

**CHAMPAIGN-URBANA
MASS TRANSIT DISTRICT**
Urbana, Illinois

FINANCIAL STATEMENTS
June 30, 2013 and 2012



CliftonLarsonAllen

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Independent Auditors' Report

Board of Trustees
Champaign-Urbana Mass Transit District
Urbana, Illinois

Report on the Financial Statements

We have audited the accompanying financial statements of the Champaign-Urbana Mass Transit District (the District), as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the entity'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.

Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditors' 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District as of June 30, 2013 and 2012, and the respective changes in financial position and cash flows 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 the management's discussion and analysis and the schedules of funding progress, as listed in the table of contents, 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedules of operating expenses are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The accompanying downstate operating assistance grant schedules are presented for purposes of additional analysis as required by the Illinois Department of Transportation and are not a required part of the basic financial statements. The schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is also presented for purposes of additional analysis and is not a required part of the basic financial statements.

These schedules 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2013 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

Champaign, Illinois
October 31, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis (MD&A) is an introduction to the basic financial statements and supplementary information of the District. MD&A should be read in conjunction with the basic financial statements, notes to financial statements, and supplementary information. MD&A provides management's perspective on the performance of the District in the current year and its financial condition at year-end.

Questions concerning any of the information provided in this report or requests for additional information should be addressed to Mr. William Volk, Managing Director, Champaign-Urbana Mass Transit District, 1101 East University, Urbana, Illinois 61802-2009.

Financial Highlights – Fiscal Year 2013

- The District's financial condition remained stable and strong during Fiscal Year 2013.
- State of Illinois Assistance continued to be fully funded at 65% of eligible operating expenses.

Financial Highlights – Fiscal Year 2012

- The District's financial condition remained stable and strong during Fiscal Year 2012.
- State of Illinois Assistance continued to be fully funded at 65% of eligible operating expenses.

Using This Annual Report

The basic financial statements are the balance sheet, statement of revenues, expenses, and changes in net position, and the statement of cash flows. These financial statements were prepared using the full accrual accounting method used by businesses in the private sector.

The balance sheet presents the financial position of the District on a full accrual historical cost basis. The balance sheet provides information on all the assets and liabilities of the District, with the difference between the two being the District's net position. Increases or decreases in net position are one indicator of whether the District's financial position is improving or deteriorating.

The statement of revenues, expenses, and changes in net position provides the performance of the District over its fiscal year, which is the twelve-month period ended June 30. This statement presents the detail of how the net position presented on the balance sheet changed over the fiscal year. All activities that increase or decrease net position are reflected on this statement when they occur rather than when the related cash flow occurs.

The cash flow statement presents the increase or decrease in cash and cash equivalents during the fiscal year resulting from the operating, financing, and investing activities of the District. This statement simply presents the increases and decreases in cash and cash equivalents without regard to related revenues/receivables and expenses/liabilities.

The notes to financial statements provide further information on the items reported in the basic financial statements. This information is essential for the reader of this report to acquire a full understanding of the amounts in the financial statements and other commitments and events not reflected in the financial statements. The supplementary information also provides further detail on operating expenses, the state-operating grant of the District, and the District's federal grants.

The District as a Whole

The District's net position increased from the prior year --- increasing from \$70.2 million to \$72.4 million. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the District.

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 19.9	\$ 18.5	\$ 20.0
Capital assets	<u>58.8</u>	<u>57.8</u>	<u>53.7</u>
Total assets	<u>78.7</u>	<u>76.3</u>	<u>73.7</u>
Current and other liabilities	5.8	5.6	8.9
Long-term liabilities	<u>0.5</u>	<u>0.5</u>	<u>0.5</u>
Total liabilities	<u>6.3</u>	<u>6.1</u>	<u>9.4</u>
Net position			
Net investment in capital assets, related debt	58.8	57.8	51.0
Unrestricted	<u>13.6</u>	<u>12.4</u>	<u>13.3</u>
Total net position	<u>\$ 72.4</u>	<u>\$ 70.2</u>	<u>\$ 64.3</u>

Fiscal Year 2013 - The District's net position increased by 3.2% (\$72.4 million compared to \$70.2 million for fiscal 2012). Total assets increased by \$2.4 million. Current and other assets increased by \$1.4 million and capital assets increased by \$1.0 million.

Current liabilities increased by \$0.2 million while long-term liabilities remained constant.

Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by enabling legislation or other legal requirements, increased by \$1.2 million.

Fiscal Year 2012 - The District's net position increased by 9.2% (\$70.2 million compared to \$64.3 million for fiscal 2011). Total assets increased by \$2.6 million. Current and other assets decreased by \$1.5 million and capital assets increased by \$4.1 million.

Current liabilities decreased by \$3.3 million while long-term liabilities remained constant.

Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by enabling legislation or other legal requirements, decreased by \$0.9 million.

Table 2
Changes in Net Position
(In Millions)

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating revenues			
Revenues from transportation services	\$ 6.8	\$ 6.7	\$ 6.0
Other operating revenues	<u>1.1</u>	<u>.9</u>	<u>0.9</u>
Total operating revenues	<u>7.9</u>	<u>7.6</u>	<u>6.9</u>
Operating expenses			
Operations	19.7	19.0	17.3
Maintenance	5.2	4.7	5.1
General administration and Illinois Terminal	5.8	5.3	5.2
Depreciation	<u>6.6</u>	<u>5.4</u>	<u>3.8</u>
Total operating expenses	<u>37.3</u>	<u>34.4</u>	<u>31.4</u>
Operating loss	<u>(29.4)</u>	<u>(26.8)</u>	<u>(24.5)</u>
Non-operating revenue			
Taxes	7.0	6.6	6.6
Assistance grants	<u>23.1</u>	<u>22.4</u>	<u>20.2</u>
Total non-operating revenues	<u>30.1</u>	<u>29.0</u>	<u>26.8</u>
Income before other revenue	0.7	2.2	2.3
Other revenues			
Capital grants	<u>1.5</u>	<u>3.7</u>	<u>12.2</u>
Increase in net position	2.2	5.9	14.5
Net position, beginning of year	<u>70.2</u>	<u>64.3</u>	<u>49.8</u>
Net position, end of year	<u>\$ 72.4</u>	<u>\$ 70.2</u>	<u>\$ 64.3</u>

Fiscal Year 2013 - The District's operating revenue increased by 3.9% (\$0.3 million) while operating expenses minus depreciation increased by 5.7% (\$1.7 million).

Factors that led to the increases included:

- A 3.5% increase in Operations expenses (\$0.7 million). Increased labor and fringe benefit expenses (\$0.6 million) constituted the bulk of the increase. Fuel and Lubricants remained constant.
- Maintenance expenses increased by \$0.5 million. Increased labor and fringe benefit expenses (\$0.3 million) constituted the bulk of the increase. Revenue Vehicle repairs increased by \$0.2 million. In future years, as our fleet age increases, we may see increased vehicle repairs.
- General Administration and Illinois Terminal expenses increased by 0.5 million.

Fiscal Year 2012 - The District's operating revenue increased by 10.1% (\$.7 million) while operating expenses minus depreciation increased by 5.1% (\$1.4 million).

Factors that led to the increases included:

- An increase of \$.7 million in Revenue for Transportation Services was matched by a \$.1 million increase in Other Operating Expenses.
- A 9.8% increase in Operations expenses (\$1.7 million). Increased labor and fringe benefit expenses (\$1.4 million) constituted the bulk of the increase. Fuel and Lubricants increased by \$.3 million.
- Maintenance expenses decreased by \$.4 million. Decreased Revenue Vehicle Repairs (decreased \$.3 million), as a result of 11 new buses, offset increases in other areas.
- General Administration expenses remained flat.

Budgetary Highlights

Fiscal Year 2013 - The Board of Trustees approved the District's budget for fiscal year 2013 on June 27, 2012 with various capital budget amendments through-out the year. The budget included operating expenses of \$38.7 million excluding depreciation. This included \$6.9 million of debt service.

- Operating revenue including investment income was \$8.0 million or the same as the Fiscal Year 2013 budget.
- Operating expenses, less depreciation, was \$30.8 million with an additional total of \$5.0 million of eligible debt service. Total operating expenses were \$1.1 million under budget.

Fiscal Year 2012 - The Board of Trustees approved the District's budget for fiscal year 2012 on June 29, 2011 with various capital budget amendments through-out the year. The budget included operating expenses of \$34.6 million excluding depreciation. This included \$5.8 million of debt service.

