



Dave Yost • Auditor of State

**SHELBY COUNTY LIBRARIES
SHELBY COUNTY
DECEMBER 31, 2016 AND 2015**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Shelby County Libraries
230 East North Street
Sidney, Ohio 45365

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements of the cash balances, receipts and disbursements by fund type, and related notes of the Shelby County Libraries, Shelby County, Ohio (the Library) as of and for the years ended December 31, 2016 and 2015.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Library's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Library's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 2 of the financial statements, the Library prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D), which is an accounting basis other than accounting principles generally accepted in the United States of America (GAAP), to satisfy these requirements.

Although the effects on the financial statements of the variances between the regulatory accounting basis and GAAP are not reasonably determinable, we presume they are material.

Though the Library does not intend these statements to conform to GAAP, auditing standards generally accepted in the United States of America require us to include an adverse opinion on GAAP. However, the adverse opinion does not imply the amounts reported are materially misstated under the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. Our opinion on this accounting basis is in the *Opinion on Regulatory Basis of Accounting* paragraph below.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Library as of December 31, 2016 and 2015, and the respective changes in financial position thereof for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash balances, receipts and disbursements by fund type, and related notes of the Shelby County Libraries, Shelby County as of December 31, 2016 and 2015, for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 2.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 9, 2018, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Library's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

April 9, 2018

Shelby County Libraries
Shelby County
Combined Statement of Receipts, Disbursements
and Changes in Fund Balances (Cash Basis)
All Governmental Fund Types
For the Year Ended December 31, 2016

	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
Cash Receipts				
Public Library	\$1,480,973			\$1,480,973
Patron Fines and Fees	18,523			18,523
Contributions, Gifts and Donations	23,818		\$1,094,072	1,117,890
Earnings on Investments	5,448			5,448
Miscellaneous	53,488			53,488
<i>Total Cash Receipts</i>	<u>1,582,250</u>	<u>0</u>	<u>1,094,072</u>	<u>2,676,322</u>
Cash Disbursements				
Current:				
Library Services:				
Public Services and Programs	249,433	\$576		250,009
Support Services:				
Facilities Operation and Maintenance	111,419			111,419
Information Services	44,627			44,627
Business Administration	1,050,287		76,983	1,127,270
Other Disbursements	85,261			85,261
Capital Outlay	11,395		3,212,676	3,224,071
<i>Total Cash Disbursements</i>	<u>1,552,422</u>	<u>576</u>	<u>3,289,659</u>	<u>4,842,657</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>29,828</u>	<u>(576)</u>	<u>(2,195,587)</u>	<u>(2,166,335)</u>
Other Financing Receipts (Disbursements)				
Transfers In			1,870,627	1,870,627
Transfers Out	(1,000,000)	(870,627)		(1,870,627)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(1,000,000)</u>	<u>(870,627)</u>	<u>1,870,627</u>	<u>0</u>
<i>Net Change in Fund Cash Balances</i>	<u>(970,172)</u>	<u>(871,203)</u>	<u>(324,960)</u>	<u>(2,166,335)</u>
<i>Fund Cash Balances, January 1</i>	<u>2,121,992</u>	<u>969,074</u>	<u>327,670</u>	<u>3,418,736</u>
Fund Cash Balances, December 31				
Committed			2,710	2,710
Restricted		97,871		97,871
Assigned	16,007			16,007
Unassigned (Deficit)	1,135,813			1,135,813
<i>Fund Cash Balances, December 31</i>	<u>\$1,151,820</u>	<u>\$97,871</u>	<u>\$2,710</u>	<u>\$1,252,401</u>

See accompanying notes to the financial statements

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Shelby County Libraries
Shelby County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 1 - Reporting Entity

The Shelby County Libraries (the Library), Shelby County, is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Sidney City School Board appoints a 7-member Board of Trustees to govern the Library. The Library provides the community with various educational and literary resources.

Public Entity Risk Pool

The Library participates in a public entity risk pool. Note 6 to the financial statements provides additional information for this entity. 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

Basis of Presentation

The Library's financial statements consist of a combined statement of receipts, disbursements and changes in fund balances (cash basis) for all governmental fund types.

Fund Accounting

The Library uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the Library are presented below:

General Fund The general fund accounts for and reports all financial resources not accounted for and reported 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.

Special Revenue Funds These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Library had the following significant special revenue fund:

Amos Memorial Fund – This fund is used to account for monies from donations from the Amos family which are to be used for future technology or improvements for the Amos Memorial Library. The balance of the fund was transferred during the year to the capital projects fund to be used for building construction costs.

