

VILLAGE OF GLENCOE
POLICE PENSION FUND BOARD

Regular Meeting
Village Hall Conference Room
675 Village Court

October 19, 2011
7:00 a.m.

A G E N D A

The Village of Glencoe is subject to the requirements of the Americans With Disabilities Act of 1990. Individuals with disabilities who plan to attend this meeting and who require certain accommodations in order to allow them to observe and/or participate in this meeting, or who have questions regarding the accessibility of the meeting or the facilities, are requested to contact the Village of Glencoe at least 72 hours in advance of the meeting at (847) 835-4114, or please contact the Illinois Relay Center at (800) 526-0844, to allow the Village of Glencoe to make reasonable accommodations for those persons.

1. CALL TO ORDER AND ROLL CALL

Michael Neimark, President
Peter Neville, Trustee
Joseph Walter, Trustee
Christopher Pfaff, Trustee
Chad Smith, Trustee

2. PUBLIC COMMENT TIME

Individuals interested in addressing the Board on non-agenda items may do so during this time.

3. APPROVAL OF THE JULY 20, 2011 MINUTES

4. REVIEW FINANCIAL ACTIVITY WITH GREAT LAKES ADVISORS

5. APPROVE QUARTERLY PAYMENTS AND DISBURSEMENTS

6. REVIEW PRELIMINARY ACTUARIAL REPORT FOR 2011 TAX LEVY

7. CONDUCT TRUSTEE TRAINING

8. OTHER BUSINESS

9. ADJOURNMENT

VILLAGE OF GLENCOE
POLICE PENSION FUND BOARD

REGULAR MEETING MINUTES
July 20, 2011

1. CALL TO ORDER

President Neimark called a regular meeting of the Police Pension Fund Board to order at 7:00 a.m. on Wednesday, July 20, 2011 in the Village Hall Conference Room.

2. ROLL CALL

The following members were present:

Michael Neimark, President
Peter Neville
Christopher Pfaff (by electronic attendance)
Joseph Walter
Chad Smith

The following were also present:

David A. Clark, Treasurer
Bill Gregg, Director of Fixed Income, Wintrust Wealth Management

3. APPROVAL OF MAY 11, 2011 MINUTES

Trustee Smith moved, seconded by Trustee Neville to approve the minutes of the May 11, 2011 meeting as submitted. Said motion was unanimously adopted.

4. PUBLIC COMMENT TIME

There were no comments.

5. CERTIFY ELECTION OF RETIRED PENSION FUND MEMBER TO BOARD

David Clark reported that 16 of the 31 annuitants are eligible to cast a ballot and all ballots were cast for the re-election of Joseph Walter as the retired pension fund member to the Police Pension Fund Board. Upon motion made and seconded, the Board unanimously accepted the results of the election.

6. APPOINT PRESIDENT, VICE PRESIDENT, SECRETARY AND ASSISTANT SECRETARY

Position	Nominee	Motion	Second
President	Michael Neimark	Neville	Smith
Vice President	Peter Neville	Smith	Walter
Secretary	Joseph Walter	Smith	Pfaff
Assistant Secretary	Christopher Pfaff	Smith	Neville

Upon motions made and seconded as noted above, motions to approve appointments (as nominated) of President, Vice-President, Secretary and Assistant Secretary were unanimously adopted.

7. CONSIDER PROPOSAL TO MANAGE CORPORATE BOND PORTFOLIO

Bill Gregg began by announcing that Samuel Carpenter was no longer with Wintrust Wealth Management and that he left for other opportunities. Mr. Gregg next announced that Wintrust Wealth Management has combined with Great Lake Advisors. Great Lake Advisors manage \$2 Billion in assets and has a strong presence in police and fire pensions. Great Lakes Advisors is a strong equity group and manages \$215 Million in equities for the Chicago Police Union. As result of the merger, the Wintrust Wealth Management name will be changed to Great Lakes Advisors. Trustee Smith asked that information be provided including resumes of individuals from Great Lakes who would be involved with the Glencoe Police Pension Fund. Mr. Gregg recommended the following:

- a) Amend the existing investment advisory agreement to make it a consultant agreement for the equity portion of the portfolio only.
- b) Conduct a request for proposal (RFP) on the fixed income portion of the portfolio.
- c) Create an agreement for fixed income manager which would allow the manager to make investment decisions within the general framework of the fund's investment guidelines and investment instructions.

Mr. Gregg indicated that he would forward a draft RFP and draft agreements for consideration. The Board indicated that between now and the next meeting the RFP will be released and the Board will review the submittals at the next meeting. Interviews will be conducted after the October 2011 meeting with an award made by January 2012.

8. REVIEW OF FINANCIAL ACTIVITY WITH WINTRUST WEALTH MANAGEMENT AND REBALANCE PORTFOLIO (IF NECESSARY)

Bill Gregg presented a portfolio report for the period ending June 30, 2011. Since March 31, 2011, the value of the portfolio increased from \$23.78 Million to \$23.98 Million. Cash and equivalents represented 2.2%, equities represented 46.1% and fixed income represented 51.7%. There was no need to rebalance the portfolio.

Mr. Gregg recommended certain changes to the pension fund investment allocation strategy that may be implemented over time, including:

- a) Increasing allocation to international, emerging markets;
- b) Introducing commodities using an index fund (i.e. Dow Jones Commodity Index); and
- c) Increase exposure to real estate by 1%

Trustee Smith stated that some of the investments in equities overlap into more than one category. Mr. Gregg suggested that the overlap could be addressed as part of review of the allocation strategy. Mr. Gregg also suggested using a weighted average benchmark based on the Pension Fund's portfolio mix versus the S&P.

Following further discussion, the following recommendations were made:

Sources

\$100,000 – FHLB maturing on 8/19/2011
\$100,000 – DPL INC Corporate Bond Maturing on 9/1/2011
\$290,000 – Cash on Hand

\$490,000 – TOTAL SOURCES

Investments

\$ 90,000 – Purchase Cohen & Steers Fund (Real Estate)
\$200,000 – Mortgage backed securities (FNMA, etc.)
\$200,000 – Best of treasuries, agencies, CD's (3 to 6 months)

\$490,000 – TOTAL INVESTMENTS

Trustee Smith moved, seconded by Trustee Neville to approve the investment instructions. Said motion was adopted by the following vote:

AYES: Neville, Walter, Pfaff, Smith, Neimark (5)
NAYES: NONE (0)
ABSENT: NONE (0)

9. REVIEW ACTUARIAL ASSUMPTIONS TAX LEVY REPORT

David Clark reviewed a report entitled "2011 Tax Levy - Consideration of Issues Related to Police Pension Fund". Recent legislative changes have resulted in changes that will impact the 2011 Tax Levy Report from the State of Illinois. These changes include:

- a) A change in the actuarial method from Entry Age Normal to Projected Unit Credit;
- b) An extension of the amortization period from 2033 to 2040; and
- c) A reduction in the amortization target from 100% to 90% by 2040.

Following discussion of the report, the following recommendations were made by the Pension Board:

Assumption	Current	Recommended	State of Illinois
Interest Rate	6.50%	6.50%	7.00%
Salaries	5.50%	5.00%	5.50%
Amortization Period	2033	2040	2040
Amortization Target	100%	100%	90%
Actuarial Method	Entry Age Normal	Entry Age Normal	Projected Unit Credit
Mortality Table	1994	1994	1971

Trustee Neville moved, seconded by Trustee Smith to approve the recommended actuarial assumptions for the 2011 Tax Levy. Said motion was adopted by the following vote:

AYES: Neville, Walter, Pfaff, Smith, Neimark (5)
 NAYES: NONE (0)
 ABSENT: NONE (0)

10. REVIEW FINANCIAL ACTIVITY AND DISBURSEMENT REPORT

David Clark reviewed \$16,964.25 in accounts payable disbursements since April 1, 2011 and the \$375,778.15 in annuities paid since April 1, 2011. Upon motion made and seconded, the accounts payable and disbursement report was unanimously approved as submitted.

11. TRAINING BASIC ACCOUNTING AND ACTUARIAL TRAINING

The training topic was addressed in accordance with the Police Pension Board's Training Policy.

12. OTHER BUSINESS

The Board discussed the requirement for Matt Sachtleben to have an annual physical.

13. NEXT MEETING

The next meeting will be on Wednesday, October 19, 2011 at 7:00 a.m. in the Finance Conference Room.

14. ADJOURNMENT

There being no further business to come before the Police Pension Fund Board, upon motion made and seconded, the meeting was adjourned at 8:30 a.m. The motion was unanimously adopted.

Appendix A

Form of Notice

I, CHRIS PFAFF, am a member of the Village's POLICE PENSION BOARD, a Public Body. In accordance with Subsection IV.A of the Village's "Electronic Attendance at Meetings Policy," I am submitting this notice evidencing my desire to electronically attend the JULY 20, 2011, meeting of the Public Body. I am physically prevented from attending that meeting due to one or more of the following circumstances:

- Personal illness or disability.
- Employment purposes or the business of the public body.
- A family or other emergency.

Date: 7/14/11

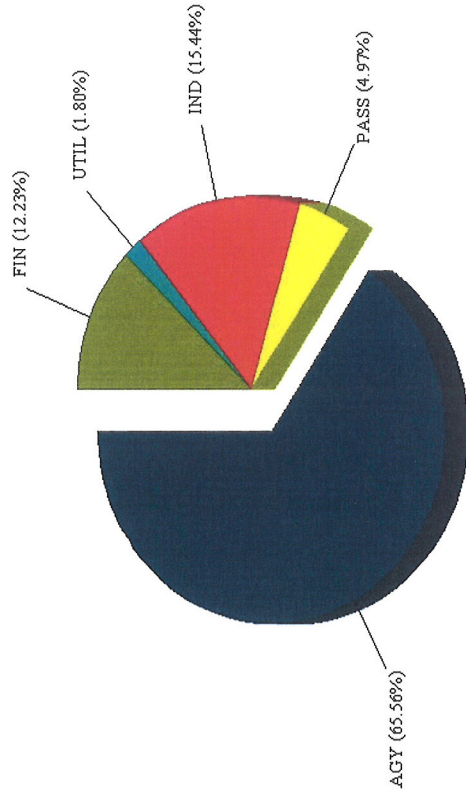
Signature: Christopher J. Pfaff



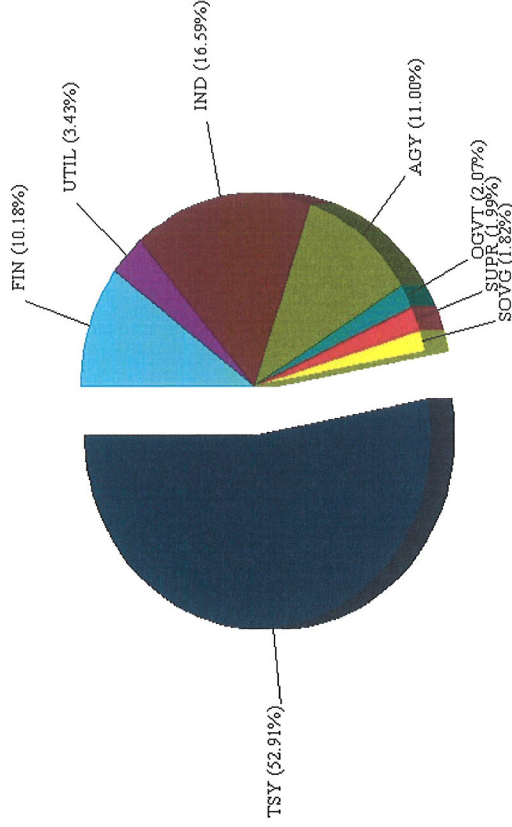
Fixed Income Characteristics - Sector

As of September 30, 2011

Sector Distribution
GLNCOPOL - 09/30/11



Sector Distribution
BC GOV/CREDIT INDEX - 09/30/11



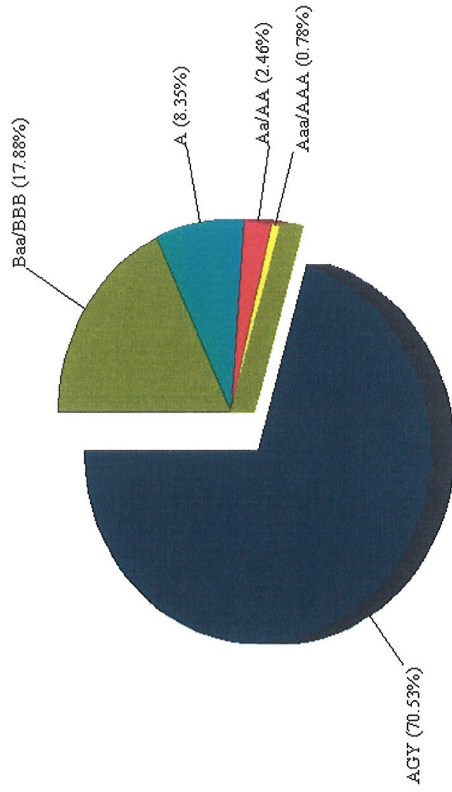
	YTM/C	Coupon	Mat Yrs	Quality	Current Yld	Eff Dur	Convexity
GLNCOPOL	1.803	4.428	3.783	AA1	4.133	2.990	0.039
BC INTERM G/C INDEX	1.570	3.286	4.403	AA2	3.082	3.938	0.106
DIFFERENCE	0.233	1.142	-0.620		1.051	-0.948	-0.067



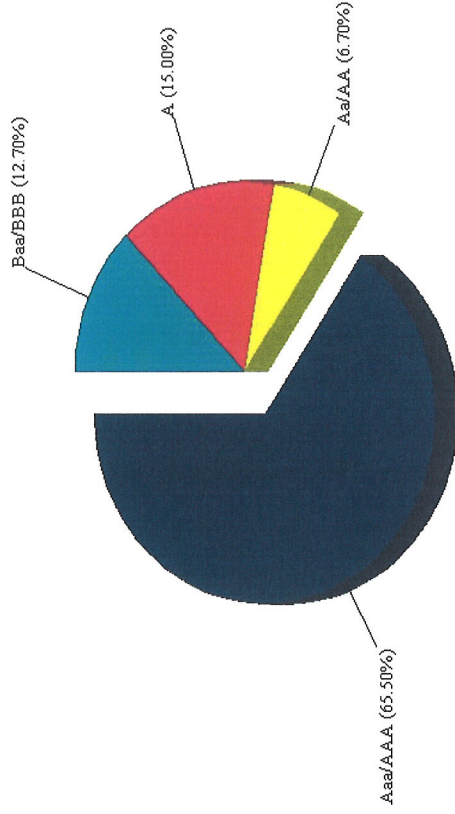
Fixed Income Characteristics - Quality

As of September 30, 2011

Quality Distribution GLNCOPOL - 09/30/11



Quality Distribution BC GOV/CREDIT INDEX - 09/30/11



	YTM/C	Coupon	Mat Yrs	Quality	Current Yld	Eff Dur	Convexity
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GREAT LAKES ADVISORS

A WINTRUST WEALTH MANAGEMENT COMPANY

Portfolio Review
Glencoe Police Pension Fund

September 30, 2011

Report is provided for informational purposes only and should be reviewed with the monthly statement provided by your custodian.

