

CITY OF URBANA
FINANCE DEPARTMENT
REQUEST FOR PROPOSALS
FOR
PROFESSIONAL AUDITING SERVICES
FOR FISCAL YEARS ENDING JUNE 30TH

**400 S. VINE STREET
P. O. BOX 219
URBANA, IL 61803**

Released: March 5, 2014

REQUEST FOR PROPOSALS

The City of Urbana will receive sealed proposals from qualified firms of certified public accountants to audit its financial statement for the fiscal years ending June 30, 2014 and each of the subsequent three years in accordance with this request for proposal.

Proposals will be accepted by the City until 4:00 PM on Wednesday, April 2nd, 2014 at which time all proposals will be opened and publicly acknowledged. All proposals must be received prior to the date and time shown above. Proposals transmitted by facsimile or email will not be accepted.

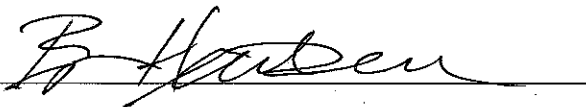
Proposals must be submitted in a sealed envelope marked in the lower left hand corner:

"AUDIT SERVICES PROPOSAL"

Address proposals to:

Rich Hentschel
Finance Department
City of Urbana
400 S. Vine St.
Urbana, IL 61803

For the City of Urbana:

A handwritten signature in black ink, appearing to read "R. Hentschel", is written over a horizontal line.

CITY OF URBANA
REQUEST FOR PROPOSALS
TABLE OF CONTENTS

I. INTRODUCTION

- A. General Information
- B. Term of Engagement
- C. Subcontracting
- D. Special Note

II. NATURE OF SERVICES REQUIRED

- A. General
- B. Scope of Work to be Performed
- C. Auditing Standards to be Followed
- D. Reports to be Issued
- E. Special Considerations
- F. Working Paper Retention and Access to Working Papers

III. DESCRIPTION OF THE GOVERNMENT

- A. Contact Information
- B. Background Information
- C. Fund Structure
- D. Basis of Budgeting
- E. Federal and State Awards
- F. Pension Plans
- G. Component Units
- H. Magnitude of Finance Operations
- I. Computer Systems
- J. Availability of Prior Reports and Working Papers

IV. TIME REQUIREMENTS

- A. Proposal Calendar
- B. Date Audit May Commence
- C. Schedule for the 2014 Fiscal Year Audit
 - 1. Field Work
 - 2. Final Adjustments
 - 3. Draft Reports

V. ASSISTANCE TO BE PROVIDED TO THE AUDITOR AND REPORT PREPARATION

- A. Support by the Finance Department
- B. Electronic Data Processing (EDP) Assistance
- C. Work Area, Telephone, Photocopying and FAX Machines
- D. Report Preparation

VI. PROPOSAL REQUIREMENTS

A. General Requirements

- 1. Submission of Notification of Interest
- 2. Pre-proposal Conference and On-site Inspections
- 3. Inquiries
- 4. Submission of Proposals

B. Technical Proposal

- 1. General Requirements
- 2. Independence
- 3. License to Practice in Illinois
- 4. Firm Qualifications and Experience
- 5. Partner, Supervisory and Staff Qualifications and Experience
- 6. Similar Engagements with Other Government Entities
- 7. Specific Audit Approach
- 8. Identification of Anticipated Potential Audit Problems

C. Sealed Dollar Cost Bid

- 1. Total All-Inclusive Maximum Price for each of the four (4) years
- 2. Rates by Partner, Specialist, Supervisory and Staff Level Times Hours Anticipated for Each
- 3. Out-of-pocket Expenses in the Total All-inclusive Maximum Price and Reimbursement Rates
- 4. Rates for Additional Professional Services

VII. EVALUATION PROCEDURES

- A. Review of Proposals
- B. Evaluation Criteria
 - 1. Mandatory Elements
 - 2. Technical Qualifications
 - 3. Price
- C. Oral Presentations
- D. Final Selection
- E. Right to Reject Proposals

APPENDICES

- A. City of Urbana Organizational Chart
- B. Urbana Free Library audit report for June 30th, 2013
- C. City of Urbana Police Pension Fund audit report for June 30th, 2013
- D. City of Urbana Firemen's Pension Fund audit report for June 30th, 2013
- E. Schedule of Professional Fees and Expenses to Support the Total All-Inclusive Maximum Price

CITY OF URBANA
REQUEST FOR PROPOSALS

I. INTRODUCTION

A. General Information

The City of Urbana is requesting proposals from qualified firms of certified public accountants to audit its financial statements for the fiscal year ending June 30, 2014, with the option of auditing its financial statements for each of the three (3) subsequent fiscal years. These audits are to be performed in accordance with generally accepted auditing standards, the standards set forth for financial audits in the U.S Government Accountability Office's (GAO) *Government Auditing Standards* (1994), the provisions of the federal Single Audit Act of 1984 (as amended in 2011) and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

There is no expressed or implied obligation for the City of Urbana to reimburse responding firms for any expenses incurred in preparing proposals in response to this request.

A pre-proposal conference for all the firms interested in submitting a proposal will be held at 2:00 p.m. on March 12, 2014 at City of Urbana City Hall, 400 S. Vine Street to answer questions about the engagement. After this pre-proposal conference, any inquiries concerning the request for proposals must be received in writing by the City of Urbana addressed to Rich Hentschel, Comptroller, by 4:00 PM on March 18th, 2014.

Any firm interested in receiving the response to questions received must either have a representative at the pre-proposal conference or indicate their interest in responding to this RFP by stating such in an email to rhentschel@urbanaininois.us, by 4:00 PM on March 18th, 2014. All interested firms will be provided the answers to questions received by the deadline via e-mail.

To be considered, six (6) printed copies and one (1) electronic copy on compact disc of a proposal must be received by Rich Hentschel, Comptroller, by 4:00 p.m. on Wednesday, April 2nd, 2014. The City of Urbana reserves the right to reject any or all proposals submitted.

Proposals submitted will be evaluated by a five-member Evaluation Committee consisting of:

1. Mayor Laurel Prussing
2. Rich Hentschel, Comptroller
3. Elizabeth Beaty, Finance Manager
4. Matthew Dillon, Deputy Comptroller
5. Carol Baker, Urbana Park District

The City of Urbana reserves the right to change membership in the Evaluation Committee at any time.

During the evaluation process, the Evaluation Committee reserves the right, where it may serve the City of Urbana's best interest, to request additional information or clarifications from proposers, or to allow corrections of errors or omissions. At the discretion of the City of Urbana or the Evaluation Committee, firms submitting proposals may be requested to make oral presentations as part of the evaluation process.

The City of Urbana reserves the right to retain all proposals submitted. Submission of a proposal indicates acceptance by the firm of the conditions contained in this request for proposals, unless clearly and specifically noted in the proposal submitted and confirmed in the contract between the City of Urbana and the firm selected.

It is anticipated the selection of a firm by the City Council will be completed by May 5th, 2014. Following the notification of the selected firm, it is expected a contract will be executed between both parties by May 9th, 2014.

B. Term of Engagement

A 5 year contract is contemplated, subject to the satisfactory negotiation of terms including a price acceptable to both the City of Urbana and the selected firm.

C. Subcontracting

NO SUBCONTRACTING will be permitted.

D. SPECIAL NOTE: At the date of the release of this RFP the City of Urbana had not yet completed its FY2012-13 audit normally due by December 31st, 2013. The City expects that the audit will be completed by mid-March. At the time of its completion the City will release copies of the audit to all those firms having a representative at the pre-proposal conference or express an interest in responding to this RFP through the process described herein.

II. NATURE OF SERVICES REQUIRED

A. General

The City of Urbana is soliciting the services of qualified firms of certified public accountants to audit its financial statements for the fiscal year ending June 30, 2014, and each of the four (4) subsequent fiscal years. These audits are to be performed in accordance with the provisions contained in this request for proposals.

B. Scope of Work to be Performed

1. Basic Services:

a. The City of Urbana desires the auditor to express an opinion on the fair

presentation of the financial position of its governmental activities, its business-type activities, its fiduciary funds, its aggregate discretely presented component unit (the Urbana Free Library), each of its major funds, and its aggregate remaining fund information, in conformity with generally accepted accounting principles. In addition, the City desires to auditor to audit the financial statements and express an opinion separately on the fair presentation of the financial position of the Urbana Free Library, the Police Pension Fund, and the Firemen's Pension Fund.

- b. The City of Urbana also desires the auditor to express an opinion on the fair presentation of its combining and individual fund financial statements and schedules for the City, including its component unit. The auditor is not required to audit the supporting schedules contained in the comprehensive annual financial report. However, the auditor is to provide an "in-relation-to" opinion on the supporting schedules based on the auditing procedures applied during the audit of the basic financial statements and the combining and individual fund financial statements and schedules. The auditor is not required to audit the introductory section of the report or the statistical section of the report. The City desires the auditor to do similarly for the Urbana Free Library, the Police Pension Fund and the Firemen's Pension Fund separately.
- c. The auditor shall also be responsible for performing certain limited procedures involving required supplementary information required by the Governmental Accounting Standards Board as mandated by generally accepted auditing standards.
- d. The auditor will report on compliance with Public Act 85-1142 for each Tax Increment Financing District.
- e. The auditor is required to audit the schedule of expenditures of federal awards and file with the Federal Audit Clearinghouse.

2. Additional Services:

- a. It is the intent of the City of Urbana that the auditors prepare the financial exhibit sections of the Comprehensive Annual Financial Report for the fiscal year ending June 30, 2014 for the City including the Urbana Free Library and Police and Firemen's Pension Funds based on financial and other information provided by the City. This is to include the 1) all government wide financial statements, 2) all fund financial statements, 3) all reconciliations, 4) all notes to the financial statements, and 5) all combining and individual fund statements. The City may desire the auditors to provide these services in subsequent years of the engagement at the sole discretion of the City.

C. Auditing Standards To Be Followed

To meet the requirements of this request for proposals, the audit shall be performed in accordance with generally accepted auditing standards as set forth by the American Institute of Certified Public Accountants, the standards for financial audits

set forth in the U.S. Government Accountability Office's *Government Auditing Standards* (1994), the provisions of the Single Audit Act of 1984 (as amended in 2011) and the provisions of U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, Audits of State and Local Governments.

D. Reports to be Issued

Following the completion of the audit of the fiscal year's financial statements, the auditor shall issue:

1. A report on the fair presentation of the financial statements in conformity with generally accepted accounting principles, including an opinion on the fair presentation of the supplementary schedule of expenditures of federal awards in relation to the audited financial statements in accordance with OMB circular A-133 (Single Audit Act).
2. A report on compliance with Public Act 85-1142 for each Tax Increment Financing District.
3. A report on compliance and internal control over financial reporting based on an audit of the financial statements.
4. A report on compliance and internal control over compliance applicable to each major federal program.

In the required report[s] on compliance and internal controls, the auditor shall communicate any significant deficiency or material weakness found during the audit. A *significant deficiency* shall be defined as a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. A *material weakness* shall be defined as a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. Significant deficiencies that are also material weaknesses shall be identified as such in the report.

Control deficiencies discovered by the auditors that are neither significant deficiencies nor material weaknesses shall be reported in a separate letter to management, which shall be referred to in the report[s] on compliance and internal controls. A *control deficiency* shall be deemed to have occurred whenever 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 misstatements on a timely basis.

The reports on compliance and internal controls shall include all instances of noncompliance.

Irregularities and illegal acts. Auditors shall be required to make an immediate, written report of all irregularities and illegal acts of which they become aware to the Mayor and City Council

Reporting to the Mayor and City Council. Auditors shall assure themselves that the Mayor and City Council is informed of each of the following:

1. The auditor's responsibility under generally accepted auditing standards
2. Significant accounting policies
3. Management judgments and accounting estimates
4. Significant audit adjustments
5. Auditor's judgments about the quality of the entity's accounting principles
6. Other information in documents containing audited financial statements
7. Disagreements with management
8. Management consultation with other accountants
9. Major issues discussed with management prior to retention
10. Difficulties encountered in performing the audit

E. Special Considerations

1. The financial statements of the Urbana Free Library are included as a component unit of the financial statements of the City of Urbana, as well as being reported separately (see Appendix B).
2. The City of Urbana will send its comprehensive annual financial report to the Government Finance Officers Association of the United States and Canada for review in their Certificate of Achievement for Excellence in Financial Reporting program. It is anticipated that the auditor will be required to provide special assistance to the City of Urbana to meet the requirements of that program. The auditors will prepare the written response to GFOA comments. The City has received this award 23 out of 24 years.
3. The City of Urbana anticipates it will prepare one or more official statements in connection with the sale of debt securities which will contain the general purpose financial statements and the auditor's report thereon. The auditor shall be required, if requested by the fiscal advisor and/or the underwriter, to issue a "consent and citation of expertise" as the auditor and any necessary "comfort letters."
4. The City of Urbana has determined that the United States Department of

Housing and Urban Development (HUD) will function as the cognizant agency in accordance with the provisions of the Single Audit Act of 1984 (as amended in 2011) and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

5. The Schedule of Expenditures of Federal Awards and related auditor's report, as well as the reports on compliance and internal controls are to be issued as part of the comprehensive annual financial report, but are to be issued separately.
6. The City of Urbana would also rely on the auditors to answer minor questions throughout the contract period without additional fees being charged by the auditor.
7. The Auditors are expected to prepare the notes to the financial report.
8. The proposal should state if the firm has a newsletter which is intended to update clients monthly or quarterly.
9. The proposal should generally describe the type of assistance requested from City staff during each audit engagement
11. The auditors will produce 12 copies of the audited financial reports (similar to the most recent year), 12 copies of the single audit report and 3 copies of the management letter.
12. The annual statements for Police and Fire Pension Funds will be prepared as required by the Department of Insurance. One original of each is required.

