



**Auditor of State  
Betty Montgomery**



HERRICK MEMORIAL LIBRARY  
LORAIN COUNTY

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**Auditor of State  
Betty Montgomery**

Herrick Memorial Library  
Lorain County  
101 Willard Memorial Square  
Wellington, Ohio 44090

To the Board of Trustees:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

A handwritten signature in black ink that reads "Betty Montgomery".

**Betty Montgomery**  
Auditor of State

June 22, 2006

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

Herrick Memorial Library  
Lorain County  
101 Willard Memorial Square  
Wellington, Ohio 44090

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 Herrick Memorial Library, Lorain County, Ohio, (the Library) as of and for the year ended December 31, 2005, which collectively comprise the Library's basic financial statements. For the year ending December 31, 2004, we audited the Library's regulatory accounting basis financial statements. These financial statements are the responsibility of the Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The Library processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Government because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinion.

As described more fully in Note 2, the Library has prepared these financial statements for fiscal year ended December 31, 2004, using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Revisions to GAAP would require the Library to reformat its financial statement presentation and make other changes effective for the year ended December 31, 2004. Instead of the combined funds the accompanying financial statements present for 2004, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2004. While the Library does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Library has elected not to reformat its statements for the year ended December 31, 2004. Since this Library does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the year ended December 31, 2004 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Library as of December 31, 2004 or its changes in financial position for the year then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of Herrick Memorial Library, Lorain County, Ohio as of December 31, 2004, and its combined cash receipts and disbursements for the year then ended on the regulatory accounting basis Note 2 describes.

The aforementioned revision to generally accepted accounting principles also requires the Library to include Management's Discussion and Analysis for the year ended December 31, 2004. The Library has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

For the year ended December 31, 2005, the Library revised its financial presentation comparable to the requirements of Governmental Accounting Standard Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. This is a comprehensive accounting basis other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements for the year ended December 31, 2005 referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Herrick Memorial Library, Lorain County, Ohio, as of December 31, 2005, and the respective changes in cash basis financial position and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with the accounting basis Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 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.



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 "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

June 22, 2006

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Herrick Memorial Library  
Management's Discussion and Analysis  
For the Year Ended December 31, 2005  
Unaudited

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This discussion and analysis of the Herrick Memorial Library's financial performance provides an overall review of the Library's financial activities for the year ended December 31, 2005, within the limitations of the Library's 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 2005 are as follows:

Net Assets of governmental activities increased \$40,412, or 7.9% from the prior year.

The Library's general receipts are primarily Library and Local Government Support Funds (LLGSF). These receipts represent 91 percent of the total cash received for Governmental activities during the year. LLGSF estimated receipts for 2005 were reduced in August by \$15,193. This reduction was due to the fact that LLGSF remained under a freeze.

In September, 2005, Appropriations were reduced by \$15,193 due to the loss of LLGSF. The book, periodical and audio budgets saw the most severe reductions.

Effective with calendar year 2005, the Library will be included in the Huron County allocation of LLGSF. This is due to a portion of the Library's service area falling within Huron County.

### **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 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 library-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

#### **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 cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the Library's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

Herrick Memorial Library  
Management's Discussion and Analysis  
For the Year Ended December 31, 2005  
Unaudited

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As a result of using the 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 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 2005, within the limitations of cash basis accounting. The statement of net assets presents the cash balances of the Governmental activities of the Library at year end. The statement of activities compares cash disbursements with program receipts for each Governmental program activity. Program receipts include charges paid by the recipient of the program's goods or services and grants 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 or business-type activity 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 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 nonfinancial 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 and income taxes.

In the statement of net assets and the statement of activities, the Library reports all services provided as Governmental Activities. LLGSF finance most of these activities.

**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. The funds of the Library are split into three categories: Governmental, proprietary and fiduciary.

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 nonmajor 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 Building and Repair Fund. The programs reported in Governmental funds are closely related to those reported in the Governmental activities section of the entity-wide statements.

