



Dave Yost • Auditor of State

**LORAIN PUBLIC LIBRARY SYSTEM
LORAIN COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets – Cash Basis – December 31, 2010	11
Statement of Activities – Cash Basis – For the Year Ended December 31, 2010.....	12
Fund Financial Statements:	
Statement of Cash Basis Assets and Fund Balances – Governmental Funds – December 31, 2010.....	13
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities – December 31, 2010	14
Statement of Cash Receipts, Disbursements, and Changes in Cash Basis Fund Balances – Governmental Funds – For the Year Ended December 31, 2010	15
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Basis Fund Balances of Governmental Funds to the Statement of Activities – For the Year Ended December 31, 2010.....	16
Statement of Receipts, Disbursements, and Changes in Fund Balance - Budget and Actual – Budget Basis – General Fund – For the Year Ended December 31, 2010	17
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets – Cash Basis – December 31, 2009	19
Statement of Activities – Cash Basis – For the Year Ended December 31, 2009.....	20
Fund Financial Statements:	
Statement of Cash Basis Assets and Fund Balances – Governmental Funds – December 31, 2009.....	21
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities - December 31, 2009	22
Statement of Cash Receipts, Disbursements, and Changes in Cash Basis Fund Balances – Governmental Funds – For the Year Ended December 31, 2009	23
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Basis Fund Balances of Governmental Funds to the Statement of Activities – For the Year Ended December 31, 2009.....	24
Statement of Receipts, Disbursements, and Changes in Fund Balance - Budget and Actual – Budget Basis – General Fund – For the Year Ended December 31, 2009	25

LORAIN PUBLIC LIBRARY SYSTEM
LORAIN COUNTY

TABLE OF CONTENTS
(Continued)

TITLE	PAGE
Notes to the Basic Financial Statements	27
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	41



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Trustees:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lorain Public Library System, Lorain County, Ohio (the Library), as of and for the years ended December 31, 2010, and 2009, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Lorain Public Library System, Lorain County, Ohio, as of December 31, 2010, and 2009, and the respective changes in cash financial position, and the budgetary comparison for the General Fund thereof for the years then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 18, 2011, 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.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

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

May 18, 2011

Lorain Public Library System, Lorain County
Management's Discussion and Analysis
For the Years Ended December 31, 2010 and December 31, 2009
Unaudited

This discussion and analysis of the Lorain Public Library System's, Lorain County, (the Library) financial performance provides an overall review of the Library's financial activities for the years ended December 31, 2010 and December 31, 2009, 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 2010 and 2009 are as follows:

In 2010, net assets decreased \$765,636, or 9.0 percent. In 2009, net assets decreased by \$948,701 or 10.1 percent, significant changes from the prior years. The fund most affected by the decrease in cash and cash equivalents was the Building and Repair Fund, which realized the greatest burden of increased costs in 2010 as a result of transfers to the General Fund to cover operational costs.

The Library's general receipts are primarily property taxes and grants and entitlements not restricted to specific programs, which is the Public Library fund ("PLF"). These receipts represent respectively 96.5 and 96.8 percent of the total cash received for governmental activities in 2010 and 2009. Property tax collections for 2010 and 2009 changed very little compared to 2008 due to stable tax rates and collections with only a renewal property tax levy passed in 2009, a replacement with additional millage to be first collected in 2011 in Columbia Township. PLF tax receipts for 2010 and 2009 decreased with the State of Ohio's temporary reduction of PLF from 2.22 percent of the General Revenue Fund, to 1.97 percent for the FY2009-2010 state budget.

The net change in Governmental Fund balances from 2008 to 2010 was a decrease of \$1,714,337, decrease of 18.2 percent.

Using the Basic Financial Statements

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

Lorain Public Library System, Lorain County
Management's Discussion and Analysis
For the Years Ended December 31, 2010 and December 31, 2009
Unaudited

Library's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

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 2010 and 2009, within the limitations of cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental activities of the Library at year end. The statement of activities compares cash disbursements with program receipts for each governmental program. Program receipts include patron fines and fees, meeting room rentals and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the Library's general receipts.

These statements report the Library's cash position and the changes in cash position. Keeping in mind the limitations of the 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 and infrastructure, 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 PLF.

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

Reporting the Library's Most Significant Funds

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

Governmental Funds – All of the Library's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the Library's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the Library's programs. The Library's significant governmental funds are presented on the financial statements in separate columns. The information for 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 only major governmental funds are the General Fund and the 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. We describe this relationship in reconciliations presented with the governmental fund financial statements.

Lorain Public Library System, Lorain County
Management's Discussion and Analysis
For the Years Ended December 31, 2010 and December 31, 2009
Unaudited

The Library as a Whole

Table 1 provides a summary of the Library's net assets for 2010 and 2009 compared to 2008 on a cash basis:

(Table 1)
Net Assets

	2010	2009	2008
Assets			
Equity in Pooled Cash and Cash Equivalents	\$7,695,205	\$8,460,841	\$9,409,542
Total Assets	\$7,695,205	\$8,460,841	\$9,409,542
Net Assets			
Restricted for:			
Capital Projects	\$3,204,810	\$4,962,028	\$4,696,006
Debt Service	1,807	1,804	1,798
Permanent Fund Purpose	2,382	2,379	2,373
Other Purposes	652,054	660,224	716,461
Unrestricted	3,834,152	2,834,406	3,992,904
Total Net Assets	\$7,695,205	\$8,460,841	\$9,409,542

As mentioned previously, net assets of governmental activities decreased \$765,636 or 9.0 percent during 2010, and \$948,701 or 10.1 percent during 2009. The primary reasons contributing to the decreases in cash balances are as follows:

- Reductions in state funding. Over the last three years, reductions in the state funding for the Local Library Government Support Fund (LLGSF) and then the Public Library Fund (PLF) has resulted in decreases of (\$226,471) or -6.1 percent in 2010, and decreases of (\$805,437) or -17.9 percent in 2009.
- Decreases in salaries and benefits of (\$397,563) or -6.9 percent after budget reductions and layoffs in 2010 and increases in salaries and healthcare benefits of \$368,646 or 6.8 percent in 2009 based on current negotiated agreements.
- The Library had not done any major renovations to the Main Library since the early 1980's and in 2010, after paring back the scope of renovation plans, expended approximately \$500,000 or 50 percent of the planned budget to improve the Main Library's handicapped accessibility, employee ergonomics and the workspace needed to handle the huge growth in inter-library shipments brought on by Internet requests by Library patrons..

