



Dave Yost • Auditor of State



MORLEY LIBRARY  
LAKE COUNTY

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Morley Library  
Lake County  
184 Phelps Street  
Painesville, Ohio 44077

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 Morley Library, Lake County, Ohio, (the Library) as of and for the year ended December 31, 2016.

### ***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 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 1 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 or changes in financial position thereof for the year then ended.

***Opinion on Regulatory Basis of Accounting***

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of the Morley Library, Lake County, Ohio, as of December 31, 2016 and its combined cash receipts and disbursements for the year 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 1.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2017, 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.

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**Dave Yost**  
Auditor of State  
Columbus, Ohio

April 25, 2017

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**MORLEY LIBRARY  
LAKE 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	Debt Service	Capital Projects	Permanent	Totals (Memorandum Only)
<b>Cash Receipts</b>						
Property and Other Local Taxes	\$989,238		\$780,832			\$1,770,070
Public Library	1,377,606					1,377,606
Intergovernmental	144,095		114,016			258,111
Patron Fines and Fees	67,786					67,786
Contributions, Gifts and Donations	3,900				\$705	4,605
Earnings on Investments	14,017	\$132,331	300	\$43,607	5,947	196,202
Miscellaneous	72,316					72,316
<i>Total Cash Receipts</i>	<u>2,668,958</u>	<u>132,331</u>	<u>895,148</u>	<u>43,607</u>	<u>6,652</u>	<u>3,746,696</u>
<b>Cash Disbursements</b>						
Current:						
Library Services:						
Public Services and Programs	995,974	2,489				998,463
Collection Development and Processing	784,970			1,941		786,911
Support Services:						
Facilities Operation and Maintenance	443,121					443,121
Information Services	119,642					119,642
Business Administration	235,215	625	10,828			246,668
Capital Outlay	20,797			43,644		64,441
Debt Service:						
Principal Retirement			790,000			790,000
Interest and Fiscal Charges			117,750			117,750
<i>Total Cash Disbursements</i>	<u>2,599,719</u>	<u>3,114</u>	<u>918,578</u>	<u>45,585</u>		<u>3,566,996</u>
<i>Net Change in Fund Cash Balances</i>	69,239	129,217	(23,430)	(1,978)	6,652	179,700
<i>Fund Cash Balances, January 1</i>	1,294,598	4,325,626	49,467	3,421,252	643,115	9,734,058
<b>Fund Cash Balances, December 31</b>						
Nonspendable					499,301	499,301
Restricted		267,645				267,645
Committed			26,037	3,419,274	150,466	3,595,777
Assigned	183,294	4,187,198				4,370,492
Unassigned (Deficit)	1,180,543					1,180,543
<i>Fund Cash Balances, December 31</i>	<u>\$1,363,837</u>	<u>\$4,454,843</u>	<u>\$26,037</u>	<u>\$3,419,274</u>	<u>\$649,767</u>	<u>\$9,913,758</u>

The notes to the financial statements are an integral part of this statement.

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**MORLEY LIBRARY  
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

The constitution and laws of the State of Ohio establish the rights and privileges of the Morley Library, Lake County, Ohio, (the Library) as a body corporate and politic. The Lake County Commissioners and Lake County Common Pleas presiding judge appoint a seven-member Board of Trustees to govern the Library. The Library provides the community with various educational and literary resources.

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

**B. Accounting Basis**

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.

**C. 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.

The Library values certificate of deposits and US Agency bonds at cost. The Library invests in STAR Ohio (the State Treasurer's investment pool) which is valued at amounts reported by the State Treasurer.

**D. Fund Accounting**

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

**1. General Fund**

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

**MORLEY LIBRARY  
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

**D. Fund Accounting – (Continued)**

**2. Special Revenue Fund**

This fund accounts for and reports 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:

Expendable Trust Fund – This fund receives donations to be used at the Library's discretion.

**3. Debt Service Fund**

This fund accounts for and reports financial resources that are restricted, committed, or assigned to expenditure for principal and interest. The Library had the following significant Debt Service Fund:

Debt Service Fund – This fund collects property tax monies to pay the Library's general obligation bonds.

**4. Capital Project Funds**

This fund accounts for and reports 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:

Building Fund – This fund accounts for all activity related to capital improvements and expenditures associated with the Library's building and equipment.

**5. Permanent Fund**

This fund accounts for and reports resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs (for the benefit of the government or its citizenry). The Library had the following significant permanent fund:

Endowment Fund – This fund receives donations in which the Library is not allowed to expend the principal of the donation. The Library is permitted to spend the interest earned on the principal.

**E. 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, function, and object level of control.

A summary of 2016 budgetary activity appears in Note 3.

MORLEY LIBRARY  
LAKE COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

F. 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:

1. **Nonspendable**

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

2. **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.

3. **Committed**

Trustees can *commit* amounts via formal action (resolution). The Library must adhere to these commitments unless the Trustees amend 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.

4. **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 Library Trustees or a Library official delegated that authority by resolution, or by State Statute.

5. **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.

