



City of Urbana
400 South Vine Street
Urbana, IL 61801

October 1, 2011

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, 2011. 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 increased \$4,439,785 to \$32,403,565 (a 15.9% increase). Last year was an increase of \$2,576,664 (+10.1%). An exam of the historical changes in net worth of the fund can provide evidence of whether the fund is in a growth or shrinking net worth position over time. Over the last 5 years, net worth increased an annual average of 5.5%; 4.5% over the last 10 years; 4.8% over the last 15 years; and 5.9% over the last 20 years.
- 4) The city's annual contribution was based upon an actuarial study performed by the actuarial firm of Tim Sharpe. The amount to be contributed by the City by law as calculated by the actuary was \$1,220,290 (37% of salary). The fund policy is to request an amount that amortizes the accrued liability by a level dollar amount. This amount was \$1,487,688 (45% of salary). The amount actually contributed by the City was \$1,483,810. On Page 13 is a detailed schedule of contributions made by the City for the last 10 years. Firefighters contribute 9.455% of their salary into the fund, which totaled \$322,200 (ratio of city contributions to employees was approximately 4.6 to 1). The amount to be requested by the fund from the City for next year is \$1,407,666 (5% decrease).
- 5) The fund is at a 78.1% funding level. The funding level decreased from 98.5% in 2000 to 80.9% in 2005, due to the effect of the stock market (returns trail by about 3 years in the formula). In 2006 and 2007, funding levels improved to 85.5%. Since 2007, the funding level has remained approximately the same. A schedule of funding level over the last 10 years is shown on page 12 of the report.
- 6) One of the ways the fund minimizes investment risk is to stagger maturity dates of its fixed income investments. The fund is weighted more heavily in the 0-5 year maturity cycles than the goal and underweighted in the other cycles. This is due to the fact that long term interest rates over the past 5 years has been considerably lower than normal. The policy goals remain the



same and we will continue to analyze each investment purchase in the future and attempt to purchase investments with longer-term maturities, if the interest rate on these investments make sense. Following is a breakdown of U.S. and C.D. investments by maturities compared to the investment policy goals (also shown on page 8 of the financial audit report):

<u>Maturity</u>	<u>Actual 6/30/11</u>	<u>Actual 6/30/10</u>	<u>Actual 6/30/09</u>	<u>Goal</u>
0-5 Yrs	70%	70%	65%	20%
6-10 Yrs	19%	18%	20%	20%
11-15 Yrs	11%	9%	11%	20%
16-20 Yrs	0%	3%	4%	20%
21-25 Yrs	0%	0%	0%	20%

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

	<u>\$</u>		<u>% Return</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Savings/Money Markets	\$ 309	\$ 605	0.2%	0.4%
Cert. Of Deposit	59,967	89,334	2.1	3.2
U.S. Government	571,748	585,036	5.2	5.3
Subtotal	\$632,024	\$674,975	4.5	4.8
Unrealized Gain (Loss)US	(107,717)	385,607	n/a	n/a
Subtotal, Fixed	\$ 524,307	\$1,060,582	3.7	7.6
Mutual Funds *	3,734,109	1,397,178	32.3	14.5
Total	\$ 4,258,416	\$ 2,457,760	16.5%	10.4%

*Net of all fees. Busey's fee is \$7,283 (.0005)

8) A historical review of investment return follows (the actuary assumes an average total return of 7.0%). The fund has invested in equities over the last 13 years:

	<u>Last 5 Yrs</u>	<u>Last 10 Yrs</u>	<u>Last 13 Yrs</u>
Fixed Securities (CDs & Govt.)	6.3%	5.8%	5.9%
Equities (mutual funds)	5.9%	6.4%	5.6%
Total Return	6.1%	5.8%	5.5%

9) Returns on Individual Equity Mutual Funds:

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>Last 3 Yrs</u>	<u>Last 5 Yrs</u>	<u>Last 10Yrs</u>
Vanguard 500 Index	29.6%	14.4%	-23.2%	6.5%	5.7%	4.4%
Fidelity Contrafund	28.1%	16.2%	-26.9%	5.8%	7.2%	9.6%
Rainier Core Equity	31.8%	16.2%	-31.1%	4.0%	5.9%	9.8%
T.R. Price Midcap	37.8%	24.1%	-23.6%	12.8%	11.3%	12.6%
Northern Trust Sm Index	37.2%	21.5%	-24.5%	11.4%	7.2%	8.7%
Fidelity Sm Cap	34.0%	14.9%	-17.5%	10.5%	6.1%	7.1%
Royce Low-Priced	41.9%	25.5%	-18.3%	16.4%	14.1%	13.7%
Dodge/Cox Int'l	9.1%	n/a	n/a	n/a	n/a	n/a
Fidelity Int'l	41.1%	5.7%	-28.3%	6.2%	8.0%	n/a%
Total	32.3%	14.5%	-25.2%	7.2%	7.2%	6.9%

In September and October 2010, the fund invested an additional \$1.03 million (\$440K in Vanguard 500 index fund, \$340K in Rainier fund, and \$250K in the Fidelity Contra fund). Of course this additional mutual fund investing enhanced the return for the year. In January – April 2010, an additional \$200K was invested in the Vanguard 500 index fund. In October 2010, the fund invested \$690K in a new fund (Dodge & Cox International) with funds transferred from the Fidelity International fund.

10) Benefits: Listed below is a general description of the formulas used to calculate benefits. (The following is provided as a general picture and should not be used to actually calculate a person's benefits):

- Regular Retirement Pension for Firefighters hired before 1/1/11. 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 .208% for each month of service over 20 years, 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 and receive a reduced benefit at age 60 (on a graduated scale 10 years service = 15%, 15 years service = 30%, 19 years service = 45.6%). Upon reaching the age of 55, a regular pension is increased .25% for each month retired (up to a maximum of 15%), and 3% annually thereafter each January 1. For example, a company officer retiring with 25 years of experience would receive 62.5% of his final salary.
- Regular Retirement Pension for Firefighters hired after 1/1/11. Firefighters attaining the age of 55 or more with 20 or more years of creditable service are entitled to receive an annual retirement benefit of one-half of the average salary over the last 8 years of employment (maximum average salary of \$106,800).. The pension shall be increased by 2½ % for each year over 20 years of service, to a maximum of 75% (reached at 30 years of service). Employees with at least 8 years, but less than 20 years of credited service, may retire at or after age 60 and receive a reduced benefit on a graduated scale (10 years service = 15%, 15 years service = 30%, 19 years service = 45.6%). Upon reaching the age of 55, the officer's pension is increased 3% for each year retired (up to a maximum of 15%), and 3% annually thereafter or by a factor of the CPI-U, whichever is less
- 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 assumes firefighter's pension. If an officer on pension dies, the surviving spouse receives 100% of the officer's pension (for officers hired before 1/1/11) and 2/3 of the officer's pension (for officers hired after 1/1/11).

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. Total benefit costs increased 2.3% in 2011 compared to 2010 and have averaged an annual 1.4% increase over the last 3 years, 3.3% over the last 5 years and 4.0% over the last 10 years. An examination of the total amount paid out for benefits shows the following amounts over the last 10 years ago:

	<u>2011</u>	<u>2010</u>	<u>2006</u>	<u>2001</u>
Disability	\$183,554	\$ 177,669	\$ 197,657	\$ 171,688
Service	1,287,669	1,265,850	1,045,733	804,323
Dependent	136,689	127,645	123,997	106,585
Total	\$1,607,912	\$1,571,164	\$1,367,387	\$1,082,596

