



Dave Yost • Auditor of State

**LIBRARY ASSOCIATION OF SANDUSKY
ERIE COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Library Association of Sandusky
Erie County
114 West Adams Street
Sandusky, Ohio 44870

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the Library Association of Sandusky, Erie County, Ohio (the Library), (a not-for-profit corporation), which comprise the statement of financial position as of and for the years ended December 31, 2017 and 2016, the related statements of activities, and cash flows, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Library's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Library's internal control. Accordingly, we express no such 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the Library Association of Sandusky, Erie County, Ohio, as of December 31, 2017 and 2016, and the respective changes in cash financial position thereof for the years then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

We draw attention to Note 2 of the financial statements, which describes the accounting basis, which differs from generally accepted accounting principles. We did not modify our opinion regarding this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2018, 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 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

December 21, 2018

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**Library Association of Sandusky
Erie County**

*Statement of Financial Position - Cash Basis
December 31, 2017*

Current Assets	
Cash and Cash Equivalents	\$4,347,128
Investments	<u>524,638</u>
<i>Total Current Assets</i>	<u><u>\$4,871,766</u></u>
Net Assets	
Temporarily Restricted	\$1,740,808
Permanently Restricted	29,993
Unrestricted	<u>3,100,965</u>
<i>Total Net Assets</i>	<u><u>\$4,871,766</u></u>

See accompanying notes to the basic financial statements

**Library Association of Sandusky
Erie County**

*Statement of Activities - Cash Basis
For the Year Ended December 31, 2017*

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals (Memorandum Only)</u>
Support and Revenues:				
Property and Other Local Taxes	\$1,331,618			\$1,331,618
Library and Local Government Support	1,507,290			1,507,290
Intergovernmental	92,128			92,128
Patron Fines and Fees	42,011			42,011
Services Provided to Other Entities	1,000			1,000
Contributions, Gifts and Donations	96,545			96,545
Earnings on Investments	29,188	\$235,417	\$1,063	265,668
Miscellaneous	30,637			30,637
<i>Total Support and Revenues</i>	<u>3,130,417</u>	<u>235,417</u>	<u>1,063</u>	<u>3,366,897</u>
Expenses:				
Public Library Services and Programs				
Administration and General				
Salaries	1,261,903			1,261,903
Employee Fringe Benefits	499,413			499,413
Purchased and Contracted Services	684,560	75,254		759,814
Library Materials and Information	261,992			261,992
Supplies	54,761			54,761
Other	16,914			16,914
Capital Outlay	72,769			72,769
<i>Total Expenses</i>	<u>2,852,312</u>	<u>75,254</u>		<u>2,927,566</u>
<i>Change in Net Assets</i>	278,105	160,163	1,063	439,331
<i>Net Assets Beginning of Year</i>	<u>2,822,860</u>	<u>1,580,645</u>	<u>28,930</u>	<u>4,432,435</u>
<i>Net Assets End of Year</i>	<u><u>\$3,100,965</u></u>	<u><u>\$1,740,808</u></u>	<u><u>\$29,993</u></u>	<u><u>\$4,871,766</u></u>

See accompanying notes to the basic financial statements

**Library Association of Sandusky
Erie County**

*Statement of Cash Flows - Cash Basis
For the Year Ended December 31, 2017*

Cash Flows From Operating Activities	
Change in Net Assets	<u>\$439,331</u>
Cash Flows From Investment Activities	
Proceeds from the Sale of Investments	1,437,927
Purchase of Investments	<u>(38,817)</u>
Net Cash Used by Investing Activities	<u>1,399,110</u>
<i>Net Increase in Cash and Cash Equivalents</i>	1,838,441
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>2,508,687</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$4,347,128</u></u>

See accompanying notes to the basic financial statements

**Library Association of Sandusky
Erie County**

*Notes to the Financial Statements
For the Year Ended December 31, 2017*

Note 1 – Reporting Entity

The Library Association of Sandusky, Erie County, Ohio (the Library) opened in 1895 and was organized as an association library at that time under the laws of the State of Ohio. The Library is directed by a ten-member Board of Directors (the Directors) who are self-appointed. Appointments are for five-year terms and members serve without compensation. Under Ohio statutes, the Library is a corporation capable of suing and being sued, contracting, acquiring, holding, possessing, and disposing of real property, and of exercising such other powers and privileges conferred upon it by law. The Library also determines and operates under its own budget. The Library is organized under section 1713.28 of the Ohio Revised Code and is governed by the Library's Code of Regulations. The Library is a not-for-profit organization exempt from income tax under Section 501 (C) 3 of the U.S. Internal Revenue Code. The administration of the day-to-day operations of the Library is the responsibility of the Executive Director and financial accountability being solely that of the Fiscal Officer, as overseen by the Board of Directors and the finance committee.

