

**SPRINGFIELD FIREFIGHTERS' PENSION FUND**  
**(A Component Unit of the City of Springfield, Illinois)**

**FINANCIAL STATEMENTS AND**  
**INDEPENDENT AUDITOR'S REPORT**

**For the Year Ended February 28, 2016**

**SPRINGFIELD FIREFIGHTERS' PENSION FUND  
CITY OF SPRINGFIELD, ILLINOIS**

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# *Pehlman & Dold, P.C.*

## **CERTIFIED PUBLIC ACCOUNTANTS**

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August 19, 2016

Board of Trustees  
City of Springfield, Illinois  
Springfield Firefighters' Pension Fund

### ***INDEPENDENT AUDITOR'S REPORT***

We have audited the accompanying basic financial statements of the Springfield Firefighters' Pension Fund, a blended component unit of the City of Springfield, Illinois (the "Plan"), as of and for the year ended February 29, 2016, as listed in the accompanying table of contents.

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

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

#### ***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Plan as of February 29, 2016, and the changes in fiduciary net position of the Plan for the year then ended in accordance with accounting principles generally accepted in the United States.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages I-1 through I-2 and the schedule of changes in the employers' net pension liability, the schedule of employers' net pension liability, the schedule of contributions from employers and other contributing entities, and the schedule of investment returns on pages 13-15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance

Respectfully submitted,

A handwritten signature in cursive script that reads "Peelman & Dold, P.C.".

PEELMAN & DOLD, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS  
SPRINGFIELD, ILLINOIS



**SPRINGFIELD FIREFIGHTERS' PENSION FUND  
CITY OF SPRINGFIELD, ILLINOIS  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following Management Discussion and Analysis (MD & A) of the Springfield Firefighters' Pension Fund's financial performance provides an introduction to the financial statements for the year ended February 29, 2016. Since the MD & A is designed to focus on current activities, resulting changes and current known facts, please read it in conjunction with the basic financial statements and required supplementary information.

**Required Financial Statements**

The Springfield Firefighters' Pension Fund, a component unit of the City of Springfield, Illinois, prepares its financial statements on an accrual basis in accordance with accounting principles generally accepted in the United States of America promulgated by the Governmental Accounting Standards Board. The Statement of Fiduciary Net Position restricted for pension benefits includes all assets and liabilities and provides information about the nature and amount of investments available to satisfy the pension benefits of the plan. All additions to and deductions from the Fiduciary Net Position restricted for pension benefits are accounted for in the Statement of Changes in Fiduciary Net Position restricted for benefits.

**Financial Analysis**

While the Statement of Fiduciary Net Position restricted for plan benefits and Statement of Changes in Fiduciary Net Position restricted for benefits measure the value of the plan net assets and the changes to them, another important factor needs to be considered in order to determine the financial health of the Springfield Firefighters' Pension Fund. That additional factor is the plan's actuarial liability. In 2016, contributions of \$11,482,945, losses on investments of \$5,946,400 and deductions to net assets of \$13,780,315 resulted in a net decrease in net assets of \$8,243,770. This net decrease brought the Plan's net asset base to \$112,241,932. For actuarial calculations, the Springfield Firefighter's Pension Fund uses the projected unit credit actuarial cost method. For the February 28, 2015 valuation, the actuarial value of assets was \$119,392,249. The aggregate actuarial liability was \$249,864,959. On an actuarial basis, the assets held currently fund 47.8% of this liability. This is an increase from the funding ratio of 47.4% for 2014.

**Plan Net Assets Available for Benefits**

To begin the financial analysis, a summary of the Springfield Firefighters' Pension Fund's Fiduciary Net Position Restricted for Benefits is presented below.

**Condensed Statements of Plan Fiduciary Net Position**

	2016	2015	Dollar Change	Percent Change
Cash & equivalents	\$ 2,095,962	\$ 1,938,204	\$ 157,758	8%
Investments	109,968,291	118,367,447	(8,399,156)	(7)%
Receivables	245,983	217,661	28,322	13%
Prepaid expenses	10,243	9,740	503	5%
<i>Total Assets</i>	<u>112,320,479</u>	<u>120,533,052</u>	<u>(8,212,573)</u>	<u>(7)%</u>
Liabilities	<u>78,547</u>	<u>47,350</u>	<u>31,197</u>	<u>66%</u>
Total Plan Fiduciary Net Position	\$112,241,932	\$120,485,702	\$8,243,770	(7)%

As the above table shows, plan net position decreased by \$8,243,770, or 7%, in 2016. This decrease reflects a 7% decrease in investment balances at year-end.