CHANGE IN PORTFOLIO VALUE

*Glencoe Police Pension Fund**September 30, 2011*

GREAT LAKES ADVISORS

A WINTRUST WEALTH MANAGEMENT COMPANY

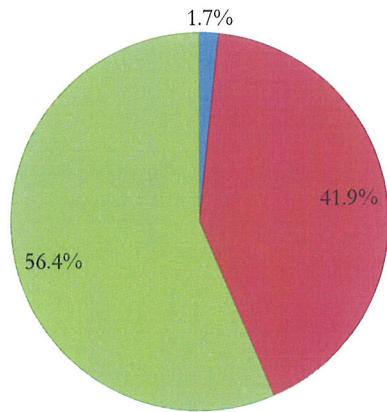
Portfolio Value on 06-30-11	23,961,023.73
Accrued Interest	117,492.61
Contributions	0.00
Withdrawals	-287,624.45
Realized Gains	-4,723.68
Unrealized Gains	-1,921,937.33
Interest	127,587.23
Dividends	20,696.63
Change in Accrued Interest	-3,889.89
Portfolio Value on 09-30-11	21,895,022.12
Accrued Interest	113,602.72

PORTFOLIO SUMMARY



Security Type	Total Cost (\$)	Market Value (\$)	Pct. Assets	Cur. Yield	Est. Annual Income (\$)
Cash and Equivalents	366,502	366,502	1.7	0.1	281
Equities	8,445,063	9,225,704	41.9	1.5	135,451
Taxable Fixed Income	12,091,648	12,416,419	56.4	1.8	509,477
TOTAL PORTFOLIO	20,903,214	22,008,625	100.0	1.6	645,209

ASSET ALLOCATION



■ CASH AND EQUIVALENTS ■ EQUITIES
■ TAXABLE FIXED INCOME

INVESTMENT OBJECTIVE:

Public Pensions

Target Range

Equities	0% - 45%
Fixed Income	0% - 55%
Cash & Equivalents	0% - 10%
Other	0%

PORTFOLIO PERFORMANCE - NET OF FEES

Inception Date: December 31, 1992

Glencoe Police Pension Fund

September 30, 2011



GREAT LAKES ADVISORS

A WINTRUST WEALTH MANAGEMENT COMPANY

	Quarter To Date	Year To Date	Latest 1 Year	Latest 3 Year	Latest 5 Year	Latest 10 Year	Inception To Date
Total Account							
Account	-7.41	-4.01	0.44	4.12	2.97	4.55	4.70
Cash and Equivalents							
Account	0.03	0.06	0.04	0.11	0.34	1.02	2.65
Equities							
Account	-17.49	-12.59	-2.88	2.43	-0.81	4.23	4.74
S&P 500 Total Return	-13.87	-8.68	1.14	1.23	-1.18	2.82	7.29
Russell 2000 Index	-21.87	-17.02	-3.53	-0.37	-1.02	-	-
MSCI EAFE Index	-18.95	-14.62	-8.94	-0.66	-3.00	5.48	-
Taxable Fixed Income							
Account	1.48	3.48	2.74	4.82	5.96	4.35	5.25
Barclays Inter Govt	3.19	5.13	3.50	5.30	5.86	4.78	5.73
Barclays 1-3 Govt	0.47	1.12	0.99	2.66	3.91	3.42	4.69
Barclays Inter Govt/Corp	2.39	4.63	3.13	6.92	5.86	5.09	5.96
Tax-free Fixed Income							
Account	0.00	0.00	0.00	0.00	0.00	-	-
Other							
Account	-	?	?	?	?	-	-

PORTFOLIO HOLDINGS
Glencoe Police Pension Fund
September 30, 2011



GREAT LAKES ADVISORS
A WINTRUST WEALTH MANAGEMENT COMPANY

Date	Quantity	Security	Unit Cost (\$)	Total Cost (\$)	Price (\$)	Market Value (\$)	Pct. Stock	Pct. Assets	Annual Income (\$)	Pct. Yield
CASH & EQUIVALENTS										
		ADVISED INSURED DEPOSIT ACCOUNT		351,772		351,772		1.6	281	0.1
		NCSB CHECKING ACCOUNT		14,730		14,730		0.1	0	0.0
				<u>366,502</u>		<u>366,502</u>		1.7	281	0.1
EQUITY MUTUAL FUNDS										
LARGE CAP										
10-25-02	12,299	DODGE & COX STOCK FD #145	108.44	1,333,683	91.84	1,129,506		5.1	17,833	1.6
07-17-03	39,020	T ROWE PRICE GROWTH STOCK FD #40	28.20	1,100,181	28.94	1,129,249		5.1	663	0.1
03-04-04	9,495	VANGUARD 500 INDEX FUND	79.53	755,095	86.06	817,101		3.7	17,508	2.1
07-22-08	28,802	VANGUARD GROWTH INDEX FUND #9	29.65	854,041	28.76	828,356		3.8	9,534	1.2
03-04-04	48,309	VANGUARD TOTAL STOCK MARKET INDEX FUND	15.12	730,528	27.09	1,308,680		5.9	27,729	2.1
01-22-08	8,504	VANGUARD VALUE INDEX FUND	24.21	205,871	19.08	162,249		0.7	4,651	2.9
				<u>4,979,399</u>		<u>5,375,141</u>		24.4	77,918	1.4
MID CAP										
04-20-00	14,833	T. ROWE PRICE MID-CAP GROWTH FUND	42.44	629,547	52.18	774,001		3.5	0	0.0
01-22-08	14,907	VANGUARD MID CAP VALUE INDEX FUND	17.01	253,638	18.24	271,902		1.2	5,530	2.0
				<u>883,184</u>		<u>1,045,903</u>		4.8	5,530	0.5
SMALL CAP										
10-16-00	19,823	T. ROWE PRICE SMALL-CAP STOCK	24.23	480,207	29.45	583,776		2.7	0	0.0
10-16-00	10,034	VANGUARD SMALL CAP INDEX	22.35	224,302	29.36	294,605		1.3	3,602	1.2
				<u>704,509</u>		<u>878,381</u>		4.0	3,602	0.4
INTERNATIONAL										
01-25-02	19,043	FIDELITY DIVERSIFIED INTL	26.03	495,624	24.79	472,077		2.1	8,817	1.9
03-04-03	23,032	OAKMARK INTERNATIONAL I	13.94	321,083	16.13	371,502		1.7	3,680	1.0
01-22-08	7,082	VANGUARD DEVELOPED MRKT INDEX FUND	11.67	82,676	8.46	59,916		0.3	1,990	3.3
07-29-05	22,029	VANGUARD EMERGING MARKETS STOCK FUND	21.10	464,798	23.25	512,164		2.3	9,560	1.9
03-04-04	17,678	VANGUARD EUROPEAN STOCK INDEX FUND	21.14	373,790	19.74	348,970		1.6	19,711	5.6
				<u>1,737,971</u>		<u>1,764,629</u>		8.0	43,759	2.5
REAL ESTATE										
08-19-11	1,604	COHEN & STEERS REALTY SHARES INC	56.11	90,000	53.56	85,910		0.4	1,788	2.1

PORTFOLIO HOLDINGS

Glencoe Police Pension Fund

September 30, 2011



GREAT LAKES ADVISORS

A WINTRUST WEALTH MANAGEMENT COMPANY

Date	Quantity	Security	Unit Cost (\$)	Total Cost (\$)	Price (\$)	Market Value (\$)	Pct. Stock	Pct. Assets	Annual Income (\$)	Pct. Yield
06-12-09	4,484	VANGUARD REIT INDEX FUND #123	11.15	50,000	16.89	75,740		0.3	2,852	3.8
				140,000		161,650		0.7	4,640	2.9
				8,445,063		9,225,704		41.9	135,451	1.5
CORPORATE BONDS										
05-25-11	100,000	KINDER MORGAN ENERGY PARTNERS LP 7.125% Due 03-15-12	104.80	104,805	102.56	102,565		0.5	7,125	6.8
09-06-11	100,000	GENWORTH GLOBAL FUNDING 5.250% Due 05-15-12	102.19	102,192	102.28	102,278		0.5	5,250	5.1
06-01-11	100,000	SAFEWAY INC 5.800% Due 08-15-12	105.81	105,814	103.84	103,837		0.5	5,800	5.5
05-23-11	100,000	CITIGROUP 5.625% Due 08-27-12	104.73	104,727	102.22	102,216		0.5	5,625	5.4
06-27-11	100,000	AVERY DENNISON CORP 4.875% Due 01-15-13	105.09	105,086	103.77	103,775		0.5	4,875	4.6
06-02-11	100,000	TELEFONICA EMISIONES SAU 2.582% Due 04-26-13	101.43	101,427	97.62	97,625		0.4	2,582	2.5
05-23-11	100,000	AEGON 4.750% Due 06-01-13	105.62	105,625	102.65	102,650		0.5	4,750	4.5
09-02-11	100,000	TELECOM ITALIA CAPITAL 5.250% Due 11-15-13	100.54	100,540	98.45	98,455		0.4	5,250	5.2
06-17-11	100,000	ASSURANT INC 5.625% Due 02-15-14	107.91	107,910	104.74	104,738		0.5	5,625	5.2
05-25-11	100,000	BBVA US SENIOR SAU 3.250% Due 05-16-14	100.05	100,052	93.63	93,631		0.4	3,250	3.2
06-27-11	100,000	AXIS CAPITAL 5.750% Due 12-01-14	108.44	108,438	106.61	106,606		0.5	5,750	5.3
05-26-11	100,000	NASDAQ OMS GROUP INC 4.000% Due 01-15-15	101.82	101,820	101.10	101,103		0.5	4,000	3.9
06-03-11	65,000	NEWS AMERICA INC 7.600% Due 10-11-15	118.89	77,276	114.84	74,647		0.3	4,940	6.4
06-27-11	100,000	NORANDA INC 6.000% Due 10-15-15	112.58	112,578	110.56	110,562		0.5	6,000	5.3
06-30-11	100,000	HCP INC 3.750% Due 02-01-16	102.39	102,388	98.82	98,825		0.4	3,750	3.7
05-25-11	100,000	LABORATORY CORP OF AMERICA HOLDINGS 3.125% Due 05-15-16	101.48	101,484	103.55	103,553		0.5	3,125	3.1
06-02-11	100,000	MERRILL LYNCH & CO 6.050% Due 05-16-16	108.37	108,375	89.96	89,961		0.4	6,050	5.6
06-14-11	100,000	WESTERN UN CO 5.930% Due 10-01-16	113.63	113,629	114.24	114,239		0.5	5,930	5.2
05-17-11	100,000	RYDER SYSTEM INC 3.500% Due 06-01-17	100.50	100,496	103.65	103,646		0.5	3,500	3.5
06-27-11	100,000	HASBRO INC 6.300% Due 09-15-17	115.13	115,132	114.53	114,534		0.5	6,300	5.5
06-28-11	100,000	TECO FINANCE INC 6.572% Due 11-01-17	116.48	116,482	115.79	115,794		0.5	6,572	5.6
05-31-11	100,000	COMPUTER SCIENCES INC 6.500% Due 03-15-18	110.94	110,938	108.59	108,591		0.5	6,500	5.9

PORTFOLIO HOLDINGS

Glencoe Police Pension Fund

September 30, 2011



GREAT LAKES ADVISORS

A WINTRUST WEALTH MANAGEMENT COMPANY

Date	Quantity	Security	Unit Cost (\$)	Total Cost (\$)	Price (\$)	Market Value (\$)	Pct. Stock	Pct. Assets	Annual Income (\$)	Pct. Yield
06-13-11	100,000	MEDCO HEALTH SOLUTIONS INC 7.125% Due 03-15-18	118.82	118,816	121.21	121,212		0.6	7,125	6.0
06-27-11	100,000	LEGGETT & PLATT INC 4.400% Due 07-01-18	102.44	102,437	106.42	106,419		0.5	4,400	4.3
06-02-11	100,000	NOKIA OYJ 5.375% Due 05-15-19	104.17	104,175	98.33	98,331		0.4	5,375	5.2
06-02-11	100,000	MORGAN STANLEY 5.625% Due 09-23-19	104.09	104,089	94.28	94,285		0.4	5,625	5.4
06-03-11	100,000	LOCKHEED MARTIN CORP 4.250% Due 11-15-19	104.07	104,070	108.73	108,727		0.5	4,250	4.1
06-02-11	100,000	ZIMMER HOLDINGS 4.625% Due 11-30-19	107.02	107,018	110.77	110,772		0.5	4,625	4.3
05-23-11	100,000	GOLDMAN SACHS 5.375% Due 03-15-20	102.54	102,540	98.98	98,983		0.4	5,375	5.2
06-27-11	100,000	SYMANTEC CORP 4.200% Due 09-15-20	98.89	98,889	98.09	98,095		0.4	4,200	4.2
06-29-11	100,000	HSBC USA INC 5.000% Due 09-27-20	99.88	99,885	96.01	96,010		0.4	5,000	5.0
06-14-11	100,000	GENERAL ELECTRIC CAPITAL CORP 5.300% Due 02-11-21	104.09	104,088	103.42	103,425		0.5	5,300	5.1
06-27-11	100,000	JPMORGAN CHASE 4.625% Due 05-10-21	100.93	100,933	102.23	102,230		0.5	4,625	4.6
05-25-11	100,000	MARKEL CORP 5.350% Due 06-01-21 Accrued Interest	99.82	99,824	102.05	102,049		0.5	5,350	5.4
						41,703		0.2		
				3,553,979		3,536,072		16.1	173,799	4.9
CERTIFICATE OF DEPOSIT										
06-03-08	95,000	BYRON BANK BYRON CENTER MI 4.500% Due 06-12-13 Accrued Interest	100.00	95,000	100.00	95,000		0.4	4,275	4.5
						1,288		0.0		
				95,000		96,288		0.4	4,275	4.5
GOVERNMENT AGENCIES										
02-27-07	250,000	FEDERAL NATL MTG ASSN 5.000% Due 10-15-11	100.97	252,425	100.16	250,402		1.1	12,500	5.0
08-11-10	100,000	FEDERAL HOME LOAN BANK 3.875% Due 02-15-12	105.03	105,026	101.39	101,389		0.5	3,875	3.7
07-26-10	250,000	FEDERAL HOME LOAN BANK 3.250% Due 03-09-12	104.27	260,672	101.36	253,395		1.2	8,125	3.1
11-27-07	250,000	FEDERAL HOME LOAN BANK 4.875% Due 06-08-12	102.79	256,987	102.87	257,185		1.2	12,187	4.7
12-21-07	250,000	FEDERAL FARM CREDIT BANK 4.900% Due 03-06-13	103.40	258,507	106.43	266,085		1.2	12,250	4.7
12-07-07	200,000	FEDERAL HOME LN MTG CORP 4.000% Due 06-12-13	98.86	197,722	106.13	212,256		1.0	8,000	4.0

PORTFOLIO HOLDINGS

Glencoe Police Pension Fund

September 30, 2011



GREAT LAKES ADVISORS

A WINTRUST WEALTH MANAGEMENT COMPANY

Date	Quantity	Security	Unit Cost (\$)	Total Cost (\$)	Price (\$)	Market Value (\$)	Pct. Stock	Pct. Assets	Annual Income (\$)	Pct. Yield
11-27-07	250,000	FEDERAL NATL MTG ASSN 4.375% Due 07-17-13	100.47	251,165	106.99	267,470		1.2	10,937	4.4
03-28-08	275,000	FEDERAL HOME LOAN BANK 5.000% Due 07-23-13	106.87	293,898	108.27	297,740		1.4	13,750	4.7
01-22-08	300,000	FEDERAL HOME LOAN BANK 4.875% Due 11-27-13	108.30	324,900	109.49	328,461		1.5	14,625	4.5
09-01-11	100,000	FEDERAL NATIONAL MORTGAGE ASSOCIATION 0.750% Due 01-10-14	100.10	100,104	100.05	100,051		0.5	750	0.7
02-02-10	80,000	FEDERAL FARM CREDIT BANK 3.000% Due 02-12-14	102.29	81,831	105.96	84,772		0.4	2,400	2.9
01-18-08	300,000	FEDERAL FARM CREDIT BANK 4.875% Due 03-14-14	106.80	320,412	110.57	331,701		1.5	14,625	4.6
04-30-10	100,000	FEDERAL HOME LOAN BANK 1.500% Due 05-14-14	100.00	100,000	100.61	100,606		0.5	1,500	1.5
01-18-08	300,000	FEDERAL HOME LOAN BANK 4.875% Due 06-13-14	106.87	320,607	111.30	333,888		1.5	14,625	4.6
04-09-10	75,000	FEDERAL NATL MTG ASSN 3.000% Due 09-16-14	101.95	76,466	107.02	80,268		0.4	2,250	2.9
01-18-08	300,000	FEDERAL FARM CREDIT BANK 5.000% Due 09-17-14	107.48	322,428	112.28	336,849		1.5	15,000	4.7
09-22-08	175,000	FEDERAL NATL MTG ASSN 4.625% Due 10-15-14	102.36	179,126	111.90	195,827		0.9	8,094	4.5
01-18-08	300,000	FEDERAL FARM CREDIT BANK 3.980% Due 01-22-15	101.53	304,581	110.12	330,360		1.5	11,940	3.9
08-11-10	100,000	FEDERAL HOME LN MTG CORP 2.875% Due 02-09-15	106.24	106,238	106.99	106,995		0.5	2,875	2.7
12-30-10	10,000	FED FARM CREDIT 5.500% Due 06-08-15	113.80	11,380	116.75	11,675		0.1	550	4.8
06-07-10	340,000	FEDERAL HOME LOAN BANK 0.787% Due 06-11-15	100.00	340,000	100.38	341,289		1.6	2,674	0.8
12-30-10	50,000	FEDERAL HOME LOAN BANK 4.625% Due 06-12-15	110.29	55,146	113.34	56,672		0.3	2,312	4.2
12-30-10	105,000	FED FARM CREDIT 5.250% Due 06-29-15	113.10	118,752	116.02	121,824		0.6	5,512	4.6
08-11-10	100,000	FEDERAL NATL MTG ASSN 2.375% Due 07-28-15	103.56	103,556	105.31	105,310		0.5	2,375	2.3
08-12-10	100,000	FEDERAL NATL MTG ASSN 3.000% Due 08-13-15	103.95	103,950	102.06	102,064		0.5	3,000	2.9
08-05-10	200,000	FEDERAL HOME LOAN BANK 1.000% Due 08-27-15	100.00	200,000	100.32	200,640		0.9	2,000	1.0
02-08-11	55,000	FEDERAL NATL MTG ASSN 2.000% Due 09-28-15	98.06	53,930	103.90	57,146		0.3	1,100	2.0

