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STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

AUDIT REPORT
OF

INDIANA COOPERATIVE LIBRARY
SERVICES AUTHORITY
MARION COUNTY, INDIANA

January 1, 2005 to December 31, 2006



FILED
06/28/2007

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LIBRARY SERVICES AUTHORITY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Executive Director	Michael C. Piper	01-01-05 to 12-31-08
Treasurer	Margi Bontrager Wendell Jhnting	07-01-04 to 06-30-06 07-01-06 to 06-30-08
President of the Board of Directors	Lynn Daugherty Larry Frye Beth Booth Poor John Stachacz	07-01-04 to 06-30-05 07-01-05 to 06-30-06 07-01-06 to 06-30-07 07-01-07 to 06-30-08



STATE OF INDIANA
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INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

TO: THE OFFICIALS OF THE INDIANA COOPERATIVE LIBRARY
SERVICES AUTHORITY, MARION COUNTY, INDIANA

We have audited the accompanying financial statements of the business-type activities of the Indiana Cooperative Library Services Authority (Library Services Authority), as of and for the years ended December 31, 2005, and 2006. These financial statements are the responsibility of the Library Services Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Library Services Authority as of December 31, 2005 and 2006, and the respective changes in financial position and cash flows, where applicable, thereof and for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and Ten-Year Loss Development Information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated June 7, 2007, on our consideration of the Library Services Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Library Services Authority taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

STATE BOARD OF ACCOUNTS

June 7, 2007



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE INDIANA COOPERATIVE LIBRARY
SERVICES AUTHORITY, MARION COUNTY, INDIANA

We have audited the financial statements of the Indiana Cooperative Library Services Authority (Library Services Authority), as of and for the years ended December 31, 2005, and 2006, and have issued our report thereon dated June 7, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Library Services Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Library Services Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Library Services Authority's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

June 7, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of INCOLSA, we offer readers of INCOLSA's financial statements this narrative overview and analysis of the financial activities of INCOLSA for the years ended December 31, 2005 and 2006.

FINANCIAL HIGHLIGHTS

- The assets of INCOLSA exceeded its liabilities by \$8,725,796 (net assets) as of December 31, 2005 and \$8,195,205 as of December 31, 2006, and represents a decrease of \$437,829 (or 4.8%) from the prior year in 2005 and \$530,591 (or 6.1%) from the prior year in 2006. Of this amount in 2005, \$955,020 represents investments in capital assets (e.g. land, building, computers and equipment) and \$7,770,776 is unrestricted and may be used to meet INCOLSA's ongoing obligations to members and creditors. Of the amount in 2006, \$874,134 represents investments in capital assets and \$7,321,071 is unrestricted.
- Net assets decreased by \$437,829 (or 4.8%) and by \$530,591 (or 6.1%) in 2005 and 2006 respectively. The decreases in 2005 and 2006 are attributable to a 7% reduction in state funding, change to the reimbursement method for both INSPIRE-Build Indiana Fund (BIF) and State funding, and an increase in database and health insurance costs.
- INCOLSA's operating balance was \$5,186,074 as of December 31, 2005, a decrease of \$1,594,998 from the prior year due to the factors outlined above. The operating balance as of December 31, 2006 was \$5,763,989, an increase of \$577,915 from the prior year due to receiving reimbursement for 2005 expenses in 2006.
- Funding from the State of Indiana and from LSTA grants continues to be uncertain from year to year and INCOLSA experienced a seven percent decrease in funding from the State during 2005, which carried over to 2006.

OVERVIEW OF THE FINANCIAL STATEMENTS

The focus of the Governmental Accounting Standards Board (GASB) statement 34 financial statements is to allow the user to address relevant questions, broaden a basis for comparison (year to year or government to government), and enhance INCOLSA's accountability.

This discussion and analysis intends to serve as an introduction to INCOLSA's basic financial statements. INCOLSA's basic financial statements comprise the business-type activities and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves. The financial statements are categorized into two funds: General Fund and Indiana Libraries Unemployment Fund (ILUF). Both funds are business type activities. Comparative Data is shown for the General Fund. However, this is the first year the ILUF Fund is presented in this format and no comparative data prior to the dates of this report is shown. In future years, a comparative analysis for the ILUF Fund will also be included in the management's discussion and analysis.

