



City of Urbana
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December 7, 1992

TO: Members, Urbana Policemen's Pension Fund

FROM: Ronald Eldridge, Fund Treasurer *Ronald Eldridge*

Attached please find the annual audit and financial report for the fiscal year ended June 30, 1992. I have submitted this report to the Department of Insurance, as required. I believe the most important points are:

- a) The audit letter (page 1) indicates that the financial statements are prepared in accordance with generally accepted accounting principles ("clean opinion").
- b) In performing their work, the auditors did not discover any significant weaknesses in the Fund's internal accounting controls.

Gains

c) Total net worth of the Fund is \$8,189,747, up \$688,365 (\$514,203 if you subtract out \$174,162 in gains from sale of investments). This growth in 1992 was 9.2% and 6.9% respectively) as compared to 8.0% and 7.9% in 1991 and 9.5% in 1990. If the Fund had grown at 1991's rate (7.9% before gains), net worth would have been \$75,000 higher. This can be attributed to lower interest rates. In other words, if interest income had increased 9.0% (increase in average amount available to be invested in 1992 over 1991), interest income would have been \$75,000 higher.

d) The City's contribution is broken down as follows:

	\$	%
		Salary
Normal Cost	\$193,990	14.3%
Catchup	<u>204,247</u>	<u>15.1%</u>
Total	\$398,237	<u>29.4%</u>

*paid #
Sept. Ins.*

- e) Seventy-five percent of the portfolio is invested in U.S. Government obligations; fourteen percent is invested in the Shearson Govt. Securities Mutual Fund; eight percent is invested in certificates of deposit (of which 6% is in savings and loans and banks in Urbana); and 3% is in the checking and savings account.

f) The number and makeup of the fund members:

	<u>1992</u>	<u>1991</u>	<u>1990</u>	<u>1989</u>
Retirees	28	28	24	24
Auth. Employees	<u>42</u>	<u>42</u>	<u>42</u>	<u>42</u>
Total	70	70	66	66

g) The unfunded liability increased \$126,830 in 1992. The unfunded liability is the amount on a present value basis that will have to be contributed in the future to catchup pension benefits owed current employees. By law, this amount will be caught up by 2020:

	<u>1992</u>	<u>1991</u>	<u>1983</u>
Liability	\$2,621,545	\$2,494,715	\$2,217,227
% Payroll	194%	199%	180%

→ The amount increased in 1992 because of the impact of 4 additional net pensions granted in 1991. Unless the Fund continues to experience a similar pension rate, the amount will begin to be reduced again in 1993 and thereafter.

h) An examination of net investment earnings of the Police Pension Fund contrasted to the Fire Pension Fund shows:

	<u>1992</u>	<u>1991</u>	<u>1987</u>
Average Balance Available	\$7,542,290	\$6,915,934	\$4,741,580
Interest	\$ 557,914	\$ 521,893	\$ 409,194
Gain on Sales	\$ 174,162	\$ 5,444	\$ -
Investment Fees	\$ 48,943	\$ 37,247	\$ -
Net Return:			
^{out} With Gains	6.8%	7.0%	8.7%
With out Gains	9.1%	7.1%	8.7%
Fire Pension	7.6%	8.6%	9.8%

CITY OF URBANA, ILLINOIS
POLICE PENSION FUND

AUDIT REPORT

For The Years Ended June 30, 1992 and 1991



CITY OF URBANA, ILLINOIS
POLICE PENSION FUND

Audit Report

For the Years Ended June 30, 1992 and 1991

CITY OF URBANA, ILLINOIS
POLICE PENSION FUND

Audit Report

For the Years Ended June 30, 1992 and 1991

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Board of Trustees
Police Pension Fund
City of Urbana
Urbana, Illinois

Independent Auditor's Report

We have audited the accompanying financial statements of the Police Pension Fund of the City of Urbana, Illinois, as of June 30, 1992 and 1991 and for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits 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 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 audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Police Pension Fund and are not intended to present fairly the financial position of the City of Urbana, Illinois, and the results of its operations and cash flows of its proprietary and similar trust fund types in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Police Pension Fund of the City of Urbana, Illinois as of June 30, 1992, and the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information for the years ended June 30, 1992 and 1991 have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is presented fairly, in all material respects, in relation to the basic financial statements taken as a whole.