PORTFOLIO HOLDINGS
Glencoe Police Pension Fund
September 30, 2011



GREAT LAKES ADVISORS
A WINTRUST WEALTH MANAGEMENT COMPANY

<u>Date</u>	<u>Quantity</u>	<u>Security</u>	<u>Unit Cost (\$)</u>	<u>Total Cost (\$)</u>	<u>Price (\$)</u>	<u>Market Value (\$)</u>	<u>Pct. Stock</u>	<u>Pct. Assets</u>	<u>Annual Income (\$)</u>	<u>Pct. Yield</u>
04-29-10	100,000	FEDERAL NATL MTG ASSN 3.100% Due 11-17-15	100.00	100,000	101.76	101,762		0.5	3,100	3.1
01-22-08	300,000	FEDERAL FARM CREDIT BANK 4.500% Due 12-15-15	103.52	310,560	114.12	342,354		1.6	13,500	4.3
10-14-10	150,000	FEDERAL HOME LOAN BANK 3.125% Due 03-11-16	108.12	162,187	108.65	162,979		0.7	4,687	2.9
06-03-10	300,000	FED HOME LN BANK 5.375% Due 04-12-16	113.15	339,450	117.70	353,094		1.6	16,125	4.8
03-18-10	150,000	FEDERAL HOME LOAN BANK 5.500% Due 08-15-16	112.60	168,900	119.42	179,133		0.8	8,250	4.9
07-28-10	250,000	FEDERAL HOME LOAN BANK 3.500% Due 08-17-16	104.55	261,380	102.41	256,037		1.2	8,750	3.3
03-17-10	250,000	FEDERAL HOME LOAN BANK 5.125% Due 10-19-16	113.17	282,913	117.94	294,850		1.3	12,812	4.5
01-22-10	100,000	FEDERAL FARM CREDIT BANK 4.650% Due 12-12-16	106.40	106,400	115.49	115,494		0.5	4,650	4.4
04-28-10	150,000	FEDERAL NATL MTG ASSN 4.875% Due 12-15-16	108.61	162,916	117.81	176,710		0.8	7,312	4.5
12-13-10	100,000	FEDERAL FARM CREDIT BANK 5.050% Due 03-08-17	112.50	112,500	117.54	117,544		0.5	5,050	4.5
10-27-10	100,000	FEDERAL HOME LOAN BANK 3.625% Due 03-10-17	109.15	109,148	111.17	111,175		0.5	3,625	3.3
02-18-11	100,000	FEDERAL NATL MTG ASSN 5.000% Due 05-11-17	90.53	90,531	119.23	119,234		0.5	5,000	5.5
10-21-10	100,000	FEDERAL HOME LOAN BANK 3.375% Due 06-09-17	108.15	108,147	110.40	110,405		0.5	3,375	3.1
10-21-10	100,000	FEDERAL HOME LOAN BANK 2.250% Due 09-08-17	101.25	101,250	103.49	103,491		0.5	2,250	2.2
12-10-10	100,000	FEDERAL HOME LOAN BANK 4.875% Due 09-08-17	111.51	111,510	117.88	117,884		0.5	4,875	4.4
12-01-10	100,000	FEDERAL FARM CREDIT BANK 4.625% Due 12-15-17	112.68	112,676	116.85	116,854		0.5	4,625	4.1
		Accrued Interest				69,366		0.3		
				7,740,281		8,080,687		36.7	297,821	3.9
MORTGAGE AND ASSET BACKED SECURITIES										
04-30-10	115,356	FANNIE MAE POOL 5.000% Due 05-01-15	105.87	122,133	107.85	124,409		0.6	5,768	4.7
05-03-10	89,439	FREDDIE MAC REMICS 5.000% Due 07-15-23	104.91	93,827	102.08	91,297		0.4	4,472	4.8
05-25-10	141,368	FNMA POOL #772104 5.000% Due 10-01-33	105.78	149,541	108.08	152,785		0.7	7,068	4.7

PORTFOLIO HOLDINGS

Glencoe Police Pension Fund

September 30, 2011



GREAT LAKES ADVISORS

A WINTRUST WEALTH MANAGEMENT COMPANY

Date	Quantity	Security	Unit Cost (\$)	Total Cost (\$)	Price (\$)	Market Value (\$)	Pct. Stock	Pct. Assets	Annual Income (\$)	Pct. Yield
07-29-10	130,557	FANNIE MAE POOL 5.000% Due 11-01-33	110.77	144,621	107.94	140,923		0.6	6,528	4.5
07-20-11	177,204	FREDDIE MAC GOLD POOL 5.500% Due 04-01-38 Accrued Interest	108.50	192,267	108.75	192,712		0.9	9,746	5.1
						1,246		0.0		
				702,389		703,371		3.2	33,582	4.8
TOTAL PORTFOLIO				20,903,214		22,008,625		100.0	645,209	3.0

PORTFOLIO TRANSACTIONS

Glencoe Police Pension Fund

September 30, 2011



GREAT LAKES ADVISORS

A WINTRUST WEALTH MANAGEMENT COMPANY

Trade Date	Settle Date	Quantity	Security	Unit Price	Amount
PURCHASES					
07-20-11	07-29-11	186,083	FREDDIE MAC GOLD POOL 5.500% Due 04-01-38	108.50	201,899.84
07-22-11	07-29-11	5,000	NEWS AMERICA INC 7.600% Due 10-11-15	116.92	5,845.90
08-19-11	08-25-11	1,603,992	COHEN & STEERS REALTY SHARES INC	56.11	90,000.00
09-01-11	09-09-11	100,000	FEDERAL NATIONAL MORTGAGE ASSOCIATION 0.750% Due 01-10-14	100.10	100,103.80
09-02-11	09-12-11	100,000	TELECOM ITALIA CAPITAL 5.250% Due 11-15-13	100.54	100,540.00
09-06-11	09-13-11	100,000	GENWORTH GLOBAL FUNDING 5.250% Due 05-15-12	102.19	102,192.00
					600,581.54
SALES					
07-28-11	08-04-11	100,000	FEDERAL NATL MTG ASSN 4.875% Due 12-15-16	114.45	114,449.00
08-19-11	08-25-11	100,000	FEDERAL HOME LOAN BANK 5.375% Due 08-19-11	100.00	100,000.00
08-25-11	08-31-11	100,000	FEDERAL NATL MTG ASSN 2.000% Due 11-25-16	100.00	100,000.00
09-01-11	09-08-11	100,000	DPL INC 6.875% Due 09-01-11	100.00	100,000.00
09-15-11	09-21-11	150,000	FEDERAL HOME LN MTG CORP 5.500% Due 09-15-11	100.00	150,000.00
					564,449.00

Changes in Net Plan Assets
Glencoe Police Pension Fund
 For Period Ending 09/30/2011

Account#	Description	PY YTD	PY Bud	CY YTD	CY Bud
ADDITIONS					
Contributions					
26-159-376-31220	EMPLOYER CONTRIBUTIONS	532,414.75	1,734,339.00	541,947.33	1,626,363.00
26-159-376-31705	PERSONAL PROPERTY REPLACEMENT TAX	2,116.43	6,000.00	6,000.00	6,000.00
26-159-376-32935	MEMBER CONTRIBUTIONS	175,347.55	310,000.00	179,833.15	311,000.00
26-159-376-32995	SUNDRY	0.00	0.00	50.00	0.00
	Total Contributions	<u>709,878.73</u>	<u>2,050,339.00</u>	<u>727,830.48</u>	<u>1,943,363.00</u>
Investment income					
26-159-376-32805	INTEREST ON INVESTMENTS	2,049.27	2,000.00	1,327.76	2,500.00
26-159-376-32810	MUTUAL FUND EARNINGS	53,982.24	200,000.00	61,478.94	225,000.00
26-159-376-32825	CD INTEREST	2,131.64	11,300.00	0.00	5,000.00
26-159-376-32830	FIXED INCOME INTEREST	271,690.32	465,000.00	257,821.71	440,000.00
	Interest Earned	<u>329,853.47</u>	<u>678,300.00</u>	<u>320,628.41</u>	<u>672,500.00</u>
	Total Investment Income	<u>329,853.47</u>	<u>678,300.00</u>	<u>320,628.41</u>	<u>672,500.00</u>
26-159-376-53120	FINANCIAL SERVICES	25,897.37	40,000.00	29,911.41	49,000.00
	Net Investment Income	<u>303,956.10</u>	<u>638,300.00</u>	<u>290,717.00</u>	<u>623,500.00</u>
	Total Additions	<u>1,013,834.83</u>	<u>2,688,639.00</u>	<u>1,018,547.48</u>	<u>2,566,863.00</u>
DEDUCTIONS					
Pensions & Refunds					
26-159-376-42710	PENSIONS - RETIRED MEMBER	589,669.28	1,010,917.00	588,119.64	1,041,802.00
26-159-376-42720	PENSIONS - WIDOWED/DEPEND	95,833.92	164,551.00	95,833.92	164,300.00
26-159-376-42730	PENSIONS - CHILD	12,632.20	21,655.00	12,632.20	21,655.00

Account#	Description	PY YTD	PY Bud	CY YTD	CY Bud
26-159-376-42740	PENSION - DISABILITY DUTY	142,053.45	242,663.00	142,829.82	242,663.00
26-159-376-42760	QILDRO PENSION	18,661.58	32,151.00	37,548.42	33,116.00
26-159-376-93145	POL PEN CONTRIBUTION REFUND	10,605.63	0.00	0.00	0.00
	Total Pensions & Refunds	<u>869,456.06</u>	<u>1,471,937.00</u>	<u>876,964.00</u>	<u>1,503,536.00</u>
	Miscellaneous				
26-159-376-53115	AUDITING SERVICES	2,033.00	5,200.00	2,100.00	5,200.00
26-159-376-52125	BANKING FEES	0.00	0.00	519.88	0.00
26-159-376-52290	MISC CONTRACTUAL SERVICES	1,250.00	1,500.00	700.00	1,500.00
	Total Prof. Services	<u>3,283.00</u>	<u>6,700.00</u>	<u>3,319.88</u>	<u>6,700.00</u>
	Total Deductions	<u>872,739.06</u>	<u>1,478,637.00</u>	<u>880,283.88</u>	<u>1,510,236.00</u>
	Change in Net Assets	<u>141,095.77</u>	<u>1,210,002.00</u>	<u>138,263.60</u>	<u>1,056,627.00</u>

DATE: 10/14/11

VILLAGE OF GLENCOE
EARNINGS ANALYSIS REPORT

EARNRPT3

TIME: 08:42:00

SELECTION CRITERIA: employee.home_orgn="376" and checkhis.iss_date between "07/01/2011" and "09/30/2011"

EMPLOYEE NO	NAME	PAY CODE	-----REGULAR-----		-----OVERTIME-----	
			HOURS	EARNINGS	HOURS	EARNINGS
95301	AYLWARD, NED	131	3.00	17,936.91	.00	.00
	TOTAL FOR EMPLOYEE: 95301		3.00	17,936.91	.00	.00
20026	BATT, PAULA	131	3.00	6,584.01	.00	.00
	TOTAL FOR EMPLOYEE: 20026		3.00	6,584.01	.00	.00
20017	BONNEVILLE, ROBERT B	131	3.00	16,682.49	.00	.00
	TOTAL FOR EMPLOYEE: 20017		3.00	16,682.49	.00	.00
20018	CLARK, JAMES	132	3.00	8,159.94	.00	.00
	TOTAL FOR EMPLOYEE: 20018		3.00	8,159.94	.00	.00
300182	FAY, ANNE T.	139	3.00	7,997.82	.00	.00
	TOTAL FOR EMPLOYEE: 300182		3.00	7,997.82	.00	.00
300183	FAY, JOHN	131	3.00	11,448.87	.00	.00
	TOTAL FOR EMPLOYEE: 300183		3.00	11,448.87	.00	.00
20005	FEIL, WILLARD B	131	3.00	4,822.35	.00	.00
	TOTAL FOR EMPLOYEE: 20005		3.00	4,822.35	.00	.00
94501	GALFORD, JOHN D	131	3.00	20,352.75	.00	.00
	TOTAL FOR EMPLOYEE: 94501		3.00	20,352.75	.00	.00
300208	GARY GIBE, SHAPIRO DEVELOPMENTAL CNTR FOR	137	3.00	2,706.90	.00	.00
	TOTAL FOR EMPLOYEE: 300208		3.00	2,706.90	.00	.00
20020	GIBE JR, JERRY	137	3.00	2,706.90	.00	.00
	TOTAL FOR EMPLOYEE: 20020		3.00	2,706.90	.00	.00
20002	HALLEN, SHIRLEY	131	3.00	4,050.33	.00	.00
	TOTAL FOR EMPLOYEE: 20002		3.00	4,050.33	.00	.00
95601	HARLOW, PAUL	131	3.00	21,517.08	.00	.00
	TOTAL FOR EMPLOYEE: 95601		3.00	21,517.08	.00	.00
20027	HENDRIX, CAROL I	131	3.00	14,200.32	.00	.00
	TOTAL FOR EMPLOYEE: 20027		3.00	14,200.32	.00	.00
20021	IVINS, JOHN	131	3.00	10,682.01	.00	.00
	TOTAL FOR EMPLOYEE: 20021		3.00	10,682.01	.00	.00
95101	JESSE, DANIEL	131	3.00	16,301.52	.00	.00
	TOTAL FOR EMPLOYEE: 95101		3.00	16,301.52	.00	.00
20022	LINOWIECKI, JOHN	131	3.00	10,817.79	.00	.00
	TOTAL FOR EMPLOYEE: 20022		3.00	10,817.79	.00	.00
97203	LOPRESTI, NICHOLAS	132	3.00	13,752.78	.00	.00
	TOTAL FOR EMPLOYEE: 97203		3.00	13,752.78	.00	.00
300179	MILKS, MIKEL	131	3.00	28,031.67	.00	.00
	TOTAL FOR EMPLOYEE: 300179		3.00	28,031.67	.00	.00
300101	MILLER, LYNN	131	3.00	13,237.02	.00	.00

DATE: 10/14/11

VILLAGE OF GLENCOE
EARNINGS ANALYSIS REPORT

EARNRPT3

TIME: 08:42:00

SELECTION CRITERIA: employee.home_orgn="376" and checkhis.iss_date between "07/01/2011" and "09/30/2011"

EMPLOYEE NO	NAME	PAY CODE	-----REGULAR-----		-----OVERTIME-----	
			HOURS	EARNINGS	HOURS	EARNINGS
	TOTAL FOR EMPLOYEE: 300101		3.00	13,237.02	.00	.00
20028	MOHR, FLOYD	131	3.00	14,600.40	.00	.00
	TOTAL FOR EMPLOYEE: 20028		3.00	14,600.40	.00	.00
20016	NORRIS, DAVID M	131	3.00	7,242.48	.00	.00
	TOTAL FOR EMPLOYEE: 20016		3.00	7,242.48	.00	.00
20014	POSTELNICK, THOMAS J	131	3.00	13,351.29	.00	.00
	TOTAL FOR EMPLOYEE: 20014		3.00	13,351.29	.00	.00
300118	RODSTROM, JEFFREY	132	3.00	14,224.92	.00	.00
		138	.00	547.11	.00	.00
	TOTAL FOR EMPLOYEE: 300118		3.00	14,772.03	.00	.00
300092	SACHTLEBEN, MATTHEW	132	3.00	13,412.58	.00	.00
	TOTAL FOR EMPLOYEE: 300092		3.00	13,412.58	.00	.00
20023	SEBBEN, PHYLLIS M	131	3.00	3,000.00	.00	.00
	TOTAL FOR EMPLOYEE: 20023		3.00	3,000.00	.00	.00
20001	SHARPE, DAVID D.	131	3.00	9,770.88	.00	.00
	TOTAL FOR EMPLOYEE: 20001		3.00	9,770.88	.00	.00
96701	SWEENEY JR, THOMAS J	132	3.00	11,115.45	.00	.00
	TOTAL FOR EMPLOYEE: 96701		3.00	11,115.45	.00	.00
300112	WADYCKI, THOMAS	131	3.00	21,892.74	.00	.00
	TOTAL FOR EMPLOYEE: 300112		3.00	21,892.74	.00	.00
300102	WALTER, JOSEPH	131	3.00	15,757.50	.00	.00
	TOTAL FOR EMPLOYEE: 300102		3.00	15,757.50	.00	.00
300221	WEPPLER, KATHRYN A.	139	3.00	8,094.36	.00	.00
	TOTAL FOR EMPLOYEE: 300221		3.00	8,094.36	.00	.00
95401	WEPPLER, TERRY	131	3.00	11,223.93	.00	.00
	TOTAL FOR EMPLOYEE: 95401		3.00	11,223.93	.00	.00
TOTAL REPORT			93.00	376,223.10	.00	.00

