

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, 2019

SPRINGFIELD FIREFIGHTERS' PENSION FUND
CITY OF SPRINGFIELD, ILLINOIS

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August 13, 2019

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 28, 2019, 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, 2019, 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.

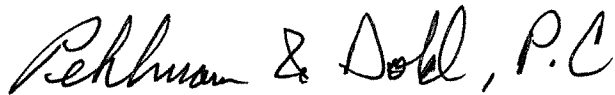
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States require that the 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 14-16 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.

The Springfield Firefighters' Pension Fund has not presented the management's discussion and analysis that governmental accounting principles generally accepted in the United States require to be presented to supplement the basic financial statements. Such missing information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Respectfully submitted,



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

SPRINGFIELD FIREFIGHTERS' PENSION FUND
CITY OF SPRINGFIELD, ILLINOIS

STATEMENT OF FIDUCIARY NET POSITION

February 28, 2019

ASSETS

| | | |
|-----------------------------------|-------------------|--------------------|
| Cash and cash equivalents | | \$ 1,610,892 |
| <i>Investments, at fair value</i> | | |
| U.S. governments securities | \$14,684,390 | |
| U.S. agency securities | 5,963,754 | |
| Corporate bonds | 24,442,303 | |
| Municipal bonds | 1,397,702 | |
| Mutual funds | 63,152,152 | |
| Common stocks | 9,042,432 | |
| U.S. property-separate account | <u>13,328,911</u> | |
| Total investments | | 132,011,644 |
| Prepaid expenses | | 11,097 |
| Receivables | | |
| Interest and dividends | | 333,278 |
| Total assets | | <u>133,966,911</u> |

LIABILITIES

| | | |
|--------------------------|--|---------------|
| Accounts payable | | <u>33,532</u> |
| Total liabilities | | <u>33,532</u> |

**NET POSITION RESTRICTED
FOR PENSION BENEFITS**

\$133,933,379

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, 2019

ADDITIONS

Contributions

| | |
|----------------------------|-------------------|
| Employer | \$ 11,916,494 |
| Participants | <u>1,700,670</u> |
| Total contributions | <u>13,617,164</u> |

Investment income

| | |
|---|--------------|
| Net appreciation (depreciation) in fair value of investments: | |
| Fixed income securities | 262,886 |
| Insurance contract | 995,897 |
| Stock equities | (208,781) |
| Mutual funds | (1,763,956) |
| Interest, dividends and other income: | |
| Demand deposits | 58,007 |
| Fixed income securities | 1,270,941 |
| Stock equities | 228,459 |
| Mutual funds | 1,651,859 |
| Other income | <u>8,178</u> |

| | |
|--------------------------------|-------------------|
| Total investment income | 2,503,490 |
| Less investment expense | (232,238) |
| Net investment income | <u>2,271,252</u> |
| Total additions | <u>15,888,416</u> |

DEDUCTIONS

| | |
|-------------------------------------|-------------------|
| <i>Pension benefits and refunds</i> | |
| Pension benefits | 15,723,823 |
| <i>Administrative expenses</i> | |
| Professional fees | 80,208 |
| Insurance | 13,438 |
| Personal services | 9,00 |
| Other | <u>29,849</u> |
| Total deductions | <u>15,856,318</u> |

Net Increase in Plan Net Assets 32,098

NET POSITION RESTRICTED FOR PENSION BENEFITS

March 1, 2018 133,901,281

NET POSITION RESTRICTED FOR PENSION BENEFITS

February 28, 2019 \$133,933,379

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, 2019**

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.

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.

Measurement Focus and 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, 2019. Securities traded on common 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, 2019**

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 15, 2019, 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, 2019, 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 | 250 |
| Inactive employees entitled to, but not yet receiving benefits | 1 |
| Current employees: | |
| Vested | 141 |
| Non-vested | <u>80</u> |
| Total | <u>472</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 (Tier I employees), 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, 2019**

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

Tier 2 employees 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 one-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 28, 2019 the carrying amount of the Pension Fund's deposits totaled \$59,928 in the checking account, and the checking account balance totaled \$234,691. The checking account utilized was fully covered by FDIC insurance.

Cash, and Cash Equivalents

| | |
|--|-------------------------|
| Carrollton Bank Checking | \$ 59,928 |
| Money market funds in custodial accounts | <u>1,550,964</u> |
| | 1,610,892 |
| Less: Cash equivalents reclassified as investments | <u>(1,550,964)</u> |
| Carrying Amount of Deposits | <u>\$ 59,928</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.