## Changes in Plan Fiduciary Net Position

### Condensed Statements of Changes in Plan Fiduciary Net Position

	2016	2015	Dollar Change	Percent Change
<b>Additions</b>				
Employer contributions	\$ 9,786,645	\$ 9,973,179	\$ ( 186,534)	(2)%
Participant contributions	1,696,300	1,704,162	( 7,862)	%
Net investment income (loss)	( 5,946,400)	7,144,916	(13,091,316)	(183)%
<b>Total additions</b>	5,536,545	18,822,257	(13,285,712)	( 71)%
<b>Deductions</b>				
Benefits	13,670,346	12,922,751	747,595	6%
Administration expenses	109,969	133,317	( 23,348)	18%
<b>Total deductions</b>	13,780,315	13,056,068	724,247	6%
<b>Net increase</b>				
In Fiduciary Net Position	\$( 8,243,770)	\$ 5,766,189	\$(14,009,959)	(243)%

#### Additions

Additions needed to fund benefits are accumulated through contributions and returns on invested funds. Contributions for 2016 totaled \$11,482,945. This represents a decrease of 2% or \$194,396 from 2015.

The fund had a 183% decrease in net investment income for the year. This decrease is due to changes in market conditions.

In 2016, the fund had net depreciation in the fair value of investments of \$8,415,721 – a \$12,995,120 decrease from the \$4,579,399 of appreciation recorded in 2015. Interest and dividends income totaled \$2,738,062, a decrease of \$70,332 from 2015. Investment expenses increased from \$242,873 in 2015 to \$268,741 in 2016.

#### Deductions

The expenses paid by the fund include benefit payments and administrative expenses. Administrative expenses for 2016 totaled \$109,969, a decrease of \$23,348 from 2015.

SPRINGFIELD FIREFIGHTERS' PENSION FUND  
CITY OF SPRINGFIELD, ILLINOIS

STATEMENT OF FIDUCIARY NET POSITION

February 29, 2016

**ASSETS**

Cash and cash equivalents		\$ 2,095,962
<i>Investments, at fair value</i>		
U.S. governments securities	\$12,697,653	
U.S. agency securities	15,092,467	
Corporate bonds	9,547,123	
Mutual funds	43,205,717	
Common stocks	17,533,966	
U.S. property-separate account	<u>11,891,365</u>	
<b>Total investments</b>		109,968,291
Prepaid expenses		10,243
Receivables		
Interest and dividends		245,983
<b>Total assets</b>		<u>112,320,479</u>

**LIABILITIES**

Accounts payable		<u>78,547</u>
<b>Total liabilities</b>		<u>78,547</u>

**NET POSITION RESTRICTED  
FOR PENSION BENEFITS**

\$112,241,932

The Notes to the Financial Statements are an integral part of this statement.

SPRINGFIELD FIREFIGHTERS' PENSION FUND  
CITY OF SPRINGFIELD, ILLINOIS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

For the Year Ended February 29, 2016

**ADDITIONS**

*Contributions*

Employer	\$ 9,786,645
Participants	<u>1,696,300</u>
<b>Total contributions</b>	<u>11,482,945</u>

*Investment income*

Net appreciation (depreciation) in fair value of investments (unrealized)	( 11,479,027)
Gains and (losses) from the sale of securities (realized)	3,063,306
Interest, dividends and other income	<u>2,738,062</u>
<b>Total investment income (loss)</b>	( 5,677,659)
Less investment expense	<u>( 268,741)</u>
<b>Net investment income (loss)</b>	<u>( 5,946,400)</u>

<b>Total additions</b>	<u>5,536,545</u>
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**DEDUCTIONS**

*Pension benefits*

Retirement	10,780,023
Disability	1,164,329
Survivor	1,725,994
Transfer to other Illinois Public Pension Funds	-
<b>Total pension benefits</b>	<u>13,670,346</u>

*Administrative expenses*

Professional fees	44,032
Other	<u>65,937</u>
<b>Total administrative expenses</b>	<u>109,969</u>

<b>Total deductions</b>	<u>13,780,315</u>
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<b>Net Increase in Plan Net Assets</b>	( 8,243,770)
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**NET POSITION RESTRICTED FOR PENSION BENEFITS**

March 1, 2015	<u>120,485,702</u>
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**NET POSITION RESTRICTED FOR PENSION BENEFITS**

February 29, 2016	<u>\$112,241,932</u>
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The Notes to the Financial Statements are an integral part of this statement.



