



Dave Yost • Auditor of State

**BELLEVUE PUBLIC LIBRARY
HURON COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Bellevue Public Library
Huron County
224 East Main Street
Bellevue, Ohio 44811-1409

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements of the cash balances, receipts and disbursements by fund type, and related notes of Bellevue Public Library, Huron County, Ohio (the Library) as of and for the years ended December 31, 2015 and 2014.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Library's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Government's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statements, the Library prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D), which is an accounting basis other than accounting principles generally accepted in the United States of America (GAAP), to satisfy these requirements.

Although the effects on the financial statements of the variances between the regulatory accounting basis and GAAP are not reasonably determinable, we presume they are material.

Though the Library does not intend these statements to conform to GAAP, auditing standards generally accepted in the United States of America require us to include an adverse opinion on GAAP. However, the adverse opinion does not imply the amounts reported are materially misstated under the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. Our opinion on this accounting basis is in the *Opinion on Regulatory Basis of Accounting* paragraph below.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Library as of December 31, 2015 and 2014, or changes in financial position thereof for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of Bellevue Public Library, Huron County, Ohio as of December 31, 2015 and 2014, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2017, on our consideration of the Library's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Library's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

March 15, 2017

**BELLEVUE PUBLIC LIBRARY
HURON COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>General</u>	<u>Capital Projects</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts			
Property and Other Local Taxes	\$214,054		\$214,054
Public Library	579,545		579,545
Intergovernmental	59,181		59,181
Patron Fines and Fees	16,122		16,122
Contributions, Gifts and Donations	15,004		15,004
Earnings on Investments	1,956	\$809	2,765
Miscellaneous	4,927		4,927
<i>Total Cash Receipts</i>	<u>890,789</u>	<u>809</u>	<u>891,598</u>
Cash Disbursements			
Current:			
Library Services:			
Public Services and Programs	490,502		490,502
Collection Development and Processing	3,332		3,332
Support Services:			
Facilities Operation and Maintenance	75,073	69,742	144,815
Information Services	26,991		26,991
Business Administration	18,355		18,355
Capital Outlay	10,531	1,444,687	1,455,218
<i>Total Cash Disbursements</i>	<u>624,784</u>	<u>1,514,429</u>	<u>2,139,213</u>
<i>Net Change in Fund Cash Balances</i>	266,005	(1,513,620)	(1,247,615)
<i>Fund Cash Balances, January 1</i>	<u>879,164</u>	<u>1,917,077</u>	<u>2,796,241</u>
Fund Cash Balances, December 31			
Restricted		403,457	403,457
Assigned	217,000		217,000
Unassigned	928,169		928,169
<i>Fund Cash Balances, December 31</i>	<u>\$1,145,169</u>	<u>\$403,457</u>	<u>\$1,548,626</u>

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

**BELLEVUE PUBLIC LIBRARY
HURON COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2014**

	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
Cash Receipts				
Property and Other Local Taxes	\$211,930			\$211,930
Public Library	522,021			522,021
Intergovernmental	65,653			65,653
Patron Fines and Fees	18,947			18,947
Contributions, Gifts and Donations	12,590		\$20,000	32,590
Earnings on Investments	830		770	1,600
Miscellaneous	5,710			5,710
<i>Total Cash Receipts</i>	<u>837,681</u>		<u>20,770</u>	<u>858,451</u>
Cash Disbursements				
Current:				
Library Services:				
Public Services and Programs	630,495			630,495
Collection Development and Processing	7,067			7,067
Support Services:				
Facilities Operation and Maintenance	76,481		149,760	226,241
Information Services	38,948			38,948
Business Administration	11,125			11,125
Capital Outlay	713		653,452	654,165
<i>Total Cash Disbursements</i>	<u>764,829</u>		<u>803,212</u>	<u>1,568,041</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>72,852</u>		<u>(782,442)</u>	<u>(709,590)</u>
Other Financing Receipts (Disbursements)				
Transfers In			5,895	5,895
Transfers Out		(\$5,895)		(5,895)
<i>Total Other Financing Receipts (Disbursements)</i>		<u>(5,895)</u>	<u>5,895</u>	
<i>Net Change in Fund Cash Balances</i>	72,852	(5,895)	(776,547)	(709,590)
<i>Fund Cash Balances, January 1</i>	<u>806,312</u>	<u>5,895</u>	<u>2,693,624</u>	<u>3,505,831</u>
Fund Cash Balances, December 31				
Restricted			1,891,182	1,891,182
Assigned	247,000			247,000
Unassigned	632,164		25,895	658,059
<i>Fund Cash Balances, December 31</i>	<u>\$879,164</u>		<u>\$1,917,077</u>	<u>\$2,796,241</u>

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

**BELLEVUE PUBLIC LIBRARY
HURON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

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 Bellevue Public Library, Huron, County, Ohio (the Library) as a body corporate and politic. Bellevue City School District appoints a seven-member Board of Trustees to govern the Library. The Library provides the community with various educational and literary resources.

