City of Urbana
400 South Vine Street
Urbana, IL 61801

October 1, 2012

TO: Members, Urbana Policemen's Pension Fund

FROM: Ronald Eldridge, Treasurer

Attached please find the annual financial report and audit for the Policemen's Pension Fund for the fiscal year ended June 30, 2012. Some important points from the audit report 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 $1,539,379 (+5.7%). Net assets have increased $7,353,596 over the last 3 years (rebound from the stock market crash in 2009 and 2010). In the last 10 years, the fund balance has doubled from $14.1million to $28.1 million, with an annual average increase of 7.2%:

Year	Change Net Assets	% Chg.	Ending Balance
6/30/12	+$1,529,379	+ 5.7%	$28,136,088
6/30/11	+$3,423,862	+16.5%	$26,606,709
6/30/10	+$2,400,355	+11.5%	$23,182,847
6/30/09	- $1,124,926	- 5.1%	$20,782,492
6/30/08	+$ 983,737	+ 4.7%	$21,907,418
6/30/07	+$2,627,479	+12.6%	$20,923,681
6/30/06	+$1,119,694	+ 6.5%	$18,296,202
6/30/05	+$1,148,314	+ 7.1%	$17,176,508
6/30/04	+$1,099,051	+ 7.4%	$16,028,194
6/30/03	+$ 830,237	+ 5.9%	$14,929,143

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 $1,524,579. The fund requested a levy amount of $1,986,545 (amortizing the accrued liability by a level dollar amount). The amount actually contributed was $1,980,275 (99.7% of requested amount). 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 $35,077 more than requested by the fund. The funding ratio at June 30, 2012 was 65.5% (61.7% funding level last year). The highest funding ratio was June 2000 with a funding level of 68.7%. 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 increase 7.2% to $2,130,205.

5) A review of the makeup of the investment portfolio shows that the fund increased it's investment in equities and corporate bonds last year to 55.9% at 6/30/12 (in accordance with changes in state law).

6) One of the important methods that the bond managers use to manage interest rate risk is to change the weighted average length of maturity of the government investments. The wighted average length of maturity at 6/12 decreased slightly to 5.1 years from 5.5 years last year. The following table shows the weighted average length of maturity over the last 8 years:

6/12	5.1 years
6/11	5.5 years
6/10	4.3 years
6/09	4.9 years
6/08	5.3 years
6/07	5.2 years
6/06	4.9 years
6/05	3.8 years

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

	$		% Return	
	2012	2011	2012	2011
Savings/Money Markets	$ 835	$ 3,594	0.1%	0.2%
Cert. of Depost	4,535	4,472	0.4%	0.8%
Corp./Muni Bonds	39,601	-	2.4%	-
U.S. Government:				
Interest	168,434	304,989	1.7%	2.8%
Gains (Loss)	364,753	(129,980)		
Subtotal, Fixed	578,158	183,165	4.3%	1.4%
Equities	230,773	2,679,618	1.8%	28.1%
Total	$ 808,931	$2,862,783	3.1%	12.6%

Includes $125,109 in investment fees (0.45%)

8) A historical review of investment return shows that over the last 5 years, the fund has averaged 4.9% return before equities, 1.4% on equities, and 3.3% total return. Over the last 10 years, the fund has averaged 4.2% return before equities, 4.9% on equities, and 4.5% overall return. The actuarial assumption is 7.0%.

	2012	2011	2010	Last 3 Yrs	Last 5 Yrs	Last 10 Yrs
Return Interest	1.6%	2.4%	3.6%	2.5%	3.1%	3.8%
Return Int./Gains US	4.3%	1.4%	4.1%	3.2%	4.9%	4.2%
Return Equities	1.8%	28.1%	16.8%	15.6%	3.8%	4.8%
Total Return	3.1%	12.6%	9.5%	8.1%	3.3%	4.5%

9) Returns on Individual Equity Mutual Funds:

	2012	2011	Ave. Last 3Yrs	Ave. Last 5Yrs	Ave. Last 10Yrs
S&P 400 Midcap	-3.9%	37.7%	19.5%	7.0%	8.8%
Spiders 500 Index	5.0%	30.1%	16.9%	4.2%	6.2%
Calamos Growth	-1.7%	24.6%	12.3%	3.6%	n/a
Gabelli Value	-2.6%	35.6%	21.6%	9.0%	n/a
3rd Avenue (a)	-33.3%	25.3%	3.6%	-4.2%	n/a
Blair International	-9.8%	27.7%	11.3%	-0.6%	n/a
Thornburgh Int'l	-14.9%	29.9%	8.5%	6.2%	n/a
Clear Bridge Stock	13.7%	22.2%	n/a	n/a	n/a
Perm. Portfolio	-2.0%	-11.8%	n/a	n/a	n/a
Pimco	-12.6%	-57.6%	n/a	n/a	n/a
Total	1.8%	28.1%	15.6%	3.8%	4.8%

a) Sold 3rd Avenue 713/11 for $660K and reinvested $250K in Permanent Portfolio Fund, $250K in the Pimco Fund, and $160K in Clear Bridge Stock Fund. Otherwise, new purchases were mainly from dividends earned.

10) Benefits: 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:

- Regular Retirement Pension for Officers hired before 1/1/11 (Tier1). 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.

- Regular Retirement Pension for Officers hired after 1/1/11 (Tier2). 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. There are 3 officers in Tier 2.

- Disability Pension. 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.

- Survivor Pension. 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 3.3% in 2012 over 2011 and have averaged an annual 3.2% increase over the last 5 years and 3.1% over the last 10 years. An examination of the total amount paid out for benefits shows the following increases over the last 4 years.

	2012	2011	2010	2009
Disability	$354,117	$ 359,865	$365,925	$359,987
Service	1,115,947	1,092,578	940,806	797,694
Dependent	327,132	287,680	211,295	210,999
Total	$1,797,196	$1,740,123	$1,518,026	$1,368,680

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						Dependent				
	#	Ave. Age	Serv. Yrs	Ave. Ben.	# Deaths	Age. Died	#	Ave. Age	Ave. Ben.	# Deaths	Age Died
2012	10	58	17	$2,969	-	-	10	71	$2,740	-	-
2011	10	57	17	$2,933	-	-	9	69	$2,737	1	99
2010	11	57	17	$2,861	-	-	9	73	$2,496	-	-
2009	11	57	18	$2,741	-	-	8	73	$2,146	1	95
2008	11	56	18	$2,713	-	-	9	74	$2,019	1	79
2007	12	55	18	$2,646	-	-	10	74	$1,917	-	-
2006	12	54	18	$2,563	-	-	9	75	$1,628	-	-
2005	11	56	17	$2,505	-	-	9	74	$1,628	1	81
2004	11	49	17	$2,267	-	-	10	74	$1,620	-	-
2003	10	48	17	$1,988	-	-	9	75	$1,430	-	-
2002	11	53	18	$2,187	-	-	9	74	$1,430	-	-
2001	11	52	18	$2,169	-	-	9	73	$1,430	-	-
2000	11	51	18	$2,055	1	52	9	72	$1,349	1	97
1999	12	51	17	$1,875	-	-	10	74	$1,214	-	-

	Disability						Dependent				
	#	Ave. Age	Serv. Yrs	Ave. Ben.	# Deaths	Age. Died	#	Ave. Age	Ave. Ben.	# Deaths	Age Died
1998	12	50	17	$1,884	-	-	10	73	$1,136	-	-
1996	11	48	16	$1,749	1	55	10	70	$1,136	-	-
1992	8	47	16		-	-	7	77			
1988	5	48	18		-	-	6	77			