Table 2 reflects the changes in net assets on a cash basis in 2010 and 2009 and 2008 for governmental activities.

Lorain Public Library System, Lorain County
Management's Discussion and Analysis
For the Years Ended December 31, 2010 and December 31, 2009
Unaudited

(Table 2)
Changes in Net Assets

	Governmental Activities		
	2010	2009	2008
Receipts:			
Program Receipts:			
Charges for Services and Sales	\$146,331	\$127,341	\$126,758
Operating Grants and Contributions	92,724	44,697	152,749
Total Program Receipts	<u>239,055</u>	<u>172,038</u>	<u>279,507</u>
General Receipts:			
Property Taxes Levied for General Purposes	4,002,048	4,011,950	4,129,521
Grants and Entitlements Not Restricted to Specific Programs	4,450,570	4,700,559	5,426,400
Unrestricted Gifts and Contributions	1,131	351	761
Interest	32,640	91,295	290,584
Miscellaneous	37,334	22,146	27,442
Total General Receipts	<u>8,523,723</u>	<u>8,826,301</u>	<u>9,874,708</u>
Total Receipts	<u>8,762,778</u>	<u>8,998,339</u>	<u>10,154,215</u>
Disbursements:			
Library Services:			
Public Service and Programs	6,541,465	7,285,876	6,995,628
Collection Development and Processing	1,361,411	1,437,699	1,758,660
Support Services:			
Facilities Operation and Maintenance	371,944	435,666	355,389
Capital Outlay	777,134	309,977	585,559
Debt Service:			
Principal Retirement	440,000	425,000	410,000
Interest and Fiscal Charges	36,460	52,822	67,685
Total Disbursements	<u>9,528,414</u>	<u>9,947,040</u>	<u>10,172,921</u>
Change in Net Assets	(765,636)	(948,701)	(18,706)
Net Assets, January 1	<u>8,460,841</u>	<u>9,409,542</u>	<u>9,428,248</u>
Net Assets, December 31	<u><u>\$7,695,205</u></u>	<u><u>\$8,460,841</u></u>	<u><u>\$9,409,542</u></u>

Program receipts in 2010, 2009 and 2008 represent only 2.7, 1.9 and 2.8 percent respectively, of total receipts and are primarily comprised of patron fines and fees, and contributions, gifts and donations.

Lorain Public Library System, Lorain County
Management's Discussion and Analysis
For the Years Ended December 31, 2010 and December 31, 2009
Unaudited

General receipts represent 97.3, 98.1 and 97.2 percent, respectively, of the Library's total receipts, and of this amount, 47.0, 45.5 and 41.8 percent were property taxes in 2010, 2009 and 2008. State grants and entitlements made up 52.2, 53.3 and 55.0 percent respectively of the Library's general receipts in 2010, 2009 and 2008. Other receipts are insignificant and somewhat unpredictable revenue sources.

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

Public Service and Programs and Collection Development and Processing disbursements were reduced in 2010 under a budget reduction plan.

Governmental Activities

If you look at the Statement of Activities on page 12 for 2010 and page 20 for 2009, 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 Public Service and Programs, Collection Development and Processing, Facilities Operation and Maintenance and Capital Outlays which account for 68.7 percent, 14.3 percent, 3.9 percent and 8.2 percent, respectively, in 2010, and 73.2 percent, 14.5 percent, 4.4 percent and 3.1 percent, respectively, in 2009. The next two columns of the Statement entitled Program Cash Receipts identify amounts paid by people who are directly charged for the service and grants received by the Library that must be used to provide a specific service. The Net (Disbursements) Receipts and Changes in Net Assets 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 taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

(Table 3)

Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2010	2009	2008	2010	2009	2008
Library Services:						
Public Service and Programs	(\$6,541,465)	(\$7,285,876)	(\$6,995,628)	(\$6,311,281)	(\$7,117,434)	(\$6,725,106)
Collection Development and Processing	(1,361,411)	(1,437,699)	(1,758,660)	(1,352,540)	(1,434,103)	(1,749,675)
Support Services:						
Facilities Operaton and Maintenance	(371,944)	(435,666)	(355,389)	(371,944)	(435,666)	(355,389)
Capital Outlay	(777,134)	(309,977)	(585,559)	(777,134)	(309,977)	(585,559)
Debt Service:						
Principal Retirement	(440,000)	(425,000)	(410,000)	(440,000)	(425,000)	(410,000)
Interest and Fiscal Charges	(36,460)	(52,822)	(67,685)	(36,460)	(52,822)	(67,685)
Total Governmental Activities	(\$9,528,414)	(\$9,947,040)	(\$10,172,921)	(\$9,289,359)	(\$9,775,002)	(\$9,893,414)

The dependence upon local property taxes and PLF receipts is apparent as over 97.5 percent of governmental activities in 2010, 98.3 percent of governmental activities in 2009, and 97.3 percent of governmental activities in 2008 were supported through these general receipts.