Champaign, Illinois
September 4, 1992

Clifton, Gunderson & Co.

CITY OF URBANA, ILLINOIS

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POLICE PENSION FUND

Comparative Balance Sheet

As of June 30, 1992 and 1991

ASSETS

	1992	1991
	-----	-----
Cash and Cash Equivalents:		
Checking Account	\$52	\$2,955
U.S. Govt. Securities Mutual Fund	1,093,716	1,154,805
Savings Account	239,672	275,192
Accounts Receivable, Due from City	--	6,458
Property and Replacement Tax		
Receivable (Net of Allowance		
for Uncollectibles)	181,402	174,516
Accrued Interest Receivable	114,028	131,688
Investments (Note 1 and 4):		
U.S. Government Securities	5,912,679	4,802,878
Certificates of Deposit	649,741	952,890
	-----	-----
Total Assets	\$8,191,290	\$7,501,382
	=====	=====

LIABILITIES AND MUNICIPAL EQUITY

Liabilities:

Accounts Payable	\$1,543	\$ --
	-----	-----

Municipal Equity:

Statutory Reserve (Note 3)	\$560,000	\$560,000
Reserve for Employee's		
Retirement	7,629,747	6,941,382
	-----	-----
Total Municipal Equity	8,189,747	7,501,382
	-----	-----
Total Liabilities		
and Municipal Equity	\$8,191,290	\$7,501,382
	=====	=====

The accompanying notes are an integral part of these financial statements.

POLICE PENSION FUND

Comparative Statement of Revenues and Expenses
and Changes in Municipal Equity

For the Years Ended June 30, 1992 and 1991

Revenues:	1992	1991
	-----	-----
Employer Contributions:		
Property Tax	\$350,600	\$321,848
Replacement Tax	28,000	28,000
Interest Income	521,893	557,914
Employee Contributions	127,054	117,789
Gain on Sale of Investments	174,162	5,444
	-----	-----
Total Revenues	1,201,709	1,030,995
	-----	-----
Expenses:		
Disability Pension	166,827	110,909
Widow Pension	51,403	51,403
Service Pension	208,023	235,847
Refunds to Resigning Members	26,701	31,625
Professional Fees	50,573	40,340
Clerk's Salary	3,600	3,600
Doctor Fees	4,667	2,879
Secretarial Fees	600	600
Filing Fees	50	50
Miscellaneous	74	189
Dues and Memberships	700	500
Training	126	597
	-----	-----
Total Expenses	513,344	478,539
	-----	-----
Excess of Revenues Over Expenses	688,365	552,456
Municipal Equity, Beginning of Year	7,501,382	6,948,926
	-----	-----
Municipal Equity, End of Year	\$8,189,747	\$7,501,382
	=====	=====

The accompanying notes are an integral part of these financial statements.

POLICE PENSION FUND

Comparative Statement of Cash Flows

For the Years Ended June 30, 1992 and 1991

	1992	1991
	-----	-----
Cash Flows From Operations:		
Net income	\$688,365	\$552,456
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Gain on Sale of Investments	(174,162)	--
Changes in Assets and Liabilities:		
Decrease (Increase) in receivables	17,232	(6,623)
Increase (Decrease) in payables	1,543	(261)
	-----	-----
Net Cash Provided by (used in) Operating Activities	532,978	545,572
	-----	-----
Cash Flows From Investing Activities:		
Purchase of investments	(7,162,891)	(5,928,195)
Interest income added to accounts	(34,470)	(48,735)
Proceeds from maturities of investments	6,564,871	5,698,947
	-----	-----
Net Cash Provided by (used in) Investing Activities	(632,490)	(277,983)
	-----	-----
Increase (Decrease) in Cash and Cash Equivalents	(99,512)	267,589
Beginning Cash and Cash Equivalents	1,432,952	1,165,363
	-----	-----
Ending Cash and Cash Equivalents	\$1,333,440	\$1,432,952
	=====	=====

The accompanying notes are an integral part of these financial statements.