The Library is independent of any other library hierarchy, but has been a member of CLEVNET (Cleveland Public Library's automated circulation system and online catalog) since 1986. As an association library, the Library Association of Sandusky, Ohio, has no independent taxing authority. State law would allow the designation of a taxing authority, but the Library's service area is spread over four school districts (Sandusky, Perkins, Margaretta, and Kelly's Island).

The Library participates in a public entity risk pool and is associated with a related organization. Notes 5 and 9 to the financial statements provides additional information for these entities.

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

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation

The Library's financial statement presentation follows the requirements of the Financial Accounting Standards Board ASC 958, in its Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations and is prepared in accordance with the cash basis of accounting; consequently, certain revenues are recognized when received rather than when earned, and certain expenses and purchases are recognized when cash is disbursed rather than when the obligation is incurred.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

Net Assets

Under SFAS No. 117, the Library is required to report information regarding its financial position and activities according to three classes of net assets. A description of the three net asset categories are:

Unrestricted Net Assets – Net assets that are not subject to donor or grantor-imposed restrictions are reported as unrestricted net assets.

**Library Association of Sandusky
Erie County**

*Notes to the Financial Statements
For the Year Ended December 31, 2017
(Continued)*

Temporarily Restricted Net Assets – Net assets subject to donor-imposed restrictions that may or will be met, either by actions of the Library and / or passage of time are reported as temporarily restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets – Net assets resulting from contributions and other inflows of assets whose use by the Library is limited by donor-imposed restrictions that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Library are reported as permanently restricted net assets.

Cash and Cash Equivalents

To improve cash management, cash received by the Library is pooled and invested except for certain investments identified by the Library as purchased by certain funds. Individual fund integrity is maintained through the Library's records. Interest in the pool is presented as “Cash and Cash Equivalents.”

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

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

During 2017, the Library invested in nonnegotiable certificates of deposit, donated stock and STAR Ohio. Investments are reported at cost, except for donated stock and STAR Ohio.

STAR Ohio (the State Treasury Asset Reserve of 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 has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, “Certain External Investment Pools and Pool Participants.” The Library measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For 2017, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

**Library Association of Sandusky
Erie County**

*Notes to the Financial Statements
For the Year Ended December 31, 2017
(Continued)*

Capital Assets

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

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.

Employer Contributions to Cost-Sharing Pension Plans

The Library recognizes the disbursement for their employer contributions to cost-sharing pension plans when they are paid. As described in Notes 6 and 7, the employer contributions include portions for pension benefits and for postretirement health care benefits.

Note 3 – Deposits and Investments

State statutes classify monies held by the Library into three categories.

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

Inactive deposits are public deposits that the Board has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts.

Interim monies held by the Library can be deposited or invested in the following securities:

1. United States Treasury bills, bonds notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

**Library Association of Sandusky
Erie County**

*Notes to the Financial Statements
For the Year Ended December 31, 2017
(Continued)*

3. No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
4. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
5. Bonds and other obligations of the State of Ohio, and with certain limitations bonds and other obligations of political subdivisions of the State of Ohio;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 40 percent of the interim monies available for investment at any one time if training requirements have been met; and
8. Written repurchase agreements in the securities described in (1) or (2) provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days.

Investments may only be made through specified dealers and institutions. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the clerk/treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

At year end, the Library had \$300 in undeposited cash on hand which is included as part of "*Cash and Cash Equivalents*" on the financial statements.

Deposits

Custodial credit risk is the risk that in the event of bank failure, the Library will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, the Library's bank balance was \$4,456,987. Of the bank balance \$266,103 was covered by the FDIC, \$4,151,192 was covered by U.S. Treasury Securities and \$39,693 was exposed to custodial credit risk because those deposits were uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the Library to a successful claim by the Federal Deposit Insurance Corporation.

The Library's financial institution is in the process of joining OPCS; however, at December 31, 2017, the financial institution still maintained its own collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits being secured.

**Library Association of Sandusky
Erie County**

*Notes to the Financial Statements
For the Year Ended December 31, 2017
(Continued)*

Investments

During 2017, investments were limited to STAR Ohio and stock donated to the Library. Stock investments were recorded at fair market value prior to being sold in October 2017 and converted to cash.

As of December 31, 2017, the net value per share of funds on deposit with STAR Ohio was \$514,952. STAR Ohio carries a rating of AAA by Standard and Poor's. The Library has no investment policy dealing with interest rate or credit risk beyond the requirements of State statute. Ohio law requires STAR Ohio must maintain the highest rating provided by at least one nationally recognized standard rating service.