The Library's Funds

Total governmental funds had receipts of \$8,762,778 and disbursements of \$9,528,414 in 2010, and had receipts of \$8,998,339 and disbursements of \$9,947,040 in 2009. The fund balance of the General Fund increased \$999,746 in 2010, and decreased \$1,158,499 in 2009 after transfers, as the result of the concern of future funding and the Library being conservative in its spending. General Fund receipts were greater than disbursements by \$431,588 in 2010, and less than disbursements by \$234,306 in 2009 indicating that the General Fund was in a deficit spending situation on operations in 2009. It was the recommendation of the finance committee and the administration that a reduction in disbursements was preferable to requesting additional funds from the taxpayers. Some of these reductions have already been implemented for 2010 and 2009 including workforce reduction, reduced purchases of supplies and library materials and renegotiation of service contracts. These cuts will not eliminate the need for additional funds (and/or additional cuts) in the future if the State of Ohio continues to reduce the PLF.

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 2010 and 2009, the Library amended its General Fund budget several times to reflect changing circumstances. For 2010, final budgeted receipts approximated original budgeted receipts. For 2009, final budgeted receipts approximated original budgeted receipts. The difference between final budgeted receipts and actual receipts was not significant for 2010 or 2009.

Final disbursements for 2010 were budgeted at \$10,193,342 while actual disbursements were \$8,559,515. Final disbursements for 2009 were budgeted at \$11,279,151 while actual disbursements were \$9,351,011. Budget reductions in 2010 were implemented to reduce the variance of disbursements over receipts. Although receipts failed to live up to expectations in 2009, appropriations were not reduced. The Library has had to raise its millage in Columbia Township. Successful passage of a replacement levy with an additional .3 mills in May of 2010, will help sustain branch operations in that community with additional local property tax receipts to be collected starting in 2011. The Library has kept spending within budgeted amounts as demonstrated by the positive variances.

Capital Assets and Debt Administration

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.

Debt

At December 31, 2010, the Library had \$460,000 of outstanding general obligation notes issued for constructing a branch library in the City of North Ridgeville, Ohio; improving and constructing an addition to the branch library located in the Township of Columbia, Ohio; and improving and renovating existing Library facilities. For further information regarding the Library's debt, refer to Note 10 to the basic financial statements.

Current Issues

The challenge for all Libraries is to provide quality services to the public while staying within the restrictions imposed by limited, and in some cases shrinking, funding. We rely heavily on local taxes and PLF funding. On March 15, 2011, Governor Kasich proposed his FY2012-FY2013 Budget, with a 5% reduction of Public Library Funding (PLF). The 5% proposed reduction would result in a 11.3% reduction in the \$3,909,799 in PLF funding that had previously been certified for CY2011 by the Ohio Department of Taxation and the Lorain County Budget Commission.

Contacting the Library's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Library's finances and to reflect the Library's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to James M. Wilson, Chief Fiscal Officer, Lorain Public Library System, 351 6th Street, Lorain, Ohio 44052.

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Lorain Public Library System
Lorain County
Statement of Net Assets - Cash Basis
December 31, 2010

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$7,695,205
	\$7,695,205
<i>Total Assets</i>	<i>\$7,695,205</i>
 Net Assets	
Restricted for:	
Capital Projects	\$3,204,810
Debt Service	1,807
Permanent Fund Purpose	2,382
Other Purposes	652,054
Unrestricted	3,834,152
<i>Total Net Assets</i>	<i>\$7,695,205</i>

See accompanying notes to the basic financial statements

Lorain Public Library System
Lorain County
Statement of Activities - Cash Basis
For the Year Ended December 31, 2010

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
Library Services:				
Public Service and Programs	\$6,541,465	\$146,331	\$83,853	(\$6,311,281)
Collection Development and Processing	1,361,411		8,871	(1,352,540)
Support Services:				
Facilities Operation and Maintenance	371,944			(371,944)
Capital Outlay	777,134			(777,134)
Debt Service:				
Principal Retirement	440,000			(440,000)
Interest and Fiscal Charges	36,460			(36,460)
Total Governmental Activities	<u><u>\$9,528,414</u></u>	<u><u>\$146,331</u></u>	<u><u>\$92,724</u></u>	<u><u>(9,289,359)</u></u>
		General Receipts		
				4,002,048
				1,131
				4,450,570
				32,640
				<u>37,334</u>
				8,523,723
				(765,636)
				<u>8,460,841</u>
				<u><u>\$7,695,205</u></u>

See accompanying notes to the basic financial statements

Lorain Public Library System
Lorain County
Statement of Cash Basis Assets and Fund Balances
Governmental Funds
December 31, 2010

	General	Building & Repair Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$3,834,152	\$2,702,284	\$1,158,769	\$7,695,205
<i>Total Assets</i>	<u>\$3,834,152</u>	<u>\$2,702,284</u>	<u>\$1,158,769</u>	<u>\$7,695,205</u>
Fund Balances				
Reserved:				
Reserved for Encumbrances	\$338,904	\$4,119	\$12,021	\$355,044
Unreserved:				
Undesignated (Deficit), Reported in:				
General Fund	3,495,248			3,495,248
Special Revenue Funds			642,415	642,415
Debt Service Fund			1,807	1,807
Capital Projects Funds		2,698,165	502,526	3,200,691
<i>Total Fund Balances</i>	<u>\$3,834,152</u>	<u>\$2,702,284</u>	<u>\$1,158,769</u>	<u>\$7,695,205</u>

See accompanying notes to the basic financial statements

Lorain Public Library System
Lorain County
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
December 31, 2010

Total Governmental Fund Balances	<u>\$7,695,205</u>
<i>Net Assets of Governmental Activities</i>	<u>\$7,695,205</u>

See accompanying notes to the basic financial statements

**Lorain Public Library System
Lorain County**

*Statement of Cash Receipts, Disbursements and Changes in Cash Basis Fund Balances
Governmental Funds
For the Year Ended December 31, 2010*