- Operating revenue including investment income was \$7.5 million or the same as the Fiscal Year 2012 budget.
- Operating expenses, less depreciation, was \$29.1 million with an additional total of \$5.3 million of eligible debt service. Total operating expenses were \$.6 million under budget.

Capital Asset Administration

At the end of fiscal year 2013, the District had \$58.8 million invested in a broad range of capital assets (see Table 3 below). This is an increase of \$1.0 million over fiscal year 2012.

Fiscal Year 2013 Major Additions Include

Revenue vehicles	\$ 6,236,831
Big Broadband	584,676
Passenger Shelters	<u>536,660</u>

Total \$ 7,358,167

The District's fiscal year 2013 capital budget calls for \$1.0 million in local dollars as well as \$6.9 million of State of Illinois debt service operating funds. Some of the more significant Fiscal Year 2013 capital projects from these sources include:

Big broadband	\$ 540,000
Architectural and engineering	150,000
CAD/AVL	150,000
Facility improvements	150,000
Lease buyouts	<u>10,000</u>
Total	<u>\$ 1,000,000</u>

More detailed information about the District's capital assets is presented in Notes 2 and 6 to the financial statements.

Fiscal Year 2012 Major Additions Include (In Millions)

Revenue vehicles	\$	7.3
Construction in progress – various projects		6.1
Building improvements		2.2
Radio equipment		.01
Fareboxes		.05
Other equipment		.05
Service vehicles		<u>0.1</u>
Total	\$	<u>16.8</u>

Long-term Debt Activity

Fiscal Year 2013 - The District's only long-term debt (early retirement plan liability) did not change significantly during the year. Future increases in the accrual for the early retirement plan cannot be predicted as participation is at the discretion of eligible employees.

It is unclear whether the District will take on additional long-term debt in the coming years for the acquisition of property, construction and equipment.

Fiscal Year 2012 - The District's long-term debt (early retirement plan liability) did not change significantly during the year.

It is not expected that the District will take on additional long-term debt in the coming years for the acquisition of property and equipment. Future increases in the accrual for the early retirement plan cannot be predicted as participation is at the discretion of eligible employees.

Economic Factors and Next Year's Budget

- The State of Illinois budget contained a total of \$27.5 million for operating assistance to the District for the fiscal year 2014 including \$6.4 million of debt service.
- The District's budget for fiscal year 2014 includes projected operating expenses of \$41.6 million, excluding depreciation. A total of \$6.4 million is included in the budget as debt service funded by State of Illinois Operating Assistance with \$4.0 million of the total debt service for the purchase of land.

CHAMPAIGN URBANA MASS TRANSIT DISTRICT
BALANCE SHEETS
June 30, 2013 and 2012

ASSETS

	<u>2013</u>	<u>2012</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,465,718	\$ 4,534,727
Investments	101,738	101,183
Receivables:		
Property tax	3,344,526	3,119,238
State operating grant	4,800,295	-
Other	516,245	194,486
Inventories	866,966	879,139
Prepaid expenses	90,269	773,379
	12,185,757	9,602,152
Total current assets		
PROPERTY AND EQUIPMENT		
Land and construction in progress, not being depreciated	2,145,072	2,305,520
Other property and equipment, net of depreciation	56,696,164	55,580,046
	58,841,236	57,885,566
Total property and equipment		
OTHER ASSETS		
Capital reserves:		
Cash and cash equivalents	7,740,396	8,783,845
Investments held under incentive plan	20,774	45,554
	7,761,170	8,829,399
Total other assets		
 TOTAL ASSETS	 \$ 78,788,163	 \$ 76,317,117

LIABILITIES AND NET POSITION

	<u>2013</u>	<u>2012</u>
CURRENT LIABILITIES		
Accounts payable	\$ 759,881	\$ 366,403
Operating assistance grant payable	572,221	572,221
Accrued expenses	3,385,429	3,532,478
Unredeemed yearly passes and tokens	118,720	110,285
Obligations under incentive and early retirement plans, current portion	120,867	175,554
Workers' compensation liability	171,451	181,330
Other current liabilities	<u>706,928</u>	<u>663,272</u>
Total current liabilities	5,835,497	5,601,543
LONG-TERM LIABILITIES		
Obligation under early retirement plan, net of current	<u>500,000</u>	<u>510,000</u>
Total liabilities	<u>6,335,497</u>	<u>6,111,543</u>
NET POSITION		
Net investment in capital assets	58,841,236	57,885,566
Unrestricted	<u>13,611,430</u>	<u>12,320,008</u>
Total net position	<u>72,452,666</u>	<u>70,205,574</u>
 TOTAL LIABILITIES AND NET POSITION	 <u>\$ 78,788,163</u>	 <u>\$ 76,317,117</u>

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

CHAMPAIGN-URBANA MASS TRANSIT DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
OPERATING REVENUES		
Yearly passes	\$ 5,289,479	\$ 5,147,363
Full adult fares	692,866	690,490
Rental of equipment and buildings	725,633	720,228
Student fares and school bus service	486,699	476,589
ADA services	245,431	260,073
Advertising	260,045	180,432
Half-Fare cab	106,545	90,527
Miscellaneous	<u>165,205</u>	<u>106,477</u>
Total operating revenues	<u>7,971,903</u>	<u>7,672,179</u>
OPERATING EXPENSES		
Operations	19,719,358	19,057,488
Maintenance	5,247,504	4,753,254
General administration	4,609,956	4,137,306
Illinois Terminal	1,183,200	1,139,263
Depreciation	<u>6,577,119</u>	<u>5,354,948</u>
Total operating expenses	<u>37,337,137</u>	<u>34,442,259</u>
Operating loss	<u>(29,365,234)</u>	<u>(26,770,080)</u>
NON-OPERATING REVENUES		
Property taxes	6,770,348	6,432,971
State replacement taxes	208,810	204,366
State of Illinois assistance grants	23,058,840	22,387,128
Federal assistance grants	103,191	-
Investment income	<u>5,590</u>	<u>8,363</u>
Total non-operating revenues	<u>30,146,779</u>	<u>29,032,828</u>
Income before other revenues	781,545	2,262,748
OTHER REVENUES		
Capital grants	<u>1,465,547</u>	<u>3,671,788</u>
CHANGE IN NET POSITION	2,247,092	5,934,536
NET POSITION, BEGINNING OF YEAR	<u>70,205,574</u>	<u>64,271,038</u>
NET POSITION, END OF YEAR	<u>\$ 72,452,666</u>	<u>\$ 70,205,574</u>

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

**CHAMPAIGN-URBANA MASS TRANSIT DISTRICT
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 7,942,362	\$ 7,740,782
Payments to vendors	(16,460,075)	(17,757,432)
Payments to employees	<u>(13,380,706)</u>	<u>(12,779,475)</u>
Net cash used in operating activities	<u>(21,898,419)</u>	<u>(22,796,125)</u>
 CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES		
State operating assistance grant proceeds received	18,258,545	25,164,644
Federal operating assistance grant proceeds received	103,191	-
Tax proceeds received	<u>6,753,870</u>	<u>6,630,452</u>
Net cash provided by non-capital and related financing activities	<u>25,115,606</u>	<u>31,795,096</u>
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Federal and state capital grant proceeds received	1,173,329	3,671,788
Purchases of property and equipment	(7,532,789)	(9,527,330)
Advances of principal on lines of credit	5,023,021	5,744,438
Repayments of principal on lines of credit	(5,023,021)	(8,423,246)
Proceeds from note payable	4,920,000	-
Payment on note payable	<u>(4,920,000)</u>	<u>-</u>
Net cash used in capital and related financing activities	<u>(6,359,460)</u>	<u>(8,534,350)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	170,922	276,344
Purchase of investments	(146,697)	(253,609)
Interest received	<u>5,590</u>	<u>8,363</u>
Net cash provided by investing activities	<u>29,815</u>	<u>31,098</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,112,458)	495,719
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>13,318,572</u>	<u>12,822,853</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 10,206,114</u>	<u>\$ 13,318,572</u>

	<u>2013</u>	<u>2012</u>
RECONCILIATION OF OPERATING LOSS TO		
NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	\$ (29,365,234)	\$ (26,770,080)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	6,577,119	5,354,948
(Increase) decrease in assets:		
Receivables	(29,541)	68,603
Inventories	12,173	(205,915)
Prepaid expenses	683,110	(645,903)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	236,550	(569,823)
Unredeemed yearly passes and tokens	8,435	(52,943)
Obligations to employees under early retirement and incentive plans	(64,687)	(71,618)
Other current liabilities	43,656	96,606
	<u>7,466,815</u>	<u>3,973,955</u>
Net adjustments		
	<u>7,466,815</u>	<u>3,973,955</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (21,898,419)</u>	<u>\$ (22,796,125)</u>

Noncash financing activities in 2013 consist of financing the purchase of buses for \$4,920,000. Certain reclassifications of 2012 cash flow figures were made to be consistent with the 2013 presentation.

