



**Auditor of State
Betty Montgomery**

**COLDWATER PUBLIC LIBRARY
MERCER COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Coldwater Public Library
Mercer County
305 West Main Street
Coldwater, Ohio 45828

To the Board of Trustees:

We have audited the accompanying financial statements of the governmental activities and each major fund of the Coldwater Public 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 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 financial position of the governmental activities and each major fund of the Coldwater Public 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 2 describes.

For the year ended December 31, 2005, 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 21, 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 21, 2006

**COLDWATER PUBLIC LIBRARY
MERCER COUNTY**

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

This discussion and analysis of the Coldwater Public Library's 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 \$14,414 or 15 percent in 2005. The General Fund was the fund affected by this decrease due mainly to the cost of the Horizon operating system upgrade.
- The Library's general receipts are primarily LLGSF (Library & Local Government Support Fund) receipts. These receipts represent 95.2% of the total cash received for library services and operations during the year. LLGSF receipts for 2005 increased approximately 4.1% over 2004 receipts.
- As stated above, the Horizon operating system upgrade was a major project for 2005. The Horizon software was \$10,621 and the hardware was \$15,148 totaling \$25,769.

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 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. 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 and disbursements are recorded when cash is received or paid.

As a result of using the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.

**COLDWATER PUBLIC 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 activity. Program receipts are from patron library fines and fees. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function activity draws from the Library's general 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.

In the statement of net assets and the statement of activities, the library only has governmental activities.

Governmental activities: The Library's basic services are reported here. LLGSF receipts finance most of these activities.

Reporting the Library's Most Significant Funds

Fund financial statements provide detailed information about the Library's major funds – not the Library as a whole. The Library establishes separate funds to better manage its many activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose. The Library has only governmental 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 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 Library's major funds are the General Fund, Capital Projects Fund, Desch Fund, and Schoch Fund. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements.

The Library as a Whole

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

**COLDWATER PUBLIC LIBRARY
MERCER COUNTY**

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

Net Assets

	Governmental Activities	
	2005	2004
Assets		
Cash and Cash Equivalents	32,713	48,514
Investments	45,967	44,580
Total Assets	78,680	93,094
Net Assets		
Restricted for:		
Capital Outlay	18,410	17,857
Desch Permanent Fund	10,000	10,000
Schoch Permanent Fund	10,000	10,000
Unrestricted	40,270	55,237
Total Net Assets	\$78,680	\$93,094

As mentioned previously, net assets of governmental activities decreased \$14,414 in 2005. The primary reasons contributing to the decreases in cash balances are as follows:

- LLGSF receipts which fund over 90% of the Library's operating costs have been off-formula since 2001. This freeze in library funding has affected library operations. In 2005, library funding was frozen at 2004 levels. The Library did receive some additional monies from the Mercer County Budget Commission due to the cost of an upgrade in the library's operating system of over \$25,000.
- The Library did give a cost of living raise to all employees of approximately 3%.
- The Library switched health insurance companies in March, 2005, going with a Health Savings Account for employees. Health costs in 2004 were \$11,427 for two employees and \$15,692 in 2005 for three employees.

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. In future years, when prior year information is available, a comparative analysis will be presented.

**COLDWATER PUBLIC LIBRARY
MERCER COUNTY**

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

(Table 2)
Changes in Net Assets

	Governmental Activities 2005
Receipts:	
Program Receipts:	
Charges for Services and Sales	\$9,391
Total Program Receipts	9,391
General Receipts:	
Grants and Entitlements Not Restricted to Specific Programs	265,187
Sale of Fixed Assets	1,772
Interest	2,139
Miscellaneous	14
Total General Receipts	269,112
Total Receipts	278,503
Disbursements:	
Library Services	272,338
Capital Outlay	20,579
Total Disbursements	292,917
Increase (Decrease) in Net Assets	(14,414)
Net Assets, January 1, 2005	93,094
Net Assets, December 31, 2005	\$78,680

Program receipts represent only 3.4% of total receipts and are totally comprised of library fines and fees.

General receipts represent 96.6% of the Library's total receipts, and the majority of this amount is LLGSF receipts.