	General	Building & Repair Fund	Other Governmental Funds	Total Governmental Funds
Receipts				
Property and Other Local Taxes	\$4,002,048			\$4,002,048
Intergovernmental	4,450,570			4,450,570
Patron Fines and Fees	146,331			146,331
Contributions, Gifts and Donations	11,628		82,227	93,855
Earnings on Investments	4,288	26,936	1,416	32,640
Miscellaneous	37,334			37,334
<i>Total Receipts</i>	<u>8,652,199</u>	<u>26,936</u>	<u>83,643</u>	<u>8,762,778</u>
Disbursements				
Current:				
Library Services:				
Public Service and Programs	6,420,411	66,506	54,548	6,541,465
Collection Development and Processing	1,324,860		36,551	1,361,411
Support Services:				
Facilities Operation and Maintenance	371,944			371,944
Capital Outlay	103,396	519,201	154,537	777,134
Debt Service:				
Principal Retirement			440,000	440,000
Interest and Fiscal Charges			36,460	36,460
<i>Total Disbursements</i>	<u>8,220,611</u>	<u>585,707</u>	<u>722,096</u>	<u>9,528,414</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>431,588</u>	<u>(558,771)</u>	<u>(638,453)</u>	<u>(765,636)</u>
Other Financing Sources (Uses)				
Transfers In	944,618		481,460	1,426,078
Transfers Out	(476,460)	(944,618)	(5,000)	(1,426,078)
Advances In	800,000	700,000		1,500,000
Advances Out	(700,000)	(800,000)		(1,500,000)
<i>Total Other Financing Sources (Uses)</i>	<u>568,158</u>	<u>(1,044,618)</u>	<u>476,460</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	999,746	(1,603,389)	(161,993)	(765,636)
<i>Fund Balances, Beginning of Year</i>	<u>2,834,406</u>	<u>4,305,673</u>	<u>1,320,762</u>	<u>8,460,841</u>
<i>Fund Balances, End of Year</i>	<u>\$3,834,152</u>	<u>\$2,702,284</u>	<u>\$1,158,769</u>	<u>\$7,695,205</u>

See accompanying notes to the basic financial statements

Lorain Public Library System
Lorain County
*Reconciliation of the Statement of Cash Receipts, Disbursements and Changes
in Cash Basis Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended December 31, 2010*

Net Change in Fund Balances - Total Governmental Funds	<u>(\$765,636)</u>
<i>Change in Net Assets of Governmental Activities</i>	<u><u>(\$765,636)</u></u>

See accompanying notes to the basic financial statements

Lorain Public Library System
Lorain County
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual - Budget Basis
General Fund
For the Year Ended December 31, 2010

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Receipts				
Property and Other Local Taxes	\$ 4,147,729	\$ 4,147,729	\$ 4,002,048	(\$145,681)
Intergovernmental	4,220,094	4,248,974	4,450,570	201,596
Patron Fines and Fees	115,000	115,000	146,331	31,331
Contributions, Gifts and Donations	1,000	1,000	11,628	10,628
Earnings on Investments	8,700	8,700	4,288	(4,412)
Miscellaneous	5,000	5,000	37,334	32,334
<i>Total Receipts</i>	<u>8,497,523</u>	<u>8,526,403</u>	<u>8,652,199</u>	<u>125,796</u>
Disbursements				
Current:				
Library Services:				
Public Service and Programs	7,082,426	7,848,105	6,570,192	1,277,913
Collection Development and Processing	1,622,979	1,698,764	1,468,148	230,616
Support Services:				
Facilities Operation and Maintenance	438,696	480,550	409,438	71,112
Capital Outlay	157,002	165,923	111,737	54,186
<i>Total Disbursements</i>	<u>9,301,103</u>	<u>10,193,342</u>	<u>8,559,515</u>	<u>1,633,827</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(803,580)</u>	<u>(1,666,939)</u>	<u>92,684</u>	<u>1,759,623</u>
Other Financing Sources (Uses)				
Transfers In		800,000	944,618	144,618
Transfers Out	(476,460)	(476,460)	(476,460)	0
Advances In			800,000	800,000
Advances Out		(800,000)	(700,000)	100,000
<i>Total Other Financing Sources (Uses)</i>	<u>(476,460)</u>	<u>(476,460)</u>	<u>568,158</u>	<u>1,044,618</u>
<i>Net Change in Fund Balance</i>	(1,280,040)	(2,143,399)	660,842	2,804,241
<i>Fund Balance, Beginning of Year</i>	2,601,961	2,601,961	2,601,961	0
Prior Year Encumbrances Appropriated	232,446	232,446	232,446	0
<i>Fund Balance, End of Year</i>	<u>\$1,554,367</u>	<u>\$691,008</u>	<u>\$3,495,249</u>	<u>\$2,804,241</u>

See accompanying notes to the basic financial statements

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Lorain Public Library System
Lorain County
Statement of Net Assets - Cash Basis
December 31, 2009

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$8,460,841
	<hr/>
<i>Total Assets</i>	<u><u>\$8,460,841</u></u>
Net Assets	
Restricted for:	
Capital Projects	\$4,962,028
Debt Service	1,804
Permanent Fund Purpose	2,379
Other Purposes	660,224
Unrestricted	<u>2,834,406</u>
	<hr/>
<i>Total Net Assets</i>	<u><u>\$8,460,841</u></u>

See accompanying notes to the basic financial statements

Lorain Public Library System
Lorain County
Statement of Activities - Cash Basis
For the Year Ended December 31, 2009