Represented By:

| | |
|--|-----------------------------|
| Cash, cash equivalents and investments | \$133,622,536 |
| Less: Carrying amount of deposits | <u>(59,928)</u> |
| Total Investments | <u>\$133,562,608</u> |

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

**NOTES TO FINANCIAL STATEMENTS - continued
February 28, 2019**

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 | \$ 59,928 | \$ | \$ 59,928 |
| Equity-type investments | 1,135,117 | 72,194,584 | 73,329,701 |
| Fixed income-type investments | 415,847 | 46,488,149 | 46,903,996 |
| Insurance managed separate real estate | | <u>13,328,911</u> | <u>13,328,911</u> |
| Total | <u>\$1,610,892</u> | <u>\$132,011,644</u> | <u>\$133,622,536</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 2017). 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.

Investment Policy

The Springfield Firefighters' Pension Fund, in accordance with GASB Statement 67, has implemented the following targets with the respective return assumptions for broad asset classes in the Fund's portfolio:

| <u>Asset Class</u> | <u>Minimum Target(%)</u> | <u>Target(%)</u> | <u>Maximum Target(%)</u> | <u>Expected Rate of Return Assumption(%)</u> | <u>Real Rate of Return Assumption(%)</u> |
|----------------------|------------------------------|------------------|------------------------------|--|--|
| Fixed Income | 30.0 | 35.0 | 40.0 | 4.4 | 2.1 |
| U.S. Equity | 29.0 | 34.0 | 39.0 | 7.9 | 5.6 |
| International Equity | 13.0 | 18.0 | 23.0 | 8.1 | 5.8 |
| Global Tactical | 0.0 | 3.0 | 6.0 | 6.2 | 3.9 |
| Real Estate | 7.0 | 10.0 | 13.0 | 7.5 | 5.2 |
| Cash and Equivalents | 0.0 | 0.0 | 3.0 | 2.7 | 0.4 |

The projected future expected returns of the broad asset classes shown above are based on a Monte Carlo simulation of macroeconomic factors, which are used to model monthly return outcomes of capital markets. The simulations are created by an economic scenario generator, which is the driving force behind the investment advisor's asset allocation model. The economic scenario generator simulates the future performance of the capital markets and macro-economy; the underlying models are calibrated based on the long-term historical record, so that they will reproduce the kinds of volatility and stress scenarios that have been observed over the last 120 years. The models are linked and correlated so that the behavior of different asset classes and economic variables is consistent within each random scenario.

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

**NOTES TO FINANCIAL STATEMENTS - continued
February 28, 2019**

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

Concentrations

There were not significant investments (other than mutual funds, and the U.S. property separate insurance contract) in any one organization that represent 5% or more of the Plan's investments.

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. The City Treasurer's Office that controls the bank account balance does require that Carrolton Bank pledge collateral on bank balances in excess of FDIC insurance. At February 28, 2019, the bank had pledged a \$1.5 million dollar federal home loan bank irrevocable letter of credit.

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.

Interest Rate Risk

Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in the market interest rates. The Plan limits its exposure to interest rate risk by structuring the portfolio to provide liquidity for operating funds and maximizing yields for funds not needed for expected current cash flows. The Plan's investment policy does not limit the maximum maturity length of investments.

As of February 28, 2019, the Plan had the following investments and maturities of debt securities:

| Investment Type | FMV | Maturity (IRR) | | | |
|-------------------------|---------------------|---------------------|---------------------|---------------------|-----------------------|
| | | Less Than 1 Year | 1-5 Years | 6-10 Years | More Than 10 Years |
| Fixed income securities | \$46,488,149 | \$ 2,105,317 | \$23,379,725 | \$17,036,517 | \$ 3,966,590 |
| Total | \$46,488,149 | \$ 2,105,317 | \$23,379,725 | \$17,036,517 | \$ 3,966,590 |

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 assignment of a rating by a nationally recognized statistical rating organization. The Plan's investment policy does not specifically address credit risk for investments, except for the corporate bonds and compliance with State statutes. Corporate bonds must be rated as investment grade by one of the two largest rating agencies at the time of purchase. Subsequently, if a domestic corporate bond security is downgraded below investment grade by one of the two largest rating agencies, the security must be liquidated from the portfolio within 90 days after the downgrade.

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.

The table below shows the distribution of fixed income investments that have any degree of credit risk across the spectrum of ratings by either Standard and Poor's or Moody's.

