THE URBANA FREE LIBRARY

Financial Statements

For the Year Ended June 30, 2012

THE URBANA FREE LIBRARY
Financial Statements
For the Year Ended June 30, 2012

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November 13, 2012

Board of Trustees
The Urbana Free Library
Urbana, Illinois

Independent Auditor's Report

We have audited the accompanying financial statements of the Urbana Free Library, a special revenue fund of the City of Urbana, Illinois, as of and for the year ended June 30, 2012, as listed in the table of contents under "Basic Financial Statements". These financial statements are the responsibility of the management of the City of Urbana and the Urbana Free Library. 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 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, these financial statements present only the Urbana Free Library fund of the City of Urbana, Illinois, and do not purport to, and do not, present fairly the financial position of the City of Urbana, Illinois, as of June 30, 2012, and the changes in its financial position and budgetary comparisons for the year then ended 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 financial position of the Urbana Free Library, a special revenue fund of the City of Urbana, Illinois, as of June 30, 2012, and the changes in its financial position thereof and the respective budgetary comparisons for the Urbana Free Library general fund for the year 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 management's discussion and analysis on pages 3 through 8 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Urbana Free Library, a special revenue fund of the City of Urbana, Illinois, financial statements as a whole. The combining nonmajor fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Bray, Drake, Liles & Richardson LLP
BRAY, DRAKE, LILES & RICHARDSON LLP

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Urbana Free Library (Library), we offer readers of these financial statements this narrative overview and analysis of the financial activities of the Urbana Free Library for the fiscal year ended June 30, 2012.

FINANCIAL HIGHIGHTS:

- At June 30, 2012, unreserved fund balance for the general fund was $1,626,892, or 44% of the total general fund expenditures (48% last year). This amount is $8,797 less than at the end of last year. Of this amount, $1,481,344 was undesignated, an decrease of $43,252 from last year. The major reason for these decreases was the expenditure of $126,535 for a new electronic catalogue system.

- The assets of the Library exceeded liabilities at June 30, 2012, by $12,379,769. Of this amount $2,646,992 is unrestricted ($2,683,185 last year) and may be used to meet the government's ongoing operations.

- The Library's total net assets decreased by $17,769 ($62,356 increase last year).

- At June 30, 2012, the Library's governmental funds reported combined fund balances of $2,108,176 (an increase of $28,668 over last year), of which $1,675,633 was unreserved (an decrease of $5,872 from last year).

- The only long-term debt of the Library is $204,939 in accumulated compensated employee absences, which increased $50,558 and $13,684 in other post employment benefits, which increased $6,842 during 2012..

OVERVIEW OF THE FINANCIAL STATEMENTS:

This discussion and analysis is intended to serve as an introduction to the Urbana Free Library's basic financial statements. The basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains additional supplementary information.

1. Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the Urbana Free Library's finances, in a manner similar to a private-sector business. The government wide financial statements can be found on pages 9 and 10 of this report.

- The statement of net assets presents information on all of the Library's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Library is improving or deteriorating.

- The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal period.

- Government-wide financial statements distinguish functions of the Library that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities of the Library include Centralized Costs, Administration, Adult Department, Children's Department, Archives Department, Café Department, Maintenance, Acquisitions, Circulation, Publishing Costs, and Grant Programs. The Library has no business-type activities.

2. Fund Financial Statements.

- A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Library uses fund accounting to ensure and demonstrate compliance with finance and related legal requirements. All of the funds of the Library can be categorized as governmental funds.

- Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This information is useful in evaluating the Library's near-term financing requirements.

- Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information for governmental funds with information presented for governmental activities in the government-wide financial statements. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison.

- The Library maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, which is the only major fund. Data from the other four governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements in this report.

- The Library adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

- The fund financial statements can be found on pages 11-15 of this report.

3. Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on pages 17-24 of this report.

4. Other Information. The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the notes. Combining statements can be found on pages 25 and 26 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS:

Comparative Statement of Net Assets:

	2012	2011
Current and other assets	$ 3,130,929	$ 3,035,570
Restricted assets	432,543	398,003
Capital assets	9,300.234	9,316,350
Total assets	$12,863,706	$12,749,923
Long-term liabilities	$ 218,623	$ 161,223
Other liabilities	265,314	191,162
Total liabilities	$ 483,937	$ 352,386
Net assets:		
Invested in capital assets	$ 9,300,234	$ 9,316,350
Restricted	432,543	398,003
Unrestricted	2,646,992	2,683,185
Total net assets	$12,379,769	$12,397,538

At the end of the year, the Library is able to report positive balances in all categories of net assets. This situation was true for last year as well. There was an decrease in net assets of $17,769. This decrease was made up of a $16,116 reduction in the investment in capital assets; an increase of $34,540 in restricted net assets and an decrease of $36,193 in unrestricted net assets.