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.
2011	7	64	16	\$2,246	33	68	25	\$3,398	6	76	\$1,898
2010	7	63	16	\$2,124	33	67	25	\$3,192	6	75	\$1,910
2009	7	62	16	\$2,106	34	66	25	\$3,082	6	76	\$1,631
2008	7	61	16	\$2,087	34	65	25	\$2,997	9	76	\$1,557
2007	7	60	16	\$2,066	34	64	24	\$2,882	8	77	\$1,377
2006	8	60	17	\$1,999	33	63	24	\$2,767	8	76	\$1,361
2005	9	61	17	\$2,010	32	64	24	\$2,675	7	77	\$1,212
2004	8	63	18	\$1,885	31	63	24	\$2,619	9	75	\$1,107
2003	8	62	18	\$1,798	31	63	24	\$2,529	9	74	\$1,107
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 changes in the makeup of any pensions during 2011 were the death of D. Babbs (regular pension, age 84, with no dependents) and 1 new regular pension earned (D. Newcomb, age 55, 29 yrs service). The average monthly benefit increased 5.8% for disability pensions, 6.5% for regular service pensions, and decreased 0.6% for dependent pensions (bishop children removed). There are two retirees that are currently enrolled with another fire pension fund and repurchased their service time with Urbana. J. Ballew purchased back his previous service time in 2006 (eligible 02/02/2010 for a pension based on 7yrs, 4 months of service) but has not applied for a pension. M. Humer purchased back his previous service time in 2/10 (not eligible to draw benefits until 8/2013, based on 4 years of service time). Two other employees are no longer working for the fire department but have not reached the age to draw benefits. T. Foster will be eligible in 10/2013 at age of 60 with 15 years of service (pension of 30% of final salary). A. Richardson will be eligible in 4/2017 at age 55 with 20 yrs and 4 months of service.
- Upon reaching the age of 60, a disability pension is increased 3% of the original pension amount annually. Upon reaching the age of 55, a regular pension is increased .25% for each month retired (up to a maximum of 15) and 3% annually thereafter each January 1. The minimum pension by law is required to be \$1,159.27/month.

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>
2011	52	41	12.0	\$65,659
2010	51	39	11.8	65,088
2009	52	39	11.3	62,498
2008	51	39	10.5	59,061
2007	49	39	10.6	56,749
2006	48	39	10.7	55,265
2005	48	39	10.0	53,112
2004	48	38	9.3	51,204
2003	48	37	9.3	48,585
2002	47	36	8.3	47,059
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 2011, two firefighters retired (Richardson and Newcombe) and 3 new firefighters were hired (Dilley, age 29, Kuhns age 23, and Weldy age 30). In the last 10 years (since 2001), the age of current firefighters has not changed (36 years). The average years of service has increased from 8.5 years to 11.8 years.

- The average salaries of firefighters for pension purposes increased 0.9% in 2011. Over the last 5 years, the average salary of a firefighter in the fund has increased annually 3.5% and 4.2% over the last 10 years. The actuary assumption on salary increases is 5.25%.

CITY OF URBANA, ILLINOIS

FIREMEN'S PENSION FUND

Audit Report

For the Years Ended June 30, 2011 and 2010

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

Audit Report

For the Years Ended June 30, 2011 and 2010

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JAMES P. BRAY (RETIRED)

October 14, 2011

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

Independent Auditor's Report

We have audited the accompanying statement of plan net assets of the City of Urbana, Illinois Firemen's Pension Fund, a fiduciary fund of the City of Urbana, as of June 30, 2011 and 2010, and the related statement of changes in plan net assets for the years then ended. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 audit 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 audit provides 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, Illinois, and are not intended to present fairly the financial position and results of operations of the City of Urbana in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the City of Urbana, Illinois, Firemen's Pension Fund, a fiduciary fund of the City of Urbana, Illinois, as of June 30, 2011 and 2010, and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the information on pages 13 and 14 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.