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
Library Services:				
Public Service and Programs	\$7,285,876	\$127,341	\$41,101	(\$7,117,434)
Collection Development and Processing	1,437,699		3,596	(1,434,103)
Support Services:				
Facilities Operation and Maintenance	435,666			(435,666)
Capital Outlay	309,977			(309,977)
Debt Service:				
Principal Retirement	425,000			(425,000)
Interest and Fiscal Charges	52,822			(52,822)
<i>Total Governmental Activities</i>	<u>\$9,947,040</u>	<u>\$127,341</u>	<u>\$44,697</u>	<u>(9,775,002)</u>
		General Receipts		
				4,011,950
				351
				4,700,559
				91,295
				<u>22,146</u>
				8,826,301
				(948,701)
				<u>9,409,542</u>
				<u>\$8,460,841</u>

See accompanying notes to the basic financial statements

Lorain Public Library System
Lorain County
Statement of Cash Basis Assets and Fund Balances
Governmental Funds
December 31, 2009

	General	Building & Repair Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$2,834,406	\$4,305,673	\$1,320,762	\$8,460,841
<i>Total Assets</i>	<u>\$2,834,406</u>	<u>\$4,305,673</u>	<u>\$1,320,762</u>	<u>\$8,460,841</u>
Fund Balances				
Reserved:				
Reserved for Encumbrances	\$232,445	\$84,185	\$434	\$317,064
Unreserved:				
Undesignated (Deficit), Reported in:				
General Fund	2,601,961			2,601,961
Special Revenue Funds			662,170	662,170
Debt Service Fund			1,804	1,804
Capital Projects Funds		4,221,488	656,354	4,877,842
<i>Total Fund Balances</i>	<u>\$2,834,406</u>	<u>\$4,305,673</u>	<u>\$1,320,762</u>	<u>\$8,460,841</u>

See accompanying notes to the basic financial statements

Lorain Public Library System
Lorain County
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
December 31, 2009

Total Governmental Fund Balances	<u>\$8,460,841</u>
<i>Net Assets of Governmental Activities</i>	<u>\$8,460,841</u>

See accompanying notes to the basic financial statements

**Lorain Public Library System
Lorain County**

*Statement of Cash Receipts, Disbursements and Changes in Cash Basis Fund Balances
Governmental Funds
For the Year Ended December 31, 2009*

	General	Building & Repair Fund	Other Governmental Funds	Total Governmental Funds
Receipts				
Property and Other Local Taxes	\$4,011,950			\$4,011,950
Intergovernmental	4,700,559			4,700,559
Patron Fines and Fees	127,341			127,341
Contributions, Gifts and Donations	10,025		35,023	45,048
Earnings on Investments	12,239	75,343	3,713	91,295
Miscellaneous	22,146			22,146
<i>Total Receipts</i>	<u>8,884,260</u>	<u>75,343</u>	<u>38,736</u>	<u>8,998,339</u>
Disbursements				
Current:				
Library Services:				
Public Service and Programs	7,076,266	140,327	69,283	7,285,876
Collection Development and Processing	1,413,981		23,718	1,437,699
Support Services:				
Facilities Operation and Maintenance	435,666			435,666
Capital Outlay	192,653	61,978	55,346	309,977
Debt Service:				
Principal Retirement			425,000	425,000
Interest and Fiscal Charges			52,822	52,822
<i>Total Disbursements</i>	<u>9,118,566</u>	<u>202,305</u>	<u>626,169</u>	<u>9,947,040</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(234,306)</u>	<u>(126,962)</u>	<u>(587,433)</u>	<u>(948,701)</u>
Other Financing Sources (Uses)				
Transfers In		446,369	477,824	924,193
Transfers Out	(924,193)			(924,193)
<i>Total Other Financing Sources (Uses)</i>	<u>(924,193)</u>	<u>446,369</u>	<u>477,824</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	(1,158,499)	319,407	(109,609)	(948,701)
<i>Fund Balances, Beginning of Year</i>	<u>3,992,905</u>	<u>3,986,266</u>	<u>1,430,371</u>	<u>9,409,542</u>
<i>Fund Balances, End of Year</i>	<u>\$2,834,406</u>	<u>\$4,305,673</u>	<u>\$1,320,762</u>	<u>\$8,460,841</u>

See accompanying notes to the basic financial statements

Lorain Public Library System
Lorain County
*Reconciliation of the Statement of Cash Receipts, Disbursements and Changes
in Cash Basis Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended December 31, 2009*

Net Change in Fund Balances - Total Governmental Funds	<u>(\$948,701)</u>
<i>Change in Net Assets of Governmental Activities</i>	<u><u>(\$948,701)</u></u>

See accompanying notes to the basic financial statements

Lorain Public Library System
Lorain County
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual - Budget Basis
General Fund
For the Year Ended December 31, 2009

	<u>Budgeted Amounts</u>			Variance with
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Final Budget Positive (Negative)
Receipts				
Property and Other Local Taxes	\$ 4,148,255	\$ 4,148,255	\$ 4,011,950	(\$136,305)
Intergovernmental	5,050,177	4,551,544	4,700,559	149,015
Patron Fines and Fees	115,000	115,000	127,341	12,341
Contributions, Gifts and Donations	1,000	1,000	10,025	9,025
Earnings on Investments	87,000	87,000	12,239	(74,761)
Miscellaneous	5,000	5,000	22,146	17,146
<i>Total Receipts</i>	<u>9,406,432</u>	<u>8,907,799</u>	<u>8,884,260</u>	<u>(23,539)</u>
Disbursements				
Current:				
Library Services:				
Public Service and Programs	8,407,193	8,468,385	7,201,340	1,267,045
Collection Development and Processing	1,777,678	1,839,453	1,495,562	343,891
Support Services:				
Facilities Operation and Maintenance	537,399	596,594	461,119	135,475
Capital Outlay	391,836	374,719	192,990	181,729
<i>Total Disbursements</i>	<u>11,114,106</u>	<u>11,279,151</u>	<u>9,351,011</u>	<u>1,928,140</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(1,707,674)</u>	<u>(2,371,352)</u>	<u>(466,751)</u>	<u>1,904,601</u>
Other Financing Sources (Uses)				
Transfers Out	(924,193)	(924,193)	(924,193)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(924,193)</u>	<u>(924,193)</u>	<u>(924,193)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	(2,631,867)	(3,295,545)	(1,390,944)	1,904,601
<i>Fund Balance, Beginning of Year</i>	3,815,961	3,815,961	3,815,961	0
Prior Year Encumbrances Appropriated	176,944	176,944	176,944	0
<i>Fund Balance, End of Year</i>	<u>\$1,361,038</u>	<u>\$697,360</u>	<u>\$2,601,961</u>	<u>\$1,904,601</u>