**SPRINGFIELD FIREFIGHTERS' PENSION FUND  
CITY OF SPRINGFIELD, ILLINOIS**

**NOTES TO FINANCIAL STATEMENTS  
February 29, 2016**

**Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the Springfield Firefighters' Pension Fund of the City of Springfield, Illinois (Plan), have been prepared in conformity with accounting principles generally accepted in the United States of America, as applied to government units hereinafter referred to as generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Plan's accounting policies are described below.

*Reporting Entity*

The Springfield Firefighters' Pension Fund is a component unit of the City of Springfield, Illinois because of the significance of its operational and financial relationship with the City. For financial reporting purposes the Fund is reported as a Fiduciary Fund of the City pursuant to GASB statement No. 61.

The Board of Trustees is the administrator of the Fund that was established by the City in accordance with the City Charter and Illinois Compiled Statutes.

*Fund Accounting*

The Plan uses funds to report on its fiduciary net position and the changes in its fiduciary net positions. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The Plan is classified in this report in the fiduciary category.

Fiduciary funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the government. When pension plan assets are held under the terms of a formal trust agreement, a pension trust fund is used.

*Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the plan administrator to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

*Basis of Accounting*

The Plan is accounted for with a flow of economic resources measurement focus. With this measurement focus, all assets, deferred inflows, liabilities and deferred outflows associated with the operation of this fund are included on the statement of fiduciary net position. Pension trust fund operating statements present increases (e.g., additions) and decreases (e.g., deductions) in net position restricted for pensions.

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

*Investments*

Investments are reported at fair value at February 29, 2016. Securities traded on material exchanges are reported at the last quoted market price. Shares of mutual funds are valued at quoted market prices, which represent the net asset value of shares held by the Fund at year-end. Investment income is recognized as earned. Gains and losses on sales and exchanges of investment securities are recognized on the transaction date.



**SPRINGFIELD FIREFIGHTERS' PENSION FUND  
CITY OF SPRINGFIELD, ILLINOIS**

**NOTES TO FINANCIAL STATEMENTS - continued  
February 29, 2016**

**Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Management's Review and Subsequent Events*

Management has evaluated subsequent events for recognition and disclosure in the financial statements through August 19, 2016, which is the date the financial statements were available to be issued.

*Recent Accounting Pronouncements*

In June 2012, the Governmental Accounting Standards Board issued GASB 67. GASB 67 addresses reporting by pension plans that administer benefits for governments and outlines basic framework for the separately issued financial reports of defined benefit pension plans, and details note disclosure requirements for defined benefit and defined contribution pension plans. The Plan adopted GASB 67 effective March 1, 2014. The adoption changed various reporting terminology, footnote disclosures, and required supplementary information.

**Note 2. FIREFIGHTERS'S PENSION PLAN DESCRIPTION**

*Plan Administration*

The City's firefighter pension plan is a single-employer defined benefit pension plan. Although this is a single-employer pension plan, the defined benefits and employee and employer contributions levels are governed by Illinois Compiled Statutes (40 ILCS 5/4-1) and may be amended only by the Illinois Legislature.

The Fund is governed by a five-member Board of Trustees. Two members of the Board are appointed by the City's Mayor, one member is elected by pension beneficiaries and two members are elected by active firefighters.

