URBANA FREE LIBRARY

A COMPONENT UNIT OF THE CITY OF URBANA, ILLINOIS

COMMUNICATION TO THOSE CHARGED
WITH GOVERNANCE AND MANAGEMENT

As of and for the Year Ended June 30, 2018

URBANA FREE LIBRARY

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REQUIRED COMMUNICATION OF INTERNAL CONTROL RELATED MATTERS IDENTIFIED IN THE AUDIT TO THOSE CHARGED WITH GOVERNANCE

To the Library Board
Urbana Free Library
Urbana, Illinois

In planning and performing our audit of the financial statements of the Urbana Free Library as of and for the year ended June 30, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of its internal control. Accordingly, we do not express an opinion on the effectiveness of its internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a deficiency in internal control that we consider to be material weakness and others that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiency in the Library's internal control to be material weaknesses:

> External Financial Reporting

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the Library's internal control to be significant deficiencies:

> Segregation of Duties
> Information Technology Control Environment

The Urbana Free Library's written responses to the significant deficiencies and material weaknesses identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of management, the Library Board, and others within the organization and is not intended to be, and should not be, used by anyone other than these specified parties.

Baker Tilly Virchow Krause, LLP

Oak Brook, Illinois
December 19, 2018

EXTERNAL FINANCIAL REPORTING

Internal controls encompass all external financial reporting. Like most libraries in Illinois, the Library does not maintain an external financial reporting department or function, but relies on its audit firm for this purpose. However, the external auditor is, by definition, external to the Library and cannot be a part of the Library's internal control structure since management is responsible for the fair presentation of the financial statements. This includes drafting the individual fund statements, making conversion entries, drafting the government-wide statements, and preparing note disclosures. Without the assistance of the audit firm, it is unlikely that the Library would be able to prepare financial statements in accordance with generally accepted accounting principles.

Common attributes of a properly designed system of internal control over financial reporting include:

> Adequate staffing to prepare financial reports at the end of the year.

> Training to ensure staff is knowledgeable to perform all financial reporting functions.

> Identification and correction of material misstatements during the normal course of duties.

> Preparation of complete and accurate financial statements including notes to the financial statements.

> Review of financial reports by an individual who is not the preparer for completeness and accuracy.

While this is defined as a material weakness by accounting standards, it may not be practical or cost beneficial for the Library to mitigate this weakness. New accounting literature continues to be added at an astonishing pace and comes from a variety of sources. Employing an individual who remains current on the ever changing accounting and reporting standards can add significant financial cost to your internal control process. As such, the Library may choose to accept this risk as most libraries in this state have done.

During the course of the audit, we made certain adjustments to the Library's financial information to properly present the Library's financial information. In our opinion, had these adjustments not been made, the financial results of certain funds within the Library's financial statements would have been materially misstated. These entries have been brought to the attention of management.

Management Response: Current staffing levels are not adequate to prepare financial reports at the end of each year. The Library will continue to rely on Baker Tilly to prepare the financial statements because of the significant effort and specialized skill involved in that work. It may be appropriate to review that decision in the future, if staffing permits and appropriate software is available.

SEGREGATION OF DUTIES

A cornerstone of effective internal control is the existence of policies to support segregation of duties; this involves separation of the initiation, execution, approval and recording responsibilities for transactions. We noted a deficiency related to proper segregation of duties around the cash disbursement, payroll, and journal entries processes.

Cash Disbursements

> The same individual is responsible for initiating the purchase of office supplies, processing invoices, and generating checks. One individual having such control over the cash disbursement process presents a significant risk. Although the Library has attempted to implement certain compensating controls to mitigate the risks resulting from the lack of segregation of duties, we noted that these controls cannot be deemed effective as they can be circumvented. We recommend that the Library segregate responsibilities within the cash disbursement process to the greatest extent possible.

Payroll

> The same individual is responsible for changing pay rates and benefits, updating time records for hourly employees, processing payroll, and printing, signing and distributing checks. This presents a segregation of duties concern as one individual has significant control over the entire payroll cycle. In an ideal control environment, the duties of entering employee information and time reporting would be separate from the person responsible for processing payroll. These employees would also not have access to print, sign, or distribute payroll checks. While we noted independent reviews of each payroll run are completed, these reviews only partially mitigate risk as the controls can be circumvented and payroll can be processed without a review occurring. We recommend, in addition to the review controls already in place, segregating these responsibilities among multiple employees and limit access within the system such that segregated responsibilities could not be circumvented.