A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. INCOLSA, as a municipal corporation, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Designed to be corporate-like, the financial statements provide readers with a broad overview of INCOLSA's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on INCOLSA's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of the financial position of INCOLSA.

The notes provide additional information, which is essential to the full understanding of the data provided in the financial statements.

FINANCIAL ANALYSIS

Table 1

Statement of Net Assets As of December 31					
	General Fund			ILUF Fund	
	2006	2005	2004	2006	2005
Current Assets	\$7,952,736	\$8,690,080	8,996,976	0	0
Non Current Assets	0	0	0	688,607	665,403
Capital Assets	<u>874,134</u>	<u>955,020</u>	<u>1,114,014</u>	<u>0</u>	<u>0</u>
Total Assets	\$8,826,870	\$9,645,100	10,110,990	688,607	665,403
Current Liabilities	631,665	919,304	947,365	4,301	2,746
Net Assets:					
Invested in Capital Assets, net of related debt	874,134	955,020	1,114,014	0	0
Unrestricted	<u>7,321,071</u>	<u>7,770,776</u>	<u>8,049,611</u>		
Restricted				<u>684,306</u>	<u>662,657</u>
Total Net Assets	\$8,195,205	\$8,725,796	9,163,625	684,306	662,657

General Fund: As noted earlier, net assets may serve over time as a useful indicator of an organization's financial position. In the case of the INCOLSA, assets exceeded liabilities by \$8,725,796 (net assets) for the year ended 2005 and \$8,195,205 for the year ended 2006 as reported in Table 1.

Cash and Investments decreased in 2005 by \$1,623,059 and increased in 2006 by \$290,276. This fluctuation of cash is mainly due to the change to reimbursement for the BIF and State Grant. Much of the expenses (for 2005) for the INSPIRE BIF grant were paid in 2005 but reimbursement was not received until 2006.

ILUF Fund: From 2005 to 2006 net assets increased by \$21,649 (or 3.3%). Assets exceeded liabilities (net assets) by \$662,657 and \$684,306 in 2005 and 2006 respectively. The total amount of net assets for both years is restricted and may only be used to meet member obligations for the fund.

Reported in Table 2 are the key elements of the increase in net assets.

Table 2

Change in Net Assets					
	General Fund			ILUF Fund	
	2006	2005	2004	2006	2005
REVENUES:					
Charges for Services	\$6,798,621	\$6,517,992	6,248,287		
Intergovernmental Revenues	4,280,123	4,169,384	4,619,981		
Fees	162,986	155,156	186,400		
Member Obligation				37,822	35,321
Other Revenue	<u>275,130</u>	<u>194,173</u>	<u>100,956</u>		
Total Revenues	\$11,516,860	\$11,036,705	11,155,624	37,822	35,321
EXPENSES:					
Personal Services	2,827,697	2,892,376	2,719,347		
Other Services and Charges	5,954,016	5,504,954	5,243,642		
Database and Other Technology	2,065,581	1,984,489	1,305,309		
Operating Expenses	<u>1,200,157</u>	<u>1,092,715</u>	<u>1,499,474</u>	<u>16,173</u>	<u>19,813</u>
Total Expenses	\$12,047,451	\$11,474,534	10,767,772	16,173	19,813
Increase (Decrease) in Net Assets	(530,591)	(437,829)	387,852	21,649	15,508
Net Assets-Beginning of Year	<u>8,725,796</u>	<u>9,163,625</u>	<u>8,775,773</u>	<u>662,657</u>	<u>631,562</u>
Net Assets-End of Year	\$8,195,205	\$8,725,796	9,163,625	684,306	662,657

General Fund: The overall increase in expenses is due to higher costs for databases and health insurance. Database costs increased 52% in 2005 and 4.1% in 2006 from the previous years. Additional databases were added and rising prices incurred for all databases, which resulted in increase of costs. Total expenses increased by 6.6% in 2005 from the previous year and an increase of 5.0% from the previous year occurred in 2006.

As a measure of the funds liquidity, it may be useful to compare the unrestricted fund balance to the total expenditures for the year. At the end of 2005, net assets were \$8,725,796 or 76.0% of the total expenses for the fund. At the end of 2006, net assets were \$8,195,205 or 68.0% of the total expenses for the year.