**RECONCILIATION OF CASH AND CASH EQUIVALENTS TO
BALANCE SHEET**

Cash and cash equivalents	\$ 2,465,718	\$ 4,534,727
Capital reserves-cash and cash equivalent	7,740,396	8,783,845
	<u>10,206,114</u>	<u>13,318,572</u>
TOTAL	<u>\$ 10,206,114</u>	<u>\$ 13,318,572</u>

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

CHAMPAIGN-URBANA MASS TRANSIT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 1 - NATURE OF OPERATIONS AND THE REPORTING ENTITY

The Champaign-Urbana Mass Transit District (the District) is a governmental unit that provides public transportation for the people of Champaign-Urbana, Illinois. The District operates as an enterprise fund, which accounts for operations in a manner similar to private business enterprises - where the intent of the governing body (the Board of Trustees) is that the costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered in part through user charges.

The reporting entity of the District was determined based on the oversight responsibility and scope of the public services provided. Oversight responsibility is measured by the extent of financial interdependency, control over the selection of the governing authority and management, ability to significantly influence operations, and accountability for fiscal matters. Based on these criteria, there are no agencies or other units that have been or should be combined with the financial statements of the District.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the District are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Government Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments. GAAP includes all relevant GASB pronouncements plus other sources of accounting and financial reporting guidance noted in GASB Statement 55, *The Hierarchy of GAAP for State and Local Governments*.

For purposes of preparing the statements of cash flows, restricted and unrestricted currency, demand deposits, and money market accounts are considered cash and cash equivalents.

State statutes authorize the District to invest in: direct obligations of federally insured banks and savings and loan associations; insured obligations of Illinois credit unions; securities issued or guaranteed by the U.S. Government; money market mutual funds investing only in U.S. Government based securities; commercial paper of U.S. corporations with assets over \$500 million; short-term obligations of the Federal National Mortgage Association; repurchase agreements; and the investment pools managed by the State Treasurer of Illinois.

CHAMPAIGN-URBANA MASS TRANSIT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The District levies property taxes each year, on all taxable real property located within the District's boundaries, on or before the last Tuesday in December. The 2012 tax levy was passed by the Board of Trustees on December 5, 2012. Property taxes attach as an enforceable lien on property as of January 1 and are payable in two installments on June 1 and September 1. The District receives significant distributions of tax receipts approximately one month after these due dates. Revenue from property taxes is recognized in the period for which it was levied. Property tax revenue for the years ended June 30, 2013 and 2012 was from the 2012 and 2011 levies, respectively. Property tax receivables have been reduced to the estimated amount to be collected based on historical collection experience. Property taxes paid by constituents may be contested. The District has recorded unearned revenue of \$657,048 for the years ended June 30, 2013 and 2012, that represents property taxes collected from two constituents that have contested their property tax payments. The unearned revenue is included in other current liabilities on the balance sheets.

Revenue from the corporate personal property replacement tax is recognized in the period when the taxes have been collected by the State of Illinois.

Operating revenues include all revenues from the provision of a service by the District. These services include the provision of public transportation, the rental of facilities and land, and the leasing of advertising signage on revenue vehicles. All other revenues are considered non-operating or other revenues.

Operating grant revenue is recognized as it is earned. Capital grant revenue is recorded as capital grant expenditures as incurred.

Inventories are stated at the lower of average cost or market. Cost is determined on a first-in, first-out (FIFO) basis.

Property and equipment are recorded at cost. Major additions and those expenditures that substantially increase the useful life of an asset are capitalized. The District's capitalization threshold for property and equipment is \$5,000 per unit. Maintenance, repairs, and minor additions and expenditures are expensed when incurred. The District provides for depreciation using the straight-line method over the estimated useful lives of the assets.

**CHAMPAIGN-URBANA MASS TRANSIT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013 and 2012**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The District calculates the liability for unused sick leave using the vesting method. The District considers the liability for accrued compensated absences to be a current liability.

The proceeds from the sale of yearly passes are deferred when received, and the revenue is recorded evenly throughout the period for which the passes apply.

Assets that are not available to finance general obligations of the District are reported as restricted on the balance sheets. The District's policy is to apply restricted resources first when an expense is incurred for a purpose for which restricted and unrestricted net assets are available.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS

Custodial Credit Risk – Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's investment policy addresses custodial credit risk by requiring the diversification of the deposits so that losses at any one institution will be minimized. At June 30, 2013, \$360,572 of the District's bank balance of \$1,141,639 was exposed to custodial credit risk and was uncollateralized. At June 30, 2012, \$147,751 of the District's bank balance of \$4,390,599 was exposed to custodial credit risk, and was fully collateralized.

Credit Risk and Interest Rate Risk – External Investment Pools

The credit risk of investments is addressed by the District's investment policy by limiting investments to instruments, bonds, corporate obligations, municipal corporation obligations, and government obligations carrying an "investment grade" rating within the upper two tiers of ratings issued by Moody's (Aa or better) or Standard and Poor's (AA or better).

Interest rate risk is addressed by the District's investment policy by preferentially targeting investments with maturities of 180 days and limiting the percentage of investments with maturities over two years, over one year, and under sixty days.

**CHAMPAIGN-URBANA MASS TRANSIT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013 and 2012**

NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

Credit Risk and Interest Rate Risk – External Investment Pools (Continued)

At June 30, 2013, the District held \$4,460,758 in the Illinois Funds Money Market and Prime Funds, which reconciled to a book balance of \$4,460,758. At June 30, 2012 the District held \$13,389,599 in the Illinois Funds Money Market and Prime Funds, which reconciled to a book balance of \$7,489,600. The fair value of the District's position in these funds is equal to the value of the District's fund shares. The portfolios are regulated by oversight of the Treasurer of the State of Illinois and private rating agencies. These portfolios have AAAM ratings from Standard and Poor's, which is the highest rating for an external investment pool. The assets of the funds are mainly invested in securities issued by the United States government or agencies related to the United States. Assets of the funds not invested in United States government securities are fully collateralized by pledged securities. The time to maturity of the investments in these external investment pools averages less than one year.

Investment Detail

Investments include certificates of deposit with original maturities in excess of three months. Investments are carried at fair value (which for certificates of deposit is essentially cost) and included in current and other assets on the balance sheet. As of June 30, 2013 and 2012, the District had the following investments and maturities:

	<u>Fair Value</u>	<u>June 30, 2013</u> Investment Maturities in Years Less than	
		<u>1 Year</u>	<u>1 to 5 Years</u>
Certificates of deposit	\$ 122,512	\$ 122,512	\$ -
		<u>June 30, 2012</u> Investment Maturities in Years Less than	
	<u>Fair Value</u>	<u>1 Year</u>	<u>1 to 5 Years</u>
Certificates of deposit	\$ 146,737	\$ 146,737	\$ -

Custodial Credit Risk – Investments

At June 30, 2013, the District had no custodial credit risk.

**CHAMPAIGN-URBANA MASS TRANSIT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013 and 2012**

NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

Interest Rate Risk – Investments

As a means of limiting its risk to fair value losses arising from rising interest rates, the District's investment policy calls for investments to be structured so that securities mature to meet cash requirements for ongoing operations and for investing operating funds primarily in shorter-term securities, money market mutual funds, and similar investment pools. The District's investment policy calls for investments to be preferentially invested in instruments with maturities of 180 days. Specifically, the policy limits investments in instruments with maturities over two years and one year to ten percent and twenty percent, respectively, of the District's total investments. At June 30, 2013, the District held no investments in instruments with maturities in excess of two years and no investments with maturities over one year. The policy also limits to fifteen percent the investments in instruments with maturities of sixty days or less. At June 30, 2013, the District held no investments under sixty days.

Concentration of Credit Risk – Investments and Cash Equivalents

The District's investment policy calls for diversification by limiting the investment in any one issuer, except for government backed securities, to twelve percent of the District's investments and cash equivalents. At June 30, 2013, the District had no investments or cash equivalents greater than 5 percent of total investments and cash equivalents with any issuer.

