND**  
**Villa Park, Illinois**  
Notes to Financial Statements  
April 30, 2016

**2. DEPOSITS AND INVESTMENTS (Continued)**

*Investment Concentrations*

There were no investments (other than U.S. Government guaranteed obligations) in any one organization that represent 5% or more of plan net position for the Firefighters' Pension Plan. Information for IMRF is not available.

*Investment Rate of Return*

For the year ended April 30, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was (0.46%). The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

*Deposits with Financial Institutions*

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. Although flow-through FDIC insurance is available for the Pension Fund's deposits with financial institutions, the Pension Fund's investment policy requires pledging of collateral for savings of certificates of deposit balances that exceed insurance limits.

*Interest Rate Risk*

The following table presents the investments and maturities of the Firefighters' Pension Plan's debt securities as of April 30, 2016:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1-5	6-10	Greater than 10
U.S. Agency securities	\$3,767,761	\$ 243,542	\$ 665,842	\$2,217,588	\$ 640,789
U.S. Treasuries	1,015,876	-	1,015,876	-	-
State and local obligations	1,024,212	-	312,458	601,386	110,368
Corporate obligations	425,500	-	102,587	322,913	-
	<u>\$6,233,349</u>	<u>\$ 243,542</u>	<u>\$2,096,763</u>	<u>\$3,141,887</u>	<u>\$ 751,157</u>

In accordance with its 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 limits 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 policy 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 second objective of the attainment of market rates of return."

**VILLA PARK FIREFIGHTERS' PENSION FUND**  
**Villa Park, Illinois**  
Notes to Financial Statements  
April 30, 2016

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**2. DEPOSITS AND INVESTMENTS (Continued)**

The U.S. Agency obligations are rated AA+ or higher by Standard and Poor's. State and Local obligations are rated A3 by Moody's. Corporate obligations are rated from A3 to Baa2 by Moody's. Mutual funds have been rated as 2 - 5 stars by Morningstar.

*Custodial Credit Risk*

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 disclosures. The Pension Fund's investment policy requires investments be held by a third-party custodian.

*Policy Changes*

The Pension Fund's investment policy was changed during the year to require third-party safekeeping and to revise the target allocations as disclosed in note 10.

**3. CONTINGENT LIABILITIES**

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, 2016, 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.

**10. EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PENSION PLAN**

*Plan Description*

The Firefighters' Pension Plan is a single-employer defined benefit pension plan that covers all sworn firefighter personnel. The defined benefits and employee and minimum employer contribution levels are governed by Illinois Compiled Statutes (40 ILCS 5/4-1) and may be amended only by the Illinois legislature. The Village accounts for the Pension Fund as a pension trust fund. The Pension Fund is governed by a five-member Board of Trustees. Two members of the Board are appointed by the Village President, one member is elected by pension beneficiaries and two members are elected by active firefighters.

*Plan Membership*

At April 30, 2016, the Firefighters' Pension Plan membership consisted of:

Inactive employees or beneficiaries currently receiving benefits	20
Inactive employees entitled to but not yet receiving benefits	-
Active employees	26
Total	<u>46</u>

**10. EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PENSION PLAN (Continued)**

The following is a summary of the Firefighters' Pension Plan as provided for in Illinois Compiled Statutes.

*Benefits Provided*

The Firefighters' 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  $\frac{1}{2}$  of the salary attached to the rank held on the last day of service, or for one year prior to the last day, whichever is greater. The annual benefit shall be increased by 2.5% 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 8 years but less than 20 years of credited services may retire at 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 10 or more years of creditable service are entitled to receive an annual retirement benefit equal to the average monthly salary obtained by dividing the total salary of the firefighter 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. Beginning in the calendar year 2011, firefighters' salary for the pension purposes is capped at \$106,800, plus the lesser of  $\frac{1}{2}$  of the annual change in the Consumer Price Index or 3% 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 10 years may retire at or after age 50 and receive a reduced benefit (i.e., 0.5% for each month under 55). The monthly benefit of a Tier 2 firefighter shall be increased annually at age 60 on the first day of January 1st after the firefighter 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 half of the change in the Consumer Price Index for the proceeding calendar year.

*Contributions*

Employees are required by ILCS to contribute 9.455% 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 Village 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 Village to contribute a minimum amount annually calculated using the projected unit credit actuarial cost method that will result in the funding of 90% of the past service cost by the year 2040. For the year ended April 30, 2016, the Village's contribution was 31.8% of covered payroll.



**VILLA PARK FIREFIGHTERS' PENSION FUND**  
**Villa Park, Illinois**  
Notes to Financial Statements  
April 30, 2016

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**10. EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PENSION PLAN (Continued)**

*Net Pension Liability*

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

Total pension liability	\$ 27,704,320
Plan fiduciary net position	<u>14,517,850</u>
Village's net pension liability	<u>\$ 13,186,470</u>
Plan fiduciary net position as a percentage of the total pension liability	52.40%

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 Pension Plan.

*Investments*

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

Asset Class	Target Allocation	Long-Term Expected Rate of Return
Fixed Income	45.00%	2.20%
Large Cap Domestic Equity	38.50%	7.00%
Small Cap Domestic Equity	11.00%	9.10%
International Equity	5.50%	7.20%

ILCS limit the Plan's investments in equities, mutual funds and variable annuities to 55%. Securities in any one company should not exceed 5% of the total fund.

The long-term expected rate of return on the Plan's investments was determined using an asset allocation study conducted by the Plan'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 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 excluding inflation for each major asset class included in the Plan's target asset allocation as of April 30, 2016 are listed in the table above.

