



Dave Yost • Auditor of State

MORLEY LIBRARY
LAKE COUNTY

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Dave Yost • Auditor of State

Morley Library
Lake County
184 Phelps Street
Painesville, Ohio 44077

To the Library Board of Trustees:

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

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Dave Yost
Auditor of State

July 13, 2011

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Morley Library
Lake County
184 Phelps Street
Painesville, Ohio 44077

To the Library Board of Trustees:

We have audited the accompanying financial statements of Morley Library, Lake County, (the Library) as of and for the years ended December 31, 2010 and 2009. These financial statements are the responsibility of the Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As described more fully in Note 1, the Library has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the Library's larger (i.e. major) funds separately. While the Library does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require Libraries to reformat their statements. The Library has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2010 and 2009 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Library as of December 31, 2010 and 2009, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of Morley Library, Lake County, as of December 31, 2010 and 2009, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The Library has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report July 13, 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.

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

Dave Yost
Auditor of State

July 13, 2011

**MORLEY LIBRARY
LAKE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Governmental Fund Types</u>					Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Permanent</u>	
Cash Receipts:						
Property and Other Local Taxes	\$1,026,051		\$778,287			\$1,804,338
Intergovernmental	1,529,144		109,681			1,638,825
Services Provided to Other Entities		\$9,180				9,180
Patron Fines and Fees	99,513					99,513
Contributions, Gifts and Donations	5,147			\$13,500	\$2,069	20,716
Earnings on Investments	7,641	146,059	575	73,413		227,688
Miscellaneous	948					948
Total Cash Receipts	2,668,444	155,239	888,543	86,913	2,069	3,801,208
Cash Disbursements:						
Current:						
Salaries	1,228,176	9,173				1,237,349
Employee Fringe Benefits	389,285	1,023				390,308
Purchased and Contractual Services	368,409	410	10,047	59,334		438,200
Library Materials and Information	421,463					421,463
Supplies	44,848	50				44,898
Other	9,162					9,162
Capital Outlay	61,052	1,244		409,052		471,348
Debt Service:						
Redemption of Principal			520,000			520,000
Interest and Other Fiscal Charges			387,837			387,837
Total Cash Disbursements	2,522,395	11,900	917,884	468,386	0	3,920,565
Total Receipts Over/(Under) Disbursements	146,049	143,339	(29,341)	(381,473)	2,069	(119,357)
Other Financing Receipts / (Disbursements):						
Transfers-In		628		3,223,073		3,223,701
Transfers-Out	(628)			(3,223,073)		(3,223,701)
Total Other Financing Receipts / (Disbursements)	(628)	628	0	0	0	0
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	145,421	143,967	(29,341)	(381,473)	2,069	(119,357)
Fund Cash Balances, January 1, 2010	657,883	3,789,484	189,656	3,881,461	448,811	8,967,295
Fund Cash Balances, December 31, 2010	<u>\$803,304</u>	<u>\$3,933,451</u>	<u>\$160,315</u>	<u>\$3,499,988</u>	<u>\$450,880</u>	<u>\$8,847,938</u>
Reserve for Encumbrances, December 31, 2010	<u>\$193,378</u>	<u>\$1,555</u>	<u>\$0</u>	<u>\$108,875</u>	<u>\$0</u>	<u>\$303,808</u>

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

**MORLEY LIBRARY
LAKE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2009**

	Governmental Fund Types					Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Permanent	
Cash Receipts:						
Property and Other Local Taxes	\$1,012,017		\$752,058			\$1,764,075
Intergovernmental	1,609,246	\$16,700	105,576			1,731,522
Patron Fines and Fees	92,801					92,801
Contributions, Gifts and Donations	7,065	3,150			\$1,870	12,085
Earnings on Investments	2,474	90,704	221	\$90,747		184,146
Miscellaneous	1,884					1,884
Total Cash Receipts	<u>2,725,487</u>	<u>110,554</u>	<u>857,855</u>	<u>90,747</u>	<u>1,870</u>	<u>3,786,513</u>
Cash Disbursements:						
Current:						
Salaries	1,303,967	21,727				1,325,694
Employee Fringe Benefits	411,747	2,902				414,649
Purchased and Contractual Services	357,816	1,080	9,448	15,247		383,591
Library Materials and Information	416,375	136				416,511
Supplies	55,793	278				56,071
Other	9,682					9,682
Capital Outlay	10,959	3,518				14,477
Debt Service:						
Redemption of Principal			500,000			500,000
Interest and Other Fiscal Charges			404,087			404,087
Total Cash Disbursements	<u>2,566,339</u>	<u>29,641</u>	<u>913,535</u>	<u>15,247</u>	<u>0</u>	<u>3,524,762</u>
Total Receipts Over/(Under) Disbursements	<u>159,148</u>	<u>80,913</u>	<u>(55,680)</u>	<u>75,500</u>	<u>1,870</u>	<u>261,751</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	159,148	80,913	(55,680)	75,500	1,870	261,751
Fund Cash Balances, January 1, 2009	<u>498,735</u>	<u>3,708,571</u>	<u>245,336</u>	<u>3,805,961</u>	<u>446,941</u>	<u>8,705,544</u>
Fund Cash Balances, December 31, 2009	<u><u>\$657,883</u></u>	<u><u>\$3,789,484</u></u>	<u><u>\$189,656</u></u>	<u><u>\$3,881,461</u></u>	<u><u>\$448,811</u></u>	<u><u>\$8,967,295</u></u>
Reserve for Encumbrances, December 31, 2009	<u><u>\$198,419</u></u>	<u><u>\$1,536</u></u>	<u><u>\$0</u></u>	<u><u>\$1,550</u></u>	<u><u>\$0</u></u>	<u><u>\$201,505</u></u>

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

**MORLEY LIBRARY
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

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 Morley Library, Lake County, Ohio, (the Library) as a body corporate and politic. The Lake County Commissioners 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 the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Library 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 Auditor of State prescribes or permits.

