

THE URBANA FREE LIBRARY

Audit Report

For the Year Ended June 30, 2004



THE URBANA FREE LIBRARY

Financial Statements

For the Year Ended June 30, 2004

THE URBANA FREE LIBRARY
Financial Statements
For the Year Ended June 30, 2004

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 Assets.....	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 Assets.....	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.....	16-24
Combining Statements:	
Combining Balance Sheet, Nonmajor Governmental Funds.....	25
Combining Statement of Revenues, Expenditures and Changes in Fund Balances, Nonmajor Governmental Funds	26



2507 South Neil St.
Champaign, Illinois 61820
PHONE 217.351.2000
FAX 217.351.7726
www.mhfa.net

INDEPENDENT AUDITORS' REPORT

Board of Trustees
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, 2004, as listed in the table of contents. These financial statements are the responsibility of the City of Urbana's management. Our responsibility is to express an opinion on the 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Urbana Free Library Fund of the City of Urbana, Illinois, and do not purport to, and do not, present fairly the financial position of the City of Urbana, Illinois, as of June 30, 2004, and the changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Urbana Free Library, a special revenue fund of the City of Urbana, Illinois, as of June 30, 2004, and the changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 to 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements referred to in the first paragraph. The combining financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Urbana Free Library, a special revenue fund of the City of Urbana, Illinois. The combining statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements of The Urbana Free Library, a special revenue fund of the City of Urbana, Illinois, taken as a whole.

Marta, Hood, Finnie & Associates, LLC

August 17, 2004

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, 2004.

FINANCIAL HIGHLIGHTS:

- At June 30, 2004, unreserved fund balance for the general fund was \$960,646, or 43% of the total general fund expenditures. This amount is \$265,258 more than at the end of last year.
- The assets of the Library exceeded liabilities at June 30, 2004, by \$9,730,441. Of this amount \$1,747,110 is unrestricted and may be used to meet the government's ongoing operations.
- The Library's total net assets increased by \$2,553,730.
- At June 30, 2004, the Library's governmental funds reported combined fund balances of \$1,617,884 (a decrease of \$1,241,761 under last year), of which \$1,025,231 was unreserved (an increase of \$268,064 from last year).
- The only long-term debt of the Library is \$83,358 in accumulated compensated employee absences, which increased \$1,184 or 1%.

OVERVIEW OF THE FINANCIAL STATEMENTS:

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

1. Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the Urbana Free Library's finances, in a manner similar to a private-sector business. The government wide financial statements can be found on pages 9 and 10 of this report.
 - The statement of net assets presents information on all of the Library's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Library is improving or deteriorating.

- The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal period.
- Government-wide financial statements distinguish functions of the Library that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities of the Library include Centralized Costs, Administration, Adult Department, Children's Department, Archives Department, Maintenance, Acquisitions, Circulation, Publishing Costs, Grant Programs, and Documents Center. 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 six 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 the building fund, both of which are considered to be major funds. Data from the other four governmental funds are combined into a single, aggregated presentation. Individual fund data for

each of these non-major governmental funds is provided in the form of combining statements in this report.

- The Library adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.
 - The fund financial statements can be found on pages 11-15 of this report.
3. Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 16-24 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>2004</u>	<u>2003</u>
Current and other assets	\$1,903,283	\$1,798,627
Restricted assets	596,688	2,102,478
Capital assets	7,390,678	3,431,505
Total assets	<u>\$9,890,649</u>	<u>\$7,332,610</u>
Long-term liabilities	\$ 83,358	\$ 82,174
Other liabilities	76,850	73,725
Total liabilities	<u>\$ 160,208</u>	<u>\$ 155,899</u>
Net assets:		
Invested in capital assets	\$7,390,678	\$3,431,505
Restricted	592,653	2,102,478
Unrestricted	1,747,110	1,642,728
Total net assets	<u>\$9,730,441</u>	<u>\$7,176,711</u>

At the end of the year, the Library is able to report positive balances in all categories of net assets. This situation was true for last year as well.

There was an increase in net assets \$2,553,730. \$3,959,173 was invested in capital assets; restricted net assets was reduced \$1,509,825 for building expansion; and \$104,382 was added to unrestricted net assets.