Capital Project Funds These funds account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The Library had the following significant capital project fund:

Technology Fund – This fund receives monies from the transfer of funds from the general fund and special revenue funds and donations from citizens and businesses in the surrounding area to be used for the purchase of automated equipment and programs for the Library, as well as building construction costs.

Shelby County Libraries
Shelby County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Basis of Accounting

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D). This basis is similar to the cash receipts and disbursements accounting basis. The Board recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D) permit.

Budgetary Process

The Board must annually approve appropriation measures and subsequent amendments. Unencumbered appropriations lapse at year end. Budgetary expenditures [that is, disbursements and encumbrances] may not exceed appropriations at the fund, department, and object level of control.

A summary of 2016 budgetary activity appears in Note 3.

Deposits and Investments

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

Money market mutual funds (including STAR Ohio) are recorded at share values the mutual funds report.

Capital Assets

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

Accumulated Leave

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

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Library must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

Nonspendable The Library classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

Shelby County Libraries
Shelby County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Restricted Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

Committed The Board of Trustees can *commit* amounts via formal action (resolution). The Library must adhere to these commitments unless the Board amends the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

Assigned Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by the Library Board or a Library official delegated that authority by resolution, or by State Statute.

Unassigned Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Library applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Note 3 - Budgetary Activity

Budgetary activity for the year ending December 31, 2016 follows:

2016 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,542,775	\$1,582,250	\$39,475
Capital Projects	\$0	\$1,094,072	\$1,094,072
Total	\$1,542,775	\$2,676,322	\$1,133,547

2016 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,542,775	\$1,568,429	(\$25,654)
Special Revenue	0	576	(576)
Capital Projects	0	3,289,659	(3,289,659)
Total	\$1,542,775	\$4,858,664	(\$3,315,889)

Shelby County Libraries
Shelby County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 4 – Deposits and Investments

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

	2016
Demand deposits	\$235,299
Certificates of deposit	10,000
Total deposits	245,299
STAR Ohio	1,006,792
Total investments	1,006,792
Cash on hand	310
Total deposits and investments	\$1,252,401

Deposits

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

Investments

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

Note 5 – Grants in Aid

The primary source of revenue for Ohio public libraries is the Public Library Fund (PLF). The State allocates PLF to each county based on the total tax revenue credited to the State’s general revenue fund during the preceding month using the statutory allocation method. Estimated entitlement figures were issued to County Auditors. The actual current year entitlements were computed in December of the current year. The difference between the estimate and actual will be adjusted evenly in the PLF distributions made from January-June of the subsequent year.

Note 6 - Risk Management

Risk Pool Membership

The Library belongs to the Ohio Plan Risk Management, Inc. (OPRM) (the "Plan"), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to Ohio governments (“Members”). The Plan is legally separate from its member governments.

Pursuant to Section 2744.081 of the Ohio Revised Code, the plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages to its members sold through fourteen appointed independent agents in the State of Ohio.

Shelby County Libraries
Shelby County
Notes to the Financial Statements
For the Year Ended December 31, 2016

OPRM coverage programs are developed specific to each member’s risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member’s exposure to loss. Until November 1, 2016, the OPRM retained 47% of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Effective November 1, 2016, the OPRM retained 50% of the premium and losses on the first \$250,000 casualty treaty and 30% of the first \$1,000,000 property treaty. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 762 members as of December 31, 2016.

Plan members are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other financial obligation to the Plan, but still need to promptly notify the Plan of any potential claims occurring during their membership period. The former member’s covered claims, which occurred during their membership period, remain the responsibility of the Plan.

Settlement amounts did not exceed insurance coverage for the past three fiscal years.

The Pool’s audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and equity at December 31, 2016 and 2015.

	<u>2016</u>	<u>2015</u>
Assets	\$14,765,712	\$14,643,667
Liabilities	<u>(9,531,506)</u>	<u>(9,112,030)</u>
Members’ Equity	\$ 5,234,206	\$ 5,531,637

You can read the complete audited financial statements for OPRM at the Plan’s website, www.ohioplan.org.

Note 7 - Defined Benefit Pension Plans

Ohio Public Employees Retirement System

Library employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan’s benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 10%, of their gross salaries and the Library contributed an amount equaling 14%, of participants’ gross salaries. The Library has paid all contributions required through December 31, 2016.

