ILLINOIS GOVERNMENT FINANCE OFFICERS ASSOCIATION RECOMMENDED PRACTICES FOR IMPLEMENTING GASB STATEMENT NOS. 67 AND 68 FEBRUARY 7, 2014

In June 2012, the Governmental Accounting Standards Board (GASB) released its Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 68, *Accounting and Financial Reporting for Pensions*. Both of these statements seek to improve financial reporting related to pension plans. GASB Statement No. 67 applies to financial statements issued by individual pension plans. GASB Statement No. 68 applies to financial statements issued by state and local government employers that sponsor pension plans. These pronouncements effectively separate financial reporting and funding considerations pertaining to the pension plans of state and local governments. Guidance contained in GASB Statement Nos. 67 and 68 pertains to single-employer and multiple-employer pension plans.

In Illinois, municipalities and certain special districts participate in the Illinois Municipal Retirement Fund (IMRF), which has been established pursuant to 40 ILCS 5/7-101. Illinois municipalities may also have established police and firefighters' pension funds pursuant to 40 ILCS 5/3-101 ("Article 3") and 40 ILCS 5/4-101 ("Article 4"), respectively. Police and firefighters' pension funds are oftentimes referred to as "downstate funds." Other public pension funds in operating in Illinois include, but are not limited to, the State Universities Retirement System and the Teachers' Retirement System.

IMRF is an agent multiple-employer pension plan. Downstate police and firefighters' pension funds are single-employer plans. All of these plans are defined benefit pension plans. (Defined benefit pension plans are pension plans that are used to provide pensions for which the income or other benefits that plan members receive at or after separation from employment are defined by the benefit terms [GASB Statement No. 67, para. 51].)

GASB Statement No. 67, which is effective for fiscal years beginning after June 15, 2013, applies to financial reports issued by downstate police and firefighters' pension funds. GASB Statement No. 68, which is effective for fiscal years beginning after June 15, 2014, applies to local governments that participate in IMRF and/or sponsor downstate police and/or firefighters' pension funds.

In implementing GASB Statement Nos. 67 and 68, it is recommended that Illinois municipalities and special districts consider the following:

<u>Reporting for Downstate Police and Firefighters' Pension Funds</u>

1. The fiscal years of municipalities and the pension funds they sponsor should be aligned. In turn, the actuarial valuation for the funds should be aligned with the fiscal years of the municipalities and pension funds. Most specifically, the measurement date for a pension fund's actuarial valuation should be the same as the fund's fiscal

year end. By taking these steps, tracing information between the various reports will be made easier.

2. Municipalities should select the date for the initial measurement of the entity's net pension liability (NPL) for the pension funds that they sponsor. The initial measurement date determines subsequent measurement dates. For example, if a government selects January 1, 2014 as the initial measurement date and decides to seek annual actuarial valuations, subsequent valuation dates will fall on January 1 of each year. If the measurement date is changed, a prior-period adjustment will be necessary. In general, once a municipality selects an initial measurement date, the measurement date should not be changed unless a new measurement date can be justified as preferable to the previous measurement date (GASB Statement No. 62, paras. 73 and 74).

3. Municipalities should engage an independent actuary to prepare actuarial valuations to permit the timely preparation of financial statements. (It is not expected that the Illinois Department of Insurance's Public Pension Division will prepare actuarial valuations with the information necessary for compliance with GASB Statement Nos. 67 and 68.) The following information should be submitted to the independent actuary within two months of the close of the fiscal year:

   a. A list of pension fund participants (employee, retiree, or surviving spouse or child) as of year-end with the following information for each participant as applicable:

      1) Gender.
      2) Date of birth.
      3) Date of hire.
      4) Date of retirement.
      5) Current pensionable salary.
      6) Type of pension being paid.

   b. Statement of fiduciary net position as of year-end.
   c. Statement of changes in fiduciary net position for the year ended.
   d. The government's pension funding policy.

   If the valuation is not prepared timely and financial statements must be issued based upon an actuarial valuation that is not aligned with the fiscal year-end (e.g., one year old), the municipality will likely recognize a deferred outflow of resources related to pensions (GASB Statement No. 68, para. 57).

4. Municipalities should arrange for their actuaries to provide the information outlined in Exhibit A to support financial reporting.