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable consists of the following:

	<u>2013</u>	<u>2012</u>
Property taxes	\$ 3,344,526	\$ 3,119,238
State operating grant	4,800,295	-
Federal capital grant	292,218	-
Employees	7,800	8,522
University of Illinois	41,300	39,313
Trade	134,632	108,942
Interest	-	434
State replacement tax	<u>40,295</u>	<u>37,275</u>
Total accounts receivable	<u>\$ 8,661,066</u>	<u>\$ 3,313,724</u>

**CHAMPAIGN-URBANA MASS TRANSIT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013 and 2012**

NOTE 4 - ACCOUNTS RECEIVABLE (CONTINUED)

Operating Assistance Grants

During the years ended June 30, 2013 and 2012, the Illinois Department of Transportation (IDOT) reimbursed the District for up to sixty-five percent, of the District's eligible operating expenses. The amount of reimbursements is limited to the maximum amount specified in the grant agreements. The District is required to return to IDOT any unspent grant amounts. The final estimated grant amount for each fiscal year is subject to review and approval of the eligible expenses by IDOT.

As of June 30, 2013 and 2012, the estimated amounts due to and from IDOT, respectively, are as follows:

	<u>2013</u>	<u>2012</u>
Fiscal year 2013 grant agreement	\$ 4,800,295	\$ -
Fiscal year 2012 grant agreement	<u>(572,221)</u>	<u>(572,221)</u>
Net amount due from IDOT	<u>\$ 4,228,074</u>	<u>\$ (572,221)</u>

The \$572,221 due to IDOT under the fiscal year 2012 grant agreement is shown as operating assistance grant payable at June 30, 2013.

The \$4,800,295 due to the District from IDOT under the fiscal year 2013 grant agreement is shown as operating assistance grant receivable at June 30, 2013.

CHAMPAIGN-URBANA MASS TRANSIT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 5 - INVENTORIES

Inventories consist of the following:

	<u>2013</u>	<u>2012</u>
Materials and supplies	\$ 783,805	\$ 792,226
Fuel and lubricant	<u>83,161</u>	<u>86,913</u>
Total	<u>\$ 866,966</u>	<u>\$ 879,139</u>

NOTE 6 - PROPERTY AND EQUIPMENT, NET

Property and equipment, and the changes therein, consist of the following, for each fiscal year:

	<u>June 30,</u> <u>2012</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30,</u> <u>2013</u>
Assets not being depreciated:				
Land	\$ 1,475,159	\$ -	\$ -	\$ 1,475,159
Construction in progress	830,361	6,151,022	6,311,470	669,913
Assets being depreciated:				
Land improvements	223,552	-	71,508	152,044
Office, garage, and building facilities	35,445,926	781,457	275,519	35,951,864
Revenue vehicles	47,826,066	6,236,831	4,282,690	49,780,207
Service vehicle	446,089	3,374	64,255	385,208
Passenger shelters	1,381,261	536,660	10,823	1,907,098
Other equipment	<u>5,018,098</u>	<u>134,913</u>	<u>107,035</u>	<u>5,045,976</u>
Total property and equipment	92,646,512	13,844,257	11,123,300	95,367,469
Less accumulated depreciation	<u>(34,760,946)</u>	<u>(6,577,119)</u>	<u>4,811,832</u>	<u>(36,526,233)</u>
Property and equipment, net	<u>\$ 57,885,566</u>	<u>\$ 7,267,138</u>	<u>\$ 6,311,468</u>	<u>\$58,841,236</u>

**CHAMPAIGN-URBANA MASS TRANSIT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013 and 2012**

NOTE 6 - PROPERTY AND EQUIPMENT, NET (CONTINUED)

	<u>June 30, 2011</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2012</u>
Assets not being depreciated:				
Land	\$ 1,475,159	\$ -	\$ -	\$ 1,475,159
Construction in progress	1,988,771	6,156,046	7,314,456	830,361
Assets being depreciated:				
Land improvements	223,552	-	-	223,552
Office, garage, and building facilities	33,283,726	2,250,349	88,149	35,445,926
Revenue vehicles	40,426,115	7,399,951	-	47,826,066
Service vehicle	304,714	142,533	1,158	446,089
Passenger shelters	1,302,919	78,438	96	1,381,261
Other equipment	<u>4,242,178</u>	<u>814,473</u>	<u>38,553</u>	<u>5,018,098</u>
Total property and equipment	83,247,134	16,841,790	7,442,412	92,646,512
Less accumulated depreciation	<u>(29,533,950)</u>	<u>(5,354,948)</u>	<u>127,952</u>	<u>(34,760,946)</u>
Property and equipment, net	<u>\$53,713,184</u>	<u>\$11,486,842</u>	<u>\$ 7,314,460</u>	<u>\$57,885,566</u>

NOTE 7 - ACCRUED COMPENSATED ABSENCES LIABILITY

The total liability accrued by the District for unpaid compensated absences, included in accrued expenses on the balance sheet, was \$2,773,377 and \$2,934,552 at June 30, 2013 and 2012, respectively.

District employees earn various types of compensated absences. Operators and maintenance personnel receive vacation leave and earned time leave. Salaried employees receive vacation leave and sick leave. The District adopted a Retirement Health Savings Plan (RHSP). By its adoption, the District amended policies relating to hours of unused vacation, sick leave, and earned time.

Operators and maintenance employees are eligible to be paid for up to one week of unused vacation each calendar year. Any unused vacation earned as of June 30 each year and not used or paid out as of December 31st, will be deposited into the employee's personal RHSP account, and is recorded as a benefit expense to the District. Any salaried employee's unused vacation, earned as of June 30 each year, above a 12 week accumulation limit, not used by December 31st, will be deposited in the employee's RHSP account. All employees are eligible for payout of their remaining unused vacation at separation from the District.

CHAMPAIGN-URBANA MASS TRANSIT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 7 - ACCRUED COMPENSATED ABSENCES LIABILITY (CONTINUED)

Any salaried employee's sick hours above 750 hours, earned as of June 30 of each year and not used by December 31st, will be deposited into the employee's personal RHSP account and recorded as benefit expense to the District. Salaried employees who have five years or more of continuous service for the District are eligible to be paid for unused sick leave at separation from the District. The percentage paid at separation ranges from 10 percent after five years of service up to 50 percent after twenty years of service.

Any operator or maintenance earned time balances for a full-time employee cannot exceed 336 hours and for a part-time employee 168 hours. Earned time balances above these levels will be deposited in the employee's personal RHSP account and recorded as benefit expense to the District. Operators and maintenance employees are eligible for payout of all their remaining unused earned time at separation from the District.

NOTE 8 - LINES OF CREDIT

As of June 30, 2013, the District has one line of credit, with a borrowing limit of \$4,000,000. The line of credit matures on November 29, 2013 and bears interest at a varying rate equal to LIBOR plus 2.50 basis points with a minimum rate of 3.0 percent. The rate was 3.0 percent at June 30, 2013. This line of credit is secured by substantially all assets of the District. As of June 30, 2013, there was an outstanding balance of \$-0-.

As of June 30, 2012, the District had two lines of credit, each of which had a borrowing limit of \$3,000,000. The first line of credit matured on November 30, 2012 with interest at a varying rate equal to LIBOR plus 3.25 basis points with a minimum rate of 4.0 percent. The rate was 4.0 percent at June 30, 2012. This line of credit was secured by substantially all assets of the District. As of June 30, 2012, there was an outstanding balance of \$-0-. The second line of credit matured on August 5, 2012 with interest at 4.0 percent. As of June 30, 2012, there was an outstanding balance of \$-0-. The line of credit was secured by a security interest in the District's deposit accounts.

NOTE 9 - NOTE PAYABLE

During the year, the District entered into a debt agreement for the purchase of capital assets. The loan was for \$4,920,000 to be paid in full by June 30, 2013, with interest at 2.6%. As of June 30, 2013, the outstanding balance of this loan was \$-0- as the loan was fully paid.

NOTE 10 - RESTRICTED NET ASSETS

At June 30, 2013 and 2012, the District had no restricted net assets.

