



**LIBRARY ASSOCIATION OF SANDUSKY  
ERIE COUNTY**

**REGULAR AUDIT**

**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**



**Auditor of State  
Betty Montgomery**



**LIBRARY ASSOCIATION OF SANDUSKY  
ERIE COUNTY**

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Library Association of Sandusky  
Erie County  
114 West Adams Street  
Sandusky, OH 44870-2791

To the Board of Directors:

We have audited the accompanying statements of assets and net assets – modified cash basis of Library Association of Sandusky, Erie County, Ohio, (the Library) as of and for the years ended December 31, 2005 and 2004, and the related statements of support and revenue, expenses and changes in net assets – modified cash basis and the statement of cash flows – modified cash basis, for the years then ended. 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 assets and net assets – modified cash basis of Library Association of Sandusky, Erie County, Ohio, as of December 31, 2005 and 2004, and its support and revenue, expenses and changes in net assets – modified cash basis, and changes in cash flows – modified cash basis for the years then ended in conformity with the basis of accounting described in Note 1.

For the year ended December 31, 2004, the Library revised its financial presentation comparable to the requirements of Financial Accounting Standards Board Statement No. 117, *Financial Statements of Not-for-Profit Organizations*.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2006, 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.

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

**Betty Montgomery**  
Auditor of State

November 14, 2006

**Library Association of Sandusky  
Erie County**

*Statement of Assets and Net Assets - Modified Cash Basis  
As of December 31, 2005 and 2004*

	<u>2005</u>	<u>2004</u>
<b>Current Assets</b>		
Cash and Cash Equivalents	\$1,413,040	\$1,681,465
Investments	77,887	78,779
Cash and Cash Equivalents	<u>\$1,490,927</u>	<u>\$1,760,244</u>
<b>Net Assets</b>		
Permanently Restricted	944,631	1,089,467
Unrestricted	<u>546,296</u>	<u>670,777</u>
<b>Total Net Assets</b>	<u>\$1,490,927</u>	<u>\$1,760,244</u>

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

**Library Association of Sandusky  
Erie County**

*Statement of Support and Revenue, Expenses and Changes in Net Assets - Modified Cash Basis  
For the Years Ended December 31, 2005 and 2004  
Unrestricted*

	<b>2005</b>	<b>2004</b>
<b>Support and Revenue</b>		
Library and Local Government Support	\$1,840,682	\$1,830,635
Property and Other Local Taxes	599,046	597,795
Intergovernmental	104,831	50,375
Patrons Fines and Fees	82,851	61,566
Services Provided to Other Entities	1,000	1,000
Contributions, Gifts and Donations	157,585	128,889
Earnings on Investments	91,472	73,794
Miscellaneous	27,530	26,554
 Total Support and Revenue	 2,904,997	 2,770,608
 <b>Expenses</b>		
Public Library Services and Programs		
Administration and General		
Salaries and Benefits	1,856,449	1,758,700
Purchased and Contractual Services	789,675	675,028
Library Materials and Information	273,854	367,381
Supplies	53,376	57,948
Other	17,364	17,441
Capital Outlay	183,596	218,433
 Total Expenses	 3,174,314	 3,094,931
 Change in Net Assets	 (269,317)	 (324,323)
 Net Assets, Beginning of Year	 1,760,244	 2,084,567
 Net Assets, End of Year	 \$1,490,927	 \$1,760,244

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



**Library Association of Sandusky  
Erie County**

*Statement of Cash Flows - Modified Cash Basis  
For The Years Ended December 31, 2005 and 2004*

	<u>2005</u>	<u>2004</u>
<b>Cash Flows From Operating Activities</b>		
Decrease in Net Assets and Cash and Cash Equivalents	(\$269,317)	(\$324,323)
<b>Cash Flows From Investing Activities</b>	<u>892</u>	<u>(15,301)</u>
Net Decrease in Cash and Cash Equivalents	(268,425)	(339,624)
Cash and Cash Equivalents as of Beginning of Year	<u>1,681,465</u>	<u>2,021,089</u>
Cash and Cash Equivalents as of End of Year	<u><u>\$1,413,040</u></u>	<u><u>\$1,681,465</u></u>

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

**LIBRARY ASSOCIATION OF SANDUSKY  
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

**NOTE 1 – DESCRIPTION OF THE LIBRARY AND REPORTING ENTITY**

The Library Association of Sandusky, Erie County, (the Library) opened in 1895 and was organized as an association library at that time under the laws of the State of Ohio. The Library is directed by a ten-member Board of Directors self-appointed. Appointments are for five-year terms and members serve without compensation. Under Ohio statutes, the Library is a corporation capable of suing and being sued, contracting, acquiring, holding, possessing, and disposing of real property, and of exercising such other powers and privileges conferred upon it by law. The Library also determines and operates under its own budget. The Library was organized under section 1713.28 of the Ohio Revised Code and is governed by the Library's Code of Regulations. The Library is a not-for-profit organization exempt from income tax under Section 501 of the U.S. Internal Revenue Code. The administration of the day-to-day operations of the Library is the responsibility of the Director and financial accountability being solely that of the Clerk-Treasurer.