	Service Pensions								
	#	Ave. Age	Serv. Yrs	Ave. Ben.	# Ret.	Age Ret.	Yrs Serv. @Ret.	# Death	Age. Died
2012	26	64	23	$3,613	-	-	-	1	82
2011	27	63	23	$3,481	2	50	25	1	71
2010	25	62	23	$3,237	2	51	26	1	69
2009	23	63	23	$3,122	2	51	26	-	-
2008	21	63	23	$2,944	-	-	-	-	-
2007	20	62	23	$2,851	1	51	26	1	56
2006	20	62	23	$2,784	1	53	19	-	-
2005	19	62	23	$2,696	1	50	27	2	83
2004	19	64	23	$2,473	-	-	-	1	62
2003	20	63	23	$2,466	1	50	23	1	78
2002	19	64	24	$2,328	1	51	25	-	-
2001	18	64	24	$2,235	1	52	28	-	-
2000	16	64	25	$2,139					
1999	16	63	25	$2,034	16	63	25	10	74
1998	15	63	23	$1,950	15	63	23	10	73
1996	15	61	23	$1,819	15	61	23	10	70
1992	13	64	24		13	64	24	7	77
1988	12	64	24		12	64	24	6	77

- There was no change in the makeup of disability pensions. The number of disability pensions has changed little over the last 15 years. The average benefit increased 1.2% in 2012 over last year. Disability pensions receive no increase until reaching the age of 60, whereupon there is an increase of 3% of the original pension annually.

- The number of regular pension decreased 1 to 26, as Don Weber passed away at age 82. The number of service pensions has steadily increased from 15 to 26 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 3.8%.

- There was 1 additional dependent pension in 2012 (Mrs. Weber) to a total of 10. There has been very little change in the last 15 years of the number of surviving dependents. The average age increased by 2 due to the addition of Ms. Wever who is 78. 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	Ave. Age New Hires
2012	55	35.0	9.9	$66,587	3, age 29
2011	52	36.8	10.3	66,940	3, age 30
2010	52	36.8	10.5	67,022	-
2009	55	36.4	10.3	63,930	3, age 30
2008	55	36.4	10.2	61,673	4, age 27
2007	55	35.5	8.6	58,001	4, age 26
2006	51	35.9	8.9	57,926	6, age 30
2005	50	35.9	9.0	55,205	4, age 26
2004	49	33.1	8.4	53,755	-
2003	49	32.2	7.5	51,426	2, age 23
2002	49	35.6	8.2	49,531	3, age 26
2001	49	35.0	8.0	47,349	7, age 26
2000	45	35.5	8.5	43,593	4, age 26
1999	47	36.0	8.3	42,648	4, age 29
1998	46	35.7	8.3	40,639	9, age 27
1997	43	35.5	8.6	40,140	3, age 27
1996	46	35.1	8.3	38,233	3, age 27
1992	41	36.5	9.6	34,204	
1988	42	34.7	9.5	29,309	

- During 2012, 0 officers retired and 3 officers were hired (ages 36, 28 & 23). The age of the workforce and the average years of service has remained about the same over the last 15 years.

- The average salary for pension fund purposes is almost the same as last year. Over the last 5 and 10 years, salaries have increased an annual average of 2.8% and 2.7% respectively (actuarial assumption is 5.25%).

CITY OF URBANA, ILLINOIS

POLICE PENSION FUND

Audit Report

For the Years Ended June 30, 2012 and 2011

CITY OF URBANA, ILLINOIS
POLICE PENSION FUND

Audit Report

For the Years Ended June 30, 2012 and 2011

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September 25, 2012

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, 2012 and 2011, 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, Police Pension Fund, a fiduciary fund of the City of Urbana, Illinois, as of June 30, 2012 and 2011, 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
POLICE PENSION FUND

Comparative Statement of Plan Net Assets
As of June 30, 2012 and 2011

	2012	2011
ASSETS:		
Cash and Cash Equivalents:		
Checking Account	$ 1,069	$ 2,399
Money Market Accounts	786,167	711,102
Savings Account	1,021,657	159,114
Total Cash and Cash Equivalents	1,808,893	872,615
Receivables:		
Employer Contributions (Property and Replacement Tax)	893,976	921,405
Member Loans	5,871	13,775
Accrued Interest	109,718	120,945
Total Receivables	1,009,565	1,056,125
Investments, at Fair Value:		
Certificates of Deposit	890,000	1,000,000
U.S. Government Securities	8,711,393	11,179,338
Corporate Bonds	2,606,669	-
Municipal Bonds	203,264	-
Stock Mutual Funds	10,222,403	10,525,644
Domestic Common Stocks	2,705,448	2,000,467
Total Investments	25,339,177	24,705,449
Total Assets	$28,157,635	$26,634,189
LIABILITIES:		
Accrued Payroll Taxes	$ 22	$ 16,352
Contribution Refunds Payable	11,128	11,128
Accounts Payable	10,397	-
Total Liabilities	$ 21,547	$ 27,480
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS (A schedule of funding progress is presented on page 11.)	$28,136,088	$26,606,709