5. Municipalities sponsoring downstate police and firefighters' pension funds should establish a policy for funding their related pension obligations. Alternatively, if no funding policy is established by the municipality, past funding practices may be assumed. Such practices may include compliance with minimum funding parameters under state law (40 ILCS 5/3-125 and 40 ILCS 5/4-118). (See GASB Statement No. 67, para. 42 and GASB Statement No. 68, para. 28.) In developing a funding policy, a municipality should consider the elements discussed in the following publications:

   a. *Best Practice: Sustainable Funding Practices of Defined Benefit Pension Plans*, Government Finance Officers Association, 2009.
   b. *Best Practice: Guidelines for Funding Defined Benefit Pensions*, Government Finance Officers Association, 2013.
   c. *Best Practice: Core Elements of a Pension Funding Policy*, Government Finance Officers Association, 2013.
   d. *Pension Funding: A Guide for Elected Officials*, Pension Funding Task Force, 2013.

6. Pension funds should amend their funds' investment policies (or otherwise document their investment objectives) to specify the target allocation and long-term expected real rate of return by asset class (e.g., fixed income, domestic equity, international equity, real estate, private equity, commodities, and cash) and whether the expected rates of return are arithmetic or geometric means. (See paragraph 31b(1)(f) of GASB Statement No. 67.) These investment objectives should be periodically re-evaluated. When re-evaluating the investment objectives, pension funds should consider their past investment experience and reasonably expected future results. Consideration of generally accepted investment benchmarks may also be helpful when re-evaluating investment objectives.

7. Pension funds should coordinate with their investment management advisor or designee (e.g., custodian or accountant) for the calculation of their annual money-weighted rate of return, net of investment expense. (See paragraphs 30b(4) and 32d of GASB Statement No. 67.) If a fund employs multiple investment managers, it will be necessary for the fund to calculate the annual money-weighted rate of return or engage an outside professional to do so.

<u>Reporting for the Illinois Municipal Retirement Fund</u>

1. Entities should recognize that the IMRF will provide actuarial valuation reports with a valuation date of December 31. The first valuation reports are expected to have a valuation date of December 31, 2014. Because some governments may have fiscal years that end on dates other than December 31, these governments will necessarily report information related to IMRF pensions that is less current than other information contained in the government's financial statements.

2. If an entity includes a discretely presented component unit (such as a municipal library) for which the IMRF does not provide a separate actuarial valuation, pension-related financial information should be segregated between the primary government and the discretely presented component unit based upon their relative percentages of total payroll. (Guidance for reporting financial information pertaining to cost-sharing employers is providing in paragraphs 48 through 82 of GASB Statement No. 68.)

3. The entity should coordinate with its auditors to establish whether the auditors will permit the inclusion of information contained in the valuation and financial reporting package provided by IMRF in the entity's financial statements without additional auditing procedures. If the auditors will perform additional auditing procedures, the entity should adjust the scheduling of its annual auditing and financial statement preparation processes accordingly. At a minimum, auditors will need to contact IMRF directly to confirm the accuracy of pension-related financial information that IMRF has provided. (The American Institute of Certified Public Accountants is currently considering the establishment of an auditing standard that would specify the auditing procedures that should be undertaken to confirm the accuracy of information provided by multiple-employer pension plans.)

General

Where an entity has a substantial total pension liability, the unrestricted net position of the entity as presented in its entity-wide statement of net position may be a negative amount. It should be recognized by the entity's management that any negative unrestricted net position likely did not result from short-term actions of the entity or the boards of trustees of its downstate pension funds. In such situations, the actual financial condition of the entity may have been developing over the course of several years as previously reported in the schedule(s) of funding progress (required supplementary information) in the entity's annual financial report. The implementation of GASB Statement No. 68 will only have served to move the unfunded pension obligations from the required supplementary information to the face of the financial statements in the entity's annual financial report.

Attached as Exhibit B is an illustrative example of a financial report for a downstate fund reflecting the implementation of GASB Statement No. 67. The amounts included in the report are fictitious. The report includes information that is required by GASB Statement No. 40, *Deposit and Investment Risk Disclosures, An Amendment of GASB Statement No. 3.*

Exhibit C provides suggestions on how to address certain financial statement elements and notes when implementing GASB Statement No. 67.

