

June 12, 1998

Board of Trustees
City of Springfield, Illinois
Firemen's Pension Fund
Room 104 Municipal Building
Springfield, Illinois 62701-1687

Ms. Judith E. Madonia, City Treasurer

The purpose of this letter is to briefly address the changes in the audited financial statements of the Springfield Firemen's Pension Fund for the year ended February 28, 1998. In most respects, the audit was very comparable to prior years, but due to recent accounting pronouncements, there were some key changes in the reporting that we want to bring to your attention.

The accounting pronouncements required some very significant changes in the way the financial statements look as well as changes in the values of certain assets and amounts recorded in the statements. Even very basic things such as the names of the financial statements changed. One change requires that the Fund's investments be recorded at market value rather than "amortized cost" as they were previously recorded. In addition, the amount of the City's contribution to the fund is earned when received which is a change from the prior audit. Due to this change, and the change in recording the investments at market value, a prior period adjustment was required. Also, there have been revisions to the use of actuarial information contained in the report which effected certain amounts in the statements. Much of the terminology used throughout the financial statements was revised to conform to the new requirements and the footnote disclosures and supplementary information was updated under the new guidance. Other changes eliminated the need for presentation of supplemental information such as the Analysis of Funding Progress and the Revenues by Source and Expenses by Type.

If you have any questions about the financial statements or the new pronouncements, please contact me at 793-3363. We appreciate the opportunity to be of service and look forward to working with you and the Firemen's Pension Fund staff in the future.

Sincerely,

Gary D. Neubauer & Co, LLP

Gary D. Neubauer, Partner

**FIREMEN'S PENSION FUND
CITY OF SPRINGFIELD, ILLINOIS**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

For the Year Ended February 28, 1998

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
City of Springfield, Illinois
Firemen's Pension Fund

We have audited the general purpose financial statements of the Firemen's Pension Fund, a component unit of the City of Springfield, Illinois, as of and for the year ended February 28, 1998, as listed in the accompanying table of contents. These financial statements are the responsibility of the Firemen's Pension Fund management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the plan net assets of the Firemen's Pension Fund of the City of Springfield, Illinois as of February 28, 1998, and the changes in plan net assets for the year then ended in conformity with generally accepted accounting principles.

The required supplementary pension information on pages 9 and 10 is not a required part of the general purpose financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Sikich Gardner & Co., LLP

Springfield, Illinois
May 12, 1998

FIREMEN'S PENSION FUND
CITY OF SPRINGFIELD, ILLINOIS

STATEMENT OF PLAN NET ASSETS

February 28, 1998

ASSETS

Cash	\$ 10,000
Investments, at fair value	
U.S. Treasury securities	36,252,956
U.S. Government agency securities	20,235,009
Investment in The Illinois Funds	1,068,015
Insurance Company Contract - Separate Account	4,372,210
Accrued interest	<u>584,124</u>
Total assets	62,522,314

LIABILITIES

Accrued expenses	<u>8,667</u>
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NET PLAN ASSETS HELD IN TRUST FOR PENSION
BENEFITS (A Schedule of Funding Progress is Presented on
Page 9)

\$ 62,513,647

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

FIREMEN'S PENSION FUND
CITY OF SPRINGFIELD, ILLINOIS

STATEMENT OF CHANGES IN PLAN NET ASSETS

For the Year Ended February 28, 1998

ADDITIONS

Contributions

Employer contributions	\$ 1,720,000
Participant contributions	791,192
Other income	<u>710</u>
Total contributions	<u>2,511,902</u>

Investment income

Net appreciation in fair value of investments	1,736,958
Interest	<u>3,653,967</u>
Total investment income	5,390,925
Less investment expense	<u>(64,500)</u>
Net investment income	<u>5,326,425</u>
Total additions	<u>7,838,327</u>

DEDUCTIONS

Pension benefits

Retired	2,017,816
Disabled	437,646
Widows	382,741
Dependents	<u>19,464</u>
Total pension benefits	<u>2,857,667</u>

Administrative expenses

Contractual services	11,900
Reimbursement for services	9,000
Professional fees	7,221
Travel and conferences	5,531
Medical examinations	2,834
Treasurer's bond	216
Computer services	3,625
Postage and office supplies	3,035
Miscellaneous	635
Relief work	<u>2,492</u>
Total administrative expenses	<u>46,489</u>
Total deductions	<u>2,904,156</u>

NET INCREASE

4,934,171

NET ASSETS HELD IN TRUST FOR PENSION BENEFITS

March 1, 1997	59,311,126
Prior period adjustment	<u>(1,731,650)</u>
March 1, 1997, restated	<u>57,579,476</u>
February 28, 1998	<u>\$ 62,513,647</u>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS.