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Notes to Financial Statements
June 30, 1992 and 1991

Note 1 - Summary of Significant Accounting Policies:

The Pension fund was organized on April 4, 1927, and is exempt from federal income tax. The pension fund is only one fund of many of the City of Urbana. Only the financial statements of this fund are presented in this report. The pension fund is created and operated under state laws that provide for a fund to be established to provide certain retirement benefits to police officers and their dependents (see Note 2). The fund is managed by a board of five trustees made up of two persons appointed by the mayor of the City of Urbana and three persons elected by the members of the fund.

The Fund's books and records are maintained on the cash basis and converted to accrual basis for preparation of the statements in this report. The accrual basis means revenues are recognized when earned, and expenses when incurred.

Investments are reported at lower of cost or market. Market values for U.S. government securities and money funds are based upon latest quoted prices. Investment income is recognized as earned. Gain and losses on sales and exchanges of securities are recognized on the transaction date.

The fund considers all liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Property taxes are recognized for the year levied. The 1991 levy is reported in fiscal year 1992 and the 1990 levy in fiscal year 1991. The taxes are certified against appraised real property as of the beginning of the previous calendar year.

Note 2 - Retirement Commitments:

a. Plan Description:

The Pension fund is a defined benefit single-employer pension plan that covers all sworn police personnel. Although this is a single-employer plan, the defined benefits and employee and employer contribution levels are governed by Illinois State Statutes. This fund is accounted for and reported as a pension trust fund. The

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Notes to Financial Statements
June 30, 1992 and 1991

City's payroll for employees covered by the pension plan for the year ended June 30, 1992, was \$1,619,284 out of a total payroll of \$7,256,493.

Retirees and beneficiaries currently receiving benefits (none entitled but not receiving benefits	28
Current employees	<u>41</u>
Total	<u>69</u>

Following is a summary of the police pension plan as provided for in the Illinois Statutes.

The police pension plan provides retirement benefits as well as death and disability benefits. 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 salary attached to the rank held on the last day of service. The pension shall be increased by 2% of such salary for each additional year of service over 20 years up to 30 years, and 1% of such salary for each additional year of service over 30 years of service, to a maximum of 75% of such salary. Employees with at least 8 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 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% of the original pension and 3% simple interest annually thereafter.

Covered employees are required to contribute 9% of their base salary to the 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 of Urbana is required to contribute the remaining amounts necessary to finance the plan

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Notes to Financial Statements
June 30, 1992 and 1991

as actuarially determined by an enrolled actuary. By the Year 2020, the City's contributions must accumulate to the point where the past service cost for the Plan is fully funded.

b. Plan Asset Matters:

The plan holds \$1,093,716 in a Shearson Lehman Mutual Fund, which is more than 5% of net assets. The only other investments which are greater than 5% of net assets and held by a single organization are U.S. government and U.S. government guaranteed obligations.

There are no investments that are securities or obligations of the City of Urbana.

c. Funding Status and Progress:

The amount shown below as the "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the system on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is the actuarial present value of credited projected benefits and is independent of the funding method used to determine contributions to the system.

Latest Actuarial Valuation Date	July 1, 1991
Significant Actuarial Assumptions:	
Rate of return on investment of present and future assets	7.0% compounded annually
Projected salary increases, attributable to inflation	5.5% compounded annually
Projected salary increases attributable to other than inflation (merit, etc.)	separate information not available

CITY OF URBANA, ILLINOIS
POLICE PENSION FUND

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Notes to Financial Statements
June 30, 1992 and 1991

Post retirement benefit increases	3.0% simple interest annually
Pension Benefit Obligation:	
Retirees and beneficiaries currently receiving benefits	\$5,744,604
Current employees Accumulated employee contributions including allocated investment earnings and employer financed	<u>4,378,322</u>
Total Pension Benefit Obligation	10,122,926
Net Assets Available for Benefits (lower of cost or market, market \$7,748,666)	<u>7,501,381</u>
Unfunded Pension Benefit Obligation	\$2,621,545

Note: Since no allocation can be made between vested and nonvested, these are not stated separately.

