

VILLAGE OF WINNETKA, ILLINOIS  
POLICE PENSION FUND

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HOUSE BILL 5088 – MUNICIPAL  
COMPLIANCE REPORT

FOR THE FISCAL YEAR ENDED  
DECEMBER 31, 2014



November 10, 2015

Members of the Pension Board of Trustees  
Winnetka Police Pension Fund  
Winnetka, Illinois

Enclosed please find a copy of your Municipal Compliance Report for the Winnetka Police Pension Fund for the year ended December 31, 2014. We have prepared the report with the most recent information available at our office. Should you have more current information, or notice any inaccuracies, we are prepared to make any necessary revisions and return them to you.

The President and Secretary of the Pension Fund are required to sign the report on page 3. If not already included with the enclosed report, please also include a copy of the Pension Fund's most recent investment policy.

The signed House Bill 5088 - Municipal Compliance Report must be provided to the Municipality before the tax levy is filed on the last Tuesday in December. We are sending the report via email to promote an environmentally-friendly work atmosphere.

If you have any questions regarding this report please contact Matt Beran at (515) 556-4052 or [mberan@lauterbachamen.com](mailto:mberan@lauterbachamen.com).

Respectfully submitted,

A handwritten signature in blue ink that reads "Lauterbach + Amen LLP".

LAUTERBACH & AMEN, LLP

**VILLAGE OF WINNETKA , ILLINOIS  
POLICE PENSION FUND**

**House Bill 5088 (Public Act 95-950) - Municipal Compliance Report  
For the Fiscal Year Ending December 31, 2014**

The Pension Board certifies to the Board of Trustees of the Village of Winnetka , Illinois on the condition of the Pension Fund at the end of its most recently completed fiscal year the following information:

- 1) The total cash and investments, including accrued interest, of the fund and their current market value of those assets:

	<u>Current Fiscal Year</u>	<u>Preceding Fiscal Year</u>
Total Cash and Investments (including accrued interest)	<u>\$25,721,396</u>	<u>\$24,658,835</u>
Total Net Position	<u>\$25,512,191</u>	<u>\$24,445,682</u>

- 2) The estimated receipts during the next succeeding fiscal year from deductions from the salaries of police officers and from other sources:

Estimated Receipts - Employee Contributions	<u>\$262,900</u>
Estimated Receipts - All Other Sources	
Investment Earnings	<u>\$1,607,600</u>
Municipal Contributions	<u>\$1,308,146</u>

- 3) The estimated amount required during the next succeeding fiscal year to (a) pay all pensions and other obligations provided in Article 3 of the Illinois Pension Code, and (b) to meet the annual requirements of the fund as provided in Sections 3-125 and 3-127:

(a) Pay all Pensions and Other Obligations	<u>\$2,177,600</u>
(b) Annual Requirement of the Fund as Determined by:	
Illinois Department of Insurance	<u>\$798,890</u>
Private Actuary - Timothy W. Sharpe, Actuary	
Recommended Municipal Contribution	<u>\$1,308,146</u>
Statutory Municipal Contribution	<u>\$1,013,894</u>

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For the Fiscal Year Ending December 31, 2014**

- 4) The total net income received from investment of assets along with the assumed investment return and actual investment return received by the fund during its most recently completed fiscal year compared to the total net income, assumed investment return, and actual investment return received during the preceding fiscal year:

	<u>Current Fiscal Year</u>	<u>Preceding Fiscal Year</u>
Net Income Received from Investment of Assets	<u>\$1,552,792</u>	<u>\$2,241,508</u>
Assumed Investment Return		
Illinois Department of Insurance	<u>6.75%</u>	<u>6.75%</u>
Private Actuary - Timothy W. Sharpe, Actuary	<u>6.25%</u>	<u>6.25%</u>
Actual Investment Return	<u>6.36%</u>	<u>9.93%</u>

- 5) The total number of active employees who are financially contributing to the fund:

Number of Active Members	<u>26</u>
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- 6) The total amount that was disbursed in benefits during the fiscal year, including the number of and total amount disbursed to (i) annuitants in receipt of a regular retirement pension, (ii) recipients being paid a disability pension, and (iii) survivors and children in receipt of benefits:

	<u>Number of</u>	<u>Total Amount Disbursed</u>
(i) Regular Retirement Pension	<u>24</u>	<u>\$1,581,934</u>
(ii) Disability Pension	<u>1</u>	<u>\$42,829</u>
(iii) Survivors and Child Benefits	<u>3</u>	<u>\$184,561</u>
Totals	<u>28</u>	<u>\$1,809,324</u>

**VILLAGE OF WINNETKA , ILLINOIS  
POLICE PENSION FUND**

**House Bill 5088 (Public Act 95-950) - Municipal Compliance Report  
For the Fiscal Year Ending December 31, 2014**

7) The Funded Ratio of the Fund:

	<u>Current Fiscal Year</u>	<u>Preceding Fiscal Year</u>
Illinois Department of Insurance	<u>72.17%</u>	<u>70.06%</u>
Private Actuary - Timothy W. Sharpe, Actuary	<u>67.46%</u>	<u>71.09%</u>

8) The unfunded liability carried by the fund, along with an actuarial explanation of the unfunded liability:

Unfunded Liability:

Illinois Department of Insurance	<u>\$9,576,008</u>
Private Actuary - Timothy W. Sharpe, Actuary	<u>\$12,307,046</u>

The accrued liability is the actuarial present value of the portion of the projected benefits that has been accrued as of the valuation date based upon the actuarial valuation method and the actuarial assumptions employed in the valuation. The unfunded accrued liability is the excess of the accrued liability over the actuarial value of assets.

9) The investment policy of the Pension Board under the statutory investment restrictions imposed on the fund.

Investment Policy - See Attached.

Please see Notes Page attached.

CERTIFICATION OF MUNICIPAL POLICE  
PENSION FUND COMPLIANCE REPORT

The Board of Trustees of the Pension Fund, based upon information and belief, and to the best of our knowledge, hereby certify pursuant to §3-143 of the Illinois Pension Code 40 ILCS 5/3-143, that the preceding report is true and accurate.

Adopted this \_\_\_\_\_ day of \_\_\_\_\_, 2015

President \_\_\_\_\_ Date \_\_\_\_\_

Secretary \_\_\_\_\_ Date \_\_\_\_\_

**VILLAGE OF WINNETKA , ILLINOIS  
POLICE PENSION FUND**

**House Bill 5088 (Public Act 95-950) - Municipal Compliance Report  
For the Fiscal Year Ending December 31, 2014**

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INDEX OF ASSUMPTIONS

- 1) Total Cash and Investments - as Reported at Market Value in the Audited Financial Statements for the Years Ended December 31, 2014 and 2013.

Total Net Position - as Reported in the Audited Financial Statements for the Years Ended December 31, 2014 and 2013.

- 2) Estimated Receipts - Employee Contributions as Reported in the Audited Financial Statements for the Year Ended December 31, 2014 plus 5.5% Increase (Actuarial Salary Increase Assumption) Rounded to the Nearest \$100.

Estimated Receipts - All Other Sources

Investment Earnings - Cash and Investments as Reported in the Audited Financial Statements for the Year Ended December 31, 2014, times 6.25% (Actuarial Investment Return Assumption) Rounded to the Nearest \$100.

Municipal Contributions - Recommended Tax Levy Requirement as Reported by Timothy W. Sharpe, Actuary, Actuarial Valuation for the Year Ended December 31, 2014.

- 3) (a) Pay all Pensions and Other Obligations - Total Non-Investment Deductions as Reported in the Audited Financial Statements for the Year Ended December 31, 2014, plus a 25% Increase, Rounded to the Nearest \$100.

