

City of Springfield, Missouri Police Officers' and Fire Fighters' Retirement Fund

Independent Auditor's Report and Financial Statements

June 30, 2014

City of Springfield, Missouri
Police Officers' and Fire Fighters' Retirement Fund
June 30, 2014

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Independent Auditor's Report

The Board of Trustees
City of Springfield, Missouri
Police Officers' and Fire Fighters' Retirement Fund
Springfield, Missouri

Report on the Financial Statements

We have audited the accompanying basic financial statements of the City of Springfield, Missouri Police Officers' and Fire Fighters' Retirement Fund (the "Plan"), a fiduciary fund of the City of Springfield, Missouri, which comprise the statement of fiduciary net position as of June 30, 2014, and statement of changes in fiduciary net position and the related notes to the financial statements for the year ended June 30, 2014, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit 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 net position restricted for pensions of the Plan as of June 30, 2014, and the changes in its net position restricted for pensions for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in *Note 2* to the financial statements, in 2014, the Plan changed its approach for measuring the pension liability and presenting certain required pension information in accordance with GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension information listed in the table of contents be presented to supplement the basic financial statements. Such 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 financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2014, on our consideration of the Plan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Plan's internal control over financial reporting and compliance.

BKD, LLP

Springfield, Missouri
November 3, 2014

City of Springfield, Missouri
Police Officers' and Fire Fighters' Retirement Fund
Management Discussion and Analysis (Unaudited)
June 30, 2014

Management is pleased to present this overview and analysis of the financial activities of the City of Springfield, Missouri Police Officers' and Fire Fighters' Retirement Fund for the fiscal year ending June 30, 2014. The intent of this discussion and analysis is to look at the Plan's financial performance as a whole; readers should review the financial statements, notes to the financial statements and other schedules in order to enhance their understanding of the Plan's financial performance.

FINANCIAL STATEMENTS

The City of Springfield, Missouri Police Officers' and Fire Fighters' Retirement Fund is a single employer contributory defined benefit plan. The financial statements are prepared on an accrual basis, whereby transactions are recognized when they occur, regardless of when the cash is received or disbursed. Investments are recorded at market value.

The Statement of Fiduciary Net Position presents the assets and liabilities by major categories as of the end of the fiscal year. The difference between assets and liabilities is the net position restricted for pensions. Over time, increases or decreases in fiduciary net position can be monitored to determine whether the Plan's financial condition is improving or deteriorating.

The Statement of Changes to Fiduciary Net Position presents information on the increases and decreases that caused the change in fiduciary net position during the fiscal year.

The Notes to the Financial Statements are an integral part of the financial statements. The notes provide important detail and background information that is essential to the full understanding of the data provided in the financial statements. The notes also contain information pertaining to the Plan's actuarial methods and assumptions including data on the funded status of the Plan.

Required Supplementary Information section follows immediately after the notes to the basic financial statements. This section includes the schedule of changes in net pension liability and related ratios which has information about the actuarially funded status of the Plan and the progress made in the accumulation of sufficient assets to pay benefits. The schedule of contributions provides historical information about the annual contributions made by the City of Springfield, Missouri, to the Plan. All of this information is considered useful in understanding and evaluating the financial activities of the Plan.

Financial Analysis

Fiduciary net position may serve over time as a useful indicator of the Plan's financial position. The fiduciary net position is available to meet the Plan's ongoing obligation to plan members and their beneficiaries.

City of Springfield, Missouri
Police Officers' and Fire Fighters' Retirement Fund
Management Discussion and Analysis (Unaudited)
June 30, 2014

A summary of the Statement of Fiduciary Net Position is as follows (\$000's):

	<u>2014</u>	<u>2013</u>
Assets		
Cash and short-term investments	\$ 4,478	\$ 6,348
Public safety pension sales tax due from City	5,021	4,165
Accrued interest and dividends	287	290
Investments	299,986	243,566
Total Assets	<u>309,772</u>	<u>254,369</u>
Liabilities		
Accounts payable	118	11
Net Position Restricted for Pensions	<u>\$ 309,654</u>	<u>\$ 254,358</u>

Fiduciary net position increased \$55.3 million or 22% over 2013. This increase was primarily driven by the increase in the fair market value of investments.

