

**CITY OF URBANA**  
**FIREFIGHTERS' PENSION FUND**  
A COMPONENT UNIT OF THE CITY OF URBANA

FINANCIAL STATEMENTS

As of and For the Year Ended June 30, 2015  
and  
Independent Auditors' Report

**CITY OF URBANA**  
**FIREFIGHTERS' PENSION FUND**  
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As of June 30, 2015

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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 component unit of the City of Urbana, as of and for the year ended June 30, 2015, 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, 2015, 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 23, 2015

**CITY OF URBANA**  
**FIREFIGHTERS' PENSION FUND**  
**STATEMENT OF FIDUCIARY NET POSITION**  
As of June 30, 2015

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**Assets**

Cash and cash equivalents	\$ 467,582
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Investments:

Certificates of deposit	2,844,221
Money market mutual funds	146,669
U.S. government and agency securities	11,375,576
Mutual funds	26,064,840
Corporate bonds	948,736
Municipal bonds	319,848

Receivables:

Accrued interest	<u>29,914</u>
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Total Assets	<u>42,197,386</u>
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**Liabilities**

Accounts payable	<u>1,370</u>
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Total Liabilities	<u>1,370</u>
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**Net Position**

Net position restricted for pensions	<u>\$ 42,196,016</u>
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**CITY OF URBANA**  
**FIREFIGHTERS' PENSION FUND**  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
For the Year Ended June 30, 2015

**Additions**

Employer contributions	\$ 1,236,008
Employee contributions	<u>374,389</u>

Total contributions	<u>1,610,397</u>
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Investment income	1,548,183
Net appreciation in fair value of investments	423,743
Less: investment expenses	<u>(17,601)</u>
Net investment income	<u>1,954,325</u>

Total Additions	<u>3,564,722</u>
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**Deductions**

Benefits, including refunds of member contributions	2,072,600
Administration	<u>36,908</u>

Total Deductions	<u>2,109,508</u>
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Net Increase in Fiduciary Net Position	1,455,214
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**Net Position Restricted for Pensions**

Beginning of year	<u>40,740,802</u>
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End of year	<u>\$ 42,196,016</u>
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**CITY OF URBANA**  
**FIREFIGHTERS' PENSION FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
As of and for the Year Ended June 30, 2015

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Firefighters' Pension Fund (Pension Fund) is a pension trust fund and component unit 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 Pension Fund is considered a component of the City of Urbana. The accompanying financial statements are limited to presenting only the individual Pension Fund and do not include any other funds of the City.

**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.

**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.

**CITY OF URBANA**  
**FIREFIGHTERS' PENSION FUND**  
NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended June 30, 2015

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**B. Plan Membership**

At June 30, 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
<i>Active employees</i>	
Vested.....	34
Non vested.....	<u>21</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.

**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, 2015, the City's contribution was 31.35% of covered payroll.



**CITY OF URBANA**  
**FIREFIGHTERS' PENSION FUND**  
NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended June 30, 2015

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**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
U.S. government and agency securities	21%	0.8%
Municipal bonds	N/A	0.8%
Corporate bonds	10%	0.8%
Certificates of deposit	4%	0.8%
Stocks and mutual funds	65%	7.6%

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, 2015, 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, 2015 are listed in the table above.

**CITY OF URBANA**  
**FIREFIGHTERS' PENSION FUND**  
NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended June 30, 2015

**B. 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, 2015, 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	\$ 4,208,023	\$ 1,348,065	\$ 836,768	\$ 1,710,935	\$ 312,255
U.S. Agency obligations	7,167,553	738,267	2,724,694	1,288,714	2,415,878
Municipal bonds	319,848	-	-	319,848	-
Corporate bonds	948,736	100,275	684,457	164,004	-
Money market mutual funds	146,669	146,669	-	-	-
Totals	\$ <u>12,790,829</u>	\$ <u>2,333,276</u>	\$ <u>4,245,919</u>	\$ <u>3,483,501</u>	\$ <u>2,728,133</u>

**C. 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, 2015, there was no concentration of credit risk in the investment portfolio.

