



Dave Yost • Auditor of State

**SHELBY COUNTY LIBRARIES
SHELBY COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Cover Letter	1
Independent Accountants' Report.....	3
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2010.....	5
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2009.....	6
Notes to the Financial Statements	7
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	13
Schedule of Findings.....	15
Schedule of Prior Audit Findings.....	17

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Dave Yost • Auditor of State

Shelby County Libraries
Shelby County
230 East North Street
Sidney, Ohio 45365

To the Board of Trustees:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to 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

October 18, 2011

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Shelby County Libraries
Shelby County
230 East North Street
Sidney, Ohio 45365

To the Board of Trustees:

We have audited the accompanying financial statements of Shelby County Libraries, Shelby County, (the Library) as of and for the years ended December 31, 2010 and 2009, and have issued our report thereon dated October 18, 2011, wherein we noted the Library followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. 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 Shelby County Libraries, Shelby 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.

As described in Note 2, the Library restated the beginning balance in the General fund and the Special Revenue fund to adjust cash balances for carrying value of investments and deposits.

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 dated October 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.

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

October 18, 2011

**SHELBY COUNTY LIBRARIES
SHELBY 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>Capital Projects</u>	
Cash Receipts:				
Library and Local Government Support	\$1,353,339			\$1,353,339
Patron Fines and Fees	30,006			30,006
Earnings on Investments	5,222	\$17,158		22,380
Contributions, Gifts and Donations	10,578			10,578
Miscellaneous Receipts	19,569			19,569
Total Cash Receipts	<u>1,418,714</u>	<u>17,158</u>		<u>1,435,872</u>
Cash Disbursements:				
Salaries and Benefits	875,480			875,480
Purchased and Contracted Services	221,154		\$26,155	247,309
Supplies	41,531			41,531
Library Materials and Information	214,273			214,273
Capital Outlay			24,344	24,344
Miscellaneous	16,946	964		17,910
Total Cash Disbursements	<u>1,369,384</u>	<u>964</u>	<u>50,499</u>	<u>1,420,847</u>
Total Cash Receipts Over/(Under) Cash Disbursements	<u>49,330</u>	<u>16,194</u>	<u>(50,499)</u>	<u>15,025</u>
Fund Cash Balances, January 1	<u>1,364,059</u>	<u>1,514,185</u>	<u>\$812,629</u>	<u>3,690,873</u>
Fund Cash Balances, December 31	<u>\$1,413,389</u>	<u>\$1,530,379</u>	<u>\$762,130</u>	<u>\$3,705,898</u>
Reserves for Encumbrances, December 31	<u>\$108,051</u>	<u>\$2,104</u>		<u>\$110,155</u>

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

**SHELBY COUNTY LIBRARIES
SHELBY 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**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Library and Local Government Support	\$1,440,522			\$1,440,522
Intergovernmental	3,900	\$9,976		13,876
Patron Fines and Fees	34,337			34,337
Earnings on Investments	17,590	12,668		30,258
Contributions, Gifts and Donations	21,979			21,979
Miscellaneous Receipts	33,437			33,437
Total Cash Receipts	<u>1,551,765</u>	<u>22,644</u>		<u>1,574,409</u>
Cash Disbursements:				
Salaries and Benefits	1,014,355			1,014,355
Purchased and Contracted Services	259,126	9,976	\$28,491	297,593
Supplies	36,432			36,432
Library Materials and Information	206,497			206,497
Capital Outlay			14,689	14,689
Miscellaneous	23,704			23,704
Total Cash Disbursements	<u>1,540,114</u>	<u>9,976</u>	<u>43,180</u>	<u>1,593,270</u>
Total Cash Receipts Over/(Under) Cash Disbursements	<u>11,651</u>	<u>12,668</u>	<u>(43,180)</u>	<u>(18,861)</u>
Fund Cash Balances, January 1 (restated - Note 2)	<u>1,352,408</u>	<u>1,501,517</u>	<u>\$855,809</u>	<u>3,709,734</u>
Fund Cash Balances, December 31	<u>\$1,364,059</u>	<u>\$1,514,185</u>	<u>\$812,629</u>	<u>\$3,690,873</u>
Reserves for Encumbrances, December 31	<u>\$145,298</u>	<u>\$2,104</u>		<u>\$147,402</u>

