

**DAYTON METRO LIBRARY
MONTGOMERY COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2004



**Auditor of State
Betty Montgomery**

DAYTON METRO LIBRARY
MONTGOMERY COUNTY

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Dayton Metro Library
Montgomery County
215 East Third Street
Dayton, Ohio 45402

To the Board of Trustees:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Dayton Metro Library, Montgomery County, (the Library), as of and for the year ended December 31, 2004, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Library as of December 31, 2004, and the respective changes in cash financial position and the respective budgetary comparison for the General fund thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

For the year ended December 31, 2004, the Library revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 7, 2005, on our consideration of the Library's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

September 7, 2005

**DAYTON METRO LIBRARY
MMONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004**

As management of the Dayton Metro Library, we offer readers of the Library's financial statements this narrative overview and analysis of the Library's financial activities for the fiscal year ended December 31, 2004.

FINANCIAL HIGHLIGHTS

- The Library's total net assets increased by \$130,415, or 1.9%.
- As of December 31, 2004, the fund balance in the Library's general fund was \$4.5 million, an increase of \$258,764 or 6%, from the previous year.
- Successfully passed a 1.25 mill levy on March 2, 2004 raising approximately \$9.8 million annually for the next five years.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Library's basic financial statements. The Library's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the Library's finances as a whole.

The statement of net assets presents information on all of the Library's assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the overall financial position of the Library is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Library, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The Library maintains 6 (six) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund. This fund is the Library's only major fund. Data from the other 5 governmental funds are combined into a single, aggregated presentation.

The Library adopts an annual appropriated budget for all funds. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Notes to the basic financial statements

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

**DAYTON METRO LIBRARY
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

THE LIBRARY AS A WHOLE

As noted earlier, the Library uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds focus on *current financial resources*. Accordingly, only financial assets are reported in governmental funds. *Current assets* represent Cash or Cash Equivalents (short term, highly liquid investments readily convertible into cash).

Fund balance represents the presentation of the Library's equity. Fund balance is divided into *reserved* and *unreserved* components, with unreserved representing amounts considered available for new spending. Reserved funds represent *encumbrances*. Encumbrances represent commitments either in the form of contracts or purchase orders that will be fulfilled in a subsequent fiscal period. The Library incurs *no liability* until performance has occurred on the part of the party with whom the Library entered into the arrangement, but reserves those funds that represents the Library's intention to honor those outstanding commitments in subsequent periods.

Unreserved fund balance may be divided into designated or undesignated portions. *Designated* funds represent management's intended use of resources and should reflect actual plans approved by senior management. *Undesignated* fund balances represent the amount available to meet the current operations of the Library.

The Statement of Cash Basis Assets and Fund Balances is a basic statement of position for the Library's governmental funds. Table 1 provides a summary of the Library's current assets and fund balances for 2004 as compared to 2003.

**TABLE 1
Cash Basis Assets and Fund Balances**

	<u>2004</u>	<u>2003</u>	<u>Increase (Decrease)</u>
Fund Assets			
Current Assets - General Fund	\$ 4,533,554	\$ 4,274,790	\$ 258,764
Current Assets - Other Governmental Funds	<u>2,249,604</u>	<u>2,377,953</u>	<u>(128,349)</u>
Total Current Assets	<u>\$ 6,783,158</u>	<u>\$ 6,652,743</u>	<u>\$ 130,415</u>
Fund Balance			
Reserved for Encumbrances - General Fund	\$ 972,621	\$ 1,106,424	\$(133,803)
Reserved for Endowment - Other Governmental Funds	213,875	285,709	(71,834)
Unreserved - General Fund	3,560,933	3,168,366	392,567
Unreserved - Other Governmental Funds	<u>2,035,729</u>	<u>2,092,244</u>	<u>(56,515)</u>
Total Fund Balance	<u>\$ 6,783,158</u>	<u>\$ 6,652,743</u>	<u>\$ 130,415</u>

As of the end of the current fiscal year, the Library's governmental funds reported combined ending fund balances of \$6.8 million, an increase of \$130,415 in comparison with the prior year. Approximately 86% of this amount (\$5.5 million) constitutes undesignated fund balance, which is available for spending at the Library's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders of the prior period (\$1,186,496).