Journal Entries

> The same individual responsible for all aspects of the payroll process is also the only person able to post entries to the Library's general ledger system. Although journal entries may be prepared by someone other than the individual posting them and an independent review by someone who did not prepare or post the entries may occur, individuals have access to both prepare and post entries and there is no documentation of the independent review. We recommend that the independent review of journal entries be documented and formalized through signature or initials of the reviewer.

The absence of these controls could result in errors to financial data or could allow the misappropriation of Library assets to be concealed. We noted that, beginning in February 2018, the City and Library implemented the MUNIS financial management system, which addressed the deficiency noted in the Cash Disbursements and Journal Entries processes. However, since the old system was in place for the majority of the fiscal year, the finding will remain for fiscal year 2018. The Payroll finding remains unchanged.

Management Response: As stated above, with implementation of the new financial management system in February 2018, all journal entries are reviewed and approved by the Executive Director prior to posting if they are not part of the normal bill-paying cycle, which has multiple levels of approval. Entries cannot be posted without this electronic approval. Workflows and permissions in MUNIS provide different, more segregated access to appropriate employees, and a review process. These address the concerns mentioned.

SEGREGATION OF DUTIES – CASH DISBURSEMENTS (cont.)

Before Munis was implemented*, more controls were put in place on the back end. In FY17, A new Administration Clerk position was created, and the Clerk adds an extra layer of oversight into the beginning of the payroll review process. He checks timesheets as the first payroll step and does not have the ability to process the payroll and run checks. Two people were trained in the payroll process from beginning to end, and alternate doing each role to have a division of duties. It is possible one person could run the process from beginning to end, but the other person is waiting to do their part, so it is unlikely this would happen. Person A enters the timesheet data into the financial system and runs the report. Person B reviews the timesheets against the report and lets Person A know if there are errors. Only after this review is the payroll finalized and the checks run by Person B. In addition, a file of the first and last check cut for bills and payroll-related checks has been created. The person stamping checks signs off that the first check cut this payment cycle is the next one after the last check cut the last payment cycle. This control process has been in place for over two years. Again, this has changed with Munis.*

Given the size of the organization and the limited number of staff, The Library utilizes a number of back-end controls. Before Munis, all checks are stamped by either the Office Manager or the Assistant Manager of Circulation for the Library's Secretary; and other Administrators for the Board President. The Director of the Champaign County Historical Archives signed and dated the sheet which matches the checks to the payroll amount. Except for the turn of the fiscal year, employee rates do not change often, and these changes are reviewed and documented using Personnel Action Request Forms, which is signed by the person's supervisor, the department Director, and the Executive Director. After changes in pay rates are made currently, the form is filed in the employee's personnel file. Now, all checks are printed through Munis, which has layers of approval.

Additional controls related to changes in pay rates and benefits will be part of MUNIS. However, the new financial management system will include a human resources component, which will allow staff with HR functions to initiate those changes and electronically route them for approval. We are evaluating how these are working at the City before implementing all of them here.

Disbursements are and have been available near the top of the Library's Your Right to Know webpage http://urbanafreelibrary.org/your-right-know.

Independent review was formalized before Munis was implemented. The Executive Director printed and signed a copy of the Budget & Forecast. Once a month, at and Admin Team meeting, the Administrative Team acknowledged that their budget lines are in order (or why they are not in order) and this is included in the minutes, which are available to all staff.

INFORMATION TECHNOLOGY CONTROL ENVIRONMENT

An effective internal control system should include controls over the Library's information technology. These controls would provide the appropriate security for the Library's financial information to prevent unauthorized access or date loss. The Library implemented the MUNIS financial management system in February 2018, which included the implementation of a vastly improved IT control environment that mitigated previously existing risks. However, for the majority of the fiscal year, the Library operated on its old financial management system, which did not have sufficient controls in place over information technology. As such, we are required to report the significant deficiency existing during the fiscal year. Controls over information technology should include the following:

> A formal change management policy covering procedures around program updates, system changes, and ongoing maintenance. Additionally, changes should be authorized, documented, and tested before being placed into operation.

