

FIREFIGHTERS' PENSION
INVESTMENT FUND



ANNUAL
FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2020

FIREFIGHTERS' PENSION INVESTMENT FUND

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For the Year Ended June 30, 2020

FIREFIGHTER'S PENSION INVESTMENT FUND
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INTRODUCTORY SECTION



FIREFIGHTERS' PENSION INVESTMENT FUND
1919 S. HIGHLAND AVE • BUILDING A, SUITE 237 • LOMBARD, IL 60148

December 4, 2020

Board of Trustees
Firefighters' Pension Investment Fund
1919 S. Highland Ave. Building A, Suite 237
Lombard, IL 60148

LETTER OF TRANSMITTAL

We are pleased to present the Annual Financial Report for the Firefighters' Pension Investment Fund (FPIF) for the fiscal year ended June 30, 2020.

The FPIF was created by PA 101-610 which was signed into law by the Governor of Illinois on December 18, 2019. The law created a nine-member interim Board appointed by the Governor, to be replaced by permanent Board to be elected prior to December 31, 2020. The permanent Board will be comprised of three elected active duty firefighters, one elected retired firefighter, three elected executive representatives, a representative of the Illinois Municipal League, and a representative of the Associated Firefighters of Illinois.

The legislation established broad parameters for the transfer of assets from approximately 300 local Article 4 (Article 4 of the Illinois Pension Code, which created and regulates firefighter pension funds) pension funds into the FPIF portfolio. It established a Transition Period, ending no later than June 30, 2022, within which the FPIF is to transfer assets and assume its full statutory responsibilities. PA 101-610 authorizes the FPIF to retain an executive director, staff, auditors, actuaries, custodians, and other professional service providers required to prudently manage an institutional portfolio. It also requires the FPIF, on a go forward basis, to provide ongoing audit and actuarial services to its approximately three hundred constituent retirement systems.

The management of FPIF is responsible for the compilation and accuracy of the financial, investment and other information contained in this report. Additionally, FPIF's Board of Trustees has established an Audit and Compliance Committee, which is comprised of three Board Trustees. The Committee meets quarterly or as needed and discusses FPIF's audit and compliance procedures and reports. To the best of our knowledge and belief the enclosed information is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of FPIF.

Management is responsible for establishing and maintaining adequate internal controls over financial reporting. FPIF's internal controls over financial reporting are designed to provide reasonable assurance regarding safekeeping of assets and reliability of financial records in accordance with generally accepted accounting principles. These controls include appropriate segregation of duties and sound practices in the performance of those duties. The cost of a control should not exceed the benefits likely to be derived. The valuation of costs and benefits requires estimates and judgements by management. The objective of internal controls is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The Illinois Pension Code requires an annual audit of the financial statements of FPIF by independent accountants selected by the FPIF Board of Trustees. This requirement has been complied with, and the independent auditor's unmodified report on FPIF's Fiscal Year 2020 financial statements has been included in this report.

Accounting principles generally accepted in the United States of America require that management provide a narrative, introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A (pages MD&A 1-3 of the report) and should be read in conjunction with it.

Key Developments and Initiatives

Since its inception FPIF has been focused on establishing operations, hiring a staff, conducting an election of a permanent Board of Trustees and developing the processes that will be used to transition investment assets from its approximately three hundred constituent retirement systems. Expenditures related to these activities were funded by an Inter-Governmental Agreement (Loan) with the Illinois Finance Authority (IFA) to provide up to \$7 million in operating funds through the Transition Period, to be repaid at an agreed upon, below market, rate of interest over time, commencing with the conclusion of the Transition Period. The June 30, 2020 FPIF Financial Statements reflect the amount drawn on this loan and the related operating expenditures. No investment assets have been transitioned from Article 4 funds as of June 30, 2020 therefore the FPIF Financial Statements as of that date do not reflect any investment activity.

Acknowledgments

This report was prepared through the combined effort of the FPIF staff under the leadership of the Board of Trustees. It is intended to provide reliable information to its users for making decisions and for determining responsible stewardship for the assets contributed by Member Systems.

The report is made available to the Governor, the Illinois Finance Authority, Member Systems, and other interested persons by request. We thank all those who work with FPIF and help the organization achieve its mission.

The following sections of the report present detailed financial statement and supplemental information in conformity with generally accepted accounting principles (GAAP) applied within guidelines established by the Governmental Accounting Standards Board (GASB)

Respectfully submitted,


William Atwood
Executive Director/Chief Investment Officer


David Zaloga
Chief Financial Officer

FINANCIAL SECTION

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Naperville, IL 60563
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SIKICH.COM

INDEPENDENT AUDITOR'S REPORT

The Honorable Chairman
Members of the Board of Trustees of the
Firefighters' Pension Investment Fund
Lombard, Illinois

We have audited the financial statements of the Firefighters' Pension Investment Fund (the Fund) as of and for the period January 1, 2020 (inception) through June 30, 2020, and the related notes to financial statements, which collectively comprise the basic financial statements as listed in the accompanying table of contents.