F. Working Paper Retention and Access to Working Papers

All working papers and reports must be retained, at the auditor's expense, for a minimum of seven (7) years, unless the firm is notified in writing by City of Urbana of the need to extend the retention period. The auditor will be required to make working papers available, upon request, to the following parties or their designees:

- City of Urbana
- United State Department of Housing and Urban Development (HUD)
- U.S. Government Accountability Office (GAO)
- Parties designated by the federal or state governments or by the City of Urbana as part of an audit quality review process
- Auditors of entities of which the City of Urbana is a subrecipient of grant funds

- Auditors of entities of which the City of Urbana is a component unit

In addition, the firm shall respond to the reasonable inquiries of successor auditors and allow successor auditors to review working papers relating to matters of continuing accounting significance.

III. DESCRIPTION OF THE GOVERNMENT

A. Contact Information

The auditor's principal contact with the City of Urbana will be Rich Hentschel, Comptroller at (217) 384-2310, or at rrhentschel@urbanaininois.us or a designated representative, who will coordinate the assistance to be provided by the City of Urbana to the auditor.

B. Background Information

The City of Urbana, chartered in 1855, is a home-rule municipality located in Champaign County, which is situated in east central Illinois, approximately 135 miles south of Chicago and 45 miles west of the Indiana border. The University of Illinois is located in both Urbana and Urbana's twin city of Champaign. Urbana's population is estimated at 41,275 and 11.9 square miles are within the City boundaries. The City operates under the Council-Mayor form of government. The legislative authority of the City is vested in a seven-member council, each elected from their respective districts. The Mayor is elected at large. Each member and the Mayor serve a four-year term. The Mayor recommends and the City Council approves department heads.

The City of Urbana provides a full range of municipal services, as outlined below:

Police:	Patrol, Traffic Control, and Criminal Investigation
Fire:	Fire Suppression, Fire Prevention, and Emergency Medical Assistance
Public Works:	Street Maintenance and Reconstruction, Traffic Maintenance, Street Lighting Maintenance and Reconstruction, Sanitary and Storm Sewer Maintenance and Reconstruction, Arbor Maintenance and Improvement, Parking (on enterprise basis)
Community Development:	Planning and Zoning Enforcement, Building Inspection, Economic Development, and Housing Improvement
Other Services:	Library Services, Human Relations

The City of Urbana also participates in a joint venture with the City of Champaign, the Champaign-Urbana Solid Waste Disposal System (CUSWDS). CUSWDS is responsible for overseeing closeout and long-term maintenance of the old regional landfill site.

Urbana's share of the joint venture is 38.2% and is shown as an asset called Investment in Joint Ventures. The joint venture does not meet the criteria for inclusion in the City's financial report as a component unit, however; financial information for the joint venture is included in the notes to the financial statements. Financial statements for the joint venture may be obtained at the following address:

Champaign-Urbana Solid Waste Disposal System
706 South Glover Street
Urbana, Illinois 61801

The City of Urbana has a total payroll of \$25 million covering 324 employees.

The City of Urbana is organized into 9 departments with multiple divisions therein. The accounting and financial reporting functions of the City of Urbana are centralized.

More detailed information on the government and its finances can be found in the budget document and/or the annual financial reports. These documents can be accessed on the internet at www.urbanaininois.us .

C. Fund Structure

The City of Urbana uses the following fund types and account groups in its financial reporting:

<u>Fund Type</u>	<u>Number of Individual Funds</u>	<u>Number With Legally Adopted Annual Budgets</u>
General Fund*	1	1
Special Revenue Funds	13	13
Debt Service Funds	1	1
Capital Projects Funds	4	4
Enterprise Funds	1	1
Internal Service Funds	1	1
Pension (and other employee benefits)	2	2
Trust Funds		

*7 individual funds are combined to General Fund for reporting purposes.

D. Basis of Budgeting

The City of Urbana prepares its budgets on a basis consistent with generally accepted accounting principles.

E. Federal and State Awards

During the 2013 fiscal year, the City of Urbana received the following:

Federal Grantor/Pass Through

Grantor/Program Title

ARRA:

Passed Through the State of Illinois, University of Illinois:
Broadband Technology Opportunities Grant

U.S. Department of Housing and Urban Development:

Direct Funding:
HOME Investment Partnership Program *
Community Development Block Grant
Supportive Housing Program Grant

U.S. Department of Energy:

Direct Funding:
Recovery Act, EECBG Grant

U.S. Department of Education:

Passed Through the State of Illinois,
Office of Secretary of State:
Library Services & Technology Grant

U.S. Department of Emergency Management:

Direct Funding:
Fire Services Training Grant
Fire Equipment

U.S. Department of Justice::

Direct Funding:
Police Vest Program Reimbursement Grant
Passed Through the City of Champaign:
Edward Byrne Memorial Justice Grant
Edward Byrne Memorial Justice Grant

U.S. Department of the Interior

Passed through State of Illinois
Historic Preservation Agency:
Certified Local Government Grant
Certified Local Government Grant

* Denotes a major program

F. Pension Plans

The City of Urbana participates in the following pension plans:

Illinois Municipal Retirement Fund (IMRF)
Police Pension Fund

Fire Pension Fund

Actuarial services for the Police and Fire Pension plans are provided by Timothy W. Sharpe, Actuary.

G. Component Units

The City of Urbana is defined, for financial reporting purposes, in conformity with the Governmental Accounting Standards Board's *Codification of Governmental Accounting and Financial Reporting Standards*, Section 2100. Using these criteria, component units are included in the City of Urbana's financial statements.

The management of the City of Urbana identified the following component units for inclusion in the City of Urbana's financial statements:

Urbana Free Library (Fiscal Year ends June 30th)
Contact Person: Kathy Wicks

Location of Records: Urbana Free Library

H. Magnitude of Finance Operations

The finance department is headed by Rich Hentschel, Comptroller, and consists of 12 employees. The principal functions performed and the number of employees assigned to each are as follows:

Deputy Comptroller:

Matthew Dillon is responsible for general ledger maintenance, payroll and accounts payable processes, and certain revenue receipts. Matt supervises a payroll specialist, and an accounts payable specialist.

Finance Supervisor, Parking Administrator:

Elizabeth Beaty supervises 2 full-time Customer Service Account Clerks, 1 full-time Administrative Assistant and 3 full-time and 1 part-time parking enforcement officers. She also assists with banking activity, administration of third-party agreements, cash receipts and daily balancing of cash drawer.

I. Computer Systems

Hardware

138 personal computers (includes laptops), 17 servers, 69 printers, and 2 iSeries (AS/400).

Software

The City uses an internally developed financial system written on the AS/400 platform. In addition, the City has internally developed systems for Payroll and Budget Preparation.

J. Availability of Prior Audit Reports and Working Papers

Interested proposers who wish to review prior years' audit reports and management letters should search this website: www.urbanaininois.us, . The City of Urbana will use its best efforts to make prior audit reports and supporting working papers available to proposers to aid in their response to this request for proposals.

IV. TIME REQUIREMENTS

A. Proposal Calendar

The following is a list of key dates up to and including City Council approval.

Request for proposal issued	March 5, 2014
Pre-proposal conference	March 12, 2014 (2:00 p.m.)
Questions and Expressions of Interest no later than	March 18, 2014 (4:00 p.m.)
Due date for proposals	April 2, 2014 (4:00 p.m.)
Selected proposer presentations	April 16, 2014 (TBD)
Council Approval	May 5, 2014

B. Date Audit May Commence

The City of Urbana will have all records ready for audit (excluding Transmittal letter, notes and Statistical Section) and all management personnel available to meet with the firm's personnel in May.

C. Schedule for the 2014 Fiscal Year Audit (A similar time schedule will be developed for audits of future fiscal).

Each of the following should be completed by the auditor no later than the dates indicated.

1. Fieldwork

The auditor shall complete fieldwork by mid-September.

2. Final Adjustments

The auditor will supply final adjusting entries to Finance by early to mid-October.

3. Draft Reports

The auditor shall have all financial exhibits for fiscal year ending June 30, 2014 and the notes to the financial statements and recommendations to management available for review by the Finance Department by late October.

The Finance Department will provide the document in final format for auditor review by early to mid-November. The report should go to the printer by mid-November. City Council meetings are held the first and third Mondays of each month. Financial reports must be available for distribution one to two weeks prior to the Council meeting.

V. ASSISTANCE TO BE PROVIDED TO THE AUDITOR AND REPORT PREPARATION

A. Support by the Finance Department

Finance Department staff and responsible management personnel will be available during the audit to assist the firm by providing information, documentation and explanations. The preparation of confirmation letters will be the responsibility of the City of Urbana. The mailing of the confirmation letters shall be the responsibility of the auditing firm. The City will have personnel available to assist the auditor in performing the engagement.

B. Electronic Data Processing Assistance

Information Technology personnel will be available to provide systems documentation and explanations. The auditor will be provided computer time and the use of the City of Urbana's computer hardware and software.

C. Work Area

The City of Urbana will provide the auditor with reasonable work space, desks and chairs. The auditor will also be provided with access to photocopying facilities.

D. Report Preparation

When requested by the City of Urbana, the auditor will prepare and deliver in electronic form to the City, 1) all government wide financial statements, 2) fund financial statements, 3) reconciliations, 4) notes to the financial statements, 5) combining and individual fund statements, and 6) the compliance audit. The City of Urbana will be responsible for compiling and printing the Comprehensive Annual Financial Report and the Compliance Audit.

VI. PROPOSAL REQUIREMENTS

A. General Requirements

1. Submission of Notification of Interest

Firms interested in submitting a proposal must attend the pre-proposal conference on March 12th or send an e-mail notification to Rich Hentschel, Comptroller at rhentschel@urbanaininois.us, with a copy to Phyllis Clark, City Clerk, at pdclark@urbanaininois.us by 4:00 p.m. on March 18, 2014 expressing such an interest.

2. Pre-proposal Conference

A conference for firms interested in submitting proposals will be held at 2:00 p.m. on Wednesday, March 12th at the City of Urbana.

Both verbal and written questions will be accepted during the conference. Questions received at the pre-proposal conference, and those received in writing by the deadline, will be distributed to all firms that attended the pre-proposal conference or submitted an e-mail notification of interest.

3. Inquiries

Inquiries concerning the request for proposals and the subject of the request for proposals must be made to:

Rich Hentschel
Comptroller
City of Urbana
400 S. Vine St.
Urbana, IL 61803

CONTACT WITH PERSONNEL OF THE CITY OF URBANA OTHER THAN RICH HENTSCHEL, COMPTROLLER, REGARDING THIS REQUEST FOR PROPOSALS MAY BE GROUNDS FOR ELIMINATION FROM THE SELECTION PROCESS.

4. Submission of Proposals

The following material is required to be received by 4:00 p.m. on Wednesday, April 2nd, 2014, for a proposing firm to be considered:

a. A master copy (so marked) of a Technical Proposal with five (5) printed copies and one (1) electronic copy on compact disc to include the following:

i. Title Page

Title page showing the request for proposals subject; the firm's name; the name, address and telephone number of the contact person; and the date of the proposal.

ii. Table of Contents

iii. Transmittal Letter

A signed letter of transmittal briefly stating the proposer's understanding of the work to be done, the commitment to perform the work within the time period, a statement why the firm believes itself to be best qualified to perform the

engagement and a statement that the proposal is a firm and irrevocable offer for the four-year period.

iv. Detailed Proposal

The detailed proposal should follow the order set forth in Section VI B of this request for proposals.