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

B. Accounting Basis

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D). This basis is similar to the cash receipts and disbursements accounting basis. The 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 financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

C. Deposits and Investments

The Library's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

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.

D. Fund Accounting

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

1. General Fund

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

2. Special Revenue Funds

These funds account for and report the proceeds of specific revenue sources that are restricted to expenditure for specified purposes other than capital projects. The Library had the following significant Special Revenue Fund:

Transue Fund – This fund previously received contributions to be used for Library operations as instructed by donors.

**BELLEVUE PUBLIC LIBRARY
HURON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(Continued)**

3. Capital Project Funds

These funds account for and report financial resources that are restricted or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The Library had the following significant Capital Project Fund:

Bond Issue Fund – This fund received bond proceeds for a library improvement project.

E. Budgetary Process

The Board must annually approve appropriation measures and subsequent amendments. Unencumbered appropriations lapse at year end. Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function, and object level of control.

A summary of 2015 and 2014 budgetary activity appears in Note 3.

F. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Library must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

1. Nonspendable

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

2. Restricted

Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

3. Committed

Trustees can *commit* amounts via formal action (resolution). The Library must adhere to these commitments unless the Trustees amend the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

4. Assigned

Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Library Trustees or a Library official delegated that authority by resolution, or by State Statute.

5. Unassigned

**BELLEVUE PUBLIC LIBRARY
HURON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(Continued)**

Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Library applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

G. Property, Plant, and Equipment

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

H. Accumulated Leave

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

2. EQUITY IN POOLED 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:

	2015	2014
Demand deposits	\$72,619	\$68,866
Certificates of deposit	350,000	350,000
Total deposits	422,619	418,866
STAR Ohio	1,126,007	2,377,375
Total deposits and investments	\$1,548,626	\$2,796,241

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

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

3. BUDGETARY ACTIVITY

Budgetary activity for the years ended December 31, 2015 and 2014 follows:

2015 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$808,000	\$890,789	\$82,789
Capital Projects	50,500	809	(49,691)
Total	\$858,500	\$891,598	\$33,098

**BELLEVUE PUBLIC LIBRARY
HURON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(Continued)**

2015 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,055,000	\$624,784	\$430,216
Capital Projects	1,936,173	1,743,102	193,071
Total	\$2,991,173	\$2,367,886	\$623,287

2014 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$808,000	\$837,681	\$29,681
Special Revenue	5		(5)
Capital Projects	100,700	26,665	(74,035)
Total	\$908,705	\$864,346	(\$44,359)

2014 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,200,000	\$764,829	\$435,171
Special Revenue	5,900	5,895	5
Capital Projects	2,794,322	2,264,386	529,936
Total	\$4,000,222	\$3,035,110	\$965,112

4. GRANTS-IN-AID AND TAX RECEIPTS

The primary source of revenue for Ohio public libraries is the Public Library Fund (PLF). The State allocates PLF to each county based on the total tax revenue credited to the State's general revenue fund during the preceding month. This method of distribution is called the "percentage of revenue" method. This method was not used for August 2011 through June 2013. During that 23 month period PLF received a designated percentage of the dollar amounts received by the fund during the corresponding month of the fiscal year 2011 "base-year" period. Effective July 2013 the statutory allocation method reverted to the "percentage of revenue" method for PLF distribution. The fund received an amount equal to a specified percentage of the amount of GRF tax revenue received during the previous month. Beginning with the July 2013 distribution the "statutory allocation method" was implemented. The calendar year 2013 entitlements were used in the computation as the basis of each county's allocation percentage. Those percentages were used through December 2013. In December 2013 the actual calendar year entitlement was computed. Any difference was adjusted evenly to the PLF distributions from January-June 2014. In calendar year 2014 the statutory entitlement computation method continued. Estimated entitlement figures were issued to County Auditors in July 2013, December 2013 and June 2014. The actual 2014 entitlements were computed in December 2014. The difference between the estimate and actual were adjusted evenly in the PLF distributions made from January-June 2015.

