

***KENT FREE LIBRARY
PORTAGE COUNTY, OHIO***

AUDIT REPORT

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

Charles E. Harris and Associates, Inc.
Certified Public Accountants and Government Consultants



Mary Taylor, CPA

Auditor of State

Board of Trustees
Kent Free Library
312 West Main Street
Kent, Ohio 44240

We have reviewed the *Report of Independent Accountants* of the Kent Free Library, Portage County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2005 through December 31, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Report of Independent Accountants* on your financial statements. While the Auditor of State does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Report of Independent Accountants* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Kent Free Library is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

September 18, 2007

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**KENT FREE LIBRARY
AUDIT REPORT
PORTAGE COUNTY, OHIO
For the Years Ended December 31, 2006 and 2005**

TABLE OF CONTENTS

<u>Title</u>	<u>Page</u>
Report of Independent Accountants	1-2
Combined Statement of Receipts, Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types For the Year Ended December 31, 2006	3
Combined Statement of Receipts, Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types and Fiduciary Funds For the Year Ended December 31, 2005	4
Notes to the Financial Statements	5-10
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	11-12
Status of Prior Year's Citations and Recommendations	13

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Charles E. Harris & Associates, Inc.
Certified Public Accountants

REPORT OF INDEPENDENT ACCOUNTANTS

Kent Free Library
Portage County
312 West Main Street
Kent, Ohio 44240

To the Board of Trustees:

We have audited the accompanying financial statements of the Kent Free Library, Portage County (the Library), as of and for the years ended December 31, 2006 and 2005. These financial statements are the responsibility of the Library's management. 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 described more fully in Note 1, the Library has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Revisions to GAAP would require the Library to reformat its financial statement presentation and make other changes effective for the years ended December 31, 2006 and 2005. Instead of the combined funds the accompanying financial statements present for 2006 and 2005, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2006 and 2005. While the Library does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Library has elected not to reformat its statements. Since the Library does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2006 and 2005, do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Library as of December 31, 2006 and 2005, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Library, as of December 31, 2006 and 2005, and its cash receipts and disbursements and changes in fund cash balances for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Library to include Management's Discussion and Analysis for the years ended December 31, 2006 and 2005. The Library has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 15, 2007, on our consideration of the Library's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we do not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal controls over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Charles E. Harris & Associates, Inc.

August 15, 2007

KENT FREE LIBRARY
 PORTAGE COUNTY, OHIO
 COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND
 CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
 For the Year Ended December 31, 2006

	Governmental Fund Types			(Memorandum Only)
	General	Capital Projects	Permanent	Total
Receipts:				
Library and Local Government Support	\$ 1,627,943	-	-	\$ 1,627,943
Intergovernmental	2,281	-	-	2,281
Patron Fines and Fees	28,591	-	-	28,591
Earnings on Investments	162,502	\$ 130,632	\$ 902	294,036
Contributions, Gifts and Donations	50	-	-	50
Miscellaneous	5,207	-	-	5,207
Total Receipts	1,826,574	130,632	902	1,958,108
Disbursements:				
Current:				
Salaries	686,549	-	-	686,549
Employee Fringe Benefits	129,329	-	-	129,329
Purchased and Contracted Services	270,935	552,724	-	823,659
Library Materials and Information	338,648	5,411	-	344,059
Supplies	84,198	-	-	84,198
Other	16,875	-	-	16,875
Capital Outlay	59,541	5,497,370	-	5,556,911
Total Cash Disbursements	1,586,075	6,055,505	-	7,641,580
Excess of Receipts Over/(Under) Disbursements	240,499	(5,924,873)	902	(5,683,472)
Other Financing Sources/(Uses):				
Transfers In	-	22,339	-	22,339
Transfers Out	(22,339)	-	-	(22,339)
Total Other Financing Sources/(Uses)	(22,339)	22,339	-	-
Excess of Receipts & Other Financing Sources Over/(Under) Disbursements and Other Financing Uses	218,160	(5,902,534)	902	(5,683,472)
Fund Balance January 1, 2006	1,065,774	7,000,022	25,743	8,091,539
Fund Balance December 31, 2006	\$ 1,283,934	\$ 1,097,488	\$ 26,645	\$ 2,408,067
Reserve for Encumbrances, December 31, 2006	\$ 534,493	\$ -	\$ -	\$ 534,493

See accompanying Notes to the Financial Statements.