Note 4 – Grants in Aid and Property Taxes

Grants in Aid

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 using the statutory allocation method. Estimated entitlement figures were issued to County Auditors. The actual current year entitlements were computed in December of the current year. The difference between the estimate and actual will be adjusted evenly in the PLF distributions made from January-June of the subsequent year.

Property Taxes

The State Library of Ohio defines the service area of public libraries in terms of school districts. For the Library this service area covers the Sandusky City School District, Perkins Local School District, Margaretta Local School District and Kelleys Island Local School District. All the school districts except Margaretta currently have voted levies to fund the Library.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Library. The County Treasurer collects property taxes on behalf of all taxing districts within the County, including those school districts with Library levies. The County Auditor periodically remits to taxing authorities their portion of taxes collected. The service area school districts forward any levy proceeds collected and remitted to them to the Library.

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.

The full tax rate for all Library operations for the year ended December 31, 2017, was \$1.5 mill per \$1,000 of assessed value for City of Sandusky and Perkins Township and \$.8 mill per \$1,000 assessed value for Kelleys Island. The assessed values of real property upon which 2017 property tax receipts were collected based on 2016 property values in the City of Sandusky, Perkins Township, and Kelleys Island.

**Library Association of Sandusky
Erie County**

*Notes to the Financial Statements
For the Year Ended December 31, 2017
(Continued)*

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

Note 5 – Risk Management

Commercial Insurance

The Library has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Personal property;
- Fine Arts;
- Employment Practices;
- Vehicles; and
- Errors and omissions

Note 6 – Defined Benefit Pension Plan

Ohio Public Employees Retirement System

The Library participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. Library employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS' traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional plan as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information, including requirements for reduced and unreduced benefits):

**Library Association of Sandusky
Erie County**

*Notes to the Financial Statements
For the Year Ended December 31, 2017
(Continued)*

Group A	Group B	Group C
Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Members not in other Groups and members hired on or after January 7, 2013
State and Local	State and Local	State and Local
Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35

Final average Salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

2017 Statutory Maximum Contribution Rates	<u>State and Local</u>
Employer	14.0 %
Employee	10.0 %
 2017 Actual Contribution Rates	
Employer:	
Pension	13.0 %
Post-employment Health Care Benefits	<u>1.0 %</u>
Total Employer	<u>14.0 %</u>
Employee	<u>10.0 %</u>

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The Library's contractually required contribution was \$174,678 for year 2017.

**Library Association of Sandusky
Erie County**

*Notes to the Financial Statements
For the Year Ended December 31, 2017
(Continued)*

Note 7 – Postemployment Benefits

Ohio Public Employees Retirement System

Plan Description - The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the traditional pension plan, a cost-sharing, multiple-employer defined benefit pension plan; the member-directed plan, a defined contribution plan; and the combined plan, a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

In March 2016, OPERS received two favorable rulings from the Internal Revenue Service (IRS) allowing OPERS to consolidate all health care assets into the OPERS 115 Health Care Trust. Transition to the new health care trust structure was completed July 1, 2016. OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage. OPERS funds a Retiree Medical Account (RMA) for participants in the Member-Directed Plan. At retirement or refund, participants can be reimbursed for qualified medical expenses from their vested RMA balance.

In order to qualify for postemployment health care coverage, age and service retirees under the traditional pension and combined plans must have twenty or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. See OPERS' CAFR referenced below for additional information.

The Ohio Revised Code permits, but does not require OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the Board in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/financial/reports.shtml>, by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

Funding Policy - The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2017, state and local employers contributed at a rate of 14.0 percent of earnable salary and public safety and law enforcement employers contributed at 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.0 percent during calendar year 2015 and 2016, and was

**Library Association of Sandusky
Erie County**

*Notes to the Financial Statements
For the Year Ended December 31, 2017
(Continued)*

1.0 percent during calendar year 2017. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed Plan for 2017 was 4.0 percent.

Substantially all of the Library's contribution allocated to fund postemployment health care benefits relates to the cost-sharing, multiple employer trusts. The corresponding contribution for the years ended December 31, 2017, 2016, and 2015 was \$17,477, \$26,124, and \$30,014 respectively. The full amount has been contributed for all three years.