> A formal review of access to the financial accounting systems completed at least once a year by management to ensure that user access is appropriate for each individual's job responsibilities. Documentation of these periodic reviews should be retained.

> Restorations of backups on a proactive, periodic basis to ensure effectiveness of existing procedures.

> All financially impacted applications should have a login and password which is unique for every user and the user name should not be shared by anyone. A user should not have more than one username and shared system accounts should be removed/disabled.

In addition to the weaknesses in the Library's information technology controls noted above, the Library relied upon the expertise of a single City employee to maintain the custom-built general ledger software. This individual had unlimited access to the system, including the ability to alter source coding and financial databases. With no other individuals at the City or Library possessing the skills to maintain the general ledger system, the Library would have no general ledger support if the individual were to cease employment with the City. Such reliance on one individual to maintain the Library's financial data presented a significant risk to the Library's ability to maintain accurate and timely financial records. If possible, multiple individuals should be trained to maintain the general ledger software in case of emergency.

Management Response: As discussed above, deficiencies were addressed with implementation of the new financial management system. Access for users was reviewed as part of the implementation and will be reviewed on an ongoing basis. Each user has a unique user name and password. All backups are performed by the City's software vendor, who provides hosting services. Multiple people are responsible for Munis.

OTHER COMMUNICATIONS TO THOSE CHARGED WITH GOVERNANCE

TWO WAY COMMUNICATION REGARDING YOUR AUDIT

As part of our audit of your financial statements, we are providing communications to you throughout the audit process. Auditing requirements provide for two-way communication and are important in assisting the auditor and you with more information relevant to the audit.

As this past audit is concluded, we use what we have learned to begin the planning process for next year's audit. It is important that you understand the following points about the scope and timing of our next audit:

a. We address the significant risks of material misstatement, whether due to fraud or error, through our detailed audit procedures.

b. We will obtain an understanding of the five components of internal control sufficient to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures. We will obtain a sufficient understanding by performing risk assessment procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented. We will use such knowledge to:

   > Identify types of potential misstatements.
   > Consider factors that affect the risks of material misstatement.
   > Design tests of controls, when applicable, and substantive procedures.

   We will not express an opinion on the effectiveness of internal control over financial reporting or compliance with laws, regulations, and provisions of contracts or grant programs.

c. The concept of materiality recognizes that some matters, either individually or in the aggregate, are important for fair presentation of financial statements in conformity with generally accepted accounting principles while other matters are not important. In performing the audit, we are concerned with matters that, either individually or in the aggregate, could be material to the financial statements. Our responsibility is to plan and perform the audit to obtain reasonable assurance that material misstatements, whether caused by errors or fraud, are detected.

We are very interested in your views regarding certain matters. Those matters are listed here:

a. We typically will communicate with your top level of management unless you tell us otherwise.
b. We understand that the Library Board has the responsibility to oversee the strategic direction of your organization, as well as the overall accountability of the entity. Management has the responsibility for achieving the objectives of the entity.
c. We need to know your views about your organization's objectives and strategies, and the related business risks that may result in material misstatements.
d. Which matters do you consider warrant particular attention during the audit, and are there any areas where you request additional procedures to be undertaken?
e. Have you had any significant communications with regulators or grantor agencies?
f. Are there other matters that you believe are relevant to the audit of the financial statements?

TWO WAY COMMUNICATION REGARDING YOUR AUDIT (cont.)

Also, is there anything that we need to know about the attitudes, awareness, and actions of the Library concerning:

a. The Library's internal control and its importance in the entity, including how those charged with governance oversee the effectiveness of internal control?
b. The detection or the possibility of fraud?

We also need to know if you have taken actions in response to developments in financial reporting, laws, accounting standards, governance practices, or other related matters, or in response to previous communications with us.