Disbursements for Library Services represent mainly library operations and services, such as payroll, health and retirement benefits, utilities, maintenance, equipment, books, audio books, and magazines.

Governmental Activities

If you look at the Statement of Activities, 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 library services and capital outlay, which account for 93 and 7 percent of all governmental disbursements, respectively. The next column of the Statement entitled Program Receipts identify amounts paid by people who are directly charged for the 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 the local government. 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.

**COLDWATER PUBLIC LIBRARY
MERCER COUNTY**

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

**(Table 3)
Governmental Activities**

	Total Cost Of Services 2005	Net Cost of Services 2005
Library Services	\$272,338	\$262,947
Capital Outlay	20,579	20,579
Total Expenses	\$292,917	\$283,526

The dependence upon local library funds is apparent as over 96 percent of governmental activities are supported through these general receipts for 2005.

The Library's Funds

Total governmental funds had receipts of \$278,503 and disbursements of \$292,917. The greatest change within governmental funds occurred within the General Fund. The fund balance of the General Fund decreased \$14,967 as the result of increased costs for salaries, benefits, and general operating costs including an upgrade to the library operating system costing \$25,769.

General Fund receipts were less than disbursements by \$14,967 indicating that the General Fund is in a deficit spending situation. Some reductions had already been implemented for 2005 and will continue in 2006 including cuts in books, audio books, supplies and equipment. These cuts will not eliminate the need for additional funds or additional cuts in the future, but hopefully the economy will improve bringing in more tax dollars. Another major concern is the long range impact of the 21% cut in personal income tax starting July 2005 through 2008 that will result in a 21% cut in library funding.

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, final budgeted receipts were below original budgeted receipts due to not receiving the total budgeted LLGSF funds from the Mercer County Budget Commission. The difference between final budgeted receipts \$284,850 and actual receipts \$277,950 was \$6,900.

Final disbursements were budgeted at \$339,400 while actual disbursements were \$298,566. The Library kept expenses down wherever possible, and used carry-over money to help pay for the new Horizon operating system upgrade. The result is a decrease in fund balance of \$14,967 for 2005.

Current Issues

The challenge for all libraries is to provide quality services to the public while staying within the restrictions imposed by limited, and in some cases shrinking, funding. We rely heavily on LLGSF funding which has been under a freeze since 2001. With limited funding and increased operating costs, we are continually monitoring our spending, and making the necessary cuts in our programs and services when needed.

**COLDWATER PUBLIC LIBRARY
MERCER COUNTY**

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

Contacting the Library's Financial Management

This financial report is designed to provide our citizens and taxpayers 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 Carol Evers, Clerk-Treasurer, Coldwater Public Library, 305 West Main Street, Coldwater, Ohio 45828.

**COLDWATER PUBLIC LIBRARY
MERCER COUNTY**

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

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$32,713
Investments	45,967
Total Assets	<u><u>\$78,680</u></u>
Net Assets	
Restricted for:	
Capital Projects	\$18,410
Desch Permanent Fund	10,000
Schoch Permanent Fund	10,000
Unrestricted	40,270
Total Net Assets	<u><u>\$78,680</u></u>

See accompanying notes to the basic financial statements.

**COLDWATER PUBLIC LIBRARY
MERCER COUNTY**

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

	<u>Cash Disbursements</u>	<u>Program Cash Receipts Charges for Services and Sales</u>	<u>Net (Disbursements) Receipts and Changes in Net Assets</u> <u>Governmental Activities</u>
Governmental Activities			
Library Services	\$272,338	\$9,391	(\$262,947)
Capital Outlay	20,579		(20,579)
Total Governmental Activities	<u>\$292,917</u>	<u>\$9,391</u>	<u>(283,526)</u>
General Receipts			
Grants and Entitlements not Restricted to Specific Programs			265,187
Sale of Fixed Assets			1,772
Earnings on Investments			2,139
Miscellaneous			14
Total General Receipts			<u>269,112</u>
Change in Net Assets			(14,414)
Net Assets Beginning of Year			<u>93,094</u>
Net Assets End of Year			<u><u>\$78,680</u></u>

See accompanying notes to the basic financial statements.

