

City of Kansas City, Missouri
Firefighters' Pension System
Component Unit of the City of Kansas City, Missouri
Auditor's Report and Financial Statements
April 30, 2016 and 2015



City of Kansas City, Missouri
Firefighters' Pension System
A Component Unit of the City of Kansas City, Missouri
April 30, 2016 and 2015

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Independent Auditor's Report

Retirement Board
City of Kansas City, Missouri
Firefighters' Pension System
Kansas City, Missouri

We have audited the accompanying basic financial statements of the City of Kansas City, Missouri Firefighters' Pension System (the Plan), a component unit of the City of Kansas City, Missouri, which comprise the statements of fiduciary net position as of April 30, 2016 and 2015, and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the basic financial statements, which collectively comprise the Plan's basic financial statements 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 fiduciary net position of the City of Kansas City, Missouri Firefighters' Pension System as of April 30, 2016 and 2015, and the changes in fiduciary net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 audits 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.

BKD, LLP

Kansas City, Missouri
October 4, 2016

City of Kansas City, Missouri
Firefighters' Pension System
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The Firefighters' Pension System of Kansas City, Missouri is the defined benefit retirement plan for firefighters of Kansas City, Missouri. The Firefighters' Pension System was established by City ordinance in 1953 and is administered by a nine-person board of trustees (the Board) to provide retirement, disability and survivor benefits to members and beneficiaries.

This discussion and analysis of the Firefighters' Pension System's financial statements provides an overview of the Firefighters' Pension System's operations and investment performance during the years ended April 30, 2016 and 2015, with selected comparative information for the fiscal year ended April 30, 2014. Please read it in conjunction with the financial statements and notes to the financial statements.

Overview of the Financial Statements and Accompanying Information

- The financial statements presented in this report are the Statements of Fiduciary Net Position as of April 30, 2016 and 2015 and the Statements of Changes in Fiduciary Net Position for the years ended April 30, 2016 and 2015. These statements reflect resources available for the payment of benefits as of the year-end, and the sources and uses of those funds during the year.
- The notes to the financial statements are an integral part of the financial statements and provide facts and detailed information to assist the reader in understanding the statements. Information in the notes includes a description of the Plan, a summary of significant accounting policies, the method used to value investments and a summary of investments.
- Required supplementary information presents schedules related to employer contributions, investment returns and the changes in net pension liability and related ratios of the Plan.

2016 and 2015 Summary Comparative Information of Fiduciary Net Position

	April 30, 2016	April 30, 2015	Amount Change	Percentage Change
Receivables	\$ 1,899,054	\$ 1,546,145	\$ 352,909	22.83%
Investments at fair value	464,917,697	486,152,535	(21,234,838)	-4.37%
Securities lending collateral	31,411,584	41,084,056	(9,672,472)	-23.54%
Total assets	<u>498,228,335</u>	<u>528,782,736</u>	<u>(30,554,401)</u>	-5.78%
Due to broker for purchases of investments	1,017,655	810,197	207,458	25.61%
Administrative and investment expenses payable	772,700	891,958	(119,258)	-13.37%
Securities lending collateral	31,411,584	41,084,056	(9,672,472)	-23.54%
Total liabilities	<u>33,201,939</u>	<u>42,786,211</u>	<u>(9,584,272)</u>	-22.40%
Net Position	<u>\$ 465,026,396</u>	<u>\$ 485,996,525</u>	<u>\$(20,970,129)</u>	-4.31%

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2016 and 2015 Summary Comparative Information of Changes in Fiduciary Net Position

	April 30, 2016	April 30, 2015	Amount Change	Percentage Change
Member contributions	\$ 6,769,093	\$ 6,851,791	\$ (82,698)	-1.21%
Employer contributions	19,270,269	18,998,552	271,717	1.43%
Net investment income (loss)	<u>(7,329,261)</u>	<u>32,850,361</u>	<u>(40,179,622)</u>	-122.31%
Total additions	<u>18,710,101</u>	<u>58,700,704</u>	<u>(39,990,603)</u>	-68.13%
Benefits paid to members	37,448,441	35,699,785	1,748,656	4.90%
Refunds of contributions	1,931,310	1,956,321	(25,011)	-1.28%
Administrative expenses	<u>300,479</u>	<u>264,100</u>	<u>36,379</u>	13.77%
Total deductions	<u>39,680,230</u>	<u>37,920,206</u>	<u>1,760,024</u>	4.64%
Net Increase (Decrease) in Net Position	(20,970,129)	20,780,498	(41,750,627)	-200.91%
Net Position, Beginning of Year	<u>485,996,525</u>	<u>465,216,027</u>	<u>20,780,498</u>	4.47%
Net Position, End of Year	<u>\$ 465,026,396</u>	<u>\$ 485,996,525</u>	<u>\$(20,970,129)</u>	-4.31%

2016 Financial Highlights

Equity markets across the globe posted negative returns with international and emerging market equities fairsing the worst, due to concerns over China's economic slowdown, deteriorating economic data globally and falling commodity prices. Real assets and fixed income assets posted positive returns. The investment portfolio attained an investment of return, net of expenses, of -1.50%, which underperformed the policy index benchmark return of -0.42%. Real assets and non-U.S. equity were the only segments of the fund that performed well, relative to their benchmarks. All other managers, in aggregate, underperformed.