**CHAMPAIGN-URBANA MASS TRANSIT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013 and 2012**

NOTE 11 - UNRESTRICTED NET ASSETS

Unrestricted net assets consist of the following:

	<u>2013</u>	<u>2012</u>
Board designated for capital reserves	\$ 7,740,396	\$ 8,783,845
Undesignated	<u>5,871,034</u>	<u>3,536,163</u>
Total unrestricted net assets	<u>\$13,611,430</u>	<u>\$12,320,008</u>

NOTE 12 - LEASE REVENUE

The District is the lessor of office and retail space under operating leases expiring in various years through 2025. All of these leases are within non-transportation related sections of facilities that are used for both transportation and non-transportation purposes. The cost and carrying value of these facilities (including the transportation and non-transportation sections) was \$37,579,068 and \$24,359,961, respectively, at June 30, 2013.

Minimum future rentals to be received on non-cancelable leases are as follows:

Fiscal Year Ending June 30	
2014	\$ 591,725
2015	516,756
2016	499,584
2017	258,250
2018	192,498
Thereafter	<u>422,951</u>
Total	<u>\$ 2,481,764</u>

Minimum future rentals do not include percentage-of-sales contingent rentals contained in the retail space leases. Only the minimum required rental is included above for these retail space leases.

CHAMPAIGN-URBANA MASS TRANSIT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 13 - LEASE COMMITMENTS

The District leases furniture, equipment, and vehicles under various non-cancelable operating leases, expiring at various times between December 2013 and April 2016. Future minimum lease payments under these operating leases are as follows:

Fiscal Year Ending June 30	
2014	\$ 122,384
2015	93,680
2016	<u>70,260</u>
Total	<u>\$ 286,324</u>

Total rental expense for operating leases for the years ended June 30, 2013 and 2012 was \$84,290 and \$126,067, respectively.

NOTE 14 - OBLIGATIONS UNDER INCENTIVE AND EARLY RETIREMENT PLANS

Incentive Plan

The District has an incentive plan to encourage the tenure of the current Managing Director. The plan calls for the District to place funds into an interest-bearing account each year through 2014 if the Managing Director is employed at that date. It also calls for annual distributions through 2014. The District's value in the incentive plan account totaled \$20,774 and \$45,554 as of June 30, 2013 and 2012, respectively. The liability recorded for this incentive plan was \$20,867 and \$45,554 as of June 30, 2013 and 2012, respectively.

Early Retirement Plan

The District maintains an early retirement plan whereby participating employees receive lump sum or periodic payments in exchange for their early retirement from full-time employment with the District. Eligibility requirements are that employees have at least ten years service with the District; are eligible to receive pensions from IMRF; are at the top wage rate in their category at retirement; and are between the ages of sixty and sixty-five at retirement. For the years ended June 30, 2013 and 2012, the District has recorded an expense of \$150,481 and \$202,109, respectively, including the present value of expected future payments at June 30 using an interest rate of 1.0012 percent. The District had a liability of \$600,000 and \$640,000, respectively, related to this plan at June 30, 2013 and 2012 and is included on the balance sheet in obligations under incentive and early retirement plans.

**CHAMPAIGN-URBANA MASS TRANSIT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013 and 2012**

**NOTE 14 - OBLIGATIONS UNDER INCENTIVE AND EARLY RETIREMENT PLANS
(CONTINUED)**

Projected future payments for the early retirement plan liability are as follows:

Fiscal Year Ending June 30	
2014	\$ 100,525
2015	169,883
2016	229,853
2017	<u>102,223</u>
Total value of projected payments	602,484
Plus discounting at 0.12 percent	<u>(2,484)</u>
Total	<u>\$ 600,000</u>

The following is a summary of changes in incentive and early retirement plan obligations for the years ended June 30, 2013 and 2012:

	<u>June 30, 2012</u>	<u>Provision</u>	<u>Payment</u>	<u>June 30, 2013</u>	<u>Due Within One Year</u>
Incentive and early retirement plans	<u>\$ 685,554</u>	<u>\$ 178,914</u>	<u>\$ 243,601</u>	<u>\$ 620,867</u>	<u>\$ 120,867</u>
	<u>June 30, 2011</u>	<u>Provision</u>	<u>Payment</u>	<u>June 30, 2012</u>	
Incentive and early retirement plans	<u>\$ 757,172</u>	<u>\$ 221,278</u>	<u>\$ 292,896</u>	<u>\$ 685,554</u>	

NOTE 15 - PENSION FUND COMMITMENTS

Plan Description – The District’s defined benefit pension plan for regular employees provides retirement and disability benefits, post retirement increases, and death benefits to plan members and beneficiaries. The District’s plan is affiliated with the Illinois Municipal Retirement Fund (IMRF), an agent multiple-employer plan. Benefit provisions are established by statute and may only be changed by the General Assembly of the State of Illinois. IMRF issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained on-line at www.imrf.org.

**CHAMPAIGN-URBANA MASS TRANSIT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013 and 2012**

NOTE 15 - PENSION FUND COMMITMENTS (CONTINUED)

Funding Policy – As set by statute, the District’s regular plan members are required to contribute 4.50 percent of their annual covered salary. The statutes require employers to contribute the amount necessary, in addition to member contributions, to finance the retirement coverage of its own employees. The employer contribution rate for calendar year 2012 used by the District was 12.53 percent, respectively, of annual covered payroll. The District also contributes for disability benefits, death benefits and supplemental retirement benefits, all of which are pooled at the IMRF level. Contribution rates for disability and death benefits are set by the IMRF Board of Trustees, while the supplemental retirement benefits rate is set by statute.

Annual Pension Cost – The required contribution and actual contribution for calendar year 2012 was \$1,886,143.

<u>Calendar Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation (NPO)</u>
12/31/12	\$ 1,866,143	100%	\$ -
12/31/11	1,775,050	100%	-
12/31/10	1,593,142	97%	50,081

The net pension obligation for the District as of June 30, 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>
Annual required contribution	\$ 1,866,143	\$ 1,775,050
Interest on the NPO	-	-
Adjustments to the ARC	-	-
Annual pension cost	<u>1,866,143</u>	<u>1,775,050</u>
Actual contribution	<u>(1,866,143)</u>	<u>1,825,131</u>
Increase (decrease) to the NPO	-	(50,081)
Beginning of year NPO	<u>-</u>	<u>50,081</u>
End of year NPO	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

CHAMPAIGN-URBANA MASS TRANSIT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 15 - PENSION FUND COMMITMENTS (CONTINUED)

The required contribution for calendar 2012 and 2011 was determined as part of the December 31, 2010 and 2009 actuarial valuations using the entry age normal actuarial cost method. The actuarial assumptions at December 31, 2010, included (a) 7.5 percent investment rate of return (net of administrative and direct investment expenses), (b) projected salary increases of 4.00 percent a year, attributable to inflation, (c) additional projected salary increases ranging from 0.4 to 10 percent per year depending on age and service, attributable to seniority/merit, and (d) post retirement benefit increases of 3 percent annually. The actuarial value of the District's regular plan assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period with a 20 percent corridor between the actuarial and market value of assets. The District's regular plan's unfunded actuarial accrued liability at December 31, 2010 is being amortized as a level percentage of projected payroll on an open 30 year basis.

Funded Status and Funding Progress – As of December 31, 2012, the most recent actuarial valuation date, the regular plan was 68.16 percent funded. The actuarial accrued liability for benefits was \$41,578,726 and the actuarial value of assets was \$28,338,394, resulting in an underfunded actuarial liability (UAAL) of \$13,240,332. The covered payroll (annual payroll of active employees covered by the plan) was \$15,053,015 and the ratio of the UAAL to the covered payroll was 87.96 percent.

The schedule of funding progress, presented as required supplementary information following the notes to the basic financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The District provides no other post-employment benefit that is financially significant.

NOTE 16 - SELF INSURANCE

The District is a member of the Illinois Public Transit Risk Management Association (IPTRMA), an insurance risk pool. Through IPTRMA, the District has pooled its risk for public liability/property damage and vehicle liability claims with other local transit districts in Illinois. The District's capital contribution to the IPTRMA loss reserve fund is considered to be a prepayment of future claims in excess of insured amounts and is amortized over the period for which the capital contribution relates. At June 30, 2013 and 2012, the District had prepaid balances of \$-0- and \$695,123, respectively. Losses and claims recognized for the years ended June 30, 2013 and 2012 totaled \$487,023 and \$445,147, respectively, including the amortization of the District's capital contribution to IPTRMA. There have been no settlement amounts that have exceeded insurance and IPTRMA loss reserve fund coverage in the past three years.