*Plan Membership*

At February 29, 2016, the date of the most recent actuarial valuation, the plan covered substantially all City firefighter personnel, including those retired, disabled, and survivors, as follows:

Retirees and beneficiaries currently receiving benefits	253
Inactive employees entitled to, but not yet receiving benefits	1
Current employees	
Vested	132
Non-vested	<u>83</u>
Total	<u>469</u>

*Benefits Provided*

The Firefighter's Pension Plan provided retirement benefits, as well as, death and disability benefits. For persons who first become firefighters prior to January 1, 2011, covered employees attaining the age of 50 or more with 20 or more years of creditable service are entitled to receive an annual retirement benefit of one-half of the monthly salary attached to the rank held at the date of retirement. The pension shall be increased by 1/12 of 2.5% of such monthly salary for each additional month over 20 years of service through 30 years of service, to a maximum of 75% of such monthly salary. Employees with at least 10 years, but less than 20 years, of credited service may retire at or after age 60 and receive a reduced benefit. The monthly pension of a firefighter who retired with 20 or more years of service after January 1, 1977 shall be increased annually, following the first anniversary date of retirement and be paid upon reaching the age of at least 55 years, by 3% of the original pension and 3% compounded annually thereafter.

**SPRINGFIELD FIREFIGHTERS' PENSION FUND  
CITY OF SPRINGFIELD, ILLINOIS**

**NOTES TO FINANCIAL STATEMENTS - continued  
February 29, 2016**

**Note 2.      *FIREFIGHTERS'S PENSION PLAN DESCRIPTION (continued)***

Employees that are hired after January 1, 2011, attaining the age of 55 or more with 20 or more years of creditable service are entitled to receive an annual retirement benefit of on-half of the average salary for the last 8 years of service (subject to a maximum salary). The pension shall be increased by 2.5% of such salary for each additional year of service over 20 years up to a maximum of 75% of such salary. Employees with at least 10 years, but less than 20 years of credited service, may retire and receive a reduced benefit, which begins at age 60. Employees that have attained the age of 50 with at least 10 years of service may retire but their pension is reduced by ½% per month for each year the employee is under age 55. The monthly pension shall be increased annually, following the first anniversary date of retirement, and be paid upon reaching the age of at least 60 years, by the lesser of 1/12 of 3% of the original pension times the number of months the employee has been retired since age 60 (up to a maximum of 15%) or by a factor of the CPI-U, whichever is less. Dependents receive a pension of 2/3 of the member's pension at date of death. Dependents receive an annual increase under the same formula as the retired officer.

*Contributions*

Covered employees are required to contribute 9.455% of their base salary to the Firefighters' Pension Plan. If an employee leaves covered employment with less than 20 years of service, accumulated employee contributions may be refunded without accumulated interest. The City is required by statute to contribute the remaining amounts necessary to finance the Plan as actuarially determined by an enrolled actuary. By the year 2040, the City's contributions must accumulate to the point where the past service cost for the Firefighters' Pension Plan is at least 90% funded.

**Note 3.      *CASH, CASH EQUIVALENTS AND INVESTMENTS***

The deposits and investments of the Fund are held separately from those of the City and are under the control of the Fund's Board of Trustees

*Cash*

At February 29, 2016 the carrying amount of the Pension Fund's deposits totaled \$332,194 in the checking account, and the checking account balance totaled \$465,511. The Illinois Funds account balance was zero at February 29, 2016. The checking account utilized for a portion of the year was fully covered by FDIC insurance while the Illinois Funds account utilized for a portion of the year met the investment guidelines to which the Pension Fund is subject.

*Cash, and Cash Equivalents*

Illinois Funds	\$ 322,194
Money market funds in custodial accounts	1,763,768
	2,095,962
Less: Cash equivalents reclassified as investments	(1,763,768)
<b><i>Carrying Amount of Deposits</i></b>	<b><u>\$ 332,194</u></b>

The Firefighter Pension Funds are held by U.S. Bank in third party custodial accounts designated by the Board of Trustees, and one separate group annuity contract.

*Represented By:*

Cash, cash equivalents and investments	\$112,064,253
Less: Carrying amount of deposits	( 332,194)
<b><i>Total Investments</i></b>	<b><u>\$111,732,059</u></b>



**SPRINGFIELD FIREFIGHTERS' PENSION FUND  
CITY OF SPRINGFIELD, ILLINOIS**

**NOTES TO FINANCIAL STATEMENTS - continued  
February 29, 2016**

**Note 3. CASH, CASH EQUIVALENTS AND INVESTMENTS (continued)**

*Summary of Deposits and Investments*

	<u>Cash and Equivalents</u>	<u>Investments at Fair Value</u>	<u>Total</u>
Cash	\$ 332,194	\$	\$ 332,194
Equity-type investments	691,868	60,739,683	61,431,551
Fixed income-type investments	1,071,900	37,337,243	38,409,143
Insurance managed separate real estate		<u>11,891,365</u>	<u>11,891,365</u>
<b>Total</b>	<u>\$2,095,962</u>	<u>\$109,968,291</u>	<u>\$112,064,253</u>