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

CITY OF URBANA, ILLINOIS
POLICE PENSION FUND

Comparative Statement of Changes in Plan Net Assets

For the Years Ended June 30, 2012 and 2011

	2012	2011
ADDITIONS:		
Contributions:		
Employer:		
Property Tax	$ 1,939,275	$ 1,940,806
Replacement Tax	41,000	41,000
Total Employer Contributions	1,980,275	1,981,806
Employees	380,616	340,874
Total Contributions	2,360,891	2,322,680
Investment Income:		
Net Appreciation (Depreciation) in Fair Value of Investments:		
Mutual Funds	(79,589)	2,522,362
U.S. Government/Corporate Securities	364,753	(129,890)
Dividends	381,614	222,910
Interest	267,261	361,972
Total Investment Income	934,039	2,977,354
Less Investment Expense	(125,109)	(114,571)
Net Investment Income	808,930	2,862,783
Other Income:		
Pension Credits Purchased	179,693	-
Total Additions	3,349,514	5,185,463
DEDUCTIONS:		
Disability Benefits	354,117	359,865
Dependent Benefits	327,132	287,680
Service Retirement Benefits	1,115,947	1,092,578
Administrative Costs	22,939	21,478
Total Deductions	1,820,135	1,761,601
NET INCREASE (DECREASE)	1,529,379	3,423,862
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:		
Beginning of Year	26,606,709	23,182,847
End of Year	$28,136,088	$26,606,709

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

Notes to Financial Statements
June 30, 2012 and 2011

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, corporate bonds, municipal bonds, 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, 2012 and 2011, 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 2011 levy is reported in fiscal year 2012 and the 2010 levy in fiscal year 2011. 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, 2012 and 2011

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 llinois Pension Code (Illinois Compiled Statutes, 1992, Chapter 40. This fund is accounted for and reported as a pension trust fund.

At June 30, 2012 and 2011, the pension fund membership consisted of:

	2012	2011
Retirees and beneficiaries currently receiving benefits	47	46
Terminated plan members entitled to but not yet receiving benefits	1	0
Active vested plan members	32	32
Active non vested plan members	23	21
Total	103	99
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%

Notes to Financial Statements
June 30, 2012 and 2011

of such salary. Employees with at least 8 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 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 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 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 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 percent 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, 2011
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

Notes to Financial Statements
June 30, 2012 and 2011

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
Retirement	Graduated Rates (100% age 62)
Marital Status	85% married, spouse same age
Plan Expenses	None

Annual Required Contribution	$1,500,579
Interest on Net Pension Obligation	(330,170)
Adjustment to Annual Required Contribution	248,460
Annual Pension Cost	1,418,869
Contributions Made	1,981,806
Increase (Decrease) in Net Pension Obligation	(562,937)
Net Pension Obligation Beginning of Year	(4,616,230)
Net Pension Obligation End of Year	$ (5,179,167)

The provisions of Public Act 096-1495 are reflected in this actuarial valuation, including changes to benefit provisions, actuarial methods, and the amortization period and method. There were no changes with respect to the actuarial assumptions from the prior year. There were no unexpected changes with respect to the participants included in the actuarial valuation from the prior year. There were no unexpected changes with respect to the Fund's investments from the prior year, however the asset valuation method was changed to the Straight Market Value from the 5-year Average Market Value in accordance with PA096-1495. The percent funded increased from 61.7% to 65.5%.