Bray, Drake, Liles & Richardson LLP
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, 2011 and 2010**

	2011	2010
ASSETS:		
Cash and Cash Equivalents:		
Bank Checking/Savings	\$ 101,818	\$ 569,570
Money Market Accounts	739,893	30,090
Total Cash and Cash Equivalents	841,711	599,660
Receivables:		
Employer Contributions (Property and Replacement Tax)	674,929	658,060
Member Loans	1,830	-
Accrued Interest	36,462	35,898
Total Receivables	713,221	693,958
Investments, at Fair Value:		
U.S. Government Securities	12,153,566	12,806,202
Certificates of Deposit	2,917,189	2,865,543
Mutual Funds	15,779,044	10,998,899
Total Investments	30,849,799	26,670,644
Total Assets	\$32,404,731	\$27,964,262
LIABILITIES:		
Accounts Payable	\$ 1,166	\$ 482
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS (A schedule of funding progress is presented on page 11.)		
	\$32,403,565	\$27,963,780

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
For the Years Ended June 30, 2011 and 2010**

	2011	2010
ADDITIONS:		
Contributions:		
Employer:		
Property Tax	\$ 1,431,810	\$ 1,320,080
Replacement Tax	52,000	52,000
Total Employer Contributions	1,483,810	1,372,080
Employees	322,200	318,797
Total Contributions	1,806,010	1,690,877
Investment Income:		
Net Appreciation (Depreciation) in Fair Value of Investments:		
Mutual Funds	3,500,145	1,276,002
U.S. Government Securities	(107,717)	385,607
Interest	632,026	674,975
Dividends	241,247	126,886
Total Investment Income	4,265,701	2,463,470
Less Investment Expense	(7,283)	(5,710)
Net Investment Income	4,258,418	2,457,760
Other Income:		
Pension Refunds Repurchased	1,708	3,365
Proceeds Litigation	438	13,518
Total Other Income	2,146	16,883
Total Additions	6,066,574	4,165,520
DEDUCTIONS:		
Disability Benefits	183,554	177,669
Firemen's Pension Benefits	1,287,669	1,265,850
Dependent's Benefits	136,689	127,645
Administrative Costs	18,877	17,692
Total Deductions	1,626,789	1,588,856
NET INCREASE (DECREASE)	4,439,785	2,576,664
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:		
Beginning of Year	27,963,780	25,387,116
End of Year	\$ 32,403,565	\$ 27,963,780

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, 2011 and 2010

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 five trustees, made up of two persons appointed by the mayor of the City of Urbana and two 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, stock mutual funds and money market accounts are based upon latest quoted prices. Investment transactions are reported as of the trade date. Interest income is recognized as earned. Realized gains and losses on sales and exchanges of securities and unrealized gains and losses are reported as net appreciation (depreciation) in the fair value of investments.

The fund considers all liquid investments with maturity of three months or less when purchased to be cash equivalents. At June 30, 2011 and 2010, there were no investments that were considered cash equivalents.

The fund is accounted for using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred. Employer contributions are primarily made from property taxes. Property taxes are recognized as revenues in the year for which they are levied. The 2010 levy is reported in fiscal year 2011 and the 2009 levy in fiscal year 2010. The taxes are certified against appraised real property as of the beginning of the previous calendar year. Benefits are recognized when the benefit is due and payable. Refunds are recognized when the employee resigns from employment with the city.

The preparation of financial statements requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions from plan net assets during the reporting period. Actual results could differ from those estimates.

CITY OF URBANA, ILLINOIS
FIREMEN'S PENSION FUND

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Notes to Financial Statements
June 30, 2011 and 2010

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 employee and employer contribution levels are governed by "Article 4, Firefighter's Pension Fund – Municipalities 500,000 and Under" of the Illinois Pension Code (Illinois Compiled Statutes, 1992, Chapter 40). This fund is accounted for and reported as a pension trust fund.

At June 30, 2011 and 2010, the pension plan membership consisted of:

	<u>2011</u>	<u>2010</u>
Retirees and beneficiaries currently receiving benefits	43	43
Terminated plan members entitled to but not yet receiving benefits	3	2
Active vested plan members	33	35
Active non vested plan members	<u>19</u>	<u>16</u>
Total	<u>98</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. There are two tiers or levels of benefits:

Employees hired before January 1, 2011, 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

**CITY OF URBANA, ILLINOIS
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**Notes to Financial Statements
June 30, 2011 and 2010**

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 and receive a reduced benefit which begins at age 60. The monthly pension of a firefighter who retires after January 1, 1977 with 20 or more years of service, 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. The monthly pension of a firefighter who retires with less than 20 years of service receives an annual 3% increase.