See accompanying notes to the basic financial statements

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**Lorain Public Library System
Lorain County**

*Notes to the Basic Financial Statements
For the Years Ended December 31, 2010 and December 31, 2009*

Note 1 – Description of the Library and Reporting Entity

The Lorain Public Library System, Lorain County (“the Library”) was organized as a school district public library in 1901 under the laws of the State of Ohio. The Library's service district encompasses the Lorain City School District, the North Ridgeville City School District, the Sheffield-Sheffield Lake City School District, the Avon Local School District, the Clearview Local School District, the Columbia Local School District, and the portions of the Firelands Local School District located in the Townships of Henrietta and Camden. The Library has its own Board of Trustees of seven members who are appointed by the Lorain City School District Board of Education. Appointments are for seven-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 Chief Fiscal Officer.

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

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

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 the Lorain City School District.

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 Lorain Public Library System consist of five separate not-for-profit organizations each with a self-appointing board. The Library is not financially accountable for any of the organizations, nor does the Library approve the budgets or the issuance of debt for any of the organizations. Therefore, these organizations have been excluded from the reporting entity of the Library.

Lorain Public Library System
Lorain County
Notes to the Basic Financial Statements
For the Years Ended December 31, 2010 and December 31, 2009

Note 1 – Description of the Library and Reporting Entity (continued)

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

Note 2 - Summary of Significant Accounting Policies

As discussed further in Note 2.C, the financial statements of the Library have been prepared on a 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 Library. Governmental activities generally are financed through taxes, intergovernmental receipts and other nonexchange transactions.

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

Lorain Public Library System
Lorain County
Notes to the Basic Financial Statements
For the Years Ended December 31, 2010 and December 31, 2009

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

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

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

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

C. Basis of Accounting

The Library's financial statements are prepared using the 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 liabilities and the related expenses) are not recorded in these financial statements.

D. Budgetary Process

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

For control purposes, the Library estimates cash receipts for the year. These estimated receipts, together with the unencumbered carry-over balances from the prior year, set a limit on the amount the Trustees may appropriate. The estimated receipts may be revised during the year if projected increases or decreases in receipts are identified by the Chief Fiscal Officer. 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.

Lorain Public Library System
Lorain County
Notes to the Basic Financial Statements
For the Years Ended December 31, 2010 and December 31, 2009

Note 2 – Summary of Significant Accounting Policies (continued)

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 resolution 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

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

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

During 2010 and 2009, investments were limited to money market funds, STAR Ohio and nonnegotiable certificates of deposit. The money market and STAR Ohio accounts were reported at the bank balance value at year-end.

The Library's money market fund investment is recorded at amounts reported by Lorain National Bank, Charter One Bank and Buckeye Community Bank on December 31, 2010 and December 31, 2009.

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2010 and December 31, 2009.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest receipts credited to the General Fund during 2010 amounted to \$4,288 and \$12,239 in 2009.

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, the Board of Library Trustees or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets represent \$3,861,053 of the Library's funds at December 31, 2010, and \$5,626,435 of the Library's funds at December 31, 2009 which have had restrictions imposed by contributors, grantors or the Board of Library Trustees.

G. Inventory and Prepaid Items

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

H. Capital Assets

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

Lorain Public Library System
Lorain County
Notes to the Basic Financial Statements
For the Years Ended December 31, 2010 and December 31, 2009

Note 2 – Summary of Significant Accounting Policies (continued)

I. Interfund Receivables/Payables

The Library reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

J. 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.

K. 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 8 and 9, the employer contributions include portions for pension benefits and for postretirement health care benefits.

L. Long-Term Obligations

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

M. Net Assets

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

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

N. 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.

O. Interfund Transactions

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

Lorain Public Library System
Lorain County
Notes to the Basic Financial Statements
For the Years Ended December 31, 2010 and December 31, 2009

Note 3 – Budgetary Basis of Accounting

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the General Fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the 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 (budgetary basis) amounted to \$338,904 in 2010, and \$232,445 in 2009 for the General Fund.

Note 4 – Deposits and Investments

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

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

Inactive deposits are public deposits that the 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;
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. Interim deposits in duly authorized depositories of LPLS, provided those deposits are properly insured or collateralized as required by law.
4. Federally insured certificates of deposit issued through the Certificate of Deposit Account Registry Service (CDARS) by financial institutions located in the United States, provided that (i) the funds are initially invested by the library through a financial institution that is participating in CDARS and that is located and doing business in the State of Ohio; (ii) the financial institution in the State of Ohio receives reciprocal deposits from customers of other financial institutions in an amount equal to the funds initially invested by the jurisdiction; and (iii) each such certificate of deposit is in an amount that is eligible for full FDIC insurance coverage.

