

November 17, 1995

TO: Members, Urbana Policemen's Pension Fund

FROM: Ronald Eldridge, Fund Treasurer *Ran E.*

Attached please find the annual audit and financial report for the fiscal year ended June 30, 1995. Shortly, I will be filing the required Department of Insurance reports. I believe the most important points of the audit 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.
- c) Total net worth of the Fund is \$9,519,055, up \$215,766 (2.3%) as compared to growth of \$352,237 (3.9%) last year. The reason the increase is \$136,000 lower is due to 2 reasons: (1) interest on investments (including gains on investments sold) was lower and (2) benefit payments were higher.
- d) The City's contribution was again based upon the Department of Insurance actuarial computation under Illinois laws. It is broken down as follows:

	<u>1994</u>		<u>1995</u>	
	\$	%	\$	%
	<u>Salary</u>		<u>Salary</u>	
Normal Cost	\$193,990	14.3	\$214,940	14.8
Catchup	<u>204,247</u>	15.1	<u>94,387</u>	6.5
Total	\$398,237	29.4	\$309,327	21.3

Page 12 of the report shows a 10 year history of funding progress.

e) A breakdown of the investment portfolio is below:

	<u>% Portfolio</u>				
	<u>95</u>	<u>94</u>	<u>93</u>	<u>92</u>	<u>91</u>
U.S. Govt.	77	84	88	75	67
Cert. of Deposit	4	5	7	8	13
Shearson Mutual Fund	6	4	1	14	16
Ins. Contract	10	4	1	0	0
Checking/Savings	2	3	3	3	4

f) The number and makeup of the fund members:

	<u>Retirees</u>	<u>Authorized Employees</u>	<u>Total</u>
1995	34	45	79
1994	32	42	74
1993	31	42	73
1992	28	42	70
1991	28	42	70
1990	24	42	66
1989	24	42	66

*(breakdown)
categories*

g) An history of net investment earnings of the Police Pension Fund contrasted to the Fire Pension Fund is attached:

	<u>Police Pension</u>		<u>Fire Pension</u>	
	<u>Including Annuities</u>	<u>w/o Ann.</u>	<u>Including Annuities</u>	<u>w/o Ann.</u>
1995	4.1%	3.1%	9.3%	8.1%
Last 2 Yrs	4.8%	4.4%	8.7%	7.0%
Last 3 Yrs	6.0%	5.7%	8.8%	8.0%
Last 4 Yrs	6.7%	6.4%	8.6%	9.0%
Last 5 Yrs	6.8%	6.7%	8.5%	8.8%
Last 8 Yrs	7.3%	7.2%	8.7%	8.6%

The market value of the Police Pension portfolio (excluding insurance annuities) is \$9,465,221 while the book value is \$8,349,595, an appreciation of 13.4%. The market value of the Fire Pension portfolio (excluding insurance annuities) is \$14,188,145 while the book value is \$12,589,344, an appreciation of 12.7%.

City of Urbana, Police Pension Fund
 Schedule of Investment Earnings
 Over the Last 10 Years

	AVG. LAST 8 YRS.	AVG. LAST 5 YRS.	AVG. LAST 4 YRS.	AVG. LAST 3 YRS.	AVG. LAST 2 YRS.	1995
Net Return Not incl. Annuities	7.2%	6.7%	6.4%	5.7%	4.4%	3.1%
Net Return Ins. Annuities	7.0%	3.7%	4.7%	6.2%	6.8%	14.4%
Total Net Return	7.3%	6.8%	6.7%	6.0%	4.8%	4.1%

CITY OF URBANA, ILLINOIS

POLICE PENSION FUND

Audit Report

For the Years Ended June 30, 1995 and 1994



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POLICE PENSION FUND

Comparative Balance Sheet

As of June 30, 1995 and 1994

ASSETS

	1995	1994
	-----	-----
Cash and Cash Equivalents:		
Checking Account	\$293	\$100
U.S. Govt. Securities Mutual Fund	--	331,498
Shearson Money Market Account	588,231	--
Savings Account	213,150	248,217
	-----	-----
Subtotal, Cash and Cash Equivalents	801,674	579,815
Property and Replacement Tax		
Receivable (Net of Allowance		
for Uncollectibles)	137,788	134,562
Account Receivable, Due from City	--	5,318
Account Receivable, Shearson	--	16,861
Accrued Interest Receivable	124,945	124,401
Investments (Note 1 and 4):		
U.S. Government Securities	7,167,904	7,599,586
Certificates of Deposit	380,017	491,207
Insurance Company Accounts	910,225	351,807
	-----	-----
Total Assets	\$9,522,553	\$9,303,557
	=====	=====