The IGFOA Technical Accounting Review Committee anticipates issuing an updated version of this paper to further discuss the implementation of GASB Statement No. 68 as the required implementation date of that pronouncement draws closer.

Prepared and Issued by the
IGFOA Technical Accounting Review Committee
February 7, 2014

EXHIBIT A

ILLINOIS GOVERNMENT FINANCE OFFICERS ASSOCIATION
GASB STATEMENT NO. 67
INFORMATION NEEDED FROM THE ENGAGED ACTUARY

The following information would generally be provided by an actuary to a pension plan for the pension plan to comply with GASB Statement No. 67. Please note all of the actuarial information must be in accordance with the parameters of the statement.

Determination of the measurement date (if first year of implementation the government will need information as of the beginning of the year of the measurement date, activity during the period and information as of the measurement date).

Determination of the fiscal year to which the actuarial determined contribution (ADC) applies.

Plan membership as of the measurement date in the following categories:

Inactive Plan Members Currently Receiving Benefits	
Inactive Plan Members Entitled to but not yet Receiving Benefits	
Employees	
Vested	
Nonvested	
TOTAL	

Total pension liability (TPL) as of the beginning of the measurement period.

Total pension liability as of the end of the measurement period.

Changes in the total pension liability with the following components disclosed separately:

- Service cost
- Interest
- Changes in benefit terms
- Differences between actual and expected experience
- Changes in assumptions
- Benefit payments (including refunds of contributions)
- Other changes in the total pension liability

The long-term expected rate of return on plan investments and how it was determined.

Calculation of the discount rate used to calculation the TPL and the cash flow analysis to support the calculation.

Sensitivity analysis of the discount rate on the net pension liability.

The municipal bond rating used in the calculation of the discount rate.

Actuarially determined contribution (ADC) for the period.

Contributions made in relation to the ADC.

Covered payroll for the measurement period.

Calculation of the minimum funding requirement in accordance with ILCS (if different than the ADC above).

Complete list of all assumptions used.

Dates of any experience studies supporting the actuarial assumptions (GASB Statement No. 67, para. 31b.)

The following information would be provided by the pension plan to the actuary:

- Census information to the actuary
- Plan net position beginning of the measurement year
    - Employer contributions
    - Employee contributions
    - Other contributions
    - Net investment income
    - Benefit payments, including refunds of contributions
    - Administrative expenses
- Plan net position end of year

Illustrative Example for
Reference Purposes Only

EXHIBIT B

DOWNSTATE POLICE PENSION FUND

ANNUAL FINANCIAL REPORT

For the Year Ended
December 31, 2013

DOWNSTATE POLICE PENSION FUND
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BASIC FINANCIAL STATEMENTS

DOWNSTATE POLICE PENSION FUND

STATEMENT OF FIDUCIARY NET POSITION

December 31, 2013

ASSETS	
Cash and Cash Equivalents	$ 5,392,951
Receivables (Net, Where Applicable, of Allowances for Uncollectibles)	
Due from General Fund	13,247
Accrued Interest	893,181
Prepaid Expenses	4,679
Investments, at Fair Value	
Fixed Income Securities	60,049,222
Domestic Equity Securities	45,482,079
International Equity Mutual Funds	26,114,295
Real Estate Investment Trust	6,907,071
Total Assets	144,856,725
LIABILITIES	
Accounts Payable	73,283
Total Liabilities	73,283
NET POSITION RESTRICTED FOR PENSIONS	$ 144,783,442

See accompanying notes to financial statements.

DOWNSTATE POLICE PENSION FUND

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

For the Year Ended December 31, 2013

ADDITIONS	
Contributions	
Employer Contributions	$ 8,270,619
Employee Contributions	2,904,235
Total Contributions	11,174,854
Investment Income	
Net Appreciation in Fair Value of Investments	9,602,501
Interest and Dividends	3,860,574
Total Investment Income	13,463,075
Less Investment Expense	(454,079)
Net Investment Income	13,008,996
Total Additions	24,183,850
DEDUCTIONS	
Pension Benefits	11,182,448
Administrative Expenses	60,865
Total Deductions	11,243,313
NET INCREASE	12,940,537
NET POSITION RESTRICTED FOR PENSIONS	
January 1	131,842,905
December 31	$ 144,783,442

See accompanying notes to financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The Fund is a fiduciary fund of the City of Downstate, Illinois (the City) pursuant to GASB Statement No. 61.