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

**NOTES TO FINANCIAL STATEMENTS - continued
February 28, 2019**

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

| Investment Type | Fair Value | Rating (CR) | | | |
|--|---------------------|--------------------|---------------------|---------------------|--------------------|
| | | AAA | AA | A | BBB |
| U.S. agency obligations | \$ 5,963,754 | \$ | \$ 5,963,754 | \$ | \$ |
| Corporate bonds | 24,442,303 | 360,466 | 5,739,364 | 10,016,871 | 8,325,602 |
| Money market funds | 1,550,964 | 1,550,964 | | | |
| Municipal bonds | <u>1,397,702</u> | <u>198,977</u> | <u>942,828</u> | <u>255,897</u> | |
| Sub-totals | 33,354,723 | <u>\$2,110,407</u> | <u>\$12,645,946</u> | <u>\$10,272,768</u> | <u>\$8,325,602</u> |
| U.S. property-separate insurance account | <u>13,328,911</u> | (Note) | | | |
| Total Subject to Credit Risk | <u>\$46,683,634</u> | | | | |

(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 highest 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.

Equity-type Investments

Equity investments are held in custodial accounts managed by Northern Trust, PIMCO, Vanguard, Dimensional Fund Advisors, JP Morgan/Chase Bank, Great Lakes Advisors, and Chicago Equity Partners. The investment policy of the Pension Fund allows an allocation of between 45% and 65% 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, 2019 the equity-type investments consisted of the following:

| Type | Acquisition Cost | Market Value | % of Plan Assets |
|-----------------------|---------------------|---------------------|------------------|
| Cash equivalents | \$ 1,135,117 | \$ 1,135,117 | .85% |
| Common stocks – U.S. | 8,453,296 | 8,655,045 | 6.46% |
| CTF/Mutual Funds | 52,093,277 | 63,152,152 | 47.14% |
| Common stock non-U.S. | <u>434,442</u> | <u>387,387</u> | <u>.28%</u> |
| Totals | <u>\$62,116,132</u> | <u>\$73,329,701</u> | <u>54.73%</u> |

Additionally, the investment policy of the fund authorities and investment of between 7% and 13% 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, 2019. 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, 2019, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 1.73 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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

**NOTES TO FINANCIAL STATEMENTS - continued
February 28, 2019**

Note 4. CONTINGENCIES

The Plan is subject to a program compliance audit by the Illinois Department of Insurance (DOI). The compliance audit for the year ended February 28, 2019 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 DOI cannot be determined at this time, although the Plan expects such amount, if any, to be immaterial.

The DOI completed a compliance audit for the period beginning March 1, 2006 and ending March 31, 2018 and the preliminary findings, dated August 3, 2018, were presented to the board on December 27, 2018. The Plan's compliance with the Illinois Pension Code, its investment holdings and its management policies and procedures' compliance with the Illinois Pension Code as well as the Administrative Rules as promulgated by the DOI were examined. Several findings were noted in the compliance audit, some of which were disputed by the board and others drew acquiescence. No material financial obligation resulted from the findings.

One matter remains unresolved as it relates to the inclusion or exclusion of holiday pay awarded to firefighters is the calculation of pensionable income. In 1998, DOI ruled that the pay was pensionable salary and in November of 2015, DOI ruled it was not pensionable salary. On November 23, 2015, the board voted that holiday pay for any employee hired on or after November 23, 2015 would be non-pensionable. The board of the pension plan holds the opinion that reducing the pension benefit for those in the system previously would be a violation of the Illinois Constitution.

Note 5. FAIR VALUE MEASUREMENT

In fiscal year 2016-2017, the Plan adopted GASB 72, *Fair Value Measurement and Application*. GASB 72 was issued to address accounting and financial reporting issues related to fair value measurements. The Plan categorized its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in the active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Plan has the following recurring fair value measurements as of February 28, 2019:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---|----------------------------|----------------------------|------------------|-----------------------------|
| <i>Investments at Fair Value:</i> | | | | |
| Corporate Stocks: | | | | |
| Domestic | \$ 8,655,045 | \$ | \$ | \$ 8,655,045 |
| International | 387,387 | | | 387,387 |
| U.S. Treasury Securities | | 14,684,390 | | 14,684,390 |
| U.S. Agency Securities | | 5,963,754 | | 5,963,754 |
| Mutual Funds | 63,152,152 | | | 63,152,152 |
| Corporate bonds | | 24,442,303 | | 24,442,303 |
| Municipal bonds | | <u>1,397,702</u> | | <u>1,397,702</u> |
| Total by Fair Market Value | <u>\$72,194,584</u> | <u>\$46,488,149</u> | <u>\$</u> | 118,682,733 |
| <i>Investments Measured at the Net Asset Value (NAV):</i> | | | | |
| U.S. Property (Real Estate) | | | | <u>\$ 13,328,911</u> |
| Total Investments at Fair Value | | | | <u>\$132,011,644</u> |

As required by GAAP, certain investments that are measured at net asset value have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the total investments line item in the Statement of Fiduciary Net Position.