Notes to Financial Statements
June 30, 2012 and 2011

Note 3 - Deposits and Investments:

As of June 30, 2012, the pension fund had the following investments:

	Fair Value	Weighted Ave. Maturity (Yrs)	% of Total Total	Goal	Min.	Max.
U.S. Govt. & its Credit Guaranteed Agencies	$ 6,547,609					
U.S. Govt. Agencies With Implied Credit	2,163,784					
Subtotal, U.S. Govt. and it's Agencies	$ 8,711,393	5.1	32.1%	41%	35%	100%
Municipal Bonds	$ 203,264	17.4	0.7%	n/a	0%	100%
Corporate Bonds	2,606,669	7.1				
Stock Mutual Funds & Domestic Common Stocks	12,927,851	n/a				
Subtotal, Corp. Bonds, Stock Mutual Funds & Common Stocks	$15,534,520	5.1	57.2%	55%	0%	65%
Certificates of Deposit	890,000	n/a	3.3%	4%	0%	10%
Cash and Equivalents	1,808,893	n/a	6.7%	0%	2%	100%
Total	$27,148,070		100.0%			

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

(1) By selecting an active duration manager for its U.S. Government and agency, and corporate and municipal bond 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, 2012, the portfolio had an average weighted maturity of 5.1 years for U.S. Government (down from 5.5 last year), 7.1 years for corporate bonds and 17.4 years for municipal bonds. The fund did not own any corporate or municipal bonds previously.

Notes to Financial Statements
June 30, 2012 and 2011

(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, 2012, the fund was slightly understated in U.S. Government and Govt. Agencies, slightly understated in certificates of deposit, overstated in cash and cash equivalents, and slightly overstated in the category of corporate bonds, stock mutual funds, and common stocks, compared to the desired level. This understatement of certificates of deposit and overstatement of cash and equivalents was due to the receipt of property taxes shortly before year-end. 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 a significant portion of the cash and cash equivalents.

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, savings accounts, money market mutual funds which are backed by U.S. government securities and agencies, corporate and municipal bonds (that meet certain criteria) and common stocks and common stock mutual funds (up to a maximum of 65% net present assets) and obligations of the State or local governments. 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. 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. Investments in corporate bonds and municipal bonds, while not guaranteed, are considered of minimal risk to the fund since they must be rated at investment grade and the amounts invested are small. At June 30, 2012, the fund also had $786,167 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, while awaiting investing by managers.

Notes to Financial Statements
June 30, 2012 and 2011

Concentration of Credit Risk: At June 30, 2012, there are no 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). 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., except for certificates of deposit at Busey Bank, which are above insured levels and are not collateralized. The fund does not believe that these C.D.'s are of significant credit risk in that the financial condition of Busey Bank is of a very high rating and the Board reviews this financial condition at least quarterly. These C.D.'s are considered to be very liquid if it was necessary to sell them due to credit risk.

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. During the year, the following activity occurred with these member loans:

Notes to Financial Statements
June 30, 2012 and 2011

Loans Balance Outstanding June 30, 2011	$13,775
Member Repayments of Principle	- 7,904
Loans Balance Outstanding June 30, 2012	$ 5,871

During 2012, $601 in interest was earned on these loans and is included as interest income in the financial statements.

Note 5 – Other Income, Pension Credits Purchased:

Under State laws, members of the fund are entitled to receive credit for certain previous service credit time in the military or other State of Illinois police pension funds. This service time would enhance the pension benefit of these members when they retire. To receive this credit for past military service, the member is required to make payment. In the case of past service in another Illinois police pension fund, both the member and the previous fund are required to make payment. During 2012, $179,693 was received for the purchase of previous pension service credits. This receipt should be considered unusual and non-recurring.

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, 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%
June 30, 2011	$26,605,378	$40,648,279	$14,042,901	65.5%	$3,547,806	395.8%

CITY OF URBANA, ILLINOIS
POLICE PENSION FUND

Required Supplementary Information

Schedule of Employer Contributions
(Unaudited)

Fiscal Year	Annual Required Contribution	Contributions Made	Percentage Contributed
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%
2012	$1,500,579	$1,981,806	132.1%
2012	$1,524,579	$1,980,275	129.9%