CITY OF URBANA

City of Urbana
400 South Vine Street
Urbana, IL 61801

October 1, 2011

TO: Members, Urbana Policemen's Pension Fund

FROM: Ronald Eldridge, Treasurer Ron Eldridge

Attached please find the annual financial report and audit for the Policemen'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 assets of the fund increased $3,423,862 to $26,606,709 (+16.5%). Last year's increase was $2,400,355, (+11.7%). Therefore, the total change in net assets over the last 2 years is +$5,824,217. An exam of the historical change in net worth provides evidence as to whether the fund is in a growth or reduction of net worth period. Over the last 5 years, net worth has averaged an annual increase of 8.0%; 6.5% over the last 10 years; 6.9% over the last 15 years; and 6.7% over the last 20 years.

4) The city's contribution was based upon an actuarial study performed by the actuarial firm of Tim Sharpe. The amount required to be contributed by law was $1,500,579. The fund requested a levy amount of $1,986,720 (amortizing the accrued liability by a level dollar amount). The amount actually contributed was $1,981,806 (99.8%). On page 12 is a detailed schedule of contributions made by the city over the last 10 years . Over the past 10 years, the City has contributed $41,347 more than requested by the fund. The funding ratio at June 30, 2011 was 62% (64% funding level last year). This is 6% below the funding level 10 years ago of 68%. Police officers contribute 9.91% of their salary. The City's contributions compared to employee contributions are approximately 4 to 1. For next year, the level requested by the Fund, as calculated by the actuary will decrease $266 to $1,986,454.

5) A review of the makeup of the investment portfolio shows that investment makeup has been substantially the same since January 1998, when the fund was first able to invest in equities: US Govt. 44% of total assets; Stock Mutual Funds & Common Stocks 49%; Cash and Equivalents 7% at June 30, 2010. The % in U.S. Govt. and Cash Equivalents depends on the amount of monies being maintained in the money market accounts by the investment managers.

6) One of the important methods that the bond manager uses to manage interest rate risk is to change the weighted average length of maturity of the government investments. Over the last

year, the bond manager has increased the average weighted length of maturity from 4.3 years to 5.5 years. The average weighted maturity was 4.3 years at June 30, 2010, 4.9 years at June 30, 2009, 5.3 years at 2008, 5.2 years at 2007, 4.9 years at 2006, and 3.8 years at 2005.

7) A breakdown of the investment return by investment type follows (net of all fees):

	$		% Return	
	2011	2010	2011	2010
Savings/Money Markets	$ 3,594	$ 2,769	0.2%	0.4%
Cert. of Depost	4,472	3,131	0.8%	1.1%
U.S. Government:				
Interest	304,989	390,407	2.8%	3.9%
Gains (Loss)	(129,980)	47,916		
Subtotal, Fixed	183,165	442,223	1.4%	4.1%
Equities	2,679,618	1,363,828	28.1%	16.8%
Total	$2,862,783	$1,808,051	12.6%	9.5%

Includes $114,571 in investment fees (0.45%)

8) A historical review of investment return shows that over the last 5 years, the fund has historically averaged 5.2% return before equities, 0.2% on equities, and 2.9% total return and 5.6%, -1.7% and 2.3% over the last 10 years (actuarial assumption is 7.0%).

	2011	2010	2009	Last 3 Yrs	Last 5 Yrs	Last 10 Yrs
Return Interest	2.4%	3.6%	4.0%	3.3%	3.8%	4.2%
Return Int./Gains US	1.4%	4.1%	6.7%	3.9%	5.1%	4.6%
Return Equities	28.1%	16.8%	-23.9%	6.0%	4.6%	3.5%
Total Return	12.6%	9.5%	- 7.8%	4.8%	4.9%	4.1%

9) Returns on Individual Equity Mutual Funds:

	2011	2010	Ave. Last 3Yrs	Ave. Last 5Yrs	Ave. Last 9Yrs
S&P 400 Midcap	37.7%	24.6%	13.5%	11.4%	10.2%
Spiders 500 Index	30.1%	15.5%	7.1%	7.2%	6.3%
Calamos Growth	24.6%	13.9%	8.1%	n/a	n/a
Gabelli Value	35.6%	31.7%	17.7%	n/a	n/a
3rd Avenue	25.3%	10.8%	4.4%	n/a	n/a
Blair International	27.7%	16.1%	3.1%	n/a	n/a
Thornburgh Int'l	29.9%	10.5%	5.3%	n/a	n/a
Clear Bridge Stock (1)	22.2%	n/a	n/a	n/a	n/a
Perm. Portfolio (1)	-11.8%	n/a	n/a	n/a	n/a
Pimco (1)	-57.6%	n/a	n/a	n/a	n/a
Dreyfus Appreciation	n/a	n/a	n/a	n/a	n/a
Laurel Stock	n/a	n/a	n/a	n/a	n/a
Total	28.1%	16.8%	4.8%	4.9%	4.1%

