

**CITY OF URBANA
FIREFIGHTERS' PENSION FUND**

FINANCIAL STATEMENTS

As of and For the Year Ended June 30, 2016
and
Independent Auditors' Report

CITY OF URBANA
FIREFIGHTERS' PENSION FUND
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As of June 30, 2016

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council
City of Urbana Firefighters' Pension Fund
Urbana, Illinois

Report on the Financial Statements

We have audited the accompanying financial statements of the City of Urbana Firefighters' Pension Fund, a pension trust fund of the City of Urbana, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Urbana Firefighters' Pension Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City of Urbana Firefighters' Pension Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the City of Urbana Firefighters' Pension Fund's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the Honorable Mayor and Members of the City Council
City of Urbana Firefighters' Pension Fund

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Urbana Firefighters' Pension Fund as of June 30, 2016, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Baker Tilly Victor Kraus, LLP

Oak Brook, Illinois
December 9, 2016

CITY OF URBANA
FIREFIGHTERS' PENSION FUND
STATEMENT OF FIDUCIARY NET POSITION
As of June 30, 2016

Assets

Cash and cash equivalents	\$ 585,798
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Investments:

Certificates of deposit	2,379,788
Money market mutual funds	85,112
U.S. government and agency securities	11,734,882
Mutual funds	25,516,925
Corporate bonds	1,118,184
Municipal bonds	319,233

Receivables:

Accrued interest	<u>28,800</u>
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Total Assets	<u>41,768,722</u>
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Liabilities

Accounts payable	<u>63,552</u>
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Total Liabilities	<u>63,552</u>
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Net Position

Net position restricted for pensions	<u>\$ 41,705,170</u>
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CITY OF URBANA
FIREFIGHTERS' PENSION FUND
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
For the Year Ended June 30, 2016

Additions

Employer contributions	\$ 1,038,747
Employee contributions	<u>402,718</u>

Total contributions	<u>1,441,465</u>
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Investment income	1,553,034
Net appreciation in fair value of investments	(1,223,889)
Less: investment expenses	<u>(15,759)</u>
Net investment income	<u>313,386</u>

Total Additions	<u>1,754,851</u>
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Deductions

Benefits, including refunds of member contributions	2,201,873
Administration	<u>43,824</u>

Total Deductions	<u>2,245,697</u>
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Net Increase in Fiduciary Net Position	(490,846)
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Net Position Restricted for Pensions

Beginning of year	<u>42,196,016</u>
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End of year	<u><u>\$ 41,705,170</u></u>
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CITY OF URBANA
FIREFIGHTERS' PENSION FUND
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Firefighters' Pension Fund (Pension Fund) is a pension trust fund of the City of Urbana, Illinois. The Pension Fund is used to account for the Firefighters' Pension Plan ("the Plan"), a single-employer, defined benefit plan for sworn firefighter personnel of the City of Urbana ("the City").

The accounting policies of the Pension Fund conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The accepted standard-setting body for establishing governmental accounting and financial reporting principles is the Governmental Accounting Standards Board (GASB).

A. Reporting Entity

The accompanying financial statements are limited to presenting only the individual Pension Fund and do not include any other funds of the City.

In February 2015, the GASB issued statement No. 72 – *Fair Value Measurement and Application*. The objective of this statement is to provide guidance for determining a fair value measurement for financial reporting purposes as well as to provide guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This standard was implemented effective July 1, 2015.

B. Fund Accounting

The Pension Fund uses funds to report on its fiduciary net position and the changes in its fiduciary net position. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The Pension Fund is classified in this report in the fiduciary category.

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Pension Fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets, deferred outflows of resources, liabilities and deferred outflows of resources associated with the operation of these funds are included on the balance sheet.

The Pension Fund is accounted for using the accrual basis of accounting. Consequently, its additions are recognized when they are earned and its deductions are recognized when they are incurred.

D. Investments

Investment purchases are recorded as of the trade date. Investments are stated at fair value for both reporting and actuarial purposes.

CITY OF URBANA
FIREFIGHTERS' PENSION FUND
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended June 30, 2016

2. PLAN DESCRIPTION

A. Plan Administration

Firefighter sworn personnel are covered by the Firefighters' Pension Plan which is a defined benefit single-employer pension plan. Although this is a single-employer pension plan, the defined benefits and employee and minimum employer contributions are governed by Illinois Compiled Statutes (40 ILCS 5/3-1) and may be amended only by the Illinois legislature. The City accounts for the Firefighters' Pension Plan as a pension trust fund.

