

SPRINGFIELD FIREFIGHTERS' PENSION FUND
(A Component Unit of the City of Springfield, Illinois)

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

For the Year Ended February 28, 2005

SPRINGFIELD FIREFIGHTERS' PENSION FUND
CITY OF SPRINGFIELD, ILLINOIS

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July 12, 2005

Board of Trustees
City of Springfield, Illinois
Springfield Firefighters' Pension Fund

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of the Springfield Firefighters' Pension Fund, a blended component unit of the City of Springfield, Illinois, as of and for the year ended February 28, 2005, as listed in the accompanying table of contents. These financial statements are the responsibility of the Springfield Firefighters' Pension Fund management. Our responsibility is to express an opinion on these financial statements based on our audit.

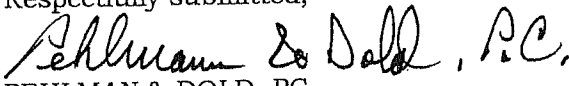
We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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.

As discussed in Note 1, these financial statements present only the Firefighters' Pension Fund and are not intended to present fairly the financial position and results of operations of the City of Springfield, Illinois in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Springfield Firefighters' Pension Fund of the City of Springfield, Illinois as of February 28, 2005, and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the other required supplementary pension information listed in the table of contents are not a required part of the financial statements but are 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.

Respectfully submitted,


PEHLMAN & DOLD, PC
CERTIFIED PUBLIC ACCOUNTANTS

**SPRINGFIELD FIREFIGHTERS' PENSION FUND
CITY OF SPRINGFIELD, ILLINOIS
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following Management Discussion and Analysis (MD & A) of the Springfield Firefighters' Pension Fund's financial performance provides an introduction to the financial statements for the year ended February 28, 2005. Since the MD & A is designed to focus on current activities, resulting changes and current know facts, please read it in conjunction with the basic financial statements and required supplementary information.

Required Financial Statements

The Springfield Firefighters' Pension Fund, a component unit of the City of Springfield, Illinois, prepares its financial statements on an accrual basis in accordance with accounting principles generally accepted in the United States of America promulgated by the Governmental Accounting Standards Board. The Statement of Plan Net Assets Available for Benefits includes all assets and liabilities and provides information about the nature and amount of investments available to satisfy the pension benefits of the plan. All additions to and deductions from the net assets held in trust for pension benefits are accounted for in the Statement of Changes in Plan Net Assets Available for Benefits.

Financial Analysis

While the Statement of Plan Net Assets Available for Benefits and Statement of Changes in Plan Net Assets Available for Benefits measure the value of the plan net assets and the changes to them, another important factor needs to be considered in order to determine the financial health of the Springfield Firefighters' Pension Fund. That additional factor is the plan's actuarial liability. In 2005, participant contributions of \$4,986,313, gains on investments of \$2,854,442 and deductions to net assets of \$6,580,580 resulted in a net increase in net assets of \$1,260,175. This net increase brought the Plan's net asset base to \$72,653,750. For actuarial calculations, the Springfield Firefighter's Pension Fund uses a four-year smoothed market-related value to determine the actuarial value of assets. The smoothing prevents extreme volatility in employer contribution rates due to short-term fluctuations in the investment markets. For the February 28, 2004 valuation, the actuarial value of assets was \$74,083,792. The aggregate actuarial liability was \$113,510,350. On an actuarial basis, the assets held currently fund 65.3% of this liability. This is a decrease from the funding ratio of 68.9% for 2003.

Plan Net Assets Available for Benefits

To begin the financial analysis, a summary of the Springfield Firefighters' Pension Fund's Plan Net Assets Available for Benefits is presented below.

Condensed Statements of Plan Net Assets

	2005	2004	Dollar Change	Percent Change
Cash & equivalents	\$ 1,118,546	\$ 1,511,528	\$(392,982)	(26%)
Investments	71,252,261	69,514,425	1,737,836	25%
Receivables	304,297	390,047	(85,750)	(22%)
Total Assets	72,675,104	71,416,000	1,259,104	17%
Liabilities	21,354	22,425	(1,071)	(5%)
Total plan net assets	\$72,653,750	\$71,393,575	\$1,260,175	18%

**SPRINGFIELD FIREFIGHTERS' PENSION FUND
CITY OF SPRINGFIELD, ILLINOIS
MANAGEMENT'S DISCUSSION AND ANALYSIS - continued**

As the above table shows, plan net assets increased by \$1,260,175 (18%) in 2005. This increase reflects the investment gains in 2005 due to market conditions.

