



**Auditor of State
Betty Montgomery**

**ROCKFORD CARNEGIE LIBRARY
MERCER COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis – For the Fiscal Year Ended December 31, 2005.....	3
Basic Financial Statements:	
Statement of Net Assets – Cash Basis - December 31, 2005.....	9
Statement of Activities – Cash Basis - For Year Ended December 31, 2005.....	10
Statement of Cash Basis Assets and Fund Balances – Governmental Funds - December 31, 2005.....	11
Statement of Cash Receipts, Disbursements and Changes in Cash Basis Fund Balances - Governmental Funds - For the Year Ended December 31, 2005.....	12
Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual - Budget Basis – General Fund – For the Year Ended December 31, 2005	13
Notes to the Basic Financial Statements – December 31, 2005	15
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Governmental Auditing Standards</i>	23

This page intentionally left blank.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Rockford Carnegie Library
Mercer County
P.O. Box 330
Rockford, Ohio 45882

To the Board of Trustees:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Rockford Carnegie Library, Mercer County, (the Library), as of and for the year ended December 31, 2005, 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. The Library processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Library because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinions.

As discussed in Note 1, 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 financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Rockford Carnegie Library, as of December 31, 2005, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund for the year ended December 31, 2005, in conformity with the basis of accounting Note 1 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2006, 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.

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 18, 2006

**ROCKFORD CARNEGIE LIBRARY
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED**

This discussion and analysis of Rockford Carnegie Library, Mercer County financial performance provides an overall review of the Library's financial activities for the year ended December 31, 2005, within the limitations of the Library's cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the Library's financial performance.

Highlights

Key highlights for 2005 are as follows:

- Net assets of governmental activities decreased \$ 46,070 or 31 percent, a significant change from the prior year. The fund affected by the decrease in cash and cash equivalents was the General Fund, which realized increased costs in 2005.
- The Library's general receipts are primarily library and local government support fund and patron fines and fees. These receipts represent respectively 99.2 and .8 percent of the total cash received for governmental activities during the year. Library and local government support fund receipts for 2005 changed very little compared to 2004 as library funding was frozen at 2004 rates.

Using the Basic Financial Statements

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the Library's modified cash basis of accounting.

Report Components

The statement of net assets and the statement of activities provide information about the cash activities of the Library as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the Library as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

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.

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. Rockford Carnegie 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 and disbursements are recorded when cash is received or paid.

**ROCKFORD CARNEGIE LIBRARY
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED
(Continued)**

Reporting the Library as a Whole

The statement of net assets and the statement of activities reflect how the Library did financially during 2005, within the limitations of cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental activities of the Library at year end. The statement of activities compares cash disbursements with program receipts for each governmental program. General receipts are all receipts not classified as program receipts.

These statements report the Library's cash position and the changes in cash position. Keeping in mind the limitations of the cash basis of accounting, you can think of these changes as one way to measure the Library's financial health. Over time, increases or decreases in the Library's cash position is one indicator of whether the Library's financial health is improving or deteriorating. When evaluating Rockford Carnegie Library's financial condition, you should also consider other non-financial factors as well such as the Library's capital assets, reliance on non-local financial resources for operations, and the need for continued growth in the major local revenue sources such as local library funding.

In the statement of net assets and the statement of activities, the Library reports one type of activity:

Governmental Activities - All of the Library's basic services are reported here. Benefits provided through governmental activities are not necessarily paid for by the people receiving them.

Reporting the Library's Most Significant Funds

Fund financial statements provide detailed information about Rockford Carnegie Library's major funds – not the Library as a whole. The Library establishes separate funds to better manage its activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose. Rockford Carnegie Library utilizes only the governmental fund category at this time, having no business-type funds.

Governmental Funds – All of the Library's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the Library's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the Library's programs. The Library's significant governmental funds are presented on the financial statements in separate columns. The information for non-major funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The Library's major governmental funds are the General Fund and Technology Project Fund for 2005. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements.

**ROCKFORD CARNEGIE LIBRARY
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED
(Continued)**

The Library as a Whole

Table 1 provides a summary of the Library's net assets for 2005 compared to 2004 on the cash basis:

**Table 1
Net Assets**

	Governmental Activities	
	2005	2004
Assets		
Cash and Cash Equivalents	\$102,065	\$148,135
Total Assets:	102,065	148,135
Net Assets		
Restricted for:		
Capital Projects	\$22,000	22,000
Other Purposes	9,127	9,127
Unrestricted	70,938	117,008
Total Net Assets:	\$102,065	\$148,135

As mentioned previously, net assets of governmental activities decreased \$46,070 or 31 percent during 2005. The primary reasons contributing to the increase in cash balances are as follows:

- Spending in prior years had been limited and the surpluses were appropriated in 2005. New computers were purchased for patron use and staff use.
- Increases in salaries were 2.0 percent based on board policy.
- Health insurance premiums remained nearly steady.