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

**SHELBY COUNTY LIBRARIES
SHELBY 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 the Shelby County Library, Shelby County, (the Library) as a body corporate and politic. The Library is a school district library comprised of seven citizens appointed by the Sidney City District Board of Education. The Library provides general services regarding books, periodicals, videos and other items to the citizens in the city and surrounding area.

Blended Component Unit

A blended component unit is where the component unit's governing body is substantially the same as the primary government's governing body or the component unit provides services entirely or almost entirely to the primary government or otherwise exclusively, or almost exclusively benefits the primary government.

The Sidney Library Foundation (the "Foundation") is also associated with the Library. The Foundation meets the criteria of a blended component unit of the Library. The financial activity of the Foundation will be included in the financial statements of the Library as a Special Revenue Fund type.

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.

Money market mutual funds (including STAR Ohio) are recorded at share values the mutual funds report. The Library invested funds in the State Treasury Assets Reserves of Ohio (STAR Ohio) during fiscal years 2010 and 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 2009.

**SHELBY COUNTY LIBRARIES
SHELBY COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 is the operating fund. It's used to account for 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:

Library Foundation Fund - This fund is used to account for the operations of the Library Foundation which is under Board control but is not used for the day to day operations of the Library. This constitutes a blended component unit.

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

Harshbarger Fund – This fund is used to account for donations from the Harshbarger family to be utilized for the improvement of the Amos Public Library facilities, including collection of books on display at the Anna branch library and technology and improvements at the Anna Branch Location.

3. 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 fund:

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

E. Budgetary Process

The Board must annually approve appropriation measures and subsequent amendments. Unencumbered appropriations lapse at year end. Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function, and object level of control. Estimated resources include estimates of cash to be received (budget receipts) plus unencumbered cash as of January 1.

A summary of 2010 and 2009 budgetary activity appears in Note 4.

**SHELBY COUNTY LIBRARIES
SHELBY COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. RESTATEMENT OF FUND BALANCES

The Library had investments held in Charles Schwab accounts consisting of money market funds, equity funds and bond funds. The prior financial statements reported the cash fund balances of the equity and bond funds at market value rather than cost. At December 31, 2008, the General Fund cash balance was restated \$211,680 from \$1,564,088 to \$1,352,408; the Special Revenue Fund cash balance was restated \$84,184 from \$1,585,701 to \$1,501,517.

3. DEPOSITS AND INVESTMENTS

The Library maintains a deposit and investments pool all funds use. The Ohio Revised Code prescribes allowable deposits and investments.

Cash on Hand – The Library maintained cash on hand of \$285 and \$310 as of December 31, 2010 and 2009, respectively.

The carrying amount of deposits and investments at December 31 was as follows:

	<u>2010</u>	<u>2009</u>
Demand deposits	\$1,724,901	\$1,744,564
Certificates of deposit	57,864	57,437
Total deposits	<u>1,782,765</u>	<u>1,802,001</u>
STAR Ohio	352,988	352,607
Money Market Funds	690,703	690,655
Equity Funds	502,920	490,110
Bond Funds	376,237	355,190
Total investments	<u>1,922,848</u>	<u>1,888,562</u>
Total deposits and investments	<u><u>\$3,705,613</u></u>	<u><u>\$3,690,563</u></u>

At December 31, 2010 and 2009, the Library held \$502,920 and \$490,110, respectively, in equity securities. Equity securities are not eligible investments for the Library under Ohio law.

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

Investments: At year-end, the library had invested in STAR Ohio, money market funds, equity funds and bond funds. Investments in STAR Ohio not evidenced by securities that exist in physical or book-entry form.