B. Fund Accounting

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

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

C. Basis of Accounting

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Investments

Investment purchases are recorded as of the trade date. Investments are stated at fair value at December 31, 2013 for both reporting and actuarial purposes. Securities traded on national exchanges are at the last reported sale price.

2. PLAN DESCRIPTION

A. Plan Administration

Police sworn personnel are covered by the Downstate Police Pension Fund, a single-employer defined benefit pension plan sponsored by the City. The defined benefits and employee and minimum employer contribution levels are governed by Illinois Compiled Statutes (40 ILCS 5/3-1) and may be amended only by the Illinois legislature. The City accounts for the Downstate Police Pension Plan as a pension trust fund.

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

B. Plan Membership

At December 31, 2013, the measurement date, membership consisted of:

Inactive Plan Members Currently Receiving Benefits	186
Inactive Plan Members Entitled to but not yet Receiving Benefits	3
Employees	
Vested	199
Nonvested	90
TOTAL	478

C. Benefits Provided

The following is a summary of benefits of the Fund as provided for in ILCS:

The Fund provides retirement benefits as well as death and disability benefits in two tiers depending on when a participant enters a plan. Tier 1 employees (those hired prior to January 1, 2011) attaining the age of 50 or older with 20 or more years of creditable service are entitled to receive an annual retirement benefit equal to onehalf of the salary attached to the rank held on the last day of service, or for one year prior to the last day, whichever is greater. The annual benefit shall be increased by 2.50% of such salary for each additional year of service over 20 years up to 30 years to a maximum of 75.00% of such salary. Employees with at least eight years but less than 20 years of credited service may retire at or after age 60 and receive a reduced benefit. The monthly benefit of a police officer who retired with 20 or more years of service after January 1, 1977 shall be increased annually, following the first anniversary date of retirement and be paid upon reaching the age of at least 55 years, by 3.00% of the original pension and 3.00% compounded annually thereafter.

Tier 2 employees (those hired on or after January 1, 2011) attaining the age of 55 or older with ten or more years of creditable service are entitled to receive an annual retirement benefit equal to the average monthly salary obtained by dividing the total salary of the police officer during the 96 consecutive months of service within the last 120 months of service in which the total salary was the highest by the number of months of service in that period. Police officers' salary for pension purposes is capped at $106,800, plus the lesser of ½ of the annual change in the Consumer Price Index or 3.00% compounded. The annual benefit shall be increased by 2.50% of such salary for each additional year of service over 20 years up to 30 years to a maximum of 75.00% of such salary. Employees with at least ten years may retire at or after age 50 and receive a reduced benefit (i.e., ½% for each month under 55). The monthly benefit of a Tier 2 police officer shall be increased annually at age 60 on the January 1st after the police officer retires, or the first anniversary of the pension starting date, whichever is later. Noncompounding increases occur annually, each January thereafter. The increase is the lesser of 3.00% or ½ of the change in the Consumer Price Index for the proceeding calendar year.

D. Contributions

Employees are required by ILCS to contribute 9.91% of their base salary to the Fund. If an employee leaves covered employment with less than 20 years of service, accumulated employee contributions may be refunded without accumulated interest. The City is required to contribute the remaining amounts necessary to finance the Fund, as actuarially determined by an enrolled actuary. However, effective January 1, 2011, ILCS requires the City to contribute a minimum amount annually calculated using the projected unit credit actuarial cost method that will result in the funding of 90% of the past service cost by the year 2040. (The employer has chosen to use the following parameters to fund its pension plan above and beyond the state minimum……….) For the year ended December 31, 2013, the City's contribution was 31.0% of covered payroll.

