



**Auditor of State
Betty Montgomery**

**HIGHLAND COUNTY DISTRICT LIBRARY
HIGHLAND COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Highland County District Library
Highland County
10 Willettsville Pike
Hillsboro, Ohio 45133

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 Highland County District Library, Highland County, Ohio (the Library), as of and for the years ended December 31, 2005 and 2004, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. 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 cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Highland County District Library, Highland County, Ohio, as of December 31, 2005 and 2004, and the respective changes in cash financial position and the respective budgetary comparison for the General Fund thereof for the years then ended in conformity with the basis of accounting Note 2 describes.

For the years ended December 31, 2005 and 2004, the Library revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 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

July 31, 2006

**HIGHLAND COUNTY DISTRICT LIBRARY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005 AND 2004
UNAUDITED**

This discussion and analysis of the Highland County District Library's (the Library) financial performance provides an overall review of the Library's financial activities for the years ended December 31, 2005 and 2004, within the limitations of the Library's cash basis accounting. The intent of this discussion and analysis is to look at the Library's financial performance as a whole. Readers should also review the basic financial statements and notes to the financial statements to enhance their understanding of the Library's financial performance.

Financial Highlights

Key highlights for 2005 and 2004 are as follows:

Net assets of governmental activities increased \$206,495, or 9% in 2005, and increased \$256,324, or 13% in 2004, a significant change from the prior year. The fund most affected by the increase in cash and cash equivalents was the General Fund, which realized the greatest burden of increased costs in 2005 and 2004; however, cost increases affected most funds.

The Library's general receipts are primarily made up of Local Library Government Support Funds (LLGSF). These receipts represent \$1,412,969 or 84% of the total cash received for governmental activities during 2005, and \$1,405,223 or 88% in 2004. The LLGSF receipts for 2005 and 2004 changed very little compared to 2003 and are expected to remain the same for 2006.

The Library has no major construction projects being planned in the near future as all of our buildings, with the exception of the Main Library at Hillsboro, have been built within the last ten (10) years. The Library plans to keep all present facilities in an excellent state of repair. This will be a major endeavor for the Library; however, it is a goal of the Library to maintain this excellence.

A public meeting room/area has been added in 2004 to the Hillsboro location by renovating space in the lower level, and by utilizing a storage facility to house items that may be used at a future date. This meeting area will not only be used for public meetings which will be approved by the Director, but will be a wonderful area for the Children's Department to conduct story and craft times, and to hold computer "how to" classes by the Computer Librarian. Most of the expenditures from the Building and Repair Fund were spent to finance this project. T-One lines were added to the branches for our internet system. This will improve the speed at which the internet will work for the Library's patrons, the usage of which is growing daily. In 2004, the Computer Librarian ordered new computer equipment and software for the Library since the Library Consortium was scheduled to go to a new Circulation System in 2005.

The Greenfield Branch Library added a reading garden, including fencing, concrete work, and benches, at the new building in 2004. This was a major project for this branch, with funding provided by donations from the community of Greenfield, with the exception of the benches which were paid for by the Library.

The Library at present time has no debt issues. Pending legislation called the TEL Amendment, if passed, could have a significantly adverse impact on the Library's future funding, and is a major area of concern for management. During 2004, the Library participated in a grant which would enable the Library Consortium (SEO) to acquire the new "E" books which are read through the computer. The Library's expenses for this were nominal.

The Library's expenditures were very close to their original budgeted figures, with the salary line item experiencing the greatest increase due to Board approved raises in 2005. This was the first time in several years that all full time employees have received a raise of over 1 to 3%. The salary line item for the Library could be impacted significantly in 2006 with the search for a new

**HIGHLAND COUNTY DISTRICT LIBRARY
MANAGEMENT'S DISCUSSION AND ANALYSIS
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Director. The Library's long-time Director retired as of December 31, 2005. Her sick pay will not be paid until the January 15, 2006 pay date. The Library will be in the process of finding a new director in 2006. Meanwhile, Jennifer West, current Assistant Director, will assume the responsibilities of Interim Director.

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 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 and certain liabilities and their related expenses 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.