**SHELBY COUNTY LIBRARIES
SHELBY COUNTY**

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

3. DEPOSITS AND INVESTMENTS (Continued)

The investments of the Library are redeemable at current fair market value. As of December 31, 2010, the market value of the Library's investments was:

	Market Value
Janus Flexible Fund Bond	\$ 201,663
Vanguard Bond Fund	192,065
Mutual Beacon Equity Fund	243,743
T Rowe Price Equity Fund	239,608
Money Market Mutual Fund	690,703
STAR Ohio	352,988
Total Investments	\$1,920,770

As of December 31, 2009, the market value of the Library's investments was:

	Market Value
Janus Flexible Fund Bond	\$ 187,689
Vanguard Bond Fund	180,478
Mutual Beacon Equity Fund	219,340
T Rowe Price Equity Fund	208,075
Money Market Mutual Fund	690,633
STAR Ohio	352,607
Total Investments	\$1,838,822

4. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2010 and December 31, 2009, excluding the activity of the Special Revenue Fund – Library Foundation (the blended component unit) which is not required to be budgeted, was as follows:

2010 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,423,520	\$1,418,714	\$ 4,779
Special Revenue		17,158	17,158
Capital Projects			
Total	\$1,423,520	\$1,440,651	\$21,937

2010 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,412,215	\$1,477,435	(\$65,220)
Special Revenue	3,068	3,068	
Capital Projects	50,498	50,499	(1)
Total	\$1,465,781	\$1,531,002	(\$65,221)

**SHELBY COUNTY LIBRARIES
SHELBY COUNTY**

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

4. BUDGETARY ACTIVITY (Continued)

2009 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,903,607	\$1,551,765	(\$351,842)
Special Revenue		22,644	22,644
Capital Projects			
Total	\$1,903,607	\$1,574,409	(\$329,198)

2009 Budgeted vs. Actual Budgetary Basis Expenditure			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,699,865	\$1,685,412	\$14,453
Special Revenue	12,080	12,080	
Capital Projects	43,181	43,181	
Total	\$1,755,126	\$1,740,673	\$14,453

5. 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 of any additional revenues the Library receives.

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.

The Library also provides health insurance coverage to full-time employees through a private carrier.

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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*

Shelby County Libraries
Shelby County
230 East North Street
Sidney, Ohio 45365

To the Board of Trustees:

We have audited the financial statements of Shelby County Libraries, Shelby County, (the Library) as of and for the year ended December 31, 2010 and 2009, and have issued our report thereon dated October 18, 2011 wherein we noted the Library followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. As described in Note 2, the Library restated the beginning balance in the General fund and the Special Revenue fund to adjust cash balances for carrying value of investments. 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.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2010-02 described in the accompanying schedule of findings to be a material weakness.

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 an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2010-01.

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

The Library's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Library's response and, accordingly, we express no opinion on it.

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



Dave Yost
Auditor of State

October 18, 2011

**SHELBY COUNTY LIBRARIES
SHELBY COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2010 AND 2009**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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1. Eligible Investments

FINDING NUMBER 2010-01

NONCOMPLIANCE

Ohio Rev. Code Sections 135.14 (B) states the treasurer or governing board may invest or deposit any part or all of the interim moneys. The following classifications of obligations shall be eligible for such investment or deposit:

- (1) United States treasury bills, notes, bonds, 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. Nothing in the classification of eligible obligations set forth in division (B)(1) of this section or in the classifications of eligible obligations set forth in divisions (B)(2) to (7) of this section shall be construed to authorize any investment in stripped principal or interest obligations of such eligible obligations.
- (2) Bonds, notes, debentures, or any other obligations or securities 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 the eligible institutions applying for interim moneys as provided in section [135.08](#) of the Revised Code. The award of interim deposits shall be made in accordance with section [135.09](#) of the Revised Code and the treasurer or the governing board shall determine the periods for which such interim deposits are to be made and shall award such interim deposits for such periods, provided that any eligible institution receiving an interim deposit award may, upon notification that the award has been made, decline to accept the interim deposit in which event the award shall be made as though the institution had not applied for such interim deposit.
- (4) Bonds and other obligations of this state;
- (5) No-load money market mutual funds consisting exclusively of obligations described in division (B)(1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions mentioned in section [135.03](#) of the Revised Code;
- (6) The Ohio subdivision's fund as provided in section [135.45](#) of the Revised Code