Comparative Statement of Governmental Activities:

	2012	2011
Revenues:		
Program revenues:		
Charges for services	$ 235,846	$ 160,721
Grants and contributions	38,200	50,560
General revenues:		
Property tax	2,976,340	2,904,681
Intergovernmental:		
City Urbana	400,228	335,144
Other	125,366	132,143
Donations/Gifts	45,839	45,419
Interest	9,040	9,059
Total revenues	$3,830,859	$ 3,637,727
Expenses:		
Centralized costs	$718,918	$698,314
Administration	433,672	389,857
Adult department	789,412	823,111
Children's department	510,202	473,846
Archives department	322,374	287,854
Café department	82,082	--
Maintenance	37,295	48,846
Acquisitions	264,950	238,225
Circulation	678,928	609,146
Publishing costs	4,495	1,172
Grant programs	6,300	5,000
Total expenses	$3,848,628	$ 3,575,371
Increase (decrease) in net assets	(17,769)	62,356
Beginning net assets	12,397,538	12,335,182
Ending net assets	$12,379,769	$12,397,538

As noted the decrease in net assets was $17,769. Last year there was an increase of $62,356. Total revenues increased $193,132 or +5.3%. This increase was mainly due to an increase of $71,659 in property tax (2.5% increase) and an increase in charges for services of $76,125 due to the opening of a new café in the library. All other revenues increased $45,348. Total expenses increased $271,257. This cost increase was mainly due to the addition of the costs of the café operations $82,082, and the cost of the new electronic catalogue system $126,535. Other costs increased $62,640 (+1.75%).

FINANCIAL ANALYSIS OF THE GOVERNMENTAL FUNDS. The focus of the Library's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year. The General Fund is the primary operating fund of the Library. Unreserved fund

balance at the end of 2012 for the general fund decreased $8,797 (0.2% of total general fund expenditures).

GENERAL FUND BUDGETARY HIGHLIGHTS: Revenues were $200,570 below budgeted estimates (mainly due to $187,918 in planned transfer from the City of Urbana but not made in 2012) and expenditures were $191,773 below budgeted amounts. There were three supplementary budget appropriations during the year

1) $84,607 was added in revenue and expense for the operations of the café

2) $134,379 was added in revenue Intergovernmental-City of Urbana and $140,035 was added in expense Centralized Costs for the purchase of a new electronic catalogue system and reimbursement from the City of Urbana

3) $61,383 was added in revenue Intergovernmental-City of Urbana and $61,382 in expenses in various departments to recognize an adjustment in salaries subsequent to passage of the budget.

CAPITAL ASSETS:

The Library's investment in capital assets as of June 30, 2012, was $9,300,234 (net of accumulated depreciation), a decrease of $16,116. This investment in capital assets includes land, buildings and improvements, and equipment. Major capital asset events during the year were:

- Equipment additions during year totaled $171,364, of which the most significant purchase was a new electronic catalogue system of $126,535
- Depreciation expense of $187,480 was charged

Comparative Statement of Capital Assets (net of depreciation):

	2012	2011
Land	$ 480,732	$ 480,732
Building and Improvements	8,493,583	8,639,495
Equipment	325,919	196,123
Total Net Capital Assets	$9,300,234	$9,316,350

Additional information on capital assets can be found in note 4 in the Notes to Financial Statements.

ECONOMIC OUTLOOK AND NEXT YEAR'S BUDGET.

- The most significant revenue source for the Library is the property tax, responsible for 76% of the revenues in the general fund. The future financial stability of the

Library is very dependent upon the continued stability of the local real estate market. Prior to 2010, assessed valuation averaged 7% annual growth over a 10 year period. However, in 2010, assessed value increased 2.7% and in 2011 decreased 0.7%. This slowdown in growth in assessed value reflects the economic slowdown in building and development activity and depressed property values. Management expects growth in assessed value to remain at a modest rate similar or slightly higher than 2011 for the next 2 years since the process of determining assessed value trails actual economic real estate activity by 2 years. It has been the policy of the City of Urbana to increase the tax rate in order to provide a property tax increase similar to inflationary cost increases.