The 4.3% decline in fiduciary net position, to \$465 million, was fueled by the \$7.3 million net investment loss. Benefits paid to members grew in ordinary fashion, while refunds of contributions slightly decreased. Administrative expenses increased, due to health insurance enrollment expenses.

2016 Operational Highlights

A core international equity manager and a small cap international equity manager were terminated due to organizational changes and performance issues. Searches were conducted and both managers were replaced. Ongoing cash needs were met through the sale of appreciating equity and real asset securities.

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2015 and 2014 Summary Comparative Information of Fiduciary Net Position

	April 30, 2015	April 30, 2014	Amount Change	Percentage Change
Receivables	\$ 1,546,145	\$ 1,339,588	\$ 206,557	15.42%
Investments at fair value	486,152,535	465,141,544	21,010,991	4.52%
Securities lending collateral	41,084,056	32,755,352	8,328,704	25.43%
Total assets	<u>528,782,736</u>	<u>499,236,484</u>	<u>29,546,252</u>	5.92%
Due to broker for purchases of investments	810,197	625,445	184,752	29.54%
Administrative and investment expenses payable	891,958	639,660	252,298	39.44%
Securities lending collateral	41,084,056	32,755,352	8,328,704	25.43%
Total liabilities	<u>42,786,211</u>	<u>34,020,457</u>	<u>8,765,754</u>	25.77%
Net Position	<u>\$ 485,996,525</u>	<u>\$ 465,216,027</u>	<u>\$ 20,780,498</u>	4.47%

2015 and 2014 Summary Comparative Information of Changes in Fiduciary Net Position

	April 30, 2015	April 30, 2014	Amount Change	Percentage Change
Member contributions	\$ 6,851,791	\$ 6,283,355	\$ 568,436	9.05%
Employer contributions	18,998,552	14,526,088	4,472,464	30.79%
Net investment income	32,850,361	46,050,767	(13,200,406)	-28.66%
Total additions	<u>58,700,704</u>	<u>66,860,210</u>	<u>(8,159,506)</u>	-12.20%
Benefits paid to members	35,699,785	34,141,649	1,558,136	4.56%
Refunds of contributions	1,956,321	1,423,715	532,606	37.41%
Administrative expenses	264,100	221,351	42,749	19.31%
Total deductions	<u>37,920,206</u>	<u>35,786,715</u>	<u>2,133,491</u>	5.96%
Net Increase in Net Position	20,780,498	31,073,495	(10,292,997)	-33.12%
Net Position, Beginning of Year	<u>465,216,027</u>	<u>434,142,532</u>	<u>31,073,495</u>	7.16%
Net Position, End of Year	<u>\$ 485,996,525</u>	<u>\$ 465,216,027</u>	<u>\$ 20,780,498</u>	4.47%

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2015 Financial Highlights

All asset classes in the investment portfolio posted positive returns, with real assets posting the highest absolute returns. The investment portfolio attained an investment rate of return, net of expenses of 7.19%, which modestly exceeded the policy index benchmark. The domestic equity, global equity and real assets segments of the fund outperformed their respective benchmarks, while both the international equity and fixed income managers, in aggregate, underperformed.

The 4.5% rise in fiduciary net position, to \$486 million, was largely due to net investment income of \$33 million and an increase in contributions of \$5 million. Benefits paid to members grew in ordinary fashion and administrative expenses increased, due to health insurance enrollment expenses.

2015 Operational Highlights

There were no significant changes to the investment structure of the fund. Ongoing cash needs were met through the sale of appreciating equity securities.

Same sex marriage legislation was passed by the City Council on December 11, 2014 (Ordinance No. 140976). This legislation requires the System to begin recognizing same sex marriages.

Requests for Information

This financial report is designed to provide members of the Firefighters' Pension System, citizens, investors and creditors of the City of Kansas City, Missouri with a general overview of the Firefighters' Pension System's finances and to demonstrate its accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Firefighters' Pension System, City Hall, 414 East 12th Street, 12th Floor, Kansas City, Missouri 64106-2705.

There are no other currently known facts, conditions or decisions that are expected to have a significant effect on the financial position or results of operations of the Firefighters' Pension System.

