

CITY OF AURORA, ILLINOIS
RETIREE HEALTH INSURANCE TRUST FUND
ANNUAL FINANCIAL REPORT

For the Year Ended
December 31, 2009

CITY OF AURORA, ILLINOIS
 RETIREE HEALTH INSURANCE TRUST FUND
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998 Corporate Boulevard • Aurora, IL 60502

INDEPENDENT AUDITOR'S REPORT

The Honorable President
Members of the Board of Trustees
Retiree Health Insurance Trust Fund
City of Aurora, Illinois

We have audited the basic financial statements of the Retiree Health Insurance Trust Fund, a blended component unit of the City of Aurora, Illinois, as of and for the year ended December 31, 2009, as listed in the accompanying table of contents. These basic financial statements are the responsibility of the Retiree Health Insurance Trust Fund's management. Our responsibility is to express an opinion on these basic 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 discussed in Note 1-A, these financial statements present only the Retiree Health Insurance Trust Fund and are not intended to present fairly the financial position and changes in financial position of the City of Aurora, Illinois, in conformity with accounting principles generally accepted in the United States of America.

The Retiree Health Insurance Trust Fund of the City of Aurora, Illinois, has not presented a Management's Discussion and Analysis as required supplementary information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the plan net assets of the Retiree Health Insurance Trust Fund of the City of Aurora, Illinois, as of December 31, 2009, and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The required supplementary information listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Retiree Health Insurance Trust Fund of the City of Aurora, Illinois. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Aurora, Illinois
June 14, 2010

A handwritten signature in black ink, appearing to read "Bill 228".

BASIC FINANCIAL STATEMENTS

CITY OF AURORA, ILLINOIS
 RETIREE HEALTH INSURANCE TRUST FUND
 STATEMENT OF CHANGES IN PLAN NET ASSETS

For the Year Ended December 31, 2009

ADDITIONS	
Contributions	
Employer Contributions	\$ 6,911,969
Retiree Contributions	<u>1,455,409</u>
Total Contributions	<u>8,367,378</u>
Investment Income	
Net Appreciation in Fair Value of Investments	2,653,372
Interest and Dividends	<u>255,627</u>
Total Investment Income	2,908,999
Less Investment Expense	<u>(71,458)</u>
Net Investment Income	<u>2,837,541</u>
Total Additions	<u>11,204,919</u>
DEDUCTIONS	
Health Insurance Benefits	7,637,030
Administrative Expenses	<u>20,951</u>
Total Deductions	<u>7,657,981</u>
NET INCREASE	3,546,938
NET PLAN ASSETS HELD IN TRUST FOR OPEB BENEFITS	
January 1	<u>18,831,066</u>
December 31	<u><u>\$ 22,378,004</u></u>

See accompanying notes to financial statements.

CITY OF AURORA, ILLINOIS
RETIREE HEALTH INSURANCE TRUST FUND
NOTES TO FINANCIAL STATEMENTS

December 31, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Retiree Health Insurance Trust Fund of the City of Aurora, Illinois (the Fund) have been prepared in conformity with accounting principles generally accepted in the United States of America, as applied to government units (hereinafter referred to as generally accepted accounting principles (GAAP)). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Fund's accounting policies are described below.

A. Reporting Entity

The Fund is a blended component unit of the City of Aurora, Illinois (the City) pursuant to GASB Statement No. 14.

B. Fund Accounting

The Fund uses funds to report on its net assets and the changes in its net assets. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The Fund is classified into the fiduciary category.

Fiduciary funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the government. When pension plan assets are held under the terms of a formal trust agreement, a pension trust fund is used.

C. Basis of Accounting

The fund is accounted for with a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the statement of plan net assets. The Fund's operating statements present increases (e.g., additions) and decreases (e.g., deductions) in plan net assets.

The accrual basis of accounting is utilized by the Fund. Under this method, additions are recorded when earned and deductions are recorded at the time liabilities are incurred.

