



**LORAIN PUBLIC LIBRARY SYSTEM  
LORAIN COUNTY**

**REGULAR AUDIT**

**FOR THE YEAR ENDED DECEMBER 31, 2006**



**Mary Taylor, CPA**  
Auditor of State



**LORAIN PUBLIC LIBRARY SYSTEM  
LORAIN COUNTY**

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Lorain Public Library System  
Lorain County  
351 Sixth Street  
Lorain, Ohio 44052

To the Board of Trustees:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lorain Public Library System, Lorain County, Ohio (the Library), as of and for the year ended December 31, 2006, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Library's management. Our responsibility is to express opinions 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 our audit provides a reasonable basis for our opinions.

As discussed in Note 2, the accompanying financial statements and notes follow the modified cash accounting basis. This is a comprehensive accounting basis other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Lorain Public Library System, Lorain County, Ohio, as of December 31, 2006, and the respective changes in modified cash financial position and the budgetary comparison for the General fund thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 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 did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control 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.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

**Mary Taylor, CPA**  
Auditor of State

September 26, 2007

Lorain Public Library System, Lorain County  
Management's Discussion and Analysis  
For the Year Ended December 31, 2006  
Unaudited

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This discussion and analysis of the Lorain Public Library System's, Lorain County, (the Library) financial performance provides an overall review of the Library's financial activities for the year ended December 31, 2006, within the limitations of the Library's modified cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the Library's financial performance.

### **Highlights**

Key highlights for 2006 are as follows:

Net assets of governmental activities increased \$912,013, or 12.8 percent, a significant change from the prior year. The fund most affected by the increase in cash and cash equivalents was the Building and Repair Fund due to reduced spending in 2006 as the projects have been completed along with increases in transfers from the General Fund.

The Library's general receipts are primarily property taxes and Library and Local Government Support Fund ("LLGSF"). These receipts represent 91.9 percent of the total cash received for governmental activities during the year. Property taxes and LLGSF tax receipts for 2006 changed very little compared to 2005 due to stable tax rates and collections and due to a freeze of LLGSF by the Ohio Government.

The net change in General Fund balance was \$153,994, or an increase of 5.2 percent.

### **Using the Basic Financial Statements**

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the Library's modified cash basis of accounting.

### **Report Components**

The statement of net assets and the statement of activities provide information about the cash activities of the Library as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the Library as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Lorain Public Library System, Lorain County  
Management's Discussion and Analysis  
For the Year Ended December 31, 2006  
Unaudited

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**Basis of Accounting**

The basis of accounting is a set of guidelines that determine when financial events are recorded. The Library has elected to present its financial statements on a modified cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the Library's modified cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the modified cash basis of accounting.

**Reporting the Library as a Whole**

The statement of net assets and the statement of activities reflect how the Library did financially during 2006, within the limitations of modified cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental activities of the Library at year end.

The statement of activities compares cash disbursements with program receipts for each governmental program. Program receipts include patron fines and fees, services to other libraries, meeting room rentals and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the Library's general receipts.

These statements report the Library's cash position and the changes in cash position. Keeping in mind the limitations of the modified cash basis of accounting, you can think of these changes as one way to measure the Library's financial health. Over time, increases or decreases in the Library's cash position is one indicator of whether the Library's financial health is improving or deteriorating. When evaluating the Library's financial condition, you should also consider other non-financial factors as well, such as the Library's property tax base, the condition of the Library's capital assets, the extent of the Library's debt obligations, the reliance on non-local financial resources for operations and the need for continued growth in the major local revenue sources such as property taxes and LLGSF.

In the statement of net assets and the statement of activities, the Library reports governmental activities. All of the Library's programs and services are reported here, including general public services, purchased and contracted services, and library materials and information. These services are primarily funded by property taxes and LLGSF. Benefits provided through governmental activities are not necessarily paid for by the people receiving them.



Lorain Public Library System, Lorain County  
Management's Discussion and Analysis  
For the Year Ended December 31, 2006  
Unaudited

**Reporting the Library's Most Significant Funds**

Fund financial statements provide detailed information about the Library's major funds - not the Library as a whole. The Library establishes separate funds to better manage its many activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose. All of the Library's funds are accounted for as governmental funds.

Governmental Funds - All of the Library's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the Library's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the Library's programs. The Library's significant governmental funds are presented on the financial statements in separate columns. The information for non-major funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The Library's major governmental funds are the General Fund and the Building & Repair Fund. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements. We describe this relationship in reconciliations presented with the governmental fund financial statements.

**The Library as a Whole**

Table 1 provides a summary of the Library's net assets for 2006 compared to 2005.