3. INVESTMENTS

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

A. Investment Policy

Illinois Compiled Statutes (ILCS) limit the Fund's investments to those allowable by ILCS and require the Fund's Board of Trustees to adopt an investment policy which can be amended by a majority vote of the Board of Trustees. The Fund's investment policy authorizes the Fund to make deposits/invest in insured commercial banks, savings and loan institutions, obligations of the U.S. Treasury and U.S. agencies, insured credit union shares, money market mutual funds with portfolios of securities issued or guaranteed by the United States or agreements to repurchase these same obligations, repurchase agreements, short-term commercial paper rated within the three highest classifications by at least two standard rating services, investment grade corporate bonds and Illinois Funds. The Fund may also invest in certain non-U.S. obligations, Illinois municipal corporations tax anticipation warrants, veteran's loans, obligations of the State of Illinois and its political subdivisions, Illinois insurance company general and separate accounts, mutual funds, corporate equity and corporate debt securities and real estate investment trusts. During the year, the following changes to the investment policy were approved by the Board of Trustees: allowing investments in real estate investment trusts and the global tactical asset allocation mutual fund. In addition, target allocations across asset classes were adjusted.

The Fund's investment policy in accordance with ILCS establishes the following target allocation across asset classes:

Asset Class	Target	Long-Term Expected Real Rate of Return
Fixed Income	40%	1.3%
Domestic Equities	32%	5.4%
International Equities	16%	5.5%
Real Estate	5%	4.5%
Blended	7%	3.5%
Cash and Cash Equivalents	0%	0.0%

Illinois Compiled Statutes (ILCS) limit the Fund's investments in equities, mutual funds and variable annuities to 65%. Securities in any one company should not exceed 5% of the total fund. The blended asset class is comprised of all other asset classes to allow for rebalancing the portfolio.

The long-term expected rate of return on the Fund's investments was determined using an asset allocation study conducted by the Fund's investment management consultant in September 2013 in which best-estimate ranges of expected future real rates of return (net of pension plan investment expense and inflation) were developed for each major assets class. These ranges were 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 or arithmetic real rates of return for each major asset class included in the Fund's target asset allocation as of December 31, 2013 are listed in the table above.

B. Concentrations

There are no significant investments (other than U.S. Government guaranteed obligations) in any one organization that represent 5.0% or more of Fund's investments.

C. Rate of Return

For the year ended December 31, 2013, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 9.87 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

D. Deposits with Financial Institutions

Custodial credit risk for deposits with financial institutions is the risk that in the event of a bank's failure, the Fund's deposits may not be returned to them. The Fund's investment policy requires all bank balances to be covered by federal depository insurance.

E. Interest Rate Risk

The following table presents the investments and maturities of the Fund's debt securities as of December 31, 2013:

		Investment Maturities (in Years)			
Investment Type	Fair Value	Less than 1	1-5	6-10	Greater than 10
U.S. Treasury Obligations	$ 29,259,233	$ -	$ 12,583,326	$ 15,236,825	$ 1,439,082
U.S. Agency Obligations	5,635,839	-	2,289,201	674,579	2,672,059
Corporate Bonds	20,025,553	-	12,465,828	6,207,459	1,352,266
Foreign Bonds	128,597	-	128,597	-	-
Negotiable Certificates of Deposit	5,000,000	-	5,000,000	-	-
TOTAL	$ 60,049,222	$ -	$ 32,466,952	$ 22,118,863	$ 5,463,407

In accordance with its investment policy, the Fund limits its exposure to interest rate risk by structuring the portfolio to provide liquidity for operating funds and maximizing yields for funds not needed for expected current cash flows. The investment policy does not limit the maximum maturity length of investments in the Fund.

F. Credit Risk

The Fund limits its exposure to credit risk, the risk that the issuer of a debt security will not pay its par value upon maturity, by primarily investing in obligations guaranteed by the United States Government, securities issued by agencies of the United States Government that are explicitly or implicitly guaranteed by the United States Government, and investment grade corporate bonds rated at or above BBB- by Standard and Poor's, Baa3 by Moody's and BBB- by Fitch by at least two of the three rating agencies. The U.S. agency obligations are rated Aaa by Moody's. The corporate bonds are rated Baa3 to Aaa by Moody's. However, certain U.S. agency investments, corporate bonds, and money market mutual funds are not rated.

G. Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to the investment, the Fund will not be able to recover the value of its investments that are in possession of an outside party. To limit its exposure, the Fund requires all security transactions that are exposed to custodial credit risk to be processed on a delivery versus payment (DVP) basis with the underlying investments held by a third party acting as the Fund's agent separate from where the investment was purchased in the Fund's name. The money market mutual funds and equity mutual funds are not subject to custodial credit risk.

4. Receivables

Include this note to discuss any long-term contracts for contributions, if any, reported in the statement of fiduciary net position.