Financial Impacts

Revenues

- Economic Condition – This can reflect a declining, stable, or growing economic environment and has a substantial impact on INCOLSA’s funding and costs.
- Political and Legislative Issues – Emphasis on performance-based measures have been implemented by the State of Indiana. INCOLSA has continued to report the necessary information according to these measures; however, it has resulted in a decrease in cash flow due to the delay of receipt in payment.
- Changing Patterns in Intergovernmental Revenue (both recurring and non-recurring) – Certain recurring revenues may experience significant changes periodically while non-recurring (or one-time) grants are less predictable and often distorting in their impact on year to year comparisons.
- Market Impacts on Investment Income – The current market conditions have a significant influence on INCOLSA’s investment income causing it to fluctuate greatly.

Expenses

- Introduction of New Programs – The library industry continues to change and we have to provide relevant services for the needs of the industry.
- Salary Adjustments – The ability to attract and retain human and intellectual resources requires INCOLSA to strive for competitive salaries in the marketplace.
- Inflation – While overall inflation appears to be reasonably modest, INCOLSA is impacted like any business by fluctuating prices for commodities and costs for databases and other technology.

Current Impacts

- State Funding – The appropriation from the state decreased 7% in 2005 and continued in 2006. Both the Build Indiana Fund and State Grant funding are on a reimbursement basis.
- LSTA Grants – The allocation of grants remains competitive and INCOLSA expects reductions in the level of funding from LSTA grants.
- Health Insurance – The cost for INCOLSA to provide health, dental and vision coverage for employees continues to escalate. The self-funded plan experienced increased claims costs in 2005.

CAPITAL ASSETS

INCOLSA's investments in capital assets amounts to \$955,020 and \$874,134 (net of accumulated depreciation) as of December 31, 2005 and 2006 respectively. This investment in capital assets includes land, building, computers and equipment. The total decrease in INCOLSA's investment in capital assets for the year ended 2005 was \$158,994 (or 14.3 %) and for the year ended 2006 was \$80,886 (or 8.5%) and is summarized as follows:

- Capital assets outdated, unserviceable, and no longer used are systematically disposed of on an annual basis.
- Computer equipment and technology equipment was acquired to improve service levels to members.

Table 3

Capital Assets-General Fund Net of Depreciation			
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Building	\$960,472	\$960,472	960,472
Furniture and Equipment	395,137	390,919	391,994
Computers and Equipment	1,474,075	1,388,916	1,355,149
Computer Software	<u>317,946</u>	<u>315,429</u>	<u>307,187</u>
Total	\$3,147,630	\$3,055,736	3,014,802
Less Accumulated Depreciation	<u>2,273,496</u>	<u>2,100,716</u>	<u>1,900,788</u>
Capital Assets-Net	\$874,134	\$955,020	1,114,014

Capital Assets are reported for the General Fund. No capital assets reside in the ILUF Fund for the years ended December 31, 2005 and 2006. More detailed information on our capital assets, in the General Fund, can be found in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S OPERATIONS

INCOLSA will continue to provide services that assist members with development and improvement of library services. INCOLSA, as a municipal corporation, relies on funding from the State of Indiana, which was reduced by 7% in 2005 and continued in 2006. Budget constraints at the state level will continue to impact INCOLSA's operations. It is anticipated that funding for operations in 2007 will continue to decrease

and an appropriation from INCOLSA's operating balance of \$94,807 has been budgeted to offset the shortfall of revenues.

The level of funding has an impact on INCOLSA's competitive ability to provide services to member libraries. It places a greater emphasis on our continued ability to provide services while balancing user fee increases with management control and oversight of expenses.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of INCOLSA's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Chief Financial Officer, INCOLSA, 6202 Morenci Trail, Indianapolis, IN 46268-2536. INCOLSA's website address is www.incolsa.net.