Note 8 – Lease and Sublease of Library Premises

The Library entered into a lease and sublease agreement with the City of Sandusky, Ohio (the City) on January 19, 2000. The agreement leased the original Sandusky Library property and former County Jail property to the City to allow the City to renovate the Sandusky Library and former County Jail Property and construct additional space, all to serve as the expanded Sandusky Library, to furnish and equip the expanded Sandusky Library, construct additional parking and otherwise improve the site. The lease agreement requires no rent or lease payments to be charged to the City. The City was obligated to issue \$7,200,000 in bonds to pay for the costs of the expanded Sandusky Library. In 2011, the City issued \$4,090,000 in unvoted current refunding general obligation bonds to refund the previous bonds issued for renovating and improving the Library. The bonds were issued for a twelve year period with maturity beginning December 1, 2012.

The City subleased the expanded Sandusky Library back to the Library commencing on the same date and expiring on the date on which all the bonds are retired. The purpose of the sublease is to enable the Library to provide library services to the residents of the City. The Library is required to operate, maintain and repair the premises, and to provide furnishings, equipment, and staff as well as pay for all expenses associated with the expanded Sandusky Library property, including utilities and insurance.

Note 9 – Related Organizations

The Library has control and an economic interest in the Sandusky Library and Follett House Museum Foundation (the Foundation). The Foundation is a separate not-for-profit corporation organized to serve for the benefit and services of the Library. The Foundation is managed by a board of directors consisting of nine members, four of whom serve as community members, four of whom are Library Board members, and one of whom is the Executive Director. The Library is not financially accountable for the organization, nor does the Library approve the budget of the organization. Therefore, this organization has been excluded from the reporting entity of the Library.

**Library Association of Sandusky
Erie County**

*Notes to the Financial Statements
For the Year Ended December 31, 2017
(Continued)*

Note 10 – Temporarily Restricted Net Assets

Temporarily restricted net assets are included in cash and cash equivalents and consist of the following:

	<u>2017</u>
Perkins Fund	\$ 17,316
Anderson Fund	36,163
Curtis Fund	972,808
Graefe Fund	578,835
Lange Trust Fund	135,686
Total Temporarily Restricted Net Assets:	<u><u>\$ 1,740,808</u></u>

During 2017, \$75,254 in temporarily restricted net assets were released from the Lange Trust fund.

Note 11 – Permanently Restricted Net Assets

Permanently restricted net assets are included in cash and cash equivalents and consist of the following:

	<u>2017</u>
Ackley Fund	\$ 4,808
Alcott Fund	16,101
Edwards Fund	9,084
Total Permanently Restricted Net Assets:	<u><u>\$ 29,993</u></u>

During 2017, no permanently restricted net assets were released.

**Library Association of Sandusky
Erie County**

*Statement of Financial Position - Cash Basis
December 31, 2016*

Current Assets	
Cash and Cash Equivalents	\$2,508,687
Investments	<u>1,923,748</u>
<i>Total Current Assets</i>	<u><u>\$4,432,435</u></u>
Net Assets	
Temporarily Restricted	\$1,580,645
Permanently Restricted	28,930
Unrestricted	<u>2,822,860</u>
<i>Total Net Assets</i>	<u><u>\$4,432,435</u></u>

See accompanying notes to the basic financial statements

**Library Association of Sandusky
Erie County**

*Statement of Activities - Cash Basis
For the Year Ended December 31, 2016*

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals (Memorandum Only)</u>
Support and Revenues:				
Property and Other Local Taxes	\$1,282,269			\$1,282,269
Library and Local Government Support	1,501,235			1,501,235
Intergovernmental	178,907			178,907
Patron Fines and Fees	43,392			43,392
Services Provided to Other Entities	1,000			1,000
Contributions, Gifts and Donations	283,228			283,228
Earnings on Investments	27,419	\$161,982	\$387	189,788
Miscellaneous	7,139	8,125		15,264
<i>Total Support and Revenues</i>	<u>3,324,589</u>	<u>170,107</u>	<u>387</u>	<u>3,495,083</u>
Expenses:				
Public Library Services and Programs				
Administration and General				
Salaries	1,315,522			1,315,522
Employee Fringe Benefits	484,372			484,372
Purchased and Contracted Services	644,617	109,483		754,100
Library Materials and Information	263,263			263,263
Supplies	56,857			56,857
Other	12,948			12,948
Capital Outlay	88,954			88,954
<i>Total Expenses</i>	<u>2,866,533</u>	<u>109,483</u>	<u>387</u>	<u>2,976,016</u>
<i>Change in Net Assets</i>	458,056	60,624	387	519,067
<i>Net Assets Beginning of Year</i>	<u>2,364,804</u>	<u>1,520,021</u>	<u>28,543</u>	<u>3,913,368</u>
<i>Net Assets End of Year</i>	<u>\$2,822,860</u>	<u>\$1,580,645</u>	<u>\$28,930</u>	<u>\$4,432,435</u>