*Authorized Investments*

Investments made by the Firefighter's Pension Fund are governed by both the Illinois Pension Code and the Fund's own investment policy (revised in January of 2013). Allowable investments by a fund with net assets in excess of \$10 million dollars and employing an investment advisor as this fund does are as follows:

(1) interest-bearing bonds of the United States, or of the State of Illinois, or any county, city, township, incorporated town, municipal corporation in this state; (2) tax anticipation warrants issued by any city, township, incorporated town, or county; (3) notes, bonds, debentures or other similar obligations which are guaranteed as to principal and interest by the United States and issued by agencies of the United States; (4) insured withdrawable capital accounts of state chartered savings and loan associates; (5) insured withdrawable capital accounts of federally chartered federal savings and loan associations if the withdrawable capital accounts are insured by the Federal Deposit Insurance Corporation; (6) insured investments in credit unions if the investments are insured by the National Credit Union Administration; (7) savings accounts or certificates of deposit of a national or state bank; (8) contracts and agreements supplemental thereto providing for investments in the general account of a life insurance company authorized to do business in Illinois; (9) separate accounts of a life insurance company authorized to do business in Illinois, comprised of common or preferred stocks, bonds, or money market instruments; (10) The Illinois Funds; (11) separate accounts managed by a life insurance company authorized to do business in Illinois, comprised of real estate or loans upon real estate secured by first or second mortgages; (12) direct equities, mutual funds, and separate accounts; (13) direct obligations of the State of Israel; and (14) investment grade corporate bonds managed by an investment advisor.

*Deposits*

Custodial credit risk: Custodial credit risk for deposits with financial institutions is the risk that in the event of a bank failure, the Firefighters Pension Fund's deposits may not be returned to it. The Firefighters Pension Fund's investment policy does not require pledging of collateral for all bank balances in excess of federal depository insurance, since flow-through FDIC insurance is available for the Firefighters and Police Pension Fund's deposits with financial institutions.

*Investments*

Custodial credit risk: Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to the investment, the Firefighters Pension Fund will not be able to recover the value of its investments that are in possession of an outside party. The Firefighters Pension Fund's investment policy does not specifically address custodial credit risk, except for the Fund's compliance with state statutes.

**SPRINGFIELD FIREFIGHTERS' PENSION FUND  
CITY OF SPRINGFIELD, ILLINOIS**

**NOTES TO FINANCIAL STATEMENTS - continued  
February 29, 2016**

**Note 3. CASH, CASH EQUIVALENTS AND INVESTMENTS (continued)**

Investment Type	FMV	Maturity (IRR)			
		Less Than 1 Year	1-5 Years	6-10 Years	More Than 10 Years
U.S. agency obligations	\$15,092,467	\$ 2,762	\$ 1,708,666	\$ 3,942,003	\$ 9,439,036
U.S. government obligations	12,697,653	756,975	8,415,553	3,525,125	
Corporate bonds	<u>9,547,123</u>	<u>60,919</u>	<u>5,364,958</u>	<u>4,097,014</u>	<u>24,232</u>
<b>Total Subject to Interest Rate Risk</b>	<b><u>\$37,337,243</u></b>	<b><u>\$ 820,656</u></b>	<b><u>\$15,489,177</u></b>	<b><u>\$11,564,142</u></b>	<b><u>\$ 9,463,268</u></b>

(IRR) **Interest rate risk:** The risk that changes in interest rates will adversely affect the fair value of the investment. The Board of Trustees of the Springfield Firefighters' Pension Funds recognizes their ultimate responsibility for the value preservation and growth of the Fund's assets in its investment policies. The policies will minimize the risk that the market value of the securities in the portfolio will fall due to changes in general interest rates by structuring the investment portfolio so that securities mature to meet cash requirements for benefit payments, thereby avoiding the need to sell securities on the open market prior to maturity.