Report

Check Name	First Middle Vendor#	Vendor Address 1	Vendor Address 2	Vendor City	Vendor State	Vendor Zip	Check Amount	Check Date	Check Status	Invoice#	Invoice Desc	Invoice Date	Invoice Total	Line#	Item Desc	Quantity	Unit Price	Line Total	Override Net Amount	Vend Part#	Part#
40036 LAUTERBACH & AMEN, LLP	2297	27W457 WARRENVILLE ROAD		WARRENVILLE IL	IL	60555	1,783.00	07/03/2011	Cleared 111-15453	111-15453		06/29/2011	1,783.00	1	FY 2011 CAFR #1	1.00	1783.0000	1,783.00			
40037 LAUTERBACH & AMEN, LLP	2297	27W457 WARRENVILLE ROAD		WARRENVILLE IL	IL	60555	317.00	07/29/2011	Cleared 111-15454	111-15454		07/27/2011	317.00	1	FY 2011 CAFR #2	1.00	317.0000	317.00			
40038 WINTRUST CAPITAL MANAGEMENT, LLC	2126	727 NORTH BANK LANE	C/O LAKE FOREST BANK & TRUST	LAKE FOREST IL	IL	60045-9608	12,947.16	09/09/2011	Cleared 111-15455	111-15455		09/09/2011	12,947.16	1	2ND QTR MANAGEMENT FEE	1.00	12947.1600	12,947.16			
40039 NORTHERN ILLINOIS UNIVERSITY	2399	REGISTRATION OFFICE, OUTREACH SERVICES	NORTHERN ILLINOIS UNIVERSITY	DEKALB IL	IL	60115	700.00	09/16/2011	Cleared 111-15456	111-15456		09/15/2011	700.00	1	IPFFA 2011 CONFERENCE: J. WALTER & P. NEVILLE	1.00	700.0000	700.00			

VILLAGE OF GLENCOE

MEMORANDUM

TO: Paul M. Harlow, Village Manager
FROM: David A. Clark, Director of Finance *DA*
DATE: October 13, 2011
SUBJECT: Preliminary Actuarial Results for 2011 Tax Levy

Attached is a summary of the 2011 Actuarial Results for the Police Pension Fund. This information is based upon audited financial data as of February 28, 2011. The policy of the Board is to report actuarial results in the annual financial report based upon assumptions used by the State of Illinois, but to actually fund pensions based upon more current assumptions.

The 2010 report included \$1,216,128 based on State of Illinois assumptions but the Fiscal Year 2012 budget actually includes \$1,626,363. Typically the difference between the figure in the report and the amount budgeted is contributed to the Police Pension Fund during February of each year. Since adopting this policy, the Village has funded Police Pension obligation at the budget level.

The 2011 report includes \$982,468 based on State of Illinois assumptions. There are various alternatives listed for the annual budget amount. The financial forecast includes \$1,463,727. I recommend the following for the 2011 contribution:

1. Continue to report based on present policy at \$982,468.
2. Change interest rate assumption from 6.5% to 6.0% (actual average since 1993 is 6.1%)
3. Change salary assumption from 5.5% to 4.5% (actual average since 1998 has been 3.5%)
4. Establish Fiscal Year 2013 Budget contribution at \$1,465,318.
5. Continue practice of contributing difference during last month of fiscal year.

Village of Glencoe
 Police Pension Fund
Summary of Actuarial Results

Reported ARC	2010	2011	2011	2011
Interest	7.00%	7.00%	6.50%	6.00%
Salary	5.50%	5.50%	5.00%	4.50%
Mortality	1971	1971	1971	1971

Levy Amount 1,216,128 982,468 1,094,962 1,217,432

Budgeted Contribution	2010	2011	2011	2011
Interest	6.50%	7.00%	6.50%	6.00%
Salary	5.50%	5.50%	5.00%	4.50%
Mortality	1994	1994	1994	1994

Levy Amount 1,626,363 1,189,277 1,321,070 1,465,318

	Amount	Interest	Salary	Mortality
FY 2011 Budget	1,734,339	7.00%	5.50%	1994
FY 2012 Budget	1,626,363	6.50%	5.50%	1994
FY 2013 Plan	1,463,727	6.00%	4.50%	1994

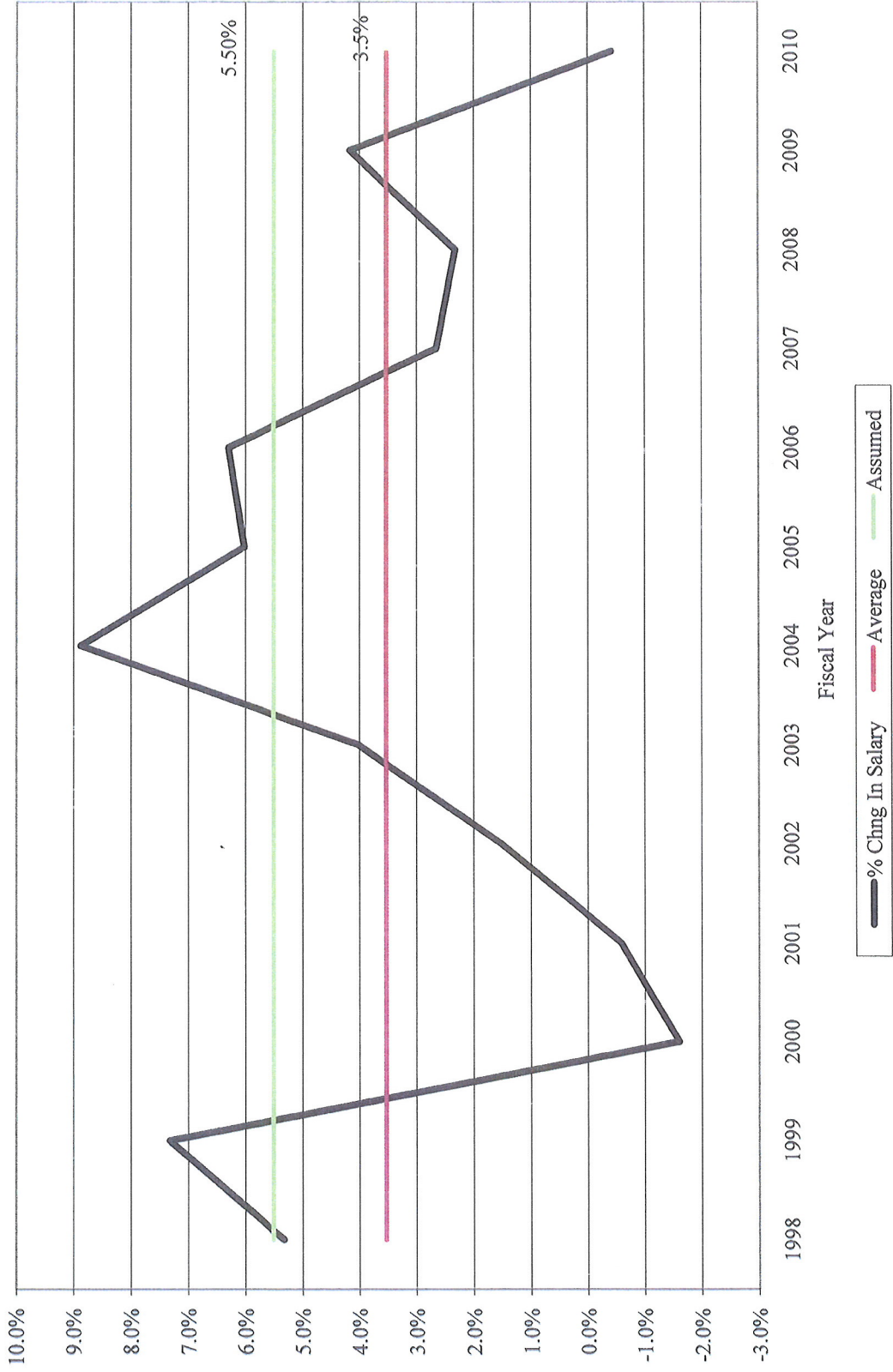
Average Actual Salary 3.50%
 Avg. Return-2005-11 5.97%
 Avg. Return Since 1993 6.12%

Recommendation

	ARC Report	Budget
Interest	7.00%	6.00%
Salary	5.50%	4.50%
Mortality	1971	1994
Levy Amount	982,468	1,465,318

Additional Contribution 482,850
 Budget as % of ARC 149%

% Change in Annual Salary for Police Pension



Village of Glencoe
 Police Pension Fund
 Rate of Return History

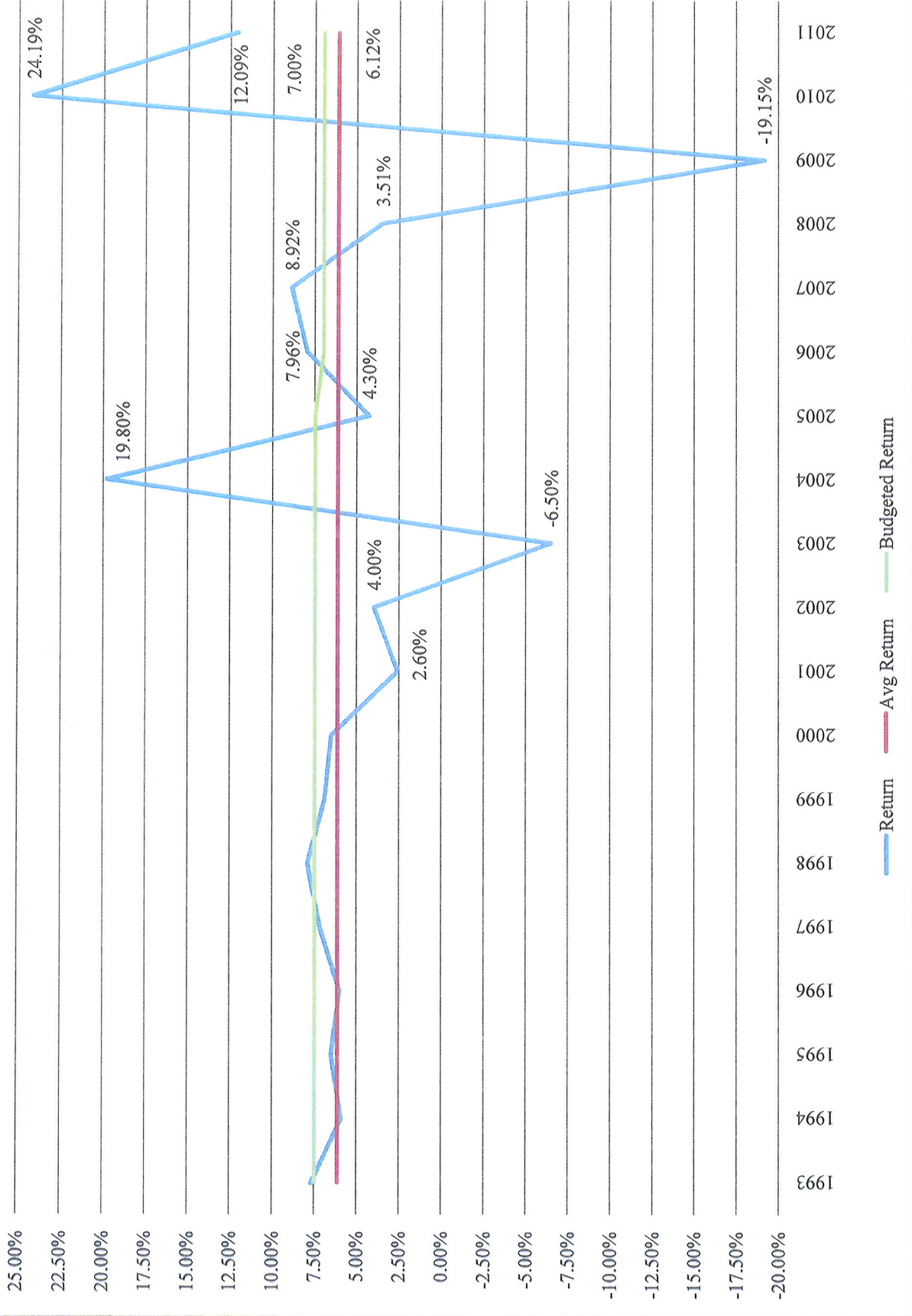
<u>FY</u>	<u>Return</u>	<u>3 Yr Avg</u>	<u>5 Yr Avg</u>	<u>10 Yr Avg</u>
1993	7.70%			
1994	5.90%			
1995	6.50%	6.70%		
1996	6.00%	6.13%		
1997	7.20%	6.57%	6.66%	
1998	7.90%	7.03%	6.70%	
1999	6.90%	7.33%	6.90%	
2000	6.50%	7.10%	6.90%	
2001	2.60%	5.33%	6.22%	
2002	4.00%	4.37%	5.58%	6.12%
2003	-6.50%	0.03%	2.70%	4.70%
2004	19.80%	5.77%	5.28%	6.09%
2005	4.30%	5.87%	4.84%	5.87%
2006	7.96%	10.69%	5.91%	6.07%
2007	8.92%	7.06%	6.90%	6.24%
2008	3.51%	6.80%	8.90%	5.80%
2009	-19.15%	-2.24%	1.11%	3.19%
2010	24.19%	2.85%	5.09%	4.96%
2011	12.09%	5.71%	5.91%	5.91%
Avg	6.12%			
Minimum	-19.15%	-2.24%	1.11%	3.19%
Maximum	24.19%	10.69%	8.90%	6.24%
Median	6.50%	6.13%	5.91%	5.89%

Source: Actuarial Valuation Reports

Total Return & Asset Percentage

<u>FY</u>	<u>Return</u>	<u>Stan. Dev.</u>	<u>% of Assets</u>
1993-98	6.87%	0.9%	N/A
1999-04	5.55%	8.5%	36.11%
2005-11	5.97%	13.1%	43.04%

Police Pension Rate of Return



Village of Glencoe
General Fund - Fiscal Year 2011 ending balances

CURRENT - PRIOR TO IMPLEMENTATION OF GASB 54

	<u>General</u>	<u>Type</u>
Total Fund Balance	4,330,682.00	
Prepays	223,478.00	Reserved
Management Fee Receivable	380,905.00	Reserved
Due from Golf Club	960,006.11	Reserved
Int Recivable due from Golf Club	<u>215,371.04</u>	Reserved
Total	1,779,760.15	
Unreserved	2,550,921.85	

PROPOSED - WITH IMPLEMENTATION OF GASB 54

	<u>General Fund</u>	<u>Type</u>
Total Fund Balance	4,330,682.00	
Management Fee Receivable	380,905.00	Nonspendable
Due from Golf Club	960,006.11	Nonspendable
Int Receivable due from Golf Club	215,371.04	Nonspendable
Prepays	<u>223,478.00</u>	Nonspendable
	1,779,760.15	
Reserved for Fire Benevolent Fund	569.00	Restricted
Reserved for Public Safety	73,865.28	Restricted
Reserved for Drug Abuse Prevention	2,872.00	Restricted
Reserved for IRMA Claim Deductibles	61,041.00	Restricted
Reserved for Women's Library Club (1)	<u>280,246.00</u>	Restricted
	418,593.28	
Reserved for Fire Pension	<u>84,272.64</u>	Committed
	84,272.64	
Unassigned Fund Balance	2,048,055.93	

Notes

(1) Loan guarantee.



Actuary

FACSIMILE #: () _____

Number of pages (including this page): _____

To: Mr. Dave Clark

Comments:

Re: Police & Firefighter Pension Funds

Dave:

Attached are the 03/01/11 preliminary actuarial results, the investment performance summary and the salary history for the Police and Firefighter Pension Funds. In trying to address all of the changes this year, the results highlight the impact of the new provisions of PA 096-1495 "Pension Reform" and quantify the impact of the "90% Target." This year, the investment return was more than assumed for Police and salaries increased less than assumed (salary decreases for most). Police has 1 less active member. Fire is down to 10.9% funded with less assets (\$65K) than its annual pension payments (\$111K). Thus, in absence of the new Act, the Tax Levy would decrease for Police and the Percent Funded would increase. As a result of the new Act, the Tax Levy decreases and the Percent Funded increases.

