

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

EXAMINATION REPORT
OF
INDIANA COOPERATIVE LIBRARY
SERVICES AUTHORITY
MARION COUNTY, INDIANA

January 1, 2007 to June 30, 2009



FILED
11/24/2009

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Executive Director	Michael C. Piper	01-01-07 to 06-30-09
Treasurer	Wendell Johnting Elizabeth Booth Poor	07-01-06 to 06-30-08 07-01-08 to 06-30-09
President of the Board of Directors	Elizabeth Booth Poor John Stachacz Beverly Martin	07-01-06 to 06-30-07 07-01-07 to 06-30-08 07-01-08 to 06-30-09



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

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

We have examined the accompanying financial statements of the business-type activities of the Indiana Cooperative Library Services Authority (Authority), as of and for the years ended December 31, 2007 and 2008, and the period ended June 30, 2009. The Authority's management is responsible for the financial statements presented herein. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the financial statement presented herein and performing such other procedures as we considered necessary in the circumstances. We believe that our examination 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 Authority as of December 31, 2007, December 31, 2008, and June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof and for the years and period then ended, in conformity with accounting principles generally accepted in the United States of America.

STATE BOARD OF ACCOUNTS

October 21, 2009

INDIANA COOPERATIVE LIBRARY SERVICES AUTHORITY
STATEMENT OF NET ASSETS
December 31, 2007, 2008, And June 30, 2009

	December 31, 2007		December 31, 2008		June 30, 2009	
	General	Indiana Libraries' Unemployment Fund	General	Indiana Libraries' Unemployment Fund	General	Indiana Libraries' Unemployment Fund
Assets						
Current assets:						
Cash and cash equivalents	\$ 6,200,768	\$ -	\$ 4,980,446	\$ -	\$ 3,671,053	\$ -
Interest receivable	5,955	-	9,166	-	-	-
Accounts receivable	782,957	-	275,752	-	361,272	-
Interfund receivables:						
Interfund services provided and used	318	-	98	-	60	-
Inventories	3,707	-	5,386	-	2,659	-
Prepaid items	133,994	-	158,719	-	55,755	-
Total current assets	<u>7,127,699</u>	<u>-</u>	<u>5,429,567</u>	<u>-</u>	<u>4,090,799</u>	<u>-</u>
Noncurrent assets:						
Restricted cash, cash equivalents and investments:						
Indiana libraries' unemployment cash and cash equivalents	-	710,453	-	738,459	-	714,291
Capital assets:						
Other capital assets (net of accumulated depreciation)	698,971	-	579,867	-	512,781	-
Total capital assets	<u>698,971</u>	<u>-</u>	<u>579,867</u>	<u>-</u>	<u>512,781</u>	<u>-</u>
Total assets	<u>7,826,670</u>	<u>710,453</u>	<u>6,009,434</u>	<u>738,459</u>	<u>4,603,580</u>	<u>714,291</u>
Liabilities						
Current liabilities:						
Accounts payable	301,770	-	102,610	-	10,770	-
Interfund payables:						
Interfund services provided and used	-	318	-	98	-	60
Benefits payable	88,849	2,732	1,260	5,051	200	5,301
Severance payable	95,876	-	283,482	-	249,725	-
Compensated absences	81,035	-	61,478	-	48,765	-
Deferred revenue	467,562	-	237,352	-	204,742	-
Total current liabilities	<u>1,035,092</u>	<u>3,050</u>	<u>686,182</u>	<u>5,149</u>	<u>514,202</u>	<u>5,361</u>
Net Assets						
Invested in capital assets	698,971	-	579,867	-	512,781	-
Restricted for other purposes	-	707,403	-	733,310	-	708,930
Unrestricted	6,092,607	-	4,743,385	-	3,576,597	-
Total net assets	<u>\$ 6,791,578</u>	<u>\$ 707,403</u>	<u>\$ 5,323,252</u>	<u>\$ 733,310</u>	<u>\$ 4,089,378</u>	<u>\$ 708,930</u>

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

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, 2007, 2008, And Period Ended June 30, 2009