CITY OF AURORA, ILLINOIS
RETIREE HEALTH INSURANCE TRUST FUND
NOTES TO FINANCIAL STATEMENTS (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Investments

Investments are stated at fair value as of December 31, 2009 for both reporting and actuarial purposes. Securities traded on national exchanges are valued at the last reported sale price.

E. Budgets

An annual budget is adopted for the Fund by the City Council of the City. The budget is adopted on a basis consistent with generally accepted accounting principles. The budget, which may not be legally exceeded at the fund level, lapses at the end of the fiscal year. Once adopted, the budget may be amended by the City Council.

2. DEPOSITS AND INVESTMENTS

The deposits and investments of the Fund are held separately from those of the City.

Retiree Health Insurance Trust Fund Deposits with Financial Institutions

Permitted Deposits and Investments - The Retiree Health Insurance Statement of Investment Policies and Objectives authorizes the Fund to invest in stocks traded on major U.S. and non-U.S. exchanges, securities listed on NASDAQ, mutual funds and commingled funds. Investment grade fixed income instruments are permitted subject to manager guidelines. Investments in options, futures, commodities and non-marketable illiquid investments are prohibited. Specific guidelines for permitted investments for each manager will be maintained.

Custodial credit risk for deposits with financial institutions is the risk that in the event of a bank's failure, the Fund's deposits may not be returned to them. The Fund requires pledging of collateral with a fair value of 110% for all depository accounts, time deposit accounts or investments in certificates of deposits of financial institutions in excess of FDIC or SAIF insurance. The collateral is required to be held by an independent third-party depository or the Federal Reserve Bank in the Fund's name.

CITY OF AURORA, ILLINOIS
 RETIREE HEALTH INSURANCE TRUST FUND
 NOTES TO FINANCIAL STATEMENTS (Continued)

2. DEPOSITS AND INVESTMENTS (Continued)

Retiree Health Insurance Trust Fund Investments

The following table presents the investments and maturities of the Fund’s debt securities as of December 31, 2009:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1-5	6-10	Greater than 10
U.S. Treasury Obligations	\$ 1,661,495	\$ -	\$ 539,530	\$ 919,453	\$ 202,512
U.S. Agency Obligations	1,456,280	631,639	99,520	-	725,121
Corporate Bonds	2,867,403	-	1,652,683	1,214,720	-
Illinois Funds	4,625,661	4,625,661	-	-	-
Money Market Mutual Funds	3,554,368	3,554,368	-	-	-
TOTAL	\$ 14,165,207	\$ 8,811,668	\$ 2,291,733	\$ 2,134,173	\$ 927,633

The Fund limits its exposure to interest rate risk by structuring the portfolio to provide liquidity for operating funds and maximizing yields for funds not needed for expected current cash flows. The investment policy does not limit the maximum maturity length of investments in the Fund.

The Fund limits its exposure to credit risk, the risk that the issuer of a debt security will not pay its par value upon maturity, by primarily investing in obligations guaranteed by the United States Government or securities issued by agencies of the United States Government or money market mutual funds that are primarily invested in U.S. Treasury and agency obligations that are explicitly or implicitly guaranteed by the United States Government. However, the investment policy is silent regarding exposure to credit risk. The U.S. agency obligations and money market mutual funds are rated AAA by Standard and Poor’s. The corporate bonds are rated BB to AAA by Standard and Poor’s. Certain corporate bonds and FNMA investments are not rated.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to the investment, the Fund will not be able to recover the value of its investments that are in possession of an outside party. To limit its exposure, the Fund requires all security transactions that are exposed to custodial credit risk to be processed on a delivery versus payment (DVP) basis with the underlying investments held by a third party acting as the Fund’s agent separate from where the investment was purchased in the Fund’s name. The money market mutual funds are not subject to custodial credit risk.

