

**CITY OF URBANA  
POLICE PENSION FUND**

FINANCIAL STATEMENTS

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

**CITY OF URBANA**  
**POLICE 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 Police Pension Fund  
Urbana, Illinois

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the City of Urbana Police 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 Police 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 Police 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 Police 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 Police 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 Police 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.

Handwritten signature in black ink that reads "Robert Tully Victor Kraus, LLP". The signature is written in a cursive, flowing style.

Oak Brook, Illinois  
December 9, 2016

**CITY OF URBANA**  
**POLICE PENSION FUND**  
STATEMENT OF FIDUCIARY NET POSITION  
As of June 30, 2016

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**Assets**

Cash and cash equivalents \$ 1,102,156

Investments:

U.S. government and agency securities 8,052,611

Mutual funds 16,434,370

Stocks 5,594,839

Corporate bonds 3,359,959

Municipal bonds 364,286

Receivables:

Accrued interest 73,143

Total Assets 34,981,364

**Liabilities**

Accounts payable 18,923

Total Liabilities 18,923

**Net Position**

Net position restricted for pensions \$ 34,962,441

**CITY OF URBANA**  
**POLICE PENSION FUND**  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
For the Year Ended June 30, 2016

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<b>Additions</b>	
Employer contributions	\$ 1,396,843
Employee contributions	<u>444,105</u>
Total contributions	<u>1,840,948</u>
Investment income	767,779
Net appreciation in fair value of investments	284,069
Less: investment expenses	<u>(190,470)</u>
Net investment income	<u>861,378</u>
Total Additions	<u>2,702,326</u>
<b>Deductions</b>	
Benefits	2,193,319
Administration	60,788
Transfers and refunds of service credits	<u>2,913</u>
Total Deductions	<u>2,257,020</u>
<b>Net Increase in Fiduciary Net Position</b>	445,306
<b>Net Position Restricted for Pensions</b>	
Beginning of year	<u>34,517,135</u>
End of year	<u>\$ 34,962,441</u>

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

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Police Pension Fund (the Pension Fund) is a pension trust fund of the City of Urbana, Illinois. The Fund is used to account for the Police Pension Plan (“the Plan”), a single-employer, defined benefit plan for sworn police 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**  
**POLICE PENSION FUND**  
NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended June 30, 2016

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**2. PLAN DESCRIPTION**

**A. Plan Administration**

Police sworn personnel are covered by the 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 Pension Plan as a pension trust fund.

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

**B. Plan Membership**

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

Inactive plan members currently receiving benefits.....	48
Inactive plan members entitled to but not yet receiving benefits.....	2
Active plan members .....	<u>54</u>
Total.....	<u>104</u>

**C. Benefits Provided**

As provided for in the Illinois Compiled Statutes, the Police 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 Police' 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 police 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**  
**POLICE PENSION FUND**  
NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended June 30, 2016

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**D. Contributions**

Participants are required by Illinois Compiled Statutes (ILCS) to contribute 9.91% 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 31.17% 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 Police' 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
Domestic equity	41%	8.3%
International equity	19%	8.1%
Fixed income	40%	3.0%

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 rates of return on the Pension Fund's investments were 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**  
**POLICE 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	\$ 5,988,506	\$ -	\$ 3,426,946	\$ 1,906,560	\$ 655,000
U.S. Agency obligations	2,064,105	1,656,470	358,652	48,983	-
Municipal bonds	364,286	-	142,711	66,328	155,247
Corporate bonds	3,359,959	132,780	1,260,985	1,426,571	539,623
Totals	\$ <u>11,776,856</u>	\$ <u>1,789,250</u>	\$ <u>5,189,294</u>	\$ <u>3,448,442</u>	\$ <u>1,349,870</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	Aa3 - Aaa
Corporate bonds	Baa2 - Aaa

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

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**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 2.60%. 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	\$ -	\$ 5,988,506	\$ -	\$ 5,988,506
U.S. Agency obligations	-	2,064,105	-	2,064,105
Corporate stock	5,594,839	-	-	5,594,839
Corporate bonds	-	3,359,959	-	3,359,959
Municipal bonds	-	364,286	-	364,286
Mutual funds – other than bonds	16,434,370	-	-	16,434,370
Totals	\$ <u>22,029,209</u>	\$ <u>11,776,856</u>	\$ <u>-</u>	\$ <u>33,806,065</u>