(b) Annual Requirement of the Fund as Determined by:

Illinois Department of Insurance - Suggested Amount of Tax Levy as Reported in the December 31, 2014 Actuarial Valuation.

Private Actuary - Timothy W. Sharpe, Actuary

Recommended Amount of Tax Levy as Reported by Timothy W. Sharpe, Actuary in the December 31, 2014 Actuarial Valuation.

Statutorily Required Amount of Tax Levy as Reported by Timothy W. Sharpe, Actuary in the December 31, 2014 Actuarial Valuation.

**VILLAGE OF WINNETKA , ILLINOIS  
POLICE PENSION FUND**

**House Bill 5088 (Public Act 95-950) - Municipal Compliance Report  
For the Fiscal Year Ending December 31, 2014**

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INDEX OF ASSUMPTIONS - Continued

- 4) Net Income Received from Investment of Assets - Investment Income (Loss) net of Investment Expense, as Reported in the Audited Financial Statements for the Years Ended December 31, 2014 and 2013.

Assumed Investment Return

Illinois Department of Insurance - Current and Preceding Fiscal Year Interest Rate Assumption as Reported in the December 31, 2014 and 2013 Actuarial Valuations.

Private Actuary - Current and Preceding Fiscal Year Interest Rate Assumption as Reported in the Timothy W. Sharpe, Actuary, December 31, 2014 and 2013 Actuarial Valuations.

Actual Investment Return - Net Income Received from Investments as Reported Above as a Percentage of the Average of the Beginning balance of the Cash and Investments and the Ending balance of the Cash and Investments, excluding the fiscal year net investment income, as Reported in the Audited Financial Statements for the Fiscal Years Ended December 31, 2014, 2013 and 2013.

- 5) Number of Active Members - Illinois Department of Insurance Annual Statement for December 31, 2014 - Schedule P.
- 6) (i) Regular Retirement Pension - Illinois Department of Insurance Annual Statement for December 31, 2014 - Schedule P for Number of Participants and Expense page 1 for Total Amount Disbursed.
- (ii) Disability Pension - Same as above.
- (iii) Survivors and Child Benefits - Same as above.

**VILLAGE OF WINNETKA , ILLINOIS  
POLICE PENSION FUND**

**House Bill 5088 (Public Act 95-950) - Municipal Compliance Report  
For the Fiscal Year Ending December 31, 2014**

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INDEX OF ASSUMPTIONS - Continued

7) The Funded Ratio of the Fund:

Illinois Department of Insurance - Current and Preceding Fiscal Year Net Present Assets as a percentage of Total Assets as Reported in the December 31, 2014 and 2013 Actuarial Valuations.

Private Actuary - Current and Preceding Fiscal Year Net Present Assets as a percentage of Total Assets as Reported in the Timothy W. Sharpe, Actuary, December 31, 2014 and December 31, 2013 Actuarial Valuations.

8) Unfunded Liability:

Illinois Department of Insurance - Deferred Asset (Unfunded Accrued Liability) as Reported in the December 31, 2014 Actuarial Valuation.

Private Actuary - Deferred Asset (Unfunded Accrued Liability) as Reported by Timothy W. Sharpe, Actuary in the December 31, 2014 Actuarial Valuation.

**VILLAGE OF WINNETKA, ILLINOIS  
POLICE PENSION FUND  
INVESTMENT POLICY**

**SCOPE**

This Investment Policy applies to the investment activities of the Village of Winnetka Police Pension Fund.

**INVESTMENT OBJECTIVES**

The following investment objectives, in order of preference, will be applied in the management of the pension fund assets.

The primary objective of the Pension Fund investment activities is to safeguard assets needed to pay benefits.

The investment portfolio will remain sufficiently liquid to meet anticipated cash flow requirements such as pension payments, bills, and other uses of cash.

