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CITY OF URBANA

September 26, 1998

TO: Members, Urbana Firemen's Pension Fund

FROM: Ronald Eldridge, Treasurer

Attached please find the annual financial report and audit for the Firemen'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 $19,540,478, up $1,872,995 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 $308,987. The amount actually contributed was $349,763.

5) A review of the makeup of the investment portfolio shows that historically 98-99% of the funds are invested in longer term and higher interest earning accounts (there are no monies maintained in a checking account). The investment in mutual funds was first authorized in January 1998 and the fund is income averaging this investment over 24 months. At the end of the 24 month period, the mutual funds will be at 25%. Over the past 10 years, the fund has significantly shifted investments in certificates of deposit to U.S. government and equities:

	Percent of Portfolio				
	98	97	96	95	89
U.S. Government	73	80	80	84	19
Cert. Of Deposit	5	6	6	5	78
Insurance Annuities	15	13	12	9	1
Savings	2	1	2	2	2
Mutual Funds	5	0	0	0	0

6) The average weighted length of maturity on fixed income investments is approximately 7.25 years for U.S. Government Securities and 2 years for certificates of deposit. 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 (before unrealized gains on U.S. Governments:

		% Return	
	$	1998	1997
Savings/Money Markets	17,382	4.8%	4.9%
Cert. Of Deposit	64,911	6.0	6.0
U.S. Government	1,020,293	8.3	8.3
Mutual Funds (Div.)	3,952	2.4	n/a
Subtotal	1,106,538	8.0	7.8
Gain Call U.S. Govt.	28,750	n/a	n/a
Subtotal, Realized	1,135,288	8.1	7.8
Unrealized Market Gains:			
Insurance Annuities *	562,205	22.1	19.2
Mutual Funds *	34,327	9.9	n/a
Subtotal	1,731,820	12.7	10.8

*Net of all fees

8) A historical review of investment return shows that the fund has historically averaged approximately an 8.0% to 8.3% return before equities. The fund has been able to increase the total return from 9.4% to 12.7% by investing in equity securities (insurance annuities and mutual funds beginning in 98):

	1998	1997	Last 3 Yrs	Last 5 Yrs	Last 10 Yrs
Return Before Equities	8.1%	8.0%	8.1%	8.2%	8.3%
Total Return	12.7%	11.8%	11.0%	10.0%	9.4%

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	$139,469	$136,767	$ 61,260
Service	681,029	629,541	140,043
Dependent	68,952	58,345	43,984
Total	$889,450	$824,653	$245,287

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	10	59	16	28	57	23	8	74
1997	11	59	16	29	56	23	6	74
1996	11	59	16	26	57	25	6	73
1992	9	58	14	14	60	22	7	73
1987	8	59	14	7	60	23	6	66

11) The only change in 1998 affecting disability pensioners is one member on disability pension died, reducing the number of disability pensioners to 10. The number is up from 8 in 1987. The make up of the disability pensioners in average age and number of years of service has remained about the same.

12) The only change in 1998 affecting service pensioners is one member on regular service pension died, reducing the number of service pensioners to 28. No new pensions were granted in 1998. The number of regular pensions has increased from 7 in 1987. It appears that firefighters are retiring at an earlier age but with about the same number of years of service.

13) The only change in 1998 in dependents pensions is the addition of 2 dependent pensions due to the two deaths noted above.

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

	# F.F.	Ave. Age	Ave. Yr. Service	Ave. Salary
1998	47	36.5	8.4	38,412
1997	40	36.5	8.9	37,349
1996	40	37.1	9.8	34,865
1992	41	41.6	14.6	32,213
1988	42	42.2	17.4	28,435

15) Seven new firefighters were admitted into the pension fund due to the U/I contract (balance remained in S.U.R.S.). The current workforce is becoming younger in age and years of service.

16) Salaries for pension fund purposes increased 2.9%. Since 1992 salaries have increased an annual average of 3.0% and since 1988 3.1%. Note that salaries have increased less than one would expect due the lower average years of service.

CITY OF URBANA, ILLINOIS

FIREMEN'S PENSION FUND

Audit Report

For the Years Ended June 30, 1998 and 1997

CITY OF
URBANA

CITY OF URBANA, ILLINOIS

FIREMEN'S PENSION FUND

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October 8, 1998

Board of Trustees
City of Urbana, Illinois
Firemen's Pension Fund
Urbana, Illinois

Independent Auditor's Report

We have audited the accompanying financial statements of City of Urbana, Illinois Firemen's 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 Firemen's 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
FIREMEN'S PENSION FUND

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

	1998	1997
ASSETS:		
Cash and Cash Equivalents:		
Checking Account	$ -	$ 178
Il. Public Treasurer's Pool	36,074	34,162
Busey Bank Savings	311,565	235,645
Money Market Accounts	216,963	11,854
Total Cash and Cash Equivalents	564,602	281,839
Receivables:		
Employer Contributions (Property and Replacement Tax)	137,223	158,232
Accrued Interest	15,017	32,734
Investments:		
U.S. Government Securities	14,131,160	13,845,755
Certificates of Deposit	983,724	1,091,002
Mutual Funds	890,616	-
Insurance Company Accounts	2,820,126	2,257,921
Total Assets	$19,542,468	$17,667,483
LIABILITIES:		
Accounts Payable	$ 1,990	$ -
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS (A schedule of funding progress is presented on page 10.)	19,540,478	17,667,483
Total Liabilities and Municipal Equity	$19,542,468	$17,667,483

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

CITY OF URBANA, ILLINOIS
FIREMEN'S PENSION FUND

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

	1998	1997
ADDITIONS:		
Contributions:		
Employer:		
Property Tax	$ 313,763	$ 325,389
Replacement Tax	36,000	36,000
Subtotal Employer Contributions	349,763	361,389
Employees	135,683	122,810
Subtotal Contributions	485,446	484,199
Investment Income:		
Net Appreciation (Depreciation) in Fair Value of Investments	1,184,889	773,766
Interest and Dividends	1,106,539	1,095,403
Subtotal Investment Income	2,291,428	1,869,169
Total Additions	2,776,874	2,353,368
DEDUCTIONS:		
Disability Benefits	139,469	136,767
Firemen's Pension Benefits	681,029	629,541
Dependent's Benefits	68,952	58,345
Administrative Costs	14,429	12,516
Total Deductions	903,879	837,169
NET INCREASE	1,872,995	1,516,199
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:		
Beginning of Year	17,667,483	16,151,284
End of Year	$19,540,478	$17,667,483

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 firefighters and their dependents (see Note 2). The fund is managed by a board of seven trustees made up of three city officials and four persons elected by the members of the board. 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, insurance contracts, stock mutual funds 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 that were considered 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 firefighting personnel. Although this is a single-

Notes to Financial Statements
June 30, 1998 and 1997

employer plan, the defined benefits and Illinois State Statues govern employee and employer contribution levels. This fund is accounted for and reported as a pension trust fund. The City's payroll for employees covered by the pension plan for the year ended June 30, 1998, was $1,805,334 out of a total payroll of $8,235,419.

At June 30, 1998 and 1997, the pension plan membership consisted of:

	1998	1997
Retirees and beneficiaries currently receiving benefits	46	46
Terminated plan members entitled to but not yet receiving benefits	0	0
Active vested plan members	16	16
Active non vested plan members	31	24
Total	93	86
Number of participating employers	1	1

Following is a summary of the firemen's pension plan as provided for in the Illinois Statutes.

The firemen's 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 at the date of retirement. The pension shall be increased by one-twelfth of 2% of such salary for each month over 20 years of service through 30 years of service, and one-twelfth of 1% of such service for each additional month between 30 and 35 years of service, to a maximum of 75% of such monthly salary. Employees with at least 10 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 firefighter 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 paid upon reaching at least the age 55, 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.

Covered employees are required to contribute 8 1/4% of their salary to the Firemen's Pension 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.

b. Plan Asset Matters:

The only investments that 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 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 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

Notes to Financial Statements
June 30, 1998 and 1997

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 percentage 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	7.5% 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	$ 308,987
Interest on Net Pension Obligation	0
Adjustment to Annual Required Contribution	0
Annual Pension Cost	308,987
Contributions Made	349,763
Increase (Decrease) in Net Pension Obligation	(40,776)
Net Pension Obligation, Beginning of Year	(33,328)
Net Pension Obligation, End of Year	$ (74,104)

Notes to Financial Statements
June 30, 1998 and 1997

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 limited by State Statutes and fund investment policy to invest only 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), mutual funds (up to a maximum of 35% of the fund's net present assets) and money market mutual funds which are backed by U.S. government securities and agencies.

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 insured banks 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
Busey Bank Savings	1	$ 311,565	$ 311,565
U.S. Government and Its Agencies	1	12,310,277	14,131,160
Certificates of Deposit	1	983,724	983,724
Subtotal, Category	1	13,605,565	15,426,449
Insurance Company Accounts	-	1,481,991	2,820,126
Investment in Illinois Public Treasurer's Pool	-	36,074	36,074
Money Market Accounts	-	216,963	216,963
Mutual Funds	-	855,380	890,616
Total		$16,195,974	$19,390,228

Notes to Financial Statements
June 30, 1998 and 1997

No credit risk is assigned to the insurance company accounts, the Illinois Public Treasurer's Investment Pool, mutual funds or money market accounts, since the Fund does not own any specific identifiable securities. These amounts are not insured nor guaranteed by any federal agency.

CITY OF URBANA, ILLINOIS
FIREMEN'S PENSION FUND

Required Supplementary Information
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	$17,667,483	$17,765,535	$98,052	99.4%	$1,493,965	6.6%
June 30, 1998	$17,962,009	$18,450,491	$488,482	97.4%	$1,805,334	27.1%

CITY OF URBANA, ILLINOIS
FIREMEN'S PENSION FUND

Required Supplementary Information
Schedule of Employee Contributions

June 30, 1998

Fiscal Year	Annual Required Contribution	Contributions Made	Percentage Contributed
1993	**Information before 1997 is not available.**		
1994			
1995			
1996			
1997	$328,061	$361,389	110.2%
1998	$308,987	$349,763	113.2%