Investment Type	Fair Value	Rating (CR)			
		AAA	AA	A	BBB
U.S. agency obligations	\$15,092,467	\$1,757,905	\$13,334,562	\$	\$
Corporate bonds	9,547,123	135,422	1,188,617	3,567,875	4,655,209
Money market funds	<u>1,763,768</u>	<u>1,763,768</u>			
Sub-totals	26,403,358	<u>\$3,657,095</u>	<u>\$14,523,179</u>	<u>\$3,567,875</u>	<u>\$4,655,209</u>
U.S. property-separate insurance account	<u>11,891,365</u>	(Note)			
<b>Total Subject to Credit Risk</b>	<b><u>\$38,294,723</u></b>				

(CR) **Credit risk:** Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assigned of a rating by a nationally recognized statistical rating organization.

The policies of the Firefighter's Pension Fund will minimize credit risk, the risk of loss due to failure of the security issuer or backer, by pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Pension will do business and by diversifying the portfolio so that potential losses on individual securities will be minimized.

(Note) U.S. property-separate insurance account is a group annuity contract with Principal Life Insurance Company. The annuity is designed for institutional investors and meets the Illinois Pension Code definitions of authorized investments. While the specific annuity is not rated by the agencies mentioned above, Principal Life Insurance Company is rated by A.M. Best as "A+ – Superior" (2<sup>nd</sup> of 16 rating categories):

Excluded from the credit risk grid above are securities backed by the full faith and credit of the U.S. government including treasury notes, bonds and strips.



**SPRINGFIELD FIREFIGHTERS' PENSION FUND  
CITY OF SPRINGFIELD, ILLINOIS**

**NOTES TO FINANCIAL STATEMENTS - continued  
February 29, 2016**

**Note 3. CASH, CASH EQUIVALENTS AND INVESTMENTS (continued)**

*Equity-type Investments*

Equity investments are held in custodial accounts managed by US Bank, PIMCO, Vanguard, Dimensional Fund Advisors, JP Morgan/Chase Bank, and G.W. Capital. The investment policy of the Pension Fund allows an allocation of between 44% and 64% of the plan assets in equity-type investments, and sets further allocation guidelines within that scope. Individual holdings must meet certain criteria outlined in the investment policies, and no individual holding may comprise more than 5% of the equity-type holdings in total.

At February 29, 2016 the equity-type investments consisted of the following:

<u>Type</u>	<u>Acquisition Cost</u>	<u>Market Value</u>	<u>% of Plan Assets</u>
Cash equivalents	\$ 691,868	\$ 691,868	.62%
Common stocks – U.S.	15,956,390	16,015,039	14.26%
CTF/Mutual Funds	44,225,565	43,457,687	38.69%
Common stock non-U.S.	<u>1,264,480</u>	<u>1,266,957</u>	<u>1.12%</u>
<b>Totals</b>	<b><u>\$62,138,303</u></b>	<b><u>\$61,431,551</u></b>	<b><u>54.69%</u></b>

Additionally, the investment policy of the fund authorities and investment of between 5% and 11% in Core Real Estate. The Principal Life Insurance contract described earlier meets that objective.

*Related Party Transactions and Significant Investments*

There were no securities of the City of Springfield or related parties included in the assets of the pension trust fund during the year ended February 29, 2016. There are no investments (other than U.S. government, U.S. government-guaranteed obligations) in any one organization that represents 5% or more of net assets available for benefits.

*Rate of Return*

For the year ended February 29, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was negative (4.86) percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**Note 4. CONTINGENCIES**

The Plan is subject to a program compliance audit by the Illinois Department of Insurance. The compliance audit for the year ended February 29, 2016 has not yet been conducted. Accordingly, the Plan's compliance with applicable requirements will be established at some future date. The amount of adjustments, if any, to be made by the Illinois Department of Insurance cannot be determined at this time, although the Plan expects such amount, if any, to be immaterial.

In May of 2016, the Springfield Firefighters' Pension Fund board asked a Sangamon County circuit judge to resolve an issue regarding two conflicting rulings the board has received from the Illinois Department of Insurance (DOI). The two rulings concern the inclusion or exclusion of holiday pay awarded to firefighters in the calculation of pensionable income. In 1998, DOI ruled that the pay was pensionable salary, and in November of 2015, DOI ruled that it was not pensionable salary. As of August 19, 2016, no ruling on the question had been made by the judge.