A summary of the Statement of Changes in Fiduciary Net Position is as follows (\$000's):

	<u>2014</u>	<u>2013</u>
Additions		
Contributions		
Sales tax	\$ 29,315	\$ 27,957
City	7,658	7,658
Employees	3,201	3,038
Total contributions	40,174	38,653
Net investment income	37,637	23,489
Other income	26	56
Total Additions	<u>77,837</u>	<u>62,198</u>
Deductions		
Benefit payments	19,228	18,245
Refund of contributions	2,959	1,177
Administrative expenses	354	328
Total Deductions	<u>22,541</u>	<u>19,750</u>
Net Increase	55,296	42,448
Net Position Restricted for Pensions, Beginning of Year	<u>254,358</u>	<u>211,910</u>
Net Position Restricted for Pensions, End of Year	<u>\$ 309,654</u>	<u>\$ 254,358</u>

City of Springfield, Missouri
Police Officers' and Fire Fighters' Retirement Fund
Management Discussion and Analysis (Unaudited)
June 30, 2014

The City contributes 35% of payroll and employees contribute 14.63%. In 2009, Springfield voters passed a public safety sales tax with 100% of the tax revenue dedicated to the Plan. In FY 2014, this tax generated \$29 million, a 4.8% increase over the prior year. The public safety pension sales tax was scheduled to expire in 2015. In 2014, voters extended this tax for another five years. The tax is now scheduled to expire in March 2020.

Benefit payments include monthly payments of retirement, disability and survivor benefits. These payments increased \$983,000, or 5%. This increase is due to more retirees receiving payments and the automatic 3% cost-of-living adjustment.

Upon retirement, plan members receive a refund of the contributions they made to the Plan during their employment. In 2014, the amount refunded was \$1,782,000 more than in 2013. In 2014, there were more retirements and the average refund was more than in 2013.

Plan Highlights

As computed under Statement No. 67 of the Government Accounting Standards Board, the total pension liability for the Plan is \$430,036,714 and the net pension liability is \$120,383,254. The fiduciary net position as a percent of the total pension liability is 72%. This is an improvement from FY2013 when the fiduciary net position was 68%.

Requests for Additional Information

This financial report is designed to provide a general overview of the City of Springfield, Missouri Police Officers' and Fire Fighters' Retirement Fund to all parties with an interest in the Plan and to demonstrate accountability to the community. Questions regarding any information provided in this report, or requests for additional information should be directed to the Director of Finance, City of Springfield, 840 Boonville Avenue, Springfield MO 65801.

Mary Mannix Decker

Mary Mannix Decker
Director of Finance

City of Springfield, Missouri
Police Officers' and Fire Fighters' Retirement Fund
Statement of Fiduciary Net Position
June 30, 2014

Assets

Cash and Short-Term Investments	<u>\$ 4,477,842</u>
Receivables	
Public safety pension sales tax due from City	5,021,411
Accrued interest and dividends	<u>286,709</u>
Total receivables	<u>5,308,120</u>
Investments, At Fair Value	
Money market mutual funds	633,694
U.S. Treasury securities	3,088,329
U.S. agency securities	5,235,750
Government-sponsored enterprises obligations	12,398,485
Corporate bonds	18,058,146
Municipal bonds	2,201,651
International fixed income fund	41,120,369
Index fund - fixed income	12,812,152
Index funds - equities	69,174,020
Index fund - commodities	17,138,375
International equity funds	77,843,195
International hedge fund	28,795,566
Real estate fund	<u>11,486,313</u>
Total investments	<u>299,986,045</u>
Total assets	309,772,007
Liabilities	
Accounts payable	<u>118,547</u>
Net Position Restricted for Pensions	<u><u>\$ 309,653,460</u></u>

City of Springfield, Missouri
Police Officers' and Fire Fighters' Retirement Fund
Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2014

Additions

Contributions		
Employer - public safety pension sales tax		\$ 29,315,082
Employer		7,658,315
Members		<u>3,201,170</u>
Total contributions		<u>40,174,567</u>
Investment income		
Net appreciation in fair value of investments		37,283,139
Interest and dividends		<u>1,577,953</u>
		38,861,092
Less investment expense		<u>(1,223,629)</u>
Net investment income		<u>37,637,463</u>
Other revenue		<u>25,926</u>
Total additions		<u>77,837,956</u>