**COLDWATER PUBLIC LIBRARY
MERCER COUNTY**

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

	<u>General Fund</u>	<u>Capital Project Fund</u>	<u>Desch Permanent Fund</u>	<u>Schoch Permanent Fund</u>	<u>Total Governmental Funds</u>
Assets					
Equity in Pooled Cash and Cash Equivalents	\$12,713		\$10,000	\$10,000	\$32,713
Investments	27,557	\$18,410			45,967
Total Assets	<u>40,270</u>	<u>18,410</u>	<u>10,000</u>	<u>10,000</u>	<u>78,680</u>
Fund Balances					
Reserved:					
Reserved for Encumbrances	5,649				5,649
Unreserved:					
Undesignated (Deficit), Reported in:					
General Fund	34,621				34,621
Capital Projects Funds		18,410			18,410
Permanent Fund			10,000	10,000	20,000
Total Fund Balances	<u>\$40,270</u>	<u>\$18,410</u>	<u>\$10,000</u>	<u>\$10,000</u>	<u>\$78,680</u>

See accompanying notes to the basic financial statements.

**COLDWATER PUBLIC 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	Capital Project Fund	Desch Permanent Fund	Schoch Permanent Fund	Total
Receipts					
Library and Local Government Support	\$265,187				\$265,187
Patron, Fines and Fees	9,391				9,391
Earnings on Investments	1,586	\$553			2,139
Miscellaneous	14				14
Total Receipts	276,178	553			276,731
Disbursements					
Current:					
Library Services	272,338				272,338
Capital Outlay	20,579				20,579
Total Disbursements	292,917				292,917
Excess of Receipts Over (Under) Disbursements	(16,739)	553			(16,186)
Other Financing Sources (Uses)					
Sale of Fixed Assets	1,772				1,772
Total Other Financing Sources (Uses)	1,772				1,772
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(14,967)	553			(14,414)
Fund Balances Beginning of Year	55,237	17,857	\$10,000	\$10,000	93,094
Fund Balances End of Year	\$40,270	\$18,410	\$10,000	\$10,000	\$78,680

See accompanying notes to the basic financial statements.

**COLDWATER PUBLIC 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>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Receipts				
Library and Local Government Support	\$275,000	\$275,000	\$265,187	(\$9,813)
Patron, Fines and Fees	8,200	8,200	9,391	1,191
Contributions, Gifts and Donations	100	100		(100)
Earnings on Investments	750	750	1,586	836
Miscellaneous	200	200	14	(186)
Total receipts	<u>284,250</u>	<u>284,250</u>	<u>276,178</u>	<u>(8,072)</u>
Disbursements				
Current:				
Library Services	299,863	305,420	277,987	27,433
Capital Outlay	25,000	26,930	20,579	6,351
Total Disbursements	<u>324,863</u>	<u>332,350</u>	<u>298,566</u>	<u>33,784</u>
Excess of Receipts Over (Under) Disbursements	<u>(40,613)</u>	<u>(48,100)</u>	<u>(22,388)</u>	<u>25,712</u>
Other Financing Sources (Uses)				
Sale of Fixed Assets	600	600	1,772	1,172
Other Financing Uses	(10,050)	(7,050)		7,050
Total Other Financing Sources (Uses)	<u>(9,450)</u>	<u>(6,450)</u>	<u>1,772</u>	<u>8,222</u>
Net Change in Fund Balance	(50,063)	(54,550)	(20,616)	33,934
Fund Balance Beginning of Year	50,750	50,750	50,750	
Prior Year Encumbrances Appropriated	4,487	4,487	4,487	
Fund Balance End of Year	<u>\$5,174</u>	<u>\$687</u>	<u>\$34,621</u>	<u>\$33,934</u>

See accompanying notes to the basic financial statements.

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**COLDWATER PUBLIC LIBRARY
MERCER COUNTY**

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

1. DESCRIPTION OF THE LIBRARY AND REPORTING ENTITY

The Coldwater Public Library was organized as a municipal library in 1936 under the laws of the State of Ohio. The Library has its own Board of Trustees of six members who are appointed by the Mayor of Coldwater. Appointments are for four-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 receives the majority of its funding through the State of Ohio LLGSF (Library and Local Government Support Fund), and the remainder through miscellaneous fines, fees, and interest collected throughout the year. The Library's budget is approved by the Mercer County Budget Commission.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.C, the financial statements of the Coldwater 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. The most significant of the Library's accounting policies are described below.

