

LOCKPORT TOWNSHIP  
FIREFIGHTERS' PENSION FUND  
LOCKPORT, ILLINOIS  
ANNUAL FINANCIAL REPORT  
For the Year Ended April 30, 2014

Lockport Township Firefighters' Pension Fund

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INDEPENDENT AUDITOR'S REPORT

Members of the Fire Pension Fund Board  
Lockport Township Firefighters' Pension Fund  
Lockport, Illinois

We have audited the accompanying financial statements of the Firefighters' Pension Fund of the Lockport Township Fire Protection District (the Pension Fund) as of and for the year ended April 30, 2014, 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 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 includes 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 entity'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 entity'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 financial statements referred to above present fairly, in all material respects, the financial position of the Firefighters' Pension Fund of the Lockport Township Fire Protection District as of April 30, 2014, and the changes in financial position thereof 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, the financial statements present only the Lockport Township Firefighters' Pension Fund and do not purpose to, and do not present fairly the financial position of the Lockport Township Fire Protection District, as of April 30, 2014, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

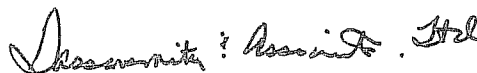
## Other Matters

### *Required Supplementary Information*

The Pension Fund has not presented a Management's Discussion and Analysis as required supplementary information 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.

### *Other Information*

In addition, accounting principles generally accepted in the United States of America require that the actuarial information 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.



Gassensmith & Associates, Ltd.  
Certified Public Accountants

Joliet, Illinois  
September 8, 2014

## BASIC FINANCIAL STATEMENTS

LOCKPORT TOWNSHIP FIREFIGHTERS' PENSION FUND  
LOCKPORT, ILLINOIS

STATEMENT OF PLAN NET ASSETS

April 30, 2014

ASSETS	
Cash and cash equivalents	\$ 2,170,520
Investments, at fair value	
U.S. Treasury securities	9,038,694
U.S. agencies securities	4,872,582
Money market mutual funds	1,389,272
Equities	8,712,753
Equity mutual fund	<u>8,619,341</u>
Total investments	32,632,642
Accrued Interest	166,392
Due from the District	<u>99</u>
Total assets	<u>34,969,653</u>
LIABILITIES	
None	<u>-</u>
Total liabilities	<u>-</u>
NET POSITION HELD IN TRUST FOR PENSION BENEFITS	<u>\$ 34,969,653</u>

See accompanying notes to financial statements.

LOCKPORT TOWNSHIP FIREFIGHTERS' PENSION FUND  
LOCKPORT, ILLINOIS

STATEMENT OF PLAN NET POSITION

April 30, 2014

ADDITIONS

Contributions	
Employer	\$ 2,528,090
Employee	742,400
Other	<u>2,610</u>
Total contributions	<u>3,273,100</u>
Investment income	
Net appreciation in fair value of investments	1,230,598
Interest	<u>991,126</u>
Total investment income	2,221,724
Less investment expense	<u>(175,738)</u>
Net investment income	<u>2,045,986</u>
Total Additions	<u>5,319,086</u>

DEDUCTIONS

Administration	53,017
Benefit and refunds	
Retirement benefits	1,649,545
Disability benefits	253,553
Contribution refunds	<u>8,650</u>
Total deductions	<u>1,964,765</u>

NET INCREASE 3,354,321

NET POSITION HELD IN TRUST FOR  
PENSION BENEFITS

May 1	<u>31,615,332</u>
April 30	<u>\$ 34,969,653</u>

See accompanying notes to financial statements

LOCKPORT TOWNSHIP FIREFIGHTERS' PENSION FUND  
LOCKPORT, ILLINOIS

NOTES TO FINANCIAL STATEMENTS  
April 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Lockport Township Firefighters' Pension Fund (the Fund) have been prepared in conformity 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 Fund's accounting policies are described below.

a. Reporting Entity

The Fund is a single-employer pension trust, which functions for the benefit of the Lockport Township Fire Protection District's (the District) participating firefighter employees and is governed by a five-member pension board. Two active firefighters, one retired firefighter and two members appointed by the District constitute the pension board. The District and firefighter employee participants are obligated to fund all costs based upon actuarial valuations. The State of Illinois is authorized to establish benefit levels and the District is authorized to approve the actuarial assumptions used in the determination of contribution levels. As required by accounting principles generally accepted in the United States of America, these financial statements present the Fund and any existing component units. Currently the Fund does not have any component units and has been determined to be a pension trust fund of the District.

b. Fund Accounting

The accounts of the Fund are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with financial related legal and contractual provisions.