With regard to the timing of our audit, here is some general information. If necessary, we may do preliminary financial audit work during the months of May or June and sometimes early July. Our final financial fieldwork, including the completion of single audit fieldwork, is scheduled during the fall to best coincide with your readiness and report deadlines. After fieldwork, we wrap up our financial audit procedures at our office and may issue drafts of our report for your review. Final copies of our report and other communications are issued after approval by your staff. This is typically 8-12 weeks after final fieldwork, but may vary depending on a number of factors.

Keep in mind that while this communication may assist us with planning the scope and timing of the audit, it does not change the auditor's sole responsibility to determine the overall audit strategy and the audit plan, including the nature, timing, and extent of procedures necessary to obtain sufficient appropriate audit evidence.

We realize that you may have questions on what this all means, or wish to provide other feedback. We welcome the opportunity to hear from you.

COMMUNICATION OF INFORMATIONAL POINTS TO MANAGEMENT THAT ARE NOT MATERIAL WEAKNESSES OR SIGNIFICANT DEFICIENCIES

INFORMATIONAL POINTS

INTERPRETING YOUR FINANCIAL STATEMENTS POST-GASB NO. 75

During the current year you elected to implement GASB Statement No. 75, which requires your government as the employer providing OPEB benefits to report the net OPEB liability in your full accrual financial statements. These standards are intended to parallel GASB Statements No. 67 and 68 for pensions provided through trusts, which together provide for more overall consistency and comprehensive guidance for pensions and other post-employment benefits.

Previously, your government only reported a net OPEB liability (or asset) to the extent that annual contributions fell short of (or exceeded) the actuarially estimated annual OPEB cost. In addition, the actuarially estimated annual OPEB cost included a mechanism to recognize the initial OPEB liability at the implementation of GASB Statement No. 45 over an extended period of years. Under the new standards your government is required to report the net OPEB liability, which is the difference between the total OPEB liability determined by the actuary and the net position in the OPEB trust fund. There are also OPEB-related deferred outflows and/or inflows due to the timing of benefit payments and to allow for smoothing of activity.

As of the June 30, 2018 measurement date used for your June 30, 2018 financial statements, the actuarially determined net OPEB liability for your plan is $62,793 and is reported as a noncurrent liability.

OPEB activity under GASB Statement No. 75 is reported in the government-wide financial statements, similar to long-term debt. The implementation of this new standard does not affect how you pay for or fund your OPEB benefits.

The accounting and reporting of OPEB has become more complex with the implementation of GASB Statement No. 75. We are available to answer any questions on how this new accounting standard affects your financial statements.

INFORMATIONAL POINTS (cont.)

UPCOMING LEASE STANDARD

In June 2017, the Governmental Accounting Standards Board (GASB) issued new guidance to establish a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This standard is effective for fiscal years ending on or after June 30, 2021. Statement No. 87, *Leases*, requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognize as inflows of resources or outflow of resources based on the payment provisions of the contract.

Under the new standard a lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Control is defined by 1) the right to obtain the present service capacity from the use of the underlying asset and 2) the right to determine the nature and manner of use of the underlying asset. Any contract that meets this definition should be accounted for under the lease guidance, unless specifically excluded in this statement. Leases include contracts that, although not explicitly identified as leases, meet the above definition of a lease.

The following are contract exclusions and exceptions from applying lease accounting:

- Intangible assets (mineral rights, patents, software, copyrights)
- Biological assets (including timber, living plants, and living animals)
- Service concession arrangements (See GASB Statement 60)
- Assets financed with outstanding conduit debt unless both the asset and conduit debt are reported by lessor
- Supply contracts (such as power purchase agreements that do not convey control of the right to use the underlying power generating facility)
- Inventory
- Short-term leases - max possible term 12 mo or less
- Leases that transfer ownership and do not contain termination options
- Leases of assets that are investments
- Certain regulated leases (e.g., airport-airline agreements)

We recommend the District review this standard and start planning how this will affect your financial reporting. An inventory of all contracts that might meet the definition of a lease should be started. The contract listing should include key terms of the contracts such as:

- Description of contract
- Underlying asset
- Contract term
- Options for extensions and terminations
- Service components, if any
- Dollar amount of lease

In addition, the Library should begin to establish a lease policy to address the treatment of common lease types, including a dollar threshold for each lease. We are available to discuss this further and help you develop an action plan.

