CITY OF URBANA

City of Urbana
400 South Vine Street
Urbana, IL 61801

September 5, 2004

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, 2004. 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.

3) Net assets of the fund increased $1,099,051 to $16,028,194 (a 7.4% increase). Last year's increase was $830,237 (6%). These increases reversed the previous two years of a reduction in net worth.

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 $893,391 (34% of salary). The fund requested a levy amount of $1,181,046 (amortizing the accrued liability by a level dollar amount). The amount actually contributed was $1,133,303. Recall that the City has increased it's contribution from approximately $350,000 in 1996. On page 10 is a detailed schedule of contributions made by the city since 1997. Over the past 6 years, the City has contributed $1,749,610 more than required and $59,016 more than requested by the fund. The funding ratio at June 30, 2004 was 66% (68% funding level last year). Six years ago, this funding level was 62%. Police officers contribute 9.91% of their salary. The City's contributions compared to employees was approximately 4.4 to 1.

5) A review of the makeup of the investment portfolio shows that over the last 10 years, the fund has significantly shifted investments in U.S. Government securities and CD's to equities. The investment in common stocks was first authorized in January 1998:

	Percent of Portfolio				
	04	03	01	99	94
U.S. Government	50	53	54	49	84
Cert. Of Deposit	0	0	0	0	5
Insurance Annuities	0	0	0	4	4
Common Stocks	0	32	40	36	0
Stock Mutual Funds	45	10	0	0	0
Savings/Money Market	5	5	6	11	7

6) The fund has instructed the fixed income managers to strive for average weighted length of maturity of approximately 5-7 years.

7) During the year, the Fund converted it's investment in common stocks to stock mutual funds.

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

	$		% Return	
	2004	2003	2003	2002
Savings/Money Markets	7,443	11,202	1.5%	1.5%
U.S. Government:				
Interest	375,243	366,625	4.8%	5.4%
Gains (Loss)	(469,630)	389,770		
Subtotal, Fixed	(86,944)	67,597	-1.0%	10.2%
Equities	884,845	- 236,807	14.7%	- 4.4%
Total	797,901	530,790	5.5%	4.1%

Includes deduction of $84,913 in investment fees (0.96%)

7) A historical review of investment return shows that the fund has historically averaged approximately an 6.7% return before equities. The depressed market in equities has lowered the overall return to 4.9%.

	2004	2003	2002	Last 3 Yrs	Last 5 Yrs	Last 10 Yrs
Return Interest	4.8%	5.0%	6.0%	6.0%	5.8%	5.9%
Return Int./Gains US	-1.0%	10.2%	10.2%	6.3%	5.9%	6.7%
Return Equities	14.7%	- 4.4%	-20.8%	- 3.5%	-6.4%	4.7%
Total Return	5.5%	4.1%	-3.9%	1.8%	0.4%	4.9%

8) Benefits: Listed below is a general description of the formulas used to calculate benefits. Because the actual formula's are more complex, the following is provided as a general picture and should not be used to actually calculate a person's benefits:

- Regular Retirement Pension. Officers 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 at the date of retirement. The pension shall be increased by 2½ % for each year over 20 years of service, to a maximum of 75% (reached at 30 years of service). 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 on a graduated scale (10 years service = 15%, 15 years service = 30%, 19 years service = 45.6%). Upon reaching the age of 55, the officer's pension is increased 3% for each year retired (up to a maximum of 15%), and 3% annually thereafter.

- Disability Pension. An officer that is unable to perform his or her duties due to a duty related injury is entitled to receive an annual payment of 65% of the salary at the date of disability. A officer that is unable to perform his or her duties due to an injury not related to the job is entitled to an annual payment of 50%. Upon reaching the age of 60, a disability pension is increased 3% of the original pension annually.

- Survivor Pension. If an officer dies on duty, the surviving spouse receives pension equal to the salary of the officer. If an officer dies due to reasons not related to duty, the surviving spouse receives pension of 50% of the salary of the officer when the officer stopped working.

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. Benefit costs increased 6.1% in 2004 over 2003 and have averaged an annual 3.6% increase over the last 5 years and 5.8% over the last 10 years. An examination of the total amount paid out for benefits shows the following increases over the last 10 years.

	2004	2003	2002	1994
Disability	$ 297,679	$263,577	$261,359	$175,396
Cooper Backpay	20,207	0	0	0
Service	580,327	572,689	518,481	263,349
Dependent	173,087	154,435	154,435	90,776
Total	$1,071,300	$990,701	$934,275	$529,521

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. Ben.	#	Ave. Age	Serv. Yrs	Ave. Ben.	#	Ave. Age	Ave. Ben.
2004	11	49	17	$2,267	19	64	23	$2,473	10	74	$1,620
2003	10	48	17	$1,988	20	63	23	$2.466	9	75	$1,430
2002	11	53	18	$2,187	19	64	24	$2,328	9	74	$1,430
2001	11	52	18	$2,169	18	64	24	$2,235	9	73	$1,430
2000	11	51	18	$2,055	16	64	25	$2,139	9	72	$1,349
1999	12	51	17	$1,875	16	63	25	$2,034	10	74	$1,214
1998	12	50	17	$1,884	15	63	23	$1,950	10	73	$1,136
1997	12	49	17		15	62	23		10	72	
1996	11	48	16	$1,749	15	61	23	$1,819	10	70	$1,136
1992	8	47	16		13	64	24		7	77	
1988	5	48	18		12	64	24		6	77	

- The only changes in 2004 affecting disability pensions was the award of a non-duty disability pension to M. Cooper. The number of disability pensions has changed little over the last 8 years. The average benefit increased 4.0% in 2004 over last year. Over the past 6 years, the average benefit has averaged an annual increase of 3.1% each year.

- The only changes in 2003 affecting regular pensions was the death of R. Brown. The makeup of average age and years of service has changed very little over the last 15 years. The average benefit was about same in 2004 as last year. Over the past 6 years, the average benefit has increased 4% each year.

- The only change in 2004 affecting dependent pensioners was addition of dependent of R. Brown (above). The number of surviving dependents is same as it was 8 years ago. The average age of the dependents is 4 years older (age 74). The average benefit in 2004 increased 3.3% over last year. The law does not provide for any annual inflationary adjustments in benefits for dependents.

11) 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
2004	49	33.1	8.4	53,755
2003	49	32.2	7.5	51,426
2002	49	35.6	8.2	49,531
2001	49	35.0	8.0	47,349
2000	45	35.5	8.5	43,593
1999	47	36.0	8.3	42,648
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

- During 2004, there were no changes in officers either being admitted into the fund, retiring or withdrawing from the fund. The age of the workforce has decreased over the past 5 and 10 year periods; however, the years of service has remained about same.

- Salaries for pension fund purposes increased an average of 4.5% in 2004. Over the last 5 and 10 years, salaries have increased an annual average of 4.8% and 3.9% respectively.

CITY OF URBANA, ILLINOIS
POLICE PENSION FUND

Audit Report

For the Years Ended June 30, 2004 and 2003

CITY OF
URBANA

CITY OF URBANA, ILLINOIS

POLICE PENSION FUND

Audit Report

For the Years Ended June 30, 2004 and 2003

CITY OF URBANA, ILLINOIS
POLICE PENSION FUND

Audit Report

For the Years Ended June 30, 2004 and 2003

TABLE OF CONTENTS

MARTIN
HOOD
FRIESE
& ASSOCIATES, LLC

2507 South Neil St.
Champaign, Illinois 61820
PHONE 217.351.2000
FAX 217.351.7726

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of plan net assets of the City of Urbana, Illinois Police Pension Fund, a fiduciary fund of the City of Urbana, as of June 30, 2004 and 2003, and the related statements of changes in plan net assets, for the years then ended. 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 auditing standards generally accepted in the United States of America. 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 fiduciary 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 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 City of Urbana, Illinois Police Pension Fund, as of June 30, 2004 and 2003, and the changes in plan net assets, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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 information contained in the schedules on pages 10 and 11 is not a required part of the financial statements, but is supplementary information required by governmental accounting standards. Such information has been subjected to the auditing procedures applied in our 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.

Martin, Hood, Friese & Associates, LLC

August 12, 2004

CITY OF URBANA, ILLINOIS
POLICE PENSION FUND

Comparative Statement of Plan Net Assets
As of June 30, 2004 and 2003

	2004	2003
ASSETS:		
Cash and Cash Equivalents:		
Checking Account	$ 257	$ 264
Shearson Money Market Account	129,333	224,477
Savings Account	625,830	626,842
Total Cash and Cash Equivalents	755,420	851,583
Receivables:		
Employer Contributions (Property and Replacement Tax)	559,651	501,843
Accrued Interest Receivable	95,727	93,917
Investments (Note 1 and 3):		
U.S. Government Securities	7,736,695	7,567,621
Stocks	-	4,593,930
Stock Mutual Funds	6,940,572	1,379,873
Total Assets	$16,088,065	$14,988,767
LIABILITIES:		
Accrued Payroll Taxes	$ 8,056	$ 7,809
Contribution Refunds Payable	51,815	51,815
Total Liabilities	$ 59,871	$ 59,624
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS (A schedule of funding progress is presented on page 10.)	$16,028,194	$14,929,143

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, 2004 and 2003

	2004	2003
ADDITIONS:		
Contributions:		
Employer:		
Property Tax	$ 1,092,303	$ 1,023,928
Replacement Tax	41,000	41,000
Total Employer Contributions	1,133,303	1,064,928
Employees	259,175	243,003
Total Contributions	1,392,478	1,307,931
Investment Income:		
Net Appreciation (Depreciation) in Fair Value of Investments	395,008	112,578
Dividends	80,476	85,603
Interest	407,327	419,879
Total Investment Income	882,811	618,060
Less Investment Expense	(84,913)	(87,270)
Net Investment Income	797,898	530,790
Total Additions	2,190,376	1,838,721
DEDUCTIONS:		
Disability Benefits	318,286	263,577
Dependent Benefits	173,087	154,435
Service Retirement Benefits	580,327	572,689
Refunds to Resigning Members	-	2,370
Administrative Costs	19,625	15,413
Total Deductions	1,091,325	1,008,484
NET INCREASE (DECREASE)	1,099,051	830,237
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:		
Beginning of Year	14,929,143	14,098,906
End of Year	$16,028,194	$14,929,143

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

Notes to Financial Statements
June 30, 2004 and 2003

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 fiduciary 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, stock mutual funds and money market accounts 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 maturity of three months or less when purchased to be cash equivalents. At June 30, 2004 and 2003, there were no investments considered to be cash equivalents.

The fund is accounted for using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred. Employer contributions are primarily made from property taxes. Property taxes are recognized for the year levied. The 2003 levy is reported in fiscal year 2004 and the 2002 levy in fiscal year 2003. The taxes are certified against appraised real property as of the beginning of the previous calendar year. Benefits are recognized when due and payable. Refunds are recognized when the employee resigns from employment with the city.

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.

Notes to Financial Statements
June 30, 2004 and 2003

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-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, 2004 and 2003, the pension fund membership consisted of:

	2004	2003
Retirees and beneficiaries currently receiving benefits	40	39
Terminated plan members entitled to but not yet receiving benefits	0	1
Active vested plan members	23	22
Active non vested plan members	25	27
Total	88	89
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 2.5% of such salary for each additional year of service over 20 years up to a maximum of 75% of such salary. Employees with at least 8 years, but less than 20 years of credited service, may retire and receive a reduced benefit, which begins at age 60.

The monthly pension of a police officer who retired after January 1, 1999 with at least 20 years of service, shall be increased annually, following the first anniversary date of retirement, and be paid upon reaching the age of at least 55 years, by 1/12 of 3% of the original pension times the number of months 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. Officers that retire with less than 20 years of service receive an annual 3% increase.

Covered employees are required to contribute 9.91% 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 2033, 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 has the following investments at June 30, 2004, that are greater than 5% of net assets and held by a single organization:

1) Investments in U.S. Government and U.S. Government guaranteed obligations total 51% of net assets.

2) An investment in the T. Rowe Price International Mutual Fund is 6% of net assets.

3) An investment in the Standard & Poors 400 Midcap Mutual Fund is 7% of net assets.

4) An investment in the Units Standard & Poors Depository Receipt Trust Series 1 Mutual Fund is 26% of net assets.

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

c. Funding Policy and Annual Pension Cost:

Notes to Financial Statements
June 30, 2004 and 2003

The amount shown below as the "net pension 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 an accrued liability and is a component of the funding method used to determine contributions to the system. Administrative costs are paid by the plan except for in-kind donated financial services provided by the City.

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 determined using the entry age normal actuarial funding method. The system used a level percent amount method to amortize the unfunded liability over a 33-year period. The significant actuarial assumptions used to compute the actuarially determined contribution requirements are the same as those used to compute the net pension obligation:

Latest Actuarial Valuation Date	June 30, 2003
Asset Valuation Method	5 Year Average 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% age 69)
Marital Status	85% married, spouse same age
Plan Expenses	None

Notes to Financial Statements
June 30, 2004 and 2003

Annual Required Contribution	$893,391
Interest on Net Pension Obligation	0
Adjustment to Annual Required Contribution	0
Annual Pension Cost	893,391
Contributions Made	1,133,303
Increase (Decrease) in Net Pension Obligation	(239,912)
Net Pension Obligation Beginning of Year	(1,566,323)
Net Pension Obligation End of Year	$ (1,806,235)

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

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 and common stock mutual funds (up to a maximum of 45% net present assets).

Deposits – At year-end, the carrying amount of the fund's deposits was $626,087 and the bank balance was $633,672, which was 100% covered by general depository insurance

The fund's deposits and investments are categorized below to give an indication of the level of risk assumed at June 30, 2004.

> Category 1 - includes amounts 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. Deposits in federally insured banks and savings and loans are insured in an amount equal to $100,000 for the fund plus an amount for each member's beneficial interest in the deposits, limited to an amount equal to $100,000 divided by the largest beneficial interest percentage of a member. At June 30, 2004, all deposits were 100% insured.

CITY OF URBANA, ILLINOIS
POLICE PENSION FUND

Notes to Financial Statements
June 30, 2004 and 2003

	Risk Category	Amortized Cost	Fair Value
Checking and Savings Accounts	1	$ 626,087	$ 626,087
U.S. Government and Its Agencies	1	7,636,219	7,736,695
Subtotal, Category	1	$ 8,262,306	$ 8,362,782
Money Market Accounts	-	129,333	129,333
Common Stock Mutual Funds	-	7,018,584	6,940,572
Total		$15,410,223	$15,432,687

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

CITY OF URBANA, ILLINOIS
POLICE PENSION FUND

Required Supplementary Information
Schedule of Funding Progress

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, 1996	**Information before June 30, 1997 is not available.**					
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%
June 30, 1999	$12,489,176	$19,014,902	$6,525,726	65.7%	$2,004,454	325.6%
June 30, 2000	$13,582,546	$19,769,233	$6,186,687	68.7%	$2,005,269	308.5%
June 30, 2001	$14,491,027	$21,196,511	$6,705,484	68.4%	$2,319,005	289.2%
June 30, 2002	$15,176,111	$22,308,414	$7,132,303	68.0%	$2,428,211	293.7%
June 30, 2003	$15,728,060	$23,775,768	$8,047,708	66.2%	$2,518,095	319.6%

CITY OF URBANA, ILLINOIS
POLICE PENSION FUND

Required Supplementary Information

Schedule of Employer Contributions

Fiscal Year	Annual Required Contribution	Contributions Made	Percentage Contributed
1996	**Information before 1997 is not available.**		
1997	$621,024	$677,649	109.1%
1998	$643,706	$872,320	135.5%
1999	$638,034	$865,130	135.6%
2000	$712,982	$953,431	133.7%
2001	$683,965	$968,842	141.7%
2002	$768,096	$1,052,672	137.0%
2003	$820,842	$1,064,928	129.7%
2004	$893,391	$1,133,303	126.9%