**DAYTON METRO LIBRARY
MMONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

The governmental fund Statement of Cash Receipts, Disbursements and Changes in Cash Basis Fund Balances is a basic statement of activities for the governmental funds. The general fund is the chief operating fund of the Library. Total general fund receipts exceeded expenditures including transfers to other funds by \$258,764. At the end of the current fiscal year, unreserved fund balance of the general fund was \$3.6 million, while total fund balance reached \$6.8 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 17% of total general fund expenditures, while total fund balance represents 31% of that same amount.

The tables and graphs that follow assist in illustrating the financial activities and corresponding increase in fund balance of the Library's general and other governmental funds.

Unrestricted State of Ohio entitlement funding was reduced for the state biennium budget July 2003 to June 2005. 2004 operations were driven by the reduced funding from the State of Ohio, which represents 88% of the Library's revenues. After having seen revenues drop for each of the prior three years, reducing costs were paramount. Austerity measures passed by the Board of Trustees during 2003 had a negative impact on library services, particularly hours of operation, reduced funding for library materials and programs, the elimination of services such as our bookmobile and Dayton Mall mini-branch, and delaying most capital projects. Many of these cuts required the elimination of positions.

Table 3

General Fund Receipts Comparative Analysis

	<u>2004 Amount</u>	<u>2003 Amount</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
General Fund Receipts:				
Property and Other Local Taxes	\$ 1,592,330	\$ 1,585,124	\$ 8,206	.5%
Intergovernmental	19,138,729	19,030,832	107,897	.6%
Patron Fines and Collections	553,589	564,005	(10,416)	-1.8%
Earnings on Investments	79,490	74,089	5,401	7.3%
Services Provided to Other Entities	58,700	48,515	10,185	21.0%
Contributions and Donations	63,092	20,465	42,628	208.3%
Miscellaneous	236,889	185,703	51,186	27.6%
Total	<u>\$21,722,819</u>	<u>\$21,508,733</u>	<u>\$215,086</u>	<u>1.0%</u>

