

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, 2015

SPRINGFIELD FIREFIGHTERS' PENSION FUND
CITY OF SPRINGFIELD, ILLINOIS

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August 20, 2015

Board of Trustees
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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 28, 2015, 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 28, 2015, 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.

Emphasis of Matter

Adoption of New Accounting Standards

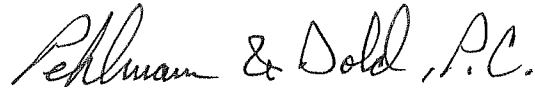
As discussed in note 2 to the financial statements, on March 1, 2014 the Plan adopted new accounting guidance, Statement No. 67 of the Governmental Accounting Standards Board, *Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 25 (GASB 67)*. Our opinion is not modified with respect to this matter.

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,



PEHLMAN & 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 28, 2015. 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 2015, contributions of \$11,677,341, gains on investments of \$7,144,916 and deductions to net assets of \$13,056,068 resulted in a net increase in net assets of \$5,766,189. This net increase brought the Plan's net assets base to \$120,485,702. For actuarial calculations, the Springfield Firefighter's Pension Fund uses a four-year smoothed market-related value to determine the actuarial value of assets. The smoothing prevents extreme volatility in employer contribution rates due to short-term fluctuations in the investment markets. For the February 28, 2014 valuation, the actuarial value of assets was \$111,954,009. The aggregate actuarial liability was \$236,325,500. On an actuarial basis, the assets held currently fund 47.4% of this liability. This is an increase from the funding ratio of 44.6% for 2013.

Plan Fiduciary Net Position Restricted 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

	2015	2014	Dollar Change	Percent Change
Cash & equivalents	\$ 1,938,204	\$ 4,552,075	\$(2,613,871)	(57)%
Investments	118,367,447	110,019,668	8,347,779	8%
Receivables	217,661	205,606	12,055	6%
Prepaid expenses	<u>9,740</u>	<u>8,680</u>	<u>1,060</u>	<u>12%</u>
<i>Total Assets</i>	120,533,052	114,786,029	5,747,023	5%
Liabilities	<u>47,350</u>	<u>66,516</u>	<u>(19,166)</u>	<u>(29)%</u>
Total Plan Fiduciary Net Position	\$120,485,702	\$114,719,513	\$ 5,766,189	5%

As the above table shows, plan net position increased by \$5,766,189, or 5%, in 2015. This increase reflects both decreases in cash and increases in investment balances at year-end.

Changes in Plan Fiduciary Net Position

Condensed Statements of Changes in Plan Fiduciary Net Position

	2015	2014	Dollar Change	Percent Change
Additions				
Employer contributions	\$ 9,973,179	\$ 9,599,575	\$ 373,604	4%
Participant contributions	1,704,162	1,628,970	75,192	5%
Net invest income/loss	<u>7,144,916</u>	<u>12,077,281</u>	<u>(4,932,365)</u>	<u>(41)%</u>
Total additions	18,822,257	23,305,826	(4,483,567)	(19)%
Deductions				
Benefits	12,922,751	12,341,849	580,902	5%
Administration expenses	<u>133,317</u>	<u>113,929</u>	<u>19,388</u>	<u>17%</u>
Total deductions	13,056,068	12,455,778	600,290	5%
Net increase In Fiduciary Net Position	\$ 5,766,189	\$ 10,850,048	\$(5,083,859)	(47)%

Additions

Additions needed to fund benefits are accumulated through contributions and returns on invested funds. Contributions for 2015 totaled \$11,677,341. This represents a decrease of 4% or \$448,796 from 2014.

The fund had a 41% decrease in net investment income for the year. This increase is due to changes in market conditions.

In 2015, the fund had net appreciation in the fair value of investments of \$4,579,399 – a \$5,358,410 decrease from the \$9,937,809 of appreciation recorded in 2014. Interest and dividends income totaled \$2,808,394, an increase of \$413,469 from 2014. Investment expenses decreased from \$255,453 in 2014 to \$242,873 in 2015.

Deductions

The expenses paid by the fund include benefit payments and administrative expenses. Administrative expenses for 2015 totaled \$133,317, an increase of \$19,388 from 2014.