See accompanying notes to the basic financial statements

**Library Association of Sandusky
Erie County**

*Statement of Cash Flows - Cash Basis
For the Year Ended December 31, 2016*

Cash Flows From Operating Activities	
Change in Net Assets	<u>\$519,067</u>
Cash Flows From Investment Activities	
Purchase of Investments	<u>(50,938)</u>
<i>Net Increase in Cash and Cash Equivalents</i>	468,129
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>2,040,558</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$2,508,687</u></u>

See accompanying notes to the basic financial statements

**Library Association of Sandusky
Erie County**

*Notes to the Financial Statements
For the Year Ended December 31, 2016*

Note 1 – Reporting Entity

The Library Association of Sandusky, Erie County, Ohio (the Library) opened in 1895 and was organized as an association library at that time under the laws of the State of Ohio. The Library is directed by a ten-member Board of Directors (the Directors) who are self-appointed. Appointments are for five-year terms and members serve without compensation. Under Ohio statutes, the Library is a corporation capable of suing and being sued, contracting, acquiring, holding, possessing, and disposing of real property, and of exercising such other powers and privileges conferred upon it by law. The Library also determines and operates under its own budget. The Library is organized under section 1713.28 of the Ohio Revised Code and is governed by the Library's Code of Regulations. The Library is a not-for-profit organization exempt from income tax under Section 501 (C) 3 of the U.S. Internal Revenue Code. The administration of the day-to-day operations of the Library is the responsibility of the Executive Director and financial accountability being solely that of the Fiscal Officer, as overseen by the Board of Directors and the finance committee.

The Library is independent of any other library hierarchy, but has been a member of CLEVNET (Cleveland Public Library's automated circulation system and online catalog) since 1986. As an association library, the Library Association of Sandusky, Ohio, has no independent taxing authority. State law would allow the designation of a taxing authority, but the Library's service area is spread over four school districts (Sandusky, Perkins, Margaretta, and Kelly's Island).

The Library participates in a public entity risk pool and is associated with a related organization. Notes 5 and 9 to the financial statements provides additional information for these entities.

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

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation

The Library's financial statement presentation follows the requirements of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations and is prepared in accordance with the cash basis of accounting; consequently, certain revenues are recognized when received rather than when earned, and certain expenses and purchases are recognized when cash is disbursed rather than when the obligation is incurred.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

Net Assets

Under SFAS No. 117, the Library is required to report information regarding its financial position and activities according to three classes of net assets. A description of the three net asset categories follows:

**Library Association of Sandusky
Erie County**

*Notes to the Financial Statements
For the Year Ended December 31, 2016
(Continued)*

Unrestricted Net Assets – Net assets that are not subject to donor or grantor-imposed restrictions are reported as unrestricted net assets.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed restrictions that may or will be met, either by actions of the Library and / or passage of time are reported as temporarily restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets – Net assets resulting from contributions and other inflows of assets whose use by the Library is limited by donor-imposed restrictions that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Library are reported as permanently restricted net assets.

Cash and Cash Equivalents

To improve cash management, cash received by the Library is pooled and invested except for certain investments identified by the Library as purchased by certain funds. Individual fund integrity is maintained through the Library's records. Interest in the pool is presented as “Cash and Cash Equivalents.”

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

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

During 2016, the Library invested in nonnegotiable certificates of deposit, donated stock and STAR Ohio. Investments are reported at cost, except for donated stock and STAR Ohio.

STAR Ohio (the State Treasury Asset Reserve of 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 has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, “Certain External Investment Pools and Pool Participants.” The Library measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For 2016, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

**Library Association of Sandusky
Erie County**

*Notes to the Financial Statements
For the Year Ended December 31, 2016
(Continued)*

Capital Assets

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

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.

Employer Contributions to Cost-Sharing Pension Plans

The Library recognizes the disbursement for their employer contributions to cost-sharing pension plans when they are paid. As described in Notes 6 and 7, the employer contributions include portions for pension benefits and for postretirement health care benefits.

Note 3 – Deposits and Investments

State statutes classify monies held by the Library into three categories.

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

Inactive deposits are public deposits that the Board has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts.

Interim monies held by the Library can be deposited or invested in the following securities:

1. United States Treasury bills, bonds notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

**Library Association of Sandusky
Erie County**

*Notes to the Financial Statements
For the Year Ended December 31, 2016
(Continued)*

3. No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
4. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
5. Bonds and other obligations of the State of Ohio, and with certain limitations bonds and other obligations of political subdivisions of the State of Ohio;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 40 percent of the interim monies available for investment at any one time if training requirements have been met; and
8. Written repurchase agreements in the securities described in (1) or (2) provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days.