**DAYTON METRO LIBRARY
MMONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

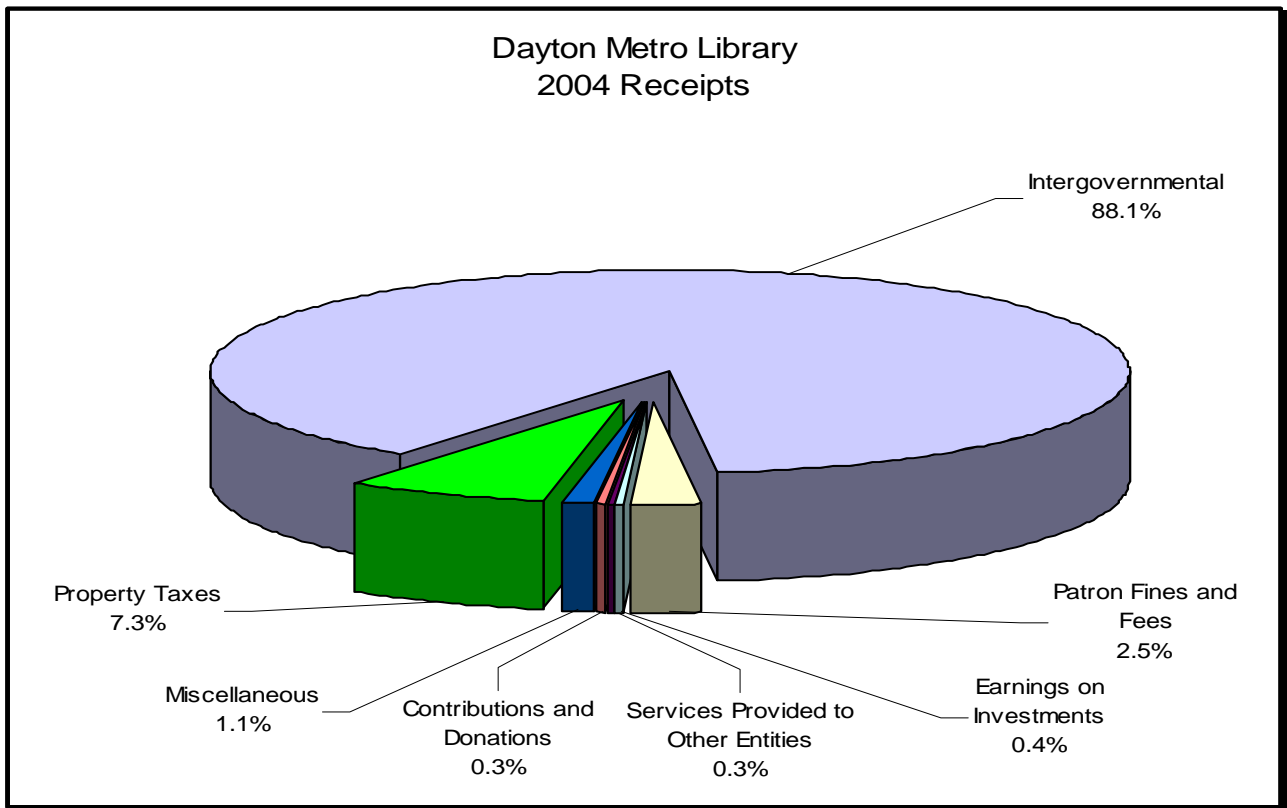


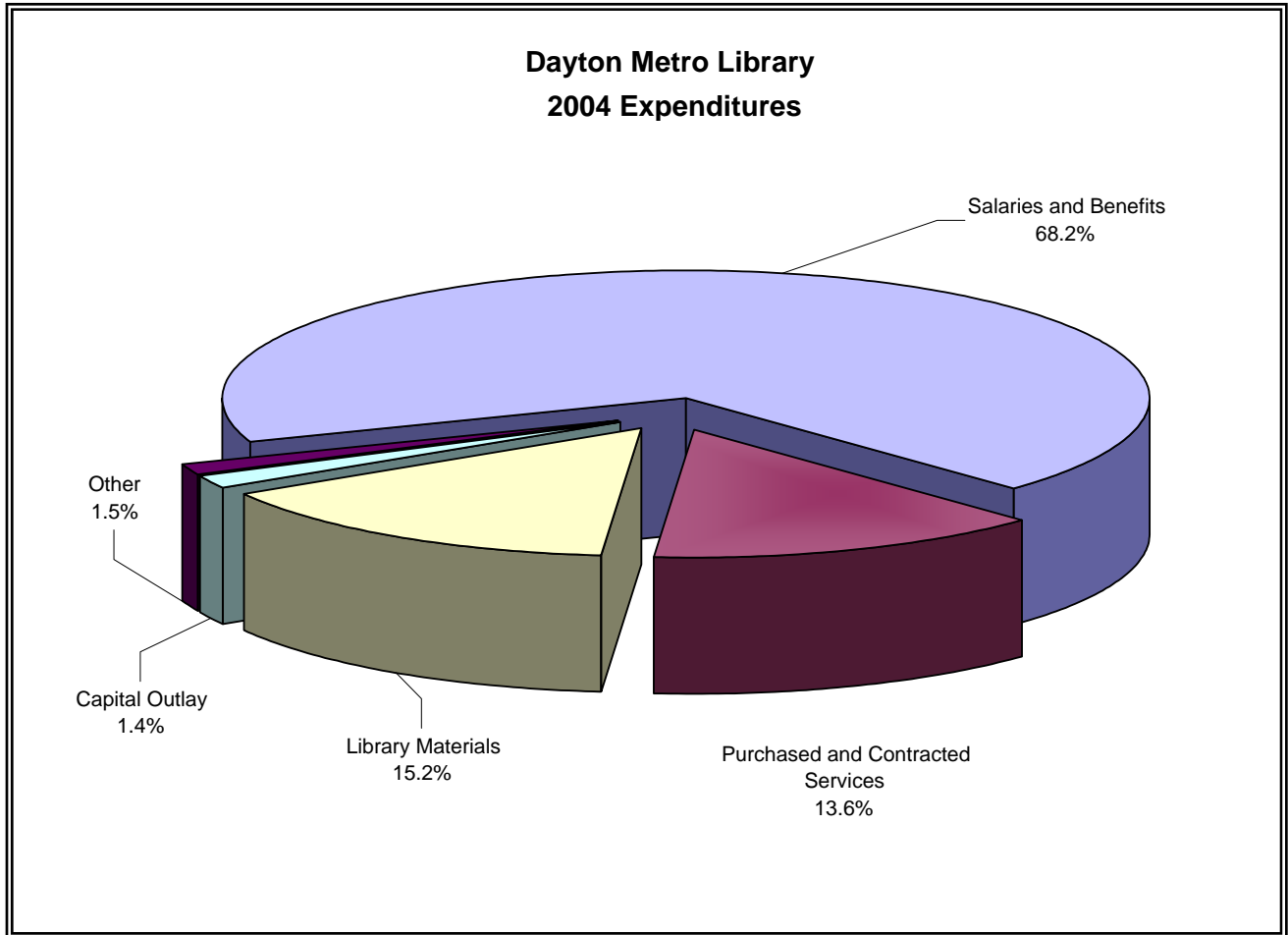
Table 4

General Fund Expenditures Comparative Analysis

	<u>2004 Amount</u>	<u>2003 Amount</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Expenditure by Object:				
Salaries and Benefits	\$ 14,535,565	\$14,714,518	\$(178,953)	-1.2%
Purchased and Contracted Services	2,907,037	3,038,783	(131,746)	-4.3%
Library Materials	3,243,393	3,418,740	(175,346)	-5.1%
Capital Outlay	307,948	210,455	97,493	46.3%
Other	323,789	400,484	(76,695)	-19.2%
Total	<u>\$21,317,732</u>	<u>\$21,782,980</u>	<u>\$(465,247)</u>	<u>-2.1%</u>

**DAYTON METRO LIBRARY
MONTGOMERY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**



General Fund Budget Information

The Library's budget is prepared in accordance with Ohio law and is based on the budgetary basis of accounting, utilizing cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund.

The final amended appropriation measure for the general fund exceeded the actual expenditures plus encumbrances by \$2,294,211, or 9.3%, primarily as a result of spending less on personnel and purchased and contract services during 2004. This action resulted in less expenditures during the second half of 2004.

The Library's general fund revenue exceeded final estimated revenues by \$160,300, (less than 1%).

Restrictions and Other Limitations

The uncertain future of state entitlement funding continues to be a major challenge facing the Library.

Contacting the Library