(1) Clear Bridge, Perm. Portfolio & Pimco partial years only. Only invested near end of year. During the year, we deposited an additional $250,000 in the Permanent Portfolio Fund and $250,000 in the Pimco Fund near year end. This came from cash and $200,000 from the 500 index spiders. I couldn't really determine if these additional deposits made earned any additional money for the fund for the year.

10) <u>Benefits</u>: Listed below is a general description of the formulas used to calculate benefits. Because the actual formula's are more complex, the following is provided as a general picture and should not be used to actually calculate a person's benefits:

- <u>Regular Retirement Pension for Officers hired before 1/1/11</u>. Officers attaining the age of 50 or more with 20 or more years of creditable service are entitled to receive an annual retirement benefit of one-half of the salary at the date of retirement. The pension shall be increased by 2½ % for each year over 20 years of service, to a maximum of 75% (reached at 30 years of service). Employees with at least 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.

- <u>Regular Retirement Pension for Officers hired after 1/1/11</u>. Officers 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.

- <u>Disability Pension</u>. An officer 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 officer 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.

- <u>Survivor Pension</u>. If an officer dies on duty, the surviving spouse receives pension equal to the salary of the officer. If an officer dies due to reasons not related to duty, the surviving spouse receives pension of 50% of the salary of the officer when the officer stopped working. 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. Benefit costs increased 14.6% in 2011 over 2010 and have

averaged an annual 8.3% increase over the last 5 years and 7.1% over the last 10 years. An examination of the total amount paid out for benefits shows the following increases over the last 4 years.

	2011	2010	2009	2008
Disability	$359,865	$ 365,925	$359,987	$356,632
Service	1,092,578	940,806	797,694	731,011
Dependent	287,680	211,295	210,999	224,499
Total	$1,740,123	$1,518,026	$1,368,680	$1,311,872

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:

	Disability				Service				Dependent		
	#	Ave. Age	Serv. Yrs	Ave. Ben.	#	Ave. Age	Serv. Yrs	Ave. Ben.	#	Ave. Age	Ave. Ben.
2011	10	57	17	$2,933	27	63	23	$3,481	9	69	$3,737
2010	11	57	17	$2,861	25	62	23	$3,237	9	73	$2,496
2009	11	57	18	$2,741	23	63	23	$3,122	8	73	$2,146
2008	11	56	18	$2,713	21	63	23	$2,944	9	74	$2,019
2007	12	55	18	$2,646	20	62	23	$2,851	10	74	$1,917
2006	12	54	18	$2,563	20	62	23	$2,784	9	75	$1,628
2005	11	56	17	$2,505	19	62	23	$2,696	9	74	$1,628
2004	11	49	17	$2,267	19	64	23	$2,473	10	74	$1,620
2003	10	48	17	$1,988	20	63	23	$2.466	9	75	$1,430
2002	11	53	18	$2,187	19	64	24	$2,328	9	74	$1,430
2001	11	52	18	$2,169	18	64	24	$2,235	9	73	$1,430
1999	12	51	17	$1,875	16	63	25	$2,034	10	74	$1,214
1998	12	50	17	$1,884	15	63	23	$1,950	10	73	$1,136
1996	11	48	16	$1,749	15	61	23	$1,819	10	70	$1,136
1992	8	47	16		13	64	24		7	77	
1988	5	48	18		12	64	24		6	77	

- The number of disability pensions decreased 1 as B. Blackmon converted to a regular pension during the year: The number of disability pensions has changed little over the last 15 years. The average benefit increased 2.5% in 2011 over last year. Upon reaching the age of 60, a disability pension is increased 3% of the original pension annually.

- The number of regular pension increased 2 to 27: B. Blackmon converted but then passed away (at age 71), a pension was awarded to M. Bily (age 50 with 25 years of service); and a pension was awarded to K. Jepsen (age 51 with 24 years service). The number of service pensions has steadily increased from 15 to 27 over the past 15 years. The average age of pensioners and the years of service has changed very little over the last 15 years. The average benefit increased 7.5% in 2011.

- The number of dependent pensions remained the same at 9, B. Blackmon pension was added but E. Swearengen died. There has been very little change in the last 15 years of the number of surviving dependents. The average age dropped in 2011 due to the death of E. Swearengen who was 99). The law does not provide for any annual inflationary adjustments in benefits for dependents.