CITY OF AURORA, ILLINOIS
 RETIREE HEALTH INSURANCE TRUST FUND
 NOTES TO FINANCIAL STATEMENTS (Continued)

3. RETIREE HEALTH INSURANCE TRUST FUND

Plan Description

The City provides postemployment health care and life insurance benefits (OPEB) for retired employees through a single-employer defined benefit plan. The benefits, benefit levels, employee contributions and employer contributions are governed by the City and can be amended by the City through its personnel manual and union contracts.

Benefits Provided

The City provides OPEB to its retirees. To be eligible for benefits, an employee must qualify for retirement under one of the City’s retirement plans. Elected officials are eligible for benefits if they qualify for retirement through the Illinois Municipal Retirement Fund.

All health care benefits are provided through the City’s self-insured health plan. The benefit levels are the same as those afforded to active employees. Benefits include general inpatient and outpatient medical services; mental, nervous and substance abuse care; vision care; dental care; and prescriptions. Upon a retiree reaching age 65 years of age, Medicare becomes the primary insurer and the City’s plan becomes secondary. Until a retiree reaches age 65, \$5,000 of life insurance coverage is provided at no cost.

Membership

At December 31, 2009, membership consisted of:

Retirees and Beneficiaries Currently Receiving Benefits	414
Terminated Employees Entitled to Benefits but not yet Receiving Them	-
Active Employees	<u>943</u>
 TOTAL	 <u><u>1,357</u></u>
 Participating Employers	 <u><u>1</u></u>

CITY OF AURORA, ILLINOIS
 RETIREE HEALTH INSURANCE TRUST FUND
 NOTES TO FINANCIAL STATEMENTS (Continued)

3. RETIREE HEALTH INSURANCE TRUST FUND (Continued)

Funding Policy

The City negotiates the contribution percentages between the City and employees through the union contracts and personnel policy. All retirees contribute 20%-29% of the actuarially determined premium to the plan and the City contributes the remainder to cover the cost of providing the benefits to the retirees via the self-insured plan. Since the City is self-insured, this amount fluctuates on an annual basis. For the fiscal year ended December 31, 2009, retirees contributed \$1,455,409 and the City contributed \$6,911,969. Active employees do not contribute to the plan until retirement.

Annual OPEB Costs and Net OPEB Obligation

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2007, 2008 and 2009 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contributions	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2007	\$ 17,653,132	\$ 17,790,881	100.78%	\$ 35,696,212
December 31, 2008	14,007,185	6,810,269	48.62%	42,893,128
December 31, 2009	13,099,482	6,911,969	52.77%	49,080,641

The net OPEB obligation (NOPEBO) as December 31, 2009, was calculated as follows:

Annual Required Contribution	\$ 11,951,819
Interest on Net OPEB Obligation	3,002,519
Adjustment to Annual Required Contribution	<u>(1,854,856)</u>
Annual OPEB Cost	13,099,482
Contributions Made	<u>6,911,969</u>
Increase in Net OPEB Obligation	6,187,513
Net OPEB Obligation Beginning of Year	<u>42,893,128</u>
NET OPEB OBLIGATION END OF YEAR	<u><u>\$ 49,080,641</u></u>

CITY OF AURORA, ILLINOIS
 RETIREE HEALTH INSURANCE TRUST FUND
 NOTES TO FINANCIAL STATEMENTS (Continued)

3. RETIREE HEALTH INSURANCE TRUST FUND (Continued)

Annual OPEB Costs and Net OPEB Obligation (Continued)

Funded Status and Funding Progress. The funded status of the plan as of December 31, 2009 was as follows:

Actuarial Accrued Liability (AAL)	\$	173,681,516
Actuarial Value of Plan Assets		22,378,004
Unfunded Actuarial Accrued Liability (UAAL)		151,303,512
Funded Ratio (Actuarial Value of Plan Assets/AAL)		12.88%
Covered Payroll (Active Plan Members)	\$	72,367,412
UAAL as a Percentage of Covered Payroll		209.08%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the ARC of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to financial statements, presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2009 actuarial valuation the entry-age actuarial cost method was used. The actuarial assumptions included 7.00% investment rate of return (net of administrative expenses) and an initial annual healthcare cost trend rate of 7.5% reduced by 0.25% each year to arrive at an ultimate healthcare cost trend rate of 5.0%. Both rates include a 3.0% inflation assumption. The actuarial value of assets was based on fair value at December 31. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open 30 year basis.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF AURORA, ILLINOIS
 RETIREE HEALTH INSURANCE TRUST FUND
 SCHEDULE OF FUNDING PROGRESS
 OTHER POSTEMPLOYMENT BENEFIT PLAN

December 31, 2009

Actuarial Valuation Date December 31,	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL) Entry-Age Normal	(3) Funded Ratio (1) / (2)	(4) Unfunded Actuarial Accrued Liability (UAAL) (2) - (1)	(5) Covered Payroll	UAAL as a Percentage of Covered Payroll (4) / (5)
2004	\$ -	\$ 164,101,880	0.00%	\$ 164,101,880	\$ 67,870,593	241.79%
2005	-	177,104,904	0.00%	177,104,904	64,185,595	275.93%
2006	-	183,577,501	0.00%	183,577,501	68,183,368	269.24%
2007	15,608,508	155,475,378	10.04%	139,866,870	66,557,105	210.15%
2008	18,831,066	157,770,027	11.94%	138,938,961	72,246,059	192.31%
2009	22,378,004	173,681,516	12.88%	151,303,512	72,367,412	209.08%

(See independent auditor's report.)

CITY OF AURORA, ILLINOIS
 RETIREE HEALTH INSURANCE TRUST FUND
 SCHEDULE OF EMPLOYER CONTRIBUTIONS
 OTHER POSTEMPLOYMENT BENEFIT PLAN

December 31, 2009

Year Ended December 31,	Employer Contributions	Annual Required Contribution (ARC)	Percentage Contributed
2004	\$ 2,923,606	\$ 14,494,224	20.17%
2005	2,960,320	15,529,826	19.06%
2006	3,958,503	15,233,312	25.99%
2007	17,790,881	16,764,385	106.12%
2008	6,810,269	13,052,085	52.18%
2009	6,911,969	11,951,819	57.83%

(See independent auditor's report.)

SUPPLEMENTARY INFORMATION

CITY OF AURORA, ILLINOIS

RETIREE HEALTH INSURANCE TRUST FUND

SCHEDULE OF CHANGES IN PLAN NET ASSETS -
BUDGET AND ACTUAL

For the Year Ended December 31, 2009

	Original Budget	Final Budget	Actual	Variance Over (Under)
ADDITIONS				
Contributions				
Employer Contributions	\$ 6,911,969	\$ 6,911,969	\$ 6,911,969	\$ -
Retiree Contributions	1,590,553	1,590,553	1,455,409	(135,144)
Total Contributions	8,502,522	8,502,522	8,367,378	(135,144)
Investment Income				
Net Appreciation in Fair Value of Investments	-	-	2,653,372	2,653,372
Interest and Dividends	500,000	500,000	255,627	(244,373)
Total Investment Income	500,000	500,000	2,908,999	2,408,999
Less Investment Expense	(100,000)	(91,000)	(71,458)	19,542
Net Investment Income	400,000	409,000	2,837,541	2,428,541
Total Additions	8,902,522	8,911,522	11,204,919	2,293,397
DEDUCTIONS				
Health Insurance Benefits	5,772,273	8,372,273	7,637,030	(735,243)
Administrative Expenses	25,000	34,000	20,951	(13,049)
Total Deductions	5,797,273	8,406,273	7,657,981	(748,292)
NET INCREASE	<u>\$ 3,105,249</u>	<u>\$ 505,249</u>	3,546,938	<u>\$ 3,041,689</u>
NET PLAN ASSETS HELD IN TRUST FOR OPEB BENEFITS				
January 1			<u>18,831,066</u>	
December 31			<u>\$ 22,378,004</u>	

(See independent auditor's report.)