Herrick Memorial Library  
Management's Discussion and Analysis  
For the Year Ended December 31, 2005  
Unaudited

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Proprietary Funds – When the Library charges customers for the services it provides, these services are generally reported in proprietary funds. When the services are provided to the general public, the activity is reported as an enterprise fund. The Library has no Enterprise funds.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the Library. Fiduciary funds are not reflected on the Library-wide financial statements because the resources of these funds are not available to support the Library's programs. The Library has no fiduciary funds at December 31, 2005.

**The Library as a Whole**

Table 1 provides a summary of the Library's net assets for 2005 compared to 2004 on a cash basis:

(Table 1)  
**Net Assets**

	Governmental Activities	
	2005	2004
<b>Assets</b>		
Cash and Cash Equivalents	\$553,932	\$513,520
Total Assets	\$553,932	\$513,520
<b>Net Assets</b>		
Restricted for:		
Capital Projects	\$305,232	\$295,417
Other Purposes	48,219	47,219
Unrestricted	200,481	170,884
Total Net Assets	\$553,932	\$513,520

Net assets of Governmental activities increased \$40,412 or 7.9% percent during 2005. The primary reasons contributing to the increases in cash balances are as follows:

- Interest rates have been climbing, accounting for an increase in Interest Income.
- Expenditures have been held at 2004 levels.

Table 2 reflects the changes in net assets in 2005. Since the Library did not prepare financial statements in this format for 2004, a comparative analysis of Library-wide data has not been presented. In future years, when prior year information is available, a comparative analysis will be presented.

Herrick Memorial Library  
Management's Discussion and Analysis  
For the Year Ended December 31, 2005  
Unaudited

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(Table 2)  
**Changes in Net Assets**

	Governmental Activities 2005
Receipts:	
Program Receipts:	
Charges for Services and Sales	\$15,581
Total Program Receipts	15,581
General Receipts:	
Unrestricted Gifts and Contributions	10,141
Grants and Entitlements Not Restricted to Specific Programs	412,821
Earnings on Investments	16,690
Miscellaneous	845
Total General Receipts	440,497
Total Receipts	456,078
Disbursements:	
Library Services	411,999
Capital Outlay	3,667
Total Disbursements	415,666
Increase in Net Assets	40,412
Net Assets, Beginning of Year	513,520
Net Assets, End of Year	\$553,932

Program receipts represent only 3 percent of total receipts and are comprised of library fines, fees for lost materials and fees for use of the copier.

General receipts represent 97 percent of the Library's total receipts, and of the general receipts amount, over 93 percent are LLGSF. Interest earnings and donations make up the balance of the Library's general receipts (4 percent). Other receipts are very insignificant and somewhat unpredictable revenue sources.

Disbursements for Library Services represent the overhead costs of running the Library (Salaries, benefits, utilities, etc.) and the materials provided to patrons. These include the costs of books, periodicals, audio and video materials, etc. Capital outlay accounts for less than 1 percent.

Herrick Memorial Library  
Management's Discussion and Analysis  
For the Year Ended December 31, 2005  
Unaudited

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**Governmental Activities**

If you look at the Statement of Activities for the Library, 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 program disbursements for Governmental activities are for Library Services, which account for 99 percent of all Governmental disbursements. The next column of the Statement entitled Program Cash Receipts identify amounts paid by people who are directly charged for the service such as copier charges and library fees and fines. The Net Receipt (Disbursement) column 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 funds. 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.

(Table 3)

Governmental Activities

	Total Cost of Services 2005	Net Cost of Services 2005
Library Services	\$411,999	(\$396,418)
Capital Outlay	3,667	(3,667)
Total Expenses	\$415,666	(\$400,085)

The dependence upon general receipts is apparent as over 96 percent of Governmental activities are supported through these general receipts.

**The Library's Funds**

Total Governmental funds had receipts of \$456,078 and disbursements of \$415,666. The greatest change within Governmental funds occurred within the General Fund. The fund balance of the General Fund increased \$29,597 as the result of cutting budgets for library materials and supplies.