**CHAMPAIGN-URBANA MASS TRANSIT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013 and 2012**

NOTE 16 - SELF INSURANCE (CONTINUED)

The following table is a summary of the coverage in effect for the members of IPTRMA for the period July 1, 2013 through July 1, 2014:

<u>Coverage Type</u>	<u>Self-Insured Retention</u>	<u>Coverage Limits</u>	<u>Insurance Company</u>
Package: General liability	\$ 25,000	\$5,000,000/occurrence and annual	Illinois Union Insurance Company
Auto liability	\$ 500,000	\$5,000,000/accident	Illinois Union Insurance Company
Property	\$ -	\$80,763,590/occurrence	Federal Insurance & Chubb
Excess liability	\$ -	\$10,000,000/occurrence and annual	Catlin Insurance Company
Public officials/employment practices	\$ -	\$5,000,000/occurrence and annual	Illinois Union Insurance Company

The District is self-insured for worker's compensation and employer's liability claims. Losses and claims are accrued as incurred. At June 30, 2013 and 2012, the District had a claims liability balance of \$171,451 and \$181,330, respectively, for expected additional claims payable. Losses and claims recognized for the years ended June 30, 2013 and 2012 totaled \$219,961 and \$504,318, respectively. The District purchases insurance coverage for worker's compensation to cover claims in excess of \$400,000 with a statutory aggregate limit for worker's compensation and a \$2,000,000 aggregate limit for employer's liability.

NOTE 17 - MAJOR CUSTOMER

Yearly passes revenue for the years ended June 30, 2013 and 2012 includes contracts with the University of Illinois for (a) faculty/staff bus service and (b) student bus services and campus circular program.

The revenue recognized related to these contracts for the years ended June 30, 2013 and 2012 was \$4,999,421 and \$4,817,756, respectively. At June 30, 2013 and 2012, amounts due from the University of Illinois included in accounts receivable were \$41,300 and \$39,313, respectively.

CHAMPAIGN-URBANA MASS TRANSIT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 18 - COMMITMENTS

Through the date of the auditors' report, the District has entered into the following significant contractual commitments.

<u>Purpose</u>	<u>Contract Amount</u>	<u>Incurred Through June 30, 2013</u>	<u>Remaining Commitment</u>
Solar Panels	\$ 1,130,560	\$ -	\$ 1,130,560
High Speed Doors	197,000	-	197,000
LED Lighting Project	300,680	-	300,680
Chiller Rehab	236,950	-	236,950
INIT Software Upgrades	132,095	-	132,095
Concrete Replacement	265,443	236,913	28,530
Total	<u>\$ 2,262,728</u>	<u>\$ 236,913</u>	<u>\$ 2,025,815</u>

NOTE 19 - CONTINGENCIES

The District is the defendant in various litigations that cover a wide range of matters. The potential liability for these claims is estimated at between \$25,000 and \$775,000, and is expected to be covered by the IPTRMA loss reserve fund and insurance coverage. As of June 30, 2013 and 2012, the District has not recorded a liability for these claims.

The District is also involved in several worker compensation claims with current and former employees. As of June 30, 2013 and 2012, the District has recorded a liability of \$171,451 and \$181,330, respectively, for anticipated additional claims expense as stated in Note 16. An estimate of any additional potential loss cannot be made.

NOTE 20 - FUTURE CHANGE IN ACCOUNTING PRINCIPLES

The Governmental Accounting Standards Board (GASB) has issued new accounting standards that may restate portions of these financial statements in future periods. Listed below are the statements and short summary of the standard's objective. The impact to the District has not yet been determined.

New accounting standards effective for the June 30, 2014 financial statements include:

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statement No. 14 and No. 34*, issued November 2010. The objective of this statement is to improve financial reporting for a governmental financial reporting entity. This statement modifies certain requirements for inclusion of component units in the financial reporting entity.

CHAMPAIGN-URBANA MASS TRANSIT DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 20 - FUTURE CHANGE IN ACCOUNTING PRINCIPLES (CONTINUED)

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, issued March 2012. The objective of this statement is to establish accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

GASB Statement No. 66, *Technical Corrections - 2012 - an Amendment of GASB Statements No. 10 and No. 62*, issued March 2012. The objective of this statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.

New accounting standards effective for the June 30, 2015 financial statements include:

GASB issued Statement No. 68, *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 27*, issued June 2012. This statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, issued January 2013. The objective of this Statement is to improve financial reporting by addressing accounting and financial reporting for governmental combinations and disposals of government operations.

NOTE 21 - SUBSEQUENT EVENTS

Management evaluated subsequent events through October 31, 2013, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2013, but prior to October 31, 2013 that provided additional evidence about conditions that existed at June 30, 2013, have been recognized in the financial statements for the year then ended June 30, 2013. Events or transactions that provided evidence about conditions that did not exist at June 30, 2013 but arose before the financial statements were available to be issued have not been recognized in the financial statements for the year ended June 30, 2013.

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

**CHAMPAIGN-URBANA MASS TRANSIT DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS**

(UNAUDITED)

June 30, 2013

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/12	\$ 28,338,394	\$41,578,726	\$ 13,240,332	68.16%	\$ 15,053,015	87.96%
12/31/11	28,028,241	41,425,328	13,397,087	67.66%	14,466,589	92.61%
12/31/10	27,874,886	38,574,962	10,700,076	72.26%	13,535,620	79.05%

On a market value basis, the actuarial value of assets as of December 31, 2012 is \$29,309,038. On a market basis, the funded ratio would be 70.49 percent.

CHAMPAIGN-URBANA MASS TRANSIT DISTRICT
SCHEDULES OF OPERATING EXPENSES
Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operations		
Wages:		
Operators	\$ 7,813,845	\$ 7,487,542
Street supervisors and dispatchers	733,580	792,234
Other supervisors	378,792	375,491
Clerical	179,971	180,964
Labor credit	(1,400)	(1,400)
Total wages	<u>9,104,788</u>	<u>8,834,831</u>
Fringe Benefits:		
Paid absences	2,148,285	2,119,803
Health and dental insurance	1,882,554	1,606,984
Illinois Municipal Retirement Fund	1,811,715	1,336,601
Social Security tax	823,752	832,124
Workers' compensation insurance and claims	102,916	422,240
Uniform allowances	20,197	44,046
Unemployment insurance	43,954	46,763
Early retirement plan	150,481	202,109
Other fringe benefits	44,960	55,733
Total fringe benefits	<u>7,028,814</u>	<u>6,666,403</u>
Services:		
ADA	505,363	486,968
Taxi	211,884	180,562
Printing	78,713	85,021
Other services	17,651	27,808
Total services	<u>813,611</u>	<u>780,359</u>
Materials and Supplies Consumed:		
Fuel and lubrications	2,581,270	2,539,042
Tires and tubes	141,232	119,959
Small equipment	19,812	20,425
Other materials and supplies consumed	15,137	39,032
Total materials and supplies consumed	<u>2,757,451</u>	<u>2,718,458</u>
Miscellaneous:		
Leased equipment	6,868	40,757
Other	7,826	16,680
Total miscellaneous	<u>14,694</u>	<u>57,437</u>
TOTAL OPERATIONS	<u>\$ 19,719,358</u>	<u>\$ 19,057,488</u>

CHAMPAIGN-URBANA MASS TRANSIT DISTRICT
SCHEDULES OF OPERATING EXPENSES
Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Maintenance		
Wages:		
Mechanics	\$ 1,003,341	\$ 949,795
Cleaners	655,460	559,196
Supervisors and clerical	367,414	362,264
Total wages	<u>2,026,215</u>	<u>1,871,255</u>
Fringe Benefits:		
Health and dental insurance	518,515	465,681
Paid absences	357,724	339,276
Illinois Municipal Retirement Fund	305,638	268,745
Social Security tax	174,342	164,085
Workers' compensation insurance and claims	160,091	122,616
Uniform and tools allowance	28,038	24,307
Unemployment insurance	11,945	11,161
Other fringe benefits	26,703	29,205
Total fringe benefits	<u>1,582,996</u>	<u>1,425,076</u>
Services:		
Contract maintenance	96,440	84,985
Other services	4,262	2,824
Total services	<u>100,702</u>	<u>87,809</u>
Materials and Supplies Consumed:		
Revenue vehicles repairs	1,075,627	903,500
Buildings and grounds repairs	123,460	138,982
Service supplies	51,320	51,111
Fuel and lubricants	119,894	126,909
Service vehicles repairs	13,668	16,547
Shop tools	53,688	29,363
Passenger shelter repairs	27,094	25,309
Garage equipment repairs	35,900	31,027
Other materials and supplies consumed	15,138	21,065
Total materials and supplies consumed	<u>1,515,789</u>	<u>1,343,813</u>
Miscellaneous:		
Leased equipment	19,935	19,082
Other	1,867	6,219
Total miscellaneous	<u>21,802</u>	<u>25,301</u>
TOTAL MAINTENANCE	<u>\$ 5,247,504</u>	<u>\$ 4,753,254</u>