- b. The proposer shall submit their proposal and a separately sealed envelope with the dollar cost bid marked as follows:

SEALED DOLLAR COST BID PROPOSAL FOR
City of Urbana
FOR
PROFESSIONAL AUDITING SERVICES
Due: April 2nd, 2014

- c. Proposers should send the completed proposal and sealed dollar cost bid to the following address:

Rich Hentschel
Finance Department
City of Urbana
400 S. Vine St.
Urbana, IL 61803

B. Technical Proposal

1. General Requirements

The purpose of the Technical Proposal is to demonstrate the qualifications, competence and capacity of the firms seeking to undertake an independent audit of the City of Urbana in conformity with the requirements of this request for proposals. As such, the substance of proposals will carry more weight than their form or manner of presentation. The Technical Proposal should demonstrate the qualifications of the firm and of the particular staff to be assigned to this engagement. It should also specify an audit approach that will meet the request for proposals requirements.

THERE SHOULD BE NO DOLLAR UNITS OR TOTAL COSTS INCLUDED IN THE TECHNICAL PROPOSAL DOCUMENT.

The Technical Proposal should address all the points outlined in the request for proposals (excluding any cost information which should only be included in the sealed dollar cost bid). The Proposal should be prepared simply and economically, providing a straightforward, concise description of the proposer's capabilities to satisfy the requirements of the request for proposals. While additional data may be presented, the following subjects, items Nos. 2 through 8, must be included. They represent the criteria against which the proposal will be evaluated.

2. Independence

The firm should provide an affirmative statement that it is independent of the City of Urbana as defined by generally accepted auditing standards.

The firm also should provide an affirmative statement that it is independent of all of the component units of the City of Urbana as defined by those same standards.

The firm should also list and describe the firm's professional relationships involving the City of Urbana or the Urbana Free Library or the Police or Firemen's Pension Funds for the past five (5) years, together with a statement explaining why such relationships do not constitute a conflict of interest relative to performing the proposed audit.

In addition, the firm shall give the City of Urbana written notice of any professional relationships entered into during the period of this agreement.

3. License to Practice in the State of Illinois.

An affirmative statement should be included that the firm and all assigned key professional staff are properly licensed to practice in the State of Illinois.

4. Firm Qualifications and Experience

The proposer should state the size of the firm, the size of the firm's governmental audit staff, the location of the office from which the work on this engagement is to be performed and the number and nature of the professional staff to be employed in this engagement on a full-time basis and the number and nature of the staff to be so employed on a part-time basis.

If the proposer is a joint venture or consortium, the qualifications of each firm comprising the joint venture or consortium and each individual expected to participate in the audit(s) should be separately identified and the firm that is to serve as the principal auditor should be noted, if applicable.

The firm is also required to submit a copy of the report on its most recent external quality control review, with a statement whether that quality control review included a review of specific government engagements.

The firm shall also provide information on the results of any federal or state desk reviews or field reviews of its audits during the past three (3) years. In addition, the firm shall provide information on the circumstances and status of any disciplinary action taken or pending against the firm or any individual which is expected to participate in any phase of the audit(s) during the past three (3) years with state regulatory bodies or professional organizations.

5. Partner, Supervisory and Staff Qualifications and Experience

Identify the principal supervisory and management staff, including engagement partners, managers, other supervisors and specialists, who would be assigned to the engagement. Indicate whether each such person is registered or licensed to practice as a certified public accountant in the State of Illinois. Provide information on the government auditing experience of each person, including information on relevant continuing professional education for the past three (3) years and membership in professional organizations relevant to the performance of this audit.

Provide as much information as possible regarding the number, qualifications, experience and training, including relevant continuing professional education, of the specific staff to be assigned to this engagement. Indicate how the quality of staff over the term of the agreement will be assured. Engagement partners, managers, other supervisory staff and specialists may be changed if those personnel leave the firm, are promoted or are assigned to another office. These personnel may also be changed for other reasons with the express prior written permission of the City of Urbana. However, in either case, the City of Urbana retains the right to approve or reject replacements.

Consultants and firm specialists mentioned in response to this request for proposal can only be changed with the express prior written permission of the City of Urbana, which retains the right to approve or reject replacements.

Other audit personnel may be changed at the discretion of the proposer provided that replacements have substantially the same or better qualifications or experience.

6. Similar Engagements with Other Government Entities

For the firm's office that will be assigned responsibility for the audit, list the most significant engagements (maximum - 5) performed in the last five years that are similar to the engagement described in this request for proposal, and if they have received the Government Finance Officers Association's Certificate of Achievement.

These engagements should be ranked on the basis of total staff hours. Indicate the scope of work, date, engagement partners, total hours, and the name and telephone number of the principal client contact.

7. Specific Audit Approach

The proposal should set forth a brief work plan, including an explanation of the audit methodology to be followed, to perform the services required in Section II of this request for proposal. [In developing the work plan, reference should be made to such sources of information as City of Urbana's budget and related materials, organizational charts (Appendix B), manuals and programs, and financial and other management information systems.]

Proposers will be required to provide the following information on their audit approach:

- a. Proposed segmentation of the engagement
- b. Level of staff and number of hours to be assigned to each proposed segment of the engagement

NO DOLLARS SHOULD BE INCLUDED IN THE TECHNICAL PROPOSAL

- c. Sample size and the extent to which statistical sampling is to be used in the engagement
- d. Extent of use of the AS400 system in the engagement
- e. Type and extent of analytical procedures to be used in the engagement
- f. Approach to be taken to gain and document an understanding of the City of Urbana's internal control structure
- g. Approach to be taken in determining laws and regulations that will be subject to audit test work
- h. Approach to be taken in drawing audit samples for purposes of tests of compliance
- i. Reasonable anticipated timetable for performing each significant phase of the audit

8. Identification of Anticipated Potential Audit Problems

The proposal should identify and describe any anticipated potential audit problems, the firm's approach to resolving these problems and any special assistance that will be requested from the City of Urbana.

C. Sealed Dollar Cost Bid

1. Total All-Inclusive Maximum Price

The sealed dollar cost bid should contain all pricing information relative to performing the audit engagement as described in this request for proposal. The total all-inclusive maximum price to be bid is to contain all direct and indirect costs including all out-of-pocket expenses.

The City of Urbana will not be responsible for expenses incurred in preparing and submitting the technical proposal or the sealed dollar cost bid. Such costs should not be included in the proposal.

Do not propose increases based on COLA, unless you provide a specific percent of the increase that you consider COLA.

The first page of the sealed dollar cost bid should include the following information:

- a. Name of Firm
- b. Certification that the person signing the proposal is entitled to represent the firm, empowered to submit the bid, and authorized to sign a contract with the City of Urbana.
- c. A Total All-Inclusive Maximum Price for each Basic Service for the 2014 engagement, as well as for 2015, 2016, 2017, and 2018.
- d. A Total All-Inclusive Maximum Price for each Additional Service for the 2014 engagement, as well as for 2015, 2016, 2017, and 2018.

2. Rates per hour for partner, manager, supervisory and other staff times the hours anticipated for each

A second page of the sealed dollar cost bid should include a schedule of professional fees and expenses that supports the total all-inclusive maximum prices.

3. Out-of-pocket Expenses Included in the Total All-inclusive Maximum Prices and Reimbursement Rates

All estimated out-of-pocket expenses to be reimbursed should be presented on the second page of the sealed dollar cost bid in a similar format to that provided in the Appendix for Basic and Additional Services. All expense reimbursements will be charged against the total all-inclusive maximum price submitted by the firm.

In addition, a statement must be included in the sealed dollar cost bid stating the firm will accept reimbursement for travel, lodging and subsistence at the prevailing City of Urbana rates for its employees.

4. Rates for Additional Professional Services

If it should become necessary for City of Urbana to request the auditor to render any additional services to either supplement the services requested in this RFP or to perform additional work as a result of the specific recommendations included in any report issued on this engagement, then such additional work shall be performed only if set forth in an addendum to the contract between City of Urbana and the firm. Any such additional work agreed to between City of Urbana and the firm shall be performed at the same rates set forth in the schedule of fees and expenses included in the sealed dollar cost bid.

VII. EVALUATION PROCEDURES

A. Review of Proposals

After the proposals have been evaluated and analyzed according to the Evaluation Criteria, the cost component of the RFP will be opened for consideration. A final review and possible negotiations will then be completed and a recommendation forwarded to the Council for approval.

The City of Urbana reserves the right to retain all proposals submitted regardless of whether that proposal is selected.

B. Evaluation Criteria

Proposals will be evaluated using three sets of criteria. Firms meeting the mandatory criteria will have their proposals evaluated and scored for both technical qualifications and price. The following represent the principal selection criteria which will be considered during the evaluation process.

1. Mandatory Elements:

- a. The audit firm is independent and licensed to practice in Illinois
- b. The firm has no conflict of interest with regard to any other work performed by the firm for the City of Urbana
- c. The firm adheres to the instructions in this request for proposal on preparing and submitting the proposal
- d. The firm submits a copy of its last external quality control review report and the firm has a record of quality audit work.

2. Technical Quality:

- a. Expertise and Experience
 - (1) The firm's past experience and performance on comparable government engagements
 - (2) The quality of the firm's professional personnel to be assigned to the engagement and the quality of the firm's management support personnel to be available for technical consultation
- b. Audit Approach
 - (1) Adequacy of proposed staffing plan for various segments of the engagement
 - (2) Adequacy of sampling techniques

(3) Adequacy of analytical procedures

3. Price:

COST WILL NOT BE THE PRIMARY FACTOR IN THE SELECTION OF AN
AUDIT FIRM. THE CITY SHALL NOT BE OBLIGATED TO SELECT A
PROPOSAL BASED ON IT BEING THE LOWEST COST.

C. Oral Presentations

During the evaluation process, the Evaluation Committee may, at its discretion, request any one or all firms to make oral presentations. Such presentations will provide firms with an opportunity to answer any questions the Evaluation Committee may have on a firm's proposal. Not all firms may be asked to make such oral presentations. These meetings should occur on April 16th, 2014.

D. Final Selection

The City Council will select a firm based upon the recommendation of the Evaluation Committee.

E. Right to Reject Proposals

Submission of a proposal indicates acceptance by the firm of the conditions contained in this request for proposal unless clearly and specifically noted in the proposal submitted and confirmed in the contract between the City of Urbana and the firm selected.

The City of Urbana reserves the right without prejudice to reject any or all proposals.

APPENDICES

- A. City of Urbana Organizational Chart
- B. Urbana Free Library audit report for June 30th, 2013
- C. City of Urbana Police Pension Fund audit report for June 30th, 2013
- D. City of Urbana Firemen's Pension Fund audit report for June 30th, 2013
- E. Fee Proposal for Total All-Inclusive Maximum Price

APPENDIX B

Urbana Free Library audit report for June 30th, 2013

THE URBANA FREE LIBRARY

Financial Statements

For the Year Ended June 30, 2013

THE URBANA FREE LIBRARY
 Financial Statements
 For the Year Ended June 30, 2013

TABLE OF CONTENTS

	<u>Page No.</u>
Independent Auditors' Report.....	1-2
Management's Discussion and Analysis.....	3-8
Basic Financial Statements:	
Government Wide Financial Statements:	
Statement of Net Position.....	9
Statement of Activities.....	10
Fund Financial Statements:	
Balance Sheet, Governmental Funds.....	11
Reconciliation of the Governmental Funds Balance Sheet To the Statement of Net Position	12
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances, Governmental Funds	13
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	14
Statement of Revenues and Expenditures, Budget and Actual (GAAP Basis) - General Fund	15
Notes to Financial Statements	17-24
Combining Statements:	
Combining Balance Sheet, Nonmajor Governmental Funds.....	25
Combining Statement of Revenues, Expenditures and Changes in Fund Balances, Nonmajor Governmental Funds	26

BRAY, DRAKE, LILES & RICHARDSON LLP
Certified Public Accountants

KARL E. DRAKE, CPA
CURTIS D. LILES, CPA
R. NEIL RICHARDSON, CPA

1606 N. Willow View Road, Suite 1E
Urbana, Illinois 61802-7446

Phone 217/337-0004
Fax 217/337-5822

JAMES P. BRAY (RETIRED)

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
The Urbana Free Library
Urbana, Illinois

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, 2013, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion

As discussed in Note 1, the financial statements present only the Urbana Free Library fund, a special revenue fund of the City of Urbana, Illinois. Accounting principles generally accepted in the United States of America require that the City of Urbana, Illinois' financial statements present the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Urbana, Illinois.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion" paragraph, the financial statements referred to above do not present fairly, the financial position of City of Urbana, Illinois as of June 30, 2013, or the changes in financial position or cash flows thereof for the year then ended.