Highlights:

1. Investment returns: Police 12.18%; Fire 1.30%.
2. Annual payroll increase: Police 1.2%; average increase: Police 3.4%.
3. New Members: Police 0, Fire 0; Terminations: Police 1, Fire 0;
Retirements: Police 0, Fire 0; Incidents of Disability: Police 0, Fire 0.
4. Percent Funded: Police increased from 58.0% to 64.5%;
Fire decreased from 24.2% to 10.9%.

As Always,

T. Sharpe

Timothy W. Sharpe, Actuary, Geneva, IL (630) 262-0600

October 10, 2011

**VILLAGE OF GLENCOE
Actuarial Valuation Results**

POLICE	<u>3/1/10</u>	<u>3/1/11</u>			
	Int: 7.00%				
	<u>Sal: 5.50%</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>
1. Village Normal Cost	379,404	389,553	389,553	565,330	565,330
2. Accrued Liability	35,633,310	36,720,564	36,720,564	35,546,867	35,546,867
3. Assets	20,658,001	23,700,436	23,700,436	23,700,436	23,700,436
4. Unfunded Liability/(Surplus)	14,975,309	13,020,128	13,020,128	11,846,431	11,846,431
5. Amortization of UL	757,164	683,645	528,641	336,660	480,986
6. Interest for One Year	79,560	75,124	64,274	63,139	73,242
7. Tax Levy Requirement (1+5+6)	<u>1,216,128</u>	<u>1,148,322</u>	<u>982,468</u>	<u>965,129</u>	<u>1,119,558</u>
8. Payroll	2,998,929	3,036,145	3,036,145	3,036,145	3,036,145
9. Percent Funded (3/2)	58.0%	64.5%	64.5%	66.7%	66.7%

2) Reflects pre-PA 096-1495 provisions (22-year amortization)

3) Reflects (2) plus 30-year amortization

4) Reflects PA 096-1495 (90% Target amortization)

5) Reflects (4) plus 100% Target amortization

Timothy W. Sharpe, Actuary, Geneva, IL (630) 262-0600

October 10, 2011

**VILLAGE OF GLENCOE
Actuarial Valuation Results**

FIRE	<u>3/1/10</u>	<u>3/1/11</u>			
	Int: 6.50%				
	<u>Sal: 0.00%</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>
1. Village Normal Cost	0	0	0	0	0
2. Accrued Liability	714,531	601,365	601,365	601,365	601,365
3. Assets	173,249	65,479	65,479	65,479	65,479
4. Unfunded Liability/(Surplus)	541,282	535,886	535,886	535,886	535,886
5. Amortization of UL	43,181	43,621	38,532	34,208	38,532
6. Interest for One Year	2,807	2,835	2,505	2,224	2,505
7. Tax Levy Requirement (1+5+6)	<u>45,988</u>	<u>46,456</u>	<u>41,037</u>	<u>36,432</u>	<u>41,037</u>
8. Payroll		0	0	0	0
9. Percent Funded (3/2)	24.2%	10.9%	10.9%	10.9%	10.9%

2) Reflects pre-PA 096-1495 provisions (22-year amortization)

3) Reflects (2) plus 30-year amortization

4) Reflects PA 096-1495 (90% Target amortization)

5) Reflects (4) plus 100% Target amortization

Timothy W. Sharpe, Actuary, Geneva, IL (630) 262-0600

**VILLAGE OF GLENCOE
Police Pension Fund**

Investment Performance 2006-2011

	FYE 06	FYE 07	FYE 08	FYE 09	FYE 10	FYE 11
BOY Assets	15,623,969	17,113,735	18,943,232	19,973,593	16,356,899	20,658,001
Village Contribution	900,527	1,033,821	1,230,798	1,279,790	1,407,637	1,740,339
Officer Contribution	317,448	295,340	303,956	290,226	299,250	300,868
Pension Payments	922,795	967,743	1,101,126	1,278,018	1,348,167	1,487,958
Expenses	59,047	70,902	74,955	61,573	51,054	57,911
Income	1,253,633	1,538,980	671,688	(3,847,120)	3,993,435	2,547,098
EOY Assets	17,113,735	18,943,232	19,973,593	16,356,899	20,658,001	23,700,436
Annual Yield	7.96%	8.92%	3.51%	-19.15%	24.19%	12.18%
5-Year Yield (2007-11)	5.93%					
6-Year Yield (2006-11)	6.27%					



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**VILLAGE OF GLENCOE
Firefighters Pension Fund**

Investment Performance 2006-2011

	FYE 06	FYE 07	FYE 08	FYE 09	FYE 10	FYE 11
BOY Assets	608,289	527,550	447,433	361,665	277,382	173,249
Village Contribution	5,796	2,375	2,375	19,511	18,954	2,375
Firefighter Contribution	0	0	0	0	0	0
Pension Payments	98,555	100,650	102,808	108,335	108,873	111,231
Expenses	7,267	5,593	6,590	4,278	19,150	461
Income	19,287	23,751	21,254	8,820	4,935	1,547
EOY Assets	527,550	447,433	361,665	277,382	173,249	65,479
Annual Yield	3.45%	4.99%	5.40%	2.80%	2.21%	1.30%
5-Year Yield (2007-11)	3.34%					
6-Year Yield (2006-11)	3.36%					



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VILLAGE OF GLENCOE POLICE PENSION FUND SALARY HISTORY

<u>Name</u>	<u>2007 Salary</u>	<u>Increase</u>	<u>2008 Salary</u>	<u>Increase</u>	<u>2009 Salary</u>	<u>Increase</u>	<u>2010 Salary</u>	<u>Increase</u>	<u>2011 Salary</u>
ALEXANDER, TIFFANY	66,755	13.1%	75,483	15.0%	86,813	2.9%	89,313	2.0%	91,088
BAK, THOMAS	77,352	8.5%	83,891	4.6%	87,713	2.9%	90,213	2.0%	91,988
BOOKIE, RICHARD	96,350	9.3%	105,279	3.9%	109,395	2.9%	112,548	2.0%	114,773
CEGIELSKI, JOHN	77,352	10.4%	85,417	3.8%	88,688	2.8%	91,188	1.9%	92,963
FREUND, JULIE	77,352	8.0%	83,517	3.9%	86,788	2.9%	89,288	2.0%	91,063
FRIEDMAN, JOSEPH	56,225	14.6%	64,419	16.9%	75,278	10.1%	82,902	7.8%	89,388
HARLOW, JONATHAN	66,755	11.1%	74,193	17.0%	86,813	2.9%	89,313	2.0%	91,088
KEBBY, ALAN	96,350	10.0%	106,029	3.9%	110,145	4.5%	115,125	2.2%	117,700
KULINSKI, KEVIN	77,352	8.2%	83,692	3.9%	86,963	2.9%	89,463	2.0%	91,238
LITWITZ, DEBORAH	77,352	9.3%	84,517	3.9%	87,788	2.8%	90,288	2.0%	92,063
McCORMICK, MICHAEL	77,352	8.5%	83,892	3.9%	87,163	2.9%	89,663	7.5%	96,366
NEIMARK, MICHAEL	77,352	9.3%	84,517	3.9%	87,788	2.8%	90,288	2.0%	92,063
NEVILLE, PETER	77,352	8.8%	84,142	3.9%	87,413	2.9%	89,913	2.0%	91,688
OSULLIVAN, MARY	77,352	9.2%	84,442	3.9%	87,713	2.9%	90,213	2.0%	91,988
RATEGAN, DANIEL	77,352	9.4%	84,592	3.9%	87,863	2.8%	90,363	2.0%	92,138
RENDON, ESTUARDO	71,628	12.9%	80,869	6.2%	85,888	2.9%	88,388	2.0%	90,163
SAKIN, MARY	77,352	8.6%	83,992	12.0%	94,100	3.2%	97,081	2.7%	99,706
SENO, ELIZABETH	96,350	10.6%	106,529	3.9%	110,645	2.8%	113,798	2.0%	116,023
TAIRA, ANDREW	77,352	7.1%	82,842	3.9%	86,113	2.9%	88,613	2.0%	90,388
TAIRA, ROBERT	77,352	9.4%	84,592	3.9%	87,863	2.8%	90,363	2.0%	92,138
TRUSKY, DALE	77,352	7.0%	82,767	4.0%	86,038	2.9%	88,538	2.0%	90,313
VOLLING, MICHAEL	104,715	9.9%	115,102	3.9%	119,547	9.5%	130,875	-0.1%	130,750
WEINER, RICHARD	96,350	9.4%	105,404	3.9%	109,520	2.9%	112,673	2.0%	114,898
WEINZIMMER, LELAND	77,352	9.4%	84,592	12.4%	95,100	3.1%	98,081	2.7%	100,706
WITT, HIROSHI	77,352	8.3%	83,742	3.9%	87,013	7.1%	93,191	3.5%	96,466
WOLD, MARK	77,352	9.3%	84,517	3.9%	87,788	2.8%	90,288	2.0%	92,063
PACZOSA, KENNETH	51,169	10.8%	56,719	20.9%	68,548	11.5%	76,446	7.2%	81,977
WHALEN, GREGORY			37,408	77.3%	66,325	11.6%	74,049	4.0%	76,996
TALEND, MICHAEL					55,232	15.8%	63,955	11.2%	71,101
PERLEY, ANDREW					55,232	14.0%	62,955	11.4%	70,101
ESPOSITO, MATTHEW					55,232	14.0%	62,955	9.4%	68,851
WINDHAM, JEFFERY							56,823	10.8%	62,955
DZIEKONSKI, ROBERT							56,823	10.8%	62,955
Average Increase		9.5%		7.3%		4.7%		3.4%	

October 13, 2011

VILLAGE OF GLENCOE
Actuarial Valuation Results

POLICE	<u>3/1/10</u>	<u>3/1/11¹</u>		
	Int: 7.00% <u>Sal: 5.50%</u>	Int: 7.00% <u>Sal: 5.50%</u>	Int: 6.50% <u>Sal: 5.00%</u>	Int: 6.00% <u>Sal: 4.50%</u>
1. Village Normal Cost	379,404	451,845	493,950	540,587
2. Accrued Liability	35,633,310	39,946,749	42,069,601	44,395,872
3. Assets	20,658,001	23,700,436	23,700,436	23,700,436
4. Unfunded Liability/(Surplus)	14,975,309	16,246,313	18,369,165	20,695,436
5. Amortization of UL	757,164	659,629	746,491	841,788
6. Interest for One Year	79,560	77,803	80,629	82,943
7. Tax Levy Requirement (1+5+6)	<u>1,216,128</u>	<u>1,189,277</u>	<u>1,321,070</u>	<u>1,465,318</u>
8. Payroll	2,998,929	3,036,145	3,036,145	3,036,145
9. Percent Funded (3/2)	58.0%	59.3%	56.3%	53.4%

¹ Reflects Entry Age, 30-year amortization, 1994 UP

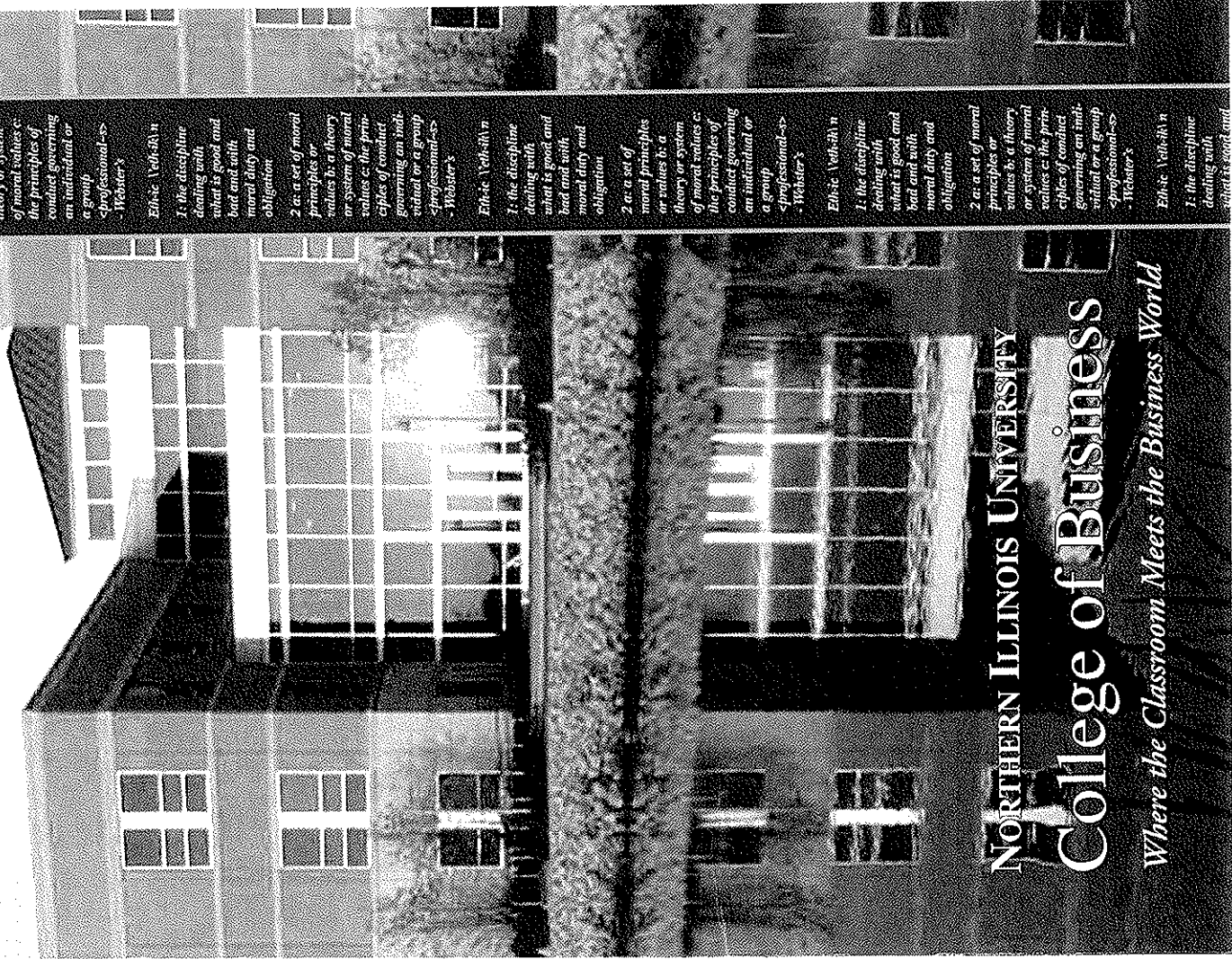
Timothy W. Sharpe, Actuary, Geneva, IL (630) 262-0600

Trustee Ethics

Sources:

Northern Illinois University

The BELIEF Initiative Ethics Handbook



NORTHERN ILLINOIS UNIVERSITY
College of Business

Where the Classroom Meets the Business World

1: the discipline dealing with what is good and bad and with moral duty and obligation

2 a: a set of moral principles or values b: a theory or system of moral values c: the principles of conduct governing an individual or a group

- Webster's

Ethic Verb-RH n
1: the discipline dealing with what is good and bad and with moral duty and obligation

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Ethic Verb-RH n
1: the discipline dealing with what is good and bad

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Foreward

The **B**uilding **E**thical **L**eaders using an **I**ntegrated **E**thics **F**ramework — **BELIEF** — Initiative was created by the NIU College of Business (COB) Ethics Task Force (ETF). The ETF is composed of a cross-functional team of faculty and staff. The cross-functional nature of the task force resulted in input from every department. The task force developed **BELIEF** as a systematic approach to integrating ethics into the college curriculum.

The **BELIEF** Initiative encompasses various components, which include: the Ethics Handbook, faculty development and other support activities, a Director of the **BELIEF** Initiative, corporate sponsors, a student organization **LEAD** (Leaders in Ethics and Academic Discipline), and an assessment mechanism of students ethical awareness and decision-making.

The **Ethics Handbook** is a pragmatic tool to provide a common framework to all COB students and faculty. It is used as a resource in all classes so that as ethics are discussed there will be a common foundation. All students are required to complete an online quiz on the handbook in order to register for subsequent classes.

Faculty development and other support activities include faculty seminars, guest speakers, and course development support. The support activities help faculty utilize the handbook in their classes. Consistent reinforcement is necessary for a thorough integration and application of the decision-making guide.

