

CITY OF URBANA, ILLINOIS

POLICE PENSION FUND

Audit Report

For the Years Ended June 30, 1997 and 1996



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September 26, 1997

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

Independent Auditor's Report

We have audited the accompanying financial statements of City of Urbana, Illinois Police Pension Fund, a trust and agency fund of the City of Urbana, as of and for the year ended June 30, 1997, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of City of Urbana, Illinois Police Pension Fund as of June 30, 1996, were audited by other auditors whose report, dated September 16, 1996, expressed an unqualified opinion on those statements. As discussed in Note 4, the City of Urbana, Illinois Police Pension Fund has restated its June 30, 1996 financial statements to implement GASB 25 for presentation method and to report investments at fair value, in conformity with generally accepted accounting principles. The other auditors reported on the June 30, 1996 financial statements before the restatement.

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 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 described more fully in Note 1, the financial statements present only one trust and agency fund of the City of Urbana and are not intended to present fairly the financial position and results of operations of the City in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the plan net assets of the City of Urbana, Illinois Police Pension Fund, a trust and agency fund of the City of Urbana, as of June 30, 1997, and the changes in plan net assets for the year then ended in conformity with generally accepted accounting principles.

We also audited the adjustments described in Note 4 that were applied to restate the June 30, 1996 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

Our audit was made for the purpose of forming an opinion on the financial statements referred to in the first paragraph taken as a whole. The required supplementary information listed in the table of contents has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is presented fairly, in all material respects, in relation to the financial statements taken as a whole.

Bray, Drake, Guthrie & Richardson LLP

BRAY, DRAKE, GUTHRIE & RICHARDSON LLP

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**Comparative Statement of Plan Net Assets
As of June 30, 1997 and 1996**

ASSETS:	1997	1996
Cash and Cash Equivalents:		
Checking Account	\$ 272	\$ 193
Shearson Money Market Account	356,686	161,832
Savings Account	329,129	120,661
Subtotal, Cash and Cash Equivalents	686,087	282,686
Receivables:		
Employer Contributions (Property and Replacement Tax)	329,948	163,309
Accrued Interest Receivable	116,847	150,625
Investments (Note 1 and 3):		
U.S. Government Securities	7,884,492	7,831,400
Certificates of Deposit	383,002	383,396
Insurance Company Accounts	1,439,563	1,202,705
Total Assets	\$ 10,839,939	\$ 10,014,121
LIABILITIES:		
Accounts Payable	\$ 6,853	\$ 2,284
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS (A schedule of funding progress is presented on page 10.)	10,833,086	10,011,837
Net Assets Held in Trust for Pension Benefits	\$ 10,839,939	\$ 10,014,121

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

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Comparative Statement of Changes in Plan Net Assets
For the Years Ended June 30, 1997 and 1996

	1997	1996
ADDITIONS:		
Contributions:		
Employer:		
Property Tax	\$ 649,649	\$ 321,966
Replacement Tax	28,000	28,000
Subtotal, Employer Contributions	677,649	349,966
Employees	162,175	156,915
Subtotal, Contributions	839,824	506,881
Investment Income:		
Net Appreciation (Depreciation) in Fair Value of Investments	225,675	104,208
Interest	576,327	425,470
Subtotal, Investment Income	802,002	529,678
Less Investment Expense	(52,718)	(52,704)
Net Investment Income	749,284	476,974
Total Additions	1,589,108	983,855
DEDUCTIONS:		
Disability Benefits	228,330	219,765
Dependent Benefits	136,308	126,412
Service Retirement Benefits	335,507	327,909
Refunds to Resigning Members	45,456	8,907
Administrative Costs	22,258	13,481
Total Deductions	767,859	696,474
NET INCREASE	821,249	287,381
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:		
Beginning of Year	10,011,837	9,519,055
Prior Period Adjustment	-	205,401
Beginning of Year, Restated	10,011,837	9,724,456
End of Year	\$ 10,833,086	\$ 10,011,837

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

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**Notes to Financial Statements
June 30, 1997 and 1996**

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 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 Pension fund is also included in the annual report of the City of Urbana, as a trust and agency fund, according to the criteria specified in governmental accounting standards.

Investments are reported at fair value. Fair values for U.S. government securities and money funds are based upon latest quoted prices. Investment transactions are reported as of the trade date. Interest income is recognized as earned. Realized gains and losses on sales and exchanges of securities and unrealized gains and losses are reported as net appreciation (depreciation) in the fair value of investments.

The fund considers all liquid investments with a maturity of three months or less when purchased to be cash equivalents. At June 30, 1997 and 1996, there were no investments considered to be cash equivalents.

Property taxes are recognized for the year levied. The 1996 levy is reported in fiscal year 1997 and the 1995 levy in fiscal year 1996. The taxes are certified against appraised real property as of the beginning of the previous calendar year.