**Net Assets (Table 1)**

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
<b>Assets</b>						
Equity in Pooled Cash and Cash Equivalents	\$5,387,937	\$4,426,850			\$5,387,937	\$4,426,850
Investments	2,658,724	2,707,798			2,658,724	2,707,798
<i>Total Assets</i>	<u>\$8,046,661</u>	<u>\$7,134,648</u>	<u>-</u>	<u>-</u>	<u>\$8,046,661</u>	<u>\$7,134,648</u>
<b>Net Assets</b>						
Restricted for:						
Capital Projects	\$3,882,584	\$3,197,274			\$3,882,584	\$3,197,274
Debt Service	431,030	409,720			431,030	409,720
Permanent Fund Purpose	2,200	2,095			2,200	2,095
Other Purposes	615,567	564,272			615,567	564,272
Unrestricted	<u>3,115,280</u>	<u>2,961,287</u>	<u></u>	<u></u>	<u>3,115,280</u>	<u>2,961,287</u>
<i>Total Net Assets</i>	<u>\$8,046,661</u>	<u>\$7,134,648</u>	<u>-</u>	<u>-</u>	<u>\$8,046,661</u>	<u>\$7,134,648</u>

Lorain Public Library System, Lorain County  
Management's Discussion and Analysis  
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Table 2 reflects the changes in net assets in 2006 and 2005.

	Change in Net Assets (Table 2)					
	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
<b>Receipts:</b>						
Program Receipts:						
Charges for Services and Sales	\$160,176	\$167,664			\$160,176	\$167,664
Operating Grants and Contributions	100,930	110,398			100,930	110,398
Capital Grants and Contributions					-	-
Total Program Receipts	\$261,106	\$278,062	-	-	\$261,106	\$278,062
General Receipts:						
Property and Other Local Taxes	\$3,435,488	\$3,169,341			\$3,435,488	\$3,169,341
Grants and Entitlements Not Restricted to Specific Programs	4,843,837	4,961,534			4,843,837	4,961,534
Unrestricted Gifts and Contributions	47,510	1,058			47,510	1,058
Interest	400,899	218,059		1,631	400,899	219,690
Miscellaneous	17,945	372,540			17,945	372,540
Total General Receipts	\$8,745,679	\$8,722,532	-	\$1,631	\$8,745,679	\$8,724,163
Total Receipts	\$9,006,785	\$9,000,594	-	\$1,631	\$9,006,785	\$9,002,225
<b>Disbursements:</b>						
Library Services:						
Public Service and Programs	\$4,630,439	\$4,541,486			\$4,630,439	\$4,541,486
Collection Development and Processing	1,786,267	1,696,275			1,786,267	1,696,275
Support Services:						
Facilities Operation and Maintenance	218,770	215,064		4,253	218,770	219,317
Information Services	422,921	433,313			422,921	433,313
Business Administration	300,325	299,192		1,253	300,325	300,445
Capital Outlay	258,000	408,419			258,000	408,419
Debt Service:						
Principal Retirement	385,000	375,000			385,000	375,000
Interest and Fiscal Charges	93,050	103,550			93,050	103,550
Total Disbursements	\$8,094,772	\$8,072,299	-	\$5,506	\$8,094,772	\$8,077,805
Transfers In / Transfers Out		\$71,099		(\$71,099)		
Increase (Decrease) in Assets	912,013	999,394		(74,974)	912,013	924,420
Net Assets, January 1, 2006 and 2005	<u>\$7,134,648</u>	<u>\$6,135,254</u>	-	<u>\$74,974</u>	<u>\$7,134,648</u>	<u>\$6,210,228</u>
Net Assets, December 31, 2006 and 2005	<u><u>\$8,046,661</u></u>	<u><u>\$7,134,648</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>\$8,046,661</u></u>	<u><u>\$7,134,648</u></u>

Program receipts represent only 2.9 percent of total receipts and are primarily comprised of patron fines and fees, and contributions, gifts and donations.

Lorain Public Library System, Lorain County  
Management's Discussion and Analysis  
For the Year Ended December 31, 2006  
Unaudited

General receipts represent 97.1 percent of the Library's total receipts, and of this amount, 39.3 percent are local taxes. State grants and entitlements make up 55.4 percent of the Library's general receipts. Other receipts are very insignificant and somewhat unpredictable revenue sources.

Disbursements for public service and programs, collection development and processing, facilities operation and maintenance, and business administration represent the major costs of running the Library.