FIREMEN'S PENSION FUND
CITY OF SPRINGFIELD, ILLINOIS

NOTES TO FINANCIAL STATEMENTS

February 28, 1998

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general purpose financial statements of the Firemen's Pension Fund of the City of Springfield, Illinois (Plan), have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Plan's accounting policies are described below.

- a. Reporting Entity The Firemen's Pension Fund is a component unit of the City of Springfield, Illinois. The Board of Trustees is the administrator of the Fund that was established by the City in accordance with the City Charter and State Statutes. The Board of Trustees includes certain City officials and management.
- b. Fund Accounting The Plan uses funds to report on its net assets and the changes in its net assets. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The Plan's fund is classified in this report into 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 pension trust fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the statement of plan net assets. Pension trust fund operating statements present increases (e.g., additions) and decreases (e.g., deductions) in plan net assets.

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 liabilities are incurred.

FIREMEN'S PENSION FUND
CITY OF SPRINGFIELD, ILLINOIS
NOTES TO FINANCIAL STATEMENTS - Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- d. Investments Government securities are reported at market value at February 28, 1998. Securities traded on material exchanges are reported at the last quoted market price. The investment in the insurance company - separate account is valued at redemption value which approximates market value. The investment in The Illinois Funds is reported at market value. Investment income is recognized as earned. Gains and losses on sales and exchanges of investment securities are recognized on the transaction date.

2. CASH AND INVESTMENTS

- a. Cash The Plan's cash balances are fully insured by the FDIC up to the \$100,000 limit.
- b. Investments The Illinois Pension Code allows the Fund to invest in (1) interest-bearing bonds of the United States, or of the State of Illinois, or any county, city, township, village, incorporated town, municipal corporation, or school district in this state; (2) tax anticipation warrants issued by any city, township, village, incorporated town, or fire protection district; (3) notes, bonds, debentures or other similar obligations which are guaranteed as to principal and interest by the United States; (4) insured withdrawable capital accounts of state chartered savings and loan associations; (5) insured withdrawable capital accounts of federally chartered federal savings and loan associations if the withdrawable capital accounts are insured by the Federal Deposit Insurance Corporation; (6) insured investments in credit unions if the investments are insured by the National Credit Union Administration; (7) savings accounts or certificates of deposit of a national or state bank; (8) contracts and agreements supplemental thereto providing for investments in the general account of a life insurance company authorized to do business in Illinois (9) separate accounts of a life insurance company authorized to do business in Illinois, comprised of common or preferred stocks, bonds, or money market instruments; (10) The Illinois Funds; (11) separate accounts managed by a life insurance company authorized to do business in Illinois, comprised of real estate or loans upon real estate secured by first or second mortgages; and (12) direct equities, mutual funds, and separate accounts. The total investments in direct equities and separate accounts shall not exceed 35% of the aggregate book value of all investments owned by the Plan.

CITY OF SPRINGFIELD, ILLINOIS
 FIREMEN'S PENSION FUND
 NOTES TO FINANCIAL STATEMENTS - Continued

2. CASH AND INVESTMENTS - Continued

Investments held by the Plan as of February 28, 1998, are summarized below. The investments that are represented by specific identifiable investment securities are classified as to custodial credit risk by the three categories described below:

Category 1 - Insured or registered, or securities held by the Plan or its agent in the Plan's name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Plan's name.

Category 3 - Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the Plan's name.

A summary of investments is as follows:

	Category			Market Value
	1	2	3	
U.S. Government securities				
U.S. Treasury notes, bonds and guaranteed investments	\$ -	\$ 36,252,956	\$ -	\$ 36,252,956
U.S. Government agency securities	-	20,235,009	-	20,235,009
	<u>\$ -</u>	<u>\$ 56,487,965</u>	<u>\$ -</u>	56,487,965
Insurance Company Contract - Separate Account				4,372,210
Investment in The Illinois Funds				1,068,015
Total investments				<u>\$ 61,928,190</u>