Employees that are hired after January 1, 2011, attaining the age of 55 or more with 20 or more years of creditable service are entitled to receive an annual retirement benefit of one-half of the average salary for the last 8 years of service (maximum average salary is \$106,800 if employee retires in calendar year 2011) . The pension shall be increased by 2.5% of such salary for each additional year of service over 20 years up to a maximum of 75% of such salary. Employees with at least 10 years, but less than 20 years of credited service, may retire and receive a reduced benefit, which begins at age 60. Employees that have attained the age of 50 with at least 10 years of service may retire but their pension is reduced by ½% per year for each year the employee is under age 55. The monthly pension shall be increased annually, following the first anniversary date of retirement, and be paid upon reaching the age of at least 60 years, by the lesser of 1/12 of 3% of the original pension times the number of months the employee has been retired since age 60 (up to a maximum of 15%) or by a factor of the CPI-U, whichever is less. Dependents receive a pension of 2/3 of the member's pension at date of death. Dependents receive an annual increase under the same formula as the retired officer..

During the year, covered employees were required to contribute 9.455% 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

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**Notes to Financial Statements
June 30, 2011 and 2010**

contribute the remaining amounts necessary to finance the plan as actuarially determined by an enrolled actuary. By the year 2033, the City's contributions must accumulate to the point where the past service cost for the Plan is fully funded.

b. **Funding Policy and Annual Pension Cost:**

The amount shown below as the "net pension obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the system on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is an accrued liability and is a component of the funding method used to determine contributions to the system. Administrative costs are paid for by the plan, except for in-kind donated financial services from the City.

The funding policy provides for actuarially determined periodic contributions at rates that, for individual employees, accumulate assets gradually over time so that sufficient assets will be available to pay benefits when due. The 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 40 year period. The significant actuarial assumptions used to compute the actuarially determined contribution requirements are the same as those used to compute the net pension obligation.

Latest Actuarial Valuation Date	June 30, 2010
Asset Valuation Method	5 Year Average Market Value
Significant Actuarial Assumptions:	
Rate of return on investment of present and future assets	7.0% compounded annually
Projected salary increases	5.25% compounded annually

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FIREMEN'S PENSION FUND**

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**Notes to Financial Statements
June 30, 2011 and 2010**

Post retirement benefit increases	3.0% interest annually
Inflation increases	3.0% 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	\$1,133,720
Interest on Net Pension Obligation	(117,462)
Adjustment to Annual Required Contribution	<u>84,102</u>
Annual Pension Cost	1,100,360
Contributions Made	<u>1,372,080</u>
Increase (Decrease) in Net Pension Obligation	(271,720)
Net Pension Obligation, Beginning of Year	<u>(1,599,142)</u>
Net Pension Obligation, End of Year	<u><u>\$ (1,870,862)</u></u>

There were no changes in the plan provisions or actuarial methods from the prior year.

Note 3 - Deposits and Investments:

As of June 30, 2011, the pension fund had the following fixed income or interest bearing investments and maturities:

Investment <u>Maturities</u>	U.S. Govt and Primary Obligation <u>Agencies</u>	U.S. Govt. Implied Obligation <u>Agencies</u>	Certificates of Deposit	Fixed Income <u>Total</u>
0-5 Years:				
'\$ Amount	\$ 4,161,313	\$3,434,743	\$2,917,189	\$10,513,245
'% Portfolio				70%
'% Policy Goal				20%

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

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**Notes to Financial Statements
June 30, 2011 and 2010**

6-10 Years				
'\$ Amount	255,682	2,658,497	-	2,914,179
'% Portfolio				19%
'% Policy Goal				20%
11-15 Years				
'\$ Amount	600,567	1,042,764	-	1,643,331
'% Portfolio				11%
'% Policy Goal				20%
16-20 Years				
'\$ Amount	-	-	-	-
'% Portfolio				0%
'% Policy Goal				20%
21-25 Years				
'\$ Amount	-	-	-	-
'% Portfolio				0%
'% Policy Goal				20%
Total	\$ 5,017,562	\$7,136,004	\$2,917,189	\$15,070,755