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

	#	Ave. Age	Ave. Yr. Service	Ave. Salary
2011	53	36.8	10.3	$66,940
2010	52	36.8	10.5	67,022
2009	55	36.4	10.3	63,930
2008	55	36.4	10.2	61,673
2007	55	35.5	8.6	58,001
2006	51	35.9	8.9	57,926
2005	50	35.9	9.0	55,205
2004	49	33.1	8.4	53,755
2003	49	32.2	7.5	51,426
2002	49	35.6	8.2	49,531
2001	49	35.0	8.0	47,349
2000	45	35.5	8.5	43,593
1999	47	36.0	8.3	42,648
1998	46	35.7	8.3	40,639
1997	43	35.5	8.6	40,140
1996	46	35.1	8.3	38,233
1992	41	36.5	9.6	34,204
1988	42	34.7	9.5	29,309

- During 2011, 2 officers retired and 3 officers were hired (ages 22, 33 & 34). The age of the workforce and the average years of service has increased slightly over the last 15 years.

- Salaries for pension fund purposes decreased an average of 0.1% in 2011. Over the last 5 and 10 years, salaries have increased an annual average of 3.0% and 3.5% respectively (actuarial assumption is 5.25%).

CITY OF URBANA, ILLINOIS

POLICE PENSION FUND

Audit Report

For the Years Ended June 30, 2011 and 2010

CITY OF URBANA, ILLINOIS
POLICE PENSION FUND

Audit Report

For the Years Ended June 30, 2011 and 2010

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BRAY, DRAKE, LILES & RICHARDSON LLP
Certified Public Accountants

KARL E. DRAKE, CPA
CURTIS D. LILES, CPA
R. NEIL RICHARDSON, CPA

JAMES P. BRAY (RETIRED)

1606 N. Willow View Road, Suite 1E
Urbana, Illinois 61802-7446

Phone 217/337-0004
Fax 217/337-5822

October 14, 2011

Board of Trustees
City of Urbana, Illinois
Police Pension Fund
Urbana, Illinois

Independent Auditor's Report

We have audited the accompanying statement of plan net assets of the City of Urbana, Illinois Police 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 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 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, Police 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 12 and 13 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
POLICE PENSION FUND

Comparative Statement of Plan Net Assets
As of June 30, 2011 and 2010

	2011	2010
ASSETS:		
Cash and Cash Equivalents:		
Checking Account	$ 2,399	$ 1,804
Money Market Accounts	711,102	1,425,780
Savings Account	159,114	875,347
Total Cash and Cash Equivalents	872,615	2,302,931
Receivables:		
Employer Contributions (Property and Replacement Tax)	921,405	868,806
Member Loans	13,775	21,220
Accrued Interest	120,945	124,881
Total Receivables	1,056,125	1,014,907
Investments, at Fair Value:		
Certificates of Deposit	1,000,000	300,000
U.S. Government Securities	11,179,338	10,418,745
Stock Mutual Funds	10,525,644	7,873,248
Domestic Common Stocks	2,000,467	1,297,008
Total Investments	24,705,449	19,889,001
Total Assets	$26,634,189	$23,206,839
LIABILITIES:		
Accrued Payroll Taxes	$ 16,352	$ 12,864
Contribution Refunds Payable	11,128	11,128
Total Liabilities	$ 27,480	$ 23,992
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS (A schedule of funding progress is presented on page 11.)	$26,606,709	$23,182,847

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

Comparative Statement of Changes in Plan Net Assets

For the Years Ended June 30, 2010 and 2009

	2011	2010
ADDITIONS:		
Contributions:		
Employer:		
Property Tax	$ 1,940,806	$ 1,742,576
Replacement Tax	41,000	41,000
Total Employer Contributions	1,981,806	1,783,576
Employees	340,874	350,525
Total Contributions	2,322,680	2,134,101
Investment Income:		
Net Appreciation (Depreciation) in Fair Value of Investments:		
Mutual Funds	2,522,362	1,236,281
U.S. Government Securities	(129,890)	47,916
Dividends	222,910	179,045
Interest	361,972	442,160
Total Investment Income	2,977,354	1,905,402
Less Investment Expense	(114,571)	(97,351)
Net Investment Income	2,862,783	1,808,051
Total Additions	5,185,463	3,942,152
DEDUCTIONS:		
Disability Benefits	359,865	365,925
Dependent Benefits	287,680	211,295
Service Retirement Benefits	1,092,578	940,806
Refunds to Resigning Members	-	3,303
Administrative Costs	21,478	20,468
Total Deductions	1,761,601	1,541,797
NET INCREASE (DECREASE)	3,423,862	2,400,355
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:		
Beginning of Year	23,182,847	20,782,492
End of Year	$26,606,709	$23,182,847

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

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 police officers 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 three persons elected by the members of the fund. 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 considered to be 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 for the year 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 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.