Unmodified Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Urbana Free Library of the City of Urbana, Illinois, as of June 30, 2013, and the changes in financial position thereof and the respective budgetary comparisons of the Urbana Free Library general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 - 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.

**Board of Trustees
The Urbana Free Library
Urbana, Illinois**

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Urbana Free Library's basic financial statements. The combining financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Bray, Drake, Liles & Richardson LLP
BRAY, DRAKE, LILES & RICHARDSON LLP
Urbana, Illinois
October 28, 2013

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, 2013.

FINANCIAL HIGHLIGHTS:

- At June 30, 2013, unreserved fund balance for the general fund was \$1,552,888, or 41% of the total general fund expenditures (44% last year). This amount is \$74,004 less than at the end of last year. Of this amount, \$1,406,839 was undesignated, an decrease of \$74,505 from last year.
- The assets of the Library exceeded liabilities at June 30, 2013, by \$12,336,116. Of this amount \$2,558,255 is unrestricted (\$2,646,992 last year) and may be used to meet the government's ongoing operations.
- The Library's total net position decreased by \$43,653 (\$17,769 decrease last year).
- At June 30, 2013, the Library's governmental funds reported combined fund balances of \$2,155,799 (an increase of \$47,623 over last year), of which \$1,601,535 was unreserved (an decrease of \$74,089 from last year).
- The only long-term debt of the Library is \$201,909 in accumulated compensated employee absences, which decreased \$3,030 and \$15,561 in other post employment benefits, which increased \$1,877 during 2013.

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 position presents information on all of the Library's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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 the 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 and for the foundation fund , which are the only major funds. Data from the other three 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:

	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 2,862,167	\$ 3,130,929
Restricted assets	554,264	432,543
Capital assets	<u>9,213,597</u>	<u>9,300,234</u>
Total assets	<u>\$12,627,591</u>	<u>\$12,863,706</u>
Long-term liabilities	\$ 217,470	\$ 218,623
Other liabilities	<u>77,735</u>	<u>265,314</u>
Total liabilities	<u>\$ 291,475</u>	<u>\$ 483,937</u>
Net position:		
Invested in capital assets	\$ 9,213,597	\$ 9,300,234
Restricted	564,264	432,543
Unrestricted	<u>2,558,255</u>	<u>2,646,992</u>
Total net position	<u>\$12,336,116</u>	<u>\$12,379,769</u>

At the end of the year, the Library is able to report positive balances in all categories of net position. This situation was true for last year as well. There was an decrease in net position of \$43,653. This decrease was made up of a \$86,637 reduction in the investment in capital assets; an increase of \$131,721 in restricted net position and an decrease of \$88,737 in unrestricted net position.

Comparative Statement of Governmental Activities:

	<u>2013</u>	<u>2012</u>
Revenues:		
Program revenues:		
Charges for services	\$ 228,516	\$ 235,846
Grants and contributions	39,200	38,200
General revenues:		
Property tax	2,956,726	2,976,340
Intergovernmental:		
City Urbana	405,486	400,228
Other	126,034	125,366
Donations/Gifts	127,639	45,839
Interest	6,247	9,040
Total revenues	<u>\$3,889,848</u>	<u>\$ 3,830,859</u>
Expenses:		
Centralized costs	\$782,928	\$718,918
Administration	443,494	433,672
Adult department	801,498	789,412
Children's department	518,844	510,202
Archives department	314,080	322,374
Café department	84,959	82,082
Maintenance	155	37,295
Acquisitions	274,959	264,950
Circulation	702,958	678,928
Publishing costs	3,326	4,495
Grant programs	6,300	6,300
Total expenses	<u>\$3,933,501</u>	<u>\$ 3,848,628</u>
Increase (decrease) in net position	(43,653)	(17,769)
Beginning net position	<u>12,379,769</u>	<u>12,397,538</u>
Ending net position	<u>\$12,336,116</u>	<u>\$12,379,769</u>

As noted the decrease in net position was \$43,653. Last year there was an decrease of \$17,769. Total revenues increased \$29,898 or +1.5%. This increase was due to an decrease of \$19,614 in property tax (2.5% increase), an increase in donations and gifts of \$81,800, and a increase in intergovernmental-City of Urbana of \$5,258. All other revenues decreased \$2,125. Total expenses increased \$84,873 (2.2%). This cost increase was mainly due to an increase in the costs of employee insurance of \$21,975 (10.5%), an increase in equipment purchases of \$16,974, and an increase in the costs of building maintenance of \$23,573. Other costs increased \$22,351 (+0.7%).

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 2013 for the general fund decreased \$74,004 (4.5%).

GENERAL FUND BUDGETARY HIGHLIGHTS: Revenues were \$177,782 below budgeted estimates (mainly due to property tax being \$79,912 below estimates). This was due to the removal of approximately 15% of the assessed value the property taxes are levied on from the exemption of Carle Hospital under a new state law. There were no supplementary budget appropriations during the year.

CAPITAL ASSETS:

The Library's investment in capital assets as of June 30, 2013, was \$9,213,597 (net of accumulated depreciation), a decrease of \$86,637. 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 \$112,996, of which the most significant purchase was a new door security system which cost \$47,170.
- Depreciation expense of \$199,635 was charged

Comparative Statement of Capital Assets (net of depreciation):

	<u>2013</u>	<u>2012</u>
Land	\$ 480,732	\$ 480,732
Building and Improvements	8,397,496	8,493,583
Equipment	<u>335,369</u>	<u>325,919</u>
Total Net Capital Assets	<u>\$9,213,597</u>	<u>\$9,300,234</u>

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 80% of the revenues in the general fund. Future property tax revenues will be impacted by 2 factors:
 - 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, for the last 2 years, assessed value has decreased 3.5%. 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 and 2012 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.

- A new state law was approved in 2013 that liberalized the level of community charity that hospitals were required to provide to be exempt from property tax. Carle Hospital applied for exemption under this new standard and their request was approved. This removed approximately 15% of assessed valuation from local property tax rolls. The impact to the Library was a reduction in 2013 property taxes extended of \$83,197. It is uncertain whether and how the City of Urbana will replace this lost property tax. If not replaced, then the Library will be forced to reduce their expenditures by an appropriate amount.
- The general fund budget for next year increased 2.2%, as the Library Board expects to match expenditure levels to slight revenue increases, but this amount may be affected by the possible impact of the Carle Hospital property tax reduction.
- For next year, the management of the Library has the following initiatives:
 1. To continue to develop a new long-term strategic plan.
 2. To develop a plan for addressing competing space needs in the building.
 3. To manage the appointment of a new Director of the Library.

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 Position
June 30, 2013

ASSETS:

Cash and Cash Equivalents:	
On Hand	\$ 516
Checking	18,585
Savings	1,223,693
Illinois Public Treasurer's Pool	26,200
Receivables:	
Property Tax	1,548,932
Due from State of Illinois	15,150
Due from City of Urbana	26,654
Restricted Assets:	
Cash and Cash Equivalents:	
Checking	10,714
Savings	193,876
Goldman Sachs Govt. Money Market	228,730
Certificates of Deposit	120,799
Interest Receivable	145
Capital Assets:	
Land	480,732
Other Capital Assets (net of accumulated depreciation):	
Buildings and Improvements	8,397,496
Equipment	335,369
Total Assets	<u>12,627,591</u>

LIABILITIES:

Accounts Payable	13,284
Unearned Revenues	12,250
Accrued Salaries and Taxes	48,471
Non-Current Liabilities:	
Other Post Employment Benefits	15,561
Accumulated Compensated Absences	201,909
Total Liabilities	<u>291,475</u>

NET POSITION:

Invested in Capital Assets, net of related debt	9,213,597
Restricted for:	
Foundation Programs	359,674
Library Materials	204,590
Unrestricted	<u>2,558,255</u>
Total Net Position	<u>\$ 12,336,116</u>

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

THE URBANA FREE LIBRARY
Statement of Activities
For the Year Ended June 30, 2013

	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Functions/Programs:				
Governmental Activities:				
Centralized Costs	\$ 782,928	\$ 32,816	\$ -	\$ (750,112)
Administration	443,494	15,621	-	(427,873)
Adult Department	801,498	37,503	-	(763,995)
Children's Department	518,844	22,985	9,400	(486,459)
Archives Department	314,080	12,818	23,500	(277,762)
Cafe Department	84,959	69,034	-	(15,925)
Maintenance	155	5	-	(150)
Acquisitions	274,959	9,703	-	(265,256)
Circulation	702,958	24,925	-	(678,033)
Publishing Costs	3,326	3,106	-	(220)
Grant Programs	6,300	-	6,300	-
Total Governmental Activities	<u>\$ 3,933,501</u>	<u>\$ 228,516</u>	<u>\$ 39,200</u>	<u>(3,665,785)</u>
General Revenues:				
Real Property Tax				2,956,726
Intergovernmental:				
Corporate Personal Property				
Replacement Tax				83,643
Federal LSTA Grant (State Aid)				42,391
City of Urbana				405,486
Donations/Gifts				127,639
Interest				6,247
Total General Revenues				<u>3,622,132</u>
Change in Net Position				(43,653)
Net Position, Beg. Year				12,379,769
Net Position, End Year				<u>\$ 12,336,116</u>

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

THE URBANA FREE LIBRARY
Balance Sheet-Governmental Funds
June 30, 2013

ASSETS	General Fund	Foundation Fund	Other Governmental Funds	Total Governmental Funds
Cash and Cash Equivalents:				
On Hand	\$ 516	\$ -	\$ -	\$ 516
Checking	16,726	-	1,859	18,585
Savings	1,174,541	-	49,152	1,223,693
Illinois Public Treasurer's Pool	25,728	-	472	26,200
Receivables:				
Property Tax	1,548,932	-	-	1,548,932
Due from the State of Illinois	15,150	-	-	15,150
Due from the City of Urbana	26,654	-	-	26,654
Due from Other Funds	1,800	-	-	1,800
Restricted Assets:				
Cash and Cash Equivalents:				
Checking	-	-	10,714	10,714
Savings	-	-	193,876	193,876
Goldman Sachs Govt. Money Market	-	228,730	-	228,730
Certificates of Deposit	-	120,799	-	120,799
Interest Receivable	-	145	-	145
Total Assets	<u>\$2,810,047</u>	<u>\$ 349,674</u>	<u>\$ 256,073</u>	<u>\$ 3,415,794</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ 12,649	\$ -	\$ 635	\$ 13,284
Accrued Salaries and Taxes	48,471	-	-	48,471
Unearned Revenues	1,196,039	-	401	1,196,440
Due to Other Funds	-	-	1,800	1,800
Total Liabilities	<u>1,257,159</u>	<u>-</u>	<u>2,836</u>	<u>1,259,995</u>
Fund Balances:				
Reserved for:				
Foundation Programs	-	349,674	-	349,674
Library Materials	-	-	204,590	204,590
Unreserved, Reported in:				
General Fund:				
Designated for Future Employee Separation Benefits	146,049	-	-	146,049
Undesignated	1,406,839	-	-	1,406,839
Special Revenue Funds	-	-	48,647	48,647
Total Fund Balance	<u>1,552,888</u>	<u>349,674</u>	<u>253,237</u>	<u>2,155,799</u>
Total Liabilities and Fund Balance	<u>\$2,810,047</u>	<u>\$ 349,674</u>	<u>\$ 256,073</u>	<u>\$ 3,415,794</u>

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 Position in the Statement of Net Position
June 30, 2013**

Total fund balances, governmental funds	\$ 2,155,799
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	9,213,597
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	(213,453)
A portion of property taxes recognized in the statement of activities does not provide current financial resources and are reported in the funds as unearned revenue	<u>1,180,173</u>
Net position of governmental activities	<u><u>\$ 12,336,116</u></u>