Table 2 reflects the changes in net assets in 2005. Since the Library did not prepare financial statements in this format for 2004, a comparative analysis of government-wide data has not been presented for 2004.

**Table 2
Change in Net Assets**

	Governmental Activities
Receipts:	
Program Receipts:	
Charges for Services	\$1,523
Total Program Receipts	1,523
General Receipts:	
Unrestricted Gifts and Contributions	25
Grants and Entitlements	183,204
Interest	1,706
Miscellaneous	1,800
Total General Receipts	186,735
Total Receipts	\$188,258
Disbursements:	
Library Services	\$218,803
Capital Outlay	15,525
Total Disbursements	\$234,328

**ROCKFORD CARNEGIE LIBRARY
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED
(Continued)**

2005

Program receipts represent .8 percent of the Rockford Carnegie Library's total receipts and are primarily comprised of patron fines and fees.

General receipts represent 99.2 percent of the Library's total receipts for 2005, and of this amount, over 97.3 percent are local library support funds. Gifts and contributions and interest receipts make up the balance of the Library's general receipts. Other receipts are very insignificant and somewhat unpredictable revenue sources.

Disbursements for Library Services represent the overhead costs of running the Library and the support services provided for the other Library activities. These include the library staff payroll, travel, and utilities. Since these costs do not represent direct services to residents, we try to limit these costs to 60% of General Fund unrestricted receipts.

Governmental Activities

If you look at the Statement of Activities for 2005, you will see that the first column lists the major services provided by the Library. The next column identifies the costs of providing these services. The major program disbursements for governmental activities are for books and materials, which account for 16.33 percent of all governmental disbursements. The next column of the Statement entitled Program Receipts identify amounts paid by people who are directly charged for the service received by the Library that must be used to provide a specific service. The net Receipt (Disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

(Table 3)

Governmental Activities

	Total Cost Of Services 2005	Net Cost Of Services 2005
	<u>2005</u>	<u>2005</u>
Library Services	\$218,803	(\$217,280)
Capital Outlay	15,525	(15,525)
Total Expenses	<u>\$234,328</u>	<u>(\$232,805)</u>

The dependence upon local library funds is apparent as over 99 percent of governmental activities are supported through these general receipts, for 2005.

The Library's Funds

For 2005 the total governmental funds had receipts of \$188,258 and disbursements of \$234,328. The greatest change within governmental funds occurred within the General Fund. The fund balance of the General Fund decreased \$46,070 as the result increased spending due to a surplus of funds in prior years.

General Fund receipts were significantly less than disbursements indicating that the General Fund incurred deficit spending in 2005.

**ROCKFORD CARNEGIE LIBRARY
MERCER COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED
(Continued)**

General Fund Budgeting Highlights

The Library's budget is prepared according to Ohio law and is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

During 2005, the Library amended its General Fund budget several times to reflect changing circumstances. Final budgeted receipts were above original budgeted receipts due to unexpected contributions. The difference between final budgeted receipts and actual receipts was not significant.

Final disbursements were budgeted at \$277,850 while actual disbursements were \$251,220. Although receipts failed to live up to expectations, appropriations were not reduced. The Library held spending to less than the budgeted amounts as demonstrated by the positive variances.

Current Issues

The challenge for Libraries is to provide quality services to the public while staying within the restrictions imposed by limited, and in some cases shrinking funding. Rockford Carnegie Library relies heavily on local government support. Our newly prepared financial forecast predicts level spending through 2007; therefore, the finance committee and the administration will cautiously watch spending.

Contacting the Library's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Library's finances and to reflect the Library's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Robert Maurer, Clerk-Treasurer, Rockford Carnegie Public Library, PO Box 330, Rockford, Ohio 45882.

This page intentionally left blank.

**ROCKFORD CARNEGIE LIBRARY
MERCER COUNTY**

**STATEMENT OF NET ASSETS - CASH BASIS
DECEMBER 31, 2005**

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents Investments	\$102,065
Total Assets	<u><u>\$102,065</u></u>
Net Assets	
Restricted for:	
Capital Projects	\$22,000
Other Purposes	9,127
Unrestricted	70,938
Total Net Assets	<u><u>\$102,065</u></u>

See accompanying notes to the basic financial statements.