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Assets

	<u>2016</u>	<u>2015</u>
Investments, at Fair Value		
Short-term investment funds	\$ 17,451,659	\$ 14,557,917
Domestic common stock	87,485,184	105,215,954
Foreign equities	2,748,288	5,536,943
Partnerships	11,095,617	-
Collective trusts - equities	185,895,851	197,457,181
Collective trusts - fixed income	71,110,231	65,743,870
Collective trusts - hedge funds	45,427,612	46,732,206
Collective trusts - real estate	43,703,255	50,908,464
	<u>464,917,697</u>	<u>486,152,535</u>
Total investments		
	<u>31,411,584</u>	<u>41,084,056</u>
Securities Lending Collateral		
	<u>31,411,584</u>	<u>41,084,056</u>
Receivables		
Contributions	943,790	850,552
Investment income	33,271	33,166
Due from broker for sales of investments	921,993	662,427
	<u>1,899,054</u>	<u>1,546,145</u>
Total receivables		
	<u>1,899,054</u>	<u>1,546,145</u>
Total assets	<u>498,228,335</u>	<u>528,782,736</u>
Liabilities		
Due to broker for purchases of investments	1,017,655	810,197
Administrative and investment expenses payable	772,700	891,958
Securities lending collateral	31,411,584	41,084,056
	<u>33,201,939</u>	<u>42,786,211</u>
Total liabilities		
	<u>33,201,939</u>	<u>42,786,211</u>
Net Position Restricted for Pensions	462,024,002	483,017,711
Net Position Restricted for Health Care Subsidy	3,002,394	2,978,814
	<u>465,026,396</u>	<u>485,996,525</u>
Total net position		
	<u>\$ 465,026,396</u>	<u>\$ 485,996,525</u>

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Statements of Changes in Fiduciary Net Position
Years Ended April 30, 2016 and 2015

Additions	2016	2015
Investment Income		
Interest income	\$ 907,758	\$ 1,102,374
Dividend income	1,777,442	1,593,208
Net increase (decrease) in fair value of investments	(7,111,451)	32,899,952
Less investment expense	<u>(3,016,135)</u>	<u>(2,848,171)</u>
Net investment income (loss)	<u>(7,442,386)</u>	<u>32,747,363</u>
Securities Lending Income		
Securities lending gross income	<u>175,047</u>	<u>96,811</u>
Securities lending expenses		
Borrower rebates (fees)	(13,594)	50,169
Management fees	<u>(48,328)</u>	<u>(43,982)</u>
Total securities lending expenses	<u>(61,922)</u>	<u>6,187</u>
Net securities lending income	<u>113,125</u>	<u>102,998</u>
Total net investment income (loss)	<u>(7,329,261)</u>	<u>32,850,361</u>
Contributions		
Contributions from the City of Kansas City, Missouri		
Pension contributions	16,631,844	16,258,533
Health subsidy contributions	1,191,878	1,186,619
Health supplemental contributions	1,446,547	1,553,400
Contributions from members	<u>6,769,093</u>	<u>6,851,791</u>
Total contributions	<u>26,039,362</u>	<u>25,850,343</u>
Total additions	<u>18,710,101</u>	<u>58,700,704</u>
Deductions		
Benefits Paid		
Members	37,420,441	35,680,785
Funeral benefits	<u>28,000</u>	<u>19,000</u>
Total benefits paid	37,448,441	35,699,785
Refunds		
Termination	136,626	21,215
Retirement	1,794,684	1,935,106
Administrative Expenses	<u>300,479</u>	<u>264,100</u>
Total deductions	<u>39,680,230</u>	<u>37,920,206</u>
Net Increase (Decrease) in Net Position	(20,970,129)	20,780,498
Net Position, Beginning of Year	<u>485,996,525</u>	<u>465,216,027</u>
Net Position, End of Year	<u>\$ 465,026,396</u>	<u>\$ 485,996,525</u>

See Notes to Financial Statements

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Note 1: Summary of Significant Accounting Policies

Reporting Entity

The City of Kansas City, Missouri Firefighters' Pension System (the Plan) is a contributory, single-employer, defined benefit pension plan, covering all employees of the Firefighting Division of the City of Kansas City, Missouri (the City). The Plan is considered part of the City's financial reporting entity and is included in the City's comprehensive annual financial report as a pension trust fund. Employees should refer to the plan agreement for more complete information.

Basis of Accounting

The financial statements are prepared on the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the Plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when paid in accordance with the terms of each plan.

Investments

Investments owned are valued at fair value as follows:

Common stock and foreign equities (A) Listed – closing prices are reported on the composite summary of national securities exchanges or (B) Over-the-counter – bid prices

Collective trusts, partnerships and short-term investment funds consist primarily of non-marketable investments in various venture capital, corporate finance funds and private partnerships (collectively referred to as "Portfolio Funds"). These funds are primarily invested in a diversified portfolio of equities, fixed income, real estate and alternative or non-traditional investments. These investments are recorded at fair value based on financial data, which is generally at an amount equal to the net asset value per share or the Fund's proportionate interest in the net assets or net equity of the Portfolio Funds as determined by each Portfolio Fund's general partner or investment manager.