Management's Responsibility for the Financial Statements

Management of the Fund 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 basic financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the basic 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 Fund'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 basic 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 Firefighters' Pension Investment Fund for the period ended June 30, 2020, and the changes in fiduciary net position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States 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 Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Fund's basic financial statements. The introductory section and supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Sikich LLP

Naperville, Illinois
December 4, 2020

Firefighters' Pension Investment Fund (FPIF)

Management's Discussion and Analysis

The FPIF was created by PA 101-610 which was signed into law by the Governor of Illinois on December 18, 2019. The law created a nine-member interim Board appointed by the Governor, to be replaced by permanent Board to be elected prior to December 31, 2020. The permanent Board will be comprised of three elected active duty firefighters, one elected retired firefighter, three elected executive representatives, a representative of the Illinois Municipal League, and a representative of the Associated Firefighters of Illinois.

The legislation established broad parameters for the transfer of assets from approximately 300 local Article 4 (Article 4 of the Illinois Pension Code, which created and regulates firefighter pension funds) pension funds into the FPIF portfolio. It established a Transition Period, ending no later than June 30, 2022, within which the FPIF is to transfer assets and assume its full statutory responsibilities. PA 101-610 authorizes the FPIF to retain an executive director, staff, auditors, actuaries, custodians, and other professional service providers required to prudently manage an institutional portfolio. It also requires the FPIF, on a go forward basis, to provide ongoing audit and actuarial services to its approximately three hundred constituent retirement systems.

The following Management's Discussion and Analysis (MD&A) provides an introduction and overview of the Firefighters' Pension Investment Fund (FPIF) financial activities for the fiscal year ended June 30, 2020.

Financial Highlights

The net position of FPIF totaled approximately - \$ 284k at fiscal year end June 30, 2020, its first year of operation.

Since its inception FPIF has been focused on establishing operations, hiring a staff, conducting an election of a permanent Board of Trustees and developing the processes that will be used to transition investment assets from its approximately three hundred constituent retirement systems. Expenditures related to these activities were funded by an Inter-Governmental Agreement (Loan) with the Illinois Finance Authority (IFA) to provide up to \$7.5 million in operating funds through the Transition Period, to be repaid at an agreed upon, below market, rate of interest over time, commencing with the conclusion of the Transition Period. The June 30, 2020 FPIF Financial Statements reflect the amount drawn on this loan and the related operating expenditures. No investment assets have been transitioned from Article 4 funds as of June 30, 2020 therefore the FPIF Financial Statements as of that date do not reflect any investment activity.

Overview of the Financial Statements

FPIF's financial statements are prepared on an accrual basis in accordance with U.S. generally accepted accounting principles promulgated by the Governmental Accounting Standards Board and are comprised of the Statement of Fiduciary Net Position, the Statement of Changes in Fiduciary Net Position, and Notes to Financial Statements.

Management's Discussion and Analysis (Continued)

The Statement of Fiduciary Net Position presents information on FPIF's assets and liabilities and the resulting net position.

The asset balances on this statement consist of cash (\$82k), prepaid expenses (\$ 57k) and security deposit (\$4k).

The liability balances on this statement consist of accounts payable (\$125k), accrued expenses (\$ 11k) and loan payable to IFA (\$291k).

Condensed Statement of Fiduciary Net Position

	June 30, 2020
	\$
Cash & Equivalents	82,373
Other Assets	61,044
Total Assets	<u>143,417</u>
Current Liabilities	136,445
Loan Agreement Payable - IFA	291,071
Total Liabilities	<u>427,516</u>
Net Position	<u>(284,099)</u>

Management's Discussion and Analysis (Continued)

The Statement of Changes in Fiduciary Net Position presents information regarding changes during the fiscal year ended June 30, 2020. This statement reflects operating expenditures related to the establishment of FPIF's operations and work performed on the key initiatives of the organization. These expenditures were funded by draw downs on the IFA loan during fiscal year 2020.