Comparative Statement of Governmental Activities:

	<u>2004</u>	<u>2003</u>
Revenues:		
Program revenues:		
Charges for services	\$ 27,661	\$ 49,312
Grants and contributions	62,886	119,762
General revenues:		
Property tax	1,973,973	1,948,366
Intergovernmental	2,147,154	2,064,387
Donations	463,387	459,622
Other	157,370	162,327
Total revenues	<u>\$4,832,431</u>	<u>\$4,803,776</u>
Expenses:		
Centralized costs	\$497,551	451,145
Administration	164,080	164,184
Adult department	542,057	528,788
Children's department	298,598	279,031
Archives department	194,406	161,704
Maintenance	54,384	69,674
Acquisitions	161,140	163,982
Circulation	366,217	374,893
Publishing costs	54	1,127
Grant programs	163	4,797
Documents center	51	40,668
Total expenses	<u>\$2,278,701</u>	<u>\$2,239,993</u>
Increase in net assets	2,553,730	2,563,783
Beginning net assets	<u>7,176,711</u>	<u>4,612,928</u>
Ending net assets	<u>\$9,730,441</u>	<u>\$7,176,711</u>

As noted the increase in net assets was \$2,553,730. This increase is \$10,053 less than last year's increase. \$1,956,352 of this increase is due to contributions by the City for construction of the Library building improvements. This amounts are reflected in the intergovernmental revenues. Total expenses increased \$38,708 or 1.7%, mainly due to inflationary cost increases.

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 2004 for the general fund increased \$265,258. This increase is unusually high because the Library changed the percent of property tax deferred from 50% previously to 40% at June 30, 2004. This change in estimate increased property tax revenue \$201,309. In the future, there will not be an increase in property tax revenue from this accounting change.

GENERAL FUND BUDGETARY HIGHLIGHTS: Differences between the original budget and the final amended budget were minor and involved transfers in spending authority made between different functions. The total budget for the general fund increased \$13,000 from originally approved amounts.

CAPITAL ASSETS:

The Library's investment in capital assets as of June 30, 2004, was \$7,390,678 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, construction in progress and equipment. Capital asset events during the year were:

- New library building construction placed in service from previous construction in progress \$2,253,405
- New library building construction during year \$3,656,009
- New library building construction in progress \$340,204
- Depreciation expense of \$76,510

Comparative Statement of Capital Assets (net of depreciation):

	<u>2004</u>	<u>2003</u>
Land	\$ 415,509	\$ 405,509
Building and Improvements	6,577,110	727,167
Construction in progress	340,204	2,253,405
Equipment	57,855	45,424
Total Net Capital Assets	<u>\$7,390,678</u>	<u>\$3,431,505</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 86% of the revenues in the general fund. The future financial stability of the Library is very dependent upon the continued stability of the local real estate market. Assessed valuation has averaged 8.2% annual growth over the last five years and 5.4% over the last 10 years. The City of Urbana has been very aggressive in encouraging new business development, encouraging new housing construction, and annexing properties into the city limits. These actions have been the primary reason for this growth.
- The general fund budget for next year increased 4.5%, reflecting adjustments for inflationary cost increases.

- The major initiative of the Library for next year is the completion of a significant addition to the library building that will approximately double the space of the library. This addition will enable the Library to continue to provide quality modern library services to the citizens of the City of Urbana in the future. The estimated total project cost is \$8.26 million. The City of Urbana will contribute \$5.38 million from cash that has been saved for this purpose, \$800,000 has been obtained from State grants, and the balance of \$2.1 million will be raised from private donations. These donations are reported in the Building Fund in this report. At the date of the issuance of this report private donations and pledges have accumulated to the amount of the approximately \$2.5 million. Completion is planned in 2005. During the year, the City contributed \$1,956,352 in construction costs.

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, 201 S. Race Street, Urbana, 61801.