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.



LOCKPORT TOWNSHIP FIREFIGHTERS' PENSION FUND  
LOCKPORT, ILLINOIS

NOTES TO FINANCIAL STATEMENTS

April 30, 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Pension trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of plan net assets.

The accrual basis of accounting is utilized by pension trust funds. Under this method, additions are recorded when earned and deletions are recorded at the time liabilities are incurred.

d. Investments

Investments are stated at fair value. Fair value is based on quoted market prices at April 30, 2014 for debt securities, equity securities, mutual funds and contract value for insurance contracts.

2. DEPOSITS AND INVESTMENTS

The Fund's investment policy authorizes the Fund to invest in all investments allowed by Illinois Compiled Statutes. These include interest-bearing bonds or tax anticipation warrants of the United States of America, the State of Illinois or any county, township or municipal corporation of the State of Illinois, insured with drawable capital accounts of federal and state savings and loan institutions, certificates of deposit of a national or state bank insured by the Federal Deposit Insurance Corporation, insured credit union investments insured by the National Credit Union Administration, obligations of the U.S. Treasury and U.S. agencies, contracts and agreements supplemental thereto providing for investments in the general account of a life insurance company authorized in the State of Illinois, separate accounts of a life insurance company authorized in the State of Illinois comprised of real estate or loans upon real estate secured by first or second mortgages, mutual funds that: are managed by an investment company; have been in operation for at least five years; have total net assets of \$250 million; and are comprised of a diversified portfolio of common or preferred stock, bonds or money market instruments and common and preferred stocks through an investment advisor.

LOCKPORT TOWNSHIP FIREFIGHTERS' PENSION FUND  
LOCKPORT, ILLINOIS

NOTES TO FINANCIAL STATEMENTS  
April 30, 2014

2. DEPOSITS AND INVESTMENTS (continued)

It is the policy of the Fund to invest its funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the Fund and conforming to all state and local statutes governing the investment of public funds, using the "prudent person" standard for managing the overall portfolio. The primary objective of the policy is preservation of capital.

Deposits with Financial Institutions

Custodial credit risk for deposits with financial institutions is the risk that in the event of bank failure, the Fund's deposits may not be returned to it. The Fund's investment policy does not address custodial credit risk for deposits. However, at April 30, 2014, there were no uninsured deposits.

Investments

The following table presents the investments and maturities of the Fund's debt securities as of April 30, 2014:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>Greater than 10</u>
U.S. Treasury notes	2,716,792	2,655,309	-	-	61,483
FNMA	2,155,790	2,155,790	-	-	-
FHLMC	9,038,694	7,682,917	1,355,777	-	-
TOTAL	<u>13,911,276</u>	<u>12,494,016</u>	<u>1,355,777</u>	<u>-</u>	<u>61,483</u>

In accordance with its investment policy, the Fund limits its exposure to interest rate risk by structuring the portfolio to provide liquidity for short and long-term cash flow needs while providing a reasonable rate of return based on the current market. The duration of the portfolio is targeted at approximately five years and will range from two to seven years depending on conditions.

LOCKPORT TOWNSHIP FIREFIGHTERS' PENSION FUND  
LOCKPORT, ILLINOIS

NOTES TO FINANCIAL STATEMENTS  
April 30, 2014

2. DEPOSITS AND INVESTMENTS (continued)

Investments (continued)

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 U.S. Government securities and money market mutual funds. The FNMA, FHLMC and money market mutual fund securities are rated AA+.

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 the possession of an outside party. The Fund requires SIPC insurance or excess SIPC for all investments exposed to custodial credit risk as the policy allows the broker/dealer purchasing the investment to also serve as custodian over the investment.

Concentration of credit risk is the risk that the Fund has a high percentage of their investments invested in one type of investment. The Fund's investment policy sets percentage allocation parameters at:

Equities are limited to a maximum of 50% of the portfolio based on state statutes.