**ROCKFORD CARNEGIE LIBRARY
MERCER COUNTY**

**STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Program Cash Receipts	Net (Disbursements) Receipts and Changes in Net Assets
Cash Disbursements	Charges for Services and Sales	Governmental Activities
Governmental Activities		
Library Services	\$218,803	(\$217,280)
Capital Outlay	15,525	(15,525)
Total Governmental Activities	1,523	(232,805)
General Receipts		
Unrestricted Gifts and Contributions		25
Grants and Entitlements not Restricted to Specific Programs		183,204
Earnings on Investments		1,706
Miscellaneous		1,800
Total General Receipts		186,735
Change in Net Assets		(46,070)
Net Assets Beginning of Year		148,135
Net Assets End of Year		102,065

See accompanying notes to the basic financial statements.

**ROCKFORD CARNEGIE LIBRARY
MERCER COUNTY**

**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES
GOVERNMENTAL FUNDS
DECEMBER 31, 2005**

	<u>General Fund</u>	<u>Technology Project Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Equity in Pooled Cash and Cash Equivalents	\$70,938	\$22,000	\$9,127	\$102,065
Total Assets	<u>\$70,938</u>	<u>\$22,000</u>	<u>\$9,127</u>	<u>\$102,065</u>
Fund Balances				
Reserved:				
Reserved for Encumbrances	\$16,892			\$16,892
Unreserved:				
Undesignated (Deficit), Reported in:				
General Fund	54,046			54,046
Special Revenue Funds			\$9,127	9,127
Capital Projects Funds		\$22,000		22,000
Total Fund Balances	<u>\$70,938</u>	<u>\$22,000</u>	<u>\$9,127</u>	<u>\$102,065</u>

See accompanying notes to the basic financial statements.

**ROCKFORD CARNEGIE LIBRARY
MERCER COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BASIS FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	General Fund	Technology Project Fund	Other Governmental Funds	Total
Receipts				
Library and Local Government Support	\$183,204			\$183,204
Patron, Fines and Fees	1,523			1,523
Contributions, Gifts and Donations	25			25
Earnings on Investments	1,706			1,706
Miscellaneous	1,800			1,800
Total Receipts	188,258			188,258
Disbursements				
Current:				
Library Services	218,803			218,803
Capital Outlay	15,525			15,525
Total Disbursements	234,328			234,328
Excess of Receipts Over (Under) Disbursements	(46,070)			(46,070)
Fund Balances Beginning of Year	117,008	\$22,000	\$9,127	148,135
Fund Balances End of Year	\$70,938	\$22,000	\$9,127	\$102,065

See accompanying notes to the basic financial statements.

**ROCKFORD CARNEGIE LIBRARY
MERCER COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Budgeted Amounts</u>			(Optional) Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Receipts				
Library and Local Government Support	\$190,000	\$190,000	\$183,204	(\$6,796)
Patron, Fines and Fees	2,000	2,000	1,523	(477)
Contributions, Gifts and Donations		100	25	(75)
Earnings on Investments		500	1,706	1,206
Miscellaneous		530	1,800	1,270
Total receipts	<u>192,000</u>	<u>193,130</u>	<u>188,258</u>	<u>(4,872)</u>
Disbursements				
Current:				
Library Services	245,700	259,850	234,195	25,655
Capital Outlay	15,000	18,000	17,025	975
Total Disbursements	<u>260,700</u>	<u>277,850</u>	<u>251,220</u>	<u>26,630</u>
Excess of Receipts Over (Under) Disbursements	<u>(68,700)</u>	<u>(84,720)</u>	<u>(62,962)</u>	<u>21,758</u>
Other Financing Sources (Uses)				
Other Financing Uses	<u>(20,000)</u>	<u>(5,118)</u>		<u>5,118</u>
Total Other Financing Sources (Uses)	<u>(20,000)</u>	<u>(5,118)</u>		<u>5,118</u>
Net Change in Fund Balance	(88,700)	(89,838)	(62,962)	26,876
Fund Balance Beginning of Year	117,008	117,008	117,008	
Prior Year Encumbrances Appropriated	<u>2,268</u>	<u>2,268</u>	<u>2,268</u>	
Fund Balance End of Year	<u><u>\$30,576</u></u>	<u><u>\$29,438</u></u>	<u><u>\$56,314</u></u>	<u><u>\$26,876</u></u>

See accompanying notes to the basic financial statements.