Lorain Public Library System
Lorain County
Notes to the Basic Financial Statements
For the Years Ended December 31, 2010 and December 31, 2009

Note 4 - Deposits and Investments (continued)

5. Bonds and other obligations of the State of Ohio or Ohio local governments;
6. No-load money market mutual funds consisting of securities described in paragraphs 1 and 2 of this Section and repurchase agreements secured by such obligations, provided all such investments under this paragraph meets the requirements of Chapter 135 of the Ohio Revised Code (including that such not include any investment in a "derivative");
7. Overnight or term (not exceeding 30 days) repurchase agreements meeting the requirements of Section 135.14(E) of the Ohio Revised Code, with: (i) a bank or savings and loan association eligible to be a depository of public funds of Ohio subdivisions or (ii) a member of the National Association of Securities Dealers;
8. The State Treasurer's investment pool (STAR Ohio).

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

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

At year end, the Library had \$850 in undeposited cash on hand which is included as part of "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

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 2010, \$1,970,902 of the Library's bank balance of \$2,553,129 was 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. At year end 2009, \$2,727,703 of the Library's bank balance of \$3,422,179 was 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.

Lorain Public Library System
Lorain County
Notes to the Basic Financial Statements
For the Years Ended December 31, 2010 and December 31, 2009

Note 4 – Deposits and Investments (Continued)

Investments

As of December 31, 2010 and December 31, 2009 the Library had the following investments:

	Carrying Value	Maturity
December 31, 2010		
STAR Ohio	\$5,220,776	Less Than One Year
	Carrying Value	Maturity
December 31, 2009		
STAR Ohio	\$5,215,130	Less Than One Year

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

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

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

Note 5 – Property Taxes and Grants-in-Aid

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the Library’s Districts. Property tax receipts received in 2010 and 2009 for real and public utility property taxes represents collections of the 2009 and 2008 taxes. Property tax payments received during 2010 and 2009 for tangible personal property (other than public utility property) is for 2010 and 2009 taxes.

2010 and 2009 real property taxes are levied after October 1, 2010 and 2009 on the assessed values as of January 1, 2010 and January 1, 2009, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. 2009 real property taxes are collected in and intended to finance 2010, and 2008 real property taxes are collected in and intended to finance 2009.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Lorain Public Library System
Lorain County
Notes to the Basic Financial Statements
For the Years Ended December 31, 2010 and December 31, 2009

Note 5 – Property Taxes and Grants-in-Aid (Continued)

Public utility tangible personal property is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2010 public utility property taxes which became a lien on December 31, 2009, are levied after October 1, 2010, and are collected in 2011 with real property taxes. 2009 public utility taxes which became a lien on December 31, 2008, are levied after October 1, 2009, and are collected in 2010 with real property taxes.

2010 tangible property taxes are levied after October 1, 2009, on the value as of December 31, 2009. Collections are made in 2010. 2009 tangible property taxes are levied after October 1, 2008, on the value as of December 31, 2008. Collections are made in 2009. Tangible personal property assessments were being phased out – the assessment percentage for all property including inventory for 2010 and 2009 is zero. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 3, with the remainder due September 20.

The full tax rate for all Library operations for the year ended December 31, 2010, was \$1.61 per \$1,000 of assessed value. The assessed values of real and personal property upon which 2010 property tax receipts were based are as follows:

Real Property	
Residential/Agricultural	\$2,044,592,570
Other	401,403,500
Public Utility Property	38,850,710
Mobile Home	1,078,893
Tangible Personal Property	<u>2,197,540</u>
Total	<u>\$2,488,123,213</u>

The full tax rate for all Library operations for the year ended December 31, 2009, was \$1.55 per \$1,000 of assessed value. The assessed values of real and personal property upon which 2009 property tax receipts were based are as follows:

Real Property	
Residential/Agricultural	\$2,145,868,220
Other	398,886,320
Public Utility Property	38,152,730
Mobile Home	1,135,491
Tangible Personal Property	<u>2,287,541</u>
Total	<u>\$2,586,330,302</u>

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the Library. The County Auditor periodically remits to the Library its portion of the taxes collected for the Lorain City School District. The finance directors from the other taxing authorities remit to the Library its portion of the taxes collected for their cities or township.

Another source of revenue for Ohio public libraries is the State Public Library Fund (PLF). The State allocates PLF to each county based on the county's prior intangibles tax of PLF revenues, and its population. The County Budget Commission allocates these funds to the Library based on its needs such as for the construction of new library buildings, improvements, operation, maintenance, or other expenses. The Budget Commission cannot reduce its allocation of these funds to the Library based on any additional revenues the Library receives.

Lorain Public Library System
Lorain County
Notes to the Basic Financial Statements
For the Years Ended December 31, 2010 and December 31, 2009

Note 6 – Interfund Advances

Interfund advances at December 31, 2010, consisted of the following individual unreturned fund advances:

Due to Building & Repair Fund from:	
General Fund	\$ 100,000
Total Building & Repair Fund	\$ 100,000

The balance due to the Building & Repair Fund includes advances made to provide working capital for operations or projects. All of these amounts are expected to be repaid within one year.

Note 7 - 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 2010, the Library contracted with The Ohio Plan for various types of insurance coverage as follows:

Company	Type of Coverage	Amount of Coverage
The Ohio Plan	Commercial Property	\$45,009,523
	General Liability	\$5,000,000/\$7,000,000
	Employee Benefits	\$5,000,000/\$7,000,000
	Employee Dishonesty	\$100,000
	Vehicle	\$5,000,000
	Library Officials	\$5,000,000/\$7,000,000

During 2009, the Library contracted with The Ohio Plan for various types of insurance coverage as follows:

Company	Type of Coverage	Amount of Coverage
The Ohio Plan	Commercial Property	\$44,242,589
	General Liability	\$5,000,000/\$7,000,000
	Employee Benefits	\$5,000,000/\$7,000,000
	Employee Dishonesty	\$100,000
	Vehicle	\$5,000,000
	Library Officials	\$5,000,000/\$7,000,000

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

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

Note 8 - Defined Benefit Pension Plan

OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM

Plan Description – The Library participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension 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

Lorain Public Library System
Lorain County
Notes to the Basic Financial Statements
For the Years Ended December 31, 2010 and December 31, 2009

Note 8 - Defined Benefit Pension Plan (Continued)

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. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, 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 Pension 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. Interested parties may obtain a copy by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units. Member contribution rates, as set in the Ohio Revised Code, are not to exceed 10 percent. For the years ended December 31, 2010 and December 31, 2009, members in state and local classifications contributed 10 percent of covered payroll. For 2010 and 2009, member and employer contribution rates were consistent across all three plans.