CHAMPAIGN-URBANA MASS TRANSIT DISTRICT
SCHEDULES OF OPERATING EXPENSES
Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
General Administration		
Wages:		
Supervisors	\$ 1,488,090	\$ 1,331,993
Clerical	217,087	187,289
Total wages	<u>1,705,177</u>	<u>1,519,282</u>
Fringe Benefits:		
Health and dental insurance	247,096	202,394
Illinois Municipal Retirement Fund	193,701	167,953
Social Security tax	102,805	102,125
Unemployment insurance	3,817	3,719
Workers' compensation insurance and claims	421	808
Other fringe benefits	16,856	(4,530)
Total fringe benefits	<u>564,696</u>	<u>472,469</u>
Services:		
Professional and technical	591,012	425,819
Contract maintenance	273,846	236,119
Printing	1,104	1,440
Other services	58,387	42,826
Total services	<u>924,349</u>	<u>706,204</u>
Materials and Supplies Consumed:		
Small equipment	7,047	17,881
Buildings and grounds repair	120	14,180
Office supplies	31,938	42,173
Total materials and supplies consumed	<u>39,105</u>	<u>74,234</u>
Casualty and Liability Costs:		
Uninsured public liability	358,916	311,057
Public liability and property damage insurance	292,081	283,673
Physical damage insurance	37,761	33,595
Insurance and property damage recoveries	(34,067)	(55,024)
Other insurance	32,999	26,714
Total casualty and liability costs	<u>687,690</u>	<u>600,015</u>

CHAMPAIGN-URBANA MASS TRANSIT DISTRICT
SCHEDULES OF OPERATING EXPENSES
Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Miscellaneous:		
Utilities	\$ 286,548	\$ 294,376
Leased equipment	57,487	66,228
Advertising	154,314	134,070
Property taxes	-	1,039
Dues and subscriptions	49,941	44,980
Travel and meetings	61,246	61,307
Advertising services	79	-
Interest expense	33,231	129,760
Other	46,093	33,342
Total miscellaneous	<u>688,939</u>	<u>765,102</u>
TOTAL ADMINISTRATION	<u>\$ 4,609,956</u>	<u>\$ 4,137,306</u>
Illinois Terminal		
Wages:		
Supervisors	\$ 101,983	\$ 95,788
Cleaners	133,701	137,734
Security	129,755	129,251
Clerical	114,400	119,716
Total wages	<u>479,839</u>	<u>482,489</u>
Fringe Benefits:		
Health and dental insurance	120,690	109,458
Illinois Municipal Retirement Fund	66,141	60,366
Social Security tax	39,736	36,956
Uniform and tool allowances	3,180	4,004
Other fringe benefits	1,622	1,483
Total fringe benefits	<u>231,369</u>	<u>212,267</u>
Services:		
Contract maintenance	35,392	37,971
Professional services	2,776	7,901
Other services	245	3,404
Total services	<u>38,413</u>	<u>49,276</u>

CHAMPAIGN-URBANA MASS TRANSIT DISTRICT
SCHEDULES OF OPERATING EXPENSES
Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Materials and Supplies Consumed:		
Buildings and grounds repairs	\$ 95,453	\$ 112,565
Services supplies	25,259	22,882
Shop tools	13,818	16,858
Other materials and supplies consumed	11,691	6,347
Total materials and supplies consumed	<u>146,221</u>	<u>158,652</u>
Miscellaneous:		
Utilities	174,852	150,872
Other	112,506	85,707
Total miscellaneous	<u>287,358</u>	<u>236,579</u>
TOTAL ILLINOIS TERMINAL	<u>\$ 1,183,200</u>	<u>\$ 1,139,263</u>
Depreciation		
Revenue vehicles, fareboxes, and radios	\$ 4,466,025	\$ 3,808,673
Office and garage facilities	1,392,958	1,029,472
Office and garage equipment	238,856	208,024
Service vehicles	80,654	48,688
Other equipment	398,626	260,091
TOTAL DEPRECIATION	<u>\$ 6,577,119</u>	<u>\$ 5,354,948</u>

**CHAMPAIGN-URBANA MASS TRANSIT DISTRICT
SCHEDULE OF REVENUE AND EXPENSES
UNDER DOWNSTATE OPERATING ASSISTANCE GRANT OP-13-01-IL
Year Ended June 30, 2013**

Operating Revenue and Income:

401	Passenger Fares for Transit Services	\$ 1,146,819
402	Special Transit Fares	5,205,146
403	School Bus Service	469,055
406	Auxiliary Revenue	305,028
407	Non-Transportation Revenue	851,445
411	State Grants and Reimbursements	18,745
413	Federal Grants and Reimbursements	<u>103,191</u>

Total Operating Revenue and Income **\$ 8,099,429**

Operating Expenses:

501	Labor	\$ 13,316,019
502	Fringe Benefits	9,407,875
503	Professional Services	1,159,828
504	Materials and Supplies Consumed	4,427,948
505	Utilities	461,400
506	Casualty and Liability	721,757
507	Taxes	30,618
508	Special Transit Services	717,247
509	Miscellaneous Expense	433,872
511	Short Term Debt Obligation	33,231
512	Leases, Rentals, and Purchase-Lease Payments	84,290
517	Debt Service on Equipment/Facilities	<u>5,022,476</u>
	Total Operating Expenses	<u>35,816,561</u>

Less: Ineligible Expenses

Expenses Related to the Non-Transportation Areas of Illinois Terminal	(91,081)
Other Miscellaneous Expenses of 1101 East University	(91,161)
Professional Services Not Related to Transportation Services	(61,256)
Expenses Reimbursed through Federal/State Operating Grants	(122,465)
APTA and IPTA Dues	<u>(4,300)</u>
Total Ineligible Expenses	<u>(370,263)</u>

Total Eligible Operating Expenses **\$ 35,446,298**

Total Eligible Operating Expenses \$ 35,446,298

Total Operating Revenue and Income 8,099,429

Deficit **\$ 27,346,869**

Sixty-Five Percent of Eligible Expense **\$ 23,040,094**

**CHAMPAIGN-URBANA MASS TRANSIT DISTRICT
 SCHEDULE OF REVENUE AND EXPENSES
 UNDER DOWNSTATE OPERATING ASSISTANCE GRANT OP-13-01-IL
 Year Ended June 30, 2013**

CONTINUED

Maximum Contract Amount	<u>\$ 24,969,600</u>
Eligible Downstate Operating Assistance (Deficit or Sixty-Five Percent of Eligible Expense or Maximum Contract Amount, Whichever is Less)	\$ 23,040,094
Fiscal Year 2013 Downstate Operating Assistance Received (Through June 30, 2013)	18,239,799
Fiscal Year 2013 Downstate Operating Assistance Received (Subsequent to June 30, 2013)	<u>4,657,495</u>
Fiscal Year 2013 Downstate Operating Assistance Over Paid	<u>\$ 142,800</u>

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Board of Trustees
Champaign Urbana Mass Transit District
Urbana, Illinois

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Champaign Urbana Mass Transit District (the District), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 31, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency (Finding 2013-001).

Compliance and Other Matters

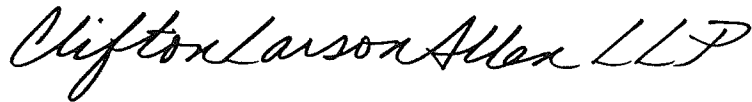
As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

District's Response to the Finding

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Clifton Larson Allen LLP".

Champaign, Illinois
October 31, 2013

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE, IN
ACCORDANCE WITH OMB CIRCULAR A-133**

The Board of Trustees
Champaign Urbana Mass Transit District
Urbana, Illinois

Report on Compliance for Each Major Federal Program

We have audited the Champaign Urbana Mass Transit District's (the District) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2013. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

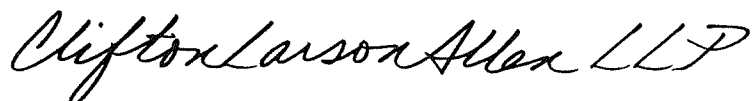
Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that we have not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as Findings 2013-002 and 2013-003, that we consider to be significant deficiencies.