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Library's finances and to demonstrate the Library's accountability for the money it administers. If you have any questions about this report or need additional financial information, contact the Clerk-Treasurer, 215 E. Third Street, Dayton, Ohio 45402

DAYTON METRO LIBRARY
MONTGOMERY COUNTY

STATEMENT OF NET ASSETS - CASH BASIS
DECEMBER 31, 2004

	Governmental Activities
Assets	
Cash and Cash Equivalents	\$6,569,283
Restricted Assets:	
Cash and Cash Equivalents	<u>213,875</u>
Total Assets	<u><u>6,783,158</u></u>
Net Assets	
Restricted for:	
Endowment	213,875
Unrestricted	<u>6,569,283</u>
Total Net Assets	<u><u>\$6,783,158</u></u>

See accompanying notes to the basic financial statements.

**DAYTON METRO LIBRARY
MONTGOMERY COUNTY**

**STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Program Cash Receipts			Net (Disbursement) Receipts and Change in Net Assets
Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities	
Governmental Activities				
Library Services:				
Public Service and Programs	\$21,076,399	\$58,700	\$38,178	(\$20,979,521)
Capital Outlay	542,165			(542,165)
Total Governmental Activities	\$21,618,564	\$58,700	\$38,178	(21,521,686)
 General Receipts				
Property Taxes Levied for General Purposes				1,592,330
Unrestricted Gifts and Contributions				35,475
Grants and Entitlements not Restricted to Specific Programs				19,128,169
Interest				105,649
Patron Fines and fees				553,589
Miscellaneous				236,889
Total General Receipts				21,652,101
Change in Net Assets				130,415
Net Assets Beginning of Year				6,652,743
Net Assets End of Year				\$6,783,158

See accompanying notes to the basic financial statements.