Changes in Plan Net Assets

Condensed Statements of Plan Net Assets

	2005	2004	Dollar Change	Percent Change
Additions				
Employer contributions	\$ 3,898,795	\$ 3,414,096	\$ 484,699	14%
Participant contributions	1,087,518	1,006,874	80,644	8%
Net invest income/loss	<u>2,854,442</u>	<u>9,252,422</u>	<u>(6,397,980)</u>	<u>(69%)</u>
Total additions	7,840,755	13,673,392	(5,832,637)	(43%)
Deductions				
Benefits	6,501,859	5,876,615	625,244	11%
Administration expense	<u>78,721</u>	<u>90,459</u>	<u>(11,738)</u>	<u>(13%)</u>
Total deductions	6,580,580	5,967,074	613,506	10%
 Net increase in plan net assets	 \$ 1,260,175	 \$ 7,706,318	 \$6,446,143	 83%

Additions

Additions needed to fund benefits are accumulated through contributions and returns on invested funds. Contributions for 2005 totaled \$4,986,313. This represents an increase of 13% or \$565,343 from 2004. The fund incurred net investment gains for the year. These gains are due to market conditions.

The increase in employer contributions is due to an increase in the annual actuarial requirements based on the Actuarial Valuation Report as of February 28, 2004, by Goldstein & Associates.

In 2005, the fund had net appreciation in the fair value of investments of \$73,249 – a \$6,515,944 decrease from the \$6,589,193 of appreciation recorded in 2004. Interest and dividends income totaled \$3,403,669, an increase of \$607,990 from 2004. Investment expenses increased from \$132,450 in 2004 to \$133,728 in 2005.

Deductions

The expenses paid by the fund include benefit payments and administrative expenses. Expenses for 2005 totaled \$78,721, a decrease of \$11,738 from 2004.

**SPRINGFIELD FIREFIGHTERS' PENSION FUND
CITY OF SPRINGFIELD, ILLINOIS**

**STATEMENT OF PLAN NET ASSETS
AVAILABLE FOR BENEFITS**

February 28, 2005

ASSETS

Cash and cash equivalents		\$ 1,118,546
<i>Investments, at fair value</i>		
U.S. governments securities	\$21,250,541	
U.S. agency securities	17,666,531	
Mutual funds	13,905,242	
Common stocks	<u>18,429,947</u>	
Total investments		71,252,261
 <i>Receivables</i>		
Interest and dividends		<u>304,297</u>
Total assets		<u>72,675,104</u>

LIABILITIES

Accounts payable		<u>21,354</u>
Total liabilities		<u>21,354</u>

NET PLAN ASSETS HELD IN TRUST FOR PENSION BENEFITS (A Schedule of Funding Progress is presented on page 11)	<u>\$72,653,750</u>
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The Notes to the Financial Statements are an integral part of this statement.

**SPRINGFIELD FIREFIGHTERS' PENSION FUND
CITY OF SPRINGFIELD, ILLINOIS**

**STATEMENT OF CHANGES IN PLAN NET ASSETS
AVAILABLE FOR BENEFITS**

For the Year Ended February 28, 2005

ADDITIONS

Contributions

Employer	\$ 3,898,795
Participants	<u>1,087,518</u>
Total contributions	<u>4,986,313</u>

Investment income

Net appreciation (depreciation) in fair value of investments	73,249
Interest and dividends	<u>2,914,921</u>
Total investment income	<u>2,988,170</u>
Less investment expense	(133,728)
Net investment income	<u>2,854,442</u>

Total additions 7,840,755

DEDUCTIONS

Pension benefits

Retirement	4,922,920
Disability	658,766
Survivor	<u>920,173</u>
Total pension benefits	<u>6,501,859</u>

Administrative expenses

Professional fees	13,025
Other	<u>65,696</u>
Total administrative expenses	<u>78,721</u>

Total deductions 6,580,580

Net Increase 1,260,175

NET PLAN ASSETS HELD IN TRUST FOR PENSION BENEFITS

March 1, 2004 71,393,575

NET PLAN ASSETS HELD IN TRUST FOR PENSION BENEFITS

February 28, 2005 \$72,653,750

The Notes to the Financial Statements are an integral part of this statement.