The estimated value of such investments is subject to uncertainty and, therefore, may differ from the value that would have been used had a market for such investments existed.

Investment transactions are accounted for on a trade-date basis (date order to buy or sell is executed), and dividend income is recognized on the ex-dividend date. Interest income is recognized on an accrual basis. Realized gains and losses from investments are determined on an average cost basis.

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Administrative Expenses

Plan administrative salary, duplicating, telecommunications and travel expenses are included in the Plan's administrative expenses when incurred. The City provides office space, a portion of administrative and clerical services of the Human Resources Department and accounting services of the Finance Department without any direct charge to the Plan.

Use of 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

Note 2: Plan Description

The Plan is established by City ordinances enacted by the City Council. The Plan is administered by the Board of Trustees of the Firefighters' Pension System of Kansas City, Missouri (the "Board"). The Board is composed of nine members, four of which are the Director of the Fire Department, the Director of Human Resources, the Director of Finance and the City Treasurer. One is an appointed retired member and the remaining four are elected by the members of the pension system.

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At April 30, 2016 and 2015, the Plan's membership consists of the following:

	2016		Total
	Tier I Members	Tier II Members	
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	929	-	929
Current employees			
Vested	638	-	638
Nonvested	227	57	284
Inactive	9	-	9
Total	<u>1,803</u>	<u>57</u>	<u>1,860</u>

	2015		Total
	Tier I Members	Tier II Members	
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	904	-	904
Current employees			
Vested	663	-	663
Nonvested	241	24	265
Inactive	2	-	2
Total	<u>1,810</u>	<u>24</u>	<u>1,834</u>

Contributions

Funding is provided by contributions from the Plan's members, the City and earnings on investments. Firefighters contribute 10.55% of their base salary and an additional 1% to fund the health insurance subsidy. The City's contribution is set by the City Council in conjunction with its approval of the City's annual budget, based on the actuarially determined contribution rate set by the Plan's consulting actuary.

Based upon the April 30, 2015 actuarial valuation, the actuary recommended a City contribution rate of 28.21%. The Board of Trustees recognized and the City Council approved, a scheduled City contribution rate of 27.91% from May 1, 2015 to June 30, 2015, and 30.01% from July 1, 2015 to April 30, 2016. The Board of Trustees recognized a scheduled City contribution rate of 27.73% for 2015. The City Council contributed 2% toward the health insurance subsidiary for 2016 and 2015.

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Retirement Benefits

Benefit terms for the Plan are established in the City administrative code and can only be amended by the City Council. The Plan provides retirement, survivor, disability as well as pre-retirement death benefits as noted below:

Tier I Members

The Plan provides retirement benefits, for those employees hired before April 20, 2014 (Tier I Members). Members become vested for retirement benefits after 10 years of service. Members who retire with 25 years or more of creditable service are entitled to an annual pension of 2.5% of final average compensation multiplied by the number of years of creditable service, subject to a maximum limit of 80% of final compensation as defined in the Plan.

If members terminate prior to retirement and before rendering 10 years of service, they forfeit the right to receive the portion of their accumulated plan benefits attributable to City contributions and are refunded their member contributions with interest. Such refunds result in the forfeiture of all other benefits under the Plan and are reduced by a service charge if the terminated employee has less than five years of service.

An automatic annual cost-of-living adjustment of 3.0%, non-compounded, per year is provided in the Plan. The Plan also provides for a minimum monthly payment of \$600 to all current and future service and disability retirees.

Tier II Members

The Plan provides retirement benefits, for those employees hired on or after April 20, 2014 (Tier II Members). Members become vested for retirement benefits after 10 years of service. Members who retire with 27 years or more of creditable service are entitled to an annual pension of 2.5% of final average compensation multiplied by the number of years of creditable service, subject to a maximum limit of 80% of final compensation as defined in the Plan.

If members terminate prior to retirement and before rendering 10 years of service, they forfeit the right to receive the portion of their accumulated plan benefits attributable to City contributions and are refunded their member contributions with interest. Such refunds result in the forfeiture of all other benefits under the Plan and are reduced by a service charge if the terminated employee has less than five years of service.

An annual cost-of-living adjustment, not to exceed 2.5%, non-compounded, per year is provided in the Plan if the prior year funding ratio is equal to or greater than 80% and will be equal to the percentage increase in the prior 12 months of the final national consumer price index. The Plan also provides for a minimum monthly payment of \$600 to all current and future service and disability retirees.