**D. 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, 2015, the Fund's bank deposits were covered by FDIC insurance.

**E. 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, 2015, no investments were exposed to custodial credit risk.

**CITY OF URBANA**  
**FIREFIGHTERS' PENSION FUND**  
NOTES TO FINANCIAL STATEMENTS  
As of and for the Year Ended June 30, 2015

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**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, 2015, 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	Baa3 - A1
Money market mutual funds	Aaa-mf

**G. Rate of Return**

For the year ended June 30, 2015, the annual money-weighted rate of return on pension plan investments, net of Pension Fund investment expense, was 4.83%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**4. PENSION LIABILITY OF THE CITY**

**A. Net Pension Liability**

The components of the net pension liability of the City as of June 30, 2015 were as follows:

Total pension liability	\$ 46,725,593
Plan fiduciary net position	42,196,016
City's net pension liability	4,529,577
Plan fiduciary net position as a percentage of the total pension liability	90.31%

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, 2015

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**B. Actuarial Assumptions**

The total pension liability above was determined by an actuarial valuation performed as of June 30, 2015 using the following actuarial methods and assumptions:

Actuarial valuation date	June 30, 2015
Actuarial cost method	Entry-age normal
Actuarial assumptions:	
Projected salary increases	5.25%
Inflation	3.00%
Interest rate	7.00%
Cost-of-living adjustments	Tier 1 – 3.00%; Tier 2 – 2.00%
Asset valuation method	Market value

Mortality rates were based on the RP-2000 CHBCA Mortality Table. The actuarial assumptions used in the June 30, 2015 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	\$10,307,910	\$4,529,577	(\$307,172)

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

	<b>2014</b>	<b>2015</b>
<b>Total pension liability</b>		
Service cost	\$ 1,214,058	\$ 1,196,507
Interest	2,893,786	3,002,629
Differences between expected and actual experience	(521,056)	(17,671)
Changes of assumptions	-	685,724
Benefit payments, including refunds of member contributions	(1,991,181)	(2,072,600)
<b>Net change in total pension liability</b>	<b>1,595,607</b>	<b>2,794,589</b>
<b>Total pension liability - beginning</b>	<b>42,335,397</b>	<b>43,931,004</b>
<b>Total pension liability - ending (a)</b>	<b>\$ 43,931,004</b>	<b>\$ 46,725,593</b>
<b>Plan fiduciary net position</b>		
Employer contributions	\$ 1,517,629	\$ 1,236,008
Employee contributions	350,475	374,389
Net investment income	5,208,327	1,954,325
Benefit payments, including refunds of member contributions	(1,991,181)	(2,072,600)
Administration	(37,219)	(36,908)
<b>Net change in plan fiduciary net position</b>	<b>5,048,031</b>	<b>1,455,214</b>
<b>Plan fiduciary net position - beginning</b>	<b>35,692,771</b>	<b>40,740,802</b>
<b>Plan fiduciary net position - ending (b)</b>	<b>\$ 40,740,802</b>	<b>\$ 42,196,016</b>
<b>Employer's net pension liability - ending (a) - (b)</b>	<b>\$ 3,190,202</b>	<b>\$ 4,529,577</b>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	<b>92.74%</b>	<b>90.31%</b>
<b>Covered-employee payroll</b>	<b>\$ 3,777,788</b>	<b>\$ 3,942,216</b>
<b>Employer's net pension liability as a percentage of covered-employee payroll</b>	<b>84.45%</b>	<b>114.90%</b>

**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

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Actuarially determined contribution	\$ 800,420	\$ 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
Contributions in relation to the actuarially determined contribution	1,032,024	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
Contribution deficiency (excess)	<u>\$ (231,604)</u>	<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>
Covered-employee payroll	\$ 2,652,704	\$ 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
Contributions as a percentage of covered-employee payroll	38.90%	35.27%	31.92%	38.51%	41.33%	42.87%	53.05%	38.28%	40.17%	31.35%

**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	18 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 Two Fiscal Years

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	<b>2014</b>	<b>2015</b>
Annual money-weighted rate of return, net of investment expense	14.31%	4.83%

Notes to Schedule:

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