- The general fund budget for next year increased 3.4%, as the Library Board expects to match expenditure levels to slight revenue increases.

- For next year, the management of the Library has the following initiatives:

    1. To develop a new long-term strategic plan.

    2. To develop a plan for addressing competing space needs in the building.

    3. To investigate the possible implementation of a new collection theft control system.

    4. Undertake a review of the library's pay scale.

REQUEST FOR INFORMATION. This financial report is designed to provide a general overview of the Urbana Free Library's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director, Urbana Free Library, 210 W. Green Street, Urbana, 61801.

THE URBANA FREE LIBRARY
Statement of Net Assets
June 30, 2012

ASSETS:	
Cash and Cash Equivalents:	
On Hand	$ 516
Checking	18,880
Savings	1,668,932
Illinois Public Treasurer's Pool	11,045
Receivables:	
Property Tax	1,416,406
Due from State of Illinois	15,150
Restricted Assets:	
Cash and Cash Equivalents:	
Checking	9,322
Savings	172,609
Illinois Public Treasurer's Pool	586
Goldman Sachs Govt. Money Market	129,182
Certificates of Deposit	120,661
Interest Receivable	183
Capital Assets:	
Land	480,732
Other Capital Assets (net of accumulated depreciation):	
Buildings and Improvements	8,493,583
Equipment	325,919
Total Assets	12,863,706
LIABILITIES:	
Accounts Payable	17,193
Due to City of Urbana	195,864
Deferred Revenues	11,250
Accrued Salaries and Taxes	41,007
Non-Current Liabilities:	
Other Post Employment Benefits	13,684
Accumulated Compensated Absences	204,939
Total Liabilities	483,937
NET ASSETS:	
Invested in Capital Assets, net of related debt	9,300,234
Restricted for:	
Foundation Programs	250,026
Library Materials	182,517
Unrestricted	2,646,992
Total Net Assets	$ 12,379,769

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

THE URBANA FREE LIBRARY
Statement of Activities
For the Year Ended June 30, 2012

Functions/Programs:	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Centralized Costs	$ 718,918	$ 47,031	$ -	$ (671,887)
Administration	433,672	-	-	(433,672)
Adult Department	789,412	36,709	-	(752,703)
Children's Department	510,202	24,547	9,400	(476,255)
Archives Department	322,374	16,029	22,500	(283,845)
Cafe Department	82,082	64,300	-	(17,782)
Maintenance	37,295	-	-	(37,295)
Acquisitions	264,950	13,149	-	(251,801)
Circulation	678,928	34,081	-	(644,847)
Publishing Costs	4,495	-	-	(4,495)
Grant Programs	6,300	-	6,300	-
Total Governmental Activities	$ 3,848,628	$ 235,846	$ 38,200	(3,574,582)
General Revenues:				
Real Property Tax				2,976,340
Intergovernmental:				
Corporate Personal Property Replacement Tax				83,064
Federal LSTA Grant (State Aid)				42,302
City of Urbana				400,228
Donations/Gifts				45,839
Interest				9,040
Total General Revenues				3,556,813
Change in Net Assets				(17,769)
Net Assets, Beg. Year				12,397,538
Net Assets, End Year				$ 12,379,769

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

THE URBANA FREE LIBRARY
Balance Sheet-Governmental Funds
June 30, 2012

ASSETS	General	Other Governmental Funds	Total Governmental Funds
Cash and Cash Equivalents:			
On Hand	$ 516	$ -	$ 516
Checking	16,953	1,927	18,880
Savings	1,616,974	51,958	1,668,932
Illinois Public Treasurer's Pool	10,834	211	11,045
Receivables:			
Property Tax	1,416,406	-	1,416,406
Due from the State of Illinois	15,150	-	15,150
Due from Other Funds	1,800	-	1,800
Restricted Assets:			
Cash and Cash Equivalents:			
Checking	-	9,322	9,322
Savings	-	172,609	172,609
Illinois Public Treasurer's Pool	-	586	586
Goldman Sachs Govt. Money Market	-	129,182	129,182
Certificates of Deposit	-	120,661	120,661
Interest Receivable	-	183	183
Total Assets	$3,078,633	$ 486,639	$ 3,565,272
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	$ 13,638	$ 3,555	$ 17,193
Due to City of Urbana	195,864	-	195,864
Accrued Salaries and Taxes	41,007	-	41,007
Deferred Revenues	1,201,232	-	1,201,232
Due to Other Funds	-	1,800	1,800
Total Liabilities	1,451,741	5,355	1,457,096
Fund Balances:			
Reserved for:			
Foundation Programs	-	250,026	250,026
Library Materials	-	182,517	182,517
Unreserved, Reported in:			
General Fund:			
Designated for Future Employee Separation Benefits	145,548		145,548
Undesignated	1,481,344		1,481,344
Special Revenue Funds	-	48,741	48,741
Total Fund Balance	1,626,892	481,284	2,108,176
Total Liabilities and Fund Balance	$3,078,633	$ 486,639	$ 3,565,272