The **BELIEF Director** oversees the ETF, curricular issues, development activities, is the liaison with corporate sponsors, and oversees any other activities of **BELIEF**.

External corporate sponsors provide funding, credibility, and endorsement to the **BELIEF** initiative.

The **student organization, LEAD**, is the student influence on **BELIEF**. This organization makes sure that **BELIEF** is meeting the needs of the students and stays in tune with student issues and concerns. Select members of **LEAD** represent NIU at a national ethics case competition.

An **online assessment system** evaluates the core learning objectives of **BELIEF** — increased awareness and decision-making skills. Assessment is completed each year to determine the impact of **BELIEF** on the students and to recalibrate the components of the initiative.

Collectively, these components comprise the NIU College of Business **BELIEF** Initiative and represent the College's response to its external and internal stakeholders for integrating ethics across the curriculum.

BELIEF Initiative

Ethics Handbook: Building Ethical Leaders

I. Introduction

This handbook is a component of Northern Illinois University's College of Business **BELIEF** Initiative. **BELIEF** is a comprehensive initiative to Build Ethical Leaders using an Integrated Ethics Framework. We believe that NIU COB graduates will be ethical leaders. However, good people make bad decisions. Therefore, the purpose of this handbook is to increase your awareness of ethical issues and situations and to provide you with a decision making guide to help evaluate alternative courses of action. You have already developed and formulated most of your values and morals through your prior experiences. This handbook and your course work will help you develop the skills of an ethical leader.

This handbook will:

1. Increase your awareness of ethical dilemmas,
2. Provide you with guidance on how to recognize common ethical dilemmas,
3. Provide a basic understanding of the conceptual foundations from which action can be taken, and
4. Provide a decision-making guide that can be utilized in personal and professional decision-making.

Ultimately, your actions are critical to your ethical behavior. We are evaluated on how we act in the situations in which we find ourselves, not how we think or what we intend to do.

As you pick up this handbook for the first time, you may have a few questions. The first question may be:

- "Why do I need to be aware of ethics?"
- Perhaps you may also ask, "What are ethics?"
- A third and very important question is "How can I influence ethical behaviors in my classes and in the business world?"

The answers to these questions, and others, can be found in the following pages. This handbook has been created to provide information on ethics and ethical behavior in the business world and give you tools to make the often difficult decisions that need to be made.

*"Not only does one have to know the right thing to do —
one must have the moral fortitude to do it."*

A. Why do I need to be aware of ethics?

Before you dismiss the content of this handbook as something that doesn't concern you, there are a few things to think about. First, there have been many high-profile cases of unethical business practices in recent years, and there will likely be more in the future. These **scandals affect a number of people**. The most obvious culprits lose their jobs, receive fines, and maybe even go to jail. These results are not particularly troubling, since these individuals are often getting what they deserve. However, in the wake of these scandals, many others suffer. Co-workers, employees, customers, stockholders and others who have not done anything wrong often suffer as much or more than those who clearly acted unethically. There are also those who watched and did nothing as they witnessed the unethical behaviors. Action (rather than inaction) by these individuals could have had a major impact on the ultimate outcome. In many of these cases, open demonstration of ethical conduct may have prevented much of the damage. The courage to take action in these situations is referred to as moral courage and is key to being an ethical leader.

Another reason to become more informed about ethical issues is because **studies have shown that you will be confronted with ethical dilemmas much earlier in your career than you may think**. Keep in mind you are responsible for your ethical behavior and you are developing your leadership skills NOW. People often think that they won't see ethical issues of substance until much later in their careers or that they are not responsible for actions if they do what they are told. The reality is that most business people are forced to make decisions with ethical ramifications very early in their careers. It is important to not shirk responsibility by doing what you are told when the activity is against your values or judgment. It is a good idea to prepare for this reality and have a ready means by which to consider the ethical implications of your decisions. The primary purposes of this handbook are to provide you with both the foundations for understanding ethics and how to apply them in decision-making.

"Always tell the truth. That way you don't have to remember what you said." — Mark Twain

B. How do I recognize ethical breaches?

In most cases, no one decides to be unethical. Rather, people are caught up in situations where lack of awareness and lack of decision-making tools lead to inaction or participation in inappropriate actions. Keep in mind it is not the clear black and white situations that are most problematic. Ethical issues are often unrecognized because the issue is not clearly black and white. These situations in the "gray" area of ethical issues are the most problematic because often they are not recognized or the consequences are not thoroughly evaluated. It is the combination of motivation, opportunity, and rationalization that is the making of a bad decision by a good person.

1. A dangerous combination: motivation, opportunity, and rationalization

One way to help identify situations where ethics are being challenged is the fraud triangle, which comes from the world of forensic auditing (Cressey 1958). It displays how otherwise good people are in a situation in which they rationalize an inappropriate behavior as appropriate. The fraud triangle has three components: **motivation, opportunity, and rationalization**. When all three of these attributes are present, there is a high risk of unethical behavior.

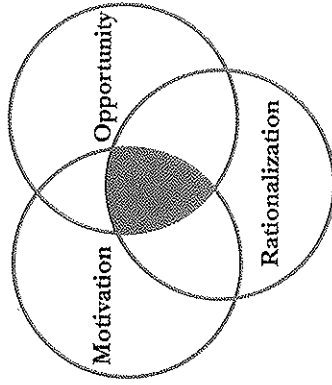
Motivation is a need or pressure. Motivation may be the desire for more money, the pressure to get a good grade, or the need to meet earnings expectations. Motivation alone is not problematic; it is how the need or the expectation is fulfilled which may cause a problem.

Opportunity is the open door that will meet the need or resolve the pressure. If there is money lying on a desk and you are in need of cash, the money lying around provides an opportunity to satisfy your need. If you need an A on your term paper and you come across a paper from a previous semester that received an A, the paper provides the opportunity to fulfill the need for a good grade. Opportunities alone are not problematic; it is how opportunities are used to fulfill a motivation that can lead to unethical behavior.

Rationalization is the final part of the triangle. Coupled with motivation and opportunity, rationalization provides the justification that explains away a behavior you know is wrong. Rationalization is the justification for a lack of integrity. Since most of us have a conscience, rationalization is used to make us

feel better about the behavior. Here are some rationalizations, which are red flags and which indicate that a behavior may warrant further thought or investigation:

1. **"Everybody else does it."** This is the classic rationalization. If I don't "cheat," I will not be able to compete, or why should I do the work when others are not?
2. **"I was just following orders."** Projecting responsibility to someone else, rather than taking responsibility for your actions. Remember, everyone has the right to say "no."
3. **"It really doesn't hurt anyone."** Thoughts like "I need the money more than they do" or "They have plenty of money, this won't be missed," are used to justify activities from petty theft to embezzlements.
4. **"I deserve this, or the system is unfair."** You feel your hard work has not been recognized and you have taken it upon yourself to reward yourself. Also, "I really do know the material, so 'borrowing' someone else's paper is okay." Be careful if you are considering yourself "deserving" of something to which you are not entitled.



(Diagram adapted from Hillison, Sinason, Pacini, 1998)

Whenever you find yourself stating these rationalizations, stop and think about the situation and apply the decision guide provided in this handbook. Rationalization is often our

"Rationalization attempts to excuse our lack of integrity." — Fred Smith Sr.

conscience recognizing an unethical situation but trying to make us feel better about it.

Here are a few common categories of unethical behaviors to think about and some examples of each.

1. **Taking things that don't belong to you.** Examples include taking office supplies, padding expense accounts and using office equipment for personal use. Using the words, thoughts and ideas of another (plagiarism) is also a form of stealing; see the description of plagiarism below
2. **Saying things you know are not true.** Don't make false statements on your resume, or embellish accomplishments, or exaggerate facts.
3. **Giving or allowing false impressions.** Not volunteering relevant information or not correcting a known misrepresentation. Just because there was not a lie does not eliminate the ethical need for disclosure. Ethics can be undermined with increased tolerance of unacceptable behavior. Stand up for what you believe in and don't be afraid to speak up and take action. Of course, one must exercise diplomacy and be aware that taking a stand might have personal consequences.
4. **Buying influence or engaging in conflict of interest.** Using your position to obtain a competitive advantage or awarding special treatment to family or friends.
5. **Hiding or divulging information.** Destroying evidence or sharing confidential information.
6. **Committing personal decadence.** Behavior outside the workplace can influence judgment and ethics on the job. Personal excess can cause fear of losing your job and that fear can overpower ethical judgments made in the workplace for fear of jeopardizing your job.
7. **Violating the rules.** It is not justifiable to violate the rules because you believe the rules are unfair, the rules do not work as intended, or you just don't like them. In some instances you can (and should) make an effort to change the rules, but don't violate them.

Now that you have a better understanding of why it is important for you to be more aware of ethics and how you can recognize situations where ethics are being compromised, the next section is an overview of examples that contain ethical issues that are often confronted in the "real world."

The third section provides some conceptual background on personal values, business principles and the role of corporations in society. The fourth section includes a decision-making guide that can be used to evaluate situations with the intent to formulate an action plan. The fifth section presents various "codes of conduct" including student codes of conduct, codes of conduct from professional organizations relevant to the business world and company codes.

As you utilize this handbook, try to imagine yourself in the role of decision maker where you will need to choose a course of action that has significant ethical implications.

“Ethics can be undermined with increased tolerance of unacceptable behavior.”

II. Common Scenarios Involving Unethical Conduct

It is helpful to understand areas that are commonly subject to ethical dilemmas. This section starts with how you can develop certain character traits in your everyday life. Daily conduct can help build the strength and fortitude to do the right thing in a morally charged situation. Moral courage is putting your beliefs into action. Developing your moral courage takes place in your conduct in everyday life and is the foundation of being an ethical leader.

A. Conduct in everyday life

Every day your conduct weaves the thread of your moral fiber. That is, it is the small things that you do everyday that build who you are, and these daily habits have a large impact on your decisions. Strengthen your character by weaving these traits into your everyday life:

- **Be honest** — tell the truth, be sincere, don't mislead. What would you do if you saw someone drop a \$10 bill or if you found a lost wallet?
- **Honor commitments** — keep your word, return what you borrow. Be responsible and follow through with your obligations. Do you do what you said you were going to do?
- **Demonstrate integrity** — stand up for what you believe, be your best self. Do you stand up for someone being wronged, or just walk away?
- **Be loyal** — stand by your family and friends, employers, community and country. Don't talk about people behind their backs. Avoid gossip and certainly don't spread it.
- **Pursue excellence** — do your best at even the most menial tasks. Every job is a self-portrait.
- **Be courteous** — show kindness and respect to family, friends and strangers. Do you hold open doors for others? Do you say excuse me if you bump into a stranger?

- **Be fair** — be open-minded and listen to others. Be tolerant and accepting of differences. Do you really listen, or close someone off when you don't agree?
- **Be a good citizen** — obey the law, respect authority, vote and volunteer. Do you contribute in your community? You do make a difference!

“Circumstances do not make a person, they reveal him.” — James Allen

Moral courage has been defined in many different ways. The purpose here is not to provide a theoretical analysis of moral courage. Instead the purpose is to provide some food for thought on how beliefs become behaviors and how the behaviors of an ethical leader can have an impact on others. Doing what you believe is right when faced with a difficult situation might not always be popular; however, often that is when ethical leadership emerges. Read through the following sections and think about how you would react in a given situation. Would you have the moral courage to stand up and do the right thing in these situations?

“I do not seek unpopularity as a badge of honor; but sometimes it is the price of leadership and the cost of conviction” — Tony Blair

B. Conduct as a student

How you conduct yourself as a student sets the tone for how you will conduct yourself in business. More importantly, how you conduct yourself now leaves an impression with fellow students (who will one day be your business colleagues) and teachers. Your reputation is being established right now — not when you graduate.

Students rarely set out to cheat. However, they do set themselves up for cheating opportunities by not taking the time to complete an assigned task and then justify cheating by rationalizing that “I really did know the material; I just didn't have the time,” or “I

didn't think that the assignment was very important or useful." Take responsibility for your learning and don't be tempted by the short cuts to complete an assigned task.

Imagine you are going into a class where there will be a quiz, and your friend is coming out of the same class and had just taken the quiz. **Is it cheating if you ask what is on the quiz?** Deep down what does your gut tell you? Yes, it is cheating. **Any time you try to obtain information that is not publicly available to everyone else, it is cheating.** Martha Stewart served jail time as a consequence of acting on inside information. Therefore, you should think about the awkward position you put your friend in; he is forced into participating in cheating or risking making you mad. Don't do this to your friendship.

If you aren't sure that discussing a project with fellow students is okay, ask! When in doubt, ask your teacher. There is nothing wrong with asking for advice or guidance. It is much better to ask and know what is or is not acceptable than to find out later that your conduct was cheating.

Unfortunately, there are students who intentionally cheat. These students devalue education. They devalue the education of everyone at their institution by becoming an inadequately prepared graduate of the university. **Education is more than just the accumulation of facts and knowledge.** Education also involves the development of the ability to commit to a goal and adhere to the requirements of achieving that goal. By shortcutting the process, students only shortcut their own education and devalue the education of those who do fulfill the requirements.

"Ninety-nine percent of the failures come from people who have the habit of making excuses." — George Washington Carver

1. Plagiarism

Plagiarism is presenting the thoughts, ideas, writings, etc, of others as your own. In today's world it is very easy to find essays, term papers and other academic assignments already completed and available for use (or in exchange for payment.) However, this is intellectual theft and is not acceptable in academics or in business. Suppose you completed an important report for your company that included a brilliant marketing campaign. During the presentation to the

corporate management team your supervisor took substantial portions of your report (and your marketing concepts) and presented them as his or her own? You would be angry that your supervisor "stole" your writings and ideas and got credit for your work. The same concept applies everywhere - it is unethical to take someone else's intellectual work (writings, ideas, information from a film or documentary, the internet) and present it as your own.

The basic rule is to always cite the source of information you have used in your work. This means that as you are completing the research you must keep copious notes on where you have obtained information. Often plagiarism occurs because of sloppy note taking. If you cut and paste information from the internet to use in your project, you must keep track of where that information was obtained. In the body of the essay or assignment, you must put quotation marks around any sentences or partial sentences that you did not originate yourself. You must also cite the source of ideas and other information that was obtained from an external source. If you paraphrase someone's sentences and ideas, you must also acknowledge the source of the information. The sources should be listed in a bibliography in the footnotes or at the end of the paper. There are many resources available to show you how to complete proper citation, such as *Chicago Manual of Style* or *MLA Handbook for Writers of Research Papers*.

When the information you present in your assignment is general or common knowledge, citations are not needed. For example, the fact that Barack Obama was sworn in as the President of the United States in 2009 is common knowledge and does not need to be cited. If you have questions or are uncertain whether something should be cited, ask your instructor or professor for guidance.

What can you do when you see other students cheating? Sometimes the cheaters need reminders that the behavior is unacceptable by their peers. You can approach them and encourage them not to take "short-cuts." You do not have to be confrontational, but supportive and point out that any cheating devalues everyone's education. You can go to the student organization that supports the BELIEF initiative. The LEAD (Leaders in Ethics and Academic Discipline) organization can help you determine a course of action for the situation or you can let a faculty member know. Sometimes the faculty member may create an environment where the cheating is much more difficult to accomplish.

C. Fraud and misrepresentation

Using deceptive practices in business and commerce is referred to as fraud or misrepresentation. Under contract and tort law, fraud is a specific action for which a company and/or its managers may be sued.

Fraud occurs when there is an intention to deceive — when promises are made with no intention of keeping them. An infamous case of fraud occurred when Beech-Nut sold apple juice labeled as “pure” from 1978 to 1982. Beech-Nut is the second largest baby food manufacturer in the United States. The apple juice, however, was not pure but, rather, was reconstituted from concentrate with sugars added. A “whistle-blowing” employee brought the issue to light, eventually leading to Beech-Nut pleading guilty to more than 200 federal counts of producing and distributing mislabeled products with the intent to deceive and defraud consumers.

Another example of fraud is known as “**bait and switch**” — an unscrupulous sales tactic. Bait and switch occurs when a product is advertised at a special low price, but, when customers attempt to make a purchase, the product is either unavailable or the customer must wait for a long time to receive the offered product. The salesperson then attempts to convince the prospective customer to purchase a different product, often at a higher price and higher profit margin for the company. The fraud in this situation occurs when the company advertises the availability of a product with no intention to actually sell it. Law has specifically prohibited this tactic.