The fund also had the following stock equity mutual fund investments:

<u>Mutual Fund Type</u>	<u>Fair Value</u>	<u>%Total</u>	<u>Policy Goal</u>	<u>Policy Min.</u>	<u>Policy Max.</u>
Small Cap	\$ 967,048	6%	5%	5%	20%
Active Equity	6,080,889	39%	40%	25%	40%
International	1,453,606	9%	10%	5%	15%
Mid Cap	1,619,375	10%	10%	5%	15%
Equity Index	5,658,126	36%	35%	30%	40%
Total	\$15,779,044	100%			

CITY OF URBANA, ILLINOIS
FIREMEN'S PENSION FUND

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Notes to Financial Statements
June 30, 2011 and 2010

Interest rate risk: In accordance with its investment policy, the fund manages its exposure to declines in fair values by 2 methods:

- (1) Structuring the fixed income portion of the portfolio such that maturity dates are staggered so as to avoid an undue concentration of assets in a given time period. The fund investment policy has the following goals concerning maturity dates: 20% of the portfolio should have a maturity date of 0-5 years, 20% 6-10 years, 20% 11-15 years, 20% 16-20 years, and 20% 21-25 years. The investment policy recognizes that these percentages are only goals and that the Treasurer when purchasing an investment, has the flexibility to deviate from these goals if he deems that the interest rate available on investments with certain maturities does not make this purchase advisable. As illustrated above, the fund's investments are overweighted in the 0-5 year maturity level and underweighted in the 11-25 year maturity levels. This is due to the fact that in the past few years, the interest rates on longer term maturities has been considerably lower than normal. The fund will continue to analyze each investment purchase in the near future and attempt to purchase investments with maturities above 10 years, if the interest rate on these investments makes this a prudent investment.
- (2) By diversifying the portfolio so that the impact of a potential drop in interest rates on a particular type of security will be minimized. The fund investment policy has the following goals concerning types of investments:

	<u>U.S. Govt. and Agencies</u>	<u>Certificates of Deposit</u>	<u>Stock Equity Mutual Funds</u>
% at June 30, 2011	39%	10%	51%
% Policy Goal	50%	5%	45%
% Policy Minimum	45%	0%	0%
% Policy Maximum	100%	20%	45%

At June 30, 2011, amounts invested in U.S. Govt. and Agencies are underweighted and amounts invested in stock equity mutual funds are overweighted. This is due to the unusual increases in market value of the stock equity funds during 2011. It is the policy of the fund to rebalance investments after year-end..

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FIREMEN'S PENSION FUND**

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**Notes to Financial Statements
June 30, 2011 and 2010**

Credit Risk: The pension fund is limited by State Statutes and fund investment policy to invest only in obligations of the U.S. Government Treasury and its agencies, non-negotiable certificates of deposit, the 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 45% of the fund's net present assets or 35% if 10% is invested in general and separate accounts of approved life insurance companies) and money market mutual funds which are backed by U.S. government securities and agencies. Investments in U.S. Government securities and certain U.S. Government Agency securities are not considered to be of any credit risk since they carry the full obligation and guarantee of the U.S. Government. The fund has also invested in certain U.S. Government Sponsored Enterprises (G.S.E.) that are not secured by an explicit guarantee of the U.S. Government. One-hundred percent of these G.S.E. investments carry a AAA rating from Moody's and Standard and Poors. The fund considers the credit risk of all U.S. Government securities to be similar and does not distinguish these securities for purposes of policy goals, minimum and maximum investment levels. At June 30, 2011, the fund had \$739,893 invested in money market accounts. These money market accounts are not guaranteed and are not rated. The fund does not believe that the credit risk for these money market accounts to be significant in that the amounts invested are typically small. The amount at June 30, 2011 is unusual in that a \$680,000 investment matured near year-end. This amount has subsequently been invested. The investment policy limits any investment in certificates of deposit to \$250,000 per bank. At June 30, 2011, the fund's investments in certificates of deposit in any bank were all below the \$250,000 limit.