The Plan is governed by a five-member pension board. Two members are appointed by the City's Mayor, one pension beneficiary is elected by the membership, and two fire employees are elected by the membership.

B. Plan Membership

At July 1, 2015, the measurement date, membership of the plan was as follows:

Inactive plan members currently receiving benefits.....	49
Inactive plan members entitled to but not yet receiving benefits	4
Active plan members	<u>55</u>
Total.....	<u>108</u>

C. Benefits Provided

As provided for in the Illinois Compiled Statutes, the Firefighters' Pension Fund provides retirement benefits as well as death and disability benefits to employees grouped into two tiers. Tier 1 is for employees hired prior to January 1, 2011 and Tier 2 is for employees hired after that date. The following is a summary of the Firefighters' Pension Fund as provided for in Illinois Compiled Statutes.

Tier 1 - Covered employees attaining the age of 50 or more with 20 or more years of creditable service are entitled to receive a monthly retirement benefit of one half of the monthly salary attached to the rank held in the fire service at the date of retirement. The monthly pension shall be increased by one twelfth of 2.5% of such monthly salary for each additional month over 20 years of service through 30 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 retirement 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 and 3% compounded annually thereafter.

Tier 2 - Covered employees attaining the age of 55 or more with 10 or more years of creditable service are entitled to receive a monthly pension of 2.5% of the final average salary for each year of creditable service. The salary is initially capped at \$106,800 but increases annually thereafter and is limited to 75% of final average salary. Employees with 10 or more years of creditable service may retire at or after age 50 and receive a reduced retirement benefit. The monthly pension of a firefighter shall be increased annually on the January 1 occurring either on or after the attainment of age 60 or the first anniversary of the pension start date, whichever is later. Each annual increase shall be calculated at 3% or one-half the annual unadjusted percentage increase in the CPI, whichever is less.

CITY OF URBANA
FIREFIGHTERS' PENSION FUND
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended June 30, 2016

D. Contributions

Participants are required by Illinois Compiled Statutes (ILCS) to contribute 9.455% of their base salary to the Plan. If a participant leaves covered employment with less than 20 years of service, accumulated participant contributions may be refunded without accumulated interest. The City is required to contribute the remaining amounts necessary to finance the Plan as actuarially determined by an enrolled actuary. Effective January 1, 2011, the City's contributions must accumulate to the point where the past service cost for the Plan is 90% funded by the year 2040. For the year ended June 30, 2016, the City's contribution was 25.56% of covered payroll.

3. DEPOSITS AND INVESTMENTS

A. Investment Policy

Illinois Statutes authorize the Pension Fund to make deposits/investments in insured commercial banks, savings and loan institutions, obligations of the U.S. Treasury and U.S. Agencies, insured credit union shares, money market mutual funds with portfolios of securities issued or guaranteed by the United States or agreement to repurchase these same obligations, repurchase agreements, short-term commercial paper rated within the three highest classifications by at least two standard rating services, the Illinois Funds Investment Pool, and IMET. Pension funds may also invest in certain non-U.S. obligations, Illinois municipal corporations tax anticipation warrants, veteran's loans, obligations of the State of Illinois and its political subdivisions, and the Illinois insurance company general and separate accounts, mutual funds meeting certain requirements, equity securities, and corporate bonds meeting certain requirements. Pension funds with net assets in excess of \$10,000,000 and an appointed investment adviser may invest an additional portion of its assets in common and preferred stocks and mutual funds, that meet certain requirements. The Pension Fund allows funds to be invested in any type of security authorized by the Illinois Pension Code.

The Pension Fund allows funds to be invested in any type of security authorized by the Illinois Pension Code. The firefighters' pension fund's informal investment policy, in accordance with Illinois Statutes, establishes the following target allocation across asset classes:

Asset Class	Target	Long-Term Expected Real Rate of Return
Fixed income	35%	1.0%
Equity	65%	6.5%

State statutes limit the Pension Fund's investments in equities, mutual funds and variable annuities to 65%. Securities in any one company should not exceed 5% of the total fund.

The long-term expected rate of return on the Pension Fund's investments was determined using an asset allocation study conducted by the Pension Fund's investment management consultant as of June 30, 2016, in which best-estimate ranges of expected future real rates of return (net of pension plan investment expense and inflation) were developed for each major asset class. These ranges were combined to produce long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates or arithmetic real rates of return for each major asset class included in the Fund's target asset allocation as of June 30, 2016 are listed in the table above.

B. Custodial Credit Risk - Deposits

With respect to deposits, custodial credit risk refers to the risk that, in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2016, the Fund's bank deposits were covered by FDIC insurance.