The District's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's responses were not subject to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the result of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Champaign, Illinois
October 31, 2013

**CHAMPAIGN-URBANA MASS TRANSIT DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2013**

<u>Federal Grantor/ Program Title</u>	<u>CFDA Number</u>		<u>Grant Number</u>	<u>Total Awards Expended</u>
U.S. Department of Transportation -				
Federal Transit Administration Direct:				
Clean Fuel Funding	20.519	*	IL-58-0003	\$ 1,000,867
Strategic Plan Update	20.505		IL-80-0004 & IL-80-0006	74,977
Passed through Illinois Department of Transportation				
Safe Routes to School	20.205		SRTS-3666(011)	<u>28,215</u>
TOTAL				<u>\$ 1,104,059</u>

* Denotes a major program

**CHAMPAIGN-URBANA MASS TRANSIT DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2013**

NOTE 1 - GENERAL

The accompanying schedule of expenditures of federal awards presents the activity of federal award programs of Champaign-Urbana Mass Transit District (the District).

NOTE 2 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards is presented on the accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 3 - FEDERAL NON-CASH ASSISTANCE

The District did not receive any federally provided insurance or federal loan or loan guarantees.

NOTE 4 - SUBRECIPIENTS

The District did not have any subrecipients for the fiscal year.

**CHAMPAIGN-URBANA MASS TRANSIT DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013**

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued:	<u>Unmodified</u>	
Internal control over financial reporting:		
• Material weakness(es) identified?	_____ yes	_____ <u>X</u> no
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	_____ <u>X</u> yes	_____ none reported
Noncompliance material to financial statements noted?	_____ yes	_____ <u>X</u> no

Federal Awards

Internal control over major programs:		
• Material weakness(es) identified?	_____ yes	_____ <u>X</u> no
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	_____ <u>X</u> yes	_____ none reported

Type of auditors’ report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? _____ X yes _____ no

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

20.519

Clean Fuel Funding

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? _____ yes _____ X no

**CHAMPAIGN-URBANA MASS TRANSIT DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013**

Section II – Financial Statement Findings

FINDING NO. 2013-001 – FINANCIAL STATEMENT PREPARATION

Criteria or Specific Requirement: The District is responsible for preparation of financial statements in accordance with generally accepted accounting principles.

Condition: The District engages CliftonLarsonAllen LLP to assist in preparing its financial statements and accompanying disclosures. However, as independent auditors, CliftonLarsonAllen LLP cannot be considered part of the District's internal control system.

Context: The Board of Directors and management share the ultimate responsibility for the District's internal control system.

Effect: This situation is very common for entities the size of the District. While it is acceptable to outsource various accounting functions, the responsibility for internal control cannot be outsourced to the external auditors.

Cause: Currently, the District's personnel do not have sufficient governmental financial statement reporting experience and training to prepare the District's financial statements, including any new disclosure requirements.

Recommendation: Management is aware of the internal control deficiency in financial statement reporting in accordance with generally accepted accounting principles. Management should continue to weigh the costs versus benefits of investing in additional personnel or additional training for existing personnel to acquire the capacity to maintain the level of expertise necessary to prepare financial statements in accordance with generally accepted accounting principles, including all disclosures.

Views of Responsible Officials and Planned Corrective Action:

The Champaign-Urbana Mass Transit District has been in existence since August 1971 and has been through many audits and Triennial Reviews by the Federal Transit Administration. Until last year, management had not been aware of any deficiencies in financial statement reporting. Due to the many upper level management personnel retiring in the next few years, in July 2012 the District hired a Chief Financial Officer to oversee all functions in the Accounting Department. The Chief Financial Officer will work with CliftonLarsonAllen to identify continuing education training opportunities that will address new accounting, and financial statement reporting and disclosure requirements.

**CHAMPAIGN-URBANA MASS TRANSIT DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013**

Section III – Federal Award Findings and Questioned Costs

FINDING NO. 2013-002 – FINANCIAL STATEMENT PREPARATION

**CLEAN FUEL FUNDING
CFDA #20.519
U.S. DEPARTMENT OF TRANSPORTATION
QUESTIONED COSTS - NONE**

See Financial Statement Finding 2013-001

**CHAMPAIGN-URBANA MASS TRANSIT DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013**

Section III - Federal Award Findings and Questioned Costs (Continued)

FINDING NO. 2013-003 – REPORTING

**CLEAN FUEL FUNDING
CFDA #20.519
DEPARTMENT OF TRANSPORTATION
QUESTIONED COSTS - NONE**

Criteria or Specific Requirement: Proper internal controls require a formal review process.

Condition: During review of the client's controls over financial reporting, we noted that there is no formal, documented review of the quarterly financial reports.

Context: This was noted on all quarterly reports tested.

Effect: Lack of adequate reviews could allow for errors or irregularities not being detected on a timely basis.

Cause: Lack of implementation of review processes over the financial reporting process.

Recommendation: We recommend a policy be established in which a member of management, other than the preparer, review all financial reports. This review process should be completed prior to the report submission, and it should be documented. Compliance with the policy should be monitored.

Views of Responsible Officials and Planned Corrective Action:

Procedures for authorizing official to review and approve all Federal award financial reporting have been implemented in November 2013.

**CHAMPAIGN-URBANA MASS TRANSIT DISTRICT
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013**

FINDING NO. 2012-1 – FINANCIAL STATEMENT PREPARATION

Condition: The District engages CliftonLarsonAllen LLP to assist in preparing its financials statements and accompanying disclosures. However, as independent auditors, CliftonLarsonAllen LLP cannot be considered part of the District's internal control system.

Condition still exists.

FINDING NO. 2012-2 – AUDIT ADJUSTMENTS

Condition: Various account balances were determined to be inaccurate during review of supporting documentation, resulting in material audit adjustments at the end of the year.

Condition has been corrected.

FINDING NO. 2012-3 – FINANCIAL STATEMENT PREPARATION

**FEDERAL TRANSIT CLUSTER
CFDA #20.507
DEPARTMENT OF TRANSPORTATION
QUESTIONED COSTS - NONE**

Condition: The District engages CliftonLarsonAllen LLP to assist in preparing its financials statements and accompanying disclosures. However, as independent auditors, CliftonLarsonAllen LLP cannot be considered part of the District's internal control system.

Condition still exists for Clean Fuel Funding Grant, CFDA #20.519.

FINDING NO. 2012-4 – AUDIT ADJUSTMENTS

**FEDERAL TRANSIT CLUSTER
CFDA #20.507
DEPARTMENT OF TRANSPORTATION
QUESTIONED COSTS - NONE**

Condition: Various account balances were determined to be inaccurate during review of supporting documentation, resulting in material audit adjustments at the end of the year.

Condition has been corrected.

**CHAMPAIGN-URBANA MASS TRANSIT DISTRICT
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2013**

FINDING NO. 2012-5 – CASH MANAGEMENT AND REPORTING

**FEDERAL TRANSIT CLUSTER
CFDA #20.507
DEPARTMENT OF TRANSPORTATION
QUESTIONED COSTS – NONE**

Condition: During review of the client's controls over cash draw downs and financial reporting, we noted that there is no formal, documented review of the requests for funds or the quarterly financial reports.

Financial reporting condition still exists for Clean Fuel Funding Grant, CFDA #20.519. No issues were noted in testing of cash management.

FINDING NO. 2012-6 – EQUIPMENT AND PROPERTY MANAGEMENT

**FEDERAL TRANSIT CLUSTER
CFDA #20.507
DEPARTMENT OF TRANSPORTATION
QUESTIONED COSTS – NONE**

Condition: The District is leasing space in its maintenance facility to another transit provider without prior approval of FTA.

Condition has been corrected.

FINDING NO. 2012-7 - NONCOMPLIANCE WITH THE SEPARATION OF ARRA FUNDING

**FEDERAL TRANSIT CLUSTER
CFDA #20.507
DEPARTMENT OF TRANSPORTATION
QUESTIONED COSTS - NONE**

Condition: During review of the client's general ledger system, it was noted that ARRA funded activities are not being maintained separately from non-ARRA funded activities.

Condition has been corrected.

**CHAMPAIGN-URBANA MASS TRANSIT DISTRICT
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2013**

FINDING NO. 2012-8 - PROCUREMENT

**FEDERAL TRANSIT CLUSTER
CFDA #20.507
DEPARTMENT OF TRANSPORTATION
QUESTIONED COSTS - NONE**

Condition: The District has not submitted DBE program or goal information to the FTA for approval for several years.

Condition has been corrected.