**DAYTON METRO LIBRARY
MONTGOMERY COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH BASIS FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Receipts			
Property Taxes	\$1,592,330		\$1,592,330
Other Government Grants-in-Aid	19,138,729		19,138,729
Patron Fines and Fees	553,589		553,589
Earning on Investments	79,490	26,159	105,649
Service provided to Other Entities	58,700		58,700
Contributions and Donations	63,093		63,093
Miscellaneous	236,888		236,888
Total Receipts	<u>21,722,819</u>	<u>26,159</u>	<u>21,748,978</u>
Disbursements			
Current:			
Salaries and Benefits	14,535,565		14,535,565
Purchased and Contracted Services	2,907,037	66,614	2,973,651
Library Materials and Information	3,243,393		3,243,393
Supplies	271,856		271,856
Other	51,933		51,933
Capital Outlay	307,948	234,217	542,165
Total Disbursements	<u>21,317,732</u>	<u>300,831</u>	<u>21,618,563</u>
Receipts Over (Under) Disbursements	<u>405,087</u>	<u>(274,672)</u>	<u>130,415</u>
Other Financing Sources (Uses)			
Transfers In		146,323	146,323
Transfers Out	(146,323)		(146,323)
Total Other Financing Sources (Uses)	<u>(146,323)</u>	<u>146,323</u>	
Net Change in Fund Balances	258,764	(128,349)	130,415
Fund Balances Beginning of Year	<u>4,274,790</u>	<u>2,377,953</u>	<u>6,652,743</u>
Fund Balances End of Year	<u>\$4,533,554</u>	<u>\$2,249,604</u>	<u>\$6,783,158</u>

See accompanying notes to the basic financial statements.

**DAYTON METRO LIBRARY
MONTGOMERY COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - BUDGET BASIS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
Receipts				
Property Taxes	\$1,745,230	\$1,745,230	\$1,592,330	(\$152,900)
Intergovernmental	18,917,290	18,917,290	19,138,729	221,439
Patron Fines and Fees	564,999	564,999	553,589	(11,410)
Earnings on Investments	75,000	75,000	79,490	4,490
Services Provided to Other Entities	50,000	50,000	58,700	8,700
Contributions, Gifts and Donations	30,000	30,000	63,093	33,093
Miscellaneous	180,000	180,000	236,889	56,889
Total Revenues	<u>21,562,519</u>	<u>21,562,519</u>	<u>21,722,820</u>	<u>160,301</u>
Disbursements				
Current:				
Salaries and Benefits	15,370,385	15,370,385	14,598,986	771,399
Purchased and Contract Services	3,949,592	3,949,592	3,089,514	860,078
Library Materials and Information	3,666,544	3,666,544	3,923,285	(256,741)
Supplies	418,724	418,724	296,158	122,566
Other	778,844	778,844	51,932	726,912
Capital Outlay	546,797	546,797	330,477	216,320
Total Expenditures	<u>24,730,886</u>	<u>24,730,886</u>	<u>22,290,352</u>	<u>2,440,534</u>
Revenues (Under) Expenditures	(3,168,367)	(3,168,367)	(567,532)	2,600,835
Other Financing (Uses)				
Transfers Out			(146,323)	(146,323)
Net Change in Fund Balance	(3,168,367)	(3,168,367)	(713,855)	2,454,512
Fund Balance Beginning of Year	3,168,366	3,168,366	3,168,366	
Prior Year Encumbrances Appropriated	1,106,424	1,106,424	1,106,424	
Fund Balance End of Year	<u>\$1,106,423</u>	<u>\$1,106,423</u>	<u>\$3,560,935</u>	<u>\$2,454,512</u>

See accompanying notes to the basic financial statements.

**DAYTON METRO LIBRARY
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004**

1. DESCRIPTION OF THE ENTITY AND REPORTING ENTITY

A. Description of the Entity

Dayton Metro Library, Montgomery County, (the Library), is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of Ohio. The Library is directed by a seven member Board of Trustees: four are appointed by the Montgomery County Commissioners and three are appointed by the Montgomery County Common Pleas Court Judges. The Library provides the community with various educational and literary resources.

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

B. Reporting Entity

A reporting entity is comprised of the primary government and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the Library consists of all funds, departments, and activities that are not legally separate from the Library.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

These financial statements follow the basis of accounting the Auditor of State prescribes or permits.