INFORMATIONAL POINTS (cont.)

GASB UPDATE

The following is a schedule of GASB projects:

Task or Event	Effective Date	Impact
GASB No. 83 – Asset Retirement Obligations	June 30, 2019	The objective of this Statement is to improve financial reporting by developing requirements on recognition and measurement for asset retirement obligations, other than landfills.
GASB No. 84 – Fiduciary Activities	June 30, 2020	The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.
GASB No. 87– Leases	June 30, 2021	The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments.
GASB No. 88 – Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements	June 30, 2019	The objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including debt borrowings and direct placements.
GASB No. 89 -- Capitalization of Interest Cost	June 30, 2021	The objective of this Statement is to simplify the accounting and financial reporting standards for capitalization of interest cost, with the goal of enhancing the relevance of capital asset information and potentially simplifying financial reporting.
GASB No. 90 – Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61	June 30, 2020	The objective of this Statement is to improve financial reporting related to the reporting of majority equity ownership in legally separate entities.

***GASB UPDATES** (CONT.)*

Looking even further ahead, the Technical Agenda, below, outlines significant areas GASB is currently working on:

> Major Projects
  - Financial Reporting Model
  - Public-Private Partnerships
  - Revenue and Expense Recognition
> Practice Issues
  - Conduit Debt
  - Implementation Guidance
  - Subscription-Based Information Technology Arrangements
  - Implementation Guides – GASB No. 84 and No. 87
> Pre-Agenda Research
  - Compensated Absences
  - Going Concern
  - Deferred Compensation Plans
  - Prior-Period Adjustments, Accounting Changes, and Error Corrections

Through our firm involvement on AICPA committees, Baker Tilly follows these developments closely so that we can help you prepare for the changes as they evolve. This participation also allows us to share with GASB the experiences and perspectives of our clients to potentially influence the direction of future projects.

Full lists of projects, as well as many resources, are available on GASB's website which is located at www.gasb.org.

REQUIRED COMMUNICATIONS BY THE AUDITOR TO THOSE CHARGED WITH GOVERNANCE

To the Library Board
Urbana Free Library
Urbana, Illinois

Thank you for using Baker Tilly Virchow Krause, LLP as your auditor.

We have completed our audit of the financial statements of Urbana Free Library for the year ended June 30, 2018, and have issued our report thereon dated December 19, 2018. This letter presents communications required by our professional standards.

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA

The objective of a financial statement audit is the expression of an opinion on the financial statements. We conducted the audit in accordance with auditing standards generally accepted in the United States of America. These standards require that we plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements prepared by management with your oversight are free of material misstatement, whether caused by error or fraud. Our audit included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit does not relieve management or the Board of their responsibilities.

As part of the audit we obtained an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing and extent of further audit procedures. The audit was not designed to provide assurance on internal control or to identify deficiencies in internal control.

OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS

Our responsibility does not extend beyond the audited financial statements identified in this report. We do not have any obligation to and have not performed any procedures to corroborate other information contained in client prepared documents, such as official statements related to debt issues.

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters dated December 20, 2017.

To the Library Board
Urbana Free Library

Qualitative Aspects of the Entity's Significant Accounting Practices

Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Urbana Free Library are described in Note I to the financial statements. As described in Note I, the Library changed accounting policies related to reporting the other post-employment benefit liability by adopting GASB Statement No. 75 in 2018. Accordingly, the accounting change has been retrospectively applied to the prior period presented.

We noted no transactions entered into by the Urbana Free Library during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Depreciation expense
Total other post employment benefit (OPEB) liability

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Financial Statement Disclosures

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

During the audit, we identified material adjustments to the Library's financial information which were required to properly present the Library's financial results. The adjustments included the following:

- Adjustment to properly present beginning fund balances
- Adjustment to properly present current year activity in the Trust Fund, including the reversal of an erroneous entry made by the City to report year-to-date activity

Other adjustments identified during the audit were deemed, individually and in aggregate, to be immaterial to the financial statements, but were included in the financial statements. These entries have been furnished to management.