5. Pension Liability of the City

A. Net Pension Liability

The components of the net pension liability of the City as of December 31, 2013 were as follows:

Total pension liability	$	320,000,000
Plan fiduciary net position	$	144,783,442
City's net pension liability	$	175,216,558
Plan fiduciary net position as a percentage of the total pension liability		45.2%

See the Schedule of Changes in the Employer's Net Pension Liability and Related Ratios on page 15 of the required supplementary information for additional information related to the funded status of the Fund.

B. Actuarial Assumptions

The total pension liability above was determined by an actuarial valuation performed as of December 31, 2013 (January 1, 2014) using the following actuarial methods and assumptions.

Actuarial Valuation Date	December 31, 2013
Actuarial Cost Method	Projected Unit Credit
Assumptions	
Inflation	3%
Salary Increases	5.5%
Interest Rate	6.75%
Cost of living adjustments	3%
Asset Valuation Method	Market

Mortality rates were based on the RP-2000 Mortality Table (BCA, +1M, -4F, 2x>105). The actuarial assumptions used in the December 31, 2013 valuation were based on the results of an actuarial experience study conducted by the Illinois Department of Insurance dated September 26, 2012.

C. Discount Rate

The discount rate used to measure the total pension liability was 6.75%, the same as the prior valuation. The projection of cash flows used to determine the discount rate assumed that member contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the Fund's fiduciary net position was projected to be available to make all project future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the total pension liability.

D. Discount Rate Sensitivity

The following is a sensitive analysis of the net pension liability to changes in the discount rate. The table below presents the pension liability of the City calculated using the discount rate of 6.75% as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (5.75%) or 1 percentage point higher (7.75%) than the current rate:

	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
Net Pension Liability	$239,216,558	$175,216,558	$121,883,225

REQUIRED SUPPLEMENTARY INFORMATION

DOWNSTATE POLICE PENSION FUND

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

Most Recently Completed Fiscal Year

	2013
Total Pension Liability	
Service Cost	$7,787,405
Interest	20,050,559
Changes of Benefit Terms	0
Differences Between Expected and Actual Experience	7,521,718
Changes of Assumptions	0
Benefit Payments, Including Refunds of Member Contributions	12,405,000
Net Change in Total Pension Liability	47,764,682
Total Pension Liability - Beginning	272,235,318
Total Pension Liability - Ending	$320,000,000
Plan Fiduciary Net Position	
Contributions-Employer	$8,270,619
Contributions-Member	2,904,235
Net Investment Income	13,008,996
Benefit Payments, Including Refunds of Member Contributions	(11,182,448)
Administrative Expense	(60,865)
Net Change in Plan Fiduciary Net Position	12,940,537
Plan Net Position - Beginning	131,842,905
Plan Net Position - Ending	$144,783,442
Employer's Net Pension Liability	$175,216,558
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	45.2%
Covered-Employee Payroll	$ 26,708,019
Employer's Net Pension Liability as a Percentage of Covered-Employee Payroll	656.0%

Notes to Schedule:

Illustration Notes:

1) Ultimately, this schedule should present information for the last ten years. However, until ten years of information can be compiled, information should be presented for as many years as is available.
2) Notes to this schedule would include explanations of changes in benefits, changes in assumptions, and other relevant matters.

(See independent auditor's report.)

DOWNSTATE POLICE PENSION FUND

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Last Ten Fiscal Years

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Actuarially Determined Contribution	$ 3,927,561	$ 4,662,786	$ 4,838,019	$ 5,511,265	$ 6,144,161	$ 7,150,811	$ 7,820,659	$ 9,900,826	$ 10,349,019	$ 8,254,300
Contributions in Relation to the Actuarially Determined Contribution	3,933,876	4,704,578	4,664,739	5,513,677	6,145,484	7,152,523	7,821,000	9,901,400	10,364,821	8,270,619
Contribution Deficiency (Excess)	$ (6,315)	$ (41,792)	$ 173,280	$ (2,412)	$ (1,323)	$ (1,712)	$ (341)	$ (574)	$ (15,802)	$ (16,319)
Covered-Employee Payroll	$ 17,757,792	$ 19,202,685	$ 20,227,438	$ 22,300,758	$ 23,362,736	$ 24,913,911	$ 26,158,149	$ 25,007,815	$ 25,922,346	$ 26,708,019
Contributions as a Percentage of Covered-Employee Payroll	22.2%	24.5%	23.1%	24.7%	26.3%	28.7%	29.9%	39.6%	40.0%	31.0%