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

THE URBANA FREE LIBRARY

Reconciliation of the Fund Balance in Governmental Funds
Balance Sheet to Net Assets in the Statement of Net Assets
June 30, 2012

Total fund balances, governmental funds	$ 2,108,176
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	9,300,234
Long-term liabilities (compensated absences and other post employment benefits) are not due and payable in the current period and are not reported in the funds	(218,623)
A portion of property taxes recognized in the statement of activities does not provide current financial resources and are reported in the funds as deferred revenue	1,189,982
Net assets of governmental activities	$ 12,379,769

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

THE URBANA FREE LIBRARY

Combined Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2012

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
Real Property Tax	$ 2,949,261	$ -	$ 2,949,261
Intergovernmental:			
Corporate Personal Property Replacement Tax	83,064	-	83,064
Grant, Champaign County	22,500	-	22,500
Federal LSTA Grant (State Aic	42,302	-	42,302
City of Urbana	400,228	-	400,228
Grant, Urbana School District	9,400	-	9,400
Grants	-	6,300	6,300
Book Fines	83,002	-	83,002
Lost and Damage Fees	12,582	-	12,582
Interloan Fees	4,922	-	4,922
Copier Fees	18,379	-	18,379
Non-resident User Fees	18,187	-	18,187
Café Sales	64,300	-	64,300
Donations	-	45,839	45,839
Interest	7,048	1,992	9,040
Sale of Books and Materials	-	34,474	34,474
Total Revenues	3,715,175	88,605	3,803,780
Expenditures:			
Centralized Costs	875,639	14,643	890,282
Administration	412,544	-	412,544
Adult Department	678,100	16,279	694,379
Children's Department	458,122	6,539	464,661
Archives Department	300,550	2,884	303,434
Cafe Department	72,166	-	72,166
Maintenance	32,791	-	32,791
Acquisitions	248,916	-	248,916
Circulation	645,144	-	645,144
Publishing Costs	-	4,495	4,495
Grant Programs	-	6,300	6,300
Total Expenditures	3,723,972	51,140	3,775,112
Excess of Revenues Over (Under) Expenditures	(8,797)	37,465	28,668
Fund Balance, Beg. of Year	1,635,689	443,819	2,079,508
Fund Balance, End of Year	$ 1,626,892	$ 481,284	$ 2,108,176

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

THE URBANA FREE LIBRARY

Reconciliation of the Net Changes in Fund Balance in the Statement of Revenues, Expenditures, and Changes in Fund Balance, Governmental Funds to the Changes in Net Assets in the Statement of Activities

For the Year Ended June 30, 2012

Net change in fund balances-governmental funds	$	28,668
Amounts reported for governmental activities in the statement of activities are different because:		
A portion of property taxes recognized in the statement of activities does not provide current financial resources and is not recognized as revenue in the funds		27,079
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital outlays in the current period that was reported as an expenditure in the funds.		171,364
This is the amount of depreciation that was not reported in the funds.		(187,480)
In the statement of activities, accumulated compensated absences and other post employment benefits are measured by the amounts incurred during the year. In the governmental funds, expenditures for these items are measured by the amounts actually paid. This is the amount by which payments exceeded the amounts incurred.		(57,400)
Change in net assets of governmental activities	$	(17,769)