Reporting the Library as a Whole

The statement of net assets and the statement of activities reflect how the Library did financially during 2005 and 2004, within the limitations of cash basis accounting. Most of the Library's basic services are reported within these statements. The Library provides a variety of programs for children of all ages, young adults, and adults, including sponsoring summer reading programs. The Library provides an excellent selection of library materials which includes books, periodicals, newspapers, entertainment and instructional videocassettes and DVD's, computer software for public use, and high speed Internet access. The statement of net assets presents the cash balances and deposits of the governmental activities of the Library at year end. The statement of activities compares cash disbursements with program receipts for each governmental program. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the Library's general receipts.

**HIGHLAND COUNTY DISTRICT LIBRARY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005 AND 2004
UNAUDITED**

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 the Library's financial condition, you should also consider other nonfinancial factors as well such as the Library's State funding, the condition of the Library's capital assets and infrastructure, and the need for continued growth in the major local revenue sources.

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 Government 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'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 nonmajor 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 only major governmental funds are the General Fund and the Building and Repair Fund. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements. We describe this relationship in reconciliations presented with the governmental fund financial statements.

The Library as a Whole

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

(Table 1)

Net Assets

	Governmental Activities	
	2005	2004
Assets		
Cash and Cash Equivalents	\$2,478,464	\$ 2,271,969
Total Assets	\$2,478,464	\$ 2,271,969
Net Assets		
Restricted for:		
Capital Projects	334,314	350,369
Permanent Fund:		
Expendable	956	766
NonExpendable	7,000	7,000
Other Purposes	70,742	69,266
Unrestricted	2,065,452	1,844,568
Total Net Assets	\$2,478,464	\$2,271,969

**HIGHLAND COUNTY DISTRICT LIBRARY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005 AND 2004
UNAUDITED**

As mentioned previously, net assets of governmental activities increased \$206,495 or 9% during 2005, and increased \$256,324 or 13% during 2004. The primary reasons contributing to the increases in cash balances are as follows:

- During 2005, the Library's Main Branch in Hillsboro received an unanticipated donation of \$25,000.
- Due to increased circulation, patron fines and copy fees continue to show increase.
- While salaries did increase in 2005 and 2004, the Library was able to maintain beginning of year appropriations while still providing excellent services. The budget for 2006 is expected to be consistent with past budgets, as no major expenditures are planned in the near future.
- There were no increases in revenues in 2004, and the Library's expenses were less than anticipated due to controlled spending, and no major repairs needing to be made on the facilities.

Table 2 reflects the changes in net assets in 2004.

(Table 2)
Changes in Net Assets

	Governmental Activities 2005	Governmental Activities 2004	Variance
Receipts:			
Program Receipts:			
Charges for Services and Sales	\$67,217	\$62,459	\$4,758
Capital Grants and Contributions	23,668	0	23,668
Total Program Receipts	<u>90,885</u>	<u>62,459</u>	<u>28,426</u>
General Receipts:			
Local Library Government Support	1,412,969	1,405,223	7,746
Unrestricted Gifts and Contributions	34,518	7,713	26,805
Interest	125,426	112,965	12,461
Miscellaneous	2,771	1,177	1,594
Total General Receipts	<u>1,575,684</u>	<u>1,527,078</u>	<u>48,606</u>
Total Receipts	<u>1,666,569</u>	<u>1,589,537</u>	<u>77,032</u>
Disbursements:			
Library Services	1,380,767	1,266,860	113,907
Capital Outlay	79,307	66,353	12,954
Total Disbursements	<u>1,460,074</u>	<u>1,333,213</u>	<u>126,861</u>
Excess (Deficiency) Before Transfers	206,495	256,324	(49,829)
Transfers:			
Transfers-In	23,858	79	23,779
Transfers-Out	(23,858)	(79)	(23,779)
Total Transfers	<u>0</u>	<u>0</u>	<u>0</u>
Increase (Decrease) in Net Assets	206,495	256,324	(49,829)
Net Assets, Beginning of Year	<u>2,271,969</u>	<u>2,015,645</u>	<u>256,324</u>
Net Assets, End of Year	<u>\$2,478,464</u>	<u>\$2,271,969</u>	<u>\$206,495</u>

**HIGHLAND COUNTY DISTRICT LIBRARY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005 AND 2004
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Program receipts in 2005 and 2004 of \$90,885 and \$62,459 represent only 5% and 4% respectively of total receipts and are primarily comprised of patron fines, and fees for copies, faxes, and lost items. In 2005, the Library received a one time Grant through SBC Foundation Technology Funding.