URBANA FREE LIBRARY
Statement of Net Assets
June 30, 2004

ASSETS:

Cash and Cash Equivalents:

On Hand	\$ 516
Checking	19,361
Savings	872,753

Receivables:

Property Tax	994,947
Due From Other Governments	15,706

Restricted Assets:

Cash and Cash Equivalents:

Checking	8,906
Savings	74,936
Busey Trust Money Market	512,446
Interest Receivable	400

Capital Assets (net of accumulated depreciation):

Land	415,509
Buildings and Improvements	6,577,110
Construction in Progress	340,204
Equipment	57,855

Total Assets	<u><u>\$ 9,890,649</u></u>
--------------	----------------------------

LIABILITIES:

Accounts Payable	\$ 22,521
Deferred Revenues	7,137
Accrued Salaries and Taxes	47,192

Non-Current Liability:

Accumulated Compensated Absences	83,358
----------------------------------	--------

Total Liabilities	<u>160,208</u>
-------------------	----------------

NET ASSETS:

Invested in Capital Assets, net of related debt	7,390,678
---	-----------

Restricted for:

Building Expansion	508,811
Library Materials	83,842

Unrestricted	<u>1,747,110</u>
--------------	------------------

Total Net Assets	<u><u>\$ 9,730,441</u></u>
------------------	----------------------------

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

URBANA FREE LIBRARY
Statement of Activities
For the Year Ended June 30, 2004

	Program Revenues			Governmental Activities
	Expenses	Charges for Services	Operating Grants and Contributions	
Functions/Programs:				
Governmental Activities:				
Centralized Costs	\$ 497,551	\$ 15,702	\$ -	\$ (481,849)
Administration	164,080	-	-	(164,080)
Adult Department	542,057	-	-	(542,057)
Children's Department	298,598	-	34,500	(264,098)
Archives Department	194,406	-	10,000	(184,406)
Maintenance	54,384	-	-	(54,384)
Acquisitions	161,140	9,553	18,223	(133,364)
Circulation	366,217	-	-	(366,217)
Publishing Costs	54	2,406	-	2,352
Grant Programs	163	-	163	-
Documents Center	51	-	-	(51)
Total Governmental Activities	<u>\$2,278,701</u>	<u>\$ 27,661</u>	<u>\$ 62,886</u>	<u>(2,188,154)</u>
General Revenues:				
Real Property Tax				1,973,973
Intergovernmental:				
Corporate Personal Property				
Replacement Tax				62,904
State Aid-Public Libraries				46,702
City of Urbana				2,037,548
Book Fines				64,629
Donations				463,387
Interest				76,591
Non-resident User Fees				16,020
Miscellaneous				130
Total General Revenues				<u>4,741,884</u>
Change in Net Assets				2,553,730
Net Assets, Beg. Year				<u>7,176,711</u>
Net Assets, End Year				<u><u>\$ 9,730,441</u></u>

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

URBANA FREE LIBRARY
Balance Sheet-Governmental Funds
June 30, 2004

ASSETS			Other	Total
	General	Building	Governmental Funds	Governmental Funds
Cash and Cash Equivalents:				
On Hand	\$ 516	\$ -	\$ -	\$ 516
Checking	11,138	-	8,223	19,361
Savings	814,086	-	58,667	872,753
Receivables:				
Property Tax	994,947	-	-	994,947
Due From Other Governments	15,706	-	-	15,706
Restricted Assets:				
Cash and Cash Equivalents:				
Checking	-	-	8,906	8,906
Savings	-	-	74,936	74,936
Busey Trust Money Market	-	512,446	-	512,446
Interest Receivable	-	400	-	400
Total Assets	\$1,836,393	\$ 512,846	\$ 150,732	\$ 2,499,971
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	\$ 18,318	\$ 4,035	\$ 168	\$ 22,521
Deferred Revenues	810,237	-	2,137	812,374
Accrued Salaries and Taxes	47,192	-	-	47,192
Total Liabilities	875,747	4,035	2,305	882,087
Fund Balances:				
Reserved for:				
Building Expansion	-	508,811	-	508,811
Library Materials	-	-	83,842	83,842
Unreserved, Reported in:				
General Fund	960,646	-	-	960,646
Special Revenue Funds	-	-	64,585	64,585
Total Fund Balance	960,646	508,811	148,427	1,617,884
Total Liabilities and Fund Balance	\$1,836,393	\$ 512,846	\$ 150,732	\$ 2,499,971

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

URBANA FREE LIBRARY

Reconciliation of the Fund Balance in Governmental Funds
Balance Sheet to Net Assets in the Statement of Net Assets
June 30, 2004