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

**NOTES TO FINANCIAL STATEMENTS - continued
February 28, 2019**

Note 5. FAIR VALUE MEASUREMENT (continued)

Equity and Fixed Income Securities

Equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets issued by pricing vendors for these securities. Debt and equity securities classified in Level 2 of the fair value hierarchy are valued using prices determined by the use of matrix pricing techniques maintained by the various pricing vendors for these securities. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Debt and equity securities classified in Level 3 are securities whose stated market price is unobservable by the market place, many of these securities are priced by the issuers or industry groups for these securities. Fair value is defined as the quoted market value on the last trading day of the period. These prices are obtained from various pricing sourced by the Plan's custodian bank.

Investments Measured at the Net Asset Value

U.S. Property Separate Account – This investment in United States real property is an open-end Private equity core real estate account managed and held by Principal Real Estate Investors (PREI), a subsidiary of Principal Life Insurance Company. Principal Life has the ability to apply contractual limitation which can delay the payment of withdrawal request for up to three years. Net assets are valued by Principal Life based upon independent appraisals or internally prepared valuations. An independent consultant selected by PREI oversees and administers the appraisal process for the account. The account's financial statements are independently audited and the real property assets held are classified within Level 3 of the valuation hierarchy.

Note 6. PENSION LIABILITY OF THE CITY

Net Pension Liability

The components of the net pension liability of the Plan as of February 28, 2019 were as follows:

| | |
|---|----------------|
| Total pension liability | \$ 318,740,574 |
| Plan fiduciary net position | \$ 133,933,379 |
| City's net pension liability | \$ 184,807,195 |
| Plan fiduciary net position as a percentage of the total pension liability | 42.0% |

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, 2018 using the following actuarial methods and assumptions.

| | |
|-------------------------------------|----------------------------|
| Measurement Date | February 28, 2019 |
| Actuarial Cost Method | Entry age normal (level %) |
| Assumptions (Economic): | |
| Expected Rate of Return – Long Term | 7.00% |
| Inflation Rate Included | 2.50% |
| Consumer Price Index (Urban) | 2.50% |

CITY OF SPRINGFIELD, ILLINOIS
NOTES TO FINANCIAL STATEMENTS - continued
February 28, 2019

Note 6. PENSION LIABILITY OF THE CITY (continued)

| | |
|---|-----------------|
| Individual Salary Increases | 4.00% to 16.79% |
| Projected Increase in Total Payroll | 3.25% |
| Discount Rate – Total Pension Liability | 6.89% |
| High Quality 20 Year Tax-Exempt Bond | 3.86% |
| 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, 2019 actuarial valuation.

| | |
|-------------------|---|
| Mortality Table | L&A 2016 Illinois Firefighters' Mortality Rates |
| Retirement Rates | L&A 2016 Illinois Firefighters' Retirement 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% |

Discount Rate

The discount rate used to measure the total pension liability was 6.84%, a decrease from the 6.89% rate used in the prior fiscal year. The discount rate is impacted by the "High Quality 20 Year Tax-Exempt Bond" rate which was changed due to changing market conditions. 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 future 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 6.84% 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 (5.84%) or 1 percentage point higher (7.84%) than the current rate:

| <u>Type</u> | <u>1% Decrease (5.84%)</u> | <u>Current Discount Rate (6.84%)</u> | <u>1% Increase (7.84%)</u> |
|--------------------------------|--------------------------------|--|--------------------------------|
| Employer Net Pension Liability | \$229,624,638 | \$184,807,195 | \$148,188,818 |