G. **Property, Plant, and Equipment**

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

**MORLEY LIBRARY  
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

**H. Accumulated Leave**

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

**2. EQUITY IN POOLED CASH, DEPOSITS AND INVESTMENTS**

The Library maintains a cash, 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	\$802,429
Certificates of deposit	2,940,265
Petty Cash on Hand	297
Total deposits	3,742,991
STAR Ohio	786,970
Federal Agency Bonds	5,383,797
Total investments	6,170,767
Total deposits and investments	\$9,913,758

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

**Investments:** The Federal Agency Bonds are held by Fiserve Securities and PNC Capital Markets in book-entry form, in the name of the Library’s financial institution. The financial institution maintains records identifying the Library as owner of these securities.

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

**3. BUDGETARY ACTIVITY**

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

2016 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$2,587,500	\$2,668,958	\$81,458
Special Revenue	113,000	132,331	19,331
Debt Service	872,100	895,148	23,048
Capital Projects	35,000	43,607	8,607
Permanent	6,500	6,652	152
Total	\$3,614,100	\$3,746,696	\$132,596

**MORLEY LIBRARY  
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**3. BUDGETARY ACTIVITY – (Continued)**

2016 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Budgeted Expenditures	Actual Expenditures	Variance
General	\$2,833,143	\$2,726,843	\$106,300
Special Revenue	8,200	3,114	5,086
Debt Service	921,400	918,578	2,822
Capital Projects	89,200	68,913	20,287
Permanent	0	0	0
Total	\$3,851,943	\$3,717,448	\$134,495

**4. GRANTS-IN-AID AND TAX RECEIPTS**

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. This method of distribution is called the “percentage of revenue” method. This method was not used for August 2011 through June 2013. During that 23 month period PLF received a designated percentage of the dollar amounts received by the fund during the corresponding month of the fiscal year 2011 “base-year” period. Effective July 2013 the statutory allocation method reverted to the “percentage of revenue” method for PLF distribution. The fund received an amount equal to a specified percentage of the amount of GRF tax revenue received during the previous month. Beginning with the July 2013 distribution the “statutory allocation method” was implemented. The calendar year 2013 entitlements were used in the computation as the basis of each county’s allocation percentage. Those percentages were used through December 2013. In December 2013 the actual calendar year entitlement was computed. Any difference was adjusted evenly to the PLF distributions from January-June 2014. In calendar year 2014 the statutory entitlement computation method continued. Estimated entitlement figures were issued to County Auditors in July 2013, December 2013 and June 2014. The actual 2014 entitlements will be computed in December 2014. The difference between the estimate and actual will be adjusted evenly in the PLF distributions made from January-June 2015.

The Lake County Budget Commission bases the amount for distribution to the individual libraries within the county based on a formula which considers population, circulation, and materials expenditures of each library. The Budget Commission cannot reduce its allocation of these funds to the Library based on any additional revenues the Library receives.

Real property taxes become a lien on January 1 preceding the October 1 date for which the taxing authority of the subdivision to whose jurisdiction the Library is subject adopts rates. The State Department of Taxation, Division of Tax Equalization, adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The financial statements include homestead and rollback amounts the State pays as Other Governments’ Grants In Aid. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20.

Public utilities are also taxed on personal and real property located within the taxing district.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Library.

**MORLEY LIBRARY  
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**5. DEBT**

Debt outstanding at December 31, 2016 was as follows:

	Principal	Interest Rate
General Obligation Bonds	\$3,135,000	3%

In September 2002 the Library issued \$11,591,000 in general obligation bonds to finance the building of a new library. The bonds will be repaid in semi-annual varying principal and interest payments over 17 years. On November 6, 2001, the voters passed a tax levy ensuring the payment of the bonds.

Amortization of the above debt, including interest, is scheduled as follows:

	General Obligation Bonds
Year ending December 31:	
2017	\$904,050
2018	909,750
2019	904,550
2020	643,750
Total	\$3,362,100

**6. RETIREMENT SYSTEM**

The Library's 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. For 2016, 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.

**7. RISK MANAGEMENT**

**Commercial Insurance**

The Library has obtained commercial insurance for the following risks:

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



**MORLEY LIBRARY  
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**7. RISK MANAGEMENT – (Continued)**

Also, the Library provides health, dental, and vision insurance to all employees scheduled a minimum of 30 hours per week. The Library also pays 90% of the cost to insure dependents of employees eligible for this healthcare plan. For employees hired after August 1, 2011, the Library pays 85% of the cost to insure the employee and any eligible dependents. The Library's liability for healthcare is limited to the premiums paid.

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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*

Morley Library  
Lake County  
184 Phelps Street  
Painesville, Ohio 44077

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 Morley Library, Lake County, Ohio, (the Library) as of and for the year ended December 31, 2016, and the related notes to the financial statements and have issued our report thereon dated April 25, 2017, wherein we noted the Library followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) 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.

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 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

***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*.

***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.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State  
Columbus, Ohio

April 25, 2017



# Dave Yost • Auditor of State

MORLEY LIBRARY

LAKE 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  
JUNE 6, 2017