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

THE URBANA FREE LIBRARY

Statement of Revenues and Expenditures
Budget and Actual (GAAP) - General Fund

For the Year Ended June 30, 2012

	Budgeted Amounts			Variance With Final Budget Favorable
	Original	Final	Actual	(Unfavorable)
Revenues:				
Real Property Tax	$ 2,975,110	$ 2,975,110	$ 2,949,261	$ (25,849)
Intergovernmental:				
Corporate Personal Property Replacement Tax	73,160	73,160	83,064	9,904
Grant, Champaign County	22,500	22,500	22,500	-
Federal LSTA Grant (State Aid)	41,496	41,496	42,302	806
City of Urbana	372,600	568,362	400,228	(168,134)
Grant, Urbana School District	9,400	9,400	9,400	-
Book Fines	71,810	71,810	83,002	11,192
Lost & Damaged Fees	14,100	14,100	12,582	(1,518)
Interloan Fees	6,620	6,620	4,922	(1,698)
Copier Fees	17,680	17,680	18,379	699
Non-resident User Fees	22,600	22,600	18,187	(4,413)
Café Sales	-	84,607	64,300	(20,307)
Interest	8,300	8,300	7,048	(1,252)
Total Revenues	3,635,376	3,915,745	3,715,175	(200,570)
Expenditures:				
Current:				
Centralized Costs	834,444	974,479	875,639	98,840
Administration	406,549	430,408	412,544	17,864
Adult Department	742,288	692,982	678,100	14,882
Children's Department	445,963	460,110	458,122	1,988
Archives Department	292,912	302,882	300,550	2,332
Cafe Department	-	87,272	72,166	15,106
Maintenance	55,658	32,917	32,791	126
Acquisitions	257,781	274,808	248,916	25,892
Circulation	599,781	659,887	645,144	14,743
Total Expenditures	3,635,376	3,915,745	3,723,972	191,773
Excess of Revenues Over (Under) Expenditures	$ -	$ -	$ (8,797)	$ (8,797)

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

THE URBANA FREE LIBRARY
Notes to Financial Statements
For the Year Ended June 30, 2012

Note 1 – Summary of Significant Accounting Policies:

A. The Urbana Free Library, founded in 1874, provides a broad range of basic library services, including adult and children departments, and archives. A nine-member Board of Directors administers operations for the Library. These directors are appointed by the Mayor and confirmed by the City Council of the City of Urbana to three year staggered terms. The Library Board is responsible for budgetary matters and day-to-day operational policies. The City Council of the City of Urbana is the authority for levying the annual property tax. The Urbana Free Library is also included in the annual financial report of the City of Urbana, according to the criteria specified in governmental accounting standards.

B. The government-wide financial statements (the statement of net assets and the statement of changes in net assets) report information on all activities of the Library. The effect of interfund activity has been removed from these statements. The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers who directly benefit from services provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not included among program revenues are reported as general revenues. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred. Property taxes are recognized as revenues in the year for which they are levied. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Property taxes are considered available if they are collected within 60 days of year-end. Expenditures are recorded when a liability is incurred, as under accrual accounting, except that expenditures related to compensated absences are recorded only when payment is due.

D. The accounts of the Library are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. The Urbana Free Library reports one major governmental fund, the General Fund, which is the primary operating fund of the Library and accounts for all financial resources except those required to be accounted for in another fund. Other non-major governmental funds are:

1) The Foundation Fund is used to account for private donations for the Library. A foundation has been created to accept donations and it's activities are those reported in this Fund.

2) The Publications Special Revenue Fund is used to account for receipts and costs of publications and other items for sale.

3) The Grant Special Revenue Fund is used to account for receipts and costs related to federal, state or private grant awards.

4) The Library Trust Fund is used to account for donations that are restricted to purchase library books and materials. These donations are usually in the form of a memorial to individuals.

E. Restricted Net Assets:

Assets that are not available to finance general operations of the Library are reported as restricted in the government wide Statement of Net Assets financial statement. The Library's policy is to apply restricted resources first when an expense is incurred for purposes which both restricted and unrestricted net assets are available. The Library is reporting the following amounts of net restricted assets:

	Foundation Programs	Library Materials	Total
Checking	$ --	$ 9,322	$ 9,322
Savings	--	172,609	172,609
Il. Public Treasurer's Pool	--	586	586
Govt. Funds Money Market	129,182	--	129,182
Certificates of Deposit	120,661	--	120,661
Interest Receivable	183	--	183
Total Restricted Net Assets	$250,026	$182,517	$432,543

F. Estimates:

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2 - Deposits and Investments:

The Library considers cash on hand, checking, savings, and investments with original maturities of three months or less from the date of acquisition to be cash and cash equivalents. If the Library has any excess cash during the year, it's policy is to purchase certificates of deposit. The only investments owned by the Library at June 30, 2012 was $120,661 in certificates of deposit purchased through the Foundation.