Total fund balances, governmental funds	\$ 1,617,884
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	7,390,678
Long-term liabilities (compensated absences) are not due and payable in the current period and are not reported in the funds	(83,358)
A portion of property taxes recognized in the statement of activities does not provide current financial resources and are reported in the funds as deferred revenue	<u>805,237</u>
Net assets of governmental activities	<u><u>\$ 9,730,441</u></u>

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

URBANA FREE LIBRARY

Combined Statement of Revenues, Expenditures and Changes in Fund Balance Governmental Funds For the Year Ended June 30, 2004

	General	Building	Other Governmental Funds	Total Governmental Funds
Revenues:				
Real Property Tax	\$ 2,136,470	\$ -	\$ -	\$ 2,136,470
Intergovernmental:				
Corporate Personal Property				
Replacement Tax	62,904	-	-	62,904
Grant, Champaign County	10,000	-	-	10,000
State Aid-Public Libraries	46,702	-	-	46,702
City of Urbana	81,196	1,956,352	-	2,037,548
Grant, Urbana School District	34,500	-	-	34,500
Grants, Private	-	-	163	163
Book Fines	64,629	-	-	64,629
Equipment Rental Fees	15,702	-	-	15,702
Donations	-	463,387	18,223	481,610
Interest	6,853	68,575	1,163	76,591
Sale of Books and Materials	6,157	-	5,802	11,959
Non-resident User Fees	16,020	-	-	16,020
Miscellaneous	130	-	-	130
Total Revenues	2,481,263	2,488,314	25,351	4,994,928
Expenditures:				
Centralized Costs	527,641	4,003,999	1,593	4,533,233
Administration	159,707	-	-	159,707
Adult Department	514,616	-	-	514,616
Children's Department	276,930	-	-	276,930
Archives Department	186,812	-	-	186,812
Maintenance	53,388	-	-	53,388
Acquisitions	137,881	-	14,824	152,705
Circulation	359,030	-	-	359,030
Publishing Costs	-	-	54	54
Grant Programs	-	-	163	163
Documents Center	-	-	51	51
Total Expenditures	2,216,005	4,003,999	16,685	6,236,689
Excess of Revenues Over (Under) Expenditures	265,258	(1,515,685)	8,666	(1,241,761)
Fund Balance, Beg. of Year	695,388	2,024,496	139,761	2,859,645
Fund Balance, End of Year	\$ 960,646	\$ 508,811	\$ 148,427	\$ 1,617,884

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

URBANA FREE LIBRARY

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

For the Year Ended June 30, 2004

Net change in fund balances-governmental funds	\$ (1,241,761)
--	----------------

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	(162,497)
--	-----------

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.	4,035,682
--	-----------

This is the amount of depreciation that was not reported in the funds.	(76,510)
--	----------

In the statement of activities, accumulated compensated absences are measured by the amounts earned during the year. In the governmental funds, expenditures for these items are measured by the amounts actually paid. This is the amount by which accumulated compensated absences paid exceeded the amounts earned.	<u>(1,184)</u>
--	----------------

Change in net assets of governmental activities	<u>\$ 2,553,730</u>
---	---------------------

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

URBANA FREE LIBRARY

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

For the Year Ended June 30, 2004

	<u>Budgeted Amounts</u>			Variance With Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Real Property Tax	\$ 2,012,940	\$ 2,012,940	\$ 2,136,470	\$ 123,530
Intergovernmental:				
Corporate Personal Property				
Replacement Tax	62,904	62,904	62,904	-
Grant, Champaign County	10,000	10,000	10,000	-
State Aid-Public Libraries	45,494	45,494	46,702	1,208
Grant, Urbana School District	34,500	34,500	34,500	-
City of Urbana	42,460	42,460	81,196	38,736
Book Fines	75,600	75,600	64,629	(10,971)
Equipment Rental	16,000	16,000	15,702	(298)
Interest	10,000	10,000	6,853	(3,147)
Sale of Books and Materials	6,500	6,500	6,157	(343)
Non-resident User Fees	15,500	15,500	16,020	520
Miscellaneous	265	265	130	(135)
Total Revenues	<u>2,332,163</u>	<u>2,332,163</u>	<u>2,481,263</u>	<u>149,100</u>
Expenditures:				
Current:				
Centralized Costs	530,309	560,309	527,641	32,668
Administration	173,776	173,776	159,707	14,069
Adult Department	529,720	529,720	514,616	15,104
Children's Department	285,419	285,419	276,930	8,489
Archives Department	191,999	191,999	186,812	5,187
Maintenance	68,354	68,354	53,388	14,966
Acquisitions	145,625	145,625	137,881	7,744
Circulation	406,961	376,961	359,030	17,931
Total Expenditures	<u>2,332,163</u>	<u>2,332,163</u>	<u>2,216,005</u>	<u>116,158</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 265,258</u>	<u>\$ 265,258</u>