Deductions

Benefit payments		19,227,871
Refunds of contributions		2,959,629
Administrative expenses		<u>354,745</u>
Total deductions		<u>22,542,245</u>

Net Increase in Net Position		55,295,711
Net Position Restricted for Pensions, Beginning of Year		<u>254,357,749</u>
Net Position Restricted for Pensions, End of Year		<u><u>\$ 309,653,460</u></u>

City of Springfield, Missouri
Police Officers' and Fire Fighters' Retirement Fund
Notes to Financial Statements
June 30, 2014

Note 1: Description of the Plan

The City of Springfield, Missouri Police Officers' and Fire Fighters' Retirement Fund (the "Plan"), is a single-employer, defined benefit pension plan. Prior to the closing the Plan to new entrants on January 31, 2010, the City of Springfield, Missouri's (the "City") police officers and fire fighters became members in the Plan as a condition of their employment. Members hired on or after June 1, 2006, have voluntarily left the Plan and are currently members in the Local Government Employees Retirement System (LAGERS). These former members' contributions to this plan have been refunded and they are no longer due any benefits. Police officers and fire fighters hired on or after February 1, 2010, are provided a retirement plan through LAGERS.

Operations of the Plan are governed by City ordinance and are administered by the Plan's Board of Trustees (the "Trustees"). The Trustees consists of nine voting members: one current member of the police department, one current member of the fire department, one former employee who is currently receiving benefits from the system and six citizens recommended by the City Manager and approved by the City Council. The Trustees also include five nonvoting members, one of which is a member of the City Council designated by the Mayor to act as a liaison. The Plan is not subject to the provisions of the *Employee Retirement Income Security Act of 1974*. The Plan is considered part of the City financial reporting entity and is included in the City's basic financial statements as a pension trust fund.

Membership in the Plan as of June 30, 2014, is comprised of the following:

	Police Officers	Firefighters	Total
Retirees and beneficiaries currently receiving benefits	248	271	519
Terminated vested members	16	2	18
Fully vested active members	180	140	320
	444	413	857

The following brief description of the Plan is provided for general information purposes only. Sections 2-441 through 2-483 of the Springfield, Missouri, Code of Ordinances should be referred to for complete details. Members should also refer to the pamphlet, City of Springfield Police Officers' and Fire Fighters' Retirement Fund Summary Plan Description, for a more complete description of the Plan's provisions. Copies of the pamphlet are available from the City's Finance Department.

City of Springfield, Missouri
Police Officers' and Fire Fighters' Retirement Fund
Notes to Financial Statements
June 30, 2014

Retirement Benefits

Members become vested in the Plan after five years of service. Members are entitled to retirement benefits after 25 years of service, at age 50 after 20 years of service, or at age 60. Members with at least five years of service may elect to receive early retirement reduced benefits at age 55. Normal retirement benefits are 2.8% multiplied by total years of credited service multiplied by the average of a member's highest three years of salary within the last 10 years, limited to 70% of average annual salary.

Disability Benefits

Nonduty disability benefits are available to members having at least three years of service who become totally and permanently disabled from nonduty causes. These benefits are 1.75% of the member's average salary if the member retired prior to January 1, 2005, and seven-eighths of the percentage multiplier rate for the normal service retirement benefit, including the additional three-tenths multiplier for each year of service, subject to a minimum of 25% and a maximum of 50% for members who are current employees of the police or fire departments on and before January 1, 2005.

With respect to any member commencing employment on or after January 1, 2005, and before June 1, 2006, and having at least five years of service who become totally and permanently disabled from nonduty causes shall be entitled to a nonduty disability. This pension shall be payable during the lifetime of the member, provided the disability continues. The pension for members commencing employment on or after January 1, 2005, and before June 1, 2006, shall be equal to seven-eighths of the percentage multiplier rate for the normal service retirement benefit in effect at the time of the granting of the nonduty disability pension, including the additional three-tenths multiplier amount times the average salary for each year of service, subject to a minimum benefit of 25% of average salary and a maximum benefit of 50% of average salary.

Duty disability benefits are available to members, irrespective of the length of service, who become disabled as a direct result of occupational duties. Duty disability benefits are 66 2/3% of the member's salary in effect at the date of the disability, with an offset for any amounts payable under worker's compensation.