REQUIRED SUPPLEMENTARY INFORMATION

**SPRINGFIELD FIREFIGHTERS' PENSION FUND
CITY OF SPRINGFIELD, ILLINOIS**

NOTES TO FINANCIAL STATEMENTS

February 28, 2005

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Springfield Firefighters' Pension Fund of the City of Springfield, Illinois (Plan), have been prepared in conformity 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 Plan's accounting policies are described below.

Reporting Entity

The Springfield Firefighters' Pension Fund is a component unit of the City of Springfield, Illinois because of the significance of its operational and financial relationship with the City. For financial reporting purposes the Fund is reported as a "blended" component unit of the City because it is fiscally dependent on the City. Blending is a financial reporting process that results in the reporting of the component unit's operations as part of the primary government's operations.

The Board of Trustees is the administrator of the Fund that was established by the City in accordance with the City Charter and Illinois Compiled Statutes.

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.

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 (additions) and decreases (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.

**SPRINGFIELD FIREFIGHTERS' PENSION FUND
CITY OF SPRINGFIELD, ILLINOIS**

NOTES TO FINANCIAL STATEMENTS

February 28, 2005

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Investments

Investments are reported at fair value at February 28, 2005. Securities traded on material exchanges are reported at the last quoted market price. Shares of mutual funds are valued at quoted market prices, which represent the net asset value of shares held by the Fund at year-end. Investment income is recognized as earned. Gains and losses on sales and exchanges of investment securities are recognized on the transaction date.

Note 2. CASH AND INVESTMENTS

Cash

At year-end the carrying amount of the Plan's deposits totaled \$1 and the bank balances totaled \$1. The bank balances can be categorized as follows:

	<u>Bank Balances</u>
Category 1	
Deposits covered by federal depository insurance or by collateral held by the Plan, or its agent, in the Plan's name.	\$ 1
Category 2	
Deposits covered by collateral held by the pledging financial institution's trust department, in the Plan's name.	--
Category 3	
Deposits covered by collateral held by the pledging financial institution, or its agent in the Plan's name or held by anyone but in the Plan's name, and deposits which are uninsured and uncollateralized.	--
Total Deposits	<u>\$ 1</u>

**SPRINGFIELD FIREFIGHTERS' PENSION FUND
CITY OF SPRINGFIELD, ILLINOIS**

NOTES TO FINANCIAL STATEMENTS

February 28, 2005

Note 2. CASH AND INVESTMENTS - continued

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 associates; (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.

Investments held by the Plan as February 28, 2005, are summarized below. The investments that are represented by specific identifiable investment securities are classified as to custodial credit risk into 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, whether or not in the Plan's name or by the counterparty's trust department or agent, but not in the Plan's name.

**SPRINGFIELD FIREFIGHTERS' PENSION FUND
CITY OF SPRINGFIELD, ILLINOIS**

NOTES TO FINANCIAL STATEMENTS

February 28, 2005

Note 2. CASH AND INVESTMENTS – continued

A summary of investments is as follows:

	Category			Fair Value
	1	2	3	
U.S. government securities	\$21,250,541	\$	\$	\$21,250,541
U.S. government agencies' securities	17,666,531			17,666,531
Common stocks	<u>18,429,947</u>			<u>18,429,947</u>
	<u>\$57,347,019</u>	<u>\$ --</u>	<u>\$ --</u>	57,347,019
 *Mutual funds				 13,905,242
*Money market mutual fund				1,118,024
*Illinois Funds investment pool				<u>521</u>
 Total investments				 <u>\$72,370,806</u>

*Investments not subject to risk categorization

Illinois Funds is an investment pool managed by the State of Illinois, Office of the Treasurer, which allows governments within the State to pool their funds for investment purposes. Illinois Funds is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in Illinois Funds are valued at Illinois Fund's share price, the price for which the investment could be sold.

Note 3. FIREFIGHTERS' PENSION PLAN

Plan Description

The City's firefighter 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 (40 ILCS 5/4-1) and may be amended only the Illinois Legislature.