**Governmental Activities**

If you look at the Statement of Activities on page 10, you will see that the first column lists the major services provided by the Library. The next column identifies the costs of providing these services. The major disbursements for governmental activities are Public Service and Programs, Collection Development and Processing, Facilities Operation and Maintenance, Information Services and Business Administration which account for 57.2 percent, 22.1 percent, 2.7 percent, 5.2 percent and 3.2 percent, respectively. The next three columns of the Statement entitled Program Receipts identify amounts paid by people who are directly charged for the service and grants received by the Library that must be used to provide a specific service. The net (Disbursement) Receipt column and changes in net assets compares the program receipts to the cost of the service. This net cost amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

**Governmental Activities (Table 3)**

Governmental Activities (Table 3)				
	Total Cost of Services		Net Cost of Services	
	2006	2005	2006	2005
Library Services:				
Public Service and Programs	(\$4,630,439)	(\$4,541,486)	(\$4,377,932)	(\$4,277,318)
Collection Development and Processing	(1,786,267)	(1,696,275)	(1,777,668)	(1,682,381)
Support Services:				
Facilities Operation and Maintenance	(218,770)	(215,064)	(218,770)	(215,064)
Information Services	(422,921)	(433,313)	(422,921)	(433,313)
Business Administration	(300,325)	(299,192)	(300,325)	(299,192)
Capital Outlay	(258,000)	(408,419)	(258,000)	(408,419)
Debt Service:				
Principal Retirement	(385,000)	(375,000)	(385,000)	(375,000)
Interest and Fiscal Charges	(93,050)	(103,550)	(93,050)	(103,550)
<b>Total Governmental Activities</b>	<b>(\$8,094,772)</b>	<b>(\$8,072,299)</b>	<b>(\$7,833,666)</b>	<b>(\$7,794,237)</b>

The dependence upon property taxes and LLGSF receipts is apparent as over 91.9 percent of governmental activities are supported through these general receipts.

Lorain Public Library System, Lorain County  
Management's Discussion and Analysis  
For the Year Ended December 31, 2006  
Unaudited

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### **The Library's Funds**

Total governmental funds had receipts of \$9,006,785 and disbursements of \$8,094,772. The fund balance of the General Fund increased \$1,218,032 before transfers, as the result of the concern of future funding and the Library being conservative in its spending. Due to increased costs for salaries and benefits, utilities, building maintenance, and library materials, the Library had to raise its millage in some of the communities it serves because it was not achieving anticipated growth in LLGSF receipts.

### **General Fund Budgeting Highlights**

The Library's budget is prepared according to Ohio law and is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

During fiscal year 2006, the Library amended its general fund budget numerous times, none significant. Final disbursements and transfers were budgeted at \$10,443,817 while actual disbursements and transfers were \$9,010,305.

### **Debt Administration**

At December 31, 2006, the Library had \$2,130,000 of outstanding general obligation notes issued for constructing a branch library in the City of North Ridgeville, Ohio; improving and constructing an addition to the branch library located in the Township of Columbia, Ohio; and improving and renovating existing library facilities. For further information regarding the Library's debt, refer to Note 9 to the basic financial statements.

### **Current Issues**

The challenge for all Libraries is to provide quality services to the public while staying within the restrictions imposed by limited, and in some cases shrinking, funding. We rely heavily on local taxes and LLGSF funding. Three of the library's property tax levies ended in 2006. Levy issues were passed during the May primary in the Lorain City School District, the City of Sheffield Lake and the City of Avon.

### **Contacting the Library's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Library's finances and to reflect the Library's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to James M. Wilson, Clerk-Treasurer, Lorain Public Library System, 351 Sixth Street, Lorain, Ohio 44052.

**Lorain Public Library System, Lorain County**

*Statement of Net Assets - Modified Cash Basis*

*December 31, 2006*

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	Governmental Activities
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$5,387,937
Investments	2,658,724
	<hr/>
<i>Total Assets</i>	<u><u>\$8,046,661</u></u>
<b>Net Assets</b>	
Restricted for:	
Capital Projects	\$3,882,584
Debt Service	431,030
Permanent Fund Purpose	2,200
Other Purposes	615,567
Unrestricted	3,115,280
	<hr/>
<i>Total Net Assets</i>	<u><u>\$8,046,661</u></u>

See accompanying notes to the basic financial statements

**Lorain Public Library System, Lorain County**

*Statement of Activities - Modified Cash Basis*

*For the Year Ended December 31, 2006*

	Program Cash Receipts				Net (Disbursements)
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Receipts and Changes in Net Assets
<b>Governmental Activities</b>					
Library Services:					
Public Service and Programs	\$ 4,630,439	\$ 160,176	\$ 92,331		\$ (4,377,932)
Collection Development and Processing	1,786,267		8,599		(1,777,668)
Support Services:					
Facilities Operation and Maintenance	218,770				(218,770)
Information Services	422,921				(422,921)
Business Administration	300,325				(300,325)
Capital Outlay	258,000				(258,000)
Debt Service:					
Principal Retirement	385,000				(385,000)
Interest and Fiscal Charges	93,050				(93,050)
<i>Total Governmental Activities</i>	<u>\$8,094,772</u>	<u>\$160,176</u>	<u>\$100,930</u>	<u>\$0</u>	<u>(\$7,833,666)</u>
<b>General Receipts</b>					
					3,435,488
					47,510
					4,843,837
					400,899
					17,945
					<u>8,745,679</u>
					912,013
					<u>7,134,648</u>
					<u>\$8,046,661</u>