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, 2004

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, archives, and municipal documents. 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, library policies, and day-to-day operational matters. The City Council of the City of Urbana is the authority for levying the annual property tax. The Urbana Free Library is also included in the annual financial report of the City of Urbana, according to the criteria specified in governmental accounting standards.
- B. The government-wide financial statements (the statement of net assets and the statement of changes in net assets) report information on all activities of the Library. The effect of interfund activity has been removed from these statements. The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers who directly benefit from services provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not included among program revenues are reported as general revenues. Major individual governmental funds are reported as separate columns in the fund financial statements.
- C. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred. Property taxes are recognized as revenues in the year for which they are levied. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Property taxes are considered available if they are collected within 60 days of year-end. Expenditures are recorded when a liability is incurred, as under accrual accounting, except that expenditures related to compensated absences are recorded only when payment is due.

THE URBANA FREE LIBRARY

Notes to Financial Statements

For the Year Ended June 30, 2004

D. The accounts of the Library are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. The Urbana Free Library reports the following major governmental funds:

- 1) The General Fund is the primary operating fund of the Library. It accounts for all financial resources except those required to be accounted for in another fund.
- 2) The Building Fund is used to account for donations that are restricted to construction costs of a Library building expansion. A foundation has been created to accept these donations and its activities are reported in the Building Fund.

Other governmental funds (non-major) are:

- 1) The Publications Special Revenue Fund Type is used to account for receipts and costs of publications and other items for sale.
- 2) The Grant Special Revenue Fund Type is used to account for receipts and costs related to federal, state or private grant awards.
- 3) The Documents Project Special Revenue Fund Type is used to account for receipts and costs associated with the operation of the municipal document center.
- 4) The Library Materials Trust Permanent Fund Type is used to account for donations that are restricted to purchase library books and materials. These donations are usually in the form of a memorial to individuals.

E. Restricted Net Assets:

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

THE URBANA FREE LIBRARY

Notes to Financial Statements

For the Year Ended June 30, 2004

	Building Expansion	Library Materials	Total
Checking	\$ —	\$ 8,906	\$ 8,906
Savings	—	74,936	74,936
Busey Trust Money Market	512,446	—	512,446
Interest Receivable	400	—	400
Accounts Payable	(4,035)	—	(4,035)
Total Restricted Net Assets	\$508,811	\$ 83,842	\$592,653

Note 2 - Deposits and Investments:

Cash and Cash Equivalents - 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. At June 30, 2004, there were no investments that were classified as a cash equivalent.

Investments are stated at market, which approximates cost. 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. All investments during the year were in bank certificates of deposit.

Deposits - At year-end, the carrying amount of the Library's deposits was \$975,956 and the bank balance was \$1,015,571. Of the bank balance, \$172,132 was covered by general depository insurance and the balance of \$843,439 was covered by collateral held by the Library's agent in the Library's name.

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

THE URBANA FREE LIBRARY

Notes to Financial Statements

For the Year Ended June 30, 2004

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. Therefore, in governmental funds, 40% of the levy has been deferred. In prior fiscal years, the Library deferred 50% of the levy. The effect of this change in estimate was to increase property tax revenue in 2004 by \$201,309.