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

**BELLEVUE PUBLIC LIBRARY
HURON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(Continued)**

June 20.

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

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

5. DEBT

In 2013, the Board of Trustees of Bellevue Public Library submitted to the Bellevue City School District Board of Education a property tax levy to be used for a Library improvement project. The Board of Education serves as the taxing authority and issues tax related debt on behalf of the Library, although their role is limited to the ministerial function. The determination to request approval of a tax, the rate, and the purpose are discretionary decisions made solely by the Board of Library Trustees.

With the approval of the levy, the Board of Education issued District general obligation bonds, in the amount of \$2,800,000 for Library improvements. The bonds will be paid from proceeds of the property tax levy. This debt is not an obligation of the Library; however, it is a liability of the Board of Education and is reflected on their financial records.

6. RETIREMENT SYSTEM

The Library's employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2015 and 2014, 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, 2015.

7. RISK MANAGEMENT

Commercial Insurance

The Library has obtained commercial insurance for the following risks:

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

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

Bellevue Public Library
Huron County
224 East Main Street
Bellevue, Ohio 44811-1409

To the Board of Trustees:

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the cash balances, receipts, and disbursements by fund type of Bellevue Public Library, Huron County, Ohio (the Library) as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements and have issued our report thereon dated March 15, 2017 wherein we noted the Library followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Library's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Library's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Library's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2015-001 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, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Entity's Response to Finding

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.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Library's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Library's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State

Columbus, Ohio

March 15, 2017

**BELLEVUE PUBLIC LIBRARY
HURON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2015 AND 2014**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2015-001

Financial Reporting

We identified errors such as the following requiring adjustment to the financial statements for the year ended December 31, 2015:

- General Fund Unassigned fund balance in the amount of \$217,000 was reclassified to Assigned in order to properly reflect the excess of subsequent year appropriations over estimated receipts in accordance with GASB 54; and
- Capital Projects Fund Type Committed fund balance in the amount of \$228,673 was reclassified to Restricted in accordance with GASB 54.

We also identified the following errors requiring adjustment to the financial statements for the year ended December 31, 2014:

- General Fund Unassigned fund balance in the amount of \$247,000 was reclassified to Assigned in order to properly reflect the excess of subsequent year appropriations over estimated receipts in accordance with GASB 54; and
- Capital Projects Fund Type Unassigned and Committed fund balances in the amounts of \$430,008 and \$41,387, respectively, were reclassified to Restricted in accordance with GASB 54.

These errors were not identified and corrected prior to the Library preparing its financial statements due to deficiencies in the Library's internal controls over financial statement monitoring. The accompanying financial statements and notes to the financial statements, and where applicable, the Library's accounting records have been adjusted to reflect these changes. Sound financial reporting is the responsibility of the Fiscal Officer and the Board of Trustees and is essential to ensure the information provided to the readers of the financial statements and accompanying notes is complete and accurate.

To help ensure the Library's financial statements are complete and accurate, the Library should adopt policies and procedures, including a final review of the statements and notes by the Fiscal Officer, to identify and correct errors and omissions. The Fiscal Officer can refer to Auditor of State Bulletin 2011-004 at the following web site address for information on Governmental Accounting Standards Board Statement No. 54: <http://www.ohioauditor.gov/publications/bulletins/2011/2011-004.pdf>

Officials' Response:

A response to Finding Number 2015-001 was received from the Library. A portion of this response is included below. The response in its entirety is available from the Auditor of State upon request.

GASB 54 – “assigned” balance for the General Fund:

1. The Auditor of State's Office did not mention this requirement in any training sessions or in any handouts or reference materials. To this day, the requirement is not referenced on the AOS website. If a misclassification is “material” then the AOS should have assured that local governments had the opportunity to be aware of the requirement.