FIREMEN'S PENSION FUND
 CITY OF SPRINGFIELD, ILLINOIS
 NOTES TO FINANCIAL STATEMENTS - Continued

3. FIREMEN'S PENSION PLAN

- a. Plan Description The City's Firemen's Pension Plan is a single-employer defined benefit pension plan. Although this is a single-employer pension plan, the defined benefits and employee and employer contributions levels are governed by Illinois Compiled Statutes (Chapter 40, Section 5) and may be amended only by the Illinois Legislature. At February 28, 1997, the date of the most recent actuarial valuations, the plan covered substantially all City firemen, including those retired, disabled, and survivors, as follows:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to, but not yet receiving benefits	157
Current employees	
Vested	132
Nonvested	<u>69</u>
Total	<u>358</u>

Firemen are eligible to participate within the first three months of service. Firemen are vested after ten years for termination benefits. Retirement is available at age 50 with 20 or more years of service. The annual pension benefit at retirement is 50% of final salary, plus 2% of final salary per year over 20 years through 30 years, and 1% of final salary per year over 30 years, to a maximum of 75% of such salary.

Employees covered by the Firemen's Pension Plan are required to contribute 8.25% of their salary. The City is required to contribute the annual normal service cost of the fund or 17.5% of the firemen's salaries, whichever is greater, plus the amount necessary to amortize the fund's unfunded accrued liabilities, as actuarially determined, over a period of 40 years beginning January 1, 1993. The entry age (normal) actuarial cost method was used with costs allocated on the basis of earnings.

- b. Related Party Transactions and Significant Investments There were no securities of the City or related parties included in the assets of the pension trust fund during the year ended February 28, 1998. There are no investments (other than U.S. government, U.S. government-guaranteed obligations and the insurance company contract - separate account) in any one organization that represents 5% or more of net assets available for benefits.

FIREMEN'S PENSION FUND
CITY OF SPRINGFIELD, ILLINOIS
NOTES TO FINANCIAL STATEMENTS - Continued

4. PRIOR PERIOD ADJUSTMENTS

Plan net assets have been restated as of February 28, 1997, to implement GASB Statement No. 25 and GASB Statement No. 27, to report assets at fair market value and to adjust the receivable for an employer contribution. The net effect was a reduction to Plan net assets of \$1,731,650.

REQUIRED SUPPLEMENTARY INFORMATION

FIREMEN'S PENSION FUND
CITY OF SPRINGFIELD, ILLINOIS

SCHEDULE OF FUNDING PROGRESS

February 28, 1998

Fiscal Year Ending on Last Day of February	(1) Actuarial Value of Plan Assets	(2) Actuarial Accrued Liability (AAL) - Entry Age	(3) Funded Ratio (1) / (2)	(4) Unfunded Actuarial Accrued Liability (2) - (1)	(5) Annual Covered Payroll	(6) Unfunded (Overfunded) Actuarial Accrued Liability as a Percentage of Covered Payroll (4) / (5)
1997	\$ 59,311,126	\$ 64,545,473	91.89%	\$ 5,234,347	\$ 8,712,489	60.08%

Information is presented for as many of the six prior years as information according to the disclosure parameters is available. Information for these prior years is not available.

Notes to the Required Supplementary Information

This information is presented in accordance with GASB Statement No. 25. The information presented was determined as part of the actuarial valuations at the date indicated. Additional information as of the latest actuarial valuation presented is as follows: the actuarial cost method was entry age normal; the amortization method was level percent of pay, open and the amortization period was 35 years; the asset valuation method was at market value; and the significant actuarial assumptions were an investment rate of return at 8% compounded annually, a projected salary increase assumption of 5% compounded annually, and post-retirement benefit increase of 3% compounded annually.

FIREMENS' PENSION FUND
CITY OF SPRINGFIELD, ILLINOIS

SCHEDULE OF EMPLOYER CONTRIBUTIONS

February 28, 1998

Fiscal Year Ending on Last Day of February	Employer Contributions	Annual Required Contribution	Percent Contributed
1993	N/A	N/A	N/A
1994	N/A	N/A	N/A
1995	N/A	N/A	N/A
1996	N/A	N/A	N/A
1997	\$ 1,720,000	\$ 1,757,785	97.85%
1998	N/A	N/A	N/A

N/A - Information is presented for as many of the six prior years as information according to the disclosure parameters is available. Information for these years is not available.

Notes to the Required Supplementary Information

This information is presented in accordance with GASB Statement No. 25. The information presented was determined as part of the actuarial valuations at the date indicated. Additional information as of the latest actuarial valuation presented is as follows: the actuarial cost method was entry age normal; the amortization method was level percent of pay, open and the amortization period was 35 years; the asset valuation method was at market value; and the significant actuarial assumptions were an investment rate of return at 8% compounded annually, a projected salary increase assumption of 5% compounded annually, and post-retirement benefit increase of 3% compounded annually.