CITY OF URBANA, ILLINOIS

POLICE PENSION FUND

Audit Report

For the Years Ended June 30, 2013 and 2012

CITY OF URBANA, ILLINOIS
POLICE PENSION FUND

Audit Report

For the Years Ended June 30, 2013 and 2012

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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 position of the City of Urbana, Illinois Police Pension Fund, a fiduciary fund of the City of Urbana, as of June 30, 2013 and 2012, and the related statement of changes in plan net position for the years then ended, and the related notes to the financial statements, which collectively comprise the City of Urbana, Illinois Police Pension Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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 auditor's 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of the 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 the audit evidence obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the plan net position of the City of Urbana, Illinois Police Pension Fund as of June 30, 2013 and 2012, and the changes in financial position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that schedule of funding progress and schedule of employer contributions 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 operations, 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 the 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.

Bray, Drake, Liles & Richardson LLP

BRAY, DRAKE, LILES & RICHARDSON LLP
Urbana, Illinois
October 28, 2013

CITY OF URBANA, ILLINOIS
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Comparative Statement of Plan Net Position
As of June 30, 2013 and 2012

	2013	2012
ASSETS:		
Cash and Cash Equivalents:		
Checking Account	$ 24	$ 1,069
Money Market Accounts	1,021,323	786,167
Savings Account	847,237	1,021,657
Total Cash and Cash Equivalents	1,868,584	1,808,893
Receivables:		
Employer Contributions (Property and Replacement Tax)	1,134,322	893,976
Member Loans	-	5,871
Accrued Interest	95,225	109,718
Total Receivables	1,229,547	1,009,565
Investments, at Fair Value:		
Certificates of Deposit	630,000	890,000
U.S. Government Securities	7,941,390	8,711,393
Corporate Bonds	2,673,184	2,606,669
Municipal Bonds	347,560	203,264
Stock Mutual Funds	11,502,162	10,222,403
Domestic Common Stocks	4,495,996	2,705,448
Total Investments	27,590,292	25,339,177
Total Assets	$ 30,688,423	$ 28,157,635
LIABILITIES:		
Accrued Payroll Taxes	$ 22	$ 22
Contribution Refunds Payable	11,128	11,128
Accounts Payable	-	10,397
Total Liabilities	$ 11,150	$ 21,547
NET POSITION-RESTRICTED FOR PENSION BENEFITS (A schedule of funding progress is presented on page 11.)	$ 30,677,273	$ 28,136,088

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

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Comparative Statement of Changes in Plan Net Position
For the Years Ended June 30, 2013 and 2012

	2013	2012
ADDITIONS:		
Contributions:		
Employer:		
Property Tax	$ 2,097,159	$ 1,939,275
Replacement Tax	41,000	41,000
Total Employer Contributions	2,138,159	1,980,275
Employees	385,475	380,616
Total Contributions	2,523,634	2,360,891
Investment Income:		
Net Appreciation (Depreciation) in Fair Value of Investments:		
Mutual Funds/Common Stocks	1,980,379	(79,589)
U.S. Government/Corporate Securities	(337,350)	364,753
Dividends	341,391	381,614
Interest	258,793	267,261
Total Investment Income	2,243,213	934,039
Less Investment Expense	(154,097)	(125,109)
Net Investment Income	2,089,116	808,930
Other Income:		
Pension Credits Purchased	-	179,693
Total Additions	4,612,750	3,349,514
DEDUCTIONS:		
Disability Benefits	358,322	354,117
Dependent Benefits	353,197	327,132
Service Retirement Benefits	1,183,898	1,115,947
Transfer of Past Service Credits	148,629	-
Refunds to Members Resigning	7,383	-
Administrative Costs	20,136	22,939
Total Deductions	2,071,565	1,820,135
NET INCREASE (DECREASE)	2,541,185	1,529,379
NET POSITION-RESTRICTED FOR PENSION BENEFITS:		
Beginning of Year	28,136,088	26,606,709
End of Year	$ 30,677,273	$ 28,136,088

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

CITY OF URBANA, ILLINOIS
POLICE PENSION FUND

Notes to Financial Statements
June 30, 2013 and 2012

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, 2013 and 2012, 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 2012 levy is reported in fiscal year 2013 and the 2011 levy in fiscal year 2012. 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 position during the reporting period. Actual results could differ from those estimates.