The Library's Basic Financial Statements consist of government-wide statements, including a Statement of Net Assets and a Statement of Activities, and fund financial statements, which provide a more detailed level of financial information.

1. Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Library. All of the Library's activities are considered *governmental activities*, which are normally supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided, and 2) operating grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

**DAYTON METRO LIBRARY
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Fund Financial Statements

During the year, the Library segregates transactions related to certain Library functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Library at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

3. Governmental Funds

Governmental funds are those through which most governmental functions of the Library typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. The following is the Library's major governmental fund:

General Fund – The General Fund accounts for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the Library for any purpose provided it is expended or transferred according to the general laws of Ohio and the Charter of the Library.

The *other governmental funds* are the library's building and repair funds, special revenue funds, trust and endowment funds

B. Measurement Focus

The Library has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the Library's cash basis of accounting, receipts are recognized when received in cash, rather than when earned, and disbursements when paid, rather than when a liability is incurred.

C. Basis of Accounting

Both the government-wide and fund financial statements were prepared using the cash basis of accounting, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided, and 2) operating grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

D. Deposits and Investments

The Library's pooled 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.

**DAYTON METRO LIBRARY
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Library's investment in federal agency securities is reported at cost. The Library's investments in STAR Ohio (the State Treasurer's Investment Pool) and money market mutual funds are reported at the value of their shares, which approximates fair value.

E. Capital Assets

Acquisitions of property, plant and equipment are recorded as capital outlay disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

F. Fund Balance Designations, Reserves, and Net Assets

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation. Designations of fund balance represent tentative management plans that are subject to change.

In the government-wide financial statements, governmental activities report temporary and permanent restrictions of net assets for amounts that are restricted by outside parties for use for a specific purpose.

G. Interfund Activity

The Library uses interfund transfers to move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations.

H. Compensated Absences

Vacation leave is earned at rates which vary depending upon length of service and standard work week. Current policy credits vacation leave on a biweekly basis and allows the unused balance to be accumulated at levels which depend upon years of service. For part-time employees, vacation leave is credited based on budgeted hours worked on a pro-rated basis. Library employees are paid for earned, unused vacation leave at the time of termination of employment if the employee has worked for twelve (12) full pay periods.

Regular full-time employees are entitled to ten (10) hours of sick leave for each completed month of service. Regular part-time employees will be given sick leave proportionate to the number of hours budgeted. Unused sick leave may be accumulated without limit and carried over from year to year. Any retiring employee, who has worked for the Library for at least ten (10) years, may be paid for unused sick leave in the amount of 25 percent of the employees accrued sick leave balance. To receive payment, the employee's retirement must be authorized by OPERS.

I. Restricted Assets

The financial statements classify cash and cash equivalents as restricted when external limitations change the nature or normal understanding of their use. Creditors, contributors, grantors, laws of other governments or enabling legislation are the sources of the restrictions. Restricted cash and cash equivalents in the Other Governmental Funds include amounts restricted by endowments.

**DAYTON METRO LIBRARY
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

3. BUDGETARY BASIS OF ACCOUNTING

While the Library is reporting financial position, results of operations, and changes in fund balances on the cash basis of accounting, the budgetary basis, as provided by law, is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Budget Basis – for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The only difference between the budget basis and cash basis is that in order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, encumbrances are recorded as the equivalent of an expenditure (budget basis) as opposed to a reservation of fund balance for governmental funds (cash basis).

The adjustment necessary to convert the results of operations for the year ended December 31, 2004, on the cash basis to the budget basis are as follows:

Net Change in Fund Balances

General Fund

Cash Basis	\$ 258,764
Encumbrances	<u>(972,621)</u>
Budget Basis	<u>\$ (713,855)</u>

The Board must annually approve the appropriation measure and subsequent amendments. Unencumbered appropriations lapse at year end and therefore are re-appropriated in the following year. Budgetary expenditures (that is, disbursements plus encumbrances) may not exceed appropriations at the fund object level, which is the Library's legal level of control.