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:

	<u>Balance</u> <u>06/30/03</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>06/30/04</u>
Land	<u>\$ 405,509</u>	<u>\$ 10,000</u>	<u>\$ --</u>	<u>\$415,509</u>
Building and Improvements	\$1,181,818	\$5,909,414	\$ --	\$7,091,232
Less Accum. Depreciation	<u>(454,651)</u>	<u>(59,471)</u>	<u>--</u>	<u>(514,122)</u>
Subtotal	<u>\$ 727,167</u>	<u>\$5,849,943</u>	<u>\$ --</u>	<u>\$6,577,110</u>
Construction in Progress	<u>\$2,253,405</u>	<u>\$ 340,204</u>	<u>\$(2,253,405)</u>	<u>\$ 340,204</u>
Equipment	\$ 284,096	\$ 29,470	\$ (85,470)	\$228,096

THE URBANA FREE LIBRARY

Notes to Financial Statements

For the Year Ended June 30, 2004

Less Accum. Depreciation	<u>(238,672)</u>	<u>(17,039)</u>	<u>85,470</u>	<u>(170,241)</u>
Subtotal	<u>\$ 45,424</u>	<u>\$ 12,431</u>	<u>\$ --</u>	<u>\$ 57,855</u>
Total Capital Assets	\$4,124,828	\$6,289,088	\$(2,338,875)	\$8,075,041
Less Accum. Depreciation	<u>(693,323)</u>	<u>(76,510)</u>	<u>85,470</u>	<u>(684,363)</u>
Total, Net Capital Assets	<u>\$3,431,505</u>	<u>\$6,212,578</u>	<u>\$(2,253,405)</u>	<u>\$7,390,678</u>

Depreciation expense was charged to functions/programs as follows:

Administration	\$ 4,167
Adult Department	27,203
Children's Department	21,499
Archives Department	7,481
Maintenance	936
Acquisitions	8,332
Circulation	<u>6,892</u>
Total	<u>\$76,510</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 Fund will be used to liquidate these liabilities. Accumulated compensated employee absence activity for the year follows:

Balance, Beginning of Year	\$82,174
Additions	<u>1,184</u>
Balance, End of Year	<u>\$83,358</u>

Note 6 – 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

THE URBANA FREE LIBRARY

Notes to Financial Statements

For the Year Ended June 30, 2004

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 7 – Home Rule Unit:

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

Note 8 – Pension and Retirement Fund Commitments:

The City of Urbana (on behalf of the Library) pays all required 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 \$164,145 in 2004 (amounts include payments for social security and Medicare) and is not included in the revenues, expenses or expenditures in these financial statements.

Note 9 – Lease Commitments:

The Library has entered into various short-term operating leases, all of which are cancelable by either party within 60 days. Amounts paid under these lease agreements during the year were immaterial.

THE URBANA FREE LIBRARY

Notes to Financial Statements

For the Year Ended June 30, 2004

Note 10 – Related Party Transactions:

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

- 1) Beginning July 1, 2003, the City assumed operations of the municipal documents system. The City paid the Library \$29,460 towards the municipal documents center in 2004. It is anticipated that this annual payment will be phased out over the next 2 years.
- 2) The City paid the Library's share of auditing costs for 2004. This amount was approximately \$5,000. It is anticipated that the City will continue to pay this cost in the future. No provisions for this amount have been made in these statements.
- 3) The Library paid \$8,820 to the City in 2004 for data processing services. It is anticipated that the Library will continue to pay this cost in the future.
- 4) The City paid \$1,956,352 in construction costs in conjunction with the building expansion (see note on Building Expansion, below).
- 5) The City paid the Library the approximate difference in the amount of the property tax levied and the actual property tax collected. This amount was \$38,736 in 2004. In the future, the amount paid will approximate 40% of the difference between the current levy and the previous levy (because 40% of the taxes are deferred).
- 6) In 2004, the City paid the Library the amount of \$13,000 for the cost of additional part-time personnel used to administer the Library operations during the construction period. It is not anticipated that this payment will be made again in the future.

Note 11 – Due From Other Governments:

Following is a breakdown of amounts due from other governments:

State - corporate personal property replacement tax \$15,706

THE URBANA FREE LIBRARY

Notes to Financial Statements

For the Year Ended June 30, 2004

Note 12 – State Aid and Other Grants:

The Library received \$46,702 in 2004 from the State of Illinois as financial aid. Current state law provides this annual grant, based on population.

The Library received a grant of \$10,000 in 2003 from Champaign County to reimburse the Library for costs of operating the Archives Department. The grant received each year covers the period from January 1 to December 31. Thus, one-half of the award (\$5,000) is reported as deferred revenue. Total revenue recorded for this grant in fiscal year 2004 was \$10,000. This amount includes \$5,000 of revenue from the 2003 grant which was deferred at June 30, 2003.

The Library was awarded a grant from the Urbana School District in the amount of \$34,500 in 2004. 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.