	December 31, 2007		December 31, 2008		June 30, 2009	
	General	Indiana Libraries' Unemployment	General	Indiana Libraries' Unemployment	General	Indiana Libraries' Unemployment
		Fund		Fund		Fund
Operating revenues:						
Grants - federal	\$ 146,798	\$ -	\$ -	\$ -	\$ -	\$ -
On-line services	2,840,653	-	3,583,983	-	1,496,922	-
Cataloging and book processing	154,853	-	39,741	-	1,470	-
Information retrieval services	3,032,779	-	2,669,672	-	841,444	-
PALNI fees	635,487	-	636,195	-	346,271	-
Intergovernmental fees	2,361,297	-	643,295	-	-	-
Dues and assessments	75,615	-	74,505	-	76,342	-
Member obligations	-	38,810	-	39,443	-	37,850
Other	36,864	-	37,785	-	24,131	-
Total operating revenues	9,284,346	38,810	7,685,176	39,443	2,786,580	37,850
Operating expenses:						
Personal services	1,928,669	-	1,636,210	-	568,844	-
Payroll taxes	148,000	-	148,380	-	47,863	-
Employee pensions and benefits	739,251	-	484,982	-	173,711	-
Cost of goods sold	5,475,772	-	5,452,737	-	1,303,789	-
Equipment, software, and database subscription	1,232,311	-	525,296	-	598,425	-
Consultants and professional services	504,680	-	387,497	-	1,071,533	-
Insurance and bonds	51,411	-	41,820	-	20,584	-
Conferences, conventions, and meetings	31,820	-	26,148	-	25,042	-
Staff travel and training	73,112	-	41,855	-	15,225	-
Utilities	110,013	-	98,735	-	45,927	-
Telephone	25,667	-	12,823	-	8,921	-
Facilities maintenance	21,139	-	20,547	-	7,837	-
Equipment rental and maintenance	71,408	-	80,105	-	73,803	-
Telecommunications	157,642	-	91,421	-	14,166	-
Dues, advertising, and recruiting	11,367	-	14,740	-	8,026	-
Printing and publication	19,614	91	17,884	49	5,100	27
Office supplies	38,820	-	12,138	39	1,871	28
Books, manuals, library materials	2,674	-	1,855	-	1,729	-
Postage and shipping	186,678	44	11,376	49	1,893	34
Depreciation and amortization	183,611	-	159,242	-	67,086	-
Miscellaneous	-	182	-	-	-	-
Benefits	-	28,401	-	16,147	-	60,141
Service fees	-	2,000	-	2,000	-	2,000
Total operating expenses	11,013,659	30,718	9,265,791	18,284	4,061,375	62,230
Operating income (loss)	(1,729,313)	8,092	(1,580,615)	21,159	(1,274,795)	(24,380)
Nonoperating revenues (expenses):						
Interest and investment revenue	327,103	15,005	112,996	4,748	40,921	-
Loss on disposal of assets	(1,417)	-	(707)	-	-	-
Total nonoperating revenues (expenses)	325,686	15,005	112,289	4,748	40,921	-
Change in net assets	(1,403,627)	23,097	(1,468,326)	25,907	(1,233,874)	(24,380)
Total net assets - beginning	8,195,205	684,306	6,791,578	707,403	5,323,252	733,310
Total net assets - ending	\$ 6,791,578	\$ 707,403	\$ 5,323,252	\$ 733,310	\$ 4,089,378	\$ 708,930

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

INDIANA COOPERATIVE LIBRARY SERVICES AUTHORITY
STATEMENT OF CASH FLOWS
As Of And For The Years Ended December 31, 2007, 2008, And Period Ended June 30, 2009