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Death Benefits

If an active member dies, the following benefits shall be paid:

A funeral benefit of \$2,000 to the spouse or named beneficiary.

To the member's spouse until death, a pension equal to one-half of the member's accrued pension, but not less than 25% of the member's average final compensation. The minimum monthly benefit is \$275 to all spouses. Certain benefit provisions have been established for deaths sustained in the performance of a member's duties, or deaths of active members prior to retirement who have achieved 25 years or more of creditable service.

To the member's children, an allowance of \$100 a month each until the attainment of age 18, unless certain conditions are met whereby benefits may continue.

To the member's designated beneficiary or estate, if there is no surviving spouse or qualifying child, any remaining member contributions and interest.

If a retired member dies, the following benefits shall be paid:

To the member's spouse until death, a retirement benefit equal to one-half of the member's normal retirement benefit.

To the member's designated beneficiary or estate, if there is no surviving spouse, any remaining member contributions and interest.

Disability Benefits

Disability benefits are available for members and are based on an average final compensation. The Plan provides for a minimum monthly payment of \$600 to all current and future disability retirees.

Health Care Subsidy

Effective May 1, 1991, the Plan established a subsidy fund (subsidy). The City and active firefighters each contribute 2% and 1% of salary, respectively. Prior to April 1 of each year, the board of trustees of the Plan establishes the dollar value of the monthly subsidy. The monthly subsidy for the years ended April 30, 2016 and 2015 was \$450 and \$430, respectively.

The subsidy is invested in both fixed income and equity securities and is stated at fair value. Investments totaled \$3,002,394 and \$2,978,814 at April 30, 2016 and 2015, respectively.

The actuarial valuations do not consider the subsidy's fiduciary net position, which at April 30, 2016 and 2015 were \$3,002,394 and \$2,978,814, respectively. According to the City ordinance that established the subsidy, if the fiduciary net position available for the subsidy is zero, the subsidy will no longer be available. For the years ended April 30, 2016 and 2015, City

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contributions for the subsidy were \$2,638,425 and \$2,740,019, respectively, and employee contributions were \$595,939 and \$593,309, respectively.

Note 3: Deposits and Investments

The City administrative code and ordinances passed by the City Council provide that Plan investments may include, but are not limited to, obligations of the U.S. government, state of Missouri and municipal corporations, including school districts, corporate bonds, real estate mortgages and common and preferred stocks. The Plan purchases investments from Securities and Exchange Commission registered securities broker dealers and banks through its investment managers. Investments in U.S. Treasury obligations are held at the Federal Reserve Bank through the customer account of a financial institution.

Investment Policy

The asset type and classes, target allocation and ranges that have been approved by the Board are shown below. All percentages are based on market values. The Board has authorized Plan staff, with the guidance from the investment consultant, to rebalance the portfolio in accordance with the strategy guidelines below.

Effective January 13, 2016, the Board amended the investment policy. From May 1, 2015 through January 13, 2016, the Plan operated within the following target asset allocation ranges:

Asset Type and Class	Range	Target
Equities		
Domestic Equity	20% - 30%	25%
Non-U.S. Equity	10% - 20%	15%
Long/Short Equity	5% - 15%	10%
Global Equity	5% - 15%	10%
Fixed Income	25% - 35%	30%
Real Estate	5% - 15%	10%

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The asset type and classes, target allocation and ranges that have been approved by the Board, effective January 13, 2016, are shown below. All percentages are based on market values. The Board has authorized Plan staff, with the guidance from the investment consultant, to rebalance the portfolio in accordance with the strategy guidelines below.

Asset Type and Class	Range	Target
Equities		
Large Cap Equity	10% - 20%	15%
Small Cap Equity	5% - 15%	10%
Non-U.S. Equity	10% - 20%	15%
Long/Short Equity	5% - 15%	10%
Global Equity	5% - 15%	10%
Fixed Income	25% - 35%	30%
Real Estate	5% - 15%	10%

Securities Lending Transactions

City ordinances and the Plan's Board policies permit the Plan to use investments of the Plan to enter into securities lending transactions – loans of securities to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future.

The Plan has contracted with Northern Trust as its third-party lending agent to lend domestic equity and debt securities for cash collateral of not less than 102% of the market value and international debt and equity securities of not less than 105% of the market value. At April 30, 2016 and 2015, management believes the Plan has no credit risk exposure to borrowers because the amounts the Plan owes the borrowers exceed the amounts the borrowers owe the Plan. Contracts with the lending agent require it to indemnify the Plan if borrowers fail to return the securities, if the collateral is inadequate to replace the securities lent or if the borrowers fail to pay the Plan for income distributions by the securities' issuers while the securities are on loan; therefore, non-cash collateral is not recorded as an asset or liability on the financial statements.