The Library is independent of any other library hierarchy, but has been a member of Clevnet since 1986 (Cleveland Public Library's automated circulation system and online catalog). As an association library, the Library Association of Sandusky has no independent taxing authority. State law would allow the designation of a taxing authority, but our service area is spread out over four communities (the City of Sandusky, Perkins Township, the Village of Castalia, and the Village of Kelleys Island) and four schools districts (Sandusky, Perkins, Margareta, and Kelleys Island).

A jointly governed organization is a regional government or other multi-governmental arrangement that is governed by representatives from each of the governments that create the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility. The Library participates in no jointly governed organizations and one public entity risk pool. Note 10 to the financial statements provides additional information for this entity. This organization is:

Public Entity Risk Pool:

*Ohio Library Council Workers Compensation Group Rating Program – Group # 05-2001*

The Sandusky Library and Follett House Museum Foundation is also associated with the Library. The Foundation is a separate non-profit corporation to serve for the benefit and services of the Library. The Foundation is managed by a board of directors consisting of nine members, four of whom serve as community members and four of whom are Library Board members and are appointed for limited terms. The Library is not financially accountable for the organization, nor does the Library approve the budget of the organization. Therefore, this organization has been excluded from the reporting entity of the Library.

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**

**A. Basis of Accounting**

The Library's financial statements are prepared using the modified cash basis of accounting; consequently, certain revenues are recognized when received rather than when earned and certain expenses and purchases are recognized when cash is disbursed rather than when the obligation is incurred.

**LIBRARY ASSOCIATION OF SANDUSKY  
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004  
(Continued)**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)**

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 expenses and liabilities) are not recorded in these financial statements.

**B. Cash and Cash Equivalents**

Cash received by the Library is pooled and invested. Individual fund integrity is maintained through the Library's records. The Library's financial institution has completed a depository agreement with assets pledged as collateral.

During 2005 and 2004, investments were limited to U.S. Savings Bonds, STAR Ohio, nonnegotiable certificates of deposit and stock donated to the Library. Except for the donated stock and STAR Ohio these investments are recorded at cost. Stock is recorded at the value at the time of acquisition.

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, 2005.

The carrying amount of Library's deposits was \$438,303 and \$711,377 at December 31, 2005 and 2004, respectively.

The Library's investments at December 31, 2005 and 2004 were:

	2005	2004
STAR Ohio	974,737	970,088
US Treasury Bonds		1,000
Donated Common Stock	77,887	77,779
Total investments	\$1,052,624	\$1,048,867

**C. Net Assets**

The financial statement presentation follows the requirements of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, Library is required to report information regarding its financial position and activities according to three classes of net assets. A description of the three net asset categories follows:

- Unrestricted net assets have no donor-imposed restrictions.
- Temporarily restricted net assets have donor-imposed restrictions that will expire in the future. There were no temporarily restricted net assets at December 31, 2005 and 2004.
- Permanently restricted net assets have donor-imposed restrictions which do not expire. Permanently restricted net assets at December 31, 2005 and 2004 were for purchase of library materials and capital projects.

**LIBRARY ASSOCIATION OF SANDUSKY  
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004  
(Continued)**

**NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES**

For fiscal years 2005 and 2004, the Library has implemented FASB No. 117, "*Financial Statements of Not-for-Profit Organizations*."

Last year the Library reported fund financial statements by fund type using the regulatory basis of accounting as prescribed by the State Auditor's Office. This year the Library has implemented the modified cash basis of accounting described in Note 2. The Statement of Support, Revenues and Expenses presents its financial position and activities according to three classes of net assets described in Note 2.

**NOTE 4 - PROPERTY TAXES**

The State Library of Ohio defines the service area of public libraries in terms of school districts. For the Library this service area covers the Sandusky City School District, Perkins Local Schools, Margaretta Local School District, and Kelleys Island Local School District. All the school districts except Margaretta currently have voted levies to fund the Library.

The County Treasurer collects property tax on behalf of all taxing districts within the county, including those school districts with Library levies. The County Auditor periodically remits to taxing authorities their portion of taxes collected. The service area school districts forward any levy proceeds collected and remitted to them to the Library.