	December 31, 2007		December 31, 2008		June 30, 2009	
	General	Indiana Libraries' Unemployment	General	Indiana Libraries' Unemployment	General	Indiana Libraries' Unemployment
		Fund		Fund		Fund
Cash flows from operating activities:						
Receipts from customers and users	\$ 9,460,218	\$ 38,810	\$ 7,924,386	\$ 39,443	\$ 2,644,319	\$ 37,850
Payments to suppliers and contractors	(7,366,531)	(31,710)	(7,062,541)	(15,965)	(3,190,020)	(61,980)
Payments to employees	(2,637,359)	-	(2,189,112)	-	(837,948)	-
Interfund services provided (used)	259	(259)	220	(220)	38	(38)
Other receipts	36,864	-	37,785	-	24,131	-
Net cash provided (used) by operating activities	(506,549)	6,841	(1,289,262)	23,258	(1,359,480)	(24,168)
Cash flows from capital and related financing activities:						
Acquisition and construction of capital assets	(9,865)	-	(40,845)	-	-	-
Net cash used by capital and related financing activities	(9,865)	-	(40,845)	-	-	-
Cash flows from investing activities:						
Interest received	321,528	15,005	109,785	4,748	50,087	-
Net cash provided by investing activities	321,528	15,005	109,785	4,748	50,087	-
Net increase (decrease) in cash and cash equivalents	(194,886)	21,846	(1,220,322)	28,006	(1,309,393)	(24,168)
Cash and cash equivalents, January 1	6,395,654	688,607	6,200,768	710,453	4,980,446	738,459
Cash and cash equivalents, December 31	\$ 6,200,768	\$ 710,453	\$ 4,980,446	\$ 738,459	\$ 3,671,053	\$ 714,291
Reconciliation of operating income to net cash provided (used) by operating activities:						
Operating income (loss)	\$ (1,729,313)	\$ 8,092	\$ (1,580,615)	\$ 21,159	\$ (1,274,795)	\$ (24,380)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation expense	183,611	-	159,242	-	67,086	-
(Increase) decrease in assets:						
Accounts receivable	(436,048)	-	507,205	-	(85,520)	-
Intergovernmental receivable	594,811	-	-	-	-	-
Interfund receivable	259	-	220	-	38	-
Inventories	(1,373)	-	(1,679)	-	2,727	-
Prepaid items	478,077	-	(24,725)	-	102,964	-
Increase (decrease) in liabilities:						
Accounts payable	197,344	-	(199,160)	-	(91,840)	-
Interfund payable	-	(259)	-	(220)	-	(38)
Contracts payable	(26,451)	-	-	-	-	-
Benefits payable	88,849	(992)	(87,589)	2,319	(1,060)	250
Severance payable	95,876	-	187,606	-	(33,757)	-
Compensated absences payable	(6,164)	-	(19,557)	-	(12,713)	-
Deferred revenue	53,973	-	(230,210)	-	(32,610)	-
Total adjustments	1,222,764	(1,251)	291,353	2,099	(84,685)	212
Net cash provided by operating activities	\$ (506,549)	\$ 6,841	\$ (1,289,262)	\$ 23,258	\$ (1,359,480)	\$ (24,168)

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

INDIANA COOPERATIVE LIBRARY SERVICES AUTHORITY
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

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

The accompanying financial statements present the activities of the 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. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The 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.

State statute (IC 5-13-9) authorizes the Authority 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 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.

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

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and 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:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
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 – 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 may be transferred to the 5-day short-term disability bank.
- b. Vacation Leave – Authority employees earn vacation leave at rates from 10 days to 20 days per year based upon the number of years of service. Vacation leave may be accumulated to a maximum of one year's accrual. Accumulated vacation leave is paid to employees with more than 6 months of service through cash payments upon separation from service.
- c. Personal Leave – Authority employees earn personal leave at the rate of 2 to 3 days per year based upon job classification. Personal leave does not accumulate from year to year.

Vacation leave is accrued when incurred and reported as a liability.

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

E. Indiana Libraries' Unemployment Fund

1. Description of Program

The Indiana Libraries' Unemployment Fund (Fund) provides processing and payment of unemployment compensation claims for 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 IC 20-14-1-4. The Fund is governed by an Advisory Board which can be established at the sole discretion of the Indiana Cooperative Library Services Authority (INCOLSA). Any member may withdraw from the Fund on any December 31 by giving six 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 were restricted due to the external agreement between the 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 and Investments

Deposits, made in accordance with IC 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.

B. Capital Assets

Capital asset activity for the years ended December 31, 2007 and 2008, and for the period ended June 30, 2009, was as follows:

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

	Beginning Balance	Increases	Decreases	Ending Balance
2007:				
Capital assets, being depreciated:				
Buildings	\$ 960,472	\$ -	\$ -	\$ 960,472
Office furniture and equipment	395,137	-	7,084	388,053
Computers and peripheral equipment	1,474,075	9,865	-	1,483,940
Software	317,946	-	-	317,946
	<u>3,147,630</u>	<u>9,865</u>	<u>7,084</u>	<u>3,150,411</u>
Totals				
Less accumulated depreciation for:				
Buildings	515,893	48,025	-	563,918
Office furniture and equipment	286,765	28,062	5,667	309,160
Computers and peripheral equipment	1,171,994	95,875	-	1,267,869
Software	298,844	11,649	-	310,493
	<u>2,273,496</u>	<u>183,611</u>	<u>5,667</u>	<u>2,451,440</u>
Totals				
Total capital assets, being depreciated, net	<u>\$ 874,134</u>	<u>\$ (173,746)</u>	<u>\$ 1,417</u>	<u>\$ 698,971</u>
2008:				
Capital assets, being depreciated:				
Buildings	\$ 960,472	\$ -	\$ -	\$ 960,472
Office furniture and equipment	388,053	1,650	5,900	383,803
Computers and peripheral equipment	1,483,940	20,554	7,976	1,496,518
Software	317,946	18,641	-	336,587
	<u>3,150,411</u>	<u>40,845</u>	<u>13,876</u>	<u>3,177,380</u>
Totals				
Less accumulated depreciation for:				
Buildings	563,918	48,023	-	611,941
Office furniture and equipment	309,160	25,535	5,900	328,795
Computers and peripheral equipment	1,267,869	77,157	7,269	1,337,757
Software	310,493	8,527	-	319,020
	<u>2,451,440</u>	<u>159,242</u>	<u>13,169</u>	<u>2,597,513</u>
Totals				
Total capital assets, being depreciated, net	<u>\$ 698,971</u>	<u>\$ (118,397)</u>	<u>\$ 707</u>	<u>\$ 579,867</u>

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

	Beginning Balance	Increases	Decreases	Ending Balance
2009:				
Capital assets, being depreciated:				
Buildings	\$ 960,472	\$ -	\$ -	\$ 960,472
Office furniture and equipment	383,803	-	-	383,803
Computers and peripheral equipment	1,496,518	-	-	1,496,518
Software	336,587	-	-	336,587
Totals	3,177,380	-	-	3,177,380
Less accumulated depreciation for:				
Buildings	611,941	24,012	-	635,953
Office furniture and equipment	328,795	9,420	-	338,215
Computers and peripheral equipment	1,337,757	30,714	-	1,368,471
Software	319,020	2,940	-	321,960
Totals	2,597,513	67,086	-	2,664,599
Total capital assets, being depreciated, net	\$ 579,867	\$ (67,086)	\$ -	\$ 512,781

III. Other Information

A. Risk Management

The Authority 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; 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.

B. Pension Plan

Defined Contribution Pension Plan

TIAA-CREF Pension

Plan Description

The Authority has a defined contribution pension plan administered by the Teachers Insurance and Annuity Association as authorized by IC 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:

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

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 Authority is required to contribute at an actuarially determined rate. The current rate is 5% of annual covered payroll. Total employer, employee required, and employee excess contributions to the plan were \$253,598, \$221,115, and \$89,860, for the years ended December 31, 2007 and 2008, and the period ended June 30, 2009, respectively.

C. Reconciliation of Total Claims Liabilities

As discussed in Note I.E.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 years ended December 31, 2007 and 2008, and for the period ended June 30, 2009:

	2007	2008	2009
Unpaid expenses, beginning	\$ 3,724	\$ 2,732	\$ 5,051
Incurred expenses	28,401	16,147	60,141
Payments	29,393	13,828	59,891
Unpaid expenses, ending	\$ 2,732	\$ 5,051	\$ 5,301

D. PERF Withdrawal

The Indiana Cooperative Library Services Authority incorporated the operation of nine area library services authorities (ALSA) in 1995. At the time of the merger, the ALSA's were dissolved. The ALSA's were members of Public Employees Retirement Fund (PERF) and had been determined to have assets in excess of their respective pension benefit obligations. At the time of disincorporation, PERF indicated that an analysis of the appropriate distribution of the assets allocated to each ALSA would be made and distribution would follow. To date, no further action by PERF has occurred and this issue still remains unresolved.

E. Library Services Authority Merger

The Authority was merged into a nonprofit corporation known as INCOLSA, Inc., effective July 1, 2009. This is the close out examination for the Authority.

INDIANA COOPERATIVE LIBRARY SERVICES AUTHORITY
EXIT CONFERENCE

The contents of this report were discussed on October 21, 2009, with Elizabeth Booth Poor, Treasurer. Our examination disclosed no material items that warrant comment at this time.