Survivor's Benefits

A pension equal to 50% of the member's average salary in effect at the date of death is payable to the surviving spouse until the spouse remarries if death occurs as a direct result of an act of duty. An additional allowance of 10% of the member's salary is payable for each surviving child under the age of 18, subject to a maximum payment to a surviving spouse and children of 75% of the member's salary, with an offset for any amounts payable under workers' compensation. Survivor's pensions for nonduty connected deaths are 25% of average salary plus 1 and 1/8% of average salary for each year of service, provided the member had at least five years of service, subject to a maximum of 50% of average salary paid to the surviving spouse. An additional 10% of the member's salary is payable for each surviving child under the age of 18, subject to a maximum payment of 60% of the member's salary to a surviving spouse and children for a nonduty death.

City of Springfield, Missouri
Police Officers' and Fire Fighters' Retirement Fund
Notes to Financial Statements
June 30, 2014

Termination

A member who terminates employment with the City and is not eligible for benefits from the Plan, is paid on demand and without interest his contributions to the Plan. If the member has five years of service, the member may remain vested and elect to receive benefits payable commencing at the member's normal retirement date.

Annual Adjustments

Plan members entering the Plan prior to June 1, 2006, will have pension benefits increased 3% each July over the amount paid in the preceding month of June, provided the pension has been paid at least 12 months prior to the July change. For age and service retirement pensions, the 3% increase does not begin until the calendar year of the employee's 56th birthday. Surviving spouses and dependent children receiving benefits are also eligible for the increase.

Note 2: Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The Plan is accounted for using the economic resources measurement focus and the accrual basis of accounting. Plan member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Expenses are recognized when incurred. Benefits and refunds are recognized when due and payable under the terms of the Plan.

Adoption of New Accounting Standard

In 2014, the Plan adopted GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*, which establishes standards of financial reporting for separately issued financial reports and specifies the required approach to measuring the pension liability of employers and nonemployer contributing entities for benefits provided through the pension plan (the net pension liability), about which information is required to be presented. The adoption of GASB Statement No. 67 had no effect on beginning net position restricted for pensions.

City of Springfield, Missouri
Police Officers' and Fire Fighters' Retirement Fund
Notes to Financial Statements
June 30, 2014

Investments

Investments are recorded at fair value, based on quoted market prices at the valuation date. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation (depreciation) includes the Plan's gains and losses on investments bought and sold as well as held during the year.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Plan's management to make estimates and assumptions that affect the reported amounts of assets, liabilities and changes therein and disclosure of contingent assets and liabilities and the net pension liability at the date of the financial statements. Actual results could differ from those estimates.

Administrative Expenses

The Plan's Board of Trustees acts as the trustee for the Plan's assets. The operating and other administrative expenses incurred by the Trustees, or its employees, in the performance of its duties as the Plan's trustee are paid from the assets of the Plan accumulated from contributions and investment earnings. Such expenses totaled \$354,745 in 2014, and are reported as administrative expense in the accompanying statement of changes in fiduciary net position.

Note 3: Contributions

The City's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. Members entering the Plan prior to June 1, 2006, were required to contribute 14.63% of their annual salary to the Plan for the year ended June 30, 2014. The City may, at its discretion, contribute the remaining amounts necessary to fund the Plan using the entry age normal actuarial method as specified by ordinance. For the year ended June 30, 2014, the City's contribution rate to the Plan was 35% of member salaries.

During the year ended June 30, 2014, contributions totaling \$40,174,567, were made to the Plan. In 2014, the employer's actual contributions of \$7,658,315 and \$29,315,082 in public safety sales tax revenue met the annual required employer's contributions of \$19,607,474 as determined by the Plan's actuary, decreasing the net pension liability by \$894,750. The net pension liability totaled \$120,383,254 at June 30, 2014. For the year ended June 30, 2014, employer contributions represented 40.8% and employee contributions represented 17.1% of covered payroll. Administrative costs of the Plan are funded by investment income.

City of Springfield, Missouri
Police Officers' and Fire Fighters' Retirement Fund
Notes to Financial Statements
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The amount of contributions relating to the public safety sales tax due from the City of Springfield at June 30, 2014, was \$5,021,411. The public safety sales tax earned in May and June 2014 was \$3,233,028 and \$1,788,383, respectively. The Plan received these contributions subsequent to June 30, 2014.