Effects on the Pension Benefit Obligation of Current-Year Changes:

There were no significant changes in the actuarial assumptions and benefit provisions.

d. Actuarially Determined Contribution Requirements and Contributions Made:

The funding policy provides for actuarially determined periodic contributions at rates that, for individual employees, accumulate assets gradually over time so that sufficient assets will be available to pay benefits when due. The rate for the City's employee group as a whole has tended to remain level as a percentage of annual covered payroll. The contribution rate for normal cost is determined using the entry age normal actuarial funding method. The system used a level dollar amount method to amortize the

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Notes to Financial Statements
June 30, 1992 and 1991

unfunded liability over a 40 year period. The significant actuarial assumptions used to compute the actuarially determined contribution requirements are the same as those used to compute the pension benefit obligation, as described "c" above.

Actuarial Valuation Date	July 1, 1991	
	<u>Dollar Amount</u>	<u>% Covered Payroll</u>
Actuarially Determined Contribution Requirement - Employer:		
Normal Cost	\$193,990	14.32%
Amortization of unfunded actuarially accrued liability	<u>204,247</u>	<u>15.08</u>
Total	<u>\$398,237</u>	<u>29.40%</u>
Contribution Made:		
Employer	\$378,600	27.95%
Employee	<u>127,054</u>	<u>9.38</u>
Total	<u>\$505,654</u>	<u>37.33%</u>

Effects on the Contribution Requirements of Current-Year Changes:

There were no significant changes in the actuarial assumptions, actuarial funding methods, and benefit provisions.

Ten year trend information, which is designed to provide information about progress made in accumulating sufficient assets to pay benefits when due, may be found in the Required Supplementary Information, in this report.

Note 3 - Statutory Reserve:

As revised November 15, 1979, the Illinois Pension Code requires the establishment and maintenance of a reserve to ensure the payment of obligations incurred under the Pension Code. The minimum as specified in 3-127 of the Code is to be

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POLICE PENSION FUND

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Notes to Financial Statements
June 30, 1992 and 1991

no less than \$10,000 for each policeman covered by the pension code in the municipality. At June 30, 1992, 42 policeman were participants in the pension fund. This would require that a reserve of at least \$420,000 be set up. The reserve balance is \$560,000.

Note 4 - Deposits and Investments:

The pension fund is authorized by State Statutes to invest in obligations of the U.S. Treasury and its agencies, non-negotiable certificates of deposit and Illinois Public Treasurer's Investment Pool, savings accounts, general and separate accounts of approved life insurance companies (up to a maximum of 10% of the fund's aggregate investment book value), obligations of the State of Illinois or its political subdivisions, credit union shares (if insured by the National Credit Union Administration), and obligations of the State of Israel (up to a maximum of 5% of the fund's aggregate investment book value).

The fund's deposits and investments are categorized below to give an indication of the level of risk assumed at June 30, 1992.

Category 1 - includes amount that are insured and for which the securities are held by the fund or its agent in the fund's name. These are U.S. government and its agencies obligations, certificates of deposit, and checking and savings accounts. Certificates of deposit in federally insured banks and savings and loans are insured in an amount equal to \$100,000 per fund plus an amount equal to each member's vested beneficial interest up to a maximum of \$100,000 per member.