See accompanying notes to the basic financial statements

**Lorain Public Library System, Lorain County**  
*Statement of Modified Cash Basis Assets and Fund Balances*  
*Governmental Funds*  
*December 31, 2006*

	General	Building & Repair Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$2,345,844	\$1,285,852	\$1,756,241	\$5,387,937
Investments	769,437	1,889,287		2,658,724
<i>Total Assets</i>	<u>\$3,115,281</u>	<u>\$3,175,139</u>	<u>\$1,756,241</u>	<u>\$8,046,661</u>
<b>Fund Balances</b>				
Reserved:				
Reserved for Encumbrances	469,964	\$0	15,055	\$485,019
Unreserved:				
Undesignated (Deficit), Reported in:				
General Fund	2,645,317			2,645,317
Special Revenue Funds			602,712	602,712
Debt Service Fund			431,030	431,030
Capital Projects Funds		3,175,139	707,444	3,882,583
<i>Total Fund Balances</i>	<u>\$3,115,281</u>	<u>\$3,175,139</u>	<u>\$1,756,241</u>	<u>\$8,046,661</u>

See accompanying notes to the basic financial statements

**Lorain Public Library System, Lorain County**  
*Reconciliation of Total Governmental Fund Balances to*  
*Net Assets of Governmental Activities*  
*December 31, 2006*

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<b>Total Governmental Fund Balances</b>	<u>\$8,046,661</u>
<i>Net Assets of Governmental Activities</i>	<u><u>\$8,046,661</u></u>

See accompanying notes to the basic financial statements



**Lorain Public Library System, Lorain County**

*Statement of Cash Receipts, Disbursements and Changes in Modified-Cash Basis Fund Balances*

*Governmental Funds*

*For the Year Ended December 31, 2006*

	General	Building & Repair Fund	Other Governmental Funds	Total Governmental Funds
<b>Receipts</b>				
Property and Other Local Taxes	\$3,435,488			\$3,435,488
Intergovernmental	4,843,837			4,843,837
Patron Fines and Fees	146,700			146,700
Services Provided to Other Entities	13,476			13,476
Contributions, Gifts and Donations	50,936		97,504	148,440
Earnings on Investments	185,953	130,346	84,600	400,899
Miscellaneous	17,945			17,945
<i>Total Receipts</i>	<u>8,694,335</u>	<u>130,346</u>	<u>182,104</u>	<u>9,006,785</u>
<b>Disbursements</b>				
Current:				
Library Services:				
Public Service and Programs	4,582,878		47,561	4,630,439
Collection Development and Processing	1,762,010		24,257	1,786,267
Support Services:				
Facilities Operation and Maintenance	218,770			218,770
Information Services	422,921			422,921
Business Administration	300,325			300,325
Capital Outlay	189,399	58,361	10,240	258,000
Debt Service:				
Principal Retirement			385,000	385,000
Interest and Fiscal Charges			93,050	93,050
<i>Total Disbursements</i>	<u>7,476,303</u>	<u>58,361</u>	<u>560,108</u>	<u>8,094,772</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>1,218,032</u>	<u>71,985</u>	<u>(378,004)</u>	<u>912,013</u>
<b>Other Financing Sources (Uses)</b>				
Sale of Capital Assets	0			0
Transfers In	0	585,988	478,050	1,064,038
Transfers Out	(1,064,038)			(1,064,038)
<i>Total Other Financing Sources (Uses)</i>	<u>(1,064,038)</u>	<u>585,988</u>	<u>478,050</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	153,994	657,973	100,046	912,013
<i>Fund Balances Beginning of Year</i>	<u>2,961,287</u>	<u>2,517,166</u>	<u>1,656,195</u>	<u>7,134,648</u>
<i>Fund Balances End of Year</i>	<u>\$3,115,281</u>	<u>\$3,175,139</u>	<u>\$1,756,241</u>	<u>\$8,046,661</u>

See accompanying notes to the basic financial statements

**Lorain Public Library System, Lorain County**  
*Reconciliation of the Statement of Revenues, Disbursements and Changes in  
Modified-Cash Basis Fund Balances of Governmental Funds to the Statement of Activities  
For the Year Ended December 31, 2006*

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<b>Net Change in Fund Balances - Total Governmental Funds</b>	<u>\$912,013</u>
<i>Change in Net Assets of Governmental Activities</i>	<u><u>\$912,013</u></u>