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, 2013

	General Fund	Foundation Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Real Property Tax	\$ 2,962,518	\$ -	\$ -	\$ 2,962,518
Intergovernmental:				
Corporate Personal Property				
Replacement Tax	83,643	0	-	83,643
Grant, Champaign County	23,500	0	-	23,500
Federal LSTA Grant (State Aic	42,391	0	-	42,391
City of Urbana	405,486	-	-	405,486
Grant, Urbana School District	9,400	0	-	9,400
Grants	-	-	6,300	6,300
Book Fines	84,356	0	-	84,356
Lost and Damage Fees	12,355	0	-	12,355
Interloan Fees	4,639	0	-	4,639
Copier Fees	19,429	0	-	19,429
Non-resident User Fees	17,013	0	-	17,013
Café Sales	62,471	0	-	62,471
Donations	-	116,891	10,748	127,639
Interest	4,806	786	655	6,247
Sale of Books and Materials	-	-	28,253	28,253
Total Revenues	3,732,007	117,677	45,956	3,895,640
Expenditures:				
Centralized Costs	882,046	13,879	-	895,925
Administration	426,466	-	-	426,466
Adult Department	702,657	-	16,151	718,808
Children's Department	473,237	-	2,350	475,587
Archives Department	299,571	-	-	299,571
Cafe Department	76,513	-	-	76,513
Maintenance	155	-	-	155
Acquisitions	264,894	-	-	264,894
Circulation	680,472	-	-	680,472
Publishing Costs	-	-	3,326	3,326
Grant Programs	-	-	6,300	6,300
Total Expenditures	3,806,011	13,879	28,127	3,848,017
Excess of Revenues Over (Under) Expenditures	(74,004)	103,798	17,829	47,623
Other Financing Sources (Uses):				
Operating Transfers In	-	-	4,150	4,150
Operating Transfers Out	-	(4,150)	-	(4,150)
Total Other Financing Sources (Uses)	-	(4,150)	4,150	-
Net Changes in Fund Balance	(74,004)	99,648	21,979	47,623
Fund Balance, Beg. of Year	1,626,892	250,026	231,258	2,108,176
Fund Balance, End of Year	\$ 1,552,888	\$ 349,674	\$ 253,237	\$ 2,155,799

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 Position in the Statement of Activities

For the Year Ended June 30, 2013

Net change in fund balances-governmental funds	\$	47,623
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		
		(5,792)
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.		
		112,997
This is the amount of depreciation that was not reported in the funds.		
		(199,634)
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 amounts incurred exceeded amounts paid.		
		<u>1,153</u>
Change in net position of governmental activities	\$	<u>(43,653)</u>

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, 2013

	<u>Budgeted Amounts</u>			Variance With
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Final Budget Favorable (Unfavorable)</u>
Revenues:				
Real Property Tax	\$ 3,042,430	\$ 3,042,430	\$ 2,962,518	\$ (79,912)
Intergovernmental:				
Corporate Personal Property				
Replacement Tax	84,000	84,000	83,643	(357)
Grant, Champaign County	22,500	23,500	23,500	-
Federal LSTA Grant (State Aid)	42,302	42,302	42,391	89
City of Urbana	484,325	484,325	405,486	(78,839)
Grant, Urbana School District	-	-	9,400	9,400
Book Fines	78,810	83,810	84,356	546
Lost & Damaged Fees	14,100	12,100	12,355	255
Interloan Fees	5,620	5,620	4,639	(981)
Copier Fees	17,680	17,680	19,429	1,749
Non-resident User Fees	22,600	18,600	17,013	(1,587)
Café Sales	87,122	87,122	62,471	(24,651)
Interest	8,300	8,300	4,806	(3,494)
Total Revenues	3,909,789	3,909,789	3,732,007	(177,782)
Expenditures:				
Current:				
Centralized Costs	848,487	848,487	882,046	(33,559)
Administration	434,157	434,157	426,466	7,691
Adult Department	711,516	711,516	702,657	8,859
Children's Department	478,768	478,768	473,237	5,531
Archives Department	317,968	317,968	299,571	18,397
Cafe Department	90,740	90,740	76,513	14,227
Maintenance	41,906	41,905	155	41,750
Acquisitions	290,836	290,836	264,894	25,942
Circulation	695,411	695,411	680,472	14,939
Total Expenditures	3,909,789	3,909,788	3,806,011	103,777
Excess of Revenues Over (Under) Expenditures	\$ -	\$ 1	\$ (74,004)	\$ (74,005)

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, 2013

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 position and the statement of changes in net position) 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.
- B. 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.

THE URBANA FREE LIBRARY
Notes to Financial Statements
For the Year Ended June 30, 2013

C. 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 two major governmental funds, 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, and the Foundation Fund, which is used to account for private donations for the Library. A foundation has been created to accept donations and its activities are those reported in this fund. Other non-major governmental funds are:

- 1) The Publications Special Revenue Fund is used to account for receipts and costs of publications and other items for sale.
- 2) The Grant Special Revenue Fund is used to account for receipts and costs related to federal, state or private grant awards.
- 3) 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.

D. Restricted Net Position:

Assets that are not available to finance general operations of the Library are reported as restricted in the government wide Statement of Net Position 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:

	<u>Foundation Programs</u>	<u>Library Materials</u>	<u>Total</u>
Checking	\$ --	\$ 10,714	\$ 10,714
Savings	--	193,876	193,876
Govt. Funds Money Market	228,730	--	228,730
Certificates of Deposit	120,799	--	120,799
Interest Receivable	145	--	145
Total Restricted Net Assets	<u>\$349,674</u>	<u>\$204,590</u>	<u>\$554,264</u>

THE URBANA FREE LIBRARY
Notes to Financial Statements
For the Year Ended June 30, 2013

E. 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, its policy is to purchase certificates of deposit. The only investments owned by the Library at June 30, 2013 was \$120,799 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 (\$228,730 at June 30, 2013) and the Library's investment in the Illinois Public Treasurer's Investment Pool (\$472 at June 30, 2013). 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, 2013 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

THE URBANA FREE LIBRARY
Notes to Financial Statements
For the Year Ended June 30, 2013

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, 2013, 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, 2013

	<u>Balance</u> <u>06/30/12</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>06/30/13</u>
Land	\$ 480,732	\$ --	\$ --	\$ 480,732
Building and Improvements	\$10,112,211	\$ 52,530	\$ (12,897)	\$10,151,844
Less Accum. Depreciation	<u>(1,618,628)</u>	<u>(148,617)</u>	<u>12,897</u>	<u>(1,754,348)</u>
Subtotal	<u>\$8,493,583</u>	<u>\$(96,087)</u>	<u>\$ --</u>	<u>\$ 8,397,496</u>
Equipment	\$ 630,975	\$ 60,466	\$ (130,368)	\$561,073
Less Accum. Depreciation	<u>(305,056)</u>	<u>(51,016)</u>	<u>130,368</u>	<u>(225,704)</u>
Subtotal	<u>\$ 325,919</u>	<u>\$ 9,450</u>	<u>\$ --</u>	<u>\$ 335,369</u>
Total Capital Assets	\$11,223,918	\$ 112,996	\$(143,265)	\$11,193,649
Less Accum. Depreciation	<u>(1,923,684)</u>	<u>(199,633)</u>	<u>143,265</u>	<u>(1,980,052)</u>
Total, Net Capital Assets	<u>\$ 9,300,234</u>	<u>\$(86,637)</u>	<u>\$ --</u>	<u>\$ 9,213,597</u>

Depreciation expense was charged to functions/programs as follows:

Administration	\$17,221
Adult Department	82,894
Children's Department	43,444
Archives Department	14,627
Cafe	8,468
Acquisitions	10,172
Circulation	<u>22,807</u>
Total	<u>\$199,633</u>

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

THE URBANA FREE LIBRARY
Notes to Financial Statements
For the Year Ended June 30, 2013

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

Balance, Beginning of Year	\$204,939
Retired	(125,873)
Additions	<u>122,843</u>
Balance, End of Year	<u>\$ 201,909</u>

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, 2013, this amount was \$15,561. During the year, \$4,240 was contributed and \$6,117 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 no supplementary budget appropriations during the year. 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.

THE URBANA FREE LIBRARY
Notes to Financial Statements
For the Year Ended June 30, 2013

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 \$383,867 in 2013 (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:

In 2013, the Library paid 8 payments totaling \$8,360 for certain noncancellable leases for office equipment. After these payments were made, the library took ownership of the machines. No new lease agreements have been entered into in 2013.

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 \$12,436 to the City in 2013 for data processing services. It is anticipated that the Library will continue to pay this cost in the future.
- 2) The City has agreed to pay the Library the approximate difference in the amount of the property tax levied and the actual property tax collected each year in order to keep the Library cash flows equal to the property tax levy. This amount approximates 40% of the difference between the current levy and the previous levy (because 40% of the taxes are deferred). In 2013, a payment of \$21,619 was remitted from the library to the City.

Note 12 – State Aid and Other Grants:

The Library was awarded \$42,391 in 2013 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 \$24,500 grant in 2013 from Champaign County to reimburse the Library for costs of operating the Archives Department. The grant

THE URBANA FREE LIBRARY
Notes to Financial Statements
For the Year Ended June 30, 2013

received each year covers the period from January 1 to December 31. Thus, one-half of the award (\$12,500) is reported as deferred revenue at June 30, 2013. 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 2013. 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 Historical Records Advisory Board in the amount of \$1,691 in 2013. This grant was to reimburse the library for improvements in the storage system for historical records. At June 30, 2013, the Library had been paid and spent the full amount of the grant. The library also received a private grant from the Association for Library Services for Children in 2013 in the amount of \$5,000. This grant was to promote various cultures and languages in the library. In 2013, the Library received the \$5,000 payment and spent \$4,599, leaving \$401 as deferred revenue to 2014. It is uncertain if these grant programs 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 reported as restricted net position 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 (\$146,049) has been designated by the Library to pay for future employee separation benefits. During the year, this amount was increased \$501 by a transfer from undesignated fund balance. This designation is not a legal restriction or legal 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, 2013

ASSETS	Publications	Grant	Trust Fund	Total
Cash and Cash Equivalents:				
Checking	\$ 1,849	\$ 10	\$ -	\$ 1,859
Savings	46,961	2,191	-	49,152
Illinois Public Treasurer's Pool	472	-	-	472
Restricted Assets:				
Cash and Cash Equivalents:				
Checking	-	-	10,714	10,714
Savings	-	-	193,876	193,876
Total Assets	\$ 49,282	\$ 2,201	\$ 204,590	\$ 256,073
 LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts Payable	\$ 635	\$ -	-	\$ 635
Unearned Revenues	-	401	-	401
Due to Other Funds	-	1,800	-	1,800
Total Liabilities	635	2,201	-	2,836
Fund Balance:				
Reserved for Library Materials	-	-	204,590	204,590
Unreserved	48,647	-	-	48,647
Total Fund Balance	48,647	-	204,590	253,237
Total Liabilities and Fund Balance	\$ 49,282	\$ 2,201	\$ 204,590	\$ 256,073

THE URBANA FREE LIBRARY

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

For the Year Ended June 30, 2013

	Publications	Grant	Trust Fund	Total
REVENUES:				
Intergovernmental-Grants	\$ -	\$ 6,300	\$ -	\$ 6,300
Donations	-	-	10,748	10,748
Interest	127	-	528	655
Sale of Books and Materials	3,105	-	25,148	28,253
Total Revenues	3,232	6,300	36,424	45,956
EXPENDITURES:				
Adult Department	-	-	16,151	16,151
Children's Department	-	-	2,350	2,350
Publishing Costs	3,326	-	-	3,326
Grant Programs	-	6,300	-	6,300
Total Expenditures	3,326	6,300	18,501	28,127
Excess of Revenues Over (Under) Expenditures	(94)	-	17,923	17,829
Other Financing Sources (Uses): Transfers In	-	-	4,150	4,150
Net Changes in Fund Balance	(94)	-	22,073	21,979
Fund Balance, Beginning of the Year	48,741	-	182,517	231,258
Fund Balance, End of the Year	\$ 48,647	\$ -	\$ 204,590	\$ 253,237

APPENDIX C

City of Urbana Police Pension Fund audit report for June 30th, 2013

CITY OF URBANA, ILLINOIS

POLICE PENSION FUND

Audit Report

For the Years Ended June 30, 2013 and 2012

**CITY OF URBANA, ILLINOIS
POLICE PENSION FUND**

Audit Report

For the Years Ended June 30, 2013 and 2012

TABLE OF CONTENTS

	<u>Page No.</u>
Independent Auditors' Report	1-2
Comparative Statement of Plan Net Position.....	3
Comparative Statement of Changes in Plan Net Position	4
Notes to Financial Statements	5
Required Supplementary Information:	
Schedule of Funding Progress.....	13
Schedule of Employer Contributions	14

BRAY, DRAKE, LILES & RICHARDSON LLP
Certified Public Accountants

1

KARL E. DRAKE, CPA
CURTIS D. LILES, CPA
R. NEIL RICHARDSON, CPA

1606 N. Willow View Road, Suite 1E
Urbana, Illinois 61802-7446

Phone 217/337-0004
Fax 217/337-5822

JAMES P. BRAY (RETIRED)

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

Independent Auditor's Report

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that schedule of funding progress and schedule of employer contributions on pages 13 and 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operations, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.