VILLA PARK FIREFIGHTERS' PENSION FUND  
 Villa Park, Illinois  
 Notes to Financial Statements  
 April 30, 2016

10. EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PENSION PLAN (Continued)

*Actuarial Assumptions*

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

Actuarial Valuation Date	April 30, 2016
Actuarial cost method	Entry-age normal, Level % of pay

<b>Actuarial Assumptions</b>	
Inflation	2.00%
Salary increases	4.00% to 11.83%
Interest rate	7.00%
Cost of living adjustments	2.00%
Asset valuation method	Market

Mortality rates are based on the assumption study prepared by Lauterbach & Amen, LLP in 2016. The table combines observed experience of Illinois Firefighters with the RP-2014 mortality table for blue collar workers. Mortality improvements have been made to 5 years past the valuation date.

*Discount Rate*

The discount rate used to measure the total pension liability was 6.60% for the year ended April 30, 2016. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that Village contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate. Based on those assumptions, the plan's fiduciary net position was projected to be available to make future benefit payments through 2068 for current and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied through 2068, and a 20-year tax-exempt municipal bond rate of 3.32%, obtained from Bond Buyer 20-Bond GO Index, was applied to the remaining projected benefit payments to determine the total pension liability.

*Discount Rate Sensitivity*

The following is a sensitive analysis of the net pension liability to changes in the discount rate. The table below presents the pension liability of the Village calculated using the discount rate of 6.60% as well as what the Village's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (5.60%) or 1 percentage point higher (7.60%) than the current rate:

	1% Decrease (5.60%)	Current Discount Rate (6.60%)	1% Increase (7.60%)
Net pension liability (asset)	\$ 17,615,607	\$ 13,186,470	\$ 9,603,211

**VILLA PARK FIREFIGHTERS' PENSION FUND**

Villa Park, Illinois

Schedule of Changes in the Village's Net Pension Liability and Related Ratios  
Last Two Fiscal Years

	2016	2015
<b>Total Pension Liability</b>		
Service Cost	\$ 600,073	\$ 641,622
Interest	1,702,441	1,576,486
Changes in Benefit Terms	-	-
Differences Between Expected and Actual Experience	(214,462)	-
Change of Assumptions	343,105	-
Benefit Payments, Including Refunds of Member Contributions	(1,042,784)	(992,648)
Net Change in Total Pension Liability	1,388,373	1,225,460
Total Pension Liability - Beginning	26,315,947	25,090,487
Total Pension Liability - Ending	<u>\$ 27,704,320</u>	<u>\$ 26,315,947</u>
<b>Plan Net Position</b>		
Contributions - Village	\$ 706,719	\$ 610,756
Contributions - Members	220,489	192,969
Contributions - Other	-	-
Net Investment Income	(70,248)	446,202
Benefit Payments, Including Refunds of Member Contributions	(1,042,784)	(992,649)
Administrative Expense	(55,800)	(47,635)
Net Change in Plan Net Position	(241,624)	209,643
Plan Net Position - Beginning	14,759,474	14,549,831
Plan Net Position - Ending	<u>\$ 14,517,850</u>	<u>\$ 14,759,474</u>
<b>Village's Net Pension Liability</b>	<u>\$ 13,186,470</u>	<u>\$ 11,556,473</u>
Plan Net Position as a Percentage of the Total Pension Liability	52.40%	56.09%
Covered Employee Payroll	\$ 2,222,330	\$ 2,135,852
Net Pension Liability as a Percentage of Covered Employee Payroll	593.36%	541.07%

Note: The Pension Fund implemented GASB Statement No. 67 for the year ended April 30, 2015.  
No information is available for prior periods.

**VILLA PARK FIREFIGHTERS' PENSION FUND**  
**Villa Park, Illinois**  
Schedule of Village Contributions  
Last Six Fiscal Years

Fiscal Year	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Excess/ (Deficiency)	Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2016	\$ 814,426	\$ 706,719	\$ (107,707)	\$ 2,222,330	31.80%
2015	674,591	610,756	(63,835)	2,135,852	28.60%
2014	582,850	525,048	(57,802)	1,954,598	26.86%
2013	325,676	390,488	64,812	1,956,598	19.96%
2012	464,037	501,035	36,998	1,962,733	25.53%
2011	638,244	641,791	3,547	1,940,489	33.07%

**Notes to the Required Supplementary Information:**

Actuarial Cost Method	Entry Age Normal (Level % of Pay)
Amortization Method	Straight Line
Remaining Amortization Period	26 Years
Asset Valuation Method	Market Value
Inflation	2.50%
Salary Increases	4.50%
Investment Rate of Return	7.00%
Retirement Age	50-70
Mortality	Mortality rates are based on the RP-2000 CHBCA Mortality Table.

Note: The Pension Fund implemented GASB Statement No. 67 for the year ended April 30, 2015.  
No information is available for prior periods.  
The increase in the actuarially determined contribution for fiscal year 2016 is primarily due to significant modifications to the mortality tables used between fiscal years 2015 and 2016.

**VILLA PARK FIREFIGHTERS' PENSION FUND**  
**Villa Park, Illinois**  
**Schedule of Investment Returns**  
**Last Two Fiscal Years**

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	<u>2016</u>	<u>2015</u>
Annual Money-Weighted Rate of Return Net of Investment Expense	-0.46%	3.02%

Note: The Pension Fund implemented GASB Statement No. 67 for the year ended April 30, 2015.  
No information is available for prior periods.