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.

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 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 activity is self-financing on a cash basis or draws from the Library's general receipts.

**COLDWATER PUBLIC LIBRARY
MERCER COUNTY**

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

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.

Capital Projects Fund - The capital projects fund accounts for monies set aside by the Board of Library Trustees specifically for major capital improvements.

Schoch Permanent Fund – Accounts for resources restricted by a legally binding trust agreement (endowment) specified to establish and maintain a travel library of books, tapes, records, videos, cassettes, or any type of item related to the area of travel.

Desch Permanent Fund – Accounts for resources restricted by a legally binding trust agreement (endowment) specified to purchase books on American History, American Biography, American Historical Fiction, and purchase magazine subscriptions including but not limited to National Geographic and Arizona Highway.

C. Basis of Accounting

The Library's financial statements are prepared using the cash basis of accounting. Except for modifications having substantial support, 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. Any such modifications made by the Library are described in the appropriate section in this note.

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

**COLDWATER PUBLIC 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, function, and object 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 STAR Ohio and nonnegotiable certificates of deposit. Except for STAR Ohio, these investments are recorded at cost.

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2005.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest receipt credited to the General Fund during 2005 amounted to \$1,586, and Capital Projects Fund of \$553.

**COLDWATER PUBLIC LIBRARY
MERCER COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 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.

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. CHANGE IN BASIS OF ACCOUNTING AND RESTATEMENT OF FUND EQUITY

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 rather than a column for each fund type.

**COLDWATER PUBLIC LIBRARY
MERCER COUNTY**

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

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 Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary 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 year end (budgetary basis) amounted to \$5,649 for the general fund.

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 Library treasury. Such 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 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 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 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 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;

**COLDWATER PUBLIC LIBRARY
MERCER COUNTY**

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

5. DEPOSITS AND INVESTMENTS (Continued)

- 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).

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.

At year end, the Library had \$150 in undeposited cash on hand which is included as part of "Equity in Pooled Cash and Cash Equivalents".

A. Deposits

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.

B. Investments

At December 31, 2005, the Library had \$45,967 invested in STAR Ohio. STAR Ohio had an average maturity of 30.4 days and carried a rating of AAA by Standard and Poor's. The Library has no policy dealing with credit risk beyond the requirements of State statute. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

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>
Westfield Insurance Co.	Commercial Property	\$1,070,000
	General Liability	500,000
	Inland Marine	38,000
Great American Insurance Co.	Errors and Omissions	1,000,000
Ohio Farmers Insurance Co.	Clerk/Treasurer - Bond	10,000
Ohio Farmers Insurance Co.	Director - Bond	10,000

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.

The Library is a reimbursing employer with the State Workers' Compensation System and files quarterly reports.

**COLDWATER PUBLIC LIBRARY
MERCER COUNTY**

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

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.

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) 222-6705 or (800) 222-7377.

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

The Library's required contributions for pension obligations to the traditional and/or combined plans for the years ended December 31, 2005, 2004, and 2003 were \$18,878, \$18,041, and \$17,595 respectively; the full amount has been contributed for 2005, 2004, and 2003. No employees are under the member-directed plan.

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 2005 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.

**COLDWATER PUBLIC LIBRARY
MERCER COUNTY**

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

8. POST-EMPLOYMENT BENEFITS (Continued)

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 369,885. Actual employer contributions for 2005 which were used to fund post-employment benefits were \$5,573. 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 \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$26.9 billion and \$16.4 billion, respectively.

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.



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*

Coldwater Public Library
Mercer County
305 West Main Street
Coldwater, Ohio 45828

To the Board of Trustees:

We have audited the financial statements of the governmental activities and each major fund information of the Coldwater Public 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 21, 2006, wherein we noted that 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*. 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.

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*.

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www.auditor.state.oh.us

Coldwater Public 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 21, 2006



**Auditor of State
Betty Montgomery**

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P.O. Box 1140
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COLDWATER PUBLIC 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
NOVEMBER 9, 2006**