INDIANA COOPERATIVE LIBRARY SERVICES AUTHORITY
STATEMENT OF NET ASSETS
December 31, 2005 And 2006

	2005		2006	
	General Fund	Indiana Libraries' Unemployment Fund	General Fund	Indiana Libraries' Unemployment Fund
<u>Assets</u>				
Current assets:				
Cash and cash equivalents	\$ 6,105,378	\$ -	\$ 6,395,654	\$ -
Interest receivable	-	-	380	-
Accounts receivable (net of allowance)	491,165	-	346,909	-
Intergovernmental receivable	1,461,763	-	594,811	-
Interfund receivables:				
Interfund services provided and used	146	-	577	-
Inventories	6,096	-	2,334	-
Prepaid items	625,532	-	612,071	-
	<u>8,690,080</u>	<u>-</u>	<u>7,952,736</u>	<u>-</u>
Total current assets				
Noncurrent assets:				
Restricted cash, cash equivalents and investments:				
Indiana libraries' unemployment cash and investments	-	665,403	-	688,607
Capital assets:				
Other capital assets (net of accumulated depreciation)	955,020	-	874,134	-
	<u>955,020</u>	<u>665,403</u>	<u>874,134</u>	<u>688,607</u>
Total noncurrent assets				
	<u>9,645,100</u>	<u>665,403</u>	<u>8,826,870</u>	<u>688,607</u>
Total assets				
<u>Liabilities</u>				
Current liabilities:				
Accounts payable	212,878	-	104,426	-
Interfund payables:				
Interfund services provided and used	-	146	-	577
Contracts payable	96,450	-	26,451	-
Benefits payable	-	2,600	-	3,724
Compensated absences	92,451	-	87,199	-
Deferred revenue	517,525	-	413,589	-
	<u>919,304</u>	<u>2,746</u>	<u>631,665</u>	<u>4,301</u>
Total current liabilities				
<u>Net Assets</u>				
Invested in capital assets, net of related debt	955,020	-	874,134	-
Restricted for other purposes	-	662,657	-	684,306
Unrestricted	7,770,776	-	7,321,071	-
	<u>8,725,796</u>	<u>662,657</u>	<u>8,195,205</u>	<u>684,306</u>
Total net assets				

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

INDIANA COOPERATIVE LIBRARY SERVICES AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND OTHER CHANGES IN FUND NET ASSETS
As Of And For The Years Ended December 31, 2005 And 2006

	2005		2006	
	General Fund	Indiana Libraries' Unemployment Fund	General Fund	Indiana Libraries' Unemployment Fund
Operating revenues:				
Grants - federal	\$ 1,426,881	\$ -	\$ 1,602,377	\$ -
On-line services	2,964,621	-	2,926,111	-
Cataloging and book processing	163,436	-	178,143	-
Information retrieval services	2,715,532	-	3,070,199	-
PALNI fees	674,403	-	624,168	-
Intergovernmental fees	2,742,503	-	2,677,746	-
Dues and assessments	76,618	-	74,390	-
Member obligation	-	35,321	-	37,822
Other	78,538	-	88,596	-
Total operating revenues	10,842,532	35,321	11,241,730	37,822
Operating expenses:				
Personal services	2,201,279	-	2,255,820	-
Employee pensions and benefits	506,264	-	398,522	-
Payroll taxes	184,833	-	173,355	-
Supplies	27,955	-	39,408	-
Telephone	38,402	-	34,935	-
Postage and shipping	16,812	42	19,559	42
Utilities	130,178	-	143,235	-
Equipment rental and maintenance	47,996	-	101,228	-
Printing and publication	33,292	104	54,948	195
Travel	89,548	-	97,485	-
Conferences, conventions and meetings	37,491	-	34,958	-
Depreciation	227,000	-	178,551	-
Dues, advertising and recruiting	45,834	-	47,260	-
Insurance and bonding	49,756	-	53,920	-
Consultants, professional services and grant administration	108,434	-	174,775	-
Telecommunications	165,712	-	155,635	-
Cost of goods sold	5,504,954	-	5,954,016	-
Equipment, software and database subscription	1,984,489	-	2,065,581	-
Grant administration fee	74,125	-	64,146	-
Benefits	-	17,667	-	13,596
Service fees	-	2,000	-	2,000
Miscellaneous expenses	180	-	114	340
Total operating expenses	11,474,534	19,813	12,047,451	16,173
Operating income (loss)	(632,002)	15,508	(805,721)	21,649
Nonoperating revenues (expenses):				
Interest and investment revenue	194,173	15,587	275,130	-
Change in net assets	(437,829)	31,095	(530,591)	21,649
Total net assets - beginning	9,163,625	-	8,725,796	662,657
Prior period adjustment	-	631,562	-	-
Total net assets - beginning (as restated)	9,163,625	631,562	8,725,796	662,657
Total net assets - ending	\$ 8,725,796	\$ 662,657	\$ 8,195,205	\$ 684,306