Note 4: Deposits and Investments

It is the objective of the Plan in managing its investment portfolio as a whole to realize an investment return that at a minimum equals the Plan's actuarial long-term rate of return assumption on an ongoing basis.

The City has delegated the authority to manage the Plan's investments to the Trustees. The City approves the investment guidelines and objectives for the Plan. Trustees recommend the appropriate asset types to the City for approval. The Trustees may add, delete or change asset classes within those asset types at their discretion at any time within the parameters established by the City.

The asset type and classes, target asset allocation and ranges to be used in the Plan are shown below. All percentages are based on market values. The portfolio shall be reviewed on a quarterly basis and will be rebalanced if any sub-asset class valuation deviates more than 25% from the target. Each investment manager retained by the Trustees may hold cash under the guidelines set out below, however that cash shall be considered invested in the asset class assigned. The investment policy allows investment managers to use pooled investments to obtain the ranges and target percentages shown below. The asset classes and targets at June 30, 2014, are as follows:

Asset Type and Class	Range	Target
Equities	25% - 75%	
U.S. Equity		16%
Developed Equity		15%
Emerging Market Equity		10%
Fixed Income	25% - 50%	
Core Fixed Income		10%
Inflation Linked Bonds		5%
Developed Fixed Income		9%
Emerging Market Debt		5%
Long-Term Fixed Income		10%
Alternatives	0% - 35%	
Real Estate		5%
Hedge Fund of Funds		10%
Commodities		5%

City of Springfield, Missouri
Police Officers' and Fire Fighters' Retirement Fund
Notes to Financial Statements
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A portion of the Plan's assets are exposed to risks, including credit risk, concentration of credit risk, custodial credit risk and interest rate risk, that have the potential to result in losses.

Credit Risk

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Plan's investment policy requires its domestic fixed income investment managers to maintain an average quality of portfolio holdings of A or better as measured by at least one credit rating service, with no more than 20% of the portfolio being invested in securities rated below BBB. The Plan's investment policy limits its international fixed income investment managers to invest only in securities that are rated at BBB- or higher by one of the three established rating agencies. However, the Plan's investment policy does not specifically limit the investment choices for any other type of securities based on ratings given by the rating agencies.

The following table provides information regarding Standard & Poor's credit ratings associated with the Plan's investments as of June 30, 2014:

Investment Type	Range of Ratings	Percentage of Total Portfolio
Domestic		
Money market mutual funds	N/A	0.2%
U.S. Treasury securities	AA+	1.0%
U.S. agency securities	AA+	1.8%
Government-sponsored enterprises obligations	AA+	4.1%
Corporate bonds	AAA to Bb	6.0%
Municipal bonds	AAA to A+	0.7%
International fixed income fund		
Brandywine International Fixed Income Fund	N/A	10.1%
Pyramis Emerging Fixed Income Fund	N/A	3.6%
Index fund - fixed income		
SSgA U.S. TIPS Index Non-Lending Fund	N/A	4.3%
Index funds - equities		
Russell 2000 Index Non-Lending Fund	N/A	8.1%
S&P 500 Flagship Non-Lending Fund	N/A	15.0%
Index fund - commodities		
SSgA Dow Jones-UBS Commodity Index Non-Lending Fund	N/A	5.7%
International equity funds		
Pictet International Equity Fund, LLC	N/A	17.9%
Wells Fargo Emerging Markets Equity Fund	N/A	8.1%
International hedge fund		
EnTrust Capital Diversified Fund QP Ltd.	N/A	5.1%
Blackstone Alternative BPIF Nontax LP	N/A	4.5%
Real estate fund		
Prudential - PRISA SA	N/A	3.8%

City of Springfield, Missouri
Police Officers' and Fire Fighters' Retirement Fund
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Concentration of Credit Risk

The Plan's investment policy mandates that no managed account may invest more than 3.5% of managed assets in the securities of a single issuer with the exception of issuers guaranteed by the U.S. government. As of June 30, 2014, the Plan was in compliance with this policy.