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Notes to Financial Statements
June 30, 1992 and 1991

	<u>Risk Category</u>	<u>Carrying Value</u>	<u>Market Value</u>
U.S. Government and Its Agencies	1	\$5,912,679	\$6,037,935
Certificates of Deposit	1	<u>649,741</u>	<u>649,741</u>
Subtotal, Investments		<u>\$6,562,420</u>	<u>\$6,687,676</u>
Checking & Savings Accts	1	239,724	239,724
Investment in U.S. Gov't. Securities Mutual Fund		<u>\$1,093,716</u>	<u>\$1,093,716</u>
Subtotal, Cash Equivalents		<u>\$1,333,440</u>	<u>\$1,333,440</u>
Total		<u>\$7,895,860</u>	<u>\$8,021,116</u>

No credit risk is assigned to the investment in U.S. Government Securities Mutual Fund since the Fund does not own any specific identifiable securities, but rather a percentage of the pool.

This information is an integral part of the accompanying financial statements.

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POLICE PENSION FUND

Required Supplementary Information
Ten Year Trend Information on Pension Benefit Funding

June 30, 1992 and 1991

	1992	1991	1990	1989	1988	1987	1986	1985	1984	1983
Available for Benefits	\$7,501,381	\$6,948,926	\$6,352,811	\$5,783,897	\$5,266,174	\$4,709,596	\$4,191,140	\$3,687,673	\$3,221,391	\$2,778,083
Pension Benefit Obligation	\$10,122,926	\$9,443,641	\$8,570,038	\$8,260,058	\$7,722,496	\$7,168,934	\$6,796,649	\$6,214,757	\$5,517,857	\$5,070,660
Percentage Funded	74.10%	73.58%	74.13%	70.02%	68.19%	65.69%	61.66%	59.34%	58.38%	54.79%
Unfunded Pension Benefit Obligation	\$2,621,545	\$2,494,715	\$2,217,227	\$2,476,161	\$2,456,322	\$2,459,338	\$2,605,509	\$2,527,084	\$2,296,466	\$2,292,577
Annual Covered Payroll	\$1,354,602	\$1,256,213	\$1,228,672	\$1,230,986	\$1,101,066	\$1,014,311	\$982,422	\$961,776	\$931,501	\$895,598
Unfunded Pension Benefit Obligation as a Percentage of Covered Payroll	193.53%	198.59%	180.46%	201.15%	223.09%	242.46%	265.21%	262.75%	246.53%	255.98%
City's Contribution to the Pension Plan	\$378,600	\$349,848	\$381,194	\$323,931	\$335,836	\$330,686	\$328,718	\$294,132	\$281,011	\$245,056
City's Contribution to the Pension Plan as a Percentage of Annual Covered Payroll	27.95%	27.85%	31.02%	26.31%	30.50%	32.60%	33.46%	30.58%	30.17%	27.36%

CITY OF URBANA
POLICE PENSION FUND

Required Supplementary Information
Ten Year Trend Information on Revenues by Source and Expenses by Type

June 30, 1992 and 1991

	1992	1991	1990	1989	1988	1987	1986	1985	1984	1983
Revenues by Source:										
Employee Contributions	\$127,054	\$117,789	\$112,456	\$110,299	\$102,935	\$96,181	\$89,693	\$88,454	\$84,055	\$80,784
Employer Contributions	378,600	349,848	381,194	323,931	335,836	330,686	328,718	294,132	281,011	245,056
Investment Income	696,055	563,358	514,561	474,134	418,185	409,194	426,647	414,648	354,070	316,950
Total	\$1,201,709	\$1,030,995	\$1,008,211	\$908,364	\$856,956	\$836,061	\$845,058	\$797,234	\$719,136	\$642,790
Expenses by Type:										
Benefits	\$426,253	\$398,159	\$373,331	\$307,865	\$300,205	\$266,591	\$260,305	\$238,600	\$219,608	\$194,855
Administrative Expense	60,390	48,755	29,364	11,997	7,881	11,058	37,613	26,933	7,995	4,927
Refunds	26,701	31,625	9,401	19,589	31,146	1,834	28,683	28,236	9,006	15,945
Total	\$513,344	\$478,539	\$412,096	\$339,451	\$339,232	\$279,483	\$326,601	\$293,769	\$236,609	\$215,727