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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, 2013 and 2012, the pension fund membership consisted of:

	2013	2012
Retirees and beneficiaries currently receiving benefits	48	47
Terminated plan members entitled to but not yet receiving benefits	1	1
Active vested plan members	31	32
Active non vested plan members	24	23
Total	104	103
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%

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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

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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, 2012
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

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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	$1,524,579
Interest on Net Pension Obligation	(369,576)
Adjustment to Annual Required Contribution	288,515
Annual Pension Cost	1,443,518
Contributions Made	1,980,275
Increase (Decrease) in Net Pension Obligation	(536,757)
Net Pension Obligation Beginning of Year	(5,179,167)
Net Pension Obligation End of Year	$ (5,715,924)

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 in 2012, the asset valuation method was changed to the Straight Market Value from the 5-year Average Market Value in accordance with PA096-1495. The increase in the required contribution was due to the investment return being less than assumed (3.0%) and to the increase in salaries being higher than assumed (8.8%). The percent funded increased from 65.5% to 66.2%.

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Note 3 - Deposits and Investments:

As of June 30, 2013, 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	$ 5,916,822					
U.S. Govt. Agencies With Implied Credit	2,024,568					
Subtotal, U.S. Govt. and it's Agencies	$ 7,941,390	4.1	28.8%	41%	35%	100%
Municipal Bonds	$ 347,560	10.7	1.3%	n/a	0%	100%
Corporate Bonds	2,673,184	8.1				
Stock Mutual Funds & Domestic Common Stocks	15,998,158	n/a				
Subtotal, Corp. Bonds, Stock Mutual Funds & Common Stocks	$26,960,292	n/a	67.7%	55%	0%	65%
Certificates of Deposit	630,000	n/a	2.2%	4%	0%	10%
Total	$27,590,292		100.0%			

Interest rate risk: In accordance with its investment policy, the fund manages it's 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, 2013, the portfolio had an average weighted maturity of 4.1 years for U.S. Government (down from 5.1 last year), 8.1 years for corporate bonds (up from 7.1 last year) and 10.7 years for municipal bonds (down from 17.4 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

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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, except for investments in corporate bonds, stock mutual funds, and common stocks. Due to unusual increases in the stock market, this investment was slightly above the maximum level at June 30, 2013 (67.7%). At June 30, 2013, the fund was understated in U.S. Government and Govt. Agencies, slightly understated in certificates of deposit, and slightly overstated in the category of corporate bonds, stock mutual funds, and common stocks, compared to the desired level. It is the fund policy to rebalance investments subsequent to year end.

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, 2013, the fund also had $1,021,323 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.

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

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(except for investments in U.S. Government and its credit guaranteed agencies and investments in certain mutual funds) is $1,472,370 invested in the securities of the Federal Home Loan Mortgage Corporation (FHLM) which totals 5.3% of total investments and 4.8% of net assets. These securities carry an implied U.S. Government guarantee. The fund considers the credit risk of these investments to be similar to investments in U.S. Government Agency securities that are explicitly guaranteed by the U.S. Government. Thus the fund does not believe a possible concentration of credit risk due to this investment is significant enough to address in the investment policies.

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. In 2013, all amounts were repaid to the fund. During the year, the following activity occurred with these member loans:

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Loans Balance Outstanding June 30, 2012	$5,871
Member Repayments of Principle	- 5,871
Loans Balance Outstanding June 30, 2013	$ -

During 2013, $115 in interest was earned on these loans and is included as interest income in the financial statements.

Note 5 – Other Income, Pension Credits Transferred, 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. During 2013, the pension fund was required to pay $148,629 for the transfer of service time for a previous fund member. Also in 2013, the fund paid back a previous member's contributions of $7,383. This receipt and payments should be considered unusual and non-recurring.

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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, 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%
June 30, 2012	$28,137,102	$43,831,125	$15,694,023	64.2%	$3,859,220	406.7%

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Required Supplementary Information
Schedule of Employer Contributions
(Unaudited)

Fiscal Year	Annual Required Contribution	Contributions Made	Percentage Contributed
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	$1,524,579	$1,980,275	129.9%
2013	$1,648,164	$2,138,159	129.7%