Investment Concentrations

The fair value of individual investments that represented 5% or more of the Plan's net position restricted for pensions were as follows:

Investment	Fair Value
Pictet International Equity Fund, LLC	\$ 53,749,243
S&P 500 Flagship Non-Lending Fund	45,020,372
Brandywine International Fixed Income Fund	30,229,370
Russell 2000 Index Non-Lending Fund	24,153,648
Wells Fargo Emerging Markets Equity Fund	24,089,940
SSgA Dow Jones-UBS Commodity Index	17,138,375

Custodial Credit Risk

In the event of a failure of a financial institution or counterparty, custodial credit risk is the risk that the Plan would not be able to recover its deposits, investments or collateral securities in the possession of an outside party. The Plan's investment policy requires assets held by a custodian as determined by the board of trustees be held in the name of the City of Springfield Police Officers' and Fire Fighters' Retirement Fund. In addition, the Plan addresses custodial credit risk by diversifying its investment portfolio and requiring all assets to be invested with the care, skill and diligence that a prudent person familiar with such matters acting in a like capacity would use in a similar enterprise.

At June 30, 2014, the bank balances of the Plan's deposits totaled \$4,477,842. The City's policy is to pledge collateral of at least 102% of deposits not covered by federal deposit insurance. Obligations pledged to secure deposits may consist of the same type of obligations in which the City may invest.

Interest Rate Risk

Interest rate risk is the risk that changes in financial market rates of interest will adversely affect the value of an investment. As a means of limiting exposure to interest rate risk, the Plan diversifies its investments by security type and institution, and limits holdings in any one type of investment with any one issuer. The Plan coordinates its investment maturities to closely match cash flow needs.

City of Springfield, Missouri
Police Officers' and Fire Fighters' Retirement Fund
Notes to Financial Statements
June 30, 2014

At June 30, 2014, investment maturities by investment type were as follows:

Investments Type	Fair Value	Less than 1 Year	1-5 Years	6-10 Years	More than 10 Years
Money market mutual funds	\$ 633,694	\$ 633,694	\$ -	\$ -	\$ -
U.S. Treasury securities	3,088,329	133,893	905,692	2,048,744	-
U.S. agency securities	5,235,750	-	176,149	1,274,253	3,785,348
Government-sponsored enterprises obligations	12,398,485	-	1,555,686	1,318,413	9,524,386
Corporate bonds	18,058,146	672,828	6,071,672	6,502,904	4,810,742
Municipal bonds	2,201,651	110,000	1,051,606	774,780	265,265
International fixed income fund	41,120,369	41,120,369	-	-	-
Index fund - fixed income	12,812,152	<u>12,812,152</u>	<u>-</u>	<u>-</u>	<u>-</u>
		<u>\$ 55,482,936</u>	<u>\$ 9,760,805</u>	<u>\$ 11,919,094</u>	<u>\$ 18,385,741</u>
Index funds - equities	69,174,020				
Index fund - commodities	17,138,375				
International equity funds	77,843,195				
International hedge fund	28,795,566				
Real estate fund	<u>11,486,313</u>				
	<u>\$ 299,986,045</u>				

At June 30, 2014, as reported at fair value, the Plan's U.S. agency securities consisted of \$2,852,745 Small Business Administration (SBA), \$2,383,005 Government National Mortgage Association (GNMA) debt securities and the Plan's government-sponsored enterprises obligations consisted of \$4,219,388 Federal Home Loan Mortgage Corporation (FHLMC) and \$8,179,097 Federal National Mortgage Association (FNMA) debt securities.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The Plan does not have a formal policy relating to foreign currency risk since the Plan does not invest directly in foreign currency.

Annual Money-Weighted Rate of Return

For the year ended June 30, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 14.49%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

City of Springfield, Missouri
Police Officers' and Fire Fighters' Retirement Fund
Notes to Financial Statements
June 30, 2014

Note 5: Net Pension Liability

The components of the net pension liability of the City at June 30, 2014, were as follows:

Total pension liability	\$ 430,036,714
Plan fiduciary net position	<u>(309,653,460)</u>
City's net pension liability	<u>\$ 120,383,254</u>
Fiduciary net position as a % of total pension liability	72.01%

Note 6: Actuarial Methods and Assumptions

The total pension liability was determined by an actuarial valuation prepared by Milliman as of June 30, 2014, using the following actuarial assumptions applied to all periods included in the measurement:

Actuarial cost method	Entry age normal cost												
Amortization method	Level dollar, closed												
Remaining amortization period	16 years												
Asset valuation method	5 years, nonasymptotic												
Inflation	2.5%												
Salary increases	Range from 7% at hire to 2.5% at 13 years of service												
Investment rate of return	7%												
Cost of living adjustment	3%												
Retirement age	<table style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: center;"><u>Age</u></th> <th style="text-align: center;"><u>Percentage retiring in the next year</u></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">45-50</td> <td style="text-align: center;">25%</td> </tr> <tr> <td style="text-align: center;">51-53</td> <td style="text-align: center;">20%</td> </tr> <tr> <td style="text-align: center;">54</td> <td style="text-align: center;">25%</td> </tr> <tr> <td style="text-align: center;">55-59</td> <td style="text-align: center;">50%</td> </tr> <tr> <td style="text-align: center;">60+</td> <td style="text-align: center;">100%</td> </tr> </tbody> </table>	<u>Age</u>	<u>Percentage retiring in the next year</u>	45-50	25%	51-53	20%	54	25%	55-59	50%	60+	100%
<u>Age</u>	<u>Percentage retiring in the next year</u>												
45-50	25%												
51-53	20%												
54	25%												
55-59	50%												
60+	100%												
Turnover	Rates based on experience												
Mortality	RP-2000 (Healthy and Disabled) with generational projection per Scale AA for healthy participants												

The actuarial assumptions used in the June 30, 2014, valuation were based on the results of an actuarial experience study for the period July 1, 2009 – July 1, 2013.

City of Springfield, Missouri
Police Officers' and Fire Fighters' Retirement Fund
Notes to Financial Statements
June 30, 2014

Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions are per the Fund's independent investment consultant as of June 30, 2014.

Asset Class	Index	Target Allocation	Long-Term Expected Nominal Rate of Return
Core Fixed Income	Barclays Immediate Aggregate	13.96%	4.80%
Inflation-Indexed Bonds	Barclays US Treasury US TIPS	4.29%	4.40%
Non-US Fixed Income	Citigroup Non-U.S. World Govt	13.76%	4.90%
Broad US Equities	S&P 500/Russell 2000	23.14%	9.20%
Developed Foreign Equities	MSCI EAFE	17.98%	9.70%
Emerging Market Equities	MSCI EM	8.06%	12.00%
Hedge Funds	HFRI FOF: Conservative Index	9.23%	6.80%
Commodities	Bloomberg Commodity Index Total Re	5.73%	7.00%
Real Estate (Property)	NCREIF Fund Index	3.84%	7.00%
Portfolio Arithmetic Mean Return			7.67%
Portfolio Standard Deviation			10.57%
Long-Term Expected Rate of Return			7.00%

Discount Rate

The discount rate used to measure the total pension liability was 7%. The Plan's fiduciary net position to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments.

City of Springfield, Missouri
Police Officers' and Fire Fighters' Retirement Fund
Notes to Financial Statements
June 30, 2014

Sensitivity Analysis

The following sensitivity analysis presents the net pension liability of the City, calculated using the discount rate of 7% 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 (6%) or 1 percentage point higher (8%) than the current rate:

	1% Decrease (6%)	Current Discount Rate (7%)	1% Increase (8%)
Total pension liability	\$ 489,109,052	\$ 430,036,714	\$ 381,978,469
Fiduciary net position	(309,653,460)	(309,653,460)	(309,653,460)
Net pension liability	\$ 179,455,592	\$ 120,383,254	\$ 72,325,009

Note 7: Risks and Uncertainties

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the statement of net assets available for benefits.

Plan contributions are made and the total pension liability are reported based on certain assumptions pertaining to interest rates, inflation rates and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimation and assumption process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.