In 2001, General Fund receipts were less than disbursements indicating that the General Fund was in a deficit spending situation. This pattern continued until 2004 when General Fund receipts were once again more than disbursements. Reductions in all areas of the budget were implemented. Employees covered under the Library's Health Insurance plan began to contribute 13% to the premium cost and staff positions were scrutinized when vacancies occurred.

Herrick Memorial Library  
Management's Discussion and Analysis  
For the Year Ended December 31, 2005  
Unaudited

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**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 2005, the Library amended its General Fund budget several times to reflect changing circumstances. Final budgeted receipts were below original budgeted receipts due to the loss of LLGSF funding mid-year. The difference between final budgeted receipts and actual receipts was not significant.

Final disbursements in the General Fund were budgeted at \$444,186 while actual disbursements were \$415,666. Even though appropriations were reduced mid-year, the Library kept spending below the budgeted amounts as demonstrated by the reported variances. The result is the increase in fund balance of \$29,597 for 2005.

**Capital Assets Administration**

**Capital Assets**

The Library is in the process of updating their capital assets. Limitations in staff scheduling may delay the completion of this project.

**Current Issues**

The challenge for all Libraries is to provide quality services to the public while staying within the restrictions imposed by limited, and shrinking funding. We rely entirely on LLGSF. Our financial forecast predicts disbursements exceeding revenues in 2006 due to continued reductions in LLGSF. In the Fall of 2006, levy discussions will begin.

**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 Susan Bement, Clerk-Treasurer, Herrick Memorial Library, 101 Willard Memorial Square, Wellington, Ohio 44090.



**HERRICK MEMORIAL LIBRARY**  
**LORAIN COUNTY**  
*Statement of Net Assets - Cash Basis*  
*December 31, 2005*

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	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$553,932</u>
<i>Total Assets</i>	<u><u>\$553,932</u></u>
<b>Net Assets</b>	
Restricted for:	
Capital Projects	\$302,531
Other Purposes	46,316
Unrestricted	<u>205,085</u>
<i>Total Net Assets</i>	<u><u>\$553,932</u></u>

See accompanying notes to the basic financial statements.

**HERRICK MEMORIAL LIBRARY**  
**LORAIN COUNTY**  
*Statement of Activities - Cash Basis*  
*For the Year Ended December 31, 2005*

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net	
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<b>Governmental Activities</b>					
Library Services	\$411,999	\$15,581			(\$396,418)
Capital Outlay	3,667				(3,667)
<i>Total Governmental Activities</i>	<u>\$415,666</u>	<u>\$15,581</u>	<u>\$0</u>	<u>\$0</u>	<u>(\$400,085)</u>
		<b>General Receipts</b>			
					10,141
					412,821
					16,690
					845
					<u>440,497</u>
					40,412
					<u>513,520</u>
					<u>\$553,932</u>

See accompanying notes to the basic financial statements.

**HERRICK MEMORIAL LIBRARY**  
**LORAIN COUNTY**  
*Statement of Cash Basis Assets and Fund Balances*  
*Governmental Funds*  
*December 31, 2005*

	<u>General</u>	<u>Building and Repair</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$200,481	\$305,232	\$48,219	\$553,932
<i>Total Assets</i>	<u>\$200,481</u>	<u>\$305,232</u>	<u>\$48,219</u>	<u>\$553,932</u>
<b>Fund Balances</b>				
Reserved:				
Reserved for Encumbrances	\$4,105			\$4,105
Unreserved:				
Undesignated (Deficit), Reported in:				
General Fund	196,376			196,376
Special Revenue Funds			\$48,219	48,219
Capital Projects Funds		\$305,232		305,232
<i>Total Fund Balances</i>	<u>\$200,481</u>	<u>\$305,232</u>	<u>\$48,219</u>	<u>\$553,932</u>

See accompanying notes to the basic financial statements.