Interest Rate Risk: The Library has no real exposure to interest rate risk due to declines in the fair values of investments.

Credit Risk: The Library is authorized by Illinois statutes to invest in obligations of the U. S. Treasury and its agencies, non-negotiable certificates of deposit, obligations of the State of Illinois and its political subdivisions, savings accounts, credit union shares, commercial paper noted within the three highest classifications by at least two standard rating agencies, and the Illinois Public Treasurer's Investment Pool. The only exposure to any credit risk is the Library's investment in the Goldman Sachs Government Money Market by the Foundation ($129,182 at June 30, 2012) and the Library's investment in the Illinois Public Treasurer's Investment Pool ($11,045 at June 30, 2012). The Library believes that the amount invested in the Goldman Sachs Government Money Market, while not guaranteed, pose no significant credit risk in that this fund is rated AAA by both Standard and Poors and Moody's Investment Services. The Library believes that the amount invested in the Illinois Public Treasurer's Investment Pool carries no credit risk in that while these amounts are not guaranteed, they are fully collateralized by high quality instruments such as U.S. Treasury obligations and the pool has been rated AAAm by Standard and Poors.

Concentration of Credit Risk: Since the only investments at June 30, 2012 are in federally insured certificates of deposit, the Library does not have any exposure to any concentration of credit risk.

Custodial Credit Risk for Deposits: is the risk that in the event of a bank failure, the Library's deposits may not be returned. Deposits in federally insured banks and

savings and loans are insured in an amount equal to $250,000. It is the policy of the Library that deposits above insured limits will be secured by the institution pledging securities in fair value amounts at least to cover uninsured amounts with a third party institution. At June 30, 2012, all amounts were insured or covered by collateral held by the pledging financial institution.

Note 3 - Property Tax:

The City Council of the City of Urbana passes the annual tax levy for the Urbana Free Library on or before the 2nd Tuesday in December. The taxes are extended by the Champaign County Clerk against the equalized assessed valuation as of January 1st of the calendar year that the levy ordinance was enacted. Property tax bills are due and payable in two installments, the first half about June 1st and the balance about September 1st. The Champaign County Treasurer within a short time remits receipts after collection. No amount has been provided for delinquent taxes, since in past years, the amount has averaged less than one percent per year. The full amount of the property tax levy passed in December is accrued in the same fiscal year in the government-wide financial statements. The amount of property tax recognized in the governmental funds in the current year is that amount which is available to finance current operations, which is estimated to be 60% of the levy. Therefore, in governmental funds, 40% of the levy is deferred.

Note 4 – Capital Assets:

Capital assets, which include property, land, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial cost of more than $5,000 and an estimated useful life in excess of two years. These assets are recorded at historical cost or estimated historical cost if actual is not available. Donated fixed assets are valued at their estimated fair value on the date donated. Assets are depreciated using the straight line method over the following estimated useful lives: buildings 75 years, office furniture 10-25 years, and equipment 5-7 years. Land is not depreciated. Construction in Progress is not depreciated until the asset is placed in service. Capital asset activity for the year follows:

THE URBANA FREE LIBRARY
Notes to Financial Statements
For the Year Ended June 30, 2012

	Balance 06/30/11	Additions	Deletions	Balance 06/30/12
Land	$ 480,732	$ --	$ --	$ 480,732
Building and Improvements	$10,112,211	$ --	$ --	$10,112,211
Less Accum. Depreciation	(1,472,716)	(145,912)	--	(1,618,628)
Subtotal	$8,639,495	$(145,912)	$ --	$ 8,493,583
Equipment	$ 459,611	$ 171,364	$ --	$630,975
Less Accum. Depreciation	(263,488)	(41,568)	--	(305,056)
Subtotal	$ 196,123	$ 129,796	$ --	$ 325,919
Total Capital Assets	$11,052,554	$171,264	$ --	$11,223,918
Less Accum. Depreciation	(1,736,204)	(187,480)	--	(1,923,684)
Total, Net Capital Assets	$ 9,316,350	$ (16,116)	$ --	$ 9,300,234

Depreciation expense was charged to functions/programs as follows:

Administration	$11,665
Adult Department	85.426
Children's Department	36,673
Archives Department	12,496
Cafe	8,959
Maintenance	3,749
Acquisitions	10,197
Circulation	18,315
Total	$187,480

Note 5 – Accumulated Compensated Employee Absences:

Library employees are granted vacation and sick pay in various amounts. Sick leave and vacation benefits may be accumulated; however, upon death or retirement, employees are eligible to receive only a portion of accumulated time. Amounts for compensated absences are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, as a result of the employee leaving employment. The General

Fund will be used to liquidate these liabilities. Accumulated compensated employee absence activity for the year follows:

Balance, Beginning of Year	$154,381
Retired	(131,429)
Additions	181,987
Balance, End of Year	$ 204,939

Note 6 – Other Post Employment Benefits

The Library provides limited health insurance benefits to retired employees (employees are allowed to remain on the library's health insurance plan but must pay 100% of the cost). In accordance with GASB Statement No. 45, the Library accrues the implied actuarial amount owed less any amounts actually paid. At June 30, 2012, this amount was $13,684. During the year, $19,563 was contributed and $26,405 was added.

Note 7 - Budgetary Information:

Prior to July 1 of each year, the Library Board submits a budget for the general fund to the City of Urbana City Council in order to request the annual tax levy for the following year. The City of Urbana then adopts this tax levy appropriation request as part of the annual city appropriation ordinance. Budgets are adopted for the special revenue funds for internal management purposes only. Since budgets for the special revenue funds are not used to control expenditures, only a comparison of budgetary to actual is presented for the general fund. Budgetary control of the individual trust funds is provided by the agreements between the Library and the donor concerning authorized uses of the funds. There were three supplementary budget appropriations during the year: $84,607 in revenues and expenses was added for the café operations; $134,379 was added in revenues Intergovernmental-City of Urbana and $140,035 was added in Centralized Costs to recognize the purchase of a new electronic card catalogue system; and, $61,383 was added in revenues Intergovernmental-City of Urbana and $61,382 in expenses in various departments to recognize an adjustment in salaries subsequent to passage of the budget. There were also transfers of budget amounts between various departments that did not increase the overall total library budget. This budget is adopted on a basis consistent with generally accepted accounting principles (GAAP).

Encumbrances - The Library does not utilize encumbrance accounting, which provides for commitments of expenditures to be a reserve of fund balance at year-end.

Appropriations, which are not spent at year-end lapse, may be acted upon as a supplemental appropriation.

Note 8 – Home Rule Unit:

The City of Urbana is a Home Rule Unit under provisions of the Illinois Constitution. As a home rule community, no statutory limit exists on the issuance of debt or the levying of property taxes upon real estate.

Note 9 – Pension and Retirement Fund Commitments:

The City of Urbana (on behalf of the Library) pays all required employer contributions to the Illinois Municipal Retirement Fund (IMRF), an agent-multiple-employer public employee retirement system that acts as a common investment and administrative agent for local government units in Illinois. Information concerning the plan description and funding status is included in the Comprehensive Annual Financial Report of the City of Urbana. The value of these payments is $380,444 in 2012 (amounts include payments for social security and Medicare) . This amount is included in these financial statements allocated among the functional expenses and the payment from the City is reported as intergovernmental revenue.

Note 10 – Lease Commitments:

The Library has entered into a noncancellable lease for certain office equipment. The amounts paid under this lease agreement during 2012 was $13,140. There are 8 future minimum lease payments left under this lease ($8,760) at June 30, 2012.

Note 11 – Related Party Transactions:

In addition to IMRF employer payments described above, the Urbana Free Library and City of Urbana have entered into various other related party transactions. The most significant transactions are listed below:

1) The Library paid $11,956 to the City in 2012 for data processing services. It is anticipated that the Library will continue to pay this cost in the future.

2) The City paid the Library the approximate difference in the amount of the property tax levied and the actual property tax collected in order to keep the Library cash flows equal to the property tax levy. This amount was $19,784 in 2012. This amount approximates 40% of the difference between the current levy and the previous levy (because 40% of the taxes are deferred).

Note 12 – State Aid and Other Grants:

The Library was awarded $42,302 in 2012 from the State of Illinois as financial aid. Current state law provides this annual grant, based on population. This grant was funded from a federal Library Services and Technology grant. It is anticipated that this grant award will be continued in the future at similar amounts.

The Library received a grant of $22,500 grant in 2012 from Champaign County to reimburse the Library for costs of operating the Archives Department. The grant received each year covers the period from January 1 to December 31. Thus, one-half of the award ($11,250) is reported as deferred revenue at June 30, 2012. It is anticipated that this grant award will be continued in the future at similar amounts.