General receipts in 2005 and 2004 represent 95% and 96% of the Library's total receipts respectively, and of these amounts, over 85% and 88% were for Local Library Government Support. Interest earnings received by the Library made up 7% of total receipts annually, totaling \$125,426 in 2005, and \$112,965 in 2004. The Library received \$34,518 in contributions in 2005, and \$7,713 in 2004. These contributions represented 2% of total receipts in 2005, and less than 1% in 2004. Other receipts are very insignificant and somewhat unpredictable revenue sources.

Library Services disbursements represent the overhead cost of running the Library and the support services provided. These disbursements include salaries, library materials, purchased services, and capital outlay. Salaries increased in 2005 over 2004 due to a board approved salary increase for employees. Library Material and supplies also experienced an increase in 2005 due to the increase expansion of books, periodicals, and computer equipment software for public use.

Governmental Activities

If you look at the Statement of Activities on pages 12 and 17, 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 next two columns entitled Program Receipts identifies amounts paid by people who are directly charged for the services, and grants 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	Total Cost Of Services 2004	Net Cost of Services 2004
Library Services	\$1,380,767	(\$1,289,882)	\$1,266,860	(\$1,204,401)
Capital Outlay	79,307	(79,307)	66,353	(66,353)
Total Expenses	\$1,460,074	(\$1,369,189)	\$1,333,213	(\$1,270,754)

The Library's Funds

Total governmental funds in 2005 had receipts of \$1,690,427 and disbursements of \$1,483,932. Total governmental funds in 2004 had receipts of \$1,589,616 and disbursements of \$1,333,292. The greatest change within governmental funds during these years occurred within the General Fund. The fund balance of the General Fund increased in 2005 by \$220,884 and increased in 2004 by \$283,299. Both increases were the result of increased revenues from patron fees, and prudent spending. Total increase of receipts over disbursements, when all funds were included, was \$206,495 in 2005 and \$256,324 in 2004. A total of \$27,054 was spent from the Capital Project/Building Repair Fund in 2004 for the addition of a public meeting room at the Hillsboro branch, and a reading garden at the new Greenfield branch.

**HIGHLAND COUNTY DISTRICT LIBRARY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005 AND 2004
UNAUDITED**

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 appropriations several times to reflect changing circumstances. Final budget receipts were above original budgeted receipts due to unexpected revenues. The Library had budgeted \$1,512,169 in revenues. Actual revenues exceeded expectations totaling \$1,666,569. Final disbursements were budgeted at \$1,774,479, while actual disbursements were \$1,445,685. The Library kept spending as close to the budgeted amounts as was possible. Some appropriations were increased to account for increased salaries, including retirement and Medicare, for the full time staff, and to account for increased spending associated with the implementation of a new circulation computer system for the Library. Even with noted changes, the Library saw an increase in the General Fund balance of \$220,884.

During 2004, the Library only amended its General Fund appropriations once to reflect changing circumstances. Final budgeted receipts were above original budgeted receipts. The Library had budgeted \$1,512,169 in revenues. Actual revenues exceeded expectations totaling \$1,589,537. Final disbursements were budgeted at \$1,598,101, while actual disbursements were \$1,306,238. The Library kept spending as close to the budgeted amounts as was possible. Some appropriations were increased to account for moderate increases salaries, and to account for increases in spending associated with the implementation of a new circulation computer system for the Library. Even with noted changes, the Library saw an increase in the General Fund balance of \$283,299.

Current Issues

The challenge for all Library's is to provide quality services to the public while staying within the restrictions imposed by limited, and in some cases shrinking, funding. The Library relies heavily on Local Library Government Support Funds. The Library is currently financially sound, and we continue to maintain our goal of monitoring our expenditures and providing needed services at each location of our Library system. While our goal is to increase our circulation every year, this will also impact our expenditures through supplies, staffing, utilities and maintenance to all our facilities.

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 Emily F. Evans, Clerk-Treasurer, Highland County District Library, 10 Willettsville Pike, Hillsboro, Ohio 45133.