BRAY, DRAKE, LILES & RICHARDSON LLP

Urbana, Illinois

October 28, 2013

**CITY OF URBANA, ILLINOIS
POLICE PENSION FUND**

**Comparative Statement of Plan Net Position
As of June 30, 2013 and 2012**

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

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

**CITY OF URBANA, ILLINOIS
POLICE PENSION FUND**

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

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

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

Note 1 - Summary of Significant Accounting Policies:

The Pension fund was organized on April 4, 1927, and is exempt from federal income tax. The pension fund is created and operated under state laws that provide for a fund to be established to provide certain retirement benefits to police officers and their dependents (see Note 2). The fund is managed by a board of five trustees made up of two persons appointed by the mayor of the City of Urbana and three persons elected by the members of the fund. The Pension fund is also included in the annual report of the City of Urbana, as a fiduciary fund, according to the criteria specified in governmental accounting standards.

Investments are reported at fair value. Fair values for U.S. government securities, corporate bonds, municipal bonds, stock mutual funds and money market accounts are based upon latest quoted prices. Investment transactions are reported as of the trade date. Interest income is recognized as earned. Realized gains and losses on sales and exchanges of securities and unrealized gains and losses are reported as net appreciation (depreciation) in the fair value of investments.

The fund considers all liquid investments with maturity of three months or less when purchased to be cash equivalents. At June 30, 2013 and 2012, there were no investments considered to be cash equivalents.

The fund is accounted for using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred. Employer contributions are primarily made from property taxes. Property taxes are recognized for the year levied. The 2012 levy is reported in fiscal year 2013 and the 2011 levy in fiscal year 2012. The taxes are certified against appraised real property as of the beginning of the previous calendar year. Benefits are recognized when due and payable. Refunds are recognized when the employee resigns from employment with the city.

The preparation of financial statements requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions from plan net position during the reporting period. Actual results could differ from those estimates.

Note 2 - Pension Disclosure Information:

a. Plan Description:

The Pension fund is a defined benefit single-employer pension plan that covers all sworn police personnel. Although this is a single-employer plan, the defined benefits and employee and employer contribution levels are governed by "Article 3, Police Pension Fund – Municipalities 500,000 and Under" of the Illinois Pension Code (Illinois Compiled Statutes, 1992, Chapter 40). This fund is accounted for and reported as a pension trust fund.

At June 30, 2013 and 2012, the pension fund membership consisted of:

	<u>2013</u>	<u>2012</u>
Retirees and beneficiaries currently receiving benefits	48	47
Terminated plan members entitled to but not yet receiving benefits	1	1
Active vested plan members	31	32
Active non vested plan members	<u>24</u>	<u>23</u>
Total	<u>104</u>	<u>103</u>
Number of participating employers	1	1

Following is a summary of the police pension plan as provided for in the Illinois Statutes.

The police pension plan provides retirement benefits as well as death and disability benefits. There are two tiers or levels of benefits:

Employees that are hired prior to January 1, 2011, attaining the age of 50 or more with 20 or more years of creditable service are entitled to receive an annual retirement benefit of one-half of the salary attached to the rank held on the last day of service. The pension shall be increased by 2.5% of such salary for each additional year of service over 20 years up to a maximum of 75% of such salary. Employees with at least 8 years, but less than 20 years of credited service, may retire and receive a reduced benefit, which begins at age 60. The monthly pension of a police officer who retired after January 1, 1999 with at least 20 years of service, shall be increased annually, following the first anniversary date of

retirement, and be paid upon reaching the age of at least 55 years, by 1/12 of 3% of the original pension times the number of months the employee has been retired since age 50 (up to a maximum of 15%), and 3% annually thereafter of the pension payable at the time of the increase. Officers that retire with less than 20 years of service receive an annual 3% increase.

Employees that are hired after January 1, 2011 attaining the age of 55 or more with 20 or more years of creditable service are entitled to receive an annual retirement benefit of one-half of the average salary for the last 8 years of service (maximum average salary is \$106,800 if employee retires in calendar year 2011) . The pension shall be increased by 2.5% of such salary for each additional year of service over 20 years up to a maximum of 75% of such salary. Employees with at least 10 years, but less than 20 years of credited service, may retire and receive a reduced benefit, which begins at age 60. Employees that have attained the age of 50 with at least 10 years of service may retire but their pension is reduced by ½% per year for each year the employee is under age 55. The monthly pension shall be increased annually, following the first anniversary date of retirement, and be paid upon reaching the age of at least 60 years, by the lesser of 1/12 of 3% of the original pension times the number of months the employee has been retired since age 60 (up to a maximum of 15%) or by a factor of the CPI-U, whichever is less. Dependents receive a pension of 2/3 of the officer's pension at date of death. Dependents receive an annual increase under the same formula as the retired officer.

Covered employees are required to contribute 9.91% of their base salary to the Plan. If an employee leaves covered employment with less than 20 years of service, accumulated employee contributions may be refunded without accumulated interest. The City of Urbana is required to contribute the remaining amounts necessary to finance the plan as actuarially determined by an enrolled actuary. By the year 2033, the City's contributions must accumulate to the point where the past service cost for the Plan is fully funded.

b. Funding Policy and Annual Pension Cost:

The amount shown below as the "net pension obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help

users assess the funding status of the system on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is an accrued liability and is a component of the funding method used to determine contributions to the system. Administrative costs are paid by the plan except for in-kind donated financial services provided by the City.

The funding policy provides for actuarially determined periodic contributions at rates that, for individual employees, accumulate assets gradually over time so that sufficient assets will be available to pay benefits when due. The rate for the City's employee group as a whole has tended to remain level as a percentage of annual covered payrolls. The contribution rate for normal cost is determined using the entry age normal actuarial funding method. The system used a level percent amount method to amortize the unfunded liability over a 40-year period. The significant actuarial assumptions used to compute the actuarially determined contribution requirements are the same as those used to compute the net pension obligation:

Latest Actuarial Valuation Date	June 30, 2012
Asset Valuation Method	5 Year Average Market Value
Significant Actuarial Assumptions:	
Rate of return on investment of present and future assets	7.0% compounded annually
Projected salary increases	5.25% compounded annually
Post retirement benefit increases	3.0% interest annually
Inflation increases	3.0% annually
Mortality	1983 Group Annuity Mortality Table
Withdrawal	Graduated Rates
Disability	Graduated Rates
Retirement	Graduated Rates (100% age 62)
Marital Status	85% married, spouse same age
Plan Expenses	None
Annual Required Contribution	\$1,524,579
Interest on Net Pension Obligation	(369,576)
Adjustment to Annual Required Contribution	<u>288,515</u>
Annual Pension Cost	1,443,518

Contributions Made	<u>1,980,275</u>
Increase (Decrease) in Net Pension Obligation	(536,757)
Net Pension Obligation Beginning of Year	<u>(5,179,167)</u>
Net Pension Obligation End of Year	<u>\$ (5,715,924)</u>

The provisions of Public Act 096-1495 are reflected in this actuarial valuation, including changes to benefit provisions, actuarial methods, and the amortization period and method. There were no changes with respect to the actuarial assumptions from the prior year. There were no unexpected changes with respect to the participants included in the actuarial valuation from the prior year. There were no unexpected changes with respect to the Fund's investments from the prior year. However in 2012, the asset valuation method was changed to the Straight Market Value from the 5-year Average Market Value in accordance with PA096-1495. The increase in the required contribution was due to the investment return being less than assumed (3.0%) and to the increase in salaries being higher than assumed (8.8%). The percent funded increased from 65.5% to 66.2%.

Note 3 - Deposits and Investments:

As of June 30, 2013, the pension fund had the following investments:

	<u>Fair Value</u>	Weighted Ave. Maturity (Yrs)	<u>% of Total</u>			
			<u>Total</u>	<u>Goal</u>	<u>Min.</u>	<u>Max.</u>
U.S. Govt. & its Credit Guaranteed Agencies	\$ 5,916,822					
U.S. Govt. Agencies With Implied Credit	<u>2,024,568</u>					
Subtotal, U.S. Govt. and it's Agencies	\$ <u>7,941,390</u>	4.1	28.8%	41%	35%	100%
Municipal Bonds	\$ <u>347,560</u>	10.7	1.3%	n/a	0%	100%
Corporate Bonds	2,673,184	8.1				
Stock Mutual Funds & Domestic Common Stocks	<u>15,998,158</u>	n/a				
Subtotal, Corp. Bonds, Stock Mutual Funds & Common Stocks	<u>\$26,960,292</u>	n/a	67.7%	55%	0%	65%
Certificates of Deposit	<u>630,000</u>	n/a	<u>2.2%</u>	4%	0%	10%
Total	<u>\$27,590,292</u>		100.0%			

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

- (1) By selecting an active duration manager for its U.S. Government and agency, and corporate and municipal bond fixed security investments. This manager is charged with managing interest rate risk given current economic conditions and the current position in the interest rate cycle. The average weighted maturity of the portfolio varies depending on the decisions of the manager at various times. The Board of the Fund and the fund's investment advisor review any changes in average weighted maturity. At June 30, 2013, the portfolio had an average weighted maturity of 4.1 years for U.S. Government (down from 5.1 last year), 8.1 years for corporate bonds (up from 7.1 last year) and 10.7 years for municipal bonds (down from 17.4 last year).
- (2) By diversifying the portfolio so that the impact of a potential drop in interest rates on a particular type of security will be minimized. The portfolio is diversified across different segments of the bond market. Specifically, the fixed income portfolio contains U.S. Treasury securities, Agency bonds, and Government guaranteed mortgage securities. The fund investment policy states a desired level for each category of investment and a minimum and maximum level. As illustrated above, the fund's investments types are within the stated minimum and maximum levels, except for investments in corporate bonds, stock mutual funds, and common stocks. Due to unusual increases in the stock market, this investment was slightly above the maximum level at June 30, 2013 (67.7%). At June 30, 2013, the fund was understated in U.S. Government and Govt. Agencies, slightly understated in certificates of deposit, and slightly overstated in the category of corporate bonds, stock mutual funds, and common stocks, compared to the desired level. It is the fund policy to rebalance investments subsequent to year end.

Credit Risk: The pension fund is authorized by State Statutes and fund policy to invest in obligations of the U.S. Treasury and its agencies, non-negotiable certificates of deposit, savings accounts, money market mutual funds which are backed by U.S. government securities and agencies, corporate and municipal bonds (that meet certain criteria) and common stocks and common stock mutual funds (up to a maximum of 65% net present assets) and obligations of the State or local governments. Investments in U.S. Government securities and certain U.S. Government Agency securities are not considered to be of any credit risk since they carry the full obligation and guarantee of the U.S. Government. The fund has also invested in securities of certain U.S. Government Sponsored Enterprises (GSE), which are not secured by an explicit guarantee of the U.S. Government. One-hundred percent of these G.S.E. investments carry a AAA rating from Moody's and Standard and Poors.

The fund considers the credit risk of all U.S. Government securities to be similar and does not distinguish these securities for purposes of policy goals, minimum and maximum investment levels. Investments in corporate bonds and municipal bonds, while not guaranteed, are considered of minimal risk to the fund since they must be rated at investment grade and the amounts invested are small. At June 30, 2013, the fund also had \$1,021,323 invested in money market accounts. These money market accounts are not guaranteed and are not rated. The fund does not believe that the credit risk for these money market accounts is significant in that the amounts invested are typically small and for small amounts of time, while awaiting investing by managers.

Concentration of Credit Risk: The only investments in any single security or organization that are in excess of 5% of the total investments or 5% of net assets (except for investments in U.S. Government and its credit guaranteed agencies and investments in certain mutual funds) is \$1472,370 invested in the securities of the Federal Home Loan Mortgage Corporation (FHLM) which totals 5.3% of total investments and 4.8% of net assets. These securities carry an implied U.S. Government guarantee. The fund considers the credit risk of these investments to be similar to investments in U.S. Government Agency securities that are explicitly guaranteed by the U.S. Government. Thus the fund does not believe a possible concentration of credit risk due to this investment is significant enough to address in the investment policies.

Custodial Credit Risk for Deposits: is the risk that in the event of a bank failure, the fund's deposits may not be returned. Deposits in federal insured banks and savings and loans are insured in an amount equal to \$250,000 for the fund plus an amount for each member's beneficial interest in the deposits, limited to an amount equal to \$100,000 divided by the largest beneficial interest percentage of a member. At year-end, the fund was not exposed to custodial credit risk for deposits as all deposits were insured.

Custodial Credit Risk for Investments: is the risk that in the event of the failure of the counterparty, the fund will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The fund has no custodial credit risk in that all of its security investments are insured, except for certificates of deposit at Busey Bank, which are above insured levels and are not collateralized. The fund does not believe that these C.D.'s are of significant credit risk in that the financial condition of Busey Bank is of a very high rating and the Board reviews this financial condition at least quarterly. These C.D.'s are considered to be very liquid if it was necessary to sell them due to credit risk.