**NOTE 5 - LIBRARY AND LOCAL GOVERNMENT SUPPORT**

The primary source of revenue for Ohio public libraries is the Library and Local Government Support Fund (LLGSF). The LLGSF was enacted by the State of Ohio seeking to incorporate the intangible tax into the State's personal income tax. Currently the LLGSF is funded with 5.7% of the receipts of personal income tax and is distributed to each county monthly through an equalization formula. The Erie County Budget Commission allocated these funds to the Library based on formula which incorporated square footage, full-time equivalent employees, general fund expenditures for library materials, number of cardholders and circulation. The Budget Commission cannot reduce its allocation of these funds to the Library based on any additional revenues the Library receives.

**LIBRARY ASSOCIATION OF SANDUSKY  
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004  
(Continued)**

**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 2005, the Library contracted with several companies for various types of insurance coverage as follows:

<u>Company</u>	<u>Type of Coverage</u>	<u>Coverage</u>
Westfield Insurance Co.	Commercial	\$14,850,400
	Property	
	General Liability	12,000,000
	Commercial Crime	60,000
	Inland Marine	3,231,407
	Vehicle Liability	1,000,000
	Employee Benefits	1,000,000
	Employer Liability	1,000,000
	Boiler & Machinery	5,991,598
	Law and Ordinance	250,000
Utica National Insurance Group	Errors and Omissions	5,000,000
	Public Official Bond	25,000

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.

**NOTE 7 - DEFINED BENEFIT PENSION PLAN**

Ohio Public Employees Retirement System

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) 222-6705 or (800) 222-7377.

For the year ended December 31, 2005, the members of all three plans were required to contribute 8.5 percent of their annual covered salaries. The Library's contribution rate for pension benefits for 2005 was 9.55 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

**LIBRARY ASSOCIATION OF SANDUSKY  
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004  
(Continued)**

**NOTE 7 - DEFINED BENEFIT PENSION PLAN – (CONTINUED)**

The Library's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2005, 2004, and 2003, were \$199,341, \$192,445, and \$215,179 respectively; the full amount has been contributed for 2005, 2004, and 2003.

**NOTE 8 - POSTEMPLOYMENT BENEFITS**

**A. Ohio Public Employees Retirement System**

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 2005 local government employer contribution rate was 13.55 percent of covered payroll; 4.00 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 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase between 1.00 to 6.00 percent annually for the next eight years and 4.00 percent annually after eight years.

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 was 376,109. Actual employer contributions for 2005 which were used to fund postemployment benefits were \$59,802. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2004, (the latest information available) were \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 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.

**LIBRARY ASSOCIATION OF SANDUSKY  
ERIE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004  
(Continued)**

**NOTE 9 – LEASES**

The Library leases copiers, telephones, and postage equipment under noncancelable leases. The Library disbursed \$32,471 to pay lease costs for the year ended December 31, 2005. The minimum future lease payments remaining on these leases are as follows:

Year	Amount
2006	\$19,802
2007	10,378
2008	7,770
2009	6,475
Total	<u>\$44,425</u>

**NOTE 10 – INSURANCE POOL**

The Library belongs to the Ohio Library Council Workers Compensation Group Rating Program, Group # 05-2001. The group includes other library members and its purpose is to obtain favorable premium ratings for the members in the group. 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 of the group. The Workers Compensation System administers and pays all claims.

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**Auditor of State  
Betty Montgomery**

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

Library Association of Sandusky  
Erie County  
114 West Adams Street  
Sandusky, OH 44870-2791

To the Board of Directors:

We have audited the statements of assets and net assets – modified cash basis of Library Association of Sandusky, Erie County, Ohio, (the Library) as of December 31, 2005 and 2004, and have issued our report thereon dated November 14, 2006, wherein we noted the Library revised its financial presentation comparable to the requirements of Financial Accounting Standards Board Statement No. 117. 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 to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Library's management dated November 14, 2006, we reported a matter involving internal control over financial reporting we did not deem a reportable condition.

**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*.

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Library Association of Sandusky  
Erie County  
Independent Accountants' Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Required by *Government Auditing Standards*  
Page 2

We intend this report solely for the information and use of the Audit Committee, management, and the Board of Directors. It is not intended for anyone other than these specified parties.

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

**Betty Montgomery**  
Auditor of State

November 14, 2006



**Auditor of State  
Betty Montgomery**

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**LIBRARY ASSOCIATION OF SANDUSKY**

**ERIE 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  
DECEMBER 19, 2006**