SPRINGFIELD FIREFIGHTERS' PENSION FUND
CITY OF SPRINGFIELD, ILLINOIS

STATEMENT OF FIDUCIARY NET POSITION

February 28, 2015

ASSETS

Cash and cash equivalents		\$ 1,938,204
<i>Investments, at fair value</i>		
U.S. governments securities	\$10,788,421	
U.S. agency securities	17,201,284	
Corporate bonds	8,621,203	
Mutual funds	56,267,540	
Common stocks	14,971,518	
U.S. property-separate account	<u>10,517,481</u>	
Total investments		118,367,447
Prepaid expenses		9,740
<i>Receivables</i>		
Interest and dividends		217,661
Total assets		<u>120,533,052</u>

LIABILITIES

Accounts payable		<u>47,350</u>
Total liabilities		<u>47,350</u>

**NET POSITION RESTRICTED
FOR PENSION BENEFITS**

\$120,485,702

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 28, 2015

ADDITIONS

Contributions

Employer	\$ 9,973,179
Participants	1,704,162
Total contributions	<u>11,677,341</u>

Investment income

Net appreciation (depreciation) in fair value of investments (unrealized)	1,827,435
Gains and (losses) from the sale of securities (realized)	2,751,964
Interest, dividends and other income	2,808,390
Total investment income (loss)	<u>7,387,789</u>
Less investment expense	(242,873)
Net investment income (loss)	<u>7,144,916</u>

Total additions 18,822,257

DEDUCTIONS

Pension benefits

Retirement	10,154,731
Disability	1,151,004
Survivor	1,617,016
Transfer to other Illinois Public Pension Funds	-
Total pension benefits	<u>12,922,751</u>

Administrative expenses

Professional fees	38,135
Other	95,182
Total administrative expenses	<u>133,317</u>

Total deductions 13,056,068

Net Increase in Plan Net Assets 5,766,189

NET POSITION RESTRICTED FOR PENSION BENEFITS

March 1, 2014 114,719,513

NET POSITION RESTRICTED FOR PENSION BENEFITS

February 28, 2015 \$120,485,702

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 28, 2015**

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 28, 2015. 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 28, 2015**

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 20, 2015, 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 28, 2014, 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	241
Inactive employees entitled to, but not yet receiving benefits	2
Current employees	
Vested	130
Non-vested	<u>87</u>
Total	<u>460</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 28, 2015**

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. The City Council voted to contribute \$500,000 to the Plan in excess of the actuarially determined required contribution during the fiscal year ended February 28, 2015.

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 28, 2015 the carrying amount of the Pension Fund's deposits totaled \$166,896 in the Illinois Funds, and the Illinois Funds balance totaled \$312,152. The checking account utilized for a portion of the year was fully covered by FDIC insurance while the Illinois Funds balance meets the investment guidelines to which the Pension Fund is subject.

Cash, and Cash Equivalents

Illinois Funds	\$ 166,896
Money market funds in custodial accounts	<u>1,771,308</u>
	1,938,204
Less: Cash equivalents reclassified as investments	<u>(1,771,308)</u>
<i>Carrying Amount of Deposits</i>	<u>\$ 166,896</u>

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.

<i>Represented By:</i>	
Cash, cash equivalents and investments	\$120,305,651
Less: Carrying amount of deposits	<u>(166,896)</u>
<i>Total Investments</i>	<u>\$120,138,755</u>

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

**NOTES TO FINANCIAL STATEMENTS - continued
February 28, 2015**

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	\$ 166,896	\$	\$ 166,896
Equity-type investments	925,425	71,239,058	72,164,483
Fixed income-type investments	845,883	36,610,908	37,456,791
Insurance managed separate real estate		<u>10,517,481</u>	<u>10,517,481</u>
Total	<u>\$1,938,204</u>	<u>\$118,367,447</u>	<u>\$120,305,651</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 28, 2015**

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	\$17,201,284	\$ 265,626	\$ 2,517,132	\$ 3,575,828	\$10,842,698
U.S. government obligations	10,788,421	1,001,170	6,376,195	3,411,056	
Corporate bonds	<u>8,621,203</u>	<u>190,029</u>	<u>4,768,031</u>	<u>3,637,835</u>	<u>25,308</u>
Total Subject to Interest Rate Risk	<u>\$36,610,908</u>	<u>\$1,456,825</u>	<u>\$13,661,358</u>	<u>\$10,624,719</u>	<u>\$10,868,006</u>

(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	\$17,201,284	\$1,596,951	\$15,604,333	\$	\$
Corporate bonds	8,621,203	80,513	809,798	4,686,895	3,043,997
Money market funds	1,771,308	1,771,308			
Illinois funds	<u>166,896</u>	<u>166,896</u>			
Sub-totals	27,760,691	<u>\$3,615,668</u>	<u>\$16,414,131</u>	<u>\$4,686,895</u>	<u>\$3,043,997</u>
U.S. property-separate insurance account	<u>10,517,481</u>	(Note)			
Total Subject to Credit Risk	<u>\$38,278,172</u>				

(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" (2nd 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 28, 2015**

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 28, 2015 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	\$ 925,425	\$ 925,425	.77%
Common stocks – U.S.	11,110,589	14,258,912	11.83%
CTF/Mutual Funds	47,535,394	56,267,540	46.68%
Common stock non-U.S.	<u>579,338</u>	<u>712,606</u>	<u>.59%</u>
Totals	<u>\$60,150,746</u>	<u>\$72,164,483</u>	<u>59.87%</u>

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 28, 2015. 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 28, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 6.3 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 28, 2015 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.