Misrepresentation occurs when one attempts to claim to represent someone else or tries to pass himself off as someone he is not. When a person **lies on his resume** about his credentials or academic background, it is misrepresentation. Unfortunately, the use of deception on resumes is a fairly common practice — some estimate that the number of resumes containing some deception could be as high as 10%. In recent years, there have been notable scandals involving people who made claims on their resumes that were fabrications. In 2001, George O’Leary was hired as the head football coach at Notre Dame University, only to resign six days later when two significant inaccuracies were discovered on his resume. The first was the claim that he had completed a master’s degree, which he had not received. The second was a claim that he had lettered in football at the University of New Hampshire — when he had never actually played even a single game at that school. Similarly, in 2002 Sandra Baldwin resigned from her post

as the president of the United States Olympic Committee when it was revealed that she had not completed her undergraduate degree at the University of Colorado as she claimed on her resume, nor had she completed her doctoral degree — another claim made on her resume.

The bottom line with respect to fraud and misrepresentation is that **as an ethical leader you should only make promises you intend to keep and do not deceive customers or others with whom you engage in business.** As an ethical leader you can set the tone so that others are also conducting themselves in an ethical manner.

*“The bad news is that **painless lessons tend not to stick.**” — Jesse Eisinger*

D. Harassment

Harassment occurs when a person intimidates, ridicules or coerces another. Harassment is usually the result of the abuse of power or the unreasonable attempt to control someone. Harassment leads to feelings of discomfort or stress and can even lead to physiological consequences such as anxiety disorders. The bottom line is that **harassment is not tolerable in any form.** Unfortunately, harassment occurs often, with sexual harassment being the most common form of harassment. Harassment has many negative consequences, including reduced work satisfaction on the part of those being harassed, decreased productivity, increased likelihood of turnover of personnel and potential monetary liabilities arising out of lawsuits or statutory violations.

The United States Supreme Court uses a test for what constitutes unreasonable workplace harassment (*Harris vs. Forklift Systems*). The test looks at four fundamental questions.

1. **Is the behavior persistent?** People engage in the harassing conduct often enough that it becomes clear that there is a pattern of behavior, which is intentional and cannot be dismissed as a “bad day” or a perceptual error.
2. **How severe is the conduct?** The more severe the perceived harassment, the more likely it will be that there will be a potential liability.
3. **Is the conduct of a physical nature?** While harassment of a verbal form is undesirable, any harassment that takes a physical form is viewed as totally unacceptable.

4. Does the harassing conduct interfere with the employee's ability to successfully and satisfyingly engage in work? If a person is distracted from effectively performing work or if motivation to perform is reduced, the harassment will be seen as more serious.

How and why does harassment occur? It starts with someone who often fails to consider how his or her actions and words may impact others. In some cases, harassment is unintentional, but that doesn't make it acceptable. Harassment is determined based on the impact it has on another; not the intent of the harasser. In other cases, the harassment is persistent due to a complete lack of care on the part of the harasser and is too often done with an **intention to harm**.

Strong leadership includes the management of personnel, knowing how to provide constructive criticism and learning how to work with difficult people. It is counter-productive during conflict resolution to engage in harassment and personal attacks. Self-control and self-awareness are character traits that will help you become aware of your impact on others and traits you can help others develop in order to minimize threatening or intimidating behaviors.

"Above all . . . learn to disagree without being disagreeable." — Ted Galen Carpenter

E. Earnings pressure, financial reporting and greed

Unfortunately, there are plenty of examples of unethical behavior with respect to financial reporting. In most instances, the motivation is to meet earnings expectations or to manage corporate performance to meet some other financial goal. Management at companies such as Enron, Worldcom and Adelphia faced extreme pressure to meet the expectations of the market and achieve steady earnings growth. In other instances the motivation is greed. Greed is displayed in the misuse of certain financial dealings in the sub-prime market or in the Ponzi scheme orchestrated by Bernard Madoff.

The cycle is something like this: Corporate analysts and brokers review corporate performance and make predictions as to how the company will perform in the coming quarter. Based on the predictions, an earnings "target" is implied. If the company does

not meet that target, it is taken as a signal that the company is unable to maintain its competitive edge, which the market views as bad news. The bad news causes the traders to sell the stock and the stock price goes down. In addition, upper management is often compensated based on the company's market performance (or they own stock in the company), hence, the pressure on management to meet earnings expectations.

There are various ways that management could try to manipulate earnings to meet expectations. The most common is to accelerate the recognition of revenue. Companies can do this by pre-booking sales. The second most common manipulation is to defer the recognition of expenses until the next period by delaying payments, extending payment deadlines and post-dating checks. Both of these tactics are futile because the revenue robbed from the following quarter will be needed in the next quarter and the expenses deferred into the following quarter will reduce the next quarter's net income. The cycle will perpetuate itself because the same tactics will need to be done in the subsequent quarters as well.

In your career you may be faced with the pressure to "fudge" the numbers to make the situation look better. Often this request is rationalized that "it will only be this once!" However, once you have "fudged" the numbers you can never "take it back" and will most likely be asked to do it again. You will have set precedence for your behavior and it will be much harder to refuse the request the next time. Under the Sarbanes-Oxley Act, financial misrepresentation is a criminal violation subject to sentencing and applies to everyone involved in the misrepresentation.

F. Customer relations

Customer relationships are critical to the success of a business, particularly over the long term. Unfortunately, some companies have taken actions that are contrary to the interests of customers. The Ford Pinto case in the late 1960s and early 1970s illustrates this issue all too well. In Ford's rush to put a car on the market that could compete with the flood of small cars from Japan and Germany, the company designed the Pinto.

During the development process, design engineers discovered that the placement of the gas tank and other design characteristics created a **high probability of tank rupture in rear end crashes**, even at slow speeds. Engineers estimated that it would cost \$11 per car to reduce this risk, a cost of only one-half of one percent of the total cost of the car. The engineers also

estimated that this action could save hundreds of lives per year and hundreds more from injury. However, based on financial analysis that projected the cost of potential liability from these accidents (estimating a lost life would be worth \$200,000), Ford decided to not make the design change. After a pattern of accidents, which led to fires and deaths, it was discovered that Ford had made the analysis that led to the decision to not improve the design. When juries heard the information about the relatively low value Ford put on human life, the courts handed down significant liability awards to people injured in crashes and the families of those killed.

The greatest irony of the case is that, prior to the Pinto case Ford had a good reputation for product safety. The fallout from the Pinto case led to skepticism from consumers regarding Ford's diligence in designing cars for safety.

In contrast to the Pinto case, **Johnson & Johnson** demonstrated the value in making decisions with the interests of consumers as a high priority. In 1982, someone tampered with a number of bottles of Tylenol – one of Johnson & Johnson's most prominent product lines. **Cyanide was put into the capsules**, which then were bought by consumers in the Chicago area. Seven people died after ingesting the capsules, leading to a crisis for Johnson & Johnson. The prominence of consumer welfare in the company's decision-making is evident in its actions: The use of wide-spread media informing people (not just in Chicago) of the threat of product tampering, the acceptance of product returns, the removal of ALL Tylenol products from shelves and warehouses, and the establishment of a variety of safety standards to make it more difficult for someone to tamper with products in the future. The packaging approaches became the industry standard for preventative packaging. At the core of Johnson & Johnson's actions was the company credo, which begins with the statement that "...our first responsibility is to doctors, nurses and patients, to mothers and fathers and all others who use our products and services."

In summary, ethical leaders should consider the well being of their customers or constituents and also must balance these needs with other priorities in decision-making.

"Character is revealed by how you behave when no one is looking." — As defined by the Josephson Institute of Ethics

G. Employee relations

Employees obviously play critical roles in the success of a company. **Concerns for the health, welfare and other needs of employees should be taken into consideration in business decision-making.** Unfortunately, there are many illustrations throughout history where companies have neglected or even forsaken employee interest.

In one case, employees in a shipbuilding yard complained about the lack of enclosed scaffolding during cold and windy weather. The lack of enclosures led to very uncomfortable and hazardous conditions. This became one of the earliest legal cases in which employees claimed that they had a right to engage in collective behavior under the Wagner Act — even if they were not formally unionized. The courts agreed with the workers and imposed the requirement that employers address such concerns.

Another case involving a company called Film Recovery Systems illustrates that companies often seriously neglect employee welfare. The firm was created to capitalize on the unusually high silver prices in the late 1970s and early 1980s. The company employed a technology that recovered the trace amounts of silver that were used in photographic film by using cyanide solution to cause the silver to be released from the film surfaces. Open vats of cyanide solution and the lack of basic employee protections, such as aprons, respiratory protection, factory ventilation and gloves, led to illness and finally the death of an employee.

Ethical leaders need to consider the impact of their decisions on employees. Employees cannot be treated as commodities — indistinguishable from one another and easily replaceable. Management needs to consider the consequences of their actions on employees.

III. Summaries of Conceptual Foundations

A. Conceptual foundations

We are exposed to complex and sometimes conflicting sources of values over the course of our lives. Each of these influences us in unique ways — with some of us believing rather strongly in certain value systems and others taking a more ambivalent attitude toward the source of ethical values. To understand the nature of these value systems and the role in our decisions, it is important to understand the origins and relationship to business practice. This section explores both personal values and the values upon

which capitalism and free enterprise are based. This section also explores the relationship of managers to the owners of corporations and the relationship of businesses to broader society. By understanding these perspectives, you will have a much better appreciation of the nature of business decision-making within the context of ethics.

1. Ethics/personal values

Despite all of the discussion of ethics and the failures of business leaders (and others) who have engaged in unethical behavior, the term itself — ethics — often goes undefined. **Ethics are the values that we have developed from our family interactions, religious beliefs and personal experiences.**

This set of values drives our behavior and influences our expectations of how others should act. Many people maintain that they know the difference between right and wrong, yet they occasionally engage in behaviors that they would describe as wrong. To help understand this paradox, the remainder of this section will describe four major ethical frameworks that are commonly found in society. These four frameworks are: utilitarianism, universalism, theories of rights and social precepts.

a. **Utilitarianism** suggests that ethical decisions be approached by **considering the overall impact of different actions on society.** Actions that generally do more good than bad would be acceptable under this concept. Extending this concept, actions that benefit more people than those who are harmed would be deemed more ethical than actions that only benefit a few. This perspective is often applied in economic decision-making models used in business settings.

b. **Universalism** suggests that a simple rule be applied to determine the appropriateness of one's own actions. This rule is "What behavior would I expect from others?" This perspective suggests that it is inappropriate to behave one way when we would expect others to behave in a different way. As an example, stealing money from someone else while expecting that others respect our property rights would be illogical. If we expect others to respect our rights to property (or anything else), then we should respect that others also have those same rights. This concept has often been labeled as the "golden rule" — that we should treat others as we would expect to be treated.

c. **Theory of Rights** suggests that each person has rights — rights that are inalienable or should not be taken away, except in drastic situations. These rights include the right to hold property, to live as we see fit to live, to make free choices, to live where we want to live, to be free from intrusions into our privacy, to practice the religion (or no religion) that we want and to pursue life satisfaction through whatever means we choose. Many of these rights have been incorporated into the U.S. Constitution and the Bill of Rights. It is important to note that these rights must be balanced against others rights. The most common example of this is that one does not have the right to yell "fire" in a crowded theater, because this might cause a stampede of patrons to the exits, threatening the security of some of those persons. In today's society, the debate over what constitutes hate speech or what is politically correct relates to this example. Individual rights do sometimes conflict — leaving the question of whose rights should prevail.

d. **Social precepts** are specific guidelines that call for particular behaviors that we are expected to follow due to our belonging in a social group. Religion is perhaps the most common set of social precepts found in society. The Ten Commandments and other specific guides for behavior found in religious sources endorse certain actions and forbid others. While religion is likely the most commonly considered of these social precepts, there are many other social sources. The Boy and Girl Scout oaths, professional codes of ethics, organizational codes of conduct and even laws generally fall into this category.

"Being truthful when you know it will cost you is the true test of honesty." — Dave Weinbaum

2. Principles of capitalism and free enterprise

In addition to the various sources of ethical values discussed above, there are some concepts that are uniquely embedded into the business world through the basic structure of our economic system. There are many basic values that are used to justify capitalistic or free-market systems.

Capitalism is believed by many (especially in the western hemisphere) to be the superior economic system in the world due to its ability to efficiently distribute limited resources to different activities. Supply and demand forces, and the resultant prices, dictate the best uses of capital goods, materials and labor. Capitalism is often described as free market economics. It is important to understand exactly what is meant by this term and why it is believed that this economic system has such high potential. It is also important to realize the limitations or potential shortcomings of this economic system and that a lack of ethics is a catalyst for those limitations.

Free markets serve as the means to distribute scarce resources as efficiently as possible. It serves both sellers and buyers by providing a competitive framework through which value is assigned to all things that can be sold, including labor, materials, information and capital. Some of the basic tenets of free market systems are a sufficient number of participants (no monopolies and limited oligopolies), reasonable access to information about the goods and services being sold and alternative sources available, no collusion among sellers or buyers, and no deception or fraud in business practice. Through free markets, purchasing and selling decisions are made. Efficient pricing and distribution of the products or services are achieved through access to information and competition.

Unfortunately, there are some limitations. **Deception and fraud** undermine the effectiveness of the free market system. Furthermore, competition is limited when an industry is dominated by only a few organizations, or if there are logistical, geographic or international boundaries that restrict free exchange. When information is unavailable or is restricted, decision-makers have a great deal of uncertainty in making choices, resulting in an inefficient distribution of resources. Another limitation of the free market concept is the **conflict of interest** that is inherent because managers are needed to make decisions on behalf of absentee owners. The relationship between the owners of a business and the managers hired to run the business is referred to as the principal-agent theory. Greed can limit free market effectiveness, yet it is the pursuit of self-interest that is an essential quality of free markets. In the popular movie Wall Street, the leading character, Gordon Gecco, famously claims that "greed, for lack of a better word, is good." Greed has been argued to be the cause of many of our

recent scandals and corporate misconduct. While self-interest is recognized by economists as essential to the efficiency and effectiveness of an economic system, blind or unbridled greed may drive inappropriate behavior. Greed often is the driving force behind fraud or rationalizations of improper conduct. The famous economist, Adam Smith - often viewed as the "father" of microeconomic theory - believed that enlightened self-interest is the ideal. The concept of enlightened self-interest suggests that economic actors can advance their interests without engaging in inappropriate actions. In doing so, they seek to act in ways that will contribute to societal good as well as achieve self-benefit.

"To feel much for others and little for ourselves; to restrain our selfishness and exercise our benevolent affections, constitute the perfection of human nature." Adam Smith

3. Principal-agent theory

In a business organization, particularly one that is publicly traded, managers are hired to make decisions and manage the business on behalf of the stockholders. The stockholders, or owners, are described as "**principals**" and the managers as "**agents**." The owners — for a variety of reasons — cannot (or have chosen not to) be actively engaged in the day-to-day management of the organization. The owners hire business managers to conduct the affairs of the business with the expectation that those managers will primarily (or principally) consider the owners' interests in all decision-making.

All persons (not just managers) in an organization are agents for the owners and have a fiduciary responsibility to hold the owners' interest above their own in all actions and decisions. Owners are expected to set guidelines and create governance systems to guide agents. Policies, plans, goals, and rules set boundaries and parameters for agents, but often the agents must interpret the guidelines in day-to-day activities to achieve the best results for the principals.

A number of **responsibilities of the agent** emerge from this relationship. Some of these responsibilities include loyalty, the duty to act in good faith, the duty to report fairly the activities and results of business practice, the duty to avoid taking any

adverse interests or to engage in behavior that competes with the principals' interests, and the duty to represent the principals with dignity and a positive image. Many of the scandals in today's business world involve direct violation of these principal-agent responsibilities.

While the agent has specific responsibilities, so do the principals. Principals are to reasonably compensate agents for their work, they should not expose agents to unnecessary risks, and they must provide reasonable direction and exercise some oversight (monitoring and control) over agents' actions.

4. Business and society

The role of organizations in broader society has been debated for many years. Are organizations economic entities with no responsibility to determine what actions are "right" or "wrong" – with only a limited role in choosing what is best for society? Do organizations have a duty to take courses of action that benefit society? This section describes the three most prevalent views of how organizations relate to broader society.

a. Economic entities only

One view of organizations purports that corporations and other businesses provide great benefit to society by engaging in the economic exchange processes described previously in the section on capitalism. Advocates of this view claim that, through the microeconomic systems, businesses achieve the optimal distribution of resources for the maximum benefit to society. This concept, referred to as *Pareto Optimality*, is achieved when the participants work to **optimize profit and in doing so achieve the most beneficial distribution of resources that can be achieved**. These economic entities are still expected to follow the normative standards of not cheating, lying, or stealing, as well as the specific laws of society. Businesses and their agents must not collude or conspire with one another in business practice.