Condensed Statement of Changes in Net Fiduciary Position

	Fiscal Year Ended June 30, 2020 \$
ADDITIONS	
None	-
Total Additions	<u>-</u>
DEDUCTIONS	
Administrative Expenses	
Personnel	100,565
Professional Services	131,581
Operations	51,953
Total Deductions	<u>284,099</u>
Net Position	<u>(284,099)</u>

Future Outlook

In the future, FPIF plans to accomplish its strategy of consolidating the investment assets of local Article 4 funds with the goals of maximizing returns within a targeted risk profile and reducing investment related expenses and therefore creating more funds which can be used to pay member benefits. FPIF's financial statements will become more complex in future years as the transition and consolidation plans are executed.

BASIC FINANCIAL STATEMENTS

FIREFIGHTERS' PENSION INVESTMENT FUND

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2020

ASSETS

Cash and Cash Equivalents	\$ 82,373
Prepaid Expenses	56,568
Security Deposit	<u>4,476</u>

Total Assets	<u>143,417</u>
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LIABILITIES

Accounts Payable	125,588
Accrued Payroll	440
Compensated Absences Payable	10,417
Loan Agreement Payable	<u>291,071</u>

Total Liabilities	<u>427,516</u>
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**NET POSITION HELD IN TRUST
FOR POOL PARTICIPANTS**

\$ (284,099)

See accompanying notes to financial statements.

FIREFIGHTERS' PENSION INVESTMENT FUND

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

For the Period January 1, 2020 (Inception) through June 30, 2020

ADDITIONS

None	\$ -
	<hr/>
Total Additions	-
	<hr/>

DEDUCTIONS

Administrative Expenses	
Personnel	100,565
Professional Services	131,581
Operations	51,953
	<hr/>
Total Deductions	284,099
	<hr/>

NET DECREASE (284,099)

**NET POSITION HELD IN TRUST
FOR POOL PARTICIPANTS**

January 1	-
	<hr/>
June 30	\$ (284,099)
	<hr/> <hr/>

See accompanying notes to financial statements.

FIREFIGHTER'S PENSION INVESTMENT FUND

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Firefighters' Pension Investment Fund (the Fund) 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 was established by legislative act of the Illinois General Assembly, P.A. 101-610, which took effect on January 1, 2020. The Fund is defined as an investment trust fund and is not a component unit of any other government. The Fund is responsible for investing the assets of the 296 suburban and downstate firefighter pension funds. A nine-member Board of Trustees made up of four active firefighters, one retired fighter and four representatives of employers governs the Fund. The Trustees are fiduciaries for the participants and beneficiaries of the participating pension funds and discharge their duties solely in the interest of the fund participants and beneficiaries.

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 fiduciary activities (e.g., assets held on behalf of outside parties, including other governments). When investments are held for other entities, an investment 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 of resources, liabilities and deferred outflows of resources associated with the operation of this fund are included on the statement of fiduciary net position. Investment trust fund operating statements present increases (e.g., additions) and decreases (e.g., deductions) in net position.

FIREFIGHTER'S PENSION INVESTMENT FUND
NOTES TO FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Accounting (Continued)

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

D. Investments

Investment trust funds are required to report investments at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

E. Prepaid Items/Expenses

Payments made to vendors for services that will benefit periods beyond the date of this report are recorded as prepaid items/expenses accounted for on the consumption method.

F. Capital Assets

It is the policy of the Fund to recognize the expense of assets in the current accounting period, with the exception of assets with a useful life in excess of one year and an acquisition cost of over \$1,000. Acquisition cost is the unit price of an item, including the cost of any required installation, modifications, attachments, accessories or auxiliary apparatus necessary. Property, plant and equipment are depreciated/amortized using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings	25-40
Building improvements	10-40
Furnishings and equipment	5
Vehicles	7

The Fund did not have any capital assets that met the threshold of the policy as of June 30, 2020.

FIREFIGHTER'S PENSION INVESTMENT FUND
NOTES TO FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Compensated Absences

It is the policy of the Fund to permit employees to accumulate earned but unused vacation and sick pay benefits. Accumulated vacation and sick leave are recorded as an expense and liability as the benefits accrue to employees.

H. Long-Term Obligations

In the Fund's financial statements, long-term debt and other long-term obligations are reported as liabilities.

2. CASH AND INVESTMENTS

The Fund is authorized to invest in all investments allowed by Illinois Compiled Statutes (ILCS). The authority of FPIF to manage pension fund assets of Article 4 Pension Funds shall begin when there has been a physical transfer of the pension fund assets to the Fund and the assets have been placed in the custody of the Funds custodian or custodians. After the transition of investment assets from Article 4 Pension Funds to the Fund has been completed, the Fund shall have the authority to manage the pension fund assets of the transferor pension funds for the purpose of obtaining a total return on investments for the long term. The Fund shall not be subject to any of the limitations applicable to investments of pension fund assets currently held by the transferor pension funds under Sections 1-113.1 through 1-113.12 or Article 4 of the Illinois Pension Code. All investments shall be clearly held and accounted for to indicate ownership by the Fund. The Fund may direct the registration of securities in its own name or in the name of a nominee created for the express purpose of registration of securities by a national or state bank or trust company authorized to conduct a trust business in the State of Illinois. As of June 30, 2020, the Fund did not have a formal investment policy, or any assets classified as investments.