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Shelby County Libraries
Shelby County
Combined Statement of Receipts, Disbursements
and Changes in Fund Balances (Cash Basis)
All Governmental Fund Types
For the Year Ended December 31, 2015

	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
Cash Receipts				
Public Library	\$1,493,491			\$1,493,491
Patron Fines and Fees	18,950			18,950
Contributions, Gifts and Donations	60,527			60,527
Earnings on Investments	1,800			1,800
Miscellaneous	9,475			9,475
<i>Total Cash Receipts</i>	<u>1,584,243</u>	0	0	<u>1,584,243</u>
Cash Disbursements				
Current:				
Library Services:				
Public Services and Programs	24,002	\$2,752		26,754
Collection Development and Processing	206,984			206,984
Support Services:				
Facilities Operation and Maintenance	304,296			304,296
Information Services	64,229			64,229
Business Administration	899,296			899,296
Capital Outlay	18,078		\$170,916	188,994
<i>Total Cash Disbursements</i>	<u>1,516,885</u>	<u>2,752</u>	<u>170,916</u>	<u>1,690,553</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	67,358	(2,752)	(170,916)	(106,310)
<i>Fund Cash Balances, January 1 - Restated</i>	<u>2,054,634</u>	<u>971,826</u>	<u>498,586</u>	<u>3,525,046</u>
Fund Cash Balances, December 31				
Committed			327,670	327,670
Restricted		969,074		969,074
Assigned	79,574			79,574
Unassigned (Deficit)	2,042,418			2,042,418
<i>Fund Cash Balances, December 31</i>	<u>\$2,121,992</u>	<u>\$969,074</u>	<u>\$327,670</u>	<u>\$3,418,736</u>

See accompanying notes to the financial statements

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Shelby County Libraries
Shelby County
Notes to the Financial Statements
For the Year Ended December 31, 2015

Note 1 - Reporting Entity

The Shelby County Libraries (the Library), Shelby County, is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Sidney City School Board appoints a 7-member Board of Trustees to govern the Library. The Library provides the community with various educational and literary resources.

Public Entity Risk Pool

The Library participates in a public entity risk pool. Note 6 to the financial statements provides additional information for this entity. 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

Basis of Presentation

The Library's financial statements consist of a combined statement of receipts, disbursements and changes in fund balances (cash basis) for all governmental fund types.

Fund Accounting

The Library uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the Library are presented below:

General Fund The general fund accounts for and reports all financial resources not accounted for and reported in another fund.

Special Revenue Funds - These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Library had the following significant Special Revenue Funds:

Amos Memorial Fund – This fund is used to account for monies from donations from the Amos family which are to be used to future technology or improvements for the Amos Memorial Library.

Capital Project Funds These funds account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The Library had the following significant capital project funds:

Technology Fund – This fund receives monies from the transfer of funds from the General Fund and donations from citizens and businesses in the surrounding area to be used for purchase of automated equipment and programs for the Library as well as other capital projects.

Shelby County Libraries
Shelby County
Notes to the Financial Statements
For the Year Ended December 31, 2015

Basis of Accounting

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D). This basis is similar to the cash receipts and disbursements accounting basis. The Board recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D) permit.

Budgetary Process

The Board must annually approve appropriation measures and subsequent amendments. Unencumbered appropriations lapse at year end. Budgetary expenditures [that is, disbursements and encumbrances] may not exceed appropriations at the fund, department, and object level of control.

A summary of 2015 budgetary activity appears in Note 3.

Deposits and Investments

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

Money market mutual funds (including STAR Ohio) are recorded at share values the mutual funds report.

Capital Assets

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

Accumulated Leave

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

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Library must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

Nonspendable The Library classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

Shelby County Libraries
Shelby County
Notes to the Financial Statements
For the Year Ended December 31, 2015

Restricted Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

Committed The Board of Trustees can *commit* amounts via formal action (resolution). The Library must adhere to these commitments unless the Board amends the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

Assigned Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by the Library Board or a Library official delegated that authority by resolution, or by State Statute.

Unassigned Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Library applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Note 3 - Budgetary Activity

Budgetary activity for the year ending December 31, 2015 follows:

2015 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,447,540	\$1,584,243	\$136,703
Total	\$1,447,540	\$1,584,243	\$136,703

2015 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,447,540	\$1,596,459	(\$148,919)
Special Revenue	\$0	\$2,752	(\$2,752)
Capital Projects	\$0	\$170,916	(\$170,916)
Total	\$1,447,540	\$1,770,127	(\$322,587)

Shelby County Libraries
Shelby County
Notes to the Financial Statements
For the Year Ended December 31, 2015

Note 4 – Deposits and Investments

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

	2015
Demand deposits	\$2,406,996
Certificates of deposit	10,000
Total deposits	2,416,996
STAR Ohio	1,001,430
Total investments	1,001,430
Cash on hand	310
Total deposits and investments	\$3,418,736

Deposits

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

Investments

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

Note 5 – Grants in Aid

The primary source of revenue for Ohio public libraries is the Public Library Fund (PLF). The State allocates PLF to each county based on the total tax revenue credited to the State’s general revenue fund during the preceding month using the statutory allocation method. Estimated entitlement figures were issued to County Auditors. The actual current year entitlements were computed in December of the current year. The difference between the estimate and actual will be adjusted evenly in the PLF distributions made from January-June of the subsequent year. .