**HERRICK MEMORIAL LIBRARY  
LORAIN COUNTY**

*Reconciliation of Total Governmental Fund Balances to  
Net Assets of Governmental Activities  
December 31, 2005*

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<b>Total Governmental Fund Balances</b>	<u>\$553,932</u>
<i>Net Assets of Governmental Activities</i>	<u>\$553,932</u>

See accompanying notes to the basic financial statements.

**HERRICK MEMORIAL LIBRARY  
LORAIN COUNTY**

*Statement of Cash Receipts, Disbursements and Changes in Cash Basis Fund Balances  
Governmental Funds  
For the Year Ended December 31, 2005*

	General	Building and Repair	Other Governmental Funds	Total Governmental Funds
<b>Receipts</b>				
Library and Local Government Support	\$412,821			\$412,821
Patron Fines and Fees	15,581			15,581
Contributions, Gifts and Donations	10,141			10,141
Earnings on Investments	5,875	\$9,815	\$1,000	16,690
Miscellaneous	845			845
<i>Total Receipts</i>	<u>445,263</u>	<u>9,815</u>	<u>1,000</u>	<u>456,078</u>
<b>Disbursements</b>				
Current:				
Library Services	411,999			411,999
Capital Outlay	3,667			3,667
<i>Total Disbursements</i>	<u>415,666</u>	<u>0</u>	<u>0</u>	<u>415,666</u>
<i>Net Change in Fund Balances</i>	29,597	9,815	1,000	40,412
<i>Fund Balances Beginning of Year</i>	<u>170,884</u>	<u>295,417</u>	<u>47,219</u>	<u>513,520</u>
<i>Fund Balances End of Year</i>	<u><u>\$200,481</u></u>	<u><u>\$305,232</u></u>	<u><u>\$48,219</u></u>	<u><u>\$553,932</u></u>

See accompanying notes to the basic financial statements.

**HERRICK MEMORIAL LIBRARY  
LORAIN COUNTY**

*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended December 31, 2005*

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<b>Net Change in Fund Balances - Total Governmental Funds</b>	<u>\$40,412</u>
<i>Change in Net Assets of Governmental Activities</i>	<u>\$40,412</u>

See accompanying notes to the basic financial statements.

**HERRICK MEMORIAL LIBRARY  
LORAIN COUNTY**  
*Statement of Receipts, Disbursements and Changes  
In Fund Balance- Budget and Actual-Budgetary Basis  
General Fund  
For the Year Ended December 31, 2005*

	Original	Final	Actual	Variance with Final Budget Positive (Negative)
<b>Receipts</b>				
Library and Local Government Support	\$428,283	\$413,090	\$412,821	(\$269)
Patron Fines and Fees	16,000	16,000	15,581	(419)
Contributions, Gifts and Donations	14,040	14,040	10,141	(3,899)
Earnings on Investments	5,000	5,000	5,875	875
Miscellaneous	500	500	845	345
<i>Total Receipts</i>	<u>463,823</u>	<u>448,630</u>	<u>445,263</u>	<u>(3,367)</u>
<b>Disbursements</b>				
Current:				
Library Services	460,595	441,732	416,104	25,628
Capital Outlay	3,000	4,085	3,667	418
<i>Total Disbursements</i>	<u>463,595</u>	<u>445,817</u>	<u>419,771</u>	<u>26,046</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>228</u>	<u>2,813</u>	<u>25,492</u>	<u>22,679</u>
<b>Other Financing Sources (Uses)</b>	<u>0</u>	<u>(2,585)</u>	<u>0</u>	<u>2,585</u>
<i>Net Change in Fund Balance</i>	228	228	25,492	25,264
<i>Fund Balance Beginning of Year</i>	162,844	162,844	162,844	0
Prior Year Encumbrances Appropriated	<u>8,040</u>	<u>8,040</u>	<u>8,040</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u><u>\$171,112</u></u>	<u><u>\$171,112</u></u>	<u><u>\$196,376</u></u>	<u><u>\$25,264</u></u>

See accompanying notes to the basic financial statements.