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

INDIANA COOPERATIVE LIBRARY SERVICES AUTHORITY
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
As Of And For The Years Ended December 31, 2005 And 2006

	2005		2006	
	General Fund	Indiana Libraries' Unemployment Fund	General Fund	Indiana Libraries' Unemployment Fund
Cash flows from operating activities:				
Receipts from customers and users	\$ 9,239,907	\$ 35,321	\$ 9,591,077	\$ 37,822
Payments to suppliers and contractors	(8,357,044)	(17,874)	(9,202,431)	(15,049)
Payments to employees	(2,886,444)	-	(2,832,949)	-
Interfund services provided (used)	(146)	53	(431)	431
Other receipts	227,389	-	2,557,925	-
Net cash provided (used) by operating activities	<u>(1,776,338)</u>	<u>17,500</u>	<u>113,191</u>	<u>23,204</u>
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	(68,186)	-	(97,779)	-
Proceeds from sales of capital assets	180	-	114	-
Net cash used by capital and related financing activities	<u>(68,006)</u>	<u>-</u>	<u>(97,665)</u>	<u>-</u>
Cash flows from investing activities:				
Proceeds from sales and maturities of investments	8,200,000	500,000	-	-
Purchase of investments	(1,200,000)	-	-	-
Interest received	221,285	15,587	274,750	-
Net cash provided by investing activities	<u>7,221,285</u>	<u>515,587</u>	<u>274,750</u>	<u>-</u>
Net increase in cash and cash equivalents	5,376,941	533,087	290,276	23,204
Cash and cash equivalents, January 1	<u>728,437</u>	<u>132,316</u>	<u>6,105,378</u>	<u>665,403</u>
Cash and cash equivalents, December 31	<u>\$ 6,105,378</u>	<u>\$ 665,403</u>	<u>\$ 6,395,654</u>	<u>\$ 688,607</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ (632,002)	\$ 15,508	\$ (805,721)	\$ 21,649
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation expense	227,000	-	178,551	-
(Increase) decrease in assets:				
Accounts receivable	(33,653)	-	144,256	-
Interfund services provided or used	(146)	-	(431)	-
Intergovernmental receivables	(1,278,030)	-	866,952	-
Inventories	379	-	3,762	-
Prepaid items	(31,825)	-	13,461	-
Increase (decrease) in liabilities:				
Accounts payable	(66,890)	-	(108,452)	-
Interfund payables	-	53	-	431
Contracts payable	96,450	-	(69,999)	-
Compensated absence payable	5,932	-	(5,252)	-
Deferred revenue	(63,553)	1,939	(103,936)	1,124
Total adjustments	<u>(1,144,336)</u>	<u>1,992</u>	<u>918,912</u>	<u>1,555</u>
Net cash provided (used) by operating activities	<u>\$ (1,776,338)</u>	<u>\$ 17,500</u>	<u>\$ 113,191</u>	<u>\$ 23,204</u>

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

INDIANA COOPERATIVE LIBRARY SERVICES AUTHORITY
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The Library Services Authority (primary government) was established under the laws of the State of Indiana. The Library Services Authority operates under an appointed/elected Board of Directors – Executive Committee form of government and provides the following services: library services to member libraries, primarily within the State of Indiana.

The accompanying financial statements present the activities of the Library Service Authority. There are no significant component units which require inclusion.

B. Fund Financial Statements

Business-type activity financial statements consist of the Statement of Net Assets; Statement of Revenues, Expenses, and Other Changes in Fund Net Assets; and the Statement of Cash Flows. Business-type activities rely to a significant extent on fees and charges for support.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accounts of the business-type activity are maintained and the financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

Proprietary funds distinguish operating revenues from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Revenue Recognized

The Library Services Authority records revenues from member libraries when the corresponding payable to the supplier of network services to the Library Services Authority is recognized.

E. Deferred Revenue

Deferred revenue consists of monies paid by member libraries and the State of Indiana in advance of billing for services rendered under various programs.