To the Library Board
Urbana Free Library

***CORRECTED AND UNCORRECTED MISSTATEMENTS** (CONT)*

In addition, we prepared GASB No. 34 conversion entries which are summarized in the “Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position” and the “Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities” in the financial statements.

A summary of uncorrected financial statement misstatements follows this required communication. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

DISAGREEMENTS WITH MANAGEMENT

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor’s report. We are pleased to report that no such disagreements arose during the course of our audit.

CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditors’ opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

MANAGEMENT REPRESENTATIONS

We have requested certain representations from management that are included in the management representation letter. This letter follows this required communication.

INDEPENDENCE

We are not aware of any relationships between Baker Tilly Virchow Krause, LLP and the Urbana Free Library that, in our professional judgment, may reasonably be thought to bear on our independence.

Relating to our audit of the financial statements of the Urbana Free Library for the year ended June 30, 2018, Baker Tilly Virchow Krause, LLP hereby confirms that we are, in our professional judgment, independent with respect to the Urbana Free Library in accordance with the Code of Professional Conduct issued by the American Institute of Certified Public Accountants. We provided no services to the Urbana Free Library other than audit services provided in connection with the audit of the current year’s financial statements and non-audit services which in our judgment do not impair our independence.

- Financial statement preparation
- Adjusting journal entries

None of these non-audit services constitute an audit under generally accepted auditing standards.

To the Library Board
Urbana Free Library

OTHER AUDIT FINDINGS OR ISSUES

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Urbana Free Library's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

OTHER MATTERS

We applied certain limited procedures to the required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the supplementary information which accompanies the financial statements but is not RSI. With respect to the supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Library Board and management and is not intended to be, and should not be, used by anyone other than these specified parties.

We welcome the opportunity to discuss the information included in this letter and any other matters. Thank you for allowing us to serve you.

Baker Tilly Virchow Krause, LLP

Oak Brook, Illinois
December 19, 2018

MANAGEMENT REPRESENTATIONS

December 19, 2018

Baker Tilly Virchow Krause, LLP
1301 W. 22nd Street
Suite 400
Oak Brook, IL 60523

Dear Baker Tilly Virchow Krause, LLP:

We are providing this letter in connection with your audit of the financial statements of the Urbana Free Library as of June 30, 2018 and for the year then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, the major funds, and aggregate remaining fund information of the Urbana Free Library and the respective changes in financial position in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control over financial reporting, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter.

2. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America. We have engaged you to advise us in fulfilling that responsibility. The financial statements include all properly classified funds of the primary government and all component units required by accounting principles generally accepted in the United States of America to be included in the financial reporting entity.

3. We acknowledge our responsibility for 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.

4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

5. Significant assumptions we used in making accounting estimates, if any, are reasonable.

6. Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of accounting principles generally accepted in the United States of America.

7. All events subsequent to the date of the financial statements and for which accounting principles generally accepted in the United States of America require adjustment or disclosure have been adjusted or disclosed. No other events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.

8. All material transactions have been recorded in the accounting records and are reflected in the financial statements.

9. We believe the effects of the uncorrected financial statement misstatements summarized in the attached schedule are immaterial, both individually and in the aggregate, to the basic financial statements as a whole. In addition, you have recommended adjusting journal entries, and we are in agreement with those adjustments.

10. The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America.

11. Guarantees, whether written or oral, under which the Urbana Free Library is contingently liable, if any, have been properly recorded or disclosed.

Information Provided

12. We have provided you with:

    a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as financial records and related data, documentation, and other matters.
    b. Additional information that you have requested from us for the purpose of the audit.
    c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
    d. Minutes of the meetings of Library Board or summaries of actions of recent meetings for which minutes have not yet been prepared.

13. We have disclosed to you results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

14. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:

    a. Management,
    b. Employees who have significant roles in internal control, or
    c. Others where the fraud could have a material effect on the financial statements.

15. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, regulators, or others.

16. We have no knowledge of known instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.

17. There are no known related parties or related party relationships and transactions of which we are aware.

Other

18. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

19. We have a process to track the status of audit findings and recommendations.

20. We have identified to you any previous financial audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.

21. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for our report.

22. The Urbana Free Library has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.

23. We are responsible for compliance with federal, state, and local laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits, debt contracts, and IRS arbitrage regulations; and we have identified and disclosed to you all federal, state, and local laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.