CITY OF URBANA
FIREFIGHTERS' PENSION FUND
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended June 30, 2016

C. Custodial Credit Risk - Investments

With respect to investments, custodial credit risk refers to the risk that, in the event of the failure of the counterparty to the investment, the Pension Fund will not be able to recover the value of its investments that are in possession of an outside party. As of June 30, 2016, no investments were exposed to custodial credit risk.

D. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the value of an investment.

As of June 30, 2016, the Pension Fund's investments were as follows:

Investment Type	Fair Value	Maturity (in Years)			
		Less than 1	1-5	6 – 10	More than 10
U.S. Treasury obligations	\$ 4,469,102	\$ 244,305	\$ 1,170,060	\$ 3,054,737	\$ -
U.S. Agency obligations	7,265,780	304,957	2,761,745	2,047,818	2,151,260
Municipal bonds	319,233	-	-	319,233	-
Corporate bonds	1,118,184	45,173	507,043	565,968	-
Money market mutual funds	85,112	85,112	-	-	-
Totals	\$ <u>13,257,411</u>	\$ <u>679,547</u>	\$ <u>4,438,848</u>	\$ <u>5,987,756</u>	\$ <u>2,151,260</u>

E. Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Pension Fund's investment policy requires diversification of the investment portfolio to minimize risk of loss resulting from over-concentration in a particular type of security, risk factor, issuer, or maturity.

At June 30, 2016, there was no concentration of credit risk in the investment portfolio.

F. Credit Risk

State Statutes limit the investments in commercial paper to the top three ratings of two nationally recognized statistical rating organizations (NRSRO's). The Pension Fund's investment policy authorizes investments in any type of security allowed for in Illinois statutes regarding the investment of public funds. As of June 30, 2016, the Pension Fund's investments were rated as follows:

Investment Type	Moody's Investors Services
U.S. agency obligations (implicitly guaranteed)	Aaa
Municipal bonds	A2
Corporate bonds	Baa2 - A1
Money market mutual funds	Aaa-mf

CITY OF URBANA
FIREFIGHTERS' PENSION FUND
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended June 30, 2016

G. Rate of Return

For the year ended June 30, 2016, the annual money-weighted rate of return on pension plan investments, net of Pension Fund investment expense, was 0.70%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

H. Fair Value Hierarchy

The Fund categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. As of June 30, 2016, the Fund's investments are measured using the market valuation method and valuation inputs as follows:

Investment Type	Level 1	Level 2	Level 3	Total
U.S. Treasury obligations	\$ -	\$ 4,469,102	\$ -	\$ 4,469,102
U.S. Agency obligations	-	7,265,780	-	7,265,780
Corporate bonds	-	1,118,184	-	1,118,184
Municipal bonds	-	319,233	-	319,233
Mutual funds – other than bonds	25,516,925	-	-	25,516,925
Money market mutual funds – bond funds	-	85,112	-	85,112
Totals	\$ <u>25,516,925</u>	\$ <u>13,257,411</u>	\$ <u>-</u>	\$ <u>38,774,336</u>

4. PENSION LIABILITY OF THE CITY

A. Net Pension Liability

The components of the net pension liability of the City as of June 30, 2016 were as follows:

Total pension liability	\$ 50,437,879
Plan fiduciary net position	41,705,170
City's net pension liability	8,732,709
Plan fiduciary net position as a percentage of the total pension liability	82.69%

The schedule of changes in the City's net pension liability and related ratios, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information related to the funded status of the Pension Fund.

CITY OF URBANA
FIREFIGHTERS' PENSION FUND
NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended June 30, 2016

B. Actuarial Assumptions

The total pension liability above was determined by an actuarial valuation performed as of June 30, 2016 using the following actuarial methods and assumptions:

Actuarial valuation date	June 30, 2016
Actuarial cost method	Entry-age normal
Actuarial assumptions:	
Projected salary increases	5.25%
Inflation	2.50%
Interest rate	7.00%
Cost-of-living adjustments	Tier 1 – 3.00%; Tier 2 – 1.25%
Asset valuation method	Market value

Mortality rates were based on the RP-2000 CHBCA Mortality Table. The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study conducted by the Illinois Department of Insurance dated September 26, 2012.