This page intentionally left blank.

**ROCKFORD CARNEGIE LIBRARY
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

1. DESCRIPTION OF ENTITY

The Rockford Carnegie Public Library was organized as a school district public library in 1927 under the laws of the State of Ohio. The Library has its own Board of Trustees of seven members who are appointed by the Parkway Local School District Board of Education. Appointments are for seven-year terms and members serve without compensation. Under Ohio statutes, the Library is a body politic and corporate capable of suing and being sued, contracting, acquiring, holding, possessing, and disposing of real property, and of exercising such other powers and privileges conferred upon it by law. The Library also determines and operates under its own budget. Control and management of the Library is governed by sections 3375.33 to 3375.39 of the Ohio Revised Code with the administration of the day-to-day operations of the Library being the responsibility of the Director and financial accountability being solely that of the Clerk-Treasurer.

The Library is fiscally independent of the Parkway Local Schools Board of Education, although the Board of Education serves in a ministerial capacity as the taxing authority for the Library. The determination to request approval of a tax levy, the role and purpose(s) of the levy, are discretionary decisions made solely by the Board of Library Trustees. Once those decisions are made, the Board of Education must put the levy on the ballot. There is no potential for the Library to provide a financial benefit to or impose a financial burden on the Board of Education.

Under the provisions of Statement No. 14 of the Governmental Accounting Standards Board, "The Financial Reporting Entity," the Library is considered to be a related organization of the Ohio School District.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.C, the financial statements of the Ohio Public Library have been prepared on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting.

A. Basis of Presentation

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 statement of net assets and the statement of activities display information about the Library as a whole. These statements include the financial activities of the primary government. Governmental activities generally are financed through taxes, intergovernmental receipts and other non-exchange transactions.

**ROCKFORD CARNEGIE LIBRARY
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The statement of net assets presents the cash balance of the governmental activities of the Library at year end. The statement of activities compares disbursements with program receipts for each of the Library's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the Library is responsible. Program receipts include charges paid by the recipient of the program's goods or services, grants and contributions restricted to meeting the operational or capital requirements of a particular program, and receipts of interest earned on grants that are required to be used to support a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a cash basis or draws from the Library's general receipts.

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. Non-major funds are aggregated and presented in a single column.

B. Fund Accounting

The Library uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The Library's funds are all classified as governmental.

1. Governmental Funds

Governmental funds are financed primarily from intergovernmental receipts (e.g. grants), and other non-exchange transactions. Monies are assigned to the various governmental funds according to the purposes for which they may or must be used. The following are the Library's major governmental funds:

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.

Technology Project Fund – This fund accounts for monies set aside for technology improvements.

The other governmental funds of the Library account for grants and other resources whose use is restricted to a particular purpose.

C. Basis of Accounting

The Library's financial statements are prepared using the cash basis of accounting. Receipts are recorded in the Library's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

**ROCKFORD CARNEGIE LIBRARY
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Process

All funds are legally required to be appropriated. The appropriations resolution is the Trustee's authorization to spend resources and sets limits on cash disbursements plus encumbrances at the level of control selected by the Trustees. The legal level of control has been established at the fund and major category of the object code level for all funds. Budgetary modifications at the legal level of control may only be made by resolution of the Board of Library Trustees.

For control purposes, the Library estimates cash receipts for the year. These estimated receipts, together with the unencumbered carry-over balances from the prior year, set a limit on the amount the Trustees may appropriate. The estimated receipts may be revised during the year if projected increases or decreases in receipts are identified by the Clerk Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts of estimated resources at the time final appropriations were enacted by the Trustees.

The appropriations resolution is subject to amendment throughout the year with the restriction that appropriations should not exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation ordinance for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Trustees during the year.

E. Cash and Cash Equivalents

To improve cash management, cash received by the Library is pooled and invested. Individual fund integrity is maintained through the Library's records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents."

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

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

During 2005, investments were limited to nonnegotiable certificates of deposit. These investments are recorded at cost.

F. Inventory and Prepaid Items

The Library reports disbursements for inventories and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

G. Capital Assets

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

**ROCKFORD CARNEGIE LIBRARY
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Accumulated Leave

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Library's modified cash basis of accounting.

I. Employer Contributions to Cost-Sharing Pension Plans

The Library recognizes the disbursement for their employer contributions to cost-sharing pension plans when they are paid. As described in Notes 7 and 8, the employer contributions include portions for pension benefits and for postretirement health care benefits.

J. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for Library expansion and book purchases.

The Library's policy is to first apply restricted resources when an obligation is incurred for purposes for which both restricted and unrestricted net assets are available.

K. Fund Balance Reserves

The Library reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances.

3. CHANGES IN THE BASIS OF ACCOUNTING

In 2004, the Library reported fund financial statements by fund type using the regulatory basis of accounting as prescribed by the State Auditor's Office. In 2005, the Library has implemented the cash basis of accounting described in note 2. The fund financial statements now present each major fund in a separate column with non-major funds aggregated and presented in a single column, rather than a column for each fund type.

4. BUDGETARY BASIS OF ACCOUNTING

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Cash Receipts, Cash Disbursements and Changes in Fund Balance – Budget and Actual – Budget Basis presented for the General Fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis is outstanding year end encumbrances are treated as disbursements (budgetary basis) rather than as a reservation of fund balance (cash basis). The encumbrances outstanding at December 31, 2005 (budgetary basis) amounted to \$16,892 for the General Fund.

**ROCKFORD CARNEGIE LIBRARY
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

5. DEPOSITS AND INVESTMENTS

Monies held by the Library are classified by State statute into three categories.

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other 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 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 the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. 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;
7. The State Treasurer's investment pool (STAR Ohio).

Protection of the Library's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged to the Library by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution or by a collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

**ROCKFORD CARNEGIE LIBRARY
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

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

At year end, the Library had no monies in undeposited cash on hand, which is included on the balance sheet of the Library as part of "Equity in Pooled Cash and Cash Equivalents."

Custodial credit risk for deposits is the risk that in the event of bank failure, the Library will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$79,065 of the Library's bank balance of \$79,065 was covered by federal depository insurance. The Library has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Library or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

6. RISK MANAGEMENT

The Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2005, the Library contracted with several companies for various types of insurance coverage as follows:

<u>Company</u>	<u>Type of Coverage</u>	<u>Coverage</u>
Cincinnati Insurance Company	General Liability	\$3,000,000
France and Associates	Errors and Omissions	\$1,000,000
	Library Officials	\$1,000,000

Settled claims have not exceeded coverage in any of the last three years and there was no significant reduction in coverage from the prior year.

7. DEFINED BENEFIT PENSION PLAN

The Library participates in the Ohio Public Employees Retirement System (OPERS). OPERS 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 the retirement system 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.

**ROCKFORD CARNEGIE LIBRARY
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

7. DEFINED BENEFIT PENSION PLAN (Continued)

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 OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6701 or (800) 222-7377.

For the year ended December 31, 2005, the members of all three plans were required to contribute 8.5 percent of their annual covered salaries. The Library's contribution rate for pension benefits for 2005 was 9.55 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

The Library's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2005, 2004, and 2003 were \$11,496, \$10,736, and \$10,404 respectively; the full amount has been contributed for 2005, 2004, and 2003.

8. POST-EMPLOYMENT 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 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 local government employer contribution rate was 13.55 percent of covered payroll; 4.00 percent of covered payroll was the portion that was used to fund health care.

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, 2004, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 1.00 and 6.00 percent annually for the next eight years and 4.00 percent annually after eight years.

All investments are carried at market. 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 376,109. Actual employer contributions for 2005 and 2004 which were used to fund post-employment benefits were \$36,985 and \$37,970, respectively. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2004, (the latest information available) were \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

**ROCKFORD CARNEGIE LIBRARY
MERCER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

8. POST-EMPLOYMENT BENEFITS (Continued)

On September 9, 2004, the 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 increasing health care costs. Member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.



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*

Rockford Carnegie Library
Mercer County
P.O. Box 330
Rockford, Ohio 45882

To the Board of Trustees:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Rockford Carnegie Library, Mercer County, (the Library), as of and for the year ended December 31, 2005, which collectively comprise the Library's basic financial statements, and have issued our report thereon dated September 18, 2006, wherein we noted that the Library uses a comprehensive basis of accounting other than generally accepted accounting principles. We also noted that the Library uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Library because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. 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 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. In a separate letter to the Library's management dated September 18, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

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 that we must report under *Government Auditing Standards*. In a separate letter to the Library's management dated September 18, 2006, we reported other matters related to noncompliance we deemed immaterial.

Rockford Carnegie Library
Mercer County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of management and the Board of Trustees. It is not intended for 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 18, 2006



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

ROCKFORD CARNEGIE LIBRARY

MERCER 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 17, 2006**