Required Supplementary Information

City of Springfield, Missouri
Police Officers' and Fire Fighters' Retirement Fund
Schedule of Changes in Net Pension Liability and Related Ratios
(Unaudited)
June 30, 2014
(Dollar amounts in thousands)

Total Pension Liability	
Service Cost	\$ 6,435
Interest on total pension liability	28,173
Effect of economic/demographic gains or (losses)	3,961
Effect of assumption changes or inputs	38,020
Benefit payments	<u>(22,188)</u>
Net Change in Total Pension Liability	54,401
Total Pension Liability - Beginning	<u>375,636</u>
Total Pension Liability - Ending (a)	<u>430,037</u>
Fiduciary Net Position	
Employer - public safety pension sales tax	29,315
Employer contributions	7,658
Member contributions	3,201
Net investment income	37,637
Other revenue	26
Benefit payments	(19,228)
Refunds of contributions	(2,959)
Administrative expenses	<u>(354)</u>
Net Change in Fiduciary Net Position	55,296
Fiduciary Net Position - Beginning	<u>254,358</u>
Fiduciary Net Position - Ending (b)	<u>309,654</u>
Net Pension Liability, Ending = (a) - (b)	<u>\$ 120,383</u>
Fiduciary Net Position as a Percentage of Total Pension Liability	72.01%
Covered Payroll	\$ 18,770
Net Pension Liability as a Percentage of Covered Payroll	641.35%

City of Springfield, Missouri
Police Officers' and Fire Fighters' Retirement Fund
Schedule of Contributions
(Unaudited)
June 30, 2014

Fiscal Year Ending June 30	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contribution as a % of Covered Payroll
2005	\$ 7,318,828	\$ 6,795,690	\$ 523,138	\$ 23,866,496	28.47%
2006	9,834,917	6,831,086	3,003,831	23,746,840	28.77%
2007	10,237,825	7,388,016	2,849,809	23,863,923	30.96%
2008	12,347,207	8,794,259	3,552,948	24,695,779	35.61%
2009	13,273,246	23,979,519	(10,706,273)	23,825,564	100.65%
2010	13,137,104	31,916,852	(18,779,748)	20,970,392	152.20%
2011	12,972,229	34,141,863	(21,169,634)	20,498,113	166.56%
2012	20,881,652	35,726,586	(14,844,934)	19,976,163	178.85%
2013	20,823,687	35,615,908	(14,792,221)	20,060,038	177.55%
2014	19,607,474	36,973,397	(17,365,923)	18,770,274	196.98%

Notes to Schedule

Valuation date:

Actuarially determined contribution rates are calculated as of June 30, one year prior to the end of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal cost	
Amortization method	Level dollar, closed	
Remaining amortization period	16 years	
Asset valuation method	5 years, nonasymptotic	
Inflation	2.5%	
Salary increases	Range from 7% at hire to 2.5% at 13 years of service, including inflation	
Investment rate of return	7%	
Cost of living adjustment	3%	
Retirement age		Percentage retiring <u>in the next year</u>
	<u>Age</u>	
	45-50	25%
	51-53	20%
	54	25%
	55-59	50%
	60+	100%
Turnover	Rates based on experience	
Mortality	RP-2000 (Healthy and Disabled) with generational projection per Scale AA for healthy participants	

City of Springfield, Missouri
Police Officers' and Fire Fighters' Retirement Fund
Schedule of Investment Returns
(Unaudited)
June 30, 2014

Fiscal Year	Money-Weighted
Ending	Rate of Return, Net
June 30	
2014	14.49%

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Trustees
City of Springfield, Missouri
Police Officers' and Fire Fighters' Retirement Fund
Springfield, Missouri

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the basic financial statements of the City of Springfield, Missouri Police Officers' and Fire Fighters' Retirement Fund, a fiduciary fund of the City of Springfield, Missouri, which comprise the statement of fiduciary net position as of June 30, 2014, and the related statement of changes in fiduciary net position for the year then ended and the related notes to the basic financial statements, and have issued our report thereon dated November 3, 2014, which contained an "Emphasis of Matter" paragraph regarding a change in accounting principles.

Internal Control Over Financial Reporting

Management of the Plan is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the Plan's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we do not express an opinion on the effectiveness of the Plan's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Plan's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified.

Board of Trustees
City of Springfield, Missouri
Police Officers' and Fire Fighters' Retirement Fund

Compliance

As part of obtaining reasonable assurance about whether the Plan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Plan's internal control or compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plan's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Springfield, Missouri
November 3, 2014

City of Springfield, Missouri
Police Officers' and Fire Fighters' Retirement Fund
Schedule of Findings and Responses
Year Ended June 30, 2014

**Reference
Number**

Finding

No matters are reportable.