

CITY OF GENEVA, ILLINOIS

POLICE PENSION FUND

ANNUAL FINANCIAL REPORT

For the Year Ended
April 30, 2016



CITY OF GENEVA, ILLINOIS
POLICE PENSION FUND
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1415 W. Diehl Road, Suite 400
Naperville, Illinois 60563

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 Geneva, Illinois

We have audited the financial statements of the City of Geneva Police Pension Fund (the Fund), a fiduciary fund of the City of Geneva, Illinois (the City) as of April 30, 2016 and for the year 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 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 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 City of Geneva Police Pension Fund 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 Fund and are not intended to present fairly the financial position and changes in financial position of the City 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 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 financial information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary financial 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
September 20, 2016

CITY OF GENEVA POLICE PENSION FUND

(A Pension Trust Fund of the City of Geneva, Illinois)

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The Geneva Police 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 City of Geneva, Illinois (the "City"). As of April 30, 2016, the Fund's membership included 35 active employees, 22 benefit recipients, and 1 inactive plan member 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.
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.

GENEVA POLICE PENSION FUND

(A Pension Trust Fund of the City of Geneva, Illinois)

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 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:

	<u>2015</u>	<u>2016</u>	<u>Change</u>	<u>Change</u>
Cash and Equivalents	\$ 423,813	\$ 329,774	\$ (94,039)	-22.2%
Investments, at fair value	17,853,277	17,827,938	(25,339)	-0.1%
Receivables	44,413	48,694	4,281	9.6%
Prepaid Expenses	14,177	14,329	152	1.1%
Total Assets	<u>18,335,680</u>	<u>18,220,735</u>	<u>(114,945)</u>	-0.6%
Liabilities	<u>2,398</u>	<u>1,154</u>	<u>(1,244)</u>	-51.9%
Total Net Plan Position	<u>\$ 18,333,282</u>	<u>\$ 18,219,581</u>	<u>\$ (113,701)</u>	-0.6%

Financial Highlights

The Fund's net position decreased \$113,701 or .6% during the fiscal year ended April 30, 2016. The change in net position was due primarily to a decrease in cash and equivalents from \$423,813 to \$329,774.

Under the actuarial methodology required for accounting purposes in accordance with GASB Statement No. 67, the Fund was actuarially funded at 49.6% at April 30, 2016.

The annual money-weighted rate of return for the fund was (2.1%) during 2016 (net of fees).

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 49.6% based upon the actuarial parameters established in GASB Statement No. 67. The employer's net pension liability (NPL) was \$18,511,422 on April 30, 2016 as compared to \$14,574,684 on April 30, 2015. The increase in the employer's NPL was \$3,936,738 or 27%. The increase was due primarily changes in the mortality assumptions and lower investment income in 2016 than in 2015. 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 5.00% and an interest rate of 7.50% compared to a graduated rate of salary increases and 6.75%

GENEVA POLICE PENSION FUND

(A Pension Trust Fund of the City of Geneva, Illinois)

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

interest rate for the State of Illinois. Based upon the funding requirements of the City, the Fund's funded ratio fell from 55.7% to 49.6% between April 30, 2015 and 2016. 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.

Investments

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

	<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>
Cash and Cash Equivalents	\$423,813	2.3%	\$329,774	1.8%
Money Market Mutual Funds	650,298	3.6%	480,317	2.6%
US Government and Agency Securities	2,789,994	15.3%	3,102,834	17.1%
Municipal Bonds	412,518	2.3%	358,536	2.0%
Corporate Bonds	3,038,514	16.6%	3,114,487	17.2%
Equity Mutual Funds	4,979,335	27.2%	4,566,710	25.2%
Domestic Corporate Equities	5,982,618	32.7%	6,205,054	34.2%
Total	<u>\$18,277,090</u>	<u>100.0%</u>	<u>\$18,157,712</u>	<u>100.0%</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 Morgan Stanley, on a quarterly basis. As shown above, during 2016, the Fund expanded its position in equity mutual funds and domestic corporate equities while reducing its position in US Government and Agency Securities. This action was taken to further diversify the portfolio and enhance the Fund's potential for greater future investment income. The Fund decreased its position in cash and cash equivalents and moved the funds money market mutual funds. The changes in the other asset classes were unremarkable.

GENEVA POLICE PENSION FUND

(A Pension Trust Fund of the City of Geneva, Illinois)

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

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.