The portfolio will consist of fixed income and equity investments that shall be diversified. Because of the long-term nature of pension liabilities, the long-term rate of return for each class of investment will be considered when managing the Pension portfolio. Care will be taken to ensure that the overall portfolio is not subjected to unreasonable market risk.

The investment portfolio managed under this policy shall be designed with the objective of regularly meeting the appropriate benchmarks established under recognized professional standards for each type of investment, as established by the Board.

**PRUDENCE**

Investments shall be made with judgment and care which 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 probable safety of their capital and the probable income to be derived. Investment Managers, Investment consultants, and other entities and individuals retained by the fund to provide services to the Fund and shall meet the prudent expert standard of care.

## **INVESTMENT RESPONSIBILITY, LIQUIDITY, AND REPORTING**

The oversight of the investment program is hereby assigned to the Pension Board, which will perform the following responsibilities:

### At least annually:

- Review the asset allocation and target rate of return for the Pension Fund portfolio for appropriateness. The target return may be expressed as a desire to meet an index or benchmark.
- Review projected Pension Fund cash flows and projected Pension Fund liabilities as outlined in an actuarial report to ensure assets can be converted into cash with an acceptable amount of market risk to meet likely payments.

### At least twice a year:

- Evaluate the performance of the portfolio against the target rate of return.
- Formally review the holdings of the portfolio.
- Discuss an investment strategy to be applied until the next investment performance review.

The daily management of the Pension portfolio is hereby assigned to the Treasurer of the Pension Fund, within the guidelines established by the Pension Fund. The Treasurer shall be authorized to buy and sell Pension Fund investments, transfer balances between different investment types, prepare reports, and perform such other duties as are necessary to implement the directives of the Pension Fund. The Treasurer may also delegate responsibilities to Village staff or other professionals retained by the fund to assist in the performance of various duties.

The Treasurer or designee shall quarterly review with the Pension board a comprehensive investment report which shall include information regarding securities in the portfolio by class or type, income earned, and market value as of the report date.

No person may engage in an investment transaction except as provided under terms of this policy and the procedures established by the Treasurer. Performance of the portfolio shall be reported in the Village's Comprehensive Annual Financial Report (CAFR or audit) and shall include summary portfolio composition and performance information. Performance of the responsibilities enumerated above will be reflected in the minutes of the Pension Board Meetings.

If material deviations from projected investment strategies occur, they shall be reported promptly to the Secretary and President of the Pension Board.

## FINANCIAL INSTITUTIONS

The Pension Board shall select financial institutions, brokers and consultants in accordance with the requirements of 40 ILCS 5/1-113.5, and based on the following criteria:

The Pension Board shall use only financial institutions, brokers, and consultants listed in Appendix A. The Pension Board shall be responsible for adding to and deleting from this list as they deem appropriate.

Any financial institution, broker, or consultant may provide normal banking services, including, but not limited to: checking accounts, wire transfers, purchase and sale of investment securities and safekeeping services. Fees or compensating balances, if any, shall be mutually agreed to by an authorized representative of the depository institution and the Treasurer or designee.

The Treasurer or designee may transfer balances, open and close accounts, and transact Pension Fund business with any qualified financial institution, broker, or consultant. Such Pension Fund business will be consistent with the direction of the Pension Board and investment strategy.

Investment advisors selected by the Pension Board shall acknowledge, in writing, that they are fiduciaries with respect to the Pension Fund. Any such written agreements shall be attached to this policy.

## INVESTMENTS

The Pension Fund may invest in any type of security allowed by this policy which shall be in compliance with the Illinois Pension Code (40 ILCS 5) and Illinois Public Funds Investment Act (30 ILCS 235/0.01), as amended.

The allocation of Pension Fund assets shall be diversified to minimize risk. The asset allocation shall be maintained according to the table below. Asset allocations are to be reviewed at least quarterly by the Board. Following the review, asset classes breaching either the maximum or minimum of the ranges shall be evaluated for rebalancing to restore the allocation within the specified range.