Within fixed income and equities diversification is required as noted below:

	<u>Target</u>	<u>Range</u>
<b>FIXED INCOME</b>		
U.S. Treasury bills/notes/bonds	30%	0-100%
U.S. agency securities (non-MBS)	35%	0-70%
U.S. agency securities (callable)	20%	0-30%
U.S. agency securities (MBS)	5%	0-10%
Taxable municipal securities	10%	0-20%
Certificates of deposit	0%	0-20%
Investment grade corporate bonds	0%	0-30%
<b>EQUITIES</b>		
U.S. large company stocks	70%	0-100%
U.S. small company stocks	20%	0-70%
International stocks	10%	0-30%

LOCKPORT TOWNSHIP FIREFIGHTERS' PENSION FUND  
LOCKPORT, ILLINOIS

NOTES TO FINANCIAL STATEMENTS  
April 30, 2014

3. EMPLOYEE RETIREMENT SYSTEM

a. Plan Description and Provisions

Fire sworn personnel are covered by the Firefighters' Pension Fund which is a defined benefit single-employer pension administered by the Firefighters' Pension Fund Board. Although this is a single-employer pension plan, the defined benefits and employee contribution levels are governed by Illinois Compiled Statutes 40 ILCS 5/4-100, et seq (2001) and may be amended only by the Illinois legislature. The District accounts for the plan as a pension trust fund.

The financial statements of the Firefighters' Pension Plan are prepared using the accrual basis of accounting. Plan member contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. All plan investments are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price on the net asset date. Securities without an established market are reported at estimated fair value.

The Firefighters' Pension Plan provides retirement benefits through two tiers of benefits as well as death and disability benefits. 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 at the date of retirement. The annual benefit shall be increased by 2.5% of such salary for each additional year of service over 20 years up to 30 years, to a maximum of 75.0% of such salary. Employees with at least 10 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 covered employee who retired with 20 or more years of service after January 1, 1977 shall be increased annually, following the first anniversary date of retirement and be paid upon reaching the age of at least 55 years, by 3.0% of the original pension and 3.0% compounded annually thereafter.

Tier 2 employees (those hired on or after January 1, 2011) attaining the age of 55 or older with ten or more years of creditable service are entitled to receive an annual retirement benefit equal to the average monthly salary obtained by dividing the total salary of the 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. Firefighter's salary for pension purposes is

LOCKPORT TOWNSHIP FIREFIGHTERS' PENSION FUND  
LOCKPORT, ILLINOIS

NOTES TO FINANCIAL STATEMENTS  
April 30, 2014

3. EMPLOYEE RETIREMENT SYSTEM (continued)

a. Plan Description and Provisions (continued)

capped at \$106,800, plus the lesser of ½ of the annual change in the Consumer Price index or 3.0% compounded. The annual benefit shall be increased by 2.5% of such salary for each additional year of service over 20 years up to 30 years, to a maximum of 75.0% of such salary. Employees with at least 10 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 firefighter shall be increased annually at age 60 on the January 1<sup>st</sup> after the firefighter retires, or the first anniversary of the pension starting date, whichever is later. Noncompounding increases occur annually, each January thereafter. The increase is the lesser of 3.0% or 1/2 of the change in the Consumer Price Index for the preceding calendar year.

Covered employees are required to contribute 9.455% of their base salary to the Firefighters' Pension Plan. If an employee leaves covered employment with less than 20 years of service, accumulated employee contributions may be refunded without accumulated interest. The District is required to finance the plan and the administrative costs as actuarially determined by an enrolled actuary. Effective January 1, 2011, the District has until the year 2040 to fund 90% of the past services costs for the Firefighters' Pension Plan.

At April 30, 2014, membership consisted of:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	31
Employees	
Vested	43
Nonvested	<u>40</u>
TOTAL	<u>114</u>

LOCKPORT TOWNSHIP FIREFIGHTERS' PENSION FUND  
LOCKPORT, ILLINOIS

NOTES TO FINANCIAL STATEMENTS  
April 30, 2014

3. EMPLOYEE RETIREMENT SYSTEM (continued)

b. Annual Pension Costs

Employer contributions have been determined as follows:

Actuarial valuation date	May 1, 2014
Actuarial cost method	Entry-age Normal
Asset valuation method	4 Year Average Market
Amortization method	Level percentage of payroll
Amortization period	20 years

Significant actuarial assumptions.

a) Rate of return on present and future assets	7.5% compounded annually
b) Projected salary increase attributable to inflation	5.0% compounded annually
c) Additional projected salary increases – seniority/merit	3.0%

LOCKPORT TOWNSHIP FIREFIGHTERS' PENSION FUND  
LOCKPORT, ILLINOIS

NOTES TO FINANCIAL STATEMENTS  
April 30, 2014

3. EMPLOYEE RETIREMENT SYSTEM (continued)

b. Annual Pension Costs

Employer annual pension costs (APC), actual contributions and the net pension obligation (asset) (NPO) are as follows: The NPO is the cumulative difference between the APC and the contributions actually made.