See accompanying notes to the basic financial statements

**Lorain Public Library System, Lorain County**

*Statement of Receipts, Disbursements and Changes  
In Fund Balance - Budget and Actual (Budget Basis)*

**General Fund**

*For the Year Ended December 31, 2006*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Receipts</b>				
Property and Other Local Taxes	\$3,144,549	\$3,144,549	\$3,435,488	\$290,939
Intergovernmental	4,943,893	\$4,943,893	4,843,837	(100,056)
Patron Fines and Fees	114,600	114,600	146,700	32,100
Services Provided to Other Entities	14,000	14,000	13,476	(524)
Contributions, Gifts and Donations	0	0	50,936	50,936
Earnings on Investments	41,100	41,100	185,953	144,853
Miscellaneous	3,820	3,820	17,945	14,125
<i>Total receipts</i>	<u>8,261,962</u>	<u>8,261,962</u>	<u>8,694,335</u>	<u>432,373</u>
<b>Disbursements</b>				
Current:				
Library Services:				
Public Service and Programs	5,684,728	5,405,682	4,721,916	683,766
Collection Development and Processing	2,172,357	2,412,138	2,006,574	405,564
Support Services:				
Facilities Operation and Maintenance	287,579	301,279	229,376	71,903
Information Services	469,875	527,557	450,958	76,599
Business Administration	332,680	406,377	325,240	81,137
Capital Outlay	411,560	326,746	212,203	114,543
<i>Total Disbursements</i>	<u>9,358,779</u>	<u>9,379,779</u>	<u>7,946,267</u>	<u>1,433,512</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(1,096,817)</u>	<u>(1,117,817)</u>	<u>748,068</u>	<u>1,865,885</u>
<i>Other Financing Sources (Uses)</i>				
Transfers Out	(1,064,038)	(1,064,038)	(1,064,038)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(1,064,038)</u>	<u>(1,064,038)</u>	<u>(1,064,038)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	<u>(2,160,855)</u>	<u>(2,181,855)</u>	<u>(315,970)</u>	<u>1,865,885</u>
<i>Fund Balance Beginning of Year</i>	<u>2,601,526</u>	<u>2,601,526</u>	<u>2,601,526</u>	<u>0</u>
<i>Prior Year Encumbrances Appropriated</i>	<u>340,641</u>	<u>340,641</u>	<u>340,641</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$781,312</u>	<u>\$760,312</u>	<u>\$2,626,197</u>	<u>\$1,865,885</u>

See accompanying notes to the basic financial statements

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**Lorain Public Library System**  
Lorain County  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2006*

**NOTE 1 -- DESCRIPTION OF THE ENTITY**

Lorain Public Library, Lorain County, (the Library) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of Ohio. The Library is directed by a seven-member Board of Trustees appointed by the Lorain City School District Board of Education. The Library provides the community with various educational and literary resources.

The Library's service district encompasses the Lorain City School District, the North Ridgeville City School District, the Sheffield-Sheffield Lake City School District, the Avon Local School District, the Clearview Local School District, the Columbia Local School District, and the portions of the Firelands Local School District located in the Townships of Henrietta and Camden.

The Library provides a base level of service to each of the school districts in its large and non-contiguous service area. Some of the communities located in the service area have chosen to levy additional taxes pursuant to Section 5705.19, Revised Code, in order to receive enhanced service for their residents, including the Lorain City School District, the City of Avon, the City of North Ridgeville, the City of Sheffield Lake and Columbia Township. Pursuant to Section 3375.42, Revised Code, the Library has entered into an agreement with the Cities of Avon, North Ridgeville, and Sheffield Lake and Columbia Township whereby it has agreed to use the proceeds of each additional tax levy only to operate the branch facility located in the community that has levied the respective tax. Pursuant to these agreements, the Library has also agreed not to reduce or otherwise alter its base level of funding for any local branch facility that receives additional funding from a local tax levy.

The Library is financially independent of the Lorain City School District, the City of Sheffield Lake, the City of Avon, the City of North Ridgeville and Columbia Township, although these political subdivisions serve in a ministerial capacity as the taxing authorities for the Library. The determination to request approval of a tax levy, the role and purpose(s) of the levy, are discretionary decisions made solely by the Board of Library Trustees. Once those decisions are made, the political subdivisions must put the levy on the ballot. There is no potential for the Library to provide a financial benefit to or impose a burden on those political subdivisions.

Component units are legally separate organizations for which the Library is financially accountable. The Library is financially accountable for an organization if the Library appoints a voting majority of the organization's governing board and (1) the Library is able to significantly influence the programs or services performed or provided by the organization; or (2) the Library is legally entitled to or can otherwise access the organization's resources; the Library is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Library is obligated for the debt of the organization. The Library is also financially accountable for any organizations for which the Library approves the budget, the issuance of debt or the levying of taxes. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the Library, are accessible to the Library and are significant in amount to the Library. The Library has no component units.