C. Discount Rate

The discount rate used to measure the total pension liability for the Plan was 7.00%, the same as the prior valuation. The projection of cash flows used to determine the discount rate assumed that member contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the Pension Fund's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

D. Discount Rate Sensitivity

The following is a sensitivity analysis of the net pension liability to changes in the discount rate. The table below presents the pension liability of the firefighters calculated using the discount rate of 7.00% as well as what the net pension liability would be if it were to be calculated using a discount rate that is 1 percentage point lower (6.00%) or 1 percentage point higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate	1% Increase (8.00%)
Net pension liability	\$15,740,823	\$8,732,709	\$2,983,996

CITY OF URBANA
FIREFIGHTERS' PENSION FUND
SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY
AND RELATED RATIOS
Last Three Fiscal Years

	2014	2015	2016
Total pension liability			
Service cost	\$ 1,214,058	\$ 1,196,507	\$ 1,168,377
Interest	2,893,786	3,002,629	3,275,512
Differences between expected and actual experience	(521,056)	(17,671)	(686,638)
Changes of assumptions	-	685,724	2,156,908
Benefit payments, including refunds of member contributions	(1,991,181)	(2,072,600)	(2,201,873)
Net change in total pension liability	1,595,607	2,794,589	3,712,286
Total pension liability - beginning	42,335,397	43,931,004	46,725,593
Total pension liability - ending (a)	<u>\$ 43,931,004</u>	<u>\$ 46,725,593</u>	<u>\$ 50,437,879</u>
Plan fiduciary net position			
Employer contributions	\$ 1,517,629	\$ 1,236,008	\$ 1,038,747
Employee contributions	350,475	374,389	402,718
Net investment income	5,208,327	1,954,325	313,386
Benefit payments, including refunds of member contributions	(1,991,181)	(2,072,600)	(2,201,873)
Administration	(37,219)	(36,908)	(43,824)
Net change in plan fiduciary net position	5,048,031	1,455,214	(490,846)
Plan fiduciary net position - beginning	35,692,771	40,740,802	42,196,016
Plan fiduciary net position - ending (b)	<u>\$ 40,740,802</u>	<u>\$ 42,196,016</u>	<u>\$ 41,705,170</u>
Employer's net pension liability - ending (a) - (b)	<u>\$ 3,190,202</u>	<u>\$ 4,529,577</u>	<u>\$ 8,732,709</u>
Plan fiduciary net position as a percentage of the total pension liability	92.74%	90.31%	82.69%
Covered-employee payroll	\$ 3,777,788	\$ 3,942,216	\$ 4,063,754
Employer's net pension liability as a percentage of covered-employee payroll	84.45%	114.90%	214.89%

Notes to Schedule:

The Plan implemented GASB Statement No .67 in fiscal year 2014. Information prior to fiscal year 2014 is not available.

CITY OF URBANA
FIREFIGHTERS' PENSION FUND
SCHEDULE OF EMPLOYER CONTRIBUTIONS
Last Ten Fiscal Years

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Actuarially determined contribution	\$ 795,816	\$ 777,163	\$ 1,025,535	\$ 1,133,720	\$ 1,220,290	\$ 1,182,977	\$ 1,245,665	\$ 1,179,662	\$ 1,179,662	\$ 1,117,736
Contributions in relation to the actuarially determined contribution	980,754	961,372	1,251,695	1,372,080	1,463,810	1,403,306	1,482,369	1,517,629	1,236,008	1,038,747
Contribution deficiency (excess)	<u>\$ (184,938)</u>	<u>\$ (184,209)</u>	<u>\$ (226,160)</u>	<u>\$ (238,360)</u>	<u>\$ (243,520)</u>	<u>\$ (220,329)</u>	<u>\$ (236,704)</u>	<u>\$ (337,967)</u>	<u>\$ (56,346)</u>	<u>\$ 78,989</u>
Covered-employee payroll	\$ 2,780,694	\$ 3,012,087	\$ 3,249,911	\$ 3,319,469	\$ 3,414,250	\$ 2,645,435	\$ 3,872,621	\$ 3,777,788	\$ 3,942,216	\$ 4,063,754
Contributions as a percentage of covered-employee payroll	35.27%	31.92%	38.51%	41.33%	42.87%	53.05%	38.28%	40.17%	31.35%	25.56%

Notes to Schedule:

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	17 years
Asset valuation method	Market
Inflation	3.00%
Salary increases	5.25%, including inflation
Investment rate of return	7.00%, including inflation
Mortality	RP-2000 CHBCA Mortality Table

CITY OF URBANA
FIREFIGHTERS' PENSION FUND
SCHEDULE OF INVESTMENT RETURNS
Last Three Fiscal Years

	2014	2015	2016
Annual money-weighted rate of return, net of investment expense	14.31%	4.83%	0.70%

Notes to Schedule:

The Plan implemented GASB Statement No. 67 in fiscal year 2014.
Information prior to fiscal year 2014 is not available.