**SPRINGFIELD FIREFIGHTERS' PENSION FUND  
CITY OF SPRINGFIELD, ILLINOIS**

**NOTES TO FINANCIAL STATEMENTS - continued  
February 29, 2016**

**Note 5. PENSION LIABILITY OF THE CITY**

*Net Pension Liability*

The components of the net pension liability of the Plan as of February 29, 2016 were as follows:

Total pension liability	\$ 298,498,939
Plan fiduciary net position	\$ 112,241,932
City's net pension liability	\$ 186,257,007
Plan fiduciary net position as a percentage of the total pension liability	37.6%

See the Schedule of changes in the Employer's Net Pension Liability and Related Ratios included in the required supplementary information for additional information related to the funded status of the Plan.

*Actuarial Assumptions*

The total pension liability above was determined by an actuarial valuation performed as of March 1, 2016 using the following actuarial methods and assumptions.

Actuarial Valuation Date	March 1, 2016
Actuarial Cost Method	Entry age normal (level %)
Assumptions (Economic):	
Rate of Return – Long Term	7.00%
Inflation Rate Included	2.50%
Consumer Price Index (Urban)	2.50%
Individual Salary Increases	4.00% to 16.79%
Projected Increase in Total Payroll	3.25%
Discount Rate – Total Pension Liability	6.62%
Asset Valuation Method	Market

All rates shown in the economic assumptions are annual rates, compound on an annual basis. The demographic assumptions that follow are based on rates developed by the actuaries at Lauterbach & Amen, LLP who performed the March 1, 2016 actuarial valuation.

Mortality Table	L&A 2016 Illinois Firefighters' Mortality Rates
Retirement Rates	L&A 2016 Illinois Firefighters' Mortality Rates Capped at Age 65
Disability Rates	L&A 2016 Illinois Firefighters' Disability Rates
Termination Rates	L&A 2016 Illinois Firefighters' Termination Rates
Percent Married	80%

**SPRINGFIELD FIREFIGHTERS' PENSION FUND  
CITY OF SPRINGFIELD, ILLINOIS**

**NOTES TO FINANCIAL STATEMENTS - continued  
February 29, 2016**

**Note 5.     *PENSION LIABILITY OF THE CITY (continued)***

*Discount Rate*

The discount rate used to measure the total pension liability was 6.62%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the Fund's fiduciary net position was projected to be available to make all projected benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Discount Rate Sensitivity*

The following is a sensitive analysis of the net pension liability to changes in the discount rate. The table below presents the pension liability of the City calculated using the discount rate of 6.62% as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (5.62%) or 1 percentage point higher (7.62%) than the current rate:

<u>Type</u>	<u>1% Decrease (5.62%)</u>	<u>Current Discount Rate (6.62%)</u>	<u>1% Increase (7.62%)</u>
Employer Net Pension Liability	\$228,401,295	\$186,257,007	\$151,756,102

### ***REQUIRED SUPPLEMENTARY INFORMATION***

Required supplementary information includes financial information and disclosures that are required by the GASB but are not considered a part of the basic financial statements. Such information includes:

- Schedule of Changes in the Employer's Net Pension Liability
- Schedule of Employer Contributions
- Schedule of Investment Returns