	2016	2015
Market value of securities loaned	<u>\$ 30,562,367</u>	<u>\$ 39,804,308</u>
Market value of cash collateral received from borrowers	<u>\$ 31,411,854</u>	<u>\$ 41,084,056</u>

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All securities loans can be terminated on demand by either the Plan or the borrower. The cash collateral received on each security loan was invested, in accordance with the Plan investment guidelines, in short-term funds. The maturities of the resulting investments generally match the maturities of the securities lending arrangements themselves. The Plan is not permitted to pledge or sell collateral received unless the borrower defaults.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Plan will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Consistent with the Plan's securities lending policy, \$30,562,367 and \$39,804,308 at April 30, 2016 and 2015, respectively, was held by the counterparty that was acting as the Plan's agent in securities lending transactions.

Investment Concentrations

The following presents investments that represent 5% or more of the fiduciary net position of the Plan, as of April 30, 2016:

Investment	Fair Value
Pioneer Multi-Sector Fixed Income	\$ 61,660,083
Franklin Templeton Global Multisectorplus Trust Fund	57,211,156
Acadian Global Equity Fd	46,146,078
Rock Creek Georgetown LTD CL	43,703,255
Northern Trust Collective Funds	38,368,451
Marathon-London International Fund	37,728,071
JPMCB Special Situation Property Fund	26,020,689

The following presents investments that represent 5% or more of the fiduciary net position of the plan, as of April 30, 2015:

Investment	Fair Value
Acadian Global Equity Fd	\$ 56,126,001
Pioneer Multi-Sector Fixed Income	53,026,534
Franklin Templeton Global Multisectorplus Trust Fund	51,766,639
Rock Creek Georgetown LTD CL	46,994,126
FID Intl Growth Collective Trust	40,589,007
JPMCB Special Situation Property Fund	28,007,662

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Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the Plan. As of April 30, 2016 and 2015, the Plan's fixed income assets that are not government guaranteed represented 100% of the fixed income portfolio. The Plan has not established a policy with regard to credit risk. The following tables summarize the Plan's fixed income portfolio exposure levels and credit qualities at April 30, 2016 and 2015:

Average Credit Quality and Exposure Levels of Nongovernment Guaranteed Securities

Fixed Income Security Type	Fair Value April 30, 2016	Percentage of all Fixed Income Assets	Weighted Average Credit Quality
Money market funds	\$ 17,451,659	20%	Not rated
Collective trusts - fixed income	71,110,231	80%	Not rated
	<u>\$ 88,561,890</u>	<u>100%</u>	

Fixed Income Security Type	Fair Value April 30, 2015	Percentage of all Fixed Income Assets	Weighted Average Credit Quality
Money market funds	\$ 14,557,917	18%	Not rated
Collective trusts - fixed income	65,743,870	82%	Not rated
	<u>\$ 80,301,787</u>	<u>100%</u>	

Each portfolio is managed in accordance with operational guidelines that are specific as to permissible credit quality ranges, exposure levels within individual quality tiers and the average credit quality of the overall portfolios.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Plan has not established a policy with regard to interest rate risk. The Plan actually owns an interest in the underlying assets of the collective trusts and the money market funds and the unit values are based on the fair value of their underlying assets.

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Effective Duration of Fixed Income Assets by Security Type at April 30, 2016

Fixed Income Security Type	Fair Value April 30, 2016	Percentage of all Fixed Income Assets	Weighted Average Effective Duration (Years)
Money market funds**	\$ 17,451,659	20%	**
Collective trusts - fixed income	71,110,231	80%	4.07
	<u>\$ 88,561,890</u>	<u>100.0%</u>	

Effective Duration of Fixed Income Assets by Security Type at April 30, 2015

Fixed Income Security Type	Fair Value April 30, 2015	Percentage of all Fixed Income Assets	Weighted Average Effective Duration (Years)
Money market funds**	\$ 14,557,917	18%	**
Collective trusts - fixed income	65,743,870	82%	3.90
	<u>\$ 80,301,787</u>	<u>100.0%</u>	

**The Plan actually owns an interest in the underlying assets of the money market funds and the unit values are based on the fair value of their underlying assets. The money market funds do not have a maturity date, even though their underlying assets do have maturity dates of less than one year.

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's currency risk exposure, or exchange rate risk, primarily reside within the Plan's foreign debt obligations and foreign equity holdings through the Plan's various asset managers. The Plan's policy for each specific portfolio does not place limits on the amount of foreign exposure that can be held by the individual asset managers.