Additions

Condensed Statement of Changes in Plan Net Position

	<u>2015</u>	<u>2016</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Additions:				
Employer Contributions	\$ 1,247,900	\$ 1,144,355	\$ (103,545)	-8.3%
Employee Contributions	314,018	365,178	51,160	16.3%
Net Investment Income	1,080,768	(380,287)	(1,461,055)	-135.2%
Total Additions	<u>2,642,686</u>	<u>1,129,246</u>	<u>(1,513,440)</u>	-57.3%
Deductions:				
Pension Benefits	1,087,272	1,212,510	125,238	11.5%
Administrative Expenses	28,154	30,437	2,283	8.1%
Total Deductions	<u>1,115,426</u>	<u>1,242,947</u>	<u>127,521</u>	11.4%
Net Change in Plan Net Position	<u>\$ 1,527,260</u>	<u>\$ (113,701)</u>	<u>\$ (1,640,961)</u>	-107.4%

Additions to plan net position include employer and employee contributions and net income from investment activities. Employer contributions decreased from \$1,247,900 in 2015 to \$1,144,355 in 2016, a decrease of \$103,545 or 8.3%.

Employee contributions in 2016 increased by \$51,160 or 16.3% 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 because of the department being fully staffed.

The fund's net investment income for 2016 was \$(380,287) as compared to \$1,080,768 during 2015. The decline in investment income is due to lower returns in all positions.

GENEVA POLICE PENSION FUND

(A Pension Trust Fund of the City of Geneva, Illinois)

MANAGEMENT'S DISCUSSION AND ANALYSIS – Continued

Deductions

Deductions from plan net position are primarily benefit payments. During 2016 and 2015, the Fund paid out \$1,212,510 and \$1,087,272, respectively, in benefits. This was an increase of approximately \$125,238 or 11.5% between the two fiscal years. This increase was due to the cost of initial age 55 and recurring annual 3% benefit increases authorized by statute for pensioners and an addition of a retiree. The administrative costs of the Fund represented a nominal 2.4% and 2.5% of total deductions in 2016 and 2015, respectively.

Future Outlook

Employer contributions are expected to increase in 2016 due to a known retirement and the Fund's funded ratio is expected to rise over the course of the next several years based upon the impact of the City making 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 Geneva Police Pension Fund, 22 S 1st St, Geneva, IL 60134.

BASIC FINANCIAL STATEMENTS

CITY OF GENEVA, ILLINOIS

POLICE PENSION FUND

STATEMENT OF FIDUCIARY NET POSITION

April 30, 2016

ASSETS

Cash and Short-Term Investments	\$ 329,774
Investments, at Fair Value	
Money Market Mutual Funds	480,317
U.S. Government and Agency Securities	3,102,834
Municipal Bonds	358,536
Corporate Bonds	3,114,487
Equity Mutual Funds	4,566,710
Domestic Corporate Equities	6,205,054
Receivables	
Accrued Interest	48,694
Prepaid Expenses	<u>14,329</u>
 Total Assets	 <u>18,220,735</u>

LIABILITIES

Accounts Payable	<u>1,154</u>
 Total Liabilities	 <u>1,154</u>

**NET POSITION RESTRICTED
FOR PENSIONS**

\$ 18,219,581

See accompanying notes to financial statements.

CITY OF GENEVA, ILLINOIS

POLICE PENSION FUND

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

For the Year Ended April 30, 2016

ADDITIONS

Contributions

Employer Contributions	\$ 1,144,355
Employee Contributions	<u>365,178</u>

Total Contributions	<u>1,509,533</u>
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Investment Income

Net Appreciation (Depreciation) in Fair Value of Investments	(712,973)
Interest and Dividends	<u>418,504</u>

Total Investment Income	(294,469)
Less Investment Expense	<u>(85,818)</u>

Net Investment Income	<u>(380,287)</u>
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Total Additions	<u>1,129,246</u>
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DEDUCTIONS

Pension Benefits	1,212,510
Administrative Expenses	<u>30,437</u>

Total Deductions	<u>1,242,947</u>
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CHANGE IN NET POSITION	(113,701)
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**NET POSITION RESTRICTED
FOR PENSIONS**

May 1	<u>18,333,282</u>
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April 30	<u><u>\$ 18,219,581</u></u>
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See accompanying notes to financial statements.