The Library had over 40% of the available fund balances invested in 3 different types of investment accounts (money market funds, bond funds and equity funds) which were made up of various, corporate bonds, mortgage backed bonds, commercial paper, repurchase agreements, preferred and common stocks of US and foreign companies.

The Treasurer and Library Board should implement procedures to ensure that only eligible investments are invested in accordance with Ohio Rev. Code Chapter 135.14.

Official's Response:

After discussion with the Library Board of Trustees, we will review the current investment policy and take the recommendations provided under consideration.

FINDING NUMBER 2010-02

2. Financial Accounting / Reporting Issues

MATERIAL WEAKNESS

Various accounting / reporting issues were identified which required audit adjustments:

- Prior audit adjustments were not posted to the Library's accounting records – which resulted in inappropriate fund balances being presented in the Library's annual financial statements, resulting in an overstatement in the General Fund balance of \$44,062 and understatement in the Special Revenue Fund balance of \$42,605
- Monthly bank to book reconciliations of all bank accounts to the Library's grand total fund balances were not performed. Monthly reconciliations were prepared only for the regular general fund checking account which represented less than 10% of the Library's grand total fund balance. The Library's accounting software system included a month to date and year to date Bank Reports, which can be used to assist in reconciling between this report and the month to date and year to date Fund Report.
- The various balances of the system Bank Reports were not supported by the respective bank statement account balances, with the significant difference being due to the investment accounts reported at incorrect amounts on the system. This resulted in a grand total fund balance adjustment to the Library's system bank report balance at December 31, 2010 and 2009 of \$296,443 and \$297,319, respectively.
- During 2009, the Library received through the State a \$9,976 OPLIN Filtering Grant and a \$3,900 Gates OPP Online Hardware Grant which were posted and reported as Contributions, Gifts and Donations and should have been posted and reported as Intergovernmental Revenue.

The lack of applying appropriate financial accounting / reporting practices has resulted in the Library's records being misstated and also resulted in the audit adjustments outlined above, which are reflected in the accompanying financial statements and have been made by the Library to its financial ledgers.

The Board and Management should, at a minimum, require that the following procedures be implemented:

- Require that each month a bank to book reconciliation be performed, ensuring that each bank account balance is reconciled to the accounting systems Bank Report, in addition to determining that the Bank Report and Fund Report agree in total. Library Board of Trustees should periodically review the monthly reconciliations, verifying data to the appropriate supporting documentation from each financial institution. This review should be evidenced by the Library Board of Trustees affixing their signature and date on the reconciliation, thereby providing documented evidence of the monitoring control review performed.
- Require that each month the change in value for the money market mutual funds be posted to the Library's accounting system so that the carrying amount on the Library's books represents fair value (current share price).
- When receiving grants from the State record the receipts and report them as intergovernmental revenue.

Official's Response:

Monthly reconciliation and other balances other than the General Fund are conducted via matching the system balance to statement balance each month after receipting. The only issues have been with the Charles Schwab investment accounts and the change in value being un-posted. Posting of grant amounts to the Intergovernmental Revenue line will be initiated once clarified

**SHELBY COUNTY LIBRARIES
SHELBY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2010 AND 2009**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2008-001	Financial Reporting Issues – prior audit adjustments were not posted to the Library’s accounting records, misclassification of funds, mathematical errors in the annual report, and unrecorded interest	No	Not corrected – issued as Finding 2010-002

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Dave Yost • Auditor of State

SHELBY COUNTY LIBRARIES

SHELBY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 22, 2011**