The Library was awarded a grant from the Urbana School District in the amount of $9,400 in 2012. This grant reimbursed the Library for costs of library services for students living in University of Illinois sponsored housing quarters and was part of a larger grant paid to the School District from the University of Illinois. It is anticipated that no further payments will be received under this grant award.

The Library received a grant from the State of Illinois through the Urbana School District for reimbursement of costs for instructional services to participants in the American History Teacher's Collaborative. At June 30, 2011, the Library had been advanced $6,300 from this grant. In 2012, the Library spent the remaining $6,300. It is uncertain if this grant program will be continued in the future.

Note 13 – Fund Equity:

Fund equity balances that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose are restricted net assets in the government-wide financial statements and reserved fund balances in the fund financial statements. The fund balance of the Library Materials Trust Fund was donated by private individuals for memorial purchases of library materials. The fund balance of the Foundations Fund was donated for future Foundation approved programs which might include future library building improvements. Thus, these fund balances are reserved for these purposes. A portion of the fund balance in the general fund ($145,548) has been designated by the Library to pay for future employee separation benefits. During the year, this amount was increased $34,445 by a transfer from undesignated fund balance. This designation is not a legal restriction or designation.

Note 14 - Risk Management:

The Library is exposed to various risks of loss related to torts, theft, damage and destruction of assets, errors and omissions, and natural disasters for which the Library carries commercial insurance. No claims have ever exceeded the amount of insurance coverage.

THE URBANA FREE LIBRARY

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2012

	Special Revenue Funds				
	Foundation	Publications	Grant	Trust Fund	Total
ASSETS					
Cash and Cash Equivalents:					
Checking	$ -	$ 1,917	$ 10	$ -	$ 1,927
Savings	-	50,168	1,790	-	51,958
Illinois Public Treasurer's Pool	-	211	-	-	211
Restricted Assets:					
Cash and Cash Equivalents:					
Checking	-	-	-	9,322	9,322
Savings	-	-	-	172,609	172,609
Illinois Public Treasurer's Pool	-	-	-	586	586
Goldman Sachs Govt. Money Market	129,182	-	-	-	129,182
Certificates of Deposit	120,661	-	-	-	120,661
Interest Receivable	183	-	-	-	183
Total Assets	$ 250,026	$ 52,296	$ 1,800	$ 182,517	$486,639
LIABILITIES AND FUND BALANCE					
Liabilities:					
Accounts Payable	$ -	$ 3,555	$ -	-	$ 3,555
Due to Other Funds	-	-	1,800	-	1,800
Total Liabilities	-	3,555	1,800	-	5,355
Fund Balance:					
Reserved for Foundation Programs	250,026	-	-	-	250,026
Reserved for Library Materials	-	-	-	182,517	182,517
Unreserved	-	48,741	-	-	48,741
Total Fund Balance	250,026	48,741	-	182,517	481,284
Total Liabilities and Fund Balance	$ 250,026	$ 52,296	$ 1,800	$ 182,517	$486,639

THE URBANA FREE LIBRARY

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds

For the Year Ended June 30, 2012

	Special Revenue Funds				
	Foundation	Publications	Grant	Trust Fund	Total
REVENUES:					
Intergovernmental-Grants	$ -	$ -	$ 6,300	$ -	$ 6,300
Donations	27,751	-	-	18,088	45,839
Interest	1,116	186	-	690	1,992
Sale of Books and Materials	-	7,234	-	27,240	34,474
Total Revenues	28,867	7,420	6,300	46,018	88,605
EXPENDITURES:					
Centralized Costs	6,916	-	-	7,727	14,643
Adult Department	-	-	-	16,279	16,279
Children's Department	-	-	-	6,539	6,539
Archives Department	-	-	-	2,884	2,884
Publishing Costs	-	4,495	-	-	4,495
Grant Programs	-	-	6,300	-	6,300
Total Expenditures	6,916	4,495	6,300	33,429	51,140
Excess of Revenues Over (Under) Expenditures	21,951	2,925	-	12,589	37,465
Other Financing Sources (Uses):					
Transfers In	-	-	-	-	-
Transfers Out	(2,950)	-	-	2,950	-
Total Other Financing Sources (Use	(2,950)	-	-	2,950	-
Net Changes in Fund Balance	19,001	2,925	-	15,539	37,465
Fund Balance, Beginning of the Year	231,025	45,816	-	166,978	443,819
Fund Balance, End of the Year	$ 250,026	$ 48,741	$ -	$ 182,517	$ 481,284