	Minimum	Target	Maximum
US Equity	43%	48%	53%
Large Cap	30%	35%	40%
Mid Cap	2%	5%	8%
Small Cap	4%	8%	12%
International Equity	6%	11%	16%
Real Estate	0%	5%	8%
Fixed Income	35%	36%	45%

The allocation target and ranges are to be formally reviewed at least every other year. The above ranges may be adjusted by revising this policy.

## INTERNAL CONTROLS

The Treasurer shall establish a system of internal controls, which shall be documented in writing. The internal controls shall be reviewed by an independent certified public accountant in conjunction with the annual examination of the financial statements. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent action by Village employees and officers.

One of the required elements of the system of internal controls shall be the timely reconciliation of all bank accounts. Bank reconciliations shall be performed on a monthly basis and shall be completed no later than sixty (60) days after the bank statement cutoff date.

The aforementioned policy is established as the standard for professional responsibility and shall be applied in the context of managing the Pension portfolio. Persons acting in accordance with this investment policy and established procedures while exercising due diligence in their duties shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that deviations from expectations are reported in timely fashion, and appropriate action is taken to control adverse developments.

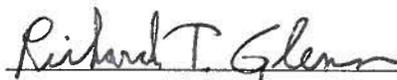
## ETHICS AND CONFLICT OF INTEREST

Any fiduciary with respect to the Fund shall refrain from personal business activity that could conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

## FILING AND AVAILABILITY

A copy of this policy shall be filed with the Division of Insurance within 30 days of its adoption and made available to the public at the main administrative office of the Pension Fund.

Approved this 24<sup>th</sup> day of April, 2014.

  
Pension Board President

  
Pension Board Secretary

**Village of Winnetka, Illinois**  
**Internal Control Procedures**  
**Promulgated by the Finance Director as of April, 2014**

**Authorized Persons:**

Persons authorized to purchase investments and release collateral:

Finance Director  
Assistant Finance Director  
Village Manager

**Investment Transactions and Security Measures:**

All investment transactions shall be processed, as delivery versus payment or DVP, to ensure that the Village ownership of securities purchased or sold is always clear. All Village investments shall be:

- 1) Held by a third party financial institution and evidenced by a safekeeping agreement in a form acceptable to the Village and the Village's independent auditors.
- 2) Purchased, sold, and held such that the lowest possible level of risk, as defined by the Governmental Accounting Standards Board (GASB), can be maintained for the investment.

The Village shall utilize security codes mutually agreed to by the Village and Financial institutions to process investment transactions, collateral transactions, and wire transfers. At a minimum, these procedures shall include at least one of the following: passwords, taped phone conversations, call back on non repetitive wire transfers, limiting authorized account numbers, and designation of repetitive transaction types.

**Internal Controls:**

The internal controls as stated in the policy will be performed monthly.

The Village Accountant or Assistant Finance Director shall prepare and initial monthly bank reconciliations within 60 days of the cut off statement date. The Finance Director shall approve of the monthly reconciliations by initialing and dating them.

The Village's investment consultant who serves as a fiduciary of the Fund shall prepare quarterly reports of the investment portfolio. The December investment performance reports shall be retained by the Pension Fund for a period of at least 5 years.

**List of Authorized Investment Advisors, Money Managers, and Financial Institutions**

**As of April 2014**

- 1) The Illinois Funds
- 2) Harris Bank
- 3) Any Federal Reserve Bank
- 4) Wells Fargo Bank
- 5) T. Rowe Price Associates
- 6) Wintrust Financial Corporation
- 7) The Bogdahn Group
- 8) J.P. Morgan Chase
- 9) Seizert Capital Partners, LLC
- 10) Holland Capital Management
- 11) Harbor Funds
- 12) CS McKee Investment Managers
- 13) Great Lakes Advisors
- 14) Principal Real Estate Investors
- 15) Prudential Investment Management Services – Target Portfolio