24. There are no:

    a. Violations or possible violations of budget ordinances, federal, state, and local laws or regulations (including those pertaining to adopting, approving and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, or for reporting on noncompliance, except those already disclosed in the financial statement, if any.

    b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by accounting principles generally accepted in the United States of America.

    c. Nonspendable, restricted, committed, or assigned fund balances that were not properly authorized and approved.

25. In regards to the nonattest services performed by you listed below, we have 1) accepted all management responsibility; 2) designated an individual with suitable skill, knowledge, or experience to oversee the services; 3) evaluated the adequacy and results of the services performed, and 4) accepted responsibility for the results of the services.

    a. Financial statement preparation
    b. Adjusting journal entries

    None of these nonattest services constitute an audit under generally accepted auditing standards, including *Government Auditing Standards*.

26. The Urbana Free Library has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

27. The Urbana Free Library has complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance.

28. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations, if any. Component units have been properly presented as either blended or discrete.

29. The financial statements properly classify all funds and activities.

30. All funds that meet the quantitative criteria in GASB Statement No. 34 and No. 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.

31. Components of net position (net investment in capital assets; restricted; and unrestricted) and components of fund balance (nonspendable, restricted, committed, assigned and unassigned) are properly classified and, if applicable, approved.

32. The Urbana Free Library has no derivative financial instruments such as contracts that could be assigned to someone else or net settled, interest rate swaps, collars or caps.

33. Provisions for uncollectible receivables, if any, have been properly identified and recorded.

34. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.

35. Revenues are appropriately classified in the statement of activities within program revenues and general revenues.

36. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.

37. Deposits and investments are properly classified, valued, and disclosed (including risk disclosures, collateralization agreements, valuation methods, and key inputs, as applicable).

38. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated/amortized. Any known impairments have been recorded and disclosed.

39. We have appropriately disclosed the Urbana Free Library's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available and have determined that net position were properly recognized under the policy. We have also disclosed our policy regarding which resources (that is, restricted, committed, assigned or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available.

40. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

41. With respect to the supplementary information, (SI):

    a. We acknowledge our responsibility for presenting the SI in accordance with accounting principles generally accepted in the United States of America, and we believe the SI, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the SI have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.

    b. If the SI is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.

42. We assume responsibility for, and agree with, the findings of specialists in evaluating the total OPEB liability and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had impact on the independence or objectivity of the specialists.

43. We agree with the restatement presented in the current year's financial statements.

44. We have evaluated and considered all potential tax abatements and believe all material tax abatements have been properly reported and disclosed.

45. We have implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions,* and believe that all liabilities, deferred outflows and deferred inflows have been identified and properly classified in the financial statements and any other required classifications and RSI have been computed in compliance with the Standard.

46. We are responsible for the estimation methods and assumptions used in measuring assets and liabilities reported or disclosed at fair value, including information obtained from brokers, pricing services or third parties. Our valuation methodologies have been consistently applied from period to period. The fair value measurements reported or disclosed represent our best estimate of fair value as the measurement date in accordance with the requirements of GASB 72 – *Fair Value Measurement*. In addition our disclosures related to fair value measurements are consistent with the objectives outlined in GASB 72. We have evaluated the fair value information provided to us by brokers, pricing services or other parties that has been used in the financial statements and believe this information to be reliable and consistent with the requirements.

Sincerely,

Urbana Free Library

Celeste B. Choate

Signed: ______________________________
Celeste Choate, Executive Director

Urbana Free Library
SUMMARY OF UNCORRECTED FINANCIAL STATEMENT MISSTATEMENTS

As of and For the Year Ended June 30, 2018

	Financial Statements Effect - Debit (Credit) to Financial Statement Total						
	Total Assets/ Deferred Outflows	Total Liabilities/ Deferred Inflows	Total Net Position/ Fund Balances	Total Revenues	Total Expenses/ Expenditures	Change in Net Position/ Fund Balances	Beginning Net Position/ Fund Balances
General Fund	$ -	$ (10,290)	$ 10,290	$ -	$ (2,140)	$ (2,140)	$ 12,430