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

**NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

As discussed further in Note 2.C, the financial statements of the Library have been prepared on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting

**Lorain Public Library System**  
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*For the Year Ended December 31, 2006*

**NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. In the government-wide financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The most significant of the Library's accounting policies are described below.

**A. Basis of Presentation**

The Library's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the Library as a whole. These statements include the financial activities of the Library.

The statement of net assets presents the cash and investment balances of the governmental activities of the Library at year end. The statement of activities compares disbursements with program receipts for each of the Library's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the Library is responsible. Program receipts include charges paid by the recipient of the program's goods or services, grants and contributions restricted to meeting the operational or capital requirements of a particular program, and receipts of interest earned on grants that are required to be used to support a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function or activity is self-financing on a modified cash basis or draws from the Library's general receipts.

Fund Financial Statements

During the year, the Library segregates transactions related to certain Library functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Library at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

**B. Fund Accounting**

The Library uses funds to maintain its financial records during the calendar year. A fund is a fiscal and accounting entity with a self-balancing set of accounts. The Library's funds are classified as governmental.

**Lorain Public Library System**  
Lorain County  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2006*

**NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Governmental Funds** Governmental funds are financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions. Monies are assigned to the various governmental funds according to the purposes for which they may or must be used. The following are the Library's major governmental funds:

**General Fund** The general fund accounts for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the Library for any purpose provided it is expended or transferred according to the general laws of Ohio.

**Building & Repair Fund** The building and repair fund accounts for monies set aside by the Board of Library Trustees specifically for major capital and technology improvements.

The other governmental funds of the Library account for grants and other resources whose use is restricted to a particular purpose.

**C. Basis of Accounting**

The Library's financial statements are prepared using the modified cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the Library's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the Library are described in the appropriate section in this note.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued liabilities and the related expenses) are not recorded in these financial statements.

**D. Budgetary Process**

All funds are legally required to be appropriated. The appropriations resolution is the Trustee's authorization to spend resources and sets limits on cash disbursements plus encumbrances at the level of control selected by the Trustees. The legal level of control has been established at the fund level for all funds. Budgetary modifications at the legal level of control may only be made by resolution of the Board of Library Trustees.

For control purposes, the Library estimates cash receipts for the year. These estimated receipts, together with the unencumbered carry-over balances from the prior year, set a limit on the amount the Trustees may appropriate. The estimated receipts may be revised during the year if projected increases or decreases in receipts are identified by the Clerk Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts of estimated resources at the time final appropriations were enacted by the Trustees.

The appropriations resolution is subject to amendment throughout the year with the restriction that appropriations should not exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation ordinance for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Trustees during the year.

**Lorain Public Library System**  
Lorain County  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2006*

**NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Cash and Cash Equivalents**

The Library records identify the purchase of specific investments by specific funds.

To improve cash management, cash received by the Library is pooled and invested. Individual fund integrity is maintained through the Library's records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts, respectively.

During 2006, investments were limited to money market funds, STAR Ohio and nonnegotiable certificates of deposit. Except for the money market fund and STAR Ohio these investments are recorded at cost.

The Library's money market fund investments are recorded at amounts reported by Lorain National Bank, Charter One Bank and Buckeye Community Bank on December 31, 2006.

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2006.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest receipt credited to the general fund during 2006 amounted to \$185,953.

**F. Restricted Assets**

Cash, cash equivalents, and investments are reported as restricted when limitations on their use change the nature or normal understanding of their use. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets represent \$617,767 of the Library's funds at December 31, 2006 which have had restrictions imposed by contributors or grantors.

**G. Inventory and Prepaid Items**

The Library reports disbursements for inventories and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

**H. Capital Assets**

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.



**Lorain Public Library System**  
Lorain County  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2006*

**NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**I. Accumulated Leave**

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Library's modified cash basis of accounting.

**J. Employer Contributions to Cost-Sharing Pension Plans**

The Library recognizes the disbursement for their employer contributions to cost-sharing pension plans when they are paid. As described in Notes 7 and 8, the employer contributions include portions for pension benefits and for postretirement health care benefits.

**K. Long-Term Obligations**

The Library's modified cash basis financial statements do not report liabilities for long-term obligations. Proceeds of debt are reported when the cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither an other financing source nor a capital outlay expenditure are reported at inception. Lease payments are reported when paid.

**L. Net Assets**

Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for special programs, special collections and building improvements.

The Library's policy is to first consider restricted resources when an obligation is considered for purposes for which both restricted and unrestricted net assets are available.

**M. Fund Balance Reserves**

The Library reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances.