4. CHANGE IN ACCOUNTING PRINCIPLES

Although the Library's financial statements are not prepared in accordance with accounting procedures generally accepted in the United States (GAAP), the Library has reformatted its financial statements to substantially conform with the display and now applicable disclosure requirements of GAAP in accordance with the new reporting requirements outlined in GASB Statement No. 34 "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments." The financial statements now include entity-wide financial statements, which present information for the Library as a whole, and fund financial statements, which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The library also implemented GASB Statement No. 37, which clarifies certain provisions of Statement No. 34, including the required content of the Management's Discussion and Analysis, the classification of program revenues and the criteria for determining major funds, and GASB Statement No. 38, which modifies, establishes and rescinds certain financial statement note disclosures.

The Library's expendable and nonexpendable trust funds, previously reported as fiduciary funds, have all been reclassified as special revenue funds in accordance with GASB Statement No. 34. The effect of these reclassifications on the governmental fund balance is presented as follows:

**DAYTON METRO LIBRARY
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

4. CHANGE IN ACCOUNTING PRINCIPLES (Continued)

	Governmental Funds
Fund Balance December 31, 2003	\$ 6,297,243
Reclassifications:	
Expendable Trust Funds	144,327
Non-expendable Trust Funds	211,173
Adjusted balance December 31, 2003	\$ 6,652,743

5. DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits the Library 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 may 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 obligation or security issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;

**DAYTON METRO LIBRARY
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

5. No-load money market mutual funds consisting exclusively of obligations described in division (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; and
6. The State Treasurer's investment pool (STAR Ohio).

Investments in stripped principal or interest obligations reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Library, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investment to the Treasurer, or qualified trustee, unless the securities are not represented by a certificate, in which payment may be made upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements."

Deposits - At year-end, the carrying amount of the Library's deposits was \$3,965,478 and the bank balance was \$5,072,534. Of the bank balance, \$225,510 was covered by federal depository insurance and the remaining amount was covered by collateral held by third party trustees pursuant to Section 135.181 Revised Code, in collateralized pools securing all public funds on deposit with the specific depository institutions. Although state 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 FDIC.

Investments - GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements," requires that local governments disclose the carrying amounts and market values of investments, classified by risk.

The Library's investments are categorized to give an indication of the level of risk assumed by the Library at year-end. Category 1 includes investments that are insured or registered, or for which the securities are held by the Library or its agent in the Library's name. Category 2 includes uninsured and unregistered investments, for which the securities are held by the counterparty's trust department or an agent in the Library's name. Category 3 includes uninsured and unregistered investments for which securities are held by the counterparty or its trust department but not in the Library's name. Investments in STAR Ohio and money market mutual funds are unclassified since they are not evidenced by securities that exist in physical or book entry form.

	<u>Category of Risk 2</u>	<u>Reported Amount</u>	<u>Fair Value</u>
Federal agency security	\$499,860	\$499,860	\$499,220
Star Ohio		2,317,820	2,317,820
GASB Statement No. 3	<u>\$499,860</u>	<u>\$2,817,680</u>	<u>\$2,817,040</u>

**DAYTON METRO LIBRARY
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

Reconciliation between the classifications of cash and cash equivalents and investments on the financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$6,783,158	
Federal Agency Securities:	(499,860)	\$499,860
Star Ohio	(2,317,820)	2,317,820
 GASB Statement No. 3	 \$3,965,478	 \$2,817,680

6. GRANTS-IN-AID AND TAX RECEIPTS

The primary source of revenue for Ohio public libraries is the State Library and Local Government Support Fund (LLGSF). The LLGSF is allocated to each county based on the county's prior intangibles tax of LLGSF revenues, and its population. The County Budget Commission allocates these funds to the Library based on its needs such as for the construction of new library buildings, improvements, operation, maintenance, or other expenses. The Budget Commission cannot reduce its allocation of these funds to the Library based on of any additional revenues the Library receives.

Real property taxes become a lien on January 1 proceeding the October 1 date for which rates are adopted by the taxing authority of the subdivision to whose jurisdiction the Library is subject. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Other Governments Grants in Aid. Payments are due to the County by December 31. If the property owner elects to make semiannual payment, the first half is due December 31. The second half payment is due the following June 20.

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

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

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

**DAYTON METRO LIBRARY
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

7. OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

The Library participates in the OPERS which administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member-directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by OPERS to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member-directed plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code.

OPERS issues a stand alone financial report that may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-6705 or (800) 222-7377.