LIABILITIES AND MUNICIPAL EQUITY

Liabilities:

Accounts Payable	\$3,498	\$268
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Municipal Equity:

Reserve for Employee's		
Retirement	9,519,055	9,303,289
	-----	-----

Total Liabilities		
and Municipal Equity	\$9,522,553	\$9,303,557
	=====	=====

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, 1995 and 1994

	1995	1994
	-----	-----
Cash Flows From Operations:		
Net Income	\$215,766	\$352,237
Adjustments to Reconcile Net Income to		
Net Cash Provided by Operations:		
Loss (gain) on sales of investments	86,397	(79,965)
Amortization of bond premium/discount	5,345	87,547
Decrease (increase) in receivables	18,409	38,237
Increase (decrease) in payables	3,230	236
	-----	-----
Net Cash Provided by (used in)		
Operating Activities	329,147	398,292
	-----	-----
Cash Flows From Investing Activities:		
Purchase of Investments	(8,248,461)	(7,098,479)
Interest Income Added to Accounts	(5,921)	(3,207)
Proceeds from Maturities and		
Sales of Investments	8,147,094	6,859,588
	-----	-----
Net Cash Provided by (used in)		
Investing Activities	(107,288)	(242,098)
	-----	-----
Increase in Cash and Cash Equivalent	221,859	156,194
Beginning Cash and Cash Equivalents	579,815	423,621
	-----	-----
Ending Cash and Cash Equivalents	\$801,674	\$579,815
	=====	=====

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

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Notes to Financial Statements
June 30, 1995 and 1994

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 1994 levy is reported in fiscal year 1995 and the 1993 levy in fiscal year 1994. 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, 1995 and 1994

City's payroll for employees covered by the pension plan for the year ended June 30, 1995, was \$1,805,457 out of a total payroll of \$8,157,143.

Retirees and beneficiaries currently receiving benefits (none entitled but not receiving benefits)	34
Current employees	<u>45</u>
Total	<u>79</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, 1995 and 1994

as actuarially determined by an enrolled actuary. By the Year 2035, 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 only 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, 1994
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

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Notes to Financial Statements
June 30, 1995 and 1994

Post retirement benefit increases	3.0% simple interest annually
Pension Benefit Obligation:	
Retirees and beneficiaries currently receiving benefits	\$7,894,704
Current employees Accumulated employee contributions including allocated investment earnings and employer financed	<u>5,249,941</u>
Total Pension Benefit Obligation	13,144,645
Net Assets Available for Benefits (lower of cost or market, market \$8,967,399)	<u>9,303,287</u>
Unfunded Pension Benefit Obligation	<u>\$3,841,358</u>

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, 1995 and 1994

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, 1993	
	<u>Dollar Amount</u>	<u>% Covered Payroll</u>
Actuarially Determined Contribution Requirement - Employer:		
Normal Cost	\$214,940	14.78%
Amortization of unfunded actuarially accrued liability	<u>94,387</u>	<u>6.49</u>
Total	<u>\$309,327</u>	<u>21.27%</u>
Contribution Made:		
Employer	\$308,160	21.19%
Employee	<u>143,115</u>	<u>9.84</u>
Total	<u>\$451,275</u>	<u>31.03%</u>

Actuarial required contributions are presented based on an actuarial date of July 1, 1993, since employer contributions for the year are based on this required amount.

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.

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Notes to Financial Statements
June 30, 1995 and 1994

Note 3 - 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), money market mutual funds which are backed by U.S. government securities and agencies, 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, 1995.