**5. PENSION LIABILITY OF THE CITY**

**A. Net Pension Liability**

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

Total pension liability	\$ 50,967,232
Plan fiduciary net position	34,962,441
City's net pension liability	16,004,791
Plan fiduciary net position as a percentage of the total pension liability	68.60%

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**  
**POLICE PENSION FUND**  
NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended June 30, 2016

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**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 City 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	\$23,433,449	\$16,004,791	\$9,940,861

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

	<u>2014</u>	<u>2015</u>	<u>2016</u>
<b>Total pension liability</b>			
Service cost	\$ 1,202,918	\$ 1,194,543	\$ 1,085,728
Interest	3,084,785	3,228,731	3,541,423
Differences between expected and actual experience	(136,267)	(610,133)	(4,005,503)
Changes of assumptions	-	1,761,301	1,937,667
Benefit payments, including refunds of member contributions	(1,971,517)	(2,209,086)	(2,196,232)
<b>Net change in total pension liability</b>	<u>2,179,919</u>	<u>3,365,356</u>	<u>363,083</u>
<b>Total pension liability - beginning</b>	<u>45,058,874</u>	<u>47,238,793</u>	<u>50,604,149</u>
<b>Total pension liability - ending (a)</b>	<u>\$ 47,238,793</u>	<u>\$ 50,604,149</u>	<u>\$ 50,967,232</u>
<b>Plan fiduciary net position</b>			
Employer contributions	\$ 2,254,203	\$ 1,850,383	\$ 1,396,843
Employee contributions	393,954	416,575	444,105
Net investment income	3,673,877	632,290	861,378
Benefit payments, including refunds of member contributions	(1,971,517)	(2,209,086)	(2,196,232)
Administration	(33,074)	(33,421)	(60,788)
<b>Net change in plan fiduciary net position</b>	<u>4,317,443</u>	<u>656,741</u>	<u>445,306</u>
<b>Plan fiduciary net position - beginning</b>	<u>29,542,951</u>	<u>33,860,394</u>	<u>34,517,135</u>
<b>Plan fiduciary net position - ending (b)</b>	<u>\$ 33,860,394</u>	<u>\$ 34,517,135</u>	<u>\$ 34,962,441</u>
<b>City's net pension liability - ending (a) - (b)</b>	<u>\$ 13,378,399</u>	<u>\$ 16,087,014</u>	<u>\$ 16,004,791</u>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	71.68%	68.21%	68.60%
<b>Covered-employee payroll</b>	\$ 4,124,681	\$ 4,111,495	\$ 4,481,382
<b>City's net pension liability as a percentage of covered-employee payroll</b>	324.35%	391.27%	357.14%

**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**  
**POLICE PENSION FUND**  
 SCHEDULE OF EMPLOYER CONTRIBUTIONS  
 Last Ten Fiscal Years

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Actuarially determined contribution	\$ 1,143,288	\$ 1,243,507	\$ 1,225,637	\$ 1,381,577	\$ 1,500,579	\$ 1,524,579	\$ 1,648,164	\$ 1,642,577	\$ 1,642,577	\$ 1,619,190
Contributions in relation to the actuarially determined contribution	1,514,188	1,680,480	1,604,475	1,783,576	1,981,806	1,980,275	2,138,159	2,254,203	1,850,383	1,396,843
Contribution deficiency (excess)	\$ (370,900)	\$ (436,973)	\$ (378,838)	\$ (401,999)	\$ (481,227)	\$ (455,696)	\$ (489,995)	\$ (611,626)	\$ (207,806)	\$ 222,347
Covered-employee payroll	\$ 3,245,524	\$ 3,392,030	\$ 3,516,159	\$ 3,485,147	\$ 3,547,806	\$ 3,859,220	\$ 3,972,920	\$ 4,124,681	\$ 4,111,495	\$ 4,481,382
Contributions as a percentage of covered-employee payroll	46.65%	49.54%	45.63%	51.18%	55.86%	51.31%	53.82%	54.65%	45.01%	31.17%

**Notes to Schedule:**

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of pay, closed
Remaining amortization period	17 years
Asset valuation method	Market
Inflation	3%
Salary increases	5.25%, including inflation
Investment rate of return	7.00%, including inflation
Mortality	RP-2000 CHBCA Mortality Table

**CITY OF URBANA**  
**POLICE PENSION FUND**  
SCHEDULE OF INVESTMENT RETURNS  
Last Three Fiscal Years

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	<b>2014</b>	<b>2015</b>	<b>2016</b>
Annual money-weighted rate of return, net of investment expense	11.89%	1.87%	2.60%

**Notes to Schedule:**

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