**HERRICK MEMORIAL LIBRARY  
LORAIN COUNTY**

*Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balances  
All Governmental and Similar Fiduciary Fund Types  
For the Year Ended December 31, 2004*

	General	Capital Projects	Fiduciary Fund Type Expendable Trust	Total Governmental Funds
<b>Receipts</b>				
Library and Local Government Support	\$409,776			\$409,776
Patron Fines and Fees	15,976			15,976
Contributions, Gifts and Donations	9,356			9,356
Earnings on Investments	4,975	7,749	\$563	13,287
Miscellaneous	375			375
<i>Total Receipts</i>	<u>440,458</u>	<u>7,749</u>	<u>563</u>	<u>448,770</u>
<b>Disbursements</b>				
Current:				
Salaries	214,765			214,765
Employee Fringe Benefits	57,982			57,982
Purchased and Contracted Services	61,577			61,577
Library Materials and Information	58,690			58,690
Supplies	12,425			12,425
Other	7,213			7,213
Capital Outlay	2,630			2,630
<i>Total Disbursements</i>	<u>415,282</u>	<u>0</u>	<u>0</u>	<u>415,282</u>
<i>Net Change in Fund Balances</i>	25,176	7,749	563	33,488
<i>Fund Balances Beginning of Year</i>	<u>145,708</u>	<u>287,668</u>	<u>46,656</u>	<u>480,032</u>
<i>Fund Balances End of Year</i>	<u>\$170,884</u>	<u>\$295,417</u>	<u>\$47,219</u>	<u>\$513,520</u>
<i>Reserve for Encumbrances, End of Year</i>	<u>\$8,040</u>	<u>0</u>	<u>0</u>	<u>\$8,040</u>

See accompanying notes to the basic financial statements



**HERRICK MEMORIAL LIBRARY  
LORAIN COUNTY**

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

**Note 1 – Description of the Library and Reporting Entity**

The Herrick Memorial Library was organized in Lorain County under the laws of the State of Ohio. The Library has its own Board of Trustees of three members who are appointed by the Wellington Township Trustees. Appointments are for six-year terms and members serve without compensation. Under Ohio statutes, the Library is a body politic and corporate 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. Control and management of the Library is governed by sections 3375.33 to 3375.39 of the Ohio Revised Code with the administration of the day-to-day operations of the Library being the responsibility of the Director and financial accountability being solely that of the Clerk-Treasurer.

The Library is fiscally independent of the Township, although the Township serves in a ministerial capacity as the taxing authority 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 Township must put the levy on the ballot. There is no potential for the Library to provide a financial benefit to or impose a financial burden on the Township.

Under the provisions of Statement No. 14 of the Governmental Accounting Standards Board, "The Financial Reporting Entity," the Library is considered to be a related organization of Wellington Township.

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 Friends of the Herrick Memorial Library is a not-for-profit organization established under section 501 (c)(3) of the Internal revenue Code with a self-appointing board. The Friends organization was developed by community members who support the Library through fund-raising activities. The Library is not financially accountable for the organization, nor does the Library approve the budget or the issuance of debt of the organization. The Library received \$9,704 in financial contributions from the Friends during the period January 1, 2004 through December 31, 2005. Total cash assets (unaudited) of the Friends of Herrick Memorial Library at September 30, 2005 amounted to \$9,843. The Friends Treasurer's Report (unaudited) can be obtained from Linda Hatton, Treasurer. The resources held by the organization are not significant to the Library and 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.

**HERRICK MEMORIAL LIBRARY  
LORAIN COUNTY**

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

**Note 2 - Summary of Significant Accounting Policies**

As discussed further in Note 2.C, the financial statements of the Herrick Memorial Library have been prepared on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the 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 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 primary government. Governmental activities generally are financed through intergovernmental receipts and other nonexchange transactions.