Note 4 – Member Loans Receivable to Purchase Prior Service Time:

During 2008, certain members of the fund were credited with prior service time in another State of Illinois pension fund. This prior service time will increase these members future retirement benefits. These members were required to pay into the fund certain amounts in order to receive these credits. Two members were loaned \$34,833 by the fund. In 2013, all amounts were repaid to the fund. During the year, the following activity occurred with these member loans:

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

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

Note 5 – Other Income, Pension Credits Transferred, Pension Credits Purchased:

Under State laws, members of the fund are entitled to receive credit for certain previous service credit time in the military or other State of Illinois police pension funds. This service time would enhance the pension benefit of these members when they retire. To receive this credit for past military service, the member is required to make payment. In the case of past service in another Illinois police pension fund, both the member and the previous fund are required to make payment. During 2012, \$179,693 was received for the purchase of previous pension service credits. During 2013, the pension fund was required to pay \$148,629 for the transfer of service time for a previous fund member. Also in 2013, the fund paid back a previous member's contributions of \$7,383. This receipt and payments should be considered unusual and non-recurring.

**CITY OF URBANA, ILLINOIS
POLICE PENSION FUND**

**Required Supplementary Information
Schedule of Funding Progress
(Unaudited)**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability Entry Age Normal Cost	Unfunded (Overfunded) Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded (Overfunded) Actuarial Accrued Liability as a % of Covered Payroll
June 30, 2003	\$15,728,060	\$23,775,768	\$8,047,708	66.2%	\$2,518,095	319.6%
June 30, 2004	\$16,233,523	\$25,002,453	\$8,768,930	64.9%	\$2,634,013	332.9%
June 30, 2005	\$16,832,623	\$26,849,061	\$10,016,438	62.7%	\$2,760,252	362.9%
June 30, 2006	\$17,770,352	\$28,563,558	\$10,793,206	62.2%	\$2,954,205	365.4%
June 30, 2007	\$19,393,353	\$30,495,402	\$11,102,049	63.6%	\$3,245,524	342.1%
June 30, 2008	\$21,577,066	\$31,979,564	\$10,402,498	67.5%	\$3,392,030	306.7%
June 30, 2009	\$22,465,851	\$35,361,320	\$12,895,469	63.5%	\$3,516,159	366.7%
June 30, 2010	\$23,552,779	\$38,163,939	\$14,611,160	61.7%	\$3,485,147	419.2%
June 30, 2011	\$26,605,378	\$40,648,279	\$14,042,901	65.5%	\$3,547,806	395.8%
June 30, 2012	\$28,137,102	\$43,831,125	\$15,694,023	64.2%	\$3,859,220	406.7%

**CITY OF URBANA, ILLINOIS
POLICE PENSION FUND**

**Required Supplementary Information
Schedule of Employer Contributions
(Unaudited)**

Fiscal Year	Annual Required Contribution	Contributions Made	Percentage Contributed
2004	\$893,391	\$1,133,303	126.9%
2005	\$950,335	\$1,258,282	132.4%
2006	\$1,048,121	\$1,403,958	133.9%
2007	\$1,143,288	\$1,514,188	132.4%
2008	\$1,243,507	\$1,680,480	135.1%
2009	\$1,225,637	\$1,604,475	130.9%
2010	\$1,361,577	\$1,783,576	131.0%
2011	\$1,500,579	\$1,981,806	132.1%
2012	\$1,524,579	\$1,980,275	129.9%
2013	\$1,648,164	\$2,138,159	129.7%

APPENDIX D

City of Urbana Firemen's Pension Fund audit report for June 30th, 2013

CITY OF URBANA, ILLINOIS

FIREMEN'S PENSION FUND

Audit Report

For the Years Ended June 30, 2013 and 2012

**CITY OF URBANA, ILLINOIS
FIREMEN'S PENSION FUND**

Audit Report

For the Years Ended June 30, 2013 and 2012

TABLE OF CONTENTS

	<u>Page No.</u>
Independent Auditors' Report.....	1-2
Comparative Statement of Plan Net Position.....	3
Comparative Statement of Changes in Plan Net Position.....	4
Notes to Financial Statements.....	5
Required Supplementary Information:	
Schedule of Funding Progress.....	14
Schedule of Employer Contributions	15

BRAY, DRAKE, LILES & RICHARDSON LLP
Certified Public Accountants

KARL E. DRAKE, CPA
CURTIS D. LILES, CPA
R. NEIL RICHARDSON, CPA

1606 N. Willow View Road, Suite 1E
Urbana, Illinois 61802-7446

Phone 217/337-0004
Fax 217/337-5822

JAMES P. BRAY (RETIRED)

Board of Trustees
City of Urbana, Illinois
Firemen's Pension Fund
Urbana, Illinois

Independent Auditor's Report

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that schedule of funding progress and schedule of employer contributions on pages 13 and 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operations, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Bray, Drake, Liles & Richardson LLP

BRAY, DRAKE, LILES & RICHARDSON LLP

Urbana, Illinois

October 28, 2013

**CITY OF URBANA, ILLINOIS
FIREMEN'S PENSION FUND**

**Comparative Statement of Plan Net Position
As of June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
ASSETS:		
Cash and Cash Equivalents:		
Bank Checking/Savings	\$ 408,388	\$ 893,292
Money Market Accounts	82,323	55,250
Total Cash and Cash Equivalents	<u>490,711</u>	<u>948,542</u>
Receivables:		
Employer Contributions (Property and Replacement Tax)	778,405	603,987
Accrued Interest	25,176	30,027
Total Receivables	<u>803,581</u>	<u>634,014</u>
Investments, at Fair Value:		
U.S. Government Securities	12,277,014	12,847,592
Certificates of Deposit	3,103,416	2,747,528
Municipal Bonds	321,555	319,593
Mutual Funds	19,475,724	15,767,417
Total Investments	<u>35,177,709</u>	<u>31,682,130</u>
Total Assets	\$ 36,472,001	\$ 33,264,686
LIABILITIES:		
Accounts Payable	\$ 825	\$ 3,812
NET POSITION-RESTRICTED FOR PENSION BENEFITS (A schedule of funding progress is presented on page 11.)		
	<u>\$ 36,471,176</u>	<u>\$ 33,260,874</u>

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

**CITY OF URBANA, ILLINOIS
FIREMEN'S PENSION FUND**

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

	2013	2012
ADDITIONS:		
Contributions:		
Employer:		
Property Tax	\$ 1,430,369	\$ 1,351,306
Replacement Tax	52,000	52,000
Total Employer Contributions	1,482,369	1,403,306
Employees	359,615	330,550
Total Contributions	1,841,984	1,733,856
Investment Income:		
Net Appreciation (Depreciation) in Fair Value of Investments:		
Mutual Funds	2,798,390	(354,627)
Municipal Bonds	2,760	10,517
U.S. Government Securities	(518,299)	282,727
Interest	465,577	575,839
Dividends	440,569	364,343
Total Investment Income	3,188,997	878,799
Less Investment Expense	(8,872)	(7,640)
Net Investment Income	3,180,125	871,159
Other Income:		
Pension Refunds Repurchased	3,778	-
Proceeds Litigation	-	4,390
Total Other Income	3,778	4,390
Total Additions	5,025,887	2,609,405
DEDUCTIONS:		
Disability Benefits	202,212	194,671
Firemen's Pension Benefits	1,467,640	1,418,098
Dependent's Benefits	122,777	122,468
Administrative Costs	22,956	16,859
Total Deductions	1,815,585	1,752,096
NET INCREASE (DECREASE)	3,210,302	857,309
NET POSITION-RESTRICTED FOR PENSION BENEFITS:		
Beginning of Year	33,260,874	32,403,565
End of Year	\$ 36,471,176	\$ 33,260,874

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

CITY OF URBANA
FIREMEN'S PENSION FUND
Notes to Financial Statements
June 30, 2013 and 2012

Note 1 - Summary of Significant Accounting Policies:

The Pension fund was organized on April 4, 1927, and is exempt from federal income tax. The pension fund is created and operated under state laws that provide for a fund to be established to provide certain retirement benefits to firefighters and their dependents (see Note 2). The fund is managed by a board of five trustees, made up of two persons appointed by the mayor of the City of Urbana and two persons elected from the current firefighters and one elected from the retired firefighters. The Pension fund is also included in the annual report of the City of Urbana, as a fiduciary fund, according to the criteria specified in governmental accounting standards.

Investments are reported at fair value. Fair values for U.S. government securities, municipal bonds, stock mutual funds and money market accounts are based upon latest quoted prices. Investment transactions are reported as of the trade date. Interest income is recognized as earned. Realized gains and losses on sales and exchanges of securities and unrealized gains and losses are reported as net appreciation (depreciation) in the fair value of investments.

The fund considers all liquid investments with maturity of three months or less when purchased to be cash equivalents. At June 30, 2013 and 2012, there were no investments that were considered cash equivalents.

The fund is accounted for using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred. Employer contributions are primarily made from property taxes. Property taxes are recognized as revenues in the year for which they are levied. The 2012 levy is reported in fiscal year 2013 and the 2011 levy in fiscal year 2012. The taxes are certified against appraised real property as of the beginning of the previous calendar year. Benefits are recognized when the benefit is due and payable. Refunds are recognized when the employee resigns from employment with the city.

The preparation of financial statements requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions from plan net position during the reporting period. Actual results could differ from those estimates.

CITY OF URBANA
 FIREMEN'S PENSION FUND
Notes to Financial Statements
 June 30, 2013 and 2012

Note 2 - Pension Disclosure Information:

a. Plan Description:

The Pension fund is a defined benefit single-employer pension plan that covers all sworn firefighting personnel. Although this is a single-employer plan, the defined benefits and employee and employer contribution levels are governed by "Article 4, Firefighter's Pension Fund – Municipalities 500,000 and Under" of the Illinois Pension Code (Illinois Compiled Statutes, 1992, Chapter 40. This fund is accounted for and reported as a pension trust fund.

At June 30, 2013 and 2012, the pension plan membership consisted of:

	<u>2013</u>	<u>2012</u>
Retirees and beneficiaries currently receiving benefits	46	46
Terminated plan members entitled to but not yet receiving benefits	5	4
Active vested plan members	35	34
Active non vested plan members	<u>20</u>	<u>20</u>
Total	<u>106</u>	<u>104</u>
 Number of participating employers	 1	 1

Following is a summary of the firemen's pension plan as provided for in the Illinois Statutes.

The firemen's pension plan provides retirement benefits as well as death and disability benefits. There are two tiers or levels of benefits:

Employees hired before January 1, 2011, attaining the age of 50 or more with 20 or more years of creditable service are entitled to receive an annual retirement benefit of one-half of the salary

CITY OF URBANA
FIREMEN'S PENSION FUND
Notes to Financial Statements
June 30, 2013 and 2012

attached to the rank held at the date of retirement. The pension shall be increased by one-twelfth of 2½ % of such salary for each month over 20 years of service, to a maximum of 75% of such monthly salary. Employees with at least 10 years, but less than 20 years of credited service, may retire and receive a reduced benefit which begins at age 60. The monthly pension of a firefighter who retires after January 1, 1977 with 20 or more years of service, shall be increased annually, following the first anniversary date of retirement, and paid upon reaching at least the age 55, by .25% of the original pension times the number of months the employee has been retired since age 50 (up to a maximum of 15%), and 3% annually thereafter of the pension payable at the time of the increase. The monthly pension of a firefighter who retires with less than 20 years of service receives an annual 3% increase.

Employees that are hired after January 1, 2011, attaining the age of 55 or more with 20 or more years of creditable service are entitled to receive an annual retirement benefit of one-half of the average salary for the last 8 years of service (maximum average salary is \$106,800 if employee retires in calendar year 2011) . The pension shall be increased by 2.5% of such salary for each additional year of service over 20 years up to a maximum of 75% of such salary. Employees with at least 10 years, but less than 20 years of credited service, may retire and receive a reduced benefit, which begins at age 60. Employees that have attained the age of 50 with at least 10 years of service may retire but their pension is reduced by ½% per year for each year the employee is under age 55. The monthly pension shall be increased annually, following the first anniversary date of retirement, and be paid upon reaching the age of at least 60 years, by the lesser of 1/12 of 3% of the original pension times the number of months the employee has been retired since age 60 (up to a maximum of 15%) or by a factor of the CPI-U, whichever is less. Dependents receive a pension of 2/3 of the member's pension at date of death. Dependents receive an annual increase under the same formula as the retired officer.