**KENT FREE LIBRARY
PORTAGE COUNTY, OHIO
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND
CASH BALANCES - ALL GOVERNMENTAL FUND TYPES AND FIDUCIARY FUNDS
For the Year Ended December 31, 2005**

	Governmental Fund Types		Fiduciary Fund Type	(Memorandum Only) Total
	General	Capital Projects	Non-Expendable Trust	
Receipts:				
Library and Local Government Support	\$ 1,627,943	-	-	\$ 1,627,943
Patron Fines and Fees	25,018	-	-	25,018
Earnings on Investments	93,590	\$ 245,010	\$ 142	338,742
Contributions, Gifts and Donations	35	-	-	35
Miscellaneous	23,487	-	-	23,487
Total Receipts	1,770,073	245,010	142	2,015,225
Disbursements:				
Current:				
Salaries	666,943	-	-	666,943
Employee Fringe Benefits	127,406	-	-	127,406
Purchased and Contracted Services	255,437	1,008,387	-	1,263,824
Library Materials and Information	388,540	-	-	388,540
Supplies	140,418	-	-	140,418
Other	23,257	-	-	23,257
Capital Outlay	206,070	7,351,076	-	7,557,146
Total Cash Disbursements	1,808,071	8,359,463	-	10,167,534
Excess of Receipts Over/(Under) Disbursements	(37,998)	(8,114,453)	142	(8,152,309)
Other Financing Sources/(Uses):				
Transfers In	-	97,882	-	97,882
Transfers Out	(97,882)	-	-	(97,882)
Total Other Financing Sources/(Uses)	(97,882)	97,882	-	-
Excess of Receipts & Other Financing Sources Over/(Under) Disbursements and Other Financing Uses	(135,880)	(8,016,571)	142	(8,152,309)
Fund Balance January 1, 2005	1,201,654	15,016,593	25,601	16,243,848
Fund Balance December 31, 2005	\$ 1,065,774	\$ 7,000,022	\$ 25,743	\$ 8,091,539
Reserve for Encumbrances, December 31, 2005	\$ 486,523	\$ 21,758	\$ -	\$ 508,281

See accompanying Notes to the Financial Statements.

**KENT FREE LIBRARY
PORTAGE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Kent Free Library, Portage County, (the Library) as a body corporate and politic. The Library is directed by a seven-member Board of Trustees appointed by the Kent City School Board. The Library is a member of the Portage Library Consortium (see Note 8). The Library provides the community with various educational and literary resources.

The Library's management believes these financial statements present all activities for which the Library is financially accountable.

B. Basis of Accounting

These financial statements follow the basis of accounting the Auditor of State prescribes or permits. This accounting basis is similar to the cash receipts and disbursements basis. The Library recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

C. Cash and Investments

The Library's accounting basis includes investments as assets. Accordingly, the Library does not record investment purchases as disbursements or investment sales as receipts. The Library records gains or losses at the time of sale as receipts or disbursements, respectively.

The Library values certificates of deposit. Money market mutual funds (including STAR Ohio) are recorded at share values the mutual fund reports.

D. Fund Accounting

The Library uses fund accounting to segregate cash and investments that are restricted as to use. The Library classifies its funds into the following types:

**KENT FREE LIBRARY
PORTAGE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. General Fund

The General Fund accounts for all financial resources except those required to be accounted for in another fund.

2. Capital Project Funds

These funds account for receipts restricted to acquiring or constructing major capital projects (except those financed through enterprise or trust funds). The Library had the following significant capital project fund:

Construction Fund – This fund is used to account for the construction of the new library.

3. Permanent Fund – 2006 only

Permanent funds account for resources restricted by legally binding trust agreements. If the agreement requires the Library to maintain the corpus of the trust, the Library classifies the activity as a permanent fund. The Library has one permanent fund, Kent Trust Fund.

4. Fiduciary Fund – 2005 only

Trust funds account for resources restricted by legally binding trust agreements. If the agreement requires the Library to maintain the corpus of the trust, the Library classifies the activity as a non-expendable trust fund. The Library has one non-expendable trust fund, Kent Trust Fund.

E. Budgetary Process

The Board must annually approve appropriation measures and subsequent amendments. Unencumbered appropriations lapse at year end. Budgetary expenditures may not exceed appropriations at the object level of control.

A summary of 2006 and 2005 budgetary activity appears in Note 3.

F. Property, Plant, and Equipment

The Library records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

**KENT FREE LIBRARY
PORTAGE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

2. EQUITY IN POOLED CASH AND INVESTMENTS

The Library maintains a cash and investments pool all funds use. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash and investments at December 31 follows:

	2006	2005
Demand deposit	\$ 835,132	\$ 4,868,503
Certificates of deposit	1,145,000	2,815,050
Total deposits	1,980,132	7,683,553
STAR Ohio	427,935	407,986
Total deposits and investments	<u>\$ 2,408,067</u>	<u>\$ 8,091,539</u>

Deposits: Deposits are insured by the Federal Depository Insurance Corporation; or collateralized by the financial institution's public entity deposit pool.