CITY OF GENEVA, ILLINOIS

POLICE PENSION FUND

NOTES TO FINANCIAL STATEMENTS

April 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Geneva Police Pension Fund (the Fund) of the City of Geneva, Illinois 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 of Geneva, Illinois (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 GENEVA, 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 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 Police Pension 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 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, the measurement date, membership consisted of:

Inactive Plan Members Currently Receiving Benefits	22
Inactive Plan Members Entitled to but not yet Receiving Benefits	1
Active Plan Members	<u>35</u>
TOTAL	<u><u>58</u></u>

C. Benefits Provided

The following is a summary of benefits of the Fund as provided for in Illinois Compiled Statutes (ILCS):

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 GENEVA, 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 2.50% 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 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 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 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., 1/2% 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 1/2 of the change in the Consumer Price Index for the preceding 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. However, the City has adopted a funding policy that will result in funding of 100% of the past service cost by 2040. For the year ended April 30, 2016, the City's contribution was 36.55% of covered payroll.

CITY OF GENEVA, 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. There were no changes to the investment policy during the fiscal year ended April 30, 2016.

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
Domestic Equity	45%	8.3%
International Equity	5%	8.2%
Fixed Income	50%	3.3%

The long-term expected real rates of return are net of a 1.70% factor for inflation and investment expense. 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.

CITY OF GENEVA, 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 by the Global Investment Committee of Morgan Stanley and was published on March 18, 2016. The best estimate ranges of expected nominal rates of return (including inflation) were developed for each major asset class as of March 31, 2016. These ranges were combined to produce long-term expected rate of return by weighting the expected future nominal rates of return by the target asset allocation percentage. Best estimates or arithmetic real rates of return for each major asset class included in the Fund's target asset allocation as of April 30, 2016 are listed in the table above.

B. Concentrations

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

C. 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 (2.10%). 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 requires all bank balances to be 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, 2016:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	Greater than 10
U.S. Treasury Securities	\$ 2,231,794	\$ -	\$ 969,311	\$ 696,644	\$ 565,839
U.S. Agency Securities	871,040	-	508,200	131,534	231,306
Municipal Bonds	358,536	50,067	175,336	-	133,133
Corporate Bonds	3,114,487	207,443	921,461	1,281,689	703,894
TOTAL	\$ 6,575,857	\$ 257,510	\$ 2,574,308	\$ 2,109,867	\$ 1,634,172

CITY OF GENEVA, ILLINOIS
POLICE PENSION FUND
NOTES TO FINANCIAL STATEMENTS (Continued)

3. INVESTMENTS (Continued)

E. Interest Rate Risk (Continued)

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 rated at or above BBB- by Standard and Poor's, Baa3 by Moody's and BBB- by Fitch by at least two of the three rating agencies. The municipal bonds are rated Aa2 - Aaa. The corporate bonds are rated Baa2 to Aaa.

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. The Fund's investments are exposed to custodial credit risk to the extent not covered by insurance provided by the Securities Investor Protection Corporation (SIPC) at April 30, 2016, as the Fund's counterparty also serves as the custodian. However, the custodian has issued an excess SIPC policy to the Police Pension Fund to mitigate the exposure to custodial credit risk.

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 were as follows:

Total Pension Liability	\$	36,731,003
Plan Fiduciary Net Position		18,219,581
City's Net Pension Liability		18,511,422
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability		49.60%

See the Schedule of Changes in the Employer's Net Pension Liability and Related Ratios on page 13 of the required supplementary information for additional information related to the funded status of the Fund.

CITY OF GENEVA, 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, 2016 using the following actuarial methods and assumptions.

Actuarial Valuation Date	April 30, 2016
Actuarial Cost Method	Entry Age Normal
Assumptions	
Inflation	2.50%
Salary Increases	5.00%
Interest Rate	7.50%
Cost of Living Adjustments	3.00%
Asset Valuation Method	Market

Mortality rates were based on the RP 2014 BCHA Mortality Table. 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 was 7.5%. 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 of 7.5% used to determine the total pension liability.

CITY OF GENEVA, 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. The table below presents the net pension liability of the City calculated using the discount rate of 7.5% 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 (6.5%) or 1 percentage point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Net Pension Liability	\$ 23,676,289	\$ 18,511,422	\$ 14,275,374