During the year, covered employees were required to contribute 9.455% of their salary to the Firemen's Pension Plan. If an employee leaves covered employment with less than 20 years of service, accumulated employee contributions may be refunded without accumulated interest. The City of Urbana is required to

CITY OF URBANA
 FIREMEN'S PENSION FUND
Notes to Financial Statements
 June 30, 2013 and 2012

contribute the remaining amounts necessary to finance the plan as actuarially determined by an enrolled actuary. By the year 2033, the City's contributions must accumulate to the point where the past service cost for the Plan is fully funded.

b. Funding Policy and Annual Pension Cost:

The amount shown below as the "net pension obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the system on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is an accrued liability and is a component of the funding method used to determine contributions to the system. Administrative costs are paid for by the plan, except for in-kind donated financial services from the City.

The funding policy provides for actuarially determined periodic contributions at rates that, for individual employees, accumulate assets gradually over time so that sufficient assets will be available to pay benefits when due. The rate for the City's employee group as a whole has tended to remain level as a percentage of annual covered payrolls. The contribution rate for normal cost is determined using the entry age normal actuarial funding method. The system used a level percentage amount method to amortize the unfunded liability over a 40 year period. The significant actuarial assumptions used to compute the actuarially determined contribution requirements are the same as those used to compute the net pension obligation.

Latest Actuarial Valuation Date	June 30, 2012
---------------------------------	---------------

Asset Valuation Method	Market Value
------------------------	--------------

Significant Actuarial Assumptions:

Rate of return on investment of present and future assets	7.0% compounded annually
Projected salary increases	5.25% compounded annually

CITY OF URBANA
 FIREMEN'S PENSION FUND
Notes to Financial Statements
 June 30, 2013 and 2012

Postretirement benefit increases	3.0% interest annually
Inflation increases	3.0% annually
Mortality	1983 Group Annuity Mortality Table
Withdrawal	Graduated Rates
Disability	Graduated Rates
Retirement	Graduated Rates (100% by age 62)
Marital Status	85% married, spouse same age
Plan Expenses	None

Annual Required Contribution	\$1,182,977
Interest on Net Pension Obligation	(149,326)
Adjustment to Annual Required Contribution	<u>116,574</u>
Annual Pension Cost	1,150,225
Contributions Made	<u>1,403,306</u>
Increase (Decrease) in Net Pension Obligation	(253,081)
Net Pension Obligation, Beginning of Year	<u>(2,133,235)</u>
Net Pension Obligation, End of Year	<u><u>\$ (2,386,316)</u></u>

The provisions of Public Act 096-1495 are reflected in this actuarial valuation, including changes to benefit provisions, actuarial methods, and the amortization period and method. There were no changes with respect to the actuarial assumptions from the prior year. There were no unexpected changes with respect to the participants included in the actuarial valuation from the prior year. There were no unexpected changes with respect to the Fund's investments from the prior year, however in 2012, the asset valuation method was changed to the Straight Market Value from the 5-year Average Market Value in accordance with PA096-1495. The increase in the required contribution was due to the investment return being less than assumed (2.85%) and to the increase in salaries being higher than assumed (6.8%). The percent funded increased from 82.6% to 83.0%.

Note 3 - Deposits and Investments:

As of June 30, 2013, the pension fund had the following fixed income or interest bearing investments and maturities:

CITY OF URBANA
 FIREMEN'S PENSION FUND
Notes to Financial Statements
 June 30, 2013 and 2012

<u>Investment Maturities</u>	<u>U.S. Govt. and Primary Obligation Agencies</u>	<u>U.S. Govt. and Implied Obligation Agencies</u>	<u>Certificates of Deposit</u>	<u>Municipal Bonds</u>	<u>Fixed Income Total</u>
0-5 Years					
\$	\$ 4,299,102	\$ 3,995,863	\$ 3,103,416	\$ -	\$ 11,398,381
% Portfolio					73%
% Policy Goal					20%
6-10 Years					
\$	\$ 1,098,364	\$ 1,489,744	\$ -	\$ -	\$ 2,588,108
% Portfolio					16%
% Policy Goal					20%
11-15 Years					
\$	\$ 1,393,941	\$ -	\$ -	\$ 321,555	\$ 1,715,496
% Portfolio					11%
% Policy Goal					20%
16-19 Years					
\$	\$ -	\$ -	\$ -	\$ -	\$ -
% Portfolio					0%
% Policy Goal					20%
20-25					
\$	\$ -	\$ -	\$ -	\$ -	\$ -
% Portfolio					0%
% Policy Goal					20%
Total	\$ 6,791,407	\$ 5,485,607	\$ 3,103,416	\$ 321,555	\$ 15,701,985

The fund also had the following stock equity mutual fund investments:

<u>Mutual Fund Type</u>	<u>Fair Value</u>	<u>%Total</u>	<u>Policy Goal</u>	<u>Policy Min.</u>	<u>Policy Max.</u>
Small Cap	\$ 1,762,084	9%	5%	5%	20%
Active Equity	6,586,906	34%	34%	25%	40%
International	1,844,757	9%	10%	5%	15%
Mid Cap	1,839,480	9%	10%	5%	15%
Large Index	6,923,658	36%	35%	30%	40%
Emerging Market	518,839	3%	6%	3%	10%
Total	\$19,475,724	100%			

CITY OF URBANA
FIREMEN'S PENSION FUND
Notes to Financial Statements
June 30, 2013 and 2012

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

- (1) Structuring the fixed income portion of the portfolio such that maturity dates are staggered so as to avoid an undue concentration of assets in a given time period. The fund investment policy has the following goals concerning maturity dates: 20% of the portfolio should have a maturity date of 0-5 years, 20% 6-10 years, 20% 11-15 years, 20% 16-20 years, and 20% 21-25 years. The investment policy recognizes that these percentages are only goals and that the Treasurer when purchasing an investment, has the flexibility to deviate from these goals if he deems that the interest rate available on investments with certain maturities does not make this purchase advisable. As illustrated above, the fund's investments are over-weighted in the 0-10 year maturity levels and underweighted in the 11-25 year maturity levels. This is due to the fact that in the past few years, the interest rates on longer term maturities has been considerably lower than normal. The fund will continue to analyze each investment purchase in the near future and attempt to purchase investments with maturities above 10 years, if the interest rate on these investments makes this a prudent investment.
- (2) By diversifying the portfolio so that the impact of a potential drop in interest rates on a particular type of security will be minimized. The fund investment policy has the following goals, minimums and maximums concerning types of investments:

	% at 6/30/13	<u>Policy</u>		
		Goal	Minimum	Maximum
U.S. Govt. & Agencies	35%	30%	30%	100%
Cert. of Deposit	9%	10%	0%	20%
Municipal Bonds	1%	5%	0%	5%
Corporate Bonds	0%	0%	0%	5%
Total Fixed Income	45%	45%	30%	100%
Stock Equity				
Mutual Funds	55%	55%	0%	55%
Total	100%	100%	n/a	n/a

It is the policy of the fund to rebalance investments after year end, if necessary. At June 30, 2013, all amounts are within the policy minimum and maximum levels.

CITY OF URBANA
FIREMEN'S PENSION FUND
Notes to Financial Statements
June 30, 2013 and 2012

Credit Risk: The pension fund is limited by State Statutes and fund investment policy to invest only in obligations of the U.S. Government Treasury and its agencies, non-negotiable certificates of deposit and savings accounts, if insured by the Federal Deposit Insurance Corporation, obligations of any state or political subdivision, obligations of any corporation and common stock mutual funds (up to a maximum of 65% of the fund's net present assets, and money market mutual funds in which the portfolio is limited to U.S. government securities and agencies. Investments in U.S. Government securities and certain U.S. Government Agency securities are not considered to be of any credit risk since they carry the full obligation and guarantee of the U.S. Government. The fund has also invested in certain U.S. Government Sponsored Enterprises (G.S.E.) that are not secured by an explicit guarantee of the U.S. Government. One-hundred percent of these G.S.E. investments carry a AAA rating from Moody's and Standard and Poors. The fund considers the credit risk of all U.S. Government securities to be similar and does not distinguish these securities for purposes of policy goals, minimum and maximum investment levels. Investments in municipal bonds, while not guaranteed, are considered to be of minimal risk since they are investment grade and the amount invested is small. At June 30, 2013, the fund had \$82,323 invested in money market accounts. These money market accounts are not guaranteed and are not rated. The fund does not believe that the credit risk for these money market accounts to be significant in that the amounts invested are always small. The investment policy limits any investment in certificates of deposit to \$250,000 per bank with the exception of Busey Bank, Urbana. There is no limit placed on investments of certificates of deposit at Busey Bank. However, the Board reviews the credit rating of Busey Bank quarterly for any possible negative change. At June 30, 2013, the fund's investment in certificates of deposit in Busey Bank was \$740,000 and below the \$250,000 limit for all other banks.

Concentration of Credit Risk: There were no investments in any single security or organization that are in excess of 5% of the total investments or 5% of net assets (except for investments in U.S. Government and its credit guaranteed agencies and investments in certain mutual funds). These securities carry an implied U.S. Government guarantee. The fund considers the credit risk of these investments to be similar to investments in U.S. Government Agency securities that are explicitly guaranteed by the U.S. Government.

Custodial Credit Risk for Deposits: is the risk that in the event of a bank failure, the fund's deposits may not be returned. Deposits in federally insured banks and savings and loans are insured in an amount equal to \$250,000 for the fund plus an amount for each member's beneficial interest in the deposits, limited to an amount

CITY OF URBANA
FIREMEN'S PENSION FUND
Notes to Financial Statements
June 30, 2013 and 2012

equal to \$250,000 divided by the largest beneficial interest percentage of a member. At year-end, the fund was not exposed to custodial credit risk for deposits as all deposits were insured.

Custodial Credit Risk for Investments: is the risk that in the event of the failure of the counterparty, the fund may not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The fund has no custodial credit risk in that all of its investments are insured.

**CITY OF URBANA, ILLINOIS
FIREMEN'S PENSION FUND**

**Required Supplementary Information
Schedule of Funding Progress**

(Unaudited)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability Entry Age Normal Cost	Unfunded (Overfunded) Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded (Overfunded) Actuarial Accr. Liability as a % of Covered Payroll
June 30, 2003	\$21,818,207	\$25,302,779	\$3,484,572	86.2%	\$2,282,198	152.7%
June 30, 2004	\$21,981,512	\$26,323,551	\$4,342,039	83.5%	\$2,449,278	177.3%
June 30, 2005	\$22,450,509	\$27,747,673	\$5,297,164	80.9%	\$2,552,316	207.5%
June 30, 2006	\$23,641,009	\$28,901,672	\$5,260,663	81.8%	\$2,652,704	198.3%
June 30, 2007	\$25,593,372	\$29,931,803	\$4,338,431	85.5%	\$2,780,694	156.0%
June 30, 2008	\$27,274,554	\$33,489,938	\$6,215,384	81.4%	\$3,012,087	206.3%
June 30, 2009	\$27,875,775	\$35,217,262	\$7,341,487	79.2%	\$3,249,911	225.9%
June 30, 2010	\$28,653,226	\$36,690,005	\$8,036,779	78.1%	\$3,319,469	242.1%
June 30, 2011	\$32,403,565	\$39,235,028	\$6,831,463	82.6%	\$3,414,250	200.1%
June 30, 2012	\$33,307,152	\$41,404,121	\$8,096,969	80.4%	\$3,645,435	222.1%

**CITY OF URBANA, ILLINOIS
FIREMEN'S PENSION FUND**

**Required Supplementary Information
Schedule of Employer Contributions
(Unaudited)**

Fiscal Year	Annual Required Contribution	Contributions Made	Percentage Contributed
2004	\$684,437	\$807,407	118.0%
2005	\$743,511	\$927,204	124.7%
2006	\$800,420	\$1,032,024	128.9%
2007	\$795,816	\$980,754	123.2%
2008	\$777,163	\$961,372	123.7%
2009	\$1,025,535	\$1,251,695	122.1%
2010	\$1,133,720	\$1,372,080	121.0%
2011	\$1,220,290	\$1,483,810	121.6%
2012	\$1,182,977	\$1,403,306	118.6%
2013	\$1,245,665	\$1,482,369	119.0%

APPENDIX E

FEE PROPOSAL

SCHEDULE OF PROFESSIONAL FEES

BASIC SERVICES

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
City of Urbana	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
Urbana Library	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
Police Pension	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
Fire Pension	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
Total	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____

ADDITIONAL SERVICES

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2017</u>
City of Urbana	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
Urbana Library	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
Police Pension	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
Fire Pension	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
Total	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____

SCHEDULE OF PROFESSIONAL FEES FOR SERVICES BEYOND BASIC AND ADDITIONAL

Quote hourly rates for each fiscal year

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2017</u>
Partner	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
Manager	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
Supervisor	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
Staff	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
_____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
<i>(Other)</i>					
_____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
<i>(Other)</i>					

Firm Name: _____

Address: _____

Signature: _____

Date: _____

Print Name: _____

Title: _____