The statement of net assets presents the cash balance, 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. 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 is self-financing on a 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.

**HERRICK MEMORIAL LIBRARY  
LORAIN COUNTY**

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

**Note 2 - Summary of Significant Accounting Policies (Continued)**

**B. 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 Library's funds are all classified as governmental.

**Governmental Funds**

Governmental funds are financed primarily from intergovernmental receipts 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 and Repair Fund – The building and repair fund accounts for monies set aside by the Board for the purpose of repairing, improving, furnishing and equipping the existing Library.

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

**C. Basis of Accounting**

For the year ending December 31, 2004, the Library's financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized 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 prescribed or permitted by the Auditor of State.

For the year ending December 31, 2005, the Library's financial statements are prepared using the 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 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.

**HERRICK MEMORIAL LIBRARY  
LORAIN COUNTY**

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

**Note 2 - Summary of Significant Accounting Policies (Continued)**

**D. Budgetary Process**

All funds, (except agency 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 and function code 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.

**E. Cash and Cash Equivalents**

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 with original maturities of three months or less at the time they are purchased and investments of the cash management pool are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

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 (contra revenue), respectively.

During 2005 and 2004, investments were limited to a money market fund, 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 investment is recorded at amounts reported by Farmer's Savings.

**HERRICK MEMORIAL LIBRARY  
LORAIN COUNTY**

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

**Note 2 - Summary of Significant Accounting Policies (Continued)**

**E. Cash and Cash Equivalents (Continued)**

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 Rule2a7 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.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest receipts credited to the Building and Repair Fund during 2005 amounted to \$9,815 which includes \$618 assigned from other Library funds. Interest receipts credited to the General Fund during 2004 amounted to \$4,975 which includes \$171 assigned from other Library funds.

**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. The Library has no restricted assets.

**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.

**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 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.

**HERRICK MEMORIAL LIBRARY  
LORAIN COUNTY**

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

**Note 2 - Summary of Significant Accounting Policies (Continued)**

K. 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 building repairs and improvements and various purposes indicated by donors.

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

The amount restricted by enabling legislation at December 31, 2005 was \$348,847.

L. 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.

**Note 3 – Change in Basis of Accounting and Restatement of Fund Equity**

For fiscal year ending December 31, 2004, the Library reported fund financial statements by fund type using the regulatory basis of accounting as prescribed by the State Auditor's Office. For fiscal year ending December 31, 2005, the Library has implemented the cash basis of accounting described in Note 2, which revised the Library's financial presentation to be comparable to the requirements of Governmental Accounting Standard Board (GASB) Statement No. 34 "Basic Financial Statements and Managements Discussion and Analysis for State and Local Governments". The fund financial statements now present each major fund in a separate column with nonmajor funds aggregated and presented in a single column, rather than a column for each fund type.

In accordance with this change in accounting basis for fiscal year ending December 31, 2005, the Library has reclassified the non-expendable trust fund to a special revenue fund which is presented as an other governmental fund on the fund financial statements.

	Other Governmental Funds	Expendable Trust Fund
Fund Balance January 1, 2005	\$0	\$47,219
Fund Reclassification	47,219	(47,219)
Adjusted Fund Balance January 1, 2005	\$47,219	\$0

For 2005, the Library implemented GASB Statement No. 40 "Deposits and Investment Risk Disclosures". This statement establishes new disclosure requirements for risks associated with deposits and investments.

**HERRICK MEMORIAL LIBRARY  
LORAIN COUNTY**

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

**Note 4 – 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 – Budget 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 cash basis is outstanding year end encumbrances are treated as disbursements (budgetary basis) rather than as a reservation of fund balance (cash basis). The encumbrances outstanding at year end December 31, 2005 (budgetary basis) amounted to \$4,105 for the general fund.

For fiscal year ending December 31, 2004, the Library reported the following budgetary activity regarding appropriations.

