CITY OF URBANA

City of Urbana
400 South Vine Street
Post Office Box 219
Urbana, Illinois 61801-0219
(217) 384-2362
FAX (217) 384-2301

September 26, 1998

TO: Members, Urbana Policemen's Pension Fund

FROM: Ronald Eldridge, Treasurer Ron E.

Attached please find the annual financial report and audit for the Policemen's Pension Fund for the fiscal year ended June 30, 1998. Some important points of the audit are:

1) The financial statements have been prepared in accordance with generally accepted accounting principles ("clean opinion"). The auditor's opinion letter on this finding is on page 1.

2) In performing their work, the auditors did not discover any significant weaknesses in the fund's internal accounting controls. It is the policy of the auditor that no separate letter is issued in this circumstance.

3) Net assets of the fund have grown to $12,254,017, up $1,420,931 from last year, although this growth has been extremely inflated by the unrealized gains in the stock market and in the U.S. Government investments at June 30, 1998.

4) The city's contribution was based upon an actuarial study performed by the actuarial firm of Tim Sharpe. The amount required to be contributed was $894,326. The amount actually contributed was $872,320. Recall that the City has increased it's contribution from approximately $350,000 in 1996. Next year's contribution will meet the suggested amount.

5) A review of the makeup of the investment portfolio shows that since 1987, the fund has significantly shifted investments in certificates of deposit to U.S. government and equities. The investment in common stocks was first authorized in January 1998. It is anticipated that this investment will be increased to reach the maximum allowable by law of 25% by 12/31/98.:

	Percent of Portfolio				
	98	97	96	95	87
U.S. Government	66	76	84	80	34
Cert. Of Deposit	3	4	3	4	57
Insurance Annuities	10	14	10	10	6
Common Stocks	15	0	0	0	0
Savings	4	3	1	2	3
Money Markets	2	3	2	4	0

6) The fund has instructed the fixed income managers to strive for average weighted length of maturity of approximately 5-7 years. The average maturity period for certificates of deposit is 2 years. Traditionally, the longer maturity period, the higher the return. However, for the last 2-3 years, this differential return has been significantly smaller and leveled out at approximately 7 years.

7) A breakdown of the investment return by investment type follows (net of all fees):

		% Return	
	$	1998	1997
Savings/Money Markets	36,690	4.8%	4.9%
Cert. Of Deposit	21,963	6.0	6.0
U.S. Government	771,052	9.7	8.3
Common Stocks (Div.)	229,189	33.5	n/a
Insurance Annuities	183,225	15.0	18.0
Total	1,242,119		

8) A historical review of investment return shows that the fund has historically averaged approximately an 6-7% return before equities. The fund has been able to increase the total return to approximately 8% over the last 5-10 years (significantly better over the last 3 years) by investing in equity securities (insurance annuities and common stocks beginning in 98):

	1998	1997	Last 3 Yrs	Last 5 Yrs	Last 10 Yrs
Return Before Equities	9.4%	7.0%	7.7%	6.3%	7.3%
Total Return	14.4%	8.6%	10.3%	8.1%	8.2%

9) The cost of benefit increases are expected to increase over time. Most members drawing benefits by law receive a 3% annually compounded increase in addition to increases in the number of retirees and the increased salaries at retirement that these benefits are based on. An examination of the total amount paid out for benefits shows the following increases over last year and the last 10 years:

	1998	1997	1989
Disability	$274,995	$228,330	$ 66,741
Service	345,200	335,507	190,553
Dependent	136,308	136,308	50,571
Total	$756,503	$700,145	$307,865

10) An examination of the number and make up of members receiving benefits provides insight into certain trends and changes affecting previous and future pension costs:

	Disability			Service			Dependent	
	#	Ave. Age	Serv. Yrs	#	Ave. Age	Serv. Yrs	#	Ave. Age
1998	12	50	17	15	63	23	10	73
1997	12	49	17	15	62	23	10	72
1996	11	48	16	15	61	23	10	70
1992	8	47	16	13	64	24	7	77
1988	5	48	18	12	64	24	6	77

11) There were no changes in 1998 affecting disability pensioners. The number of disability pensions has increased significantly since 1988. The make up of the disability pensioners has not changed significantly since 1988.

12) There were no changes in 1998 affecting service pensions. The number of regular pensions has increased from slightly since 1987. The makeup of average age and years of service has not changed much since 1987.

13) There were no changes in 1998 affecting dependent pensioners. The number of surviving dependents has increased significantly since 1988. The average age of the dependents is younger.

14) An examination of the number and make up of current officers provides insight into certain trends and changes affecting previous and future pension costs:

	#	Ave. Age	Ave. Yr. Service	Ave. Salary
1998	46	35.7	8.3	40,639
1997	43	35.5	8.6	40,140
1996	46	35.1	8.3	38,233
1992	41	36.5	9.6	34,204
1988	42	34.7	9.5	29,309

15) During 1998, seven officers resigned and ten new officers were admitted into the pension fund. The age of the workforce has not significantly changed since 1988 although is is slightly younger in years of service.

16) Salaries for pension fund purposes increased only slightly in 1998 (due to 10 new officers being admitted). Since 1992 salaries have increased an annual average of 2.9% and since 1988 3.3%.

CITY OF URBANA, ILLINOIS

POLICE PENSION FUND

Audit Report

For the Years Ended June 30, 1998 and 1997

CITY OF URBANA

CITY OF URBANA, ILLINOIS

POLICE PENSION FUND

Audit Report

For the Years Ended June 30, 1998 and 1997

CITY OF URBANA, ILLINOIS
POLICE PENSION FUND

Audit Report

For the Years Ended June 30, 1998 and 1997

TABLE OF CONTENTS

BRAY, DRAKE, GUTHRIE & RICHARDSON LLP

JAMES P. BRAY
KARL E. DRAKE
MAX E. GUTHRIE
R. NEIL RICHARDSON

Certified Public Accountants
1606 N. Willow View Road, Suite 1E
Urbana, Illinois 61802-7446

Phone 217/337-0004
Fax 217/337-5822

October 8, 1998

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 years ended June 30, 1997 and 1998, 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 audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits 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 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 1998, and the changes in plan net assets for the years then ended in conformity with generally accepted accounting principles.

Our audits were 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 audits 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

CITY OF URBANA, ILLINOIS
POLICE PENSION FUND

Comparative Statement of Plan Net Assets
As of June 30, 1998 and 1997

	1998	1997
ASSETS:		
Cash and Cash Equivalents:		
Checking Account	$ 309	$ 272
Shearson Money Market Account	191,402	356,686
Savings Account	452,311	329,129
Subtotal, Cash and Cash Equivalents	644,022	686,087
Receivables:		
Employer Contributions (Property and Replacement Tax)	420,572	329,948
Accrued Interest Receivable	113,379	116,847
Investments (Note 1 and 3):		
U.S. Government Securities	7,757,970	7,884,492
Certificates of Deposit	402,051	383,002
Common Stocks	1,809,662	-
Insurance Company Accounts	1,122,788	1,439,563
Total Assets	$ 12,270,444	$ 10,839,939
LIABILITIES:		
Accounts Payable	$ 16,427	$ 6,853
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS (A schedule of (funding progress is presented on page 10.)	12,254,017	10,833,086
Net Assets Held in Trust for Pension Benefits	$ 12,270,444	$ 10,839,939

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

CITY OF URBANA
POLICE PENSION FUND

Comparative Statement of Changes in Plan Net Assets
For the Years Ended June 30, 1998 and 1997

	1998	1997
ADDITIONS:		
Contributions:		
Employer:		
Property Tax	$ 844,320	$ 649,649
Replacement Tax	28,000	28,000
Subtotal, Employer Contributions	872,320	677,649
Employees	161,367	162,175
Subtotal, Contributions	1,033,687	839,824
Investment Income:		
Net Appreciation (Depreciation) in Fair Value of Investments	748,650	225,675
Dividends	6,112	-
Interest	563,687	576,327
Subtotal, Investment Income	1,318,449	802,002
Less Investment Expense	(76,330)	(52,718)
Net Investment Income	1,242,119	749,284
Total Additions	2,275,806	1,589,108
DEDUCTIONS:		
Disability Benefits	274,955	228,330
Dependent Benefits	136,308	136,308
Service Retirement Benefits	345,200	335,507
Refunds to Resigning Members	84,776	45,456
Administrative Costs	13,636	22,258
Total Deductions	854,875	767,859
NET INCREASE	1,420,931	821,249
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:		
Beginning of Year	10,833,086	10,011,837
End of Year	$ 12,254,017	$ 10,833,086

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

Notes to Financial Statements
June 30, 1998 and 1997

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, common stocks 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, 1998 and 1997, there were no investments considered to be cash equivalents.

Property taxes are recognized for the year levied. The 1997 levy is reported in fiscal year 1998 and the 1996 levy in fiscal year 1997. 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-

Notes to Financial Statements
June 30, 1998 and 1997

employer plan, the defined benefits and employee and employer contribution levels are governed by Illinois State Statues. This fund is accounted for and reported as a pension trust fund. At June 30, 1998 and 1997, the pension fund membership consisted of:

	1998	1997
Retirees and beneficiaries currently receiving benefits	37	37
Terminated plan members entitled to but not yet receiving benefits	0	0
Active vested plan members	21	21
Active non vested plan members	25	23
Total	83	81
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.

Notes to Financial Statements
June 30, 1998 and 1997

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 (63% 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 (9.2% 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

Notes to Financial Statements
June 30, 1998 and 1997

determined using the entry age normal actuarial funding method. The system used a level percent amount method to amortize the unfunded liability over a 36 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, 1998
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	$ 894,326
Interest on Net Pension Obligation	0
Adjustment to Annual Required Contribution	0
Annual Pension Cost	894,326
Contributions Made	872,320
Increase (decrease) in Net Pension Obligation	22,006
Net Pension Obligation Beginning of Year	(56,625)
Net Pension Obligation End of Year	$ (34,619)

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

Notes to Financial Statements
June 30, 1998 and 1997

Note 3 - Deposits and Investments:

The pension fund is authorized by State Statutes and fund policy 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 net present assets), money market mutual funds which are backed by U.S. government securities and agencies, and common stocks (up to a maximum of 35% net present assets).

The fund's deposits and investments are categorized below to give an indication of the level of risk assumed at June 30, 1998.

> Category 1 - includes amount that are insured and for which the fund or its agent in the fund's name holds the securities. 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	$ 452,620	$ 452,620
U.S. Government and Its Agencies	1	7,563,133	7,757,970
Certificates of Deposit	1	402,051	402,051
Subtotal, Category	1	8,417,804	8,612,641
Insurance Company Accounts	-	454,493	1,122,788
Money Market Accounts	-	191,402	191,402
Common Stocks	-	1,586,586	1,809,662
Total		$10,650,285	$11,736,493

Notes to Financial Statements
June 30, 1998 and 1997

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

CITY OF URBANA, ILLINOIS
POLICE PENSION FUND

<u>Required Supplementary Information</u>
Schedule of Funding Progress

June 30, 1998

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability Entry Age Normal Cost	Unfunded (Overfunded) Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded (Overfunded) Actuarial Accrued Liability as a % of Covered Payroll
June 30, 1993	**Information before June 30, 1997 is not available.**					
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%
June 30, 1998	$11,445,123	$17,708,970	$6,263,847	64.6%	$1,869,403	335.1%

CITY OF URBANA, ILLINOIS
POLICE PENSION FUND

Required Supplementary Information
Schedule of Employer Contributions

June 30, 1998

Fiscal Year	Annual Required Contribution	Contributions Made	Percentage Contributed
1993	**Information before 1997 is not available.**		
1994			
1995			
1996			
1997	$621,024	$677,649	109.1%
1998	$894,326	$872,320	97.5%