F. Assets, Liabilities and Net Assets or Equity

1. Deposits

The Library Services Authority's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

INDIANA COOPERATIVE LIBRARY SERVICES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

State statute (IC 5-13-9) authorizes the District to invest in securities, including but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

Investment income, including changes in the fair value of investments, is reported as revenue in the operating statement.

2. Inventories and Prepaid Items

All inventories are valued at cost using the first in/first out (FIFO) method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in fund financial statements.

3. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the financial statements.

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Buildings	\$ 300	Straight-line	20 years
Office furniture and equipment	300	Straight-line	10 years
Computers and peripheral equipment	300	Straight-line	7 years
Software	300	Straight-line	5 years

For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

4. Compensated Absences

- a. Sick Leave – Library Services Authority employees earn sick leave at the rate of 6 days per year. Unused sick leave may be accumulated to a maximum of 6 days. Accumulated sick leave is not paid to employees. Unused sick days can be transferred to the 5-day short-term disability bank.
- b. Vacation Leave – Library Services Authority employees earn vacation leave at rates from 10 days to 20 days per year based upon the number of years of service and classification. Vacation leave may be accumulated to a maximum of 1 year's accrual. Accumulated vacation leave is paid to employees with more than 6 months of service through cash payments upon termination.

INDIANA COOPERATIVE LIBRARY SERVICES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

- c. Personal Leave – Library Services Authority employees earn personal leave at the rate of 2 to 3 days per year based upon classification. Personal leave does not accumulate from year to year.

Vacation leave is accrued when incurred in the general fund and reported as a liability.

G. Indiana Libraries' Unemployment Fund

1. Description of Program

The Indiana Libraries' Unemployment Fund (Fund) provides processing and payment of unemployment compensation claims to member libraries. All member libraries have elected to become liable for "payments in lieu of contributions" under Section 22-4-10-1(a) of the Indiana Unemployment Compensation Act, IC 22-4-1-1. The Fund is fully funded by its member libraries. Members include 48 Class I public libraries, as defined by Indiana Code 20-14-1-4. The Fund is governed by an Advisory Board which can be established at the sole discretion of Indiana Cooperative Library Services Authority (INCOLSA). Any member may withdraw from the Fund at any December 31 by giving 6 months' written notice to INCOLSA. Any Class I public library may be admitted to the Fund upon paying a \$25 administrative fee. Participation rates are established and may be changed by either INCOLSA or the Advisory Board. The participation rate for a member library whose account has a deficit balance will be 2.0% in the following year.

2. Cash and Cash Equivalents – Restricted

The cash and cash equivalent balances of the Fund at December 31, 2005 and 2006, of \$665,403 and \$688,607 were restricted due to the external agreement between Indiana Cooperative Library Services Authority and the member libraries.

3. Basis for Estimating Liabilities

The Fund reports a liability for unemployment claims that have been incurred but are not paid until the subsequent period. The liability is associated with unemployment claims paid by the Indiana Department of Workforce Development during one year but not billed to the Fund until the subsequent year. The liability is based on the actual cost incurred by the Fund.

4. Investment Income

All income earned on investments made by the Fund are allocated among the member libraries based on the fund balance maintained by each member library.

II. Detailed Notes on All Funds

A. Deposits

Deposits, made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

INDIANA COOPERATIVE LIBRARY SERVICES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Capital Assets