Investments: Investments in STAR Ohio are not evidenced by securities existing in physical or book-entry form.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2006 and 2005 follows:

Funds	2006 Budgeted vs Actual Receipts		
	Budgeted Receipts	Actual Receipts	Variance
General	\$ 1,679,324	\$ 1,826,574	\$ 147,250
Capital Projects	125,432	152,971	27,539
Permanent	902	902	-
Total	<u>\$ 1,805,658</u>	<u>\$ 1,980,447</u>	<u>\$ 174,789</u>

**KENT FREE LIBRARY
PORTAGE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005**

3. BUDGETARY ACTIVITY (Continued)

<u>2006 Budgeted vs Actual Budgetary Basis Expenditures</u>			
<u>Funds</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$ 2,165,877	\$ 2,142,907	\$ 22,970
Capital Projects	7,147,212	6,055,505	1,091,707
Permanent Fund	23,645	-	23,645
Total	<u>\$ 9,336,734</u>	<u>\$ 8,198,412</u>	<u>\$ 1,138,322</u>

<u>2005 Budgeted vs Actual Receipts</u>			
<u>Funds</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$ 1,616,051	\$ 1,770,073	\$ 154,022
Capital Projects	111,668	342,892	231,224
Non-Expendable Trust	142	142	-
Total	<u>\$ 1,727,861</u>	<u>\$ 2,113,107</u>	<u>\$ 385,246</u>

<u>2005 Budgeted vs Actual Budgetary Basis Expenditures</u>			
<u>Funds</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$ 2,435,822	\$ 2,392,476	\$ 43,346
Capital Projects	15,128,259	8,381,221	6,747,038
Non-Expendable Trust	25,601	-	25,601
Total	<u>\$17,589,682</u>	<u>\$ 10,773,697</u>	<u>\$ 6,815,985</u>

**KENT FREE LIBRARY
PORTAGE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005**

4. GRANTS-IN-AID

The primary source of revenue for Ohio public libraries is the State Library and Local Government Support Fund (LLGSF). The State allocates LLGSF to each county based on the county's prior intangibles tax of LLGSF revenues, and its population. The County Budget Commission allocates these funds to the Library based on its needs such as for the construction of new library buildings, improvements, operation, maintenance, or other expenses. The Budget Commission cannot reduce its allocation of these funds to the Library based on any additional revenues the Library receives.

5. DEBT

The Library had debt issued on their behalf by the taxing authority, Kent City School District in 2003. The Kent City School District issued Library Bond Anticipation Notes and Library Bonds in 2003 for \$13,500,000. The Library Bond proceeds were used to retire the anticipation notes. The debt is a liability of the taxing authority. The Library has no contingent obligation for repayment.

6. RETIREMENT SYSTEM

The Ohio Public Employees Retirement System (OPERS) is a state operated, cost-sharing, multiple employer public employee retirement system. The Ohio Revised Code prescribes retirement benefits for vested employees who are eligible to retire based upon years of service. OPERS also provides survivor and disability benefits to vested employees as the Ohio Revised Code prescribes.

The Ohio Revised Code also prescribes contribution rates. For 2006 and 2005, the Library's OPERS members contributed 9.0 and 8.5 percent of their gross salaries, respectively. The Library contributed an amount equal to 13.70 and 13.55 percent of participants' gross salaries, for each year. The Library has paid all contributions required through December 31, 2006.

**KENT FREE LIBRARY
PORTAGE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005**

7. RISK MANAGEMENT

Commercial Insurance

The Library has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles; and
- Errors and omissions.

The Library also provides health insurance to full-time employees through a private carrier.

Settled claims have not exceeded this commercial coverage in any of the last three years. The Library has not reduced coverages from last year.

8. JOINTLY GOVERNED ORGANIZATION

The Portage Library Consortium (PLC) authorized under Ohio Revised Code Section 3375.403 consists of the Portage County District Library, Kent Free Library, and Reed Memorial Library. The purpose of the consortium is to provide better services at reduced costs to each member through collective efforts and resource sharing. The PLC is governed by a Council comprised of two trustees from each member library. Member libraries are entitled to a single vote. Council controls the budget and all financial concerns. The three libraries allocate 1.3% of State Library and Local Government Support Fund (LLGSF) for a total 3.9% allocation of revenue. The Portage County District Library acts as the fiscal agent for the consortium.

9. CONTINGENT LIABILITIES

Management believes there are no pending claims or lawsuits.

10. RESTATEMENT OF 2006 FUND BALANCE

The Library reclassified its nonexpendable trust fund to a permanent fund in accordance with Auditor of State bulletin 2005-005.

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Certified Public Accountants

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**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**

Kent Free Library
Portage County
312 West Main Street
Kent, Ohio 44240

To the Board of Trustees:

We have audited the financial statements of the Kent Free Library, Portage County, Ohio (Library) as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated August 15, 2007, wherein we noted the Library followed accounting practices prescribed or permitted by the Auditor of State of Ohio. 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.

Internal Controls Over Financial Reporting

In planning and performing our audit, we considered the Library's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Library's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting practices prescribed or permitted by the Auditor of State of Ohio such that there is more than a remote likelihood that a misstatement of the Library's financial statements that is more than inconsequential will not be prevented or detected by the Library's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Library's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grants agreements and other matters, 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 that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to management of the Library in a separate letter dated August 15, 2007.

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

Charles E. Harris & Associates, Inc.
August 15, 2007

**KENT FREE LIBRARY
PORTAGE COUNTY
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**

STATUS OF PRIOR YEAR'S CITATIONS AND RECOMMENDATIONS

The prior audit report, for the years ending December 31, 2004 and 2003, reported no material citations or recommendations.



Mary Taylor, CPA
Auditor of State

KENT FREE LIBRARY

PORTAGE COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
OCTOBER 2, 2007**