Note 6 - Risk Management

Risk Pool Membership

The Library belongs to the Ohio Plan Risk Management, Inc. (OPRM) - formerly known as the Ohio Government Risk Management Plan, (the "Plan"), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to Ohio governments (“Members”). The Plan is legally separate from its member governments.

Pursuant to Section 2744.081 of the Ohio Revised Code, the plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages to its members sold through fourteen appointed independent agents in the State of Ohio.

Shelby County Libraries
Shelby County
Notes to the Financial Statements
For the Year Ended December 31, 2015

OPRM coverage programs are developed specific to each member’s risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member’s exposure to loss. Effective November 1, 2012 (and through October 2014) the plan increased its retention to 50% of the first \$250,000 casualty treaty. Effective November 1, 2014, the OPRM retained 47% of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 772 and 783 members as of December 31, 2015 and 2014 respectively.

Plan members are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other financial obligation to the Plan, but still need to promptly notify the Plan of any potential claims occurring during their membership period. The former member’s covered claims, which occurred during their membership period, remain the responsibility of the Plan.

Settlement amounts did not exceed insurance coverage for the past three fiscal years.

The Pool’s audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and equity at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Assets	\$14,643,667	\$14,830,185
Liabilities	<u>(9,112,030)</u>	<u>(8,942,504)</u>
Members’ Equity	<u>\$5,531,637</u>	<u>\$5,887,681</u>

You can read the complete audited financial statements for OPRM at the Plan’s website, www.ohioplan.org.

Note 7 - Defined Benefit Pension Plans

Ohio Public Employees Retirement System

Library employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan’s benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 10%, of their gross salaries and the Library contributed an amount equaling 14%, of participants’ gross salaries. The Library has paid all contributions required through December 31, 2015.

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Dave Yost • Auditor of State

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

Shelby County Libraries
230 East North Street
Sidney, Ohio 45365

To the Board of Trustees:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' Government Auditing Standards, the financial statements of the cash balances, receipts, and disbursements by fund type of the Shelby County Libraries, Shelby County, (the Library) as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements and have issued our report thereon dated April 9, 2018, wherein we noted the Library followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permit.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Library's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Library's internal control. Accordingly, we have not opined on it.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting, that we consider a material weakness and a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Library's financial statements. We consider finding 2016-001 described in the accompanying schedule of findings to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of internal control deficiencies less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2016-002 described in the accompanying schedule of findings to be a significant deficiency.

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, opining 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*.

Library's Response to Findings

The Library's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Library's responses and, accordingly, we express no opinion on them.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Library's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Library's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

April 9, 2018

SHELBY COUNTY LIBRARIES

**SCHEDULE OF FINDINGS
DECEMBER 31, 2016 AND 2015**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2016-001

Material Weakness – Fund Balance Classifications

In our audit engagement letter, as required by AU-C Section 210, *Terms of Engagement*, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16.

GASB Statement 54, paragraph 24 (GASB Codification 1800.184) states that encumbered amounts for specific purposes for which amounts have not been previously restricted, committed, or assigned should not be classified as unassigned but, rather, should be included within committed or assigned fund balance. The Library incorrectly included year-end encumbrances in the general fund as unassigned fund balance rather than assigned fund balance in the amount of \$16,007 at year-end 2016.

GASB Statement 54, paragraph 10 (GASB Codification 1800.170) states that amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority should be reported as committed fund balance. In a previous year, the Library Board of Trustees established a capital projects fund via resolution to account for resources to be used for permanent improvements. Given the establishment of the fund for a specific purpose, the fund balance should have been reported as committed fund balance in the capital projects fund; however, the fund balance was incorrectly classified as restricted fund balance in the amount of \$2,710 for 2016.