Concentration of Credit Risk: The only investments in any single security or organization that are in excess of 5% of the total investments or 5% of net assets (except for investments in U.S. Government and its credit guaranteed agencies and investments in certain mutual funds) is \$2,300,059 invested in the securities of the Federal Financing Corporation (FICO) which totals 8% of total investments and 7% of net assets and \$1,723,086 invested in the securities of the Federal Home Loan Mortgage Corporation (FHLM) which totals 6% of total investments and 5% of net assets. These securities carry an implied U.S. Government guarantee. The fund considers the credit risk of these investments to be similar to investments in U.S. Government Agency securities that are explicitly guaranteed by the U.S. Government. Thus the fund does not believe a possible concentration of credit risk due to this investment is significant enough to address in the investment policies.

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Notes to Financial Statements
June 30, 2011 and 2010

Custodial Credit Risk for Deposits: is the risk that in the event of a bank failure, the fund's deposits may not be returned. Deposits in federally insured banks and savings and loans are insured in an amount equal to \$250,000 for the fund plus an amount for each member's beneficial interest in the deposits, limited to an amount equal to \$250,000 divided by the largest beneficial interest percentage of a member. At year-end, the fund was not exposed to custodial credit risk for deposits as all deposits were insured.

Custodial Credit Risk for Investments: is the risk that in the event of the failure of the counterparty, the fund may not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The fund has no custodial credit risk in that all of its investments are insured.

Note 4 – Member Loans Receivable:

During 2011, a member of the fund was required to repay into the fund an amount of \$2,196 that was paid in error in previous years. The pension fund agreed to allow this member to repay this amount in 12 equal installments of \$188, at no interest (last payment due in April 2012). During the year, the member repaid \$366, leaving a balance at June 30, 2011 of \$1,830.

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

Required Supplementary Information

Schedule of Funding Progress

(Unaudited)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Liability Entry Age Normal Cost	Unfunded (Overfunded) Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded (Overfunded) Actuarial Accr. Liability as a % of Covered Payroll
June 30, 2001	\$21,796,116	\$22,731,090	\$934,974	95.9%	\$2,138,464	43.7%
June 30, 2002	\$21,819,871	\$24,108,435	\$2,288,564	90.5%	\$2,232,027	102.5%
June 30, 2003	\$21,818,207	\$25,302,779	\$3,484,572	86.2%	\$2,282,198	152.7%
June 30, 2004	\$21,981,512	\$26,323,551	\$4,342,039	83.5%	\$2,449,278	177.3%
June 30, 2005	\$22,450,509	\$27,747,673	\$5,297,164	80.9%	\$2,552,316	207.5%
June 30, 2006	\$23,641,009	\$28,901,672	\$5,260,663	81.8%	\$2,652,704	198.3%
June 30, 2007	\$25,593,372	\$29,931,803	\$4,338,431	85.5%	\$2,780,694	156.0%
June 30, 2008	\$27,274,554	\$33,489,938	\$6,215,384	81.4%	\$3,012,087	206.3%
June 30, 2009	\$27,875,775	\$35,217,262	\$7,341,487	79.2%	\$3,249,911	225.9%
June 30, 2010	\$28,653,226	\$36,690,005	\$8,036,779	78.1%	\$3,319,469	242.1%

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

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**Required Supplementary Information
Schedule of Employer Contributions
(Unaudited)**

Fiscal Year	Annual Required Contribution	Contributions Made	Percentage Contributed
2002	\$517,183	\$522,034	100.9%
2003	\$613,475	\$688,615	112.2%
2004	\$684,437	\$807,407	118.0%
2005	\$743,511	\$927,204	124.7%
2006	\$800,420	\$1,032,024	128.9%
2007	\$795,816	\$980,754	123.2%
2008	\$777,163	\$961,372	123.7%
2009	\$1,025,535	\$1,251,695	122.1%
2010	\$1,133,720	\$1,372,080	121.0%
2011	\$1,220,290	\$1,483,810	121.6%