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 police personnel. Although this is a single-employer plan, the defined benefits and employee and employer contribution levels are governed by "Article 3, Police Pension Fund – Municipalities 500,000 and Under" of the Ilinois 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 fund membership consisted of:

	2011	2010
Retirees and beneficiaries currently receiving benefits	46	45
Terminated plan members entitled to but not yet receiving benefits	0	0
Active vested plan members	32	34
Active non vested plan members	21	18
Total	99	97
Number of participating employers	1	1

Following is a summary of the police pension plan as provided for in the Illinois Statutes.

The police pension plan provides retirement benefits as well as death and disability benefits. There are two tiers or levels of benefits:

Employees that are hired prior to 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 on the last day of service. 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 8 years, but less than 20

Notes to Financial Statements
June 30, 2011 and 2010

years of credited service, may retire and receive a reduced benefit, which begins at age 60. The monthly pension of a police officer who retired after January 1, 1999 with at least 20 years of service, shall be increased annually, following the first anniversary date of retirement, and be paid upon reaching the age of at least 55 years, by 1/12 of 3% 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. Officers that retire with less than 20 years of service receive 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 officer's pension at date of death. Dependents receive an annual increase under the same formula as the retired officer.

Covered employees are required to contribute 9.91% of their base salary to the Plan. If an employee leaves covered employment with less than 20 years of service, accumulated employee contributions may be refunded without accumulated interest. The City of Urbana is required to contribute the remaining amounts necessary to finance the plan as actuarially determined by an enrolled actuary. By the year 2032, 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 by the plan except for in-kind donated financial services provided by 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 contribution rate for normal cost is determined using the entry age normal actuarial funding method. The system used a level percent amount method to amortize the unfunded liability over a 30-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
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

Notes to Financial Statements
June 30, 2011 and 2010

Retirement	Graduated Rates (100% age 69)
Marital Status	85% married, spouse same age
Plan Expenses	None

Annual Required Contribution	$1,361,577
Interest on Net Pension Obligation	(294,988)
Adjustment to Annual Required Contribution	214,383
Annual Pension Cost	1,280,972
Contributions Made	1,783,576
Increase (Decrease) in Net Pension Obligation	(502,604)
Net Pension Obligation Beginning of Year	(4,113,626)
Net Pension Obligation End of Year	$ (4,616,230)

There were no changes in any actuarial assumptions that would significantly affect the pension benefit obligation or the required contribution.

Note 3 - Deposits and Investments:

As of June 30, 2011, the pension fund had the following investments:

		Weighted Ave. Maturity	% of Total			
	Fair Value	(Yrs)	Total	Goal	Min.	Max.
U.S. Govt. & its Credit Guaranteed Agencies	$ 8,757,035					
U.S. Govt. Agencies With Implied Credit	2,422,303					
Subtotal, U.S. Govt. and it's Agencies	$11,179,338	5.5	43.7%	46%	45%	65%
Stock Mutual Funds & Domestic Common Stocks	12,526,111	n/a	49.0%	50%	20%	50%
Certificates of Deposit	1,000,000	n/a	3.9%	2%	0%	25%
Cash and Equivalents	872,615	n/a	3.4%	2%	2%	25%
Total	$25,578,064		100.0%			

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

Notes to Financial Statements
June 30, 2011 and 2010

(1) By selecting an active duration manager for its U.S. Government and agency fixed security investments. This manager is charged with managing interest rate risk given current economic conditions and the current position in the interest rate cycle. The average weighted maturity of the portfolio varies depending on the decisions of the manager at various times. The Board of the Fund and the fund's investment advisor review any changes in average weighted maturity. At June 30, 2011, the portfolio had an average weighted maturity of 5.5 years, up from an average of 4.3 years last year..

(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 portfolio is diversified across different segments of the bond market. Specifically, the fixed income portfolio contains U.S. Treasury securities, Agency bonds, and Government guaranteed mortgage securities. The fund investment policy states a desired level for each category of investment and a minimum and maximum level. As illustrated above, the fund's investments types are within the stated minimum and maximum levels. At June 30, 2011, the fund was slightly understated in U.S. Government and Govt. Agencies, overstated in certificates of deposit and in cash and cash equivalents as compared to the desired level. This overstatement of certificates of deposit and cash was due to two reasons: (1) the receipt of property taxes shortly before year-end and (2) the government and stock managers were holding a higher amount of cash than normal in anticipation of better timing for purchasing in the near future. It is the intention of the management of the Fund to reduce the amount of cash and cash equivalents to the desired goal by investing in the stock equity mutual funds and in U.S. Government and Agency investments.