2004 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$576,861	\$423,322	\$153,539
Capital Projects	314,967	0	314,967
Expendable Trust	46,753	0	46,753
Total	\$938,581	\$423,322	\$515,259

**Note 5 - 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 Board has 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;

**HERRICK MEMORIAL LIBRARY  
LORAIN COUNTY**

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

**Note 5 - Deposits and Investments (Continued)**

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;
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).

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 year end December 31, 2005, \$260,662 of the Library's bank balances of \$546,369 were exposed to custodial credit risk because those deposits were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Library's name.

The Library has no deposit policy for custodial risk beyond the requirements of State statute. 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.



**HERRICK MEMORIAL LIBRARY  
LORAIN COUNTY**

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

**Note 5 - Deposits and Investments (Continued)**

Investments

As of December 31, 2005, the Library had the following investments:

	Carrying Value	Market Value
Common Stock	\$3,641	\$103,171
STAR Ohio	3,922	N/A
Total Investments	\$7,563	

Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. 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, thereby avoiding that need to sell securities on the open market prior to maturity, and by investing operating funds primarily in short-term investments.

STAR Ohio carries a rating of AAAM by Standard and Poor’s. The common stock carries ratings of “B” and “A-“ by Standard and Poor’s. The Library has no investment policy dealing with investment credit risk beyond the requirements in state statutes. 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.

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.”

The Library places no limit on the amount it may invest in any one issuer. The following is the Library’s allocation as of December 31, 2005.

Investment	Percentage of Investments
Common Stock	48%
STAR Ohio	52%

**HERRICK MEMORIAL LIBRARY  
LORAIN COUNTY**

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

**Note 5 - Deposits and Investments (Continued)**

The carrying amounts of the Library's deposits and investments as of December 31, 2004 were as follows:

	<u>2004</u>
Demand Deposits	\$19,844
Money Market Mutual Fund	286,719
Certificates of Deposit	199,512
Total Deposits	<u>506,075</u>
Common Stock	3,641
STAR Ohio	3,804
Total Investments	<u>7,445</u>
Total Deposits and Investments	<u>\$513,520</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 2004 and 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>
Schlather Insurance	Commercial Property	\$1,500,000
	General Liability	3,000,000
	Inland Marine	1,000,000
	Vehicle	1,000,000
France & Associates	Errors and Omissions	3,000,000
Schlather Insurance	Library Officials	50,000
	Fidelity and Deposit	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.

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.

The Library also participates in the Ohio Library Council Workers' Compensation Group Rating Program. The Frank Gates Company represents the Library in all Workers' Compensation matters.

**HERRICK MEMORIAL LIBRARY  
LORAIN COUNTY**

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

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

For the year ended December 31, 2005 and December 31, 2004, 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 and 2004 was 9.55 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, 2005, 2004, and 2003 were \$20,819, \$20,503, and \$20,076 respectively; the full amount has been contributed for 2005, 2004, and 2003.

**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 2005 and 2004 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.

**HERRICK MEMORIAL LIBRARY  
LORAIN COUNTY**

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

**Note 8 - Postemployment Benefits (Continued)**

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 1.00 and 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 \$8,720. 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. Member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.



## 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*

Herrick Memorial Library  
Lorain County  
101 Willard Memorial Square  
Wellington, Ohio 44090

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 Herrick Memorial Library, Lorain County, Ohio, (the Library) as of and for the year ended December 31, 2005, which collectively comprise the Library's basic financial statements and we have audited the regulatory accounting basis financial statements of the Library as of and for the year ended December 31, 2004, and have issued our report thereon dated June 22, 2006, wherein we noted for fiscal year ended December 31, 2005, the Library revised its financial statement presentation comparable to the requirements of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. We also noted for fiscal year ended December 31, 2004, the Library followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We also noted the Library uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Library because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. 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.

### **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 intend this report solely for the information and use of the audit committee, management, and the Board of Trustees. 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

June 22, 2006



**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**HERRICK MEMORIAL LIBRARY**

**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  
SEPTEMBER 21, 2006**