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, 1995 and 1994

	<u>Risk Category</u>	<u>Carrying Value</u>	<u>Market Value</u>
Checking and Savings Accounts	1	\$ 213,443	\$ 213,443
U.S. Government and Its Agencies	1	7,167,904	7,266,333
Certificates of Deposit	1	<u>380,017</u>	<u>380,017</u>
Subtotal, Category	1	7,761,364	7,859,793
Insurance Company Accounts		910,225	1,017,197
Money Market Accounts		<u>588,231</u>	<u>588,231</u>
Total		<u>\$9,259,820</u>	<u>\$9,465,221</u>

No credit risk is assigned to insurance company accounts since the Fund does not own any specific identifiable securities. These amounts are not incurred nor guaranteed by any federal agency.

No credit risk is assigned to the investment in Money Market Accounts since the Fund does not own any specific identifiable securities.

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

CITY OF URBANA
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Required Supplementary Information
Ten Year Trend Information on Pension Benefit Funding

June 30, 1995 and 1994

	1995	1994	1993	1992	1991	1990	1989	1988	1987	1986
Available for Benefits	\$9,303,287	\$8,951,083	\$8,189,747	\$7,501,381	\$6,948,926	\$6,352,811	\$5,783,897	\$5,266,174	\$4,709,596	\$4,191,140
Pension Benefit Obligation	\$13,144,645	\$11,877,621	\$10,947,771	\$9,994,892	\$9,437,152	\$8,600,334	\$8,281,963	\$7,584,116	\$7,168,934	\$6,796,649
Percentage Funded	70.78%	75.36%	74.81%	75.05%	73.63%	73.87%	69.84%	69.44%	65.69%	61.66%
Unfunded Pension Benefit Obligation	\$3,841,358	\$2,926,538	\$2,758,024	\$2,493,511	\$2,488,226	\$2,247,523	\$2,498,066	\$2,317,942	\$2,459,338	\$2,605,509
Annual Covered Payroll	\$1,516,197	\$1,454,754	\$1,402,357	\$1,354,602	\$1,256,213	\$1,228,672	\$1,230,986	\$1,101,066	\$1,014,311	\$982,422
Unfunded Pension Benefit Obligation as a Percentage of Covered Payroll	253.35%	201.17%	196.67%	184.08%	198.07%	182.92%	202.93%	210.52%	242.46%	265.21%
City's Contribution to the Pension Plan	\$308,160	\$294,320	\$397,722	\$378,600	\$349,848	\$381,194	\$323,931	\$335,836	\$330,686	\$328,718
City's Contribution to the Pension Plan as a Percentage of Annual Covered Payroll	20.32%	20.23%	28.36%	27.95%	27.85%	31.02%	26.31%	30.50%	32.60%	33.46%

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

June 30, 1995 and 1994

	1995	1994	1993	1992	1991	1990	1989	1988	1987	1986
Revenues by Source:										
Employee Contributions	\$308,160	\$141,978	\$135,155	\$127,054	\$117,789	\$112,456	\$110,299	\$102,935	\$96,181	\$89,693
Employer Contributions	\$143,115	\$294,320	\$397,722	\$378,600	\$349,848	\$381,194	\$323,931	\$335,836	\$330,686	\$328,718
Investment Income	\$446,388	\$532,383	\$741,117	\$696,055	\$563,358	\$514,561	\$474,134	\$418,185	\$409,194	\$426,647
Total	\$897,663	\$968,681	\$1,273,994	\$1,201,709	\$1,030,995	\$1,008,211	\$908,364	\$856,956	\$836,061	\$845,058
Expenses by Type:										
Benefits	\$601,155	\$529,521	\$451,532	\$426,253	\$398,159	\$373,331	\$307,865	\$300,205	\$266,591	\$260,305
Administrative Expense	\$69,534	\$67,752	\$61,158	\$60,390	\$48,755	\$29,364	\$11,997	\$7,881	\$11,058	\$37,613
Refunds	\$11,208	\$19,171	\$ --	\$26,701	\$31,625	\$9,401	\$19,589	\$31,146	\$1,834	\$28,683
Total	\$681,897	\$616,444	\$512,690	\$513,344	\$478,539	\$412,096	\$339,451	\$339,232	\$279,483	\$326,601

Contributions were made in accordance with actuarially determined contribution requirements.