**N. Interfund Transactions**

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular disbursements to the funds that initially paid for them are not presented in the financial statements.

**Lorain Public Library System**  
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*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2006*

**NOTE 3 – BUDGETARY BASIS OF ACCOUNTING**

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the General Fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the modified cash basis is outstanding year end encumbrances are treated as disbursements (budgetary basis) rather than as a reservation of fund balance (modified cash basis), and outstanding year end advances are treated as an other financing source or use (budgetary basis) rather than as an interfund receivable or payable (modified cash basis). The encumbrances outstanding at year end (budgetary basis) amounted to \$469,964 for the General Fund. There were not any outstanding advances in the General Fund at year end.

**NOTE 4 – DEPOSITS AND INVESTMENTS**

Monies held by the Library are classified by State statute into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the Library treasury. Active monies must be maintained either as cash in the Library treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Trustees have identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts.

Interim monies held by the Library can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;

**Lorain Public Library System**  
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*Notes to the Basic Financial Statements*  
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**NOTE 4 – DEPOSITS AND INVESTMENTS (Continued)**

4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio).

Protection of the Library's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by collateral pledged to the Library by the financial institution, or by a collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Investments in stripped principal or interest obligations reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Library, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

**Deposits**

Custodial credit risk for deposits is the risk that in the event of bank failure, the Library will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end 2006, the carrying amount of the Library's deposits was \$2,661,590 and the bank balance was \$2,811,105. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the investment of money had been followed, noncompliance with Federal requirements could potentially subject the Library to a successful claim by the FDIC.

The Library has no deposit policy for custodial risk beyond the requirements of State statute contained in ORC section 135.

Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Library or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

**Lorain Public Library System**  
Lorain County  
*Notes to the Basic Financial Statements*  
For the Year Ended December 31, 2006

**NOTE 4 – DEPOSITS AND INVESTMENTS (Continued)**

**Investments**

As of December 31, 2006 the Library had the following investments:

	<u>Carrying Value</u>	<u>Maturity</u>
December 31, 2006		
STAR Ohio	\$5,385,072	Less Than One Year

The Library investment policy does not deal with investment credit risk beyond the requirements in State statute contained in ORC section 135. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service and that the money market fund be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service. STAR Ohio carries a rating of AAAM by Standard and Poor's.

Interest rate risk arises because the fair value of investment changes as interest rates change. The Library's investment policy addresses interest rate risk by requiring that the Library's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments, thereby avoiding that need to sell securities on the open market prior to maturity, and by investing operating funds primarily in short-term investments.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Library will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Library has no investment policy dealing with investment custodial risk beyond the requirements in ORC 135.14(M)(2) which states, "Payment for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from the custodian by the treasurer, governing board, or qualified trustee."

**NOTE 5 – GRANTS-IN-AID AND PROPERTY TAXES**

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 of any additional revenues the Library receives.

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the Library's Districts. Real property tax receipts received in 2006 represent the collection of 2005 taxes. Real property taxes received in 2006 were levied after October 1, 2005, on the assessed values as of January 1, 2005, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax receipts received in 2006 represent the collection of 2005 taxes. Public utility real and tangible personal property taxes received in 2006 became a lien on December 31, 2005, were levied after October 1, 2005 and are collected with real property taxes. Public utility real

**Lorain Public Library System**  
 Lorain County  
*Notes to the Basic Financial Statements*  
 For the Year Ended December 31, 2006

**NOTE 5 – GRANTS-IN-AID AND PROPERTY TAXES (Continued)**

property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax receipts received in 2006 (other than public utility property) represent the collection of 2006 taxes. Tangible personal property taxes received in 2006 were levied after October 1, 2005, on the true value as of December 31, 2005. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The full tax rate for all Library operations for the years ended December 31, 2006 was \$1.60 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2006 property tax receipts were based is as follows:

Real Property	
Residential/Agricultural	\$1,764,731,440
Other	343,354,850
Public Utility Property	49,362,860
Mobile Home	950,740
Tangible Personal Property	<u>106,261,258</u>
Total	<u>\$2,264,661,148</u>

**NOTE 6 -- RISK MANAGEMENT**

The Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2006, the Library contracted with several companies for various types of insurance coverage as follows:

<u>Company</u>	<u>Type of Coverage</u>	<u>Amount of Coverage</u>
Utica Insurance	Commercial Property	\$22,034,955
	General Liability	\$1,000,000/\$3,000,000
	Employee Dishonesty	\$100,000
	Inland Marine	\$16,703,112
	Vehicle	\$1,000,000
	Errors and Omissions	\$1,000,000/\$3,000,000
	Library Officials	\$1,000,000/\$3,000,000

Settled claims have not exceeded coverage in any of the last three years and there was no significant reduction in coverage from the prior year.