GASB Statement 54, paragraph 8 (GASB Codification 1800.168) states, in part, that fund balance should be reported as restricted when constraints placed on the use of resources are externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments. At year-end 2016, the Village's special revenue fund balance was composed entirely of restricted donations/trust agreements in the amount of \$97,871. However, the 2016 financial statements incorrectly reported the special revenue fund balance as unassigned fund balance. Additionally, GASB Statement 54, paragraph 30 (GASB Codification 1300.105) states, in part, special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Library's restricted trust donation for the Wical fund was incorrectly recorded to the general fund prior to the beginning of the audit period. The financial activity related to the fund was accounted for and reported incorrectly in the general fund for all of 2015 and a portion of 2016, at which time a separate special revenue fund was established and the unspent balance transferred to the newly established Wical fund. This led to the following financial statement errors:

- For 2015, general fund opening fund balance was overstated by \$43,659, public services and programs expenditures were overstated by \$2,752, and ending fund balance/cash was overstated by \$40,907. For 2016, general fund opening fund balance was overstated by \$40,907 and transfers out were overstated by \$40,907.
- For 2015, special revenue fund opening fund balance was understated by \$43,659, public services and programs expenditures were understated by \$2,752, and ending fund balance/cash was understated by \$40,907. For 2016, special revenue fund opening fund balance was understated by \$40,907 and transfers in were overstated by \$40,907.

The financial statements have been adjusted for all above errors.

**FINDING NUMBER 2016-001
(Continued)**

Failure to properly classify fund balances and activity could lead to misstated financial statements and misleading financial statement information.

The Library should perform a review of all Library funds and determine proper reporting of fund balances in accordance with GASB Statement 54 requirements and also review Auditor of State Bulletin 2011-004 for additional guidance.

Officials' Response: Shelby County Libraries management is aware of the items recorded in the 2015-2016 audit report and will work to correct the items for the next audit period.

FINDING NUMBER 2016-002

Significant Deficiency – Bank Reconciliations

Cash is the asset most susceptible to theft and misappropriation; therefore, appropriate controls over cash and the cash reconciliation process should be in place at the Library. Monthly reconciliations between the book balance and the bank accounts is a key control that provides a reasonable assurance that all receipts and disbursements have been accurately and completely recorded in the accounting records and processed by the financial institutions.

The following issues were identified with the cash control and reconciliation process:

- There was an unreconciled variance of \$719 between the Library's accounting system (including the financial statements) and the Library's bank accounts at December 31, 2016. The total cash in the Library's bank accounts was greater than total cash on the Library's accounting system.
- The Library re-issued a check to a vendor in the amount of \$601 during 2017. The original check was issued during 2016 and was marked in the Library's accounting system as cleared/paid. However, when the vendor contacted the Library regarding payment that was not received, the Library determined that the check did not clear the bank and should have not been marked cleared/paid in the accounting system. The check should have been shown on the outstanding check list at December 31, 2016.
- The Library's December 31, 2016 reconciliation carried a reconciling item of \$3,534 related to a duplicate payment made to the Internal Revenue Service (IRS) in January 2016. The payment was only entered into the accounting system once; therefore, when the refund was received from the IRS in November 2016, the receipt should not have been recorded into the accounting system. However, the Library recorded this receipt as miscellaneous revenue in the general fund. Therefore, general fund miscellaneous revenue and cash was overstated by \$3,534 on the 2016 financial statements.
- The Library's December 31, 2016 reconciliation included numerous unusual items, mostly in relatively small amounts.
- The Library's December 31, 2015 reconciliation did not include the Library's payroll bank account in the reconciled amount of \$12,138. Therefore, 2015 general fund expenditures were overstated by \$12,138 and general fund cash was understated by the same amount.
- Two different former fiscal officers were listed as an authorized signatory with two different banking institutions despite no longer being employed with the Library.
- There was no evidence that the Board reviewed and approved any bank reconciliations during 2016 and 2015.

FINDING NUMBER 2016-002
(Continued)

Failure to prepare a monthly bank reconciliation that properly reconciles and does not include unusual reconciling items and failure to implement adequate controls over cash and the cash reconciliation process could lead to errors and irregularities occurring and not being identified in a timely manner.

The Library should implement procedures related to cash controls and the cash reconciliation process. Bank reconciliations should be reviewed and approved for accuracy by the Board. This review and approval should be documented in the Board's minutes. Any unusual reconciling items should be investigated and corrected in a timely manner. All bank accounts should be included in the monthly bank reconciliation. Lastly, authorized signatories should be updated immediately upon separation of employment for any employee or official that was an authorized signatory.

Officials' Response: Shelby County Libraries management is aware of the items recorded in the 2015-2016 audit report and will work to correct the items for the next audit period.

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SHELBY COUNTY LIBRARIES

SHELBY 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
MAY 10, 2018**