	<u>Fiscal Year</u>	<u>Firefighters' Pension</u>
Annual pension cost (APC)	2013	1,749,591
	2014	1,881,240
Actual contribution	2013	2,103,880
	2014	2,528,090
Percentage of APC contributed	2013	120.25%
	2014	134.38%
NPO	2013	(2,194,166)
	2014	(2,841,016)

The NPO as of April 30, 2014 has been calculated as follows:

Annual required contribution	1,906,630
Interest on net pension obligation	(164,562)
Adjustment to annual required contributions	<u>139,172</u>
Annual pension cost	1,881,240
Contributions made	<u>2,528,090</u>
(Increase) decrease in net pension obligation (asset)	(646,850)
Net pension obligation (asset), beginning of year	<u>(2,194,166)</u>
NET PENSION OBLIGATION (ASSET), END OF YEAR	<u><u>(2,841,016)</u></u>

LOCKPORT TOWNSHIP FIREFIGHTERS' PENSION FUND  
LOCKPORT, ILLINOIS

NOTES TO FINANCIAL STATEMENTS  
April 30, 2014

3. EMPLOYEE RETIREMENT SYSTEM (continued)

c. Funded Status

The funded status of the plans as of April 30, 2014 is based on actuarial valuations performed as of April 30, 2014 and is as follows: The actuarial assumptions used to determine the funded status of the plan are the same actuarial assumptions used to determine the employee APC of the plan.

Actuarial accrued liability (AAL)	\$ 52,972,191
Actuarial value of plan assets	34,969,654
Unfunded actuarial accrued liability (UAAL)	18,002,537
Funded ratio (Actuarial value of plan assets/AAL)	66.02%
Covered payroll (active plan members)	\$7,826,010
UAAL as a percentage of covered payroll	230.03%

See the schedules of funding progress in the required supplementary information immediately following the notes to financial statements for additional information related to the funded status of the plans.

4. CONTINGENT LIABILITIES

a. Litigation

The Firefighters' Pension Fund is not currently involved in any lawsuits.

b. Compliance Audit

The Firefighters' Pension Fund is subject to a program compliance audit by the Illinois Division of Insurance. The compliance audit by the Illinois Division of Insurance for the year ended April 30, 2014 has not yet been conducted. Accordingly, the Firefighters' 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 Division of Insurance cannot be determined at this time; however, the Firefighters' Pension Fund expects such adjustments, if any, to be immaterial.



REQUIRED SUPPLEMENTARY INFORMATION

LOCKPORT TOWNSHIP FIREFIGHTERS' PENSION FUND  
LOCKPORT, ILLINOIS

REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS

April 30, 2014

Actuarial Valuation Date	(1) Actuarial Value of Plan Assets	(2) Actuarial Accrued Liability (AAL) Entry-Age	(3) Percentage Funded (1)/(2)	(4)	(5) Annual Covered Payroll	(6)
				Unfunded (Overfunded) Actuarial Liability (2) - (1)		Unfunded (overfunded) AAI as a Percentage of Covered Payroll (4) / (5)
<u>April 30</u>						
2009	23,452,053	33,738,162	69.51%	10,286,109	6,302,794	163.20%
2010	25,547,525	37,177,199	68.72%	11,629,674	6,415,531	181.27%
2011	27,718,356	39,819,102	69.61%	12,100,746	6,867,346	176.21%
2012	29,022,480	43,905,168	66.10%	14,882,688	7,142,707	208.36%
2013	31,615,332	48,191,153	65.60%	16,575,821	7,528,208	220.18%
2014	34,969,654	52,972,191	66.02%	18,002,537	7,826,010	230.03%

(See independent auditor's report.)

LOCKPORT TOWNSHIP FIREFIGHTERS' PENSION FUND  
LOCKPORT, ILLINOIS

REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF EMPLOYER CONTRIBUTIONS

April 30, 2014

<u>Fiscal Year</u>	<u>Employer Contributions</u>	<u>Annual Required Contribution (ARC)</u>	<u>Percentage Contributed</u>
2009	1,578,227	1,260,783	125.18%
2010	1,761,249	1,363,817	129.14%
2011	1,718,117	1,580,195	108.73%
2012	1,900,525	1,696,425	112.03%
2013	2,103,880	1,775,230	118.51%
2014	2,528,090	1,906,630	132.59%

(See independent auditor's report.)