A. Deposits with Financial Institutions

Custodial credit risk for deposits with financial institutions is the risk that in the event of bank failure, the Fund's deposits may not be returned to it.

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment.

Credit risk is the risk that an issuer of an investment will not fulfill its obligations to the holder of the investment in securities allowed under the investment policy.

Concentration of credit risk is the risk that the Fund has a high percentage of their investments invested in one type of investment.

FIREFIGHTER'S PENSION INVESTMENT FUND
NOTES TO FINANCIAL STATEMENTS (Continued)

3. LONG-TERM OBLIGATIONS

A. Loan Agreement Payable

The Fund entered into a loan agreement to provide funds for the payment of ordinary and regular costs associated with the implementation of the transition process. The Closing Date of the loan was March 30, 2020. The Fund is authorized to borrow up to \$7,500,000 until the Final Draw Date, June 30, 2022. During the Capitalized Interest Period, which is defined as the period from the Closing Date to the Final Draw Date, the loan is subject to accrue capitalized interest monthly at a rate of 1.50% plus the Federal Funds Rate. Commencing on the first day after the Capitalized Interest Period until the Final Maturity Date, June 30, 2024, the Fund shall pay consecutive quarterly installments of principal and interest at an interest rate of 1.50% plus the Federal Funds Rate. As of June 30, 2020, the loan had a principal balance outstanding of \$291,071 including \$1,071 of capitalized interest, and the interest rate was 1.55%. The loan is still in the Capitalized Interest Period and, therefore, a final repayment schedule is not available.

	Balances January 1	Additions	Reductions	Balances June 30	Due Within One Year
Loan Agreement Payable	\$ -	\$ 291,071	\$ -	\$ 291,071	\$ -
TOTAL	\$ -	\$ 291,071	\$ -	\$ 291,071	\$ -

4. SUBSEQUENT EVENTS

The Fund entered into an operating lease agreement for office space on May 5, 2020. The lease term begins subsequent to year end on July 1, 2020 and ends on November 30, 2025. Monthly installments range from \$4,219 to \$4,748 over the term of the lease.

SUPPLEMENTARY INFORMATION

FIREFIGHTERS' PENSION INVESTMENT FUND

DETAILED SCHEDULE OF CHANGES IN FIDUCIARY
NET POSITION - BUDGET AND ACTUAL

For the Period January 1, 2020 (Inception) through June 30, 2020

	Original Budget	Final Budget	Actual
ADDITIONS			
None	\$ -	\$ -	\$ -
Total Additions	-	-	-
DEDUCTIONS			
Administrative Expenses			
Personnel			
Executive Director	83,336	83,336	83,333
Portfolio Officer	33,000	3,992	-
Chief Operating Officer	13,000	-	-
Chief Fiscal Officer	26,666	-	-
Accountant/Client Service	6,000	-	-
Admin	8,000	8,000	-
Staff Benefits	34,666	34,666	10,417
Payroll Taxes	5,416	6,815	6,815
Total Personnel	210,084	136,809	100,565
Professional Services			
Legal	36,000	95,934	100,397
PSA/Court Reporter	-	-	3,600
Accounting and Board Support Services	-	12,775	9,175
Custody (Bank Fee)	-	207	409
Legislative and Operations Services	18,000	18,000	18,000
Total Professional Services	54,000	126,916	131,581
Operations			
Rent	6,000	6,000	-
Furniture	15,000	15,000	25,614
Computers/Equipment	18,000	18,000	14,106
Telecom	1,500	1,500	193
Utilities	500	500	-
IT	6,000	6,000	1,140
Software	1,700	2,054	2,054
Website Development/Hosting	7,500	7,500	3,000
Travel	8,000	8,000	1,439
Director and Officer Insurance	46,000	46,000	1,614
Business Insurance	3,600	3,600	522
Board Expenses	4,500	4,500	1,200
Staff Training	1,000	1,000	-
Interest	1,067	1,071	1,071
Total Operations	120,367	120,725	51,953
Total Administrative Expenses	384,451	384,450	284,099
NET DECREASE	(384,451)	(384,450)	(284,099)
NET POSITION HELD IN TRUST FOR POOL PARTICIPANTS			
January 1			-
June 30			\$ (284,099)

(See independent auditor's report.)