Advocates of Pareto Optimality point out that businesses provide jobs, and produce goods and services, which otherwise would not be provided. Businesses contribute to a healthy economic system that benefits all or most of the members of society. If the pure state of Pareto Optimality were attained, it would be impossible to provide additional benefit to one party without harming another. This is a utilitarian perspective — that the greatest condition that can be achieved is the efficient distribution of resources and wealth.

Theoretically, the consumers in a free market system influence the actions of the participants by choosing what to buy, from whom to buy, and for what price. Boycotts and supplier preference are the tools used by consumers to influence businesses. If a supplier of products engages in activities deemed improper, buyers can choose not to buy from that supplier. Free market advocates claim that these mechanisms create responsibility on the part of both the seller and the buyer to assure that actions are taken, which contribute to the greater good of society.

b. Compliance-reactive approaches

Most economists and sociologists recognize that **government plays an important role in regulating business activity**. Laws provide specific standards of conduct, which business agents are expected to follow.

One of the arguments for the need of governments and laws is that all economic systems produce externalities, or outcomes, that affect people outside the exchange process. For example, individuals harmed by the pollution caused by a manufacturing system are an externality to that system. These individuals are without the economic influence to compel these businesses to act in alternative ways. Hence, there is the need for governments to step in and regulate conduct that has an externality effect.

Governments write laws and create enforcement systems to assure compliance. Enforcement agencies at the federal, state and local levels interpret laws and investigate and prosecute actions that are determined to be violations.

Under the compliance model, businesses must be aware of the laws and assure that actions are not in violation, or else risk being fined and/or restrained from engaging in further similar activity. Laws that regulate business practice include securities exchange and financial reporting, discrimination, environmental standards, product safety and worker safety.

Laws originate from public pressure for laws to prohibit certain actions by businesses or perhaps to require business to act in other ways. Unless public interest groups are able to influence lawmakers, businesses are left to engage in those particular behaviors. When laws are passed, however, the compliance system compels businesses to act differently.

There is a **paradox to the compliance-reactive system**. Business people often complain that there is too much regulation by government. This should not be a surprise. However, if the sole sources of moral guidance are the laws and compliance systems, the laws and guidance will become overwhelming. Put another way, if business managers expect that laws will provide sufficient guidance for what is right and wrong, then they also should expect that there will be a multitude of laws regulating business practices.

c. **Social responsibility and corporate citizenship**

Critics of pure free markets and the compliance-reactive systems argue that laws can never sufficiently protect the broader interests of society and that, even if governments could completely regulate business practice, the costs of creating enforcement agencies and completely regulating business would be enormous and inefficient. Under the concept of social responsibility and corporate citizenship, **business managers are expected to be cognizant of the broader societal implications of their actions** and take actions that, while benefiting themselves, also serve the broader needs of greater society. In this view, businesses are seen as citizens with more than just a narrowly-viewed economic responsibility, but a social responsibility as well.

With this view of businesses, the broader context of society needs to be considered in all business practices. This means that business decision-makers must consider social variables in decision-making and take actions which provide benefits to greater society in a much more proactive way than the pure free market or compliance models. Some organizations carry out this responsibility by choosing to support social causes such as health and medical care, social charities and environmental protection.

IV. Decision-Making

Why do good people sometimes make bad decisions? Often it is when they are thrust into a situation where they are compelled to act in a way that hasn't been fully thought through and the consequences of that action are not considered. Consequences are not considered due to the need to act with haste or when there is a significant personal stake, which makes them either unable or unwilling to evaluate the ramifications of their actions. These actions may be clear violations of laws, or not in best interests of their principals or the broader society.

Now that you have an understanding of how to recognize ethical dilemmas and the conceptual foundations from which ethical choices are made, this section presents a decision-making guide to help you think through the consequence of an action or decision.

“Think before you act, consider consequences, and be accountable for your actions.” — Josephson Institute of Ethics

A. Decision-making guide

The following decision-making guide is a culmination from various sources (see references) and common sense. It is intended to be a mechanism to thoroughly think through an issue and evaluate the consequences of an action. This guide is not considered to be all-inclusive.

1. **Determine the facts and state the problem.** What do we know that will help define the problem? What don't we know? Sometimes the “problem” is clearly identifiable, other times it is a situation that makes you uncomfortable. Listen to your intuition in these situations – if something makes you uneasy, it is often for good reason.
2. **Who are the stakeholders?** Who will be affected by the decision? Make sure to consider all stakeholders, including employees, shareholders, customers, vendors and unintended bystanders.
3. **Identify relevant factors.** List the laws, professional codes and other practical constraints pertinent to this problem. This will also include any relevant factors related to the issue being evaluated such as what are the constraints, parameters or other limitations.
4. **Develop a list of three to five options.** List options that would solve the stated problem. Be creative and present options that may not seem plausible. Often through this brainstorming activity, a more viable and satisfactory option will materialize. Try to avoid “yes” or “no” options but think about to whom to go or what to say.
5. **Test options.** Apply the following tests to the options.
 - a. **Harm test.** Does this option do less harm than the alternatives?
 - b. **Legality test.** Is this option legal? If the answer is “no,” stop here!

- c. **Precedence test.** Does this option set precedence, which, while the outcome in this fact pattern is not problematic, this option under another fact pattern could cause a dramatically different outcome?
- d. **Publicity test.** Would I want my choice of this option published in the newspaper?
- e. **Defensibility test.** Could I defend my choice of this option before a Congressional committee or a jury of my peers?
- f. **Mom test.** What would my Mom say if she learned of this option?
- g. **Reversibility or “Golden Rule” test.** Would I still think the choice of this option good if I were one of those adversely affected by it? How would I want to be treated?
- h. **Virtues test.** What would I become if I choose this option?
- i. **Professional test.** What might my profession’s ethics committee say about this option?
- j. **Peer or colleague test.** What do my peers or colleagues say when I describe my problem and suggest this option as my solution?
- k. **How does it make me feel?** This is your conscience. How does this option make you feel physically or emotionally? Are you able to sleep?
- l. **Organization test.** What does the organization’s ethics officer or legal counsel say about this?
6. **Select an option.** Based on steps 1 – 5, choose an option listed in 4.

7. Evaluate outcomes and review steps 1-6. What could make it less likely that you would have to make such a decision again? You may need to create additional options because the testing completed in 5 revealed undesirable outcomes.

B. Whistle-blowing

One of the options that you have evaluated may be to “blow the whistle” on those engaged in an unethical activity. You have identified the ethical dilemma and evaluated the situation using the decision-making guide. However, your supervisor presses you to take an action that makes you uncomfortable. You have examined the situation, identified the stakeholders, determined

and tested the options. You are firmly convinced that if you take the action your supervisor has asked, the act would be unethical. What do you do now? You need this job to pay your bills and simply walking away from your job is not a course of action you want to take. Going against what a supervisor has asked or ordered is never easy, but you need to decide what to do.

“I would prefer even to fail with honor than win by cheating.” — Sophocles

Following the directions or orders of someone else is not an ethical or legal defense for wrongdoing. You must be prepared to think and act in a way that is beneficial to you and that of the organization for which you work. **Are there alternatives for you to follow short of quitting?** Fortunately, in most organizations the answer is “yes.” Here are some possible courses of action if you find yourself in this type of ethical dilemma:

1. Discuss your concerns with your immediate supervisor, even if your supervisor is the one presenting the ethical problem. Sometimes when presented with a subordinate who questions the ethical nature of a situation, the supervisor will rethink the situation and step back from the unethical action. If, however, this does not provide a satisfactory solution, you will need to find an alternative course of action. **It is NOT okay to just do what you are told to do when you believe the action is inappropriate or unethical!**
2. Your organization may have an ethics/fraud hotline and/or an ethics officer with whom you may consult. In addition, if you belong to a professional organization that has an ethics advisor, you may be able to consult that person to get an objective opinion about your situation. Generally, a report to a hotline or ethics officer will be kept confidential (at least initially). However, if the problem is very serious and involves higher levels of management, maintaining confidentiality may be difficult. If you decide to pursue the matter higher in the organization, for example to the audit committee, **you will have to decide if you are willing to become a “whistle-blower.”**

3. At this point, you may want to assess your own situation — both from an ethical and legal standpoint. If you believe you may be in legal jeopardy from actions you already have taken or you believe you will have to blow the whistle, you may want to consult a private attorney. An attorney can advise you about your legal rights and responsibilities in the situation.

4. A whistle-blower is someone who, due to a situation involving wrongdoing, “blows the whistle” or informs higher levels of authority. Some whistle-blowers stay within the organization by informing higher management, the internal auditors, the audit committee, or the board of directors about the wrongdoing. Other whistle-blowers go outside of the organization by informing law enforcement, the auditors, or the news media about the wrongdoing. There are **legal protections from retribution** for whistle-blowers contained in the Sarbanes-Oxley Act and other state and federal laws. Despite such protections, whistle blowers are often subjected to intense pressure and may find it necessary to leave the company. Being a whistle-blower can be a very difficult and lonely road to follow. If you are accusing high-ranking individuals in the organization of wrongdoing, expect to meet with very fierce opposition from those being accused. Some whistle-blowers come out very well from their situation and become national celebrities, such as **Sherron Watkins of Enron** and **Cynthia Cooper of World Com**. But most whistle-blowers do not become famous or rich. Many have to leave their jobs, and some even have gone to jail due to actions they took before they blew the whistle. Despite these hazards, becoming a whistle-blower may be the best thing to do; otherwise, you may become a perpetrator in the unethical activity.

5. If you decide that you must proceed up the chain of command in the organization, you should keep your superior apprised and **fully document your actions in writing**. Ultimately, your case may reach the audit committee, the board of directors, or the owners of the company. At this stage, anonymity is probably no longer possible.

6. Hopefully, your situation will be resolved without becoming a whistle-blower or going all the way up to the board of directors. But, if your situation still exists after exhausting all levels of internal review, you may not have any other course of action but to resign from the organization and submit a memorandum to the appropriate party in the

company detailing exactly why it is necessary for you to resign. Resignation probably will not resolve the situation, but at least you will be able sleep at night and know that you have done the right thing by not participating in wrongful conduct. Reporting illegal conduct to law enforcement authorities, or any outside party, should be done only after consulting an attorney who can advise you properly.

Fortunately, many ethical situations can be resolved short of resignation. This is why many organizations now have codes of conduct, hotlines, and ethics officers. Still, knowledge of your rights and responsibilities is always the best way to prepare if presented with an ethical dilemma.

“Always bear in mind that your own resolution to succeed is more important than any one thing.” — Abe Lincoln

V. Student Codes, Professional Codes, and Company Codes

Codes of ethics are used to communicate to, and formalize sets of values for, groups of people. These groups may be business organizations, members of professional organizations, participants in academic programs, or any other collection of people. Often, a code of ethics is written by a representative assembly of group members and then distributed to the entire group. This section contains examples of codes of ethics - or conduct codes, as they are sometimes called. For the professional codes, use the URL link to go to the organization's web site to locate the text of the codes. The examples presented here offer a view of the breadth and coverage of different professional and subject-specific codes. These codes can be used as reference material and for discussion purposes.

A. Northern Illinois University Student Codes of Ethics

1. NIU's Student Code of Conduct — www.stuaff.niu.edu/judicial
2. College of Business Student Code of Ethics — see Appendix A
3. Accountancy Majors Student Honor Pledge and Code of Conduct — see Appendix B

B. Professional Codes

1. **Accountancy**
 - i. Public accounting — American Institute of Certified Public Accountants. www.aicpa.org
 - ii. Tax preparation — National Association of Tax Consultants. www.natctax.org
 - iii. Internal audit — Institute of Internal Auditors. www.theiia.org
 - iv. Fraud examiners — Association of Certified Fraud Examiners. www.cfenet.com
 - v. Management Accountants — Institute of Management Accountants. www.imanet.org
2. **Finance**
 - i. Certified Financial Planner. www.cfp.net
 - ii. Chartered Financial Analyst. www.cfainstitute.org
 - iii. Securities and Exchange Commission — “final rules”. www.sec.gov
3. **Management**
 - i. Human resource professionals — Society for Human Resource Management. www.shrm.org
 - ii. Management generalists — Society for the Advancement of Management. www.cob.tamucc.edu/sam/
4. **Marketing**
 - i. Marketing and sales — American Marketing Association. www.marketingpower.com
 - ii. Marketing research — Interactive Marketing Research Association. www.imro.org
5. **Operations Management and Information Systems**
 - i. Operations Management and Logistics. www.apics.org/default.htm
 - ii. Information Systems — www.aitp.org

C. Company Codes

1. **Caterpillar**
<http://www.cat.com/cda/layout?m=38028&x=7&location=homepage>
2. **Experian**.
<http://www.experian.com>
3. **KPMG**
<http://www.kpmg.com/global/WhoWeAre/>
4. **The National Bank & Trust Company of Sycamore**
<http://www.nabatco.com>
5. **NICOR, Inc**
<http://phx.corporate-ir.net/phoenix.zhtml?c=85155&p=irol-govconduct#ethics>
6. **Target**
<http://sites.target.com/site/en/company/page.jsp?contentId=WCOMP04-031084>

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- Plagiarism resource: <http://www.indiana.edu/~wts/pamphlets/plagiarism.pdf>

Appendix A NIU College of Business Student Code of Ethics

As a student at Northern Illinois University's College of Business, I understand that it is my duty to behave in a courteous and ethical manner at all times. The attitudes and habits I develop as a student form the core of my professional behavior. As such, I will set an example of the highest caliber for those that work with me.

To promote these behaviors within the student body, I will use the principles of honesty, respect, integrity, and professionalism as my academic and professional guide.

HONESTY:

- Understand the College's policies on academic conduct, and practice them as a part of my life
- Honor my personal obligation to be sincere and forthright by dealing fairly and truthfully with others

RESPECT:

- Embrace the diverse perspectives and accomplishments of others, knowing that it is the personal and cultural variations among people that enrich us individually and as a society
- Take pride in my College and University by protecting our facilities and their surroundings

INTEGRITY:

- Maintain my beliefs and values despite changing circumstances and challenging environments
- Respect my reputation and that of my university by avoiding unethical behaviors and the circumstances that encourage them

PROFESSIONALISM:

- Maintain the highest standards of performance, conduct, and cooperation with my fellow students, faculty, and co-workers
- Perform my duties with due diligence and make a continuous effort towards improvement

*Written by and for NIU College of Business Students
NIU College of Business Student Advisory Board
Unanimously Approved December 6, 2004*

Appendix B

Notes

Accountancy Student Honor Pledge and Code of Conduct

The Pledge:

As students in the Accountancy Department at Northern Illinois University, we will uphold and promote the highest levels of integrity and professionalism while pursuing academic excellence.

The Code:

To abide by this pledge, we establish this Code of Conduct to create a foundation for our values and culture.

This Code of Conduct exemplifies the virtues necessary to continue our department's longstanding and well-respected reputation among the accounting profession.

As future accountants, we must take responsibility for our learning, be accountable for our decisions, and consider the consequences of our actions.

We have the responsibility to remember that each student is a representative of NIU's Accountancy program on campus, in the community, and in the workplace.

We need to act with integrity, through demonstrating academic honesty, "doing the right thing", and standing up for our beliefs.

We demonstrate professionalism by conducting ourselves in an appropriate manner and maintaining good composure at all times. We achieve academic excellence by challenging ourselves, taking pride in our work, and striving for our best.

We will respect the university, including the faculty, facilities, fellow students, the profession, and ourselves.

We commit to the life-long learning process.

*Written by and for NIU Accountancy Majors
Unanimously endorsed and approved Spring 2003
By the Accountancy Faculty and Advisory Board*

Decision-Making Guide

Step 1

Determine the facts and state the problem.



Step 2

Identify the stakeholders.



Step 3

Identify relevant factors.



Step 4

Develop a list of 3-5 options.



Step 5

Assess options using various "tests."

- a. Harm test
- b. Legality test
- c. Precedence test
- d. Publicity test
- e. Defensibility test
- f. Mom test
- g. Reversibility or "Golden Rule" test
- h. Virtues test
- i. Professional test
- j. Peer or colleague test
- k. "How does it make me feel?" test
- l. Organization test



Step 6

Select an option



Step 7

Evaluate outcome and review steps 1-6.

Northern Illinois University is an equal opportunity institution and does not discriminate on the basis of race, color, religion, sex, age, marital status, national origin, disability, status based on the Victims Economic Security and Safety Act (VESSA) or status as a disabled or Vietnam-era veteran. Further, the Constitution and Bylaws of Northern Illinois University provides for equal treatment regardless of political views or affiliation and sexual orientation. Printed by authority of the State of Illinois 7/09 46272