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Annual Money-Weighted Rate of Return

For the year ended April 30, 2016 and 2015, the annual money-weighted rate of return on the pension plan investments, net of pension plan investment expense, was -1.50% and 7.19%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Note 4: Net Pension Liability

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

	<u>2016</u>	<u>2015</u>
Total pension liability	\$ 625,656,241	\$ 604,987,291
Plan fiduciary net position	<u>(462,024,002)</u>	<u>(483,017,711)</u>
City's net pension liability	<u>\$ 163,632,239</u>	<u>\$ 121,969,580</u>
Fiduciary net position as a % of total pension liability	73.85%	79.84%

Note 5: Actuarial Methods and Assumptions

An actuary from Cheiron determines the total pension liability. The total pension liability as of April 30, 2016 and 2015 was determined based on an actuarial valuation prepared as of April 30, 2015 and 2014, respectively, rolled forward one year, using the following actuarial assumptions:

Inflation	2.5% per annum
Projected salary increases, including inflation	3.0% to 8.0% per annum, depending on age
Long-term investment rate of return, net of plan investment expenses, including inflation	7.50% per annum
Mortality Tables:	
Healthy	RP – 2000 Combined Mortality Table Set forward one year
Disabled	RP – 2000 Combined Mortality Table Set forward three years

The actuarial assumptions used in both valuations were based on the results of the most recent actuarial experience study for the period May 1, 2007 through April 30, 2011. The actuarial experience study is dated April 27, 2012.

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For purposes of calculating the total pension liability, future ad hoc COLAs of 3.0% (simple COLA) were assumed to be granted in all future years, for both Tier I and Tier II Members.

Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best-estimates arithmetic real rates of return for each major asset class included in the Plan's target asset allocation as of April 30, 2016 and 2015 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	25%	9.41%
Non-U.S. Equity	15%	10.49%
Long/Short Equity	10%	8.73%
Global Equity	10%	9.69%
Fixed Income	30%	4.46%
Real Estate	10%	8.25%

Discount Rate

The discount rate used to measure the total pension liability was 7.5%. In the professional judgment of the Plan's actuary, the funding policy of the plan will result in the pension plan's projected Fiduciary Net Position being greater than or equal to the benefit payments projected for each future period. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments.

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Sensitivity Analysis

The following sensitivity analysis presents the net pension liability of the City, calculated using the discount rate of 7.50% as well as what the City's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50%) or one percentage point higher (8.50%) than the current rate as of April 30, 2016 and 2015:

	2016		
	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Total pension liability	\$ 702,285,984	\$ 625,656,241	\$ 561,336,666
Fiduciary net position	(462,024,002)	(462,024,002)	(462,024,002)
Net pension liability	<u>\$ 240,261,982</u>	<u>\$ 163,632,239</u>	<u>\$ 99,312,664</u>
	2015		
	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Total pension liability	\$ 679,945,586	\$ 604,987,291	\$ 542,111,651
Fiduciary net position	(483,017,711)	(483,017,711)	(483,017,711)
Net pension liability	<u>\$ 196,927,875</u>	<u>\$ 121,969,580</u>	<u>\$ 59,093,940</u>

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Note 6: 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 that such changes could materially affect the amounts reported in the statements of fiduciary net position.

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

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Required Supplementary Information
Schedule of Changes in the City's Net Pension Liability and Related Ratios
April 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Total pension liability		
Service cost	\$ 13,124,510	\$ 13,137,551
Interest on total pension liability	44,922,139	43,442,934
Differences between expected and actual experience	(1,569,538)	-
Benefit payments, including member refunds	<u>(35,808,161)</u>	<u>(34,761,116)</u>
Net change in total pension liability	20,668,950	21,819,369
Total pension liability - beginning	<u>604,987,291</u>	<u>583,167,922</u>
Total pension liability - ending	<u>625,656,241</u>	<u>604,987,291</u>
Fiduciary net position		
Net investment income (loss)	(7,690,067)	32,672,401
City contributions	16,631,844	16,258,533
Member contributions	6,173,154	6,258,482
Benefits paid	(33,876,851)	(32,536,750)
Refunds of contributions	(1,931,310)	(1,956,321)
Administrative expenses	<u>(300,479)</u>	<u>(264,100)</u>
Net change in fiduciary net position	(20,993,709)	20,432,245
Fiduciary net position - beginning	<u>483,017,711</u>	<u>462,585,466</u>
Fiduciary net position - ending	<u>462,024,002</u>	<u>483,017,711</u>
Net pension liability, ending	<u>\$ 163,632,239</u>	<u>\$ 121,969,580</u>
Fiduciary net position as a percentage of total pension liability	73.85%	79.84%
Covered payroll	\$ 59,294,555	\$ 59,410,476
Net pension liability as a percentage of covered payroll	275.97%	205.30%

Note to schedule: This schedule is intended to show a 10-year trend. Additional years will be reported as they become available.