Investments may only be made through specified dealers and institutions. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the clerk/treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

At year end, the Library had \$300 in undeposited cash on hand which is included as part of "*Cash and Cash Equivalents*" on the financial statements.

Deposits

Custodial credit risk is the risk that in the event of bank failure, the Library will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, the Library's bank balance was \$3,194,083. Of the bank balance \$266,094 was covered by the FDIC, \$1,943,068 was covered by U.S. Treasury Securities and \$984,921 was exposed to custodial credit risk because those deposits were uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the Library to a successful claim by the Federal Deposit Insurance Corporation.

Investments

During 2016, investments were limited to STAR Ohio and stock donated to the Library. Stock investments of \$842,810 were recorded at fair market value.

As of December 31, 2016, the net value per share of funds on deposit with STAR Ohio was \$476,135. STAR Ohio carries a rating of AAA by Standard and Poor's. The Library has no investment policy dealing with interest rate or credit risk beyond the requirements of State statute. Ohio law requires STAR Ohio

**Library Association of Sandusky
Erie County**

*Notes to the Financial Statements
For the Year Ended December 31, 2016
(Continued)*

must maintain the highest rating provided by at least one nationally recognized standard rating service.

Note 4 – Grants in Aid and Property Taxes

Grants in Aid

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 using the statutory allocation method. Estimated entitlement figures were issued to County Auditors. The actual current year entitlements were computed in December of the current year. The difference between the estimate and actual will be adjusted evenly in the PLF distributions made from January-June of the subsequent year.

Property Taxes

The State Library of Ohio defines the service area of public libraries in terms of school districts. For the Library this service area covers the Sandusky City School District, Perkins Local School District, Margaretta Local School District and Kelleys Island Local School District. All the school districts except Margaretta currently have voted levies to fund the Library.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Library. The County Treasurer collects property taxes on behalf of all taxing districts within the County, including those school districts with Library levies. The County Auditor periodically remits to taxing authorities their portion of taxes collected. The service area school districts forward any levy proceeds collected and remitted to them to the Library.

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.

The full tax rate for all Library operations for the year ended December 31, 2016, was \$1.5 mill per \$1,000 of assessed value for City of Sandusky and Perkins Township and \$.8 mill per \$1,000 assessed value for Kelleys Island. The assessed values of real property upon which 2016 property tax receipts were collected based on 2015 property values in the City of Sandusky, Perkins Township, and Kelleys Island.

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

**Library Association of Sandusky
Erie County**

*Notes to the Financial Statements
For the Year Ended December 31, 2016
(Continued)*

Note 5 – Risk Management

Commercial Insurance

The Library has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Personal property;
- Fine Arts;
- Employment Practices;
- Vehicles; and
- Errors and omissions

Note 6 – Defined Benefit Pension Plan

Ohio Public Employees Retirement System

The Library participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. Library employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS' traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional plan as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information, including requirements for reduced and unreduced benefits):

**Library Association of Sandusky
Erie County**

*Notes to the Financial Statements
For the Year Ended December 31, 2016
(Continued)*

Group A	Group B	Group C
Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Members not in other Groups and members hired on or after January 7, 2013
State and Local	State and Local	State and Local
Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35

Final average Salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	<u>State and Local</u>
2016 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee	10.0 %
2016 Actual Contribution Rates	
Employer:	
Pension	13.0 %
Post-employment Health Care Benefits	<u>1.0 %</u>
Total Employer	<u>14.0 %</u>
Employee	<u>10.0 %</u>

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The Library's contractually required contribution was \$182,871 for year 2016.

**Library Association of Sandusky
Erie County**

*Notes to the Financial Statements
For the Year Ended December 31, 2016
(Continued)*

Note 7 – Postemployment Benefits

Ohio Public Employees Retirement System

Plan Description - The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the traditional pension plan, a cost-sharing, multiple-employer defined benefit pension plan; the member-directed plan, a defined contribution plan; and the combined plan, a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

In March 2016, OPERS received two favorable rulings from the Internal Revenue Service (IRS) allowing OPERS to consolidate all health care assets into the OPERS 115 Health Care Trust. Transition to the new health care trust structure was completed July 1, 2016. OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage. OPERS funds a Retiree Medical Account (RMA) for participants in the Member-Directed Plan. At retirement or refund, participants can be reimbursed for qualified medical expenses from their vested RMA balance.

In order to qualify for postemployment health care coverage, age and service retirees under the traditional pension and combined plans must have twenty or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. See OPERS' CAFR referenced below for additional information.