Capital asset activity for the years ended December 31, 2005 and 2006, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
2005:				
Capital assets, being depreciated:				
Buildings	\$ 960,472	\$ -	\$ -	\$ 960,472
Office furniture and equipment	391,994	-	1,075	390,919
Computers and peripheral equipment	1,355,149	59,944	26,177	1,388,916
Software	<u>307,187</u>	<u>8,242</u>	<u>-</u>	<u>315,429</u>
Totals	<u>3,014,802</u>	<u>68,186</u>	<u>27,252</u>	<u>3,055,736</u>
Less accumulated depreciation for:				
Buildings	419,847	48,023	-	467,870
Office furniture and equipment	221,415	34,435	895	254,955
Computers and peripheral equipment	989,159	125,238	26,177	1,088,220
Software	<u>270,367</u>	<u>19,304</u>	<u>-</u>	<u>289,671</u>
Totals	<u>1,900,788</u>	<u>227,000</u>	<u>27,072</u>	<u>2,100,716</u>
Total capital assets, net	<u>\$ 1,114,014</u>	<u>\$ (158,814)</u>	<u>\$ 180</u>	<u>\$ 955,020</u>
2006:				
Capital assets, being depreciated:				
Buildings	\$ 960,472	\$ -	\$ -	\$ 960,472
Office furniture and equipment	390,919	5,179	961	395,137
Computers and peripheral equipment	1,388,916	90,083	4,924	1,474,075
Software	<u>315,429</u>	<u>2,517</u>	<u>-</u>	<u>317,946</u>
Totals	<u>3,055,736</u>	<u>97,779</u>	<u>5,885</u>	<u>3,147,630</u>
Less accumulated depreciation for:				
Buildings	467,870	48,023	-	515,893
Office furniture and equipment	254,955	32,771	961	286,765
Computers and peripheral equipment	1,088,220	88,584	4,810	1,171,994
Software	<u>289,671</u>	<u>9,173</u>	<u>-</u>	<u>298,844</u>
Totals	<u>2,100,716</u>	<u>178,551</u>	<u>5,771</u>	<u>2,273,496</u>
Total capital assets, net	<u>\$ 955,020</u>	<u>\$ (80,772)</u>	<u>\$ 114</u>	<u>\$ 874,134</u>

INDIANA COOPERATIVE LIBRARY SERVICES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Operating Leases

The Library Service Authority has entered into various operating leases having initial or remaining noncancelable terms exceeding one year for copy machines and postage meters. Rental expenditures for these leases were \$31,257 and \$2,544, respectively. The following is a schedule by years of future minimum rental payments as of December 31, 2006:

2007	\$	21,924
2008		9,324
2009		2,466
2010		<u>408</u>
 Total	 \$	 <u>34,122</u>

D. Restatements

For the year ended December 31, 2006, certain changes have been made to the financial statements to more appropriately reflect financial activity of the Library Services Authority. Prior period adjustments represent a change in funds reported from the prior period.

	Balance as Reported December 31, 2004	Prior Period Adjustments	Balance as Restated January 1, 2005
Indiana Libraries' Unemployment Fund			
Net assets	\$ -	\$ 631,562	\$ 631,562

III. Other Information

A. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

Medical Benefits to Employees, Retirees, and Dependents

The District has chosen to establish a risk financing fund for risks associated with medical benefits to employees. The risk financing fund is where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$10,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. All claims are paid from the General Fund, the only fund from which employees are paid. Provisions are also made for unexpected and unusual claims.

INDIANA COOPERATIVE LIBRARY SERVICES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
(Continued)

Claim expenditures and liabilities of the fund are reported when it is probable that a loss has occurred. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amounts of pay outs, and other economic and social factors.

However, claim liabilities cannot be reasonably estimated.

B. Pension Plan

Defined Contribution Pension Plan

TIAA-CREF Pension

Plan Description

The Library Services Authority has a defined contribution pension plan administered by the Teachers Insurance and Annuity Association as authorized by Indiana Code 8-1.5-3-7. The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by written agreement between the governing board of the unit and the plan administrator. The plan administrator issues a publicly available financial report that includes financial statements and required supplementary information of the plan. That report may be obtained by contacting:

TIAA-CREF
730 Third Avenue
New York, NY 10017-3206
Ph. (800) 842-2252

Funding Policy and Annual Pension Cost

The contribution requirements of plan members are established by the written agreement between the governing board of the unit and the plan administrator. Plan members are required to contribute 3% of the annual covered salary. The members are allowed to contribute in excess of the minimum 3% required contribution. The Library Services Authority is required to contribute at an actuarially determined rate. The current rate is 5% of annual covered payroll. Employer, employee required and excess contributions to the plan were \$113,720, \$68,653, and \$118,758, for 2005 and \$112,560, \$67,832, and \$119,715, for 2006, respectively.