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 U.S. Treasury Notes at cost. The Library invested 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 reports all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

These funds account for proceeds from specific sources (other than from private-purpose trusts or for capital projects) that are restricted to expenditure for specific purposes. The Library had the following significant Special Revenue Funds:

**MORLEY LIBRARY
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds (Continued)

Grant Fund – This fund is used to account for proceeds from the OhioReads, and (LSTA) Library Services and Technology Act grants.

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

3. Debt Service Fund

This fund accounts for resources the Library accumulates to pay bond and note debt. 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

These funds account for receipts restricted to acquiring or constructing major capital projects (except those financed through enterprise or trust funds). The Library had the following significant capital project funds:

Building Fund – This fund accounts for all activity related to the construction of the new library building.

Note Proceeds Fund – This fund accounts for the interest earned on the general obligation bond proceeds and reimburses the Building Fund as funds are spent on Capital Projects.

5. Permanent Fund

This fund accounts for assets held under a trust agreement that are legally restricted to the extent that only earnings, not principal, are available to support the Library's programs. The Library had the following significant permanent fund:

Morley 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.

**MORLEY LIBRARY
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)**

E. Budgetary Process

The Board must annually approve appropriation measures and subsequent amendments. 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 2010 and 2009 budgetary activity appears in Note 3.

F. 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.

G. 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 Deposits and Investments

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

	2010	2009
Demand deposits	\$436,912	\$70,563
Certificates of deposit	269,185	1,009,323
Total deposits	706,097	1,079,886
U.S. Treasury Notes	7,500,004	7,100,000
STAR Ohio	641,837	787,409
Total investments	8,141,841	7,887,409
Total deposits and investments	\$8,847,938	\$8,967,295

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

Investments: The Federal Reserve holds the Library's U.S. Treasury Notes 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 are not evidenced by securities that exist in physical or book-entry form.

**MORLEY LIBRARY
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)**

3. Budgetary Activity

Budgetary activity for the years ending December 31, 2010 and December 31, 2009 follows:

2010 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$2,609,481	\$2,668,444	\$58,963
Special Revenue	116,478	155,867	39,389
Debt Service	864,043	888,543	24,500
Capital Projects	3,858,000	3,309,986	(548,014)
Permanent	1,500	2,069	569
Total	\$7,449,502	\$7,024,909	(\$424,593)

2010 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$2,709,350	\$2,716,401	(\$7,051)
Special Revenue	40,440	13,455	26,985
Debt Service	918,038	917,884	154
Capital Projects	4,420,000	3,800,334	619,666
Total	\$8,087,828	\$7,448,074	\$639,754

2009 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$2,775,990	\$2,725,487	(\$50,503)
Special Revenue	76,650	110,554	33,904
Debt Service	845,138	857,855	12,717
Capital Projects	54,990	90,747	35,757
Permanent	500	1,870	1,370
Total	\$3,753,268	\$3,786,513	\$33,245

2009 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$2,913,430	\$2,764,758	\$148,672
Special Revenue	50,520	31,177	19,343
Debt Service	913,688	913,535	153
Capital Projects	100,000	16,797	83,203
Total	\$3,977,638	\$3,726,267	\$251,371

**MORLEY LIBRARY
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)**

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. The County Budget Commission bases the amount for distribution on the needs of such library for the construction of new library buildings, parts of buildings, improvements, operation, maintenance, or other expenses. The County 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. These dates can change, if the County grants an extension on collection.

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

Tangible personal property tax is assessed only against local and inter-exchange telephone companies for 2010 and 2009 who must file a list of such property to the County by each April 30.

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

5. Debt

Debt outstanding at December 31, 2010 was as follows:

	Principal	Interest Rate
General Obligation Bonds	\$7,555,000	1.35% to 5.25%
Total	\$7,555,000	

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 18 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:	
2011	\$909,637
2012	910,197
2013	907,197
2014	909,675
2015	907,650
2016-2020	5,458,038
Total	\$10,002,394

**MORLEY LIBRARY
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)**

6. Retirement Systems

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 2010 and 2009, 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, 2010.

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.

Also, the Library provides health, vision, and dental insurance to all full time employees. Employees scheduled a minimum of 32 hours per week (but less than full time) are eligible to participate in this insurance program by paying a pro-rate share of the premium reflecting their less-than-full time status. The Library also pays 90% of the cost to insure dependents of employees eligible for this healthcare plan. The Library's liability for health care is limited to the premiums paid.



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

Morley Library
Lake County
184 Phelps Street
Painesville, Ohio 44077

To the Library Board of Trustees:

We have audited the financial statements Morley Library, Lake County, Ohio (the Library) as of and for the years ended December 31, 2010 and 2009 and have issued our report thereon dated July 13, 2011. 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 opinion 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 Government'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 July 13, 2011.

We intend this report solely for the information and use of the audit committee, management, the Library 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 initial "D".

Dave Yost
Auditor of State

July 13, 2011



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
AUGUST 2, 2011