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 28, 2019

| | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Total Pension Liability | | | | | | |
| Service cost | \$5,205,445 | \$ 5,283,043 | \$ 4,951,770 | \$ 5,111,168 | \$ 5,438,75 | \$ 4,666,656 |
| Interest | 20,465,858 | 17,736,353 | 19,481,955 | 17,506,592 | 17,749,350 | 16,687,209 |
| Differences between expected and actual exp. | 1,493,791 | 238,569 | (2,744,644) | 4,164,750 | 1,049,143 | 1,049,143 |
| Change of assumptions | 2,400,265 (2) | (7,907,441) (2) | (3,133,319) (2) | 14,101,572 (2) | | 24,694,346 (1) |
| Benefit payments, including refunds of member contributions | (15,723,823) | (14,728,475) | (14,577,712) | (13,670,346) | (12,922,751) | (12,341,849) |
| Net Change in Total Pension Liability | 13,841,536 | 2,442,049 | 3,978,050 | 27,213,736 | 10,265,357 | 34,755,505 |
| Total Pension Liability – Beginning | 304,899,038 | 302,476,989 | 298,498,939 | 271,285,203 | 261,019,846 | 226,264,341 |
| Total Pension Liability - Ending | <u>\$318,740,574</u> | <u>\$304,899,038</u> | <u>\$302,476,989</u> | <u>\$298,498,939</u> | <u>\$271,285,203</u> | <u>\$261,019,846</u> |
| Plan Fiduciary Net Position | | | | | | |
| Contributions-employer | 11,916,494 | \$ 11,184,141 | \$ 10,395,154 | \$ 9,786,645 | \$ 9,973,179 | \$ 9,599,575 |
| Contributions-member | 1,700,670 | 1,696,447 | 1,718,845 | 1,686,300 | 1,704,162 | 1,628,970 |
| Net investment income | 2,271,252 | 11,568,713 | 14,904,623 | (5,946,400) | 7,144,916 | 12,077,281 |
| Benefit payments, including refunds of member contributions | (15,723,823) | (14,928,475) | (14,577,712) | (13,670,346) | (12,922,751) | (12,341,849) |
| Administrative expense | (132,495) | (165,250) | (137,137) | (109,969) | (133,317) | (113,929) |
| Net Change in Plan Fiduciary Net Position | 32,098 | 9,355,576 | 12,303,773 | (8,243,770) | 5,766,189 | 10,850,048 |
| Plan Net Position – Beginning | 133,901,281 | 124,545,705 | 112,241,932 | 120,485,702 | 114,719,513 | 103,869,465 |
| Plan Net Position - Ending | <u>\$133,933,379</u> | <u>\$133,901,281</u> | <u>\$124,545,705</u> | <u>\$112,241,932</u> | <u>\$120,485,702</u> | <u>\$114,719,513</u> |
| Employer's Net Pension Liability | <u>\$184,807,195</u> | <u>\$170,997,757</u> | <u>\$177,931,284</u> | <u>\$186,257,007</u> | <u>\$150,799,501</u> | <u>\$146,300,333</u> |
| Plan Fiduciary Net Position as a percentage of the total pension liability | 42.02% | 43.92% | 41.18% | 37.6% | 44.4% | 44.0% |
| Covered –Employee Payroll | \$19,807,840 | \$19,991,231 | \$19,361,967 | \$ 16,982,730 | \$ 16,985,797 | \$ 16,810,957 |
| Employer's Net Pension Liability as a percentage of Covered-Employee Payroll | 933.00% | 855.36% | 918.97% | 1096.7% | 887.8% | 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) These adjustments to increase or (decrease) the total pension liability are the result of changes in assumptions from the previous year. 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 six 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, 2019

| | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|-------------------|-------------------|-------------------|------------------|---------------------|--------------------|
| Actuarially determined contribution | \$11,916,494 | \$11,184,141 | \$10,395,154 | \$ 9,786,645 | \$ 9,473,179 | \$ 9,579,518 |
| Contributions in relation to the actuarially determined contribution | <u>11,916,494</u> | <u>11,184,141</u> | <u>10,395,154</u> | <u>9,786,645</u> | <u>9,973,179</u> | <u>9,599,575</u> |
| Contribution Deficiency (excess) | \$ <u>---</u> | \$ <u>---</u> | \$ <u>---</u> | \$ <u>---</u> | \$ <u>(500,000)</u> | \$ <u>(20,957)</u> |
| Covered – Employee Payroll | \$19,807,840 | \$19,991,231 | \$19,361,967 | \$16,982,730 | \$16,985,797 | \$16,810,957 |
| Contributions as a percentage of Covered – Employee Payroll | 60.16% | 55.94% | 53.86% | 57.63% | 58.71% | 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) |
| Remaining amortization period | 21 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 through 2019) |
| Salary increases | 5% before 2017 and 3.25% (2017 through 2019) |
| Investment rate of return | 7.25% (2015) and 7.00% (2016 through 2019) |
| Discount rate | 6.8% (2015), 6.62% (2016), 6.69% (2017), 6.89% (2018), and 6.84% (2019) |
| 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 six years of actuarially determined contributions are available for this reporting period.

See independent auditor's report.

SPRINGFIELD FIREFIGHTERS' PENSION FUND
CITY OF SPRINGFIELD, ILLINOIS

SCHEDULE OF INVESTMENT RETURNS

February 28, 2019

| | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|--|-------------|-------------|-------------|-------------|-------------|
| Annual money-weighted rate of return, net of investment expense | 1.73% | 9.42% | 13.35% | (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 five years of information are available for this reporting period.

See independent auditor's report.