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Schedule of City Contributions
Last Ten Fiscal Years

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Actuarially determined employer contribution	\$16,581,464	\$16,162,139	\$16,182,139	\$15,400,040	\$14,045,886	\$12,827,773	\$17,123,835	\$ 9,476,409	\$ 8,734,919	\$ 9,419,485
Actual City contributions	<u>16,631,844</u>	<u>16,258,533</u>	<u>11,795,883</u>	<u>13,120,169</u>	<u>11,603,818</u>	<u>10,297,638</u>	<u>10,465,322</u>	<u>10,319,886</u>	<u>9,937,683</u>	<u>9,466,685</u>
Annual contribution deficiency (excess)	<u>\$ (50,380)</u>	<u>\$ (96,394)</u>	<u>\$ 4,386,256</u>	<u>\$ 2,279,871</u>	<u>\$ 2,442,068</u>	<u>\$ 2,530,135</u>	<u>\$ 6,658,513</u>	<u>\$ (843,477)</u>	<u>\$(1,202,764)</u>	<u>\$ (47,200)</u>
Covered payroll	\$59,294,555	\$59,410,476	\$58,356,072	\$60,062,558	\$51,983,293	\$51,934,305	\$53,612,509	\$51,168,515	\$49,420,823	\$47,022,072
Actual contributions as a percentage of covered payroll	28.05%	27.37%	20.21%	21.84%	22.32%	19.83%	19.52%	20.17%	20.11%	20.13%

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Schedule of Investment Returns
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Fiscal Year Ending April 30	2016	2015	2014
Annual money-weighted rate of return, net of investment expense	-1.50%	7.19%	10.85%

Note to schedule: This schedule is intended to show a 10-year trend. Additional years will be reported as they become available.

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Changes of benefit and funding terms – The following changes to the plan provisions were reflected in the valuation as listed below:

4/30/2014 Valuation

- Effective April 20, 2014, member contribution rates increased by 1.00% and Tier II have been added to the Plan.

4/30/2011 Valuation

- According to Ordinance No. 100606, members can now designate at retirement that a qualified domestic partner receive death benefits.

Changes in actuarial assumptions and methods – The following changes to the plan provisions were reflected in the valuations as listed below:

4/30/2015 Valuation

- An administrative expense assumption of .35% of payroll was added. Retirement rates added for Tier 2.

4/30/2014 Valuation

- The investment return assumption decreased from 7.75% to 7.50%.

4/30/2012 Valuation

- An actuarial experience study was conducted and resulted to changes in the following assumptions:
 - Inflation
 - Real wage growth
 - Termination rates
 - Retirement rates
 - Disability rates
 - Duty related disability percentage
 - Spouse age difference
 - Marriage assumption
 - Health mortality
 - Disabled mortality

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4/30/2009 Valuation

- The minimum asset corridor, used in the asset smoothing method, changed from 85% to 80% and the maximum asset corridor changed from 110% to 120%.
- The Amortization of UAL changed from a 20-year fixed level percent of pay amortization method for changes to the UAL for the years on and after May 1, 2009 to a 30-year fixed level percent of pay amortization method for changes to the UAL for the years on and after May 1, 2009.

4/30/2008 Valuation

- The minimum asset corridor, used in the asset smoothing method, changed from 90% to 85%.
- The Amortization of UAL changed from a 30-year rolling level percent of pay amortization method to a 30-year fixed level percent of pay amortization of the May 1, 2008 UAL and a 20-year fixed level percent of pay amortization method for changes to the UAL for the years on and after May 1, 2009.
- The investment return assumption was changed from 8.00% to 7.75%.

4/30/2006 Valuation

- The salary increase rate for ages 25 through 29 were increased and the salary increase rates for ages 30 through 64 were decreased.
- The withdrawal rates for ages above 25 were decreased.
- The mortality tables for healthy lives were changed to the 1983 Group Annuity Mortality Table with 5% of deaths assumed to be Duty related, from the 1971 Group Annuity Mortality Table.
- The mortality tables for disabled lives were changed to the 1983 Group Annuity Mortality Table, from the 1983 Railroad Retirement Board Disabled Life Mortality Table.

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The following actuarial methods and assumptions were used to determine the actuarially determined employer contribution reported in the most recent fiscal year, which was based on the April 30, 2014 actuarial valuation:

Valuation Date	5/1/2014
Timing	Actuarially determined contribution rates are calculated based on the actuarial valuation one year prior to the beginning of the plan year.

Key Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry Age
Asset valuation method	5-year smoothed market. 80% / 120% corridor around market value.
Amortization method	30-year layered amortization as a level percent of pay for changes to the unfunded actuarial liability on or after 5/1/2008.
Discount rate	7.50%
Amortization growth rate	4.00%
Price inflation	2.50%
Salary increases	Ranges from 8.0% to 3.0%
Cost-of-living adjustments	3.00% simple
Mortality	Healthy: RP-2000 Combined Mortality Table set forward one year for males and females Disabled: RP-2000 Combined Mortality Table set forward three years for males and females