The preparation of financial statements requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions from plan net assets during the reporting period. Actual results could differ from those estimates.

Note 2 - Pension Disclosure Information:

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-

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Notes to Financial Statements
June 30, 1997 and 1996

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. At June 30, 1997 and 1996, the pension fund membership consisted of:

	<u>1997</u>	<u>1996</u>
Retirees and beneficiaries currently receiving benefits	37	35
Terminated plan members entitled to but not yet receiving benefits	0	0
Active vested plan members	21	19
Active non vested plan members	<u>23</u>	<u>27</u>
Total	<u>81</u>	<u>81</u>
Number of participating employers	1	1

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 times the number of whole years the employee has been retired since age 50 (up to a maximum of 15%), and 3% annually thereafter of the pension payable at the time of the increase.

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Notes to Financial Statements
June 30, 1997 and 1996

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 as actuarially determined by an enrolled actuary. By the year 2034, 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 Fund's investments are concentrated in U.S. government and U.S. guaranteed obligations (73% of net asset value). The only other investment in a single organization that is more than 5% of the fund's net assets is the investment in an annuity contract with the Lincoln National Life Insurance Company (13.3% of net asset value).

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

c. Funding Policy and Annual Pension Cost:

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 accrued liability and is a component of the funding method used to determine contributions to the system.

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 contribution rate for normal cost is

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**Notes to Financial Statements
June 30, 1997 and 1996**

determined using the entry age normal actuarial funding method. The system used a level percent amount method to amortize the unfunded liability over a 37 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:

Latest Actuarial Valuation Date	June 30, 1997
Asset Valuation Method	Market Value
Significant Actuarial Assumptions:	
Rate of return on investment of present and future assets	7.0% compounded annually
Projected salary increases	5.25% compounded annually
Post retirement benefit increases	3.0% interest annually
Mortality	1983 Group Annuity Mortality Table
Withdrawal	Graduated Rates
Disability	Graduated Rates
Retirement	Graduated Rates (100% by age 69)
Marital Status	85% married, spouse same age
Plan Expenses	None

Annual Required Contribution	\$ 621,024
Interest on Net Pension Obligation	0
Adjustment to Annual Required Contribution	<u>0</u>
Annual Pension Cost	621,024
Contributions Made	<u>677,649</u>
Increase (decrease) in Net Pension Obligation	(56,625)
Net Pension Obligation Beginning of Year	<u>0</u>
Net Pension Obligation End of Year	\$ (56,625)

There were no changes in any actuarial assumptions that would significantly effect the pension benefit obligation or the required contribution.

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Notes to Financial Statements
June 30, 1997 and 1996

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, 1997.

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.

	Risk Category	Amortized Cost	Fair Value
Checking and Savings Accounts	1	\$ 329,401	\$ 329,401
U.S. Government and Its Agencies	1	6,935,184	7,884,492
Certificates of Deposit	1	<u>383,002</u>	<u>383,002</u>
Subtotal, Category	1	7,647,587	8,596,895
Insurance Company Accounts	-	970,225	1,439,563
Money Market Accounts	-	<u>356,686</u>	<u>356,686</u>
Total		<u>\$ 8,974,498</u>	<u>\$10,393,144</u>

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Notes to Financial Statements
June 30, 1997 and 1996

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.

Note 4 - Prior Period Adjustment and Restatement of Beginning Net Assets Available for Benefits:

The pension fund implemented Governmental Accounting Standards Board Statement Number 25 in this report. Statement 25 requires that investments be reported at fair value instead of amortized cost, as the fund had previously valued its investments. Reporting investments at fair value increased the net assets available for benefits \$205,401 at July 1, 1995. Thus, the amount of net assets available for benefits at the beginning of 1996 was restated for this change.

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Required Supplementary Information
Schedule of Funding Progress

June 30, 1997

Unfunded
(Overfunded)
Actuarial
Accrued
Liability
as a % of
Covered Payroll

Actuarial
Accrued
Liability
Entry Age
Normal Cost

Unfunded
(Overfunded)
Actuarial
Accrued
Liability

Funded
Ratio

Covered
Payroll

Information before June 30, 1997 is not available.

June 30, 1992								
June 30, 1993								
June 30, 1994								
June 30, 1995								
June 30, 1996								
June 30, 1997	\$10,833,086	\$17,493,882	\$6,660,796	61.9%	\$1,761,550	378.1%		

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Required Supplementary Information
Schedule of Employer Contributions

June 30, 1997

Fiscal Year	Annual Required Contribution	Contributions Made	Percentage Contributed
1992	Information before 1997 is not available.		
1993			
1994			
1995			
1996			
1997	\$621,024	\$677,649	109.1%