**FINDING NUMBER 2015-001
(Continued)**

2. The Auditor of State's Office has not applied this "material weakness" evenly across the state. The Library Fiscal Officer shared two other library audit reports that had not designated a portion of the General Fund balance as assigned under the exact same circumstances. She was also aware of two townships and one city where there was no mention of a reclassification of fund balance in the audit. The AOS did not respond to this issue. Mr. Yost posts on the AOS website that he will hold himself and his staff to fairness and integrity. It is unconscionable to hold one library to a higher financial reporting standard than others.
3. GASB54 does not address in any manner that a misclassification of any amount results in a finding of a "material weakness." This appears to be a personal interpretation by the AOS.
4. GASB54 specifically states that the General Fund balance "should" be assigned under these circumstances. The Chief Auditor informed the Library Fiscal Officer that "should" equates to "shall." The difference between the two words is significant, therefore this appears to be another personal interpretation by the AOS.
5. Assigned balance, by definition, indicates intent of the local government to spend monies for a specific purpose (AOS Fall 2011 GASB54 training handout, page 7). The Bellevue Public Library "assigned" balance was created because the board placed \$150,000 in a Contingency account and Transfers Out account in the subsequent year appropriations, and those exceeded estimated revenues. Those accounts do not imply intent of specific purchases and spending from those accounts would take further action of the Board. There would be no material weakness if those two accounts were excluded. The Board is being penalized for having a safety net for contingencies.
6. A material weakness, by definition, indicates that internal controls may be compromised (AU-C 265). However, there is no procedure or policy that would prevent a misclassification of the General Fund balance as assigned, when there was no knowledge that such a rule existed. A misclassification is simply an error and does not reflect on the accuracy of the fund balance or that internal controls have been breached to affect the accuracy of the fund balance.

GASB 54 – "restricted" balance for the Capital Projects Funds:

Capital Projects funds are already properly accounted for in restricted funds, therefore classifying the balance as "restricted" seems redundant. Furthermore, according to the Fall 2011 GASB54 training handout, page 34, Library capital funds classifications are "to be determined" by the Library.

The Library Fiscal Officer correctly entered the General Fund and Capital Fund classifications on the 2016 financial report.

Auditor's Conclusion:

In regards to the General Fund balance reported as assigned, GASB 54, paragraph 16 states, "An appropriation of existing fund balance to eliminate a projected budgetary deficit in the subsequent year's budget in an amount no greater than the projected excess of expected expenditures over expected revenues satisfies the criteria to be classified as an assignment of fund balance." Furthermore, Auditor of State Audit Bulletin 2011-004 provides, in pertinent part, that "...if appropriations (temporary or annual) exceed estimated receipts (not resources), the excess is to be assigned as it uses existing fund balance at year-end. This would be applicable to the general fund as it is the only fund with a positive unassigned fund balance." The excess of subsequent year appropriations over estimated receipts is properly reflected as "assigned" in the Library's General Fund balance.

**FINDING NUMBER 2015-001
(Continued)**

In regards to the Capital Projects Fund balance reported as restricted, GASB 54, paragraph 8 states, "Fund balance should be reported as restricted when constraints placed on the use of resources are either:

- a. Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or
- b. Imposed by law through constitutional provisions or enabling legislation."

Additionally, Auditor of State Audit Bulletin 2011-004 provides, in pertinent part as it relates to encumbrances, that "If resources have already been restricted or committed for encumbrances, the encumbered amounts will be included with restricted or committed resources." The Library's Capital Projects Fund Type fund balance reported as restricted is comprised of unspent bond proceeds related to a Library construction project. The constraints placed on the resources meet the definition of restricted as outlined above.

Statement of Auditing Standards No. 115, paragraph .03 provides, in part, that "generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting. In this section, the term *financial reporting* relates to the preparation of reliable financial statements." Statement of Auditing Standards No. 115, paragraph .06 states, that "A material weakness is a deficiency, or 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 corrected on a timely basis."

AU-C Section 265, A11 further states that, "Indicators of material weakness in internal controls include... identification by the auditor of a material misstatement of the financial statements under audit in circumstances that indicate that the misstatement would not have been detected and corrected by the entity's internal control..."

AU-C Section 320.10 states that "When establishing the overall audit strategy, the auditor should determine materiality for the financial statements as a whole. If, in the specific circumstances of the entity, one or more particular classes of transactions, account balances, or disclosures exist for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users, then, taken on the basis of the financial statements, the auditor also should determine the materiality level or levels to be applied to those particular classes of transactions, account balances, or disclosures."

The misstatements reported in Finding 2015-001 exceeded the established materiality percentage for the Library's audit, thus supporting classification of these errors as a material weakness.

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Dave Yost • Auditor of State

BELLEVUE PUBLIC LIBRARY

HURON 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
APRIL 11, 2017**