HIGHLAND COUNTY DISTRICT LIBRARY
HIGHLAND COUNTY

STATEMENT OF NET ASSETS - CASH BASIS
DECEMBER 31, 2005

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$2,478,464</u>
<i>Total Assets</i>	<u><u>\$2,478,464</u></u>
Net Assets	
Restricted for:	
Capital Projects	\$334,314
Permanent Fund Purpose	
Expendable	956
Nonexpendable	7,000
Other Purposes	70,742
Unrestricted	<u>2,065,452</u>
<i>Total Net Assets</i>	<u><u>\$2,478,464</u></u>

See accompanying notes to the basic financial statements

**HIGHLAND COUNTY DISTRICT LIBRARY
HIGHLAND 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	Capital Grants and Contributions	Governmental Activities
Governmental Activities				
Library Services	\$1,380,767	\$67,217	\$23,668	(1,289,882)
Capital Outlay	79,307	0	0	(79,307)
<i>Total Governmental Activities</i>	<u>\$1,460,074</u>	<u>\$67,217</u>	<u>\$23,668</u>	<u>(1,369,189)</u>
		General Receipts		
		Library and Local Government Support		1,412,969
		Unrestricted Gifts and Contributions		34,518
		Interest		125,426
		Miscellaneous		2,771
		<i>Total General Receipts</i>		<u>1,575,684</u>
		Change in Net Assets		206,495
		<i>Net Assets Beginning of Year</i>		<u>2,271,969</u>
		<i>Net Assets End of Year</i>		<u>\$2,478,464</u>

See accompanying notes to the basic financial statements

**HIGHLAND COUNTY DISTRICT LIBRARY
HIGHLAND COUNTY**

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

	General	Building and Repair Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$2,065,452	\$334,314	\$78,698	\$2,478,464
<i>Total Assets</i>	<u>\$2,065,452</u>	<u>\$334,314</u>	<u>\$78,698</u>	<u>\$2,478,464</u>
Fund Balances				
Unreserved:				
Undesignated (Deficit), Reported in:				
General Fund	\$2,065,452	\$0	\$0	\$2,065,452
Special Revenue Funds	0	0	70,742	70,742
Capital Projects Funds	0	334,314	0	334,314
Permanent Funds	0	0	7,956	7,956
<i>Total Fund Balances</i>	<u>\$2,065,452</u>	<u>\$334,314</u>	<u>\$78,698</u>	<u>\$2,478,464</u>

See accompanying notes to the basic financial statements

**HIGHLAND COUNTY DISTRICT LIBRARY
HIGHLAND COUNTY**

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

	General	Building and Repair Fund	Other Governmental Funds	Total Governmental Funds
Receipts				
Library and Local Government Support	\$1,412,969	\$0	\$0	\$1,412,969
Other Grants - Restricted	23,668	0	0	23,668
Patron Fines and Fees	67,217	0	0	67,217
Contributions, Gifts and Donations	34,518	0	0	34,518
Earnings on Investments	125,426	0	0	125,426
Miscellaneous	2,771	0	0	2,771
<i>Total Receipts</i>	<u>1,666,569</u>	<u>0</u>	<u>0</u>	<u>1,666,569</u>
Disbursements				
Current:				
Library Services	1,380,767	0	0	1,380,767
Capital Outlay	41,060	16,055	22,192	79,307
<i>Total Disbursements</i>	<u>1,421,827</u>	<u>16,055</u>	<u>22,192</u>	<u>1,460,074</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>244,742</u>	<u>(16,055)</u>	<u>(22,192)</u>	<u>206,495</u>
Other Financing Sources (Uses)				
Transfers In	0	0	23,858	23,858
Transfers Out	(23,858)	0	0	(23,858)
<i>Total Other Financing Sources (Uses)</i>	<u>(23,858)</u>	<u>0</u>	<u>23,858</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	220,884	(16,055)	1,666	206,495
<i>Fund Balances Beginning of Year</i>	<u>1,844,568</u>	<u>350,369</u>	<u>77,032</u>	<u>2,271,969</u>
<i>Fund Balances End of Year</i>	<u><u>\$2,065,452</u></u>	<u><u>\$334,314</u></u>	<u><u>\$78,698</u></u>	<u><u>\$2,478,464</u></u>

See accompanying notes to the basic financial statements

**HIGHLAND COUNTY DISTRICT LIBRARY
HIGHLAND COUNTY**

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

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Receipts				
Library and Local Government Support	\$1,410,720	\$1,410,720	\$1,412,969	\$2,249
Other Grