



City of Urbana
400 South Vine Street
Urbana, IL 61801

August 23, 2002

TO: Members, Urbana Firemen's Pension Fund

FROM: Ronald Eldridge, Treasurer *Ron E.*

Attached please find the annual financial report and audit for the Firemen's Pension Fund for the fiscal year ended June 30, 2002. 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 worth of the fund decreased \$939,187 to \$19,916,517. The biggest reason for this reduction was the decline in the stock market, which significantly impacted the fund's investments in mutual funds and insurance contracts (discussed further below).
- 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 by the City was \$517,183. The amount actually contributed by the City was \$522,034 (23% of salary). Firefighters contribute 8.46% of their salary into the fund, which totaled \$186,700 (ratio of city contributions to employees was approximately 3 to 1).
- 5) The fund is at a 96% funding level. At June 30, 2001 (last year), the fund was at a 98.5% funding level. Ten years ago, this funding level was 87%.
- 6) A review of the makeup of the investment portfolio shows that approximately 10 years ago 93% of the funds were invested in U.S. government securities and bank certificates of deposit until state law changed and allowed investments in mutual funds in January 1998. In May of 2000, the fund reached the maximum allowable amount for mutual funds and insurance accounts (45% level). At 6/02, the value of equities had declined to 39%. Over the past 10 years, the fund has significantly shifted investments in certificates of deposit to mutual funds and insurance accounts:



	Percent of Portfolio				
	<u>02</u>	<u>01</u>	<u>00</u>	<u>98</u>	<u>91</u>
U.S. Government	54	53	52	73	77
Cert. Of Deposit	4	4	2	5	16
Insurance Annuities	8	10	12	15	6
Savings/Checking	3	4	1	2	1
Mutual Funds	31	29	33	5	0

7) The average weighted length of maturity on fixed income investments is approximately 8.25 years for U.S. Government Securities and 1-3 years for certificates of deposit. Traditionally, the longer maturity period, the higher the return.

8) A breakdown of the investment return by investment type follows:

	\$		% Return	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Savings/Money Markets	12,650	15,565	2.5%	4.5%
Cert. Of Deposit	52,044	53,057	6.2	6.8
U.S. Government	665,708	767,454	7.9	7.9
Subtotal	730,402	836,076	7.3	7.5
Loss Ins. Contract Sold	0	0	n/a	n/a
Loss U.S. Govt. Sold	0	0	n/a	n/a
Subtotal, Realized	730,402	836,076	7.3	7.5
Unrealized Gain US	202,021	413,468	n/a	n/a
Subtotal, All US	932,423	1,249,544	10.1	11.4
Insurance Annuities *	(464,700)	(685,315)	(23.2)	(34.2)
Mutual Funds * @	(938,898)	(1,205,958)	(13.8)	(21.0)
Subtotal Equities	(1,403,598)	(1,891,273)	(17.8)	(23.9)
Total	(471,175)	(641,729)	(1.6)	(2.2)

*Net of all fees, @ includes dividends

9) A historical review of investment return shows that over the last 5 years, the fund has historically averaged approximately an 8.5% return before equities. For the first time, the depressed stock market has lowered the total average return to 6.1%:

	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>Last 3 Yrs</u>	<u>Last 5 Yrs</u>	<u>Last 10 Yrs</u>
Return Before Equities	10.1%	11.4%	5.2%	8.9%	8.5%	6.7%
Total Return	(1.6)%	(2.2)%	10.6%	2.3%	6.1%	7.5%

10) **Benefits:** Listed below is a general description of the formulas used to calculate benefits. 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.** Firefighters 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 10 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 firefighter's pension is increased 3% for each year retired (up to a maximum of 15%), and 3% annually thereafter. For example, a company officer retiring with 25 years of experience would receive 62.5% of his salary or approximately \$33,480 annually.

- **Disability Pension.** A firefighter 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 firefighter 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 a firefighter dies on duty, the surviving spouse receives pension equal to the salary of the firefighter. If a firefighter dies due to reasons not related to duty, the surviving spouse receives pension of 54% of the salary of the firefighter when the firefighter stopped working.

11) 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 5% in 2002 compared to 2001 and have averaged an annual 6% increase over the last 3 years and 12.5% over the last 10 years. An examination of the total amount paid out for benefits shows the following amounts over last 3 years and 10 years ago:

	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1992</u>
Disability	\$139,355	\$171,688	\$149,909	\$ 41,235
Service	875,845	804,323	762,643	265,469
Dependent	121,910	106,585	78,295	45,358
Total	\$1,137,110	\$1,082,596	\$991,477	\$352,062

12) 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:

	<u>Disability</u>				<u>Service</u>				<u>Dependent</u>		
	#	Ave. Age	Serv. Yrs	Ave. Ben.	#	Ave. Age	Serv. Yrs	Ave. Ben.	#	Ave. Age	Ave. Ben.
2002	8	61	18	\$1,726	31	62	24	\$2,456	10	74	\$1,098
2001	9	62	18	\$1,635	29	61	24	\$2,331	9	73	\$1,100
2000	9	64	17	\$1,385	29	60	24	\$2,210	8	72	\$ 893
1999	10	63	16	\$1,278	30	58	23	\$2,129	7	71	\$ 878
1998	10	59	16	\$1,161	28	57	23	\$2,055	8	74	\$ 758
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	

The only change in 2002 affecting disability pensioners is one member died (Slade). The number has not changed much since 1987 (8). The average monthly benefit increased 6% due to inflationary adjustments and the 1 death.

- The only changes in 2002 affecting regular service pensioners is two members retired (Olsen and Wenta). The number of regular pensions over the last 10 years has averaged an increase of 1.7 pensions/year. The average monthly benefit increased 4.7%. One retired firefighter has not reached the age to draw benefits (Welch, 8/04).
- The only change in 2002 in dependents pensions is the addition of Ms. Slade due to the above mentioned death. The average monthly benefit was the same as last year. There is one child dependent (Harnsbarger).

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

	<u>#</u> <u>F.F.</u>	<u>Ave.</u> <u>Age</u>	<u>Ave. Yr.</u> <u>Service</u>	<u>Ave.</u> <u>Salary</u>
2002	47	36	8.3	47,490
2001	47	36	8.3	43,663
2000	47	36	8.5	41,830
1999	46	37	8.2	40,260
1998	47	40	10.0	38,412
1997	40	38	11.0	33,911
1996	40	37	10.1	34,928
1992	41	42	14.6	32,213
1988	42	42	17.4	28,435

- In 2002, three new firefighters were admitted into the fund (Belangee, Maczura, Kingren) and 3 left employment and withdrew from the fund (Ballew, Heflin, Dillingham). Since 1988, the workforce has become significantly younger in both age and years of service but has not changed in the last 4 years.
- Average salaries of firefighters increased 8.8% in 2002 over 2001. Over the last 10 years, the average salary of each fund member have increased an average of 4% annually.

**CITY OF URBANA, ILLINOIS
FIREMEN'S PENSION FUND**

Audit Report

For the Years Ended June 30, 2002 and 2001



CITY OF URBANA, ILLINOIS

FIREMEN'S PENSION FUND

Audit Report

For the Years Ended June 30, 2002 and 2001

**CITY OF URBANA, ILLINOIS
FIREMEN'S PENSION FUND**

Audit Report

For the Years Ended June 30, 2002 and 2001

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August 22, 2002

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 the City of Urbana, Illinois Firemen's Pension Fund, a fiduciary fund of the City of Urbana, as of and for the years ended June 30, 2001 and 2002, 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 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 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 available for benefits of the City of Urbana, Illinois, Firemen's Pension Fund, a fiduciary fund of the City of Urbana, Illinois, as of June 30, 2001 and 2002, and the changes in plan net assets available for benefits 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 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, LILES & RICHARDSON LLP

**CITY OF URBANA, ILLINOIS
FIREMEN'S PENSION FUND**

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**Comparative Statement of Plan Net Assets
As of June 30, 2002 and 2001**

	2002	2001
ASSETS:		
Cash and Cash Equivalents:		
Checking Account	\$ -	\$ -
Ill. Public Treasurer's Pool	-	2,089
Busey Bank Savings	539,927	330,099
Money Market Accounts	20,445	599,330
Total Cash and Cash Equivalents	560,372	931,518
Receivables:		
Employer Contributions (Property and Replacement Tax)	241,706	221,989
Accrued Interest	10,607	10,476
Accounts	-	-
Investments:		
U.S. Government Securities	10,769,838	10,902,449
Certificates of Deposit	773,941	820,554
Mutual Funds	6,022,462	5,962,406
Insurance Company Accounts	1,541,611	2,006,312
Total Assets	\$19,920,537	\$20,855,704
LIABILITIES:		
Accounts Payable	\$ 4,020	\$ -
 NET ASSETS HELD IN TRUST FOR PENSION BENEFITS (A schedule of funding progress is presented on page 10.)		
	19,916,517	20,855,704
Total Liabilities and Municipal Equity	\$19,920,537	\$20,855,704

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

CITY OF URBANA, ILLINOIS
FIREMEN'S PENSION FUND

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**Comparative Statement of Changes in Plan
Net Assets Available for Benefits
For the Years Ended June 30, 2002 and 2001**

	2002	2001
ADDITIONS:		
Contributions:		
Employer:		
Property Tax	\$ 470,034	\$ 430,779
Replacement Tax	52,000	52,000
Subtotal Employer Contributions	522,034	482,779
Employees	186,700	175,181
Subtotal Contributions	708,734	657,960
Investment Income:		
Net Appreciation (Depreciation) in Fair Value of Investments:		
Mutual Funds/Ins. Accounts	(1,442,868)	(2,223,758)
U.S. Government Securities	202,021	413,468
Interest and Dividends	772,801	1,174,558
Subtotal Investment Income	(468,046)	(635,732)
Less Investment Expense	(3,129)	(5,997)
Net Investment Income	(471,175)	(641,729)
Total Additions	237,559	16,231
DEDUCTIONS:		
Disability Benefits	139,355	171,688
Firemen's Pension Benefits	875,845	804,323
Dependent's Benefits	121,910	106,585
Member Refunds	25,709	-
Administrative Costs	13,927	10,664
Total Deductions	1,176,746	1,093,260
NET INCREASE	(939,187)	(1,077,029)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:		
Beginning of Year	20,855,704	21,932,733
End of Year	\$19,916,517	\$20,855,704

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

CITY OF URBANA, ILLINOIS
FIREMEN'S PENSION FUND

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Notes to Financial Statements
June 30, 2002 and 2001

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, three persons elected from the current firefighters and one elected from the retired firefighters. 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, 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, 2002 and 2001, there were no investments that were considered cash equivalents.

Property taxes are recognized for the year levied. The 2001 levy is reported in fiscal year 2002 and the 2000 levy in fiscal year 2001. 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-employer plan, the defined benefits and Illinois State Statutes govern

CITY OF URBANA, ILLINOIS
FIREMEN'S PENSION FUND

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Notes to Financial Statements
June 30, 2002 and 2001

employee and employer contribution levels. This fund is accounted for and reported as a pension trust fund.

At June 30, 2002 and 2001, the pension plan membership consisted of:

	<u>2002</u>	<u>2001</u>
Retirees and beneficiaries currently receiving benefits	49	47
Terminated plan members entitled to but not yet receiving benefits	1	1
Active vested plan members	15	15
Active non vested plan members	<u>32</u>	<u>33</u>
Total	<u>97</u>	<u>96</u>
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 2½% of such salary for each month over 20 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 .25% 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.

**CITY OF URBANA, ILLINOIS
FIREMEN'S PENSION FUND**

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**Notes to Financial Statements
June 30, 2002 and 2001**

Covered employees are required to contribute 8.455% 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. 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 has the following investments 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 54% of net assets.
- 2) An investment in the Vanguard 500 Index Mutual Fund is 10% of net assets.
- 3) An investment in the Fidelity Magellan Large Blend Mutual Fund is 5% of net assets.

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.

CITY OF URBANA, ILLINOIS
FIREMEN'S PENSION FUND

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Notes to Financial Statements
June 30, 2002 and 2001

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 payrolls. 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 34-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, 2001
Asset Valuation Method	5 Year Average 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

CITY OF URBANA, ILLINOIS
FIREMEN'S PENSION FUND

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Notes to Financial Statements
June 30, 2002 and 2001

Annual Required Contribution	\$ 517,183
Interest on Net Pension Obligation	0
Adjustment to Annual Required Contribution	<u>0</u>
Annual Pension Cost	517,183
Contributions Made	<u>522,034</u>
Increase (Decrease) in Net Pension Obligation	(4,851)
Net Pension Obligation, Beginning of Year	<u>(129,358)</u>
Net Pension Obligation, End of Year	\$ (134,209)

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 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, 2002.

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.

CITY OF URBANA, ILLINOIS
FIREMEN'S PENSION FUND

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Notes to Financial Statements
June 30, 2002 and 2001

	Risk Category	Amortized Cost	Fair Value
Busey Bank Checking	1	\$ -	\$ -
Busey Bank Savings	1	539,927	539,927
U.S. Government and Its Agencies	1	9,425,660	10,769,838
Certificates of Deposit	1	<u>820,554</u>	<u>773,941</u>
Subtotal, Category	1	10,786,141	12,083,706
Insurance Company Accounts	-	1,037,161	1,541,611
Money Market Accounts	-	20,445	20,445
Mutual Funds	-	<u>7,293,272</u>	<u>6,022,462</u>
Total		<u>\$19,137,019</u>	<u>\$19,668,224</u>

No credit risk is assigned to the insurance company accounts, the Illinois Public Treasurers 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.

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

**CITY OF URBANA, ILLINOIS
FIREMEN'S PENSION FUND**

**Required Supplementary Information
Schedule of Funding Progress**

June 30, 2002

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	\$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%
June 30, 1999	\$19,449,427	\$19,931,074	\$481,647	97.6%	\$2,016,499	23.9%
June 30, 2000	\$20,943,568	\$21,272,505	\$328,937	98.5%	\$2,007,050	16.4%
June 30, 2001	\$21,796,116	\$22,731,090	\$934,974	95.9%	\$2,138,464	43.7%

CITY OF URBANA, ILLINOIS
FIREMEN'S PENSION FUND

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Required Supplementary Information
Schedule of Employer Contributions

June 30, 2002

Fiscal Year	Annual Required Contribution	Contributions Made	Percentage Contributed
1996	Information before 1997 is not available.		
1997	\$328,061	\$361,389	110.2%
1998	\$308,987	\$349,763	113.2%
1999	\$380,367	\$394,706	103.8%
2000	\$440,150	\$458,118	104.1%
2001	\$459,832	\$482,779	105.0%
2002	\$517,183	\$522,034	100.9%