**SPRINGFIELD FIREFIGHTERS' PENSION FUND  
CITY OF SPRINGFIELD, ILLINOIS**

**SCHEDULE OF CHANGES IN THE EMPLOYER'S NET PENSION LIABILITY  
AND RELATED RATIOS  
February 29, 2016**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Total Pension Liability</b>			
Service cost	\$ 5,111,168	\$ 5,438,758	\$ 4,666,656
Interest	17,506,592	17,749,350	16,687,209
Differences between expected and actual experience	4,164,750		1,049,143
Change of assumptions	14,101,572 (2)		24,694,346 (1)
Benefit payments, including refunds of member contributions	( 13,670,346)	( 12,922,751)	( 12,341,849)
<b>Net Change in Total Pension Liability</b>	27,213,736	10,265,357	34,755,505
<b>Total Pension Liability - Beginning</b>	<u>271,285,203</u>	<u>261,019,846</u>	<u>226,264,341</u>
<b>Total Pension Liability - Ending</b>	<u>\$298,498,939</u>	<u>\$271,285,203</u>	<u>\$261,019,846</u>
<b>Plan Fiduciary Net Position</b>			
Contributions-employer	\$ 9,786,645	\$ 9,973,179	\$ 9,599,575
Contributions-member	1,696,300	1,704,162	1,628,970
Net investment income	( 5,946,400)	7,144,916	12,077,281
Benefit payments, including refunds of member contributions	(13,670,346)	( 12,922,751)	( 12,341,849)
Administrative expense	( 109,969)	( 133,317)	( 113,929)
<b>Net Change in Plan Fiduciary Net Position</b>	( 8,243,770)	5,766,189	10,850,048
<b>Plan Net Position - Beginning</b>	<u>120,485,702</u>	<u>114,719,513</u>	<u>103,869,465</u>
<b>Plan Net Position - Ending</b>	<u>\$112,241,932</u>	<u>\$120,485,702</u>	<u>\$114,719,513</u>
<b>Employer's Net Pension Liability</b>	<u>\$186,257,007</u>	<u>\$150,799,501</u>	<u>\$146,300,333</u>
<b>Plan Fiduciary Net Position as a percentage of the total pension liability</b>	37.6%	44.4%	44.0%
<b>Covered -Employee Payroll</b>	\$ 16,982,730	\$ 17,649,529	\$ 16,810,957
<b>Employer's Net Pension Liability as a percentage of Covered-Employee Payroll</b>	1096.7%	854.4%	870.3%

*Notes to Schedule:*

- (1) This adjustment to increase the total pension liability is the result of changes in assumptions. The investment return rate was reduced from 7.5% to 6.8% and the "entry age normal" actuarial cost method was used as opposed to the previous use of the "projected unit credit" cost method.
- (2) This adjustment to increase the total pension liability is the result of changes in assumptions from 2015 to 2016. These changes included a change in the discount rate, changes in assumed salary increases, mortality rates and the expected long-term rate of return.

This schedule will eventually show ten years of changes in the employer's net pension liability. Only three years of information are available at this time.

See independent auditor's report.



**SPRINGFIELD FIREFIGHTERS' PENSION FUND  
CITY OF SPRINGFIELD, ILLINOIS**

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

**February 29, 2016**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$10,395,154	\$ 10,661,138	\$ 9,579,518
Contributions in relation to the actuarially determined contribution	<u>9,786,645</u>	<u>9,973,179</u>	<u>9,599,575</u>
<b>Contribution Deficiency (excess)</b>	<b>\$ <u>608,509</u></b>	<b>\$ <u>687,959</u></b>	<b>\$ (<u>20,057</u>)</b>
<b>Covered – Employee Payroll</b>	<b>\$16,982,730</b>	<b>\$17,649,529</b>	<b>\$16,810,957</b>
<b>Contributions as a percentage of Covered – Employee Payroll</b>	<b>57.63%</b>	<b>56.51%</b>	<b>57.10%</b>

*Notes to Schedule:*

*Valuation date:* Actuarially determined contribution rates are calculated as of the Plan year end.

*Methods and assumptions used to determine contribution rates:*

Actuarial cost method	Entry-age normal
Amortization method	Level percent of pay (closed)
Remaining amortization period	24 years (The funding schedule was reset to end in 2040 in 2011) 90% funded in 2040
Asset valuation method	5-year smoothed, market value
Inflation	4% (2015) and 2.5% (2016)
Salary increases	5%
Investment rate of return	7.25% (2015) and 7.00% (2016)
Discount rate	6.8% (2015) and 6.62% (2015)
Retirement age	See the notes to the financial statements
Mortality	L&A 2016 Illinois Firefighters' Mortality Rates

This schedule will eventually show ten years of comparisons of the actuarially determined contributions and actual employer contributions for analysis. Only three years of actuarially determined contributions was available for this reporting period.

See independent auditor's report.



SPRINGFIELD FIREFIGHTERS' PENSION FUND  
CITY OF SPRINGFIELD, ILLINOIS

SCHEDULE OF INVESTMENT RETURNS

February 29, 2016

	<u>2016</u>	<u>2015</u>
Annual money-weighted rate of return, net of investment expense	(4.86%)	6.30%

*Notes to Schedule:*

This schedule will eventually show ten years of comparisons of the actuarially determined contributions and actual employer contributions for analysis. Only two years of information are available for this reporting period.

See independent auditor's report.