The Ohio Revised Code permits, but does not require OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the Board in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/financial/reports.shtml>, by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

Funding Policy - The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2016, state and local employers contributed at a rate of 14.0 percent of earnable salary and public safety and law enforcement employers contributed at 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the

**Library Association of Sandusky
Erie County**

*Notes to the Financial Statements
For the Year Ended December 31, 2016
(Continued)*

Traditional Pension Plan and Combined Plan was 2.0 percent during calendar year 2015 and 2016. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed Plan for 2016 was 2.0 percent.

Substantially all of the Library's contribution allocated to fund postemployment health care benefits relates to the cost-sharing, multiple employer trusts. The corresponding contribution for the years ended December 31, 2016, 2015, and 2014 was \$26,124, \$30,014, and \$30,120 respectively. The full amount has been contributed for all three years.

Note 8 – Lease and Sublease of Library Premises

The Library entered into a lease and sublease agreement with the City of Sandusky, Ohio (the City) on January 19, 2000. The agreement leased the original Sandusky Library property and former County Jail property to the City to allow the City to renovate the Sandusky Library and former County Jail Property and construct additional space, all to serve as the expanded Sandusky Library, to furnish and equip the expanded Sandusky Library, construct additional parking and otherwise improve the site. The lease agreement requires no rent or lease payments to be charged to the City. The City was obligated to issue \$7,200,000 in bonds to pay for the costs of the expanded Sandusky Library. In 2011, the City issued \$4,090,000 in unvoted current refunding general obligation bonds to refund the previous bonds issued for renovating and improving the Library. The bonds were issued for a twelve year period with maturity beginning December 1, 2012.

The City subleased the expanded Sandusky Library back to the Library commencing on the same date and expiring on the date on which all the bonds are retired. The purpose of the sublease is to enable the Library to provide library services to the residents of the City. The Library is required to operate, maintain and repair the premises, and to provide furnishings, equipment, and staff as well as pay for all expenses associated with the expanded Sandusky Library property, including utilities and insurance.

Note 9 – Related Organizations

The Library has control and an economic interest in the Sandusky Library and Follett House Museum Foundation (the Foundation). The Foundation is a separate not-for-profit corporation organized to serve for the benefit and services of the Library. The Foundation is managed by a board of directors consisting of nine members, four of whom serve as community members, four of whom are Library Board members, and one of whom is the Executive Director. The Library is not financially accountable for the organization, nor does the Library approve the budget of the organization. Therefore, this organization has been excluded from the reporting entity of the Library.

Note 10 – Temporarily Restricted Net Assets

Temporarily restricted net assets are included in cash and cash equivalents and consist of the following:

**Library Association of Sandusky
Erie County**

*Notes to the Financial Statements
For the Year Ended December 31, 2016
(Continued)*

	<u>2016</u>
Perkins Fund	\$ 17,230
Anderson Fund	31,531
Curtis Fund	864,248
Graefe Fund	575,852
Lange Trust Fund	<u>91,784</u>
Total Temporarily Restricted Net Assets:	<u>\$ 1,580,645</u>

During 2016, \$109,483 in temporarily restricted net assets were released from the Lange Trust Fund.

Note 11 – Permanently Restricted Net Assets

Permanently restricted net assets are included in cash and cash equivalents and consist of the following:

	<u>2016</u>
Ackley Fund	\$ 4,784
Alcott Fund	16,094
Edwards Fund	<u>8,052</u>
Total Permanently Restricted Net Assets:	<u>\$ 28,930</u>

During 2016, no permanently restricted net assets were released.

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Dave Yost • Auditor of State

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

Library Association of Sandusky
Erie County
114 West Adams Street
Sandusky, Ohio 44870

To the Board of Directors:

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 cash basis financial statements of the Library Association of Sandusky, Erie County, Ohio (the Library) (a not-for-profit corporation) as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Library's basic financial statements and have issued our report thereon dated December 21, 2018, wherein we noted the Library uses a special purpose framework other than generally accepted accounting principles.

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 2017-001 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*.

One Government Center, Suite 1420, Toledo, Ohio 43604-2246
Phone: 419-245-2811 or 800-443-9276 Fax: 419-245-2484

www.ohioauditor.gov

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 report is not suitable for any other purpose.

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

Dave Yost
Auditor of State

Columbus, Ohio

December 21, 2018

**LIBRARY ASSOCIATION OF SANDUSKY
ERIE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2017 AND 2016**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

FINDING NUMBER 2017-001

Material Weakness

Financial Reporting

In our audit engagement letter, as required by AU-C Section 210, *Terms of Engagement*, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; 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 as discussed in AU-C Section 210 paragraphs .A14 & .A16.

Financial Accounting Standards Board (FASB) ASC § 958-205-05-6, provides general-purpose financial statements classify and report net assets in three groups—permanently restricted, temporarily restricted, and unrestricted—based on the existence or absence of restrictions and the nature of those restrictions.

FASB ASC § 958-205-45-4 provides a complete set of financial statements shall include a statement of financial position as of the end of the reporting period, a statement of activities and a statement of cash flows for the reporting period, and accompanying notes to financial statements.

Errors were noted in the financial statements, resulting in the following audit adjustments:

- Activity within the Capital Projects fund, Miscellaneous fund, and Schuck fund were improperly classified as Permanently Restricted rather than Unrestricted. Permanently Restricted 2016 beginning net assets were overstated by \$518,602 and 2016 ending net assets were overstated by \$470,840; understating the Unrestricted net assets by the same amounts. Permanently Restricted 2017 beginning net assets were overstated by \$470,840 and 2017 ending net assets were overstated by \$427,903; understating the Unrestricted net assets by the same amounts. The following amounts were adjusted from Permanently Restricted to Unrestricted:

	Net Assets January 1	Receipts	Expenses	Net Assets December 31
2016				
Capital Projects Fund	\$ 496,459	\$ 2,160	\$ 50,498	\$ 448,121
Miscellaneous Fund	12,457	576		13,033
Schuck Fund	9,686			9,686
Totals	\$ 518,602	\$ 2,736	\$ 50,498	\$ 470,840
2017				
Capital Projects Fund	\$ 448,121	\$ 3,837	\$ 47,246	\$ 404,712
Miscellaneous Fund	13,033	472		13,505
Schuck Fund	9,686			9,686
Totals	\$ 470,840	\$ 4,309	\$ 47,246	\$ 427,903

- Activity within the Anderson fund, Curtis fund, Graefe fund, Perkins fund and Lange Trust fund were improperly classified as Permanently Restricted rather than Temporarily Restricted. Permanently Restricted 2016 beginning net assets were overstated by \$1,520,021 and 2016 ending net assets were overstated by \$1,580,645; understating the Temporarily Restricted net

assets by the same amounts. Permanently Restricted 2017 beginning net assets were overstated by \$1,580,645 and 2017 ending net assets were overstated by \$1,740,808; understating the Temporarily Restricted net assets by the same amounts. Temporarily Restricted Activity was adjusted to be reported as follows:

	Net Assets January 1	Receipts	Expenses	Net Assets December 31
2016				
Anderson Fund	\$ 30,624	\$ 907		\$ 31,531
Curtis Fund	831,317	32,931		864,248
Graefe Fund	573,686	2,166		575,852
Perkins Fund	17,213	17		17,230
Lange Trust Fund	67,181	134,086	\$ 109,483	91,784
Totals	<u>\$ 1,520,021</u>	<u>\$ 170,107</u>	<u>\$ 109,483</u>	<u>\$ 1,580,645</u>
2017				
Anderson Fund	\$ 31,531	\$ 4,632		\$ 36,163
Curtis Fund	864,248	108,560		972,808
Graefe Fund	575,852	2,983		578,835
Perkins Fund	17,230	86		17,316
Lange Trust Fund	91,784	119,156	\$ 75,254	135,686
Totals	<u>\$ 1,580,645</u>	<u>\$ 235,417</u>	<u>\$ 75,254</u>	<u>\$ 1,740,808</u>

- The Statement of Financial Position investments were understated and cash and cash equivalents were overstated by \$9,686 in 2017 and \$588,710 in 2016.
- The Statement of Cash Flows omitted Investing Activities understating proceeds from the sale of investment by \$1,437,927 and purchase of investments by \$38,817 in 2017 and understating purchase of investments by \$50,938 in 2016.
- The Statement of Cash Flows Cash and Cash Equivalents end of year included investments overstating this by \$524,638 in 2017 and \$1,923,748 in 2016.

Additional errors were noted in amounts ranging from \$196 to \$30,217. These errors were not identified and corrected prior to completing the annual report due to deficiencies in internal controls over financial reporting. The accompanying financial statements and notes to the financial statements have been adjusted to reflect these changes and additional insignificant errors were communicated to management but did not require adjustment to the financial statements. The lack of controls over the posting of financial transactions decreases the reliability of financial data at year-end and can result in undetected errors and irregularities.

To help ensure the Library's financial statements and notes to the statements are complete and accurate and to help identify and correct errors and omissions, the Library should adopt policies and procedures, including a final review of the statements and notes by the Fiscal Officer and Board. The Fiscal Officer should also review FASB ASC § 958 to help ensure the financial statements are properly reported.

Official's Response:

We did not receive a response from Officials to the finding reported above.



Dave Yost • Auditor of State

LIBRARY ASSOCIATION OF SANDUSKY

ERIE 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
JANUARY 3, 2019**