Credit Risk: The pension fund is authorized by State Statutes and fund policy to invest in obligations of the U.S. Treasury and its agencies, non-negotiable certificates of deposit and Illinois Public Treasurer's Investment Pool, savings accounts, general and separate accounts of approved life insurance companies (up to a maximum of 10% of the fund's net present assets), money market mutual funds which are backed by U.S. government securities and agencies, and common stocks and common stock mutual funds (up to a maximum of 45% net present assets). 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 securities of certain U.S.

Notes to Financial Statements
June 30, 2011 and 2010

Government Sponsored Enterprises (GSE), which 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 also had $711,102 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 is significant in that the amounts invested are typically small and for small amounts of time.

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 an investment in certain mutual funds) is $1,434,510 invested in the Federal Home Loan Mortgage Corporation which is 5.8% of total investments and 5.4% 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 concentration of credit risk due to these investments is significant enough to address in the investment policies. The fund's investments are within all minimum and maximum levels in all categories. At least annually, upon year end closure, the equity types will be rebalanced in accordance with the policies.

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 federal 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 $100,000 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 will 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 it's security investments are insured.

Note 4 – Member Loans Receivable to Purchase Prior Service Time:

During 2008, certain members of the fund were credited with prior service time in another State of Illinois pension fund. This prior service time will increase these members future retirement benefits. These members were required to pay into the fund certain amounts in order to receive these credits. Two members were loaned $34,833 by the fund. This amount is being repaid at 6% interest over 5 year period (last payments due in January 2014); however, these amounts must be repaid before the member can collect the enhanced retirement benefit. Management of the fund does not expect future payments to purchase prior service time to be significant. During the year, the following activity occurred with these member loans:

Loans Balance Outstanding June 30, 2010	$21,220
Member Repayments of Principle	- 7,445
Loans Balance Outstanding June 30, 2010	$13,775

During 2011, $1,061 in interest was earned on these loans and is included as interest income in the financial statements.

CITY OF URBANA, ILLINOIS
POLICE PENSION FUND

Required Supplementary Information

Schedule of Funding Progress
(Unaudited)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability Entry Age Normal Cost	Unfunded (Overfunded) Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded (Overfunded) Actuarial Accrued Liability as a % of Covered Payroll
June 30, 2001	$14,491,027	$21,196,511	$6,705,484	68.4%	$2,319,005	289.2%
June 30, 2002	$15,176,111	$22,308,414	$7,132,303	68.0%	$2,428,211	293.7%
June 30, 2003	$15,728,060	$23,775,768	$8,047,708	66.2%	$2,518,095	319.6%
June 30, 2004	$16,233,523	$25,002,453	$8,768,930	64.9%	$2,634,013	332.9%
June 30, 2005	$16,832,623	$26,849,061	$10,016,438	62.7%	$2,760,252	362.9%
June 30, 2006	$17,770,352	$28,563,558	$10,793,206	62.2%	$2,954,205	365.4%
June 30, 2007	$19,393,353	$30,495,402	$11,102,049	63.6%	$3,245,524	342.1%
June 30, 2008	$21,577,066	$31,979,564	$10,402,498	67.5%	$3,392,030	306.7%
June 30, 2009	$22,465,851	$35,361,320	$12,895,469	63.5%	$3,516,159	366.7%
June 30, 2010	$23,552,779	$38,163,939	$14,611,160	61.7%	$3,485,147	419.2%

CITY OF URBANA, ILLINOIS
POLICE PENSION FUND

Required Supplementary Information

Schedule of Employer Contributions

(Unaudited)

Fiscal Year	Annual Required Contribution	Contributions Made	Percentage Contributed
2002	$768,096	$1,052,672	137.0%
2003	$820,842	$1,064,928	129.7%
2004	$893,391	$1,133,303	126.9%
2005	$950,335	$1,258,282	132.4%
2006	$1,048,121	$1,403,958	133.9%
2007	$1,143,288	$1,514,188	132.4%
2008	$1,243,507	$1,680,480	135.1%
2009	$1,225,637	$1,604,475	130.9%
2010	$1,361,577	$1,783,576	131.0%
2011	$1,500,579	$1,981,806	132.1%