Notes to Schedule

Valuation date:	Actuarially determined contribution rates are calculated as of January 1 of the prior fiscal year.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal through 2012; projected unit credit beginning in 2013
Amortization method	Level percent of pay, closed; 100% through 2012 and 90% beginning in 2013
Remaining amortization period	28 years (The funding schedule was reset to end in 2040 in 2011.)
Asset valuation method	Market
Inflation	3%
Salary increases	5.5% compounded annually, including inflation
Investment rate of return	7% through 2012; 6.75% beginning in 2013 including inflation
Retirement age	See Note 2 in the Notes to Financial Statements
Mortality	Mortality rates were based on the 1971 GAM Mortality Table through 2012; the RP-2000 Mortality Table (BCA, +1M, -4F, 2x>105) was used beginning in 2013

Illustration Notes:
1) The ADC is determined by the actuary. It is not necessarily the same as the ARC that was required by GASB Statement No. 27.
2) "Contributions in relation to the actuarially determined contribution" are actual employer contributions made to the fund.
3) Ten years of information is presented above in the year of GASB Statement No. 67 implementation because the information was available.

(See independent auditor's report.)

DOWNSTATE POLICE PENSION FUND

SCHEDULE OF INVESTMENT RETURNS

Most Recently Completed Fiscal Year

	2013
Annual Money-Weighted Rate of Return, Net of Investment Expense	9.87%

Illustration Note:
Ultimately, this schedule should present return information for the last ten years. However, until ten years of information can be compiled, return information should be presented for as many years as is available.

EXHIBIT C

ILLINOIS GOVERNMENT FINANCE OFFICERS ASSOCIATION
GASB STATEMENT NO. 67
IMPLEMENTATION NOTES

Financial Statements – accrual basis of accounting, economic resources measurement focus.

Statement of Fiduciary Net Position (Change title to Fiduciary Net Position)

Assets – Report by major category of asset and principal components of investments and receivables

Receivables

- Employer and employees – only if legally required (e.g., unremitted restricted tax levy by the employer).
- Receivables from employees – purchases of service credits (e.g., transfer of service, military buyback) –Recognize receivable and addition in the year the agreement is executed.

Investments

- Investments must be reported by type of investment or investment category (consider at least the same level of detail as the investment policy and the note disclosure of the long-term investment rate of return by major asset class).
- All investments are reported at fair value.
- Investments reported at trade date, not settlement date. Receivables and payables related to trade date accounting can not be netted on the face of the statement.
- Unamortized premiums and discounts are not recorded nor amortized due to fair value reporting.
- Securities lending transactions should be accounted for in accordance with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions.*

Liabilities

- Benefits due and payable to plan members.
- Refunds due to nonvested, terminated participants if not paid out by year end.
- Investment and administrative expenses.

Net position

- Label as “net position restricted for pensions.”

Statement of Changes in Fiduciary Net Position

Additions

- Separately report contributions from employers, employees, nonemployer contributors, and others.

Investment Income

- Comprised of net increase (decrease) in fair value of pension plan investments and interest/dividend income. Investment income should be reported at the stated interest rate (no amortization of discounts/premiums). GASB S-25 required these two components to be displayed separately. GASB S-67 allows aggregating these for reporting purposes.

- Investment related costs should be reported as investment expense. Investment expenses should be deducted on the face of the statement to arrive at net investment income.

Deductions

- Separately display benefit payments and administrative expenses.

Net increase (decrease) in fiduciary net position

<u>Notes to the Financial Statements</u>

- Change Note 1A to conform to GASB S-61.

- Note 2, plan membership – active members can be reported as one category. The City has opted to segregate active members into vested and nonvested categories. For benefits provided, we have chosen to provide more than the minimal amount required by paragraph 30 a (5).

- Note 3 is a combination of the requirements of GASB S-40 and GASB S-67. Should be designed based on the pension fund's investment policy in accordance with GASB Statement No 40, *Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3*.

- Investment policy – must disclose any changes made to the policy during the last fiscal year.