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF GENEVA

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	\$ 633,473	\$ 669,111
Interest	2,152,823	2,422,628
Changes of Benefit Terms	-	-
Differences Between Expected and Actual Experience	(135,905)	(250,837)
Changes in Mortality Assumptions	2,096,902	2,194,645
Benefit Payments, Including Refunds of Member Contributions	<u>(1,087,272)</u>	<u>(1,212,510)</u>
Net Change in Total Pension Liability	3,660,021	3,823,037
Total Pension Liability - Beginning	<u>29,247,945</u>	<u>32,907,966</u>
TOTAL PENSION LIABILITY - ENDING	<u><u>\$ 32,907,966</u></u>	<u><u>\$ 36,731,003</u></u>
PLAN FIDUCIARY NET POSITION		
Contributions - Employer	\$ 1,247,900	\$ 1,144,355
Contributions - Member	314,018	365,178
Net Investment Income	1,080,768	(380,287)
Benefit Payments, Including Refunds of Member Contributions	(1,087,272)	(1,212,510)
Administrative Expense	<u>(28,154)</u>	<u>(30,437)</u>
Net Change in Plan Fiduciary Net Position	1,527,260	(113,701)
Plan Fiduciary Net Position - Beginning	<u>16,806,022</u>	<u>18,333,282</u>
PLAN FIDUCIARY NET POSITION - ENDING	<u><u>\$ 18,333,282</u></u>	<u><u>\$ 18,219,581</u></u>
EMPLOYER'S NET PENSION LIABILITY	<u><u>\$ 14,574,684</u></u>	<u><u>\$ 18,511,422</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	55.70%	49.60%
Covered-Employee Payroll	\$ 3,148,322	\$ 3,130,603
Employer's Net Pension Liability as a Percentage of Covered-Employee Payroll	462.90%	591.30%

(See independent auditor's report.)

CITY OF GENEVA, ILLINOIS

POLICE PENSION FUND

SCHEDULE OF EMPLOYER CONTRIBUTIONS

For the Year Ended April 30, 2016

	<u>2015</u>	<u>2016</u>
Actuarially Determined Contribution	\$ 1,102,330	\$ 1,144,355
Contributions in Relation to the Actuarially Determined Contribution	<u>1,247,900</u>	<u>1,144,355</u>
Contribution Deficiency (Excess)	<u>\$ (145,570)</u>	<u>\$ -</u>
Covered-Employee Payroll	\$ 3,148,322	\$ 3,130,603
Contributions as a Percentage of Covered-Employee Payroll	39.64%	36.55%

Notes to Schedule

Valuation Date: May 1 of the preceding year

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry-Age Normal
Amortization Method	Level Percent of Pay, Closed
Remaining Amortization Period	25 (Extended 7 Years in 2016)
Asset Valuation Method	Market
Inflation	2.50%
Salary Increases	5.00% Compounded Annually, Including Inflation
Investment Rate of Return	7.50%
Mortality	Mortality Rates were Based on the RP 2014 BCHA Mortality Table in 2016 and the RP-2000 CHBCA Mortality Table in 2015

(See independent auditor's report.)

CITY OF GENEVA

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	6.50%	(2.10%)

(See independent auditor's report.)

SUPPLEMENTARY INFORMATION

CITY OF GENEVA, 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	\$ 1,144,355	\$ 1,144,355	\$ 1,144,355	\$ -
Employee Contributions	310,000	310,000	365,178	55,178
Total Contributions	<u>1,454,355</u>	<u>1,454,355</u>	<u>1,509,533</u>	<u>55,178</u>
Investment Income				
Net Appreciation (Depreciation) in Fair Value of Investments	750,000	750,000	(712,973)	(1,462,973)
Interest and Dividends	-	-	418,504	418,504
Total Investment Income	<u>750,000</u>	<u>750,000</u>	<u>(294,469)</u>	<u>(1,044,469)</u>
Less Investment Expense	(88,000)	(88,000)	(85,818)	2,182
Net Investment Income	<u>662,000</u>	<u>662,000</u>	<u>(380,287)</u>	<u>(1,042,287)</u>
Total Additions	<u>2,116,355</u>	<u>2,116,355</u>	<u>1,129,246</u>	<u>(987,109)</u>
DEDUCTIONS				
Pension Benefits	1,320,000	1,320,000	1,212,510	(107,490)
Administrative Expenses	52,350	52,350	30,437	(21,913)
Total Deductions	<u>1,372,350</u>	<u>1,372,350</u>	<u>1,242,947</u>	<u>(129,403)</u>
CHANGE IN NET POSITION	<u>\$ 744,005</u>	<u>\$ 744,005</u>	(113,701)	<u>\$ (857,706)</u>
NET POSITION RESTRICTED FOR PENSIONS				
May 1			<u>18,333,282</u>	
April 30			<u>\$ 18,219,581</u>	

(See independent auditor's report.)