The Library was awarded a grant from the Urbana School District in the amount of \$2,300 in 2004. This grant reimburses the Library for costs for instructional services of reading of history for Urbana students. This amount was received in May 2004. In 2004, \$163 was spent and reimbursed from the grant for reading materials. Thus, the remaining amount of \$2,137 was deferred at June 30, 2004.

It is anticipated that the state aid, county archives and the School District grant that is part of the larger University of Illinois grant will continue in the future.

Note 13 – Fund Equity:

Fund equity balances that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose are restricted net assets in the government-wide financial statements and reserved fund balances in the fund financial statements. The fund balance of the Library Materials Trust Fund was donated by private individuals for memorial purchases of library materials. The fund balance of the Building Fund was donated for future library building expansion. Thus, these fund balances are reserved for these purposes.

THE URBANA FREE LIBRARY

Notes to Financial Statements

For the Year Ended June 30, 2004

Note 14 – Construction in Progress:

The Library in 2003 began construction of a major addition and improvement to the current library building. The estimated total project cost is \$8.26 million. The City of Urbana will contribute \$5.38 million, \$800,000 will be obtained from a State grant, and the balance of \$2.08 million will be raised from private donations made to the Building Foundation Trust Fund (see fund balance reserve note above). Related to this project, the Library has signed contracts for architectural, engineering, and construction services totaling \$6,948,380. As of June 30, 2004, the Library has incurred and capitalized costs (in the government-wide financial statements) of \$5,660,640 against these commitments. Completion is scheduled in 2005. At June 30, 2004, the Foundation Trust Fund had spent \$2,000,000 of their \$2.08 million commitment and had accumulated \$508,811 in additional assets.

Note 15 - 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.

URBANA FREE LIBRARY
Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2004

	Special Revenue Funds				
	Publications	Grant	Documents Project	Trust Fund	Total
ASSETS					
Cash and Cash Equivalents:					
Checking	\$ 1,749	\$ 57	\$ 6,417	\$ 8,906	\$ 17,129
Savings	34,315	2,080	22,272	74,936	133,603
Total Assets	<u>\$ 36,064</u>	<u>\$ 2,137</u>	<u>\$ 28,689</u>	<u>\$ 83,842</u>	<u>\$ 150,732</u>
LIABILITIES AND FUND BALANCE					
Liabilities:					
Accounts Payable	\$ 168	\$ -	\$ -	\$ -	\$ 168
Deferred Revenues	-	2,137	-	-	2,137
Total Liabilities	<u>168</u>	<u>2,137</u>	<u>-</u>	<u>-</u>	<u>2,305</u>
Fund Balance:					
Reserved for Library Materials	-	-	-	83,842	83,842
Unreserved	35,896	-	28,689	-	64,585
Total Fund Balance	<u>35,896</u>	<u>-</u>	<u>28,689</u>	<u>83,842</u>	<u>148,427</u>
Total Liabilities and Fund Balance	<u>\$ 36,064</u>	<u>\$ 2,137</u>	<u>\$ 28,689</u>	<u>\$ 83,842</u>	<u>\$ 150,732</u>

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

URBANA FREE LIBRARY

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

For the Year Ended June 30, 2004

	Special Revenue Funds				
	Publications	Grant	Documents Project	Trust Fund	Total
REVENUES:					
Intergovernmental:					
Grants, Private	\$ -	\$ 163	\$ -	\$ -	\$ 163
Donations	-	-	-	18,223	18,223
Interest	301	-	204	658	1,163
Sale of Books and Materials	2,406	-	-	3,396	5,802
Total Revenues	2,707	163	204	22,277	25,351
EXPENDITURES:					
Centralized Costs	-	-	-	1,593	1,593
Acquisitions	-	-	-	14,824	14,824
Publishing Costs	54	-	-	-	54
Grant Programs	-	163	-	-	163
Documents Center	-	-	51	-	51
Total Expenditures	54	163	51	16,417	16,685
Excess of Revenues Over (Under) Expenditures	2,653	-	153	5,860	8,666
Fund Balance, Beginning of the Year	33,243	-	28,536	77,982	139,761
Fund Balance, End of the Year	\$ 35,896	\$ -	\$ 28,689	\$ 83,842	\$ 148,427

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