For the year ended December 31, 2004, members of all three plans, were required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The Library's contribution rate for pension benefits for 2004 was 9.55 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

The Library's required contribution for pension obligations to the traditional, combined, and member directed plans for the years ended December 31, 2004, 2003, and 2002 were \$1,049,890, \$1,082,405, and \$1,114,160, respectively; 98 percent has been contributed for 2004 and 100 percent has been contributed for 2003 and 2002.

8. POSTEMPLOYMENT BENEFITS

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage.

The health care coverage provided by the retirement system is considered an Other Post employment Benefit (OPB) as described in GASB Statement No. 12. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2004 employer contribution rate was 13.55 percent of covered payroll and 4.00 percent was the portion used to fund health care.

**DAYTON METRO LIBRARY
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

8. POSTEMPLOYMENT BENEFITS (Continued)

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2003, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees), and an additional increase in total payroll of between .5 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 1 to 6 percent annually for the next eight years and 4 percent annually after eight years.

All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans was 369,885. Actual employer contributions for 2004 which were used to fund post employment benefits were \$439,745. The actual contribution and the actuarial required contribution amounts are the same. OPERS's net assets available for the payment of benefits at December 31, 2003 (the latest information available), was \$10.5 billion. The actuarial accrued liability and the unfunded actuarial accrued liability were \$26.9 billion and \$16.4 billion, respectively.

On September 9, 2004, OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

9. LEASE OBLIGATIONS

The Library has entered into the following operating leases agreements:

Office Lease – The Library leases the space at 6160 Chambersburg Heights in Huber Heights for library operations for a total cost of \$139,735 for the year. The lease expires on December 31, 2005 with the option to renew for an additional term of ten years.

Parking Spaces – The Library leases twenty seven (27) parking spaces for a total cost of \$6,000 for the year. The lease expires on January 1, 2005 and, in the absence of notification from either party, automatically renews for an unlimited number of successive one-year terms.

Copier Leases - The Library leases 1 copier at an annual cost of \$21,853. The lease expires on January 21, 2005. The Library leases 2 copiers for at an annual cost of \$6,492. The leases on these two copiers expire July 1, 2007.

**DAYTON METRO LIBRARY
MONTGOMERY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

10. RISK MANAGEMENT

The Library is exposed to various risks of loss related to torts; theft of, damage to or destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Library has obtained commercial insurance for comprehensive property and general liability, vehicles, and public official errors and omissions.

The type of coverage and limit for each is as follows:

Coverage	Limit
Commercial Property:	
Building	\$ 35,628,777
Personal Property	8,706,436
Third Party Property	25,000
Extra Expense – Blanket	5,500,000
Boiler and Machinery	25,000,000
Automobile Liability:	
Physical Damage	1,000,000
Bodily Injury	1,000,000
Public Officials Liability	5,000,000
General Liability	1,000,000

Settlements have not exceeded coverage in any of the last three fiscal years. There has been no significant reduction in coverage from the prior year.

11. EMPLOYEE BENEFITS - DEFERRED COMPENSATION PLAN

Employees of the Library may elect to participate in the Ohio Public Employees deferred compensation plan. Under this program, employees elect to defer a portion of their pay. The deferred pay and any income earned on it are not subject to federal and state income taxation until actually received by the employee. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseen emergency.



Auditor of State Betty Montgomery

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

Dayton Metro Library
Montgomery County
215 East Third Street
Dayton, Ohio 45402

To the Board of Trustees:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Dayton Metro Library, Montgomery County, (the Library), as of and for the year ended December 31, 2004, which collectively comprise the Library's basic financial statements and have issued our report thereon dated September 7, 2005 wherein we noted the Library implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Library's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the Library's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. However, we noted an immaterial instance of noncompliance that we have reported to the Library's management in a separate letter dated September 7, 2005.

Dayton Metro Library
Montgomery County
Independent Accountants' Report on Internal Control Over Financial Reporting
And On Compliance and Other Matters Required by *Government Auditing Standards*
Page 2

This report is intended for the information and use of the audit committee, management, and the Library Board of Trustees, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

September 7, 2005



**Auditor of State
Betty Montgomery**

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DAYTON METRO LIBRARY

MONTGOMERY 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
OCTOBER 11, 2005**