The Library pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs. The System administers and pays all claims.

**Lorain Public Library System**  
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*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2006*

**NOTE 7 – DEFINED BENEFIT PENSION PLAN**

The Library participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6701 or (800) 222-7377.

For the year ended December 31, 2006, the members of all three plans participating were required to contribute 9.00 percent of their annual covered salaries. The Library's contribution rate for pension benefits for 2006 was 13.70 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

The Library's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2006, 2005, and 2004 were \$492,019, \$446,774, and \$488,401 respectively. The full amount has been contributed for 2006, 2005, and 2004. There were no contributions to the member-directed plan for 2006.

**NOTE 8 - POSTEMPLOYMENT BENEFITS**

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2006 local government employer contribution rate was 13.70 percent of covered payroll; 4.50 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.30 percent based on additional annual pay increases. Health care premiums were assumed to increase between .50 and 6.00 percent annually for the next nine years and 4.00 percent annually after the nine years.

**Lorain Public Library System**  
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*Notes to the Basic Financial Statements*  
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**NOTE 8 - POSTEMPLOYMENT BENEFITS (Continued)**

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans as of December 31, 2006 was 369,214. Actual employer contributions for 2006 which were used to fund post-employment benefits was \$161,612. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2005, (the latest information available) were \$11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs.

**NOTE 9 – NOTES PAYABLE**

The Library issued a General Obligation Note for new construction and improvement projects in 2002. The Library pledged its LLGSF receipts as collateral. The original issue amount was \$4,000,000, with a net interest rate of 3.07%.

Debt outstanding at December 31, 2006 was as follows:

	Principal Outstanding 12/31/2005	Additions	Reductions	Outstanding Balance 12/31/2006
<b>Governmental Activities</b>				
General Obligation Note:				
Construction & Improvements	\$2,515,000	\$0	\$385,000	\$2,130,000

Principal and interest requirements to retire the general obligation note outstanding at December 31, 2006, is as follows:

**SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY**

Year	Principal	Interest	Total
2007	\$ 395,000	\$ 81,115	\$ 476,115
2008	410,000	67,685	477,685
2009	425,000	52,823	477,823
2010	440,000	36,460	476,460
2011	460,000	18,860	478,860
<b>TOTAL</b>	<b>\$ 2,130,000</b>	<b>\$ 256,943</b>	<b>\$ 2,386,943</b>

**Lorain Public Library System**  
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**NOTE 10 – INTERFUND TRANSFERS**

The general fund transferred \$585,988 to the Building and Repair Fund for the purchase and renovation of buildings throughout the Library system, and \$478,050 to the Debt Service Fund to cover the cost of debt servicing.

**NOTE 11 – RELATED ORGANIZATIONS**

The Library does not have any related organizations for which it is accountable.

The Library has the following affiliate organizations for which it is not accountable:

Friends of the Avon Library  
Friends of the Columbia Library, Inc.  
Friends of the Domonkas Library  
Friends of the Lorain Public Library, Inc.  
Friends of the North Ridgeville Branch Library, Inc.

**NOTE 12—SUBSEQUENT EVENTS**

The Board of Lorain County Commissioners filed a declaratory judgment action to settle the question of the validity of tax abatements granted by the City of Lorain under community reinvestment programs authorized by the Ohio State Legislature. Mark R. Stewart, Lorain County Auditor has rejected two-hundred and thirty (230) applications for abatements; seventy-seven (77) of those applicants reside in the Lorain County School District. The Library would lose tax revenue as a result of the proposed abatement.





# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Lorain Public Library System  
Lorain County  
351 Sixth Street  
Lorain, Ohio 44052

To the Board of Trustees:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lorain Public Library System, Lorain County, Ohio (the Library) as of and for the year ended December 31, 2006, which collectively comprise the Library's basic financial statements and have issued our report thereon dated September 26, 2007. 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*.

### Internal Control 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 audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the Library's internal control over financial reporting. Accordingly, we have not opined 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 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 its applicable accounting basis, such that there is more than a remote likelihood that the Library's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Library's internal control will not prevent or detect a material financial statement misstatement.

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 internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

We noted certain matters that we reported to the Library's management in a separate letter dated September 26, 2007.

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### **Compliance and Other Matters**

As part of reasonably assuring whether the Library's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note a certain noncompliance or other matter that we reported to the Library's management in a separate letter dated September 26, 2007.

We intend this report solely for the information and use of the audit committee, management, the Board of Trustees. We intend it for no one other than these specified parties.

A handwritten signature in cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

September 26, 2007



**Mary Taylor, CPA**  
Auditor of State

**LORAIN PUBLIC LIBRARY SYSTEM**

**LORAIN 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 16, 2007**