At February 29, 2004, the date of the most recent actuarial valuation, the plan covered substantially all City firefighter personnel, including those retired, disabled, and survivors, as follows:

Retirees and beneficiaries currently receiving benefits	195
Terminated employees entitled to, but not yet receiving benefits	0
Current employees	
Vested	124
Nonvested	<u>90</u>
Total	<u><u>409</u></u>

**SPRINGFIELD FIREFIGHTERS' PENSION FUND
CITY OF SPRINGFIELD, ILLINOIS**

NOTES TO FINANCIAL STATEMENTS

February 28, 2005

Note 3. FIREFIGHTERS' PENSION PLAN - continued

The Firefighters' Pension Plan provides retirement benefits, as well as, death and disability benefits. Covered employees attaining the age of 50 or more with 20 or more years of creditable service are entitled to receive an annual retirement benefit of one-half of the monthly salary attached to the rank held at the date of retirement. The pension shall be increased by 1/12 of 2.5% of such monthly salary for each additional month over 20 years of service through 30 years of service, to a maximum of 75% of such monthly salary. Employees with at least 10 years, but less than 20 years, of credited service may retire at or after age 60 and receive a reduced benefit. The monthly pension of a firefighter 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% of the original pension and 3% compounded annually thereafter.

Covered employees are required to contribute 8.455% of their base salary to the Firefighters' Pension Plan. 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 Plan as actuarially determined by an enrolled actuary. By the year 2033, the City's contributions must accumulate to the point where the past service cost for the Firefighters' Pension Plan is fully funded.

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, 2005. There are no investments (other than U.S. government, U.S. government-guaranteed obligations) in any one organization that represents 5% or more of net assets available for benefits.

Note 4. CONTINGENCIES

The Plan is subject to a program compliance audit by the Illinois Department of Insurance. The compliance audit for the year ended February 28, 2005 has not yet been conducted. Accordingly, the Plan's compliance with applicable requirements will be established at some future date. The amount of adjustments, if any, to be made by the Illinois Department of Insurance cannot be determined at this time although the Plan expects such amount, if any, to be immaterial.

The Firefighters' union contract, currently under deliberation, expired in 2002. When a new contract is agreed upon, pay increases under a new collective bargaining agreement will be retroactive back to the end of the prior contract. This could impact employee withholdings, employer contributions, benefits to anyone who retired since the end of the prior contract and the actuarial data.

**SPRINGFIELD FIREFIGHTERS' PENSION FUND
CITY OF SPRINGFIELD, ILLINOIS**

SCHEDULE OF FUNDING PROGRESS

February 28, 2005

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -- Entry Age (b)	Unfunded AAL (UAAL) (b/a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2/28/98	\$62,513,647	\$ 71,619,186	\$ 9,105,539	87.29%	\$ 9,436,430	96.49%
2/28/99	66,247,270	77,033,770	10,786,500	86.00%	8,954,944	120.45%
2/29/00	67,815,356	86,618,474	18,803,118	78.29%	10,277,515	182.95%
2/28/01	70,596,231	92,727,674	22,131,443	76.13%	10,264,676	215.61%
2/28/02	72,850,700	98,738,675	25,887,975	73.78%	11,066,679	233.93%
2/28/03	73,140,869	106,174,061	33,033,192	68.89%	11,197,022	295.02%
2/29/04	74,083,792	113,510,350	39,426,558	65.27%	11,473,368	343.64%

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 the level dollar amount; and the amortization period was to the year 2033; the asset valuation was determined by smoothing unexpected gains or losses from investment return over a four-year period; and the significant actuarial assumptions were an investment rate of return at 8.00% compounded annually; a projected salary increase assumption of 4.0% compounded annually and an additional projected merit increase of 1.0% compounded annually.

**SPRINGFIELD FIREFIGHTERS' PENSION FUND
CITY OF SPRINGFIELD, ILLINOIS**

SCHEDULE OF EMPLOYER CONTRIBUTIONS

February 28, 2005

<u>Fiscal Year</u>	<u>Annual Required Contribution (ARC)</u>	<u>Employer Contributions</u>	<u>Percentage of ARC Contributed</u>
1998	\$1,718,128	\$1,720,000	100.11%
1999	1,757,785	1,757,785	100.00%
2000	2,054,221	2,054,221	100.00%
2001	2,076,874	2,076,874	100.00%
2002	2,869,394	2,869,394	100.00%
2003	3,040,190	3,040,200	100.00%
2004	3,414,096	3,414,096	100.00%
2005	3,898,795	3,898,795	100.00%

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 the level dollar amount, and the amortization period was to the year 2033; the asset valuation was determined by smoothing unexpected gains or losses from investment return over a four-year period; and the significant actuarial assumptions were an investment rate of return at 8.00% compounded annually; a projected salary increase assumption of 4.0% compound annually and an additional projected merit increase of 1.0% compounded annually.