The Library's 2010 and 2009 contribution rates were 14.0 percent. The portion of employer contributions used to fund pension benefits is net of post-employment health care benefits. The portion of employer contribution allocated to health care for members in the Traditional Plan was 5.5 percent from January 1 through February 28, 2010, and 5 percent from March 1 through December 31, 2010. The portion of employer contributions allocated to health care for members in the Combined Plan was 4.73 percent from January 1 through February 28, 2010, and 4.23 percent from March 1 through December 31, 2010. The portion of employer contribution allocated to health care for members in the Traditional Plan was 7 percent from January 1 through March 31, 2009, and 5.5 percent from April 1 through December 31, 2009. Employer contribution rates are actuarially determined.

The Library's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2010, 2009, and 2008 were \$560,866, \$622,674, and \$603,750, respectively; 100 percent has been contributed for 2010, 2009 and 2008. There were no contributions to the Member-Directed Plan for 2010 or 2009.

Note 9 – Post-Employment Benefits

OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM

Plan Description – Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan—a cost sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan—a defined contribution plan; and the Combined Plan—a cost sharing, multiple employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing multiple-employer defined benefit post-employment health care plan for qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. The plan includes a medical plan, prescription drug program and Medicare Part B premium reimbursement.

Lorain Public Library System
Lorain County
Notes to the Basic Financial Statements
For the Years Ended December 31, 2010 and December 31, 2009

Note 9 – Post-Employment Benefits (Continued)

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code permits, but does not mandate, OPERS to provide health care benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The post-employment health care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care through contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2010 and 2009, state and local employers contributed at a rate of 14.0 percent of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units.

Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 5.5 percent from January 1 through February 28, 2010, and 5 percent from March 1 through December 31, 2010. The portion of employer contributions allocated to health care for members in the Combined Plan was 4.73 percent from January 1 through February 28, 2010, and 4.23 percent from March 1 through December 31, 2010. The portion of employer contribution allocated to health care for members in the Traditional Plan was 7 percent from January 1 through March 31, 2009, and 5.5 percent from April 1 through December 31, 2009.

The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the post-employment health care plan.

The Library's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2010, 2009, and 2008 were \$203,727, \$259,816, and \$301,875, respectively; 100 percent has been contributed for 2010, 2009 and 2008.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased on January 1 of each year from 2006 to 2008. These rate increases allowed additional funds to be allocated to the health care plan.

Note 10 - Note Payable

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

Lorain Public Library System
Lorain County
Notes to the Basic Financial Statements
For the Years Ended December 31, 2010 and December 31, 2009

Note 10 - Note Payable (Continued)

Debt outstanding at December 31, 2010 was as follows:

	Principal Outstanding 12/31/2008	Additions	Reductions	Outstanding Balance 12/31/2010
Governmental Activities				
General Obligation Note:				
Construction & Improvements	\$1,325,000	\$0	\$865,000	\$460,000

Principal and interest requirements to retire the general obligation note outstanding at December 31, 2010, are as follows:

SCHEDULE OF DEBT SERVICE REQUIREMENTS TO MATURITY

Year	Principal	Interest	Total
2011	\$ 460,000	\$ 18,860	\$ 478,860

Note 11 – Interfund Transfers

In 2010, the Building and Repair Fund transferred \$944,618 to the General Fund to provide working capital for Library operations, \$476,460 was transferred from the General Fund to the Debt Service Fund for the general obligation note (see Note 10), and \$5,000 was transferred from the Stocker Fund to the Summer Reading Program Fund for general support of the 2010 Summer Reading Program. In 2009, the General Fund transferred \$446,369 to the Building and Repair Fund for the purchase and maintenance of various items throughout the Library, and \$477,824 was transferred from the General Fund to the Debt Service Fund for the general obligation note (see Note 10).

Note 12 – Related Organizations

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

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

- Friends of the Avon Library
- Friends of the Columbia Library, Inc.
- Friends of the Domonkas Library
- Friends of the Lorain Public Library, Inc.
- Friends of the North Ridgeville Branch Library, Inc.
- The Foundation of the Lorain Public Library System, Inc.

Note 13 – Subsequent Events

On May 3, 2011, the voters of the Lorain City School District, the City of Avon and the City of Sheffield Lake passed issues which renew the Library's current 4.08, 1.20 and 2.20 mills respectively, for operating funds.

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Dave Yost • Auditor of State

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

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

To the Board of Trustees:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lorain Public Library System, Lorain County, Ohio (the Library), as of and for the years ended December 31, 2010, and 2009, which collectively comprise the Library's basic financial statements and have issued our report thereon dated May 18, 2011, wherein we noted the Library uses a comprehensive accounting basis other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Library's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the Library's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Library's internal control over financial reporting.

A *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 more than a reasonable possibility that a material misstatement of the Library's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Compliance and Other Matters

As part of reasonably assuring whether the Library's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain matters not requiring inclusion in this report that we reported to the Library's management in a separate letter dated May 18, 2011.

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

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

May 18, 2011



Dave Yost • Auditor of State

LORAIN PUBLIC LIBRARY SYSTEM

LORAIN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 7, 2011**