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

**NOTES TO FINANCIAL STATEMENTS - continued
February 28, 2015**

Note 5. PENSION LIABILITY OF THE CITY

Net Pension Liability

The components of the net pension liability of the Plan as of February 28, 2015 were as follows:

Total pension liability	\$ 271,285,203
Plan fiduciary net position	\$ 120,485,702
City's net pension liability	\$ 150,799,501
Plan fiduciary net position as a percentage of the total pension liability	44.4%

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 February 28, 2014 and rolled forward to February 28, 2015 using the following actuarial methods and assumptions.

Actuarial Valuation Date	February 28, 2015
Actuarial Cost Method	Entry age normal
Assumptions:	
Spouse's Age	Three years younger than employee's age
Salary Increases	5% (4% inflation plus 1% merit increases)
Discount Rate	6.8% compounded annually
Marital Status	80% of participants assumed to be married
Asset Valuation Method	Market

Mortality rates were based on the RP-2000 Mortality Table with blue collar adjustments for males and females, projected to 2015, and used for active employees as well as pensioners. The RP-2000 Disabled Mortality Table, projected to 2015, was used for disabled firefighters.

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

**NOTES TO FINANCIAL STATEMENTS - continued
February 28, 2015**

Note 5. PENSION LIABILITY OF THE CITY (continued)

Discount Rate

The discount rate used to measure the total pension liability was 6.8%. 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 project figure benefit payment 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 6.80% 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 (5.80%) or 1 percentage point higher (7.80%) than the current rate:

<u>Type</u>	<u>1% Decrease (5.80%)</u>	<u>Current Discount Rate (6.80%)</u>	<u>1% Increase (7.80%)</u>
Net Pension Liability	\$187,205,971	\$150,799,497	\$120,741,097

REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)

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

**SCHEDULE OF CHANGES IN THE EMPLOYER'S NET PENSION LIABILITY
AND RELATED RATIOS**

February 28, 2015

	<u>2015</u>	<u>2014</u>
<i>Total Pension Liability</i>		
Service cost	\$ 5,438,758	\$ 4,666,656
Interest	17,749,350	16,687,209
Changes of benefit terms		
Differences between expected and actual experience		1,049,143
Change of assumptions		24,694,346 (1)
Benefit payments, including refunds of member contributions	(12,922,751)	(12,341,849)
<i>Net Change in Total Pension Liability</i>	10,265,357	34,755,505
<i>Total Pension Liability - Beginning</i>	<u>261,019,846</u>	<u>226,264,341</u>
<i>Total Pension Liability - Ending</i>	<u>\$271,285,203</u>	<u>\$261,019,846</u>
<i>Plan Fiduciary Net Position</i>		
Contributions-employer	\$ 9,973,179	\$ 9,599,575
Contributions-member	1,704,162	1,628,970
Net investment income	7,144,916	12,077,281
Benefit payments, including refunds of member contributions	(12,922,751)	(12,341,849)
Administrative expense	(133,317)	(113,929)
<i>Net Change in Plan Fiduciary Net Position</i>	5,766,189	10,850,048
<i>Plan Net Position - Beginning</i>	<u>114,719,513</u>	<u>103,869,465</u>
<i>Plan Net Position - Ending</i>	<u>\$120,485,702</u>	<u>\$114,719,513</u>
<i>Employer's Net Pension Liability</i>	<u>\$150,799,501</u>	<u>\$146,300,333</u>
<i>Plan Fiduciary Net Position as a percentage of the total pension liability</i>	44.4%	44.0%
<i>Covered - Employee Payroll</i>	\$ 17,649,529	\$ 16,810,957
<i>Employer's Net Pension Liability as a percentage of Covered-Employee Payroll</i>	854.4%	870.26%

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.

Prior to application of GASB No. 67, the "total actuarial liability" at February 28, 2014 was \$236,325,500. After application of the new standard the "total pension liability" at the same date was \$261,019,846. The resulting increase of \$24,694,346 was the result of applying the new standard and the resulting change in assumptions.

This schedule will eventually show ten years of changes in the employer's net pension liability. Only two 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 28, 2015

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

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; 100% through 2012 and 90% beginning in 2013
Remaining amortization period	26 years (The funding schedule was reset to end in 2040 in 2011.)
Asset valuation method	Market
Inflation	4%
Salary increases	5% compounded annually (including inflation)
Investment rate of return	7.25%
Discount rate	6.8%
Mortality	See note 5 in the notes to the financial statements

This schedule will eventually show ten years of comparisons of the actuarially determined contributions and actual employer contributions for analysis. Only one year 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 28, 2015

	<u>2015</u>
Annual money-weighted rate of return, net of investment expense	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 one year of information is available for this reporting period.

See independent auditor's report.