C. Reconciliation of Total Claims Liabilities

As discussed in Note I.G.3., the Indiana Libraries' Unemployment Fund (Fund) establishes a liability for unemployment claims incurred but not paid at year end. The following represents changes in those liabilities for the Fund during the past two years:

	2005	2006
Unpaid expenses, beginning of year	\$ 661	\$ 2,600
Incurred expenses	17,667	13,596
Payments	15,728	12,472
Unpaid expenses, end of year	\$ 2,600	\$ 3,724

INDIANA COOPERATIVE LIBRARY SERVICES AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
TEN-YEAR LOSS DEVELOPMENT INFORMATION

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Member obligations and investment revenue:										
Net earned	\$ 37,822	\$ 50,908	**	**	**	**	**	**	**	**
Unallocated expenses	N/A	N/A	**	**	**	**	**	**	**	**
Losses and expenses:										
Net incurred	\$ 13,596	\$ 17,667	**	**	**	**	**	**	**	**
Net paid (cumulative) as of:										
End of fiscal year	\$ 31,263	\$ 17,667	**	**	**	**	**	**	**	**
Reestimated expenses	N/A	N/A	**	**	**	**	**	**	**	**
Reestimated net incurred expenses	N/A	N/A	**	**	**	**	**	**	**	**
Reconciliation of claims liabilities:										
Unpaid expenses beginning of fiscal year	\$ 2,600	\$ 661	**	**	**	**	**	**	**	**
Incurred expenses	13,596	17,667	**	**	**	**	**	**	**	**
Payments	<u>12,472</u>	<u>15,728</u>	**	**	**	**	**	**	**	**
Unpaid expenses end of fiscal year	<u>\$ 3,724</u>	<u>\$ 2,600</u>	**	**	**	**	**	**	**	**

** - information not available
N/A - not applicable

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SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE INDIANA COOPERATIVE LIBRARY
SERVICES AUTHORITY, MARION COUNTY, INDIANA

Compliance

We have audited the compliance of the Indiana Cooperative Library Services Authority (Library Services Authority) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended December 31, 2006. The Library Services Authority's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Library Services Authority's management. Our responsibility is to express an opinion on the Library Services Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Library Services Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Library Services Authority's compliance with those requirements.

In our opinion, the Library Services Authority complied in all material respects with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2006.

Internal Control Over Compliance

The management of the Library Services Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Library Services Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Library Services Authority's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

June 7, 2007

INDIANA COOPERATIVE LIBRARY SERVICES AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended December 31, 2005 and 2006

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 12-31-05	Total Federal Awards Expended 12-31-06
<u>NATIONAL FOUNDATION ON THE ARTS AND THE HUMANITIES</u>				
Pass-Through Indiana State Library				
Grants to States	45.310			
Tech Support		04-1-03(4)	\$ 52,237	\$ -
Tech Training		04-2-1	33,110	-
Distance Learning		04-2-4	45,686	-
Video Consulting		04-2-5	3,000	-
INSPIRE		04-4-1(2)	53,020	-
Tech Support		05-1-3	147,921	77,132
Tech Training		05-2-1	173,180	107,971
Distance Learning		05-2-4	62,769	19,546
INSPIRE Database		05-4-1(1)	250,000	-
INSPIRE Operating		05-4-1(2)	231,058	173,191
IN Virtual Catalog		05-4-4(2)	374,900	-
Tech Support		06-1-3(4)	-	88,360
Professional Development		06-2-1	-	241,089
INSPIRE Database		06-4-1	-	282,600
INSPIRE Operating		06-4-1(2)	-	211,572
IN Virtual Catalog		06-4-4(2)	-	400,916
Total for program			<u>1,426,881</u>	<u>1,602,377</u>
Total federal awards expended			<u>\$ 1,426,881</u>	<u>\$ 1,602,377</u>

The accompanying note is an integral part of the Schedule of Expenditures of Federal Awards.

INDIANA COOPERATIVE LIBRARY SERVICES AUTHORITY
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Indiana Cooperative Library Services Authority (primary government) and is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Accordingly, the amount of federal awards expended is based on when the activity related to the award occurs. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

INDIANA COOPERATIVE LIBRARY SERVICES AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	none reported
Noncompliance material to financial statements noted?	no

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	none reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	no

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster	
45.310	Grants to States	
Dollar threshold used to distinguish between Type A and Type B programs:		\$300,000
Auditee qualified as low-risk auditee?		no

Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

INDIANA COOPERATIVE LIBRARY SERVICES AUTHORITY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

INDIANA COOPERATIVE LIBRARY SERVICES AUTHORITY
EXIT CONFERENCE

The contents of this report were discussed on June 7, 2007, with Michael C. Piper, executive Director; and on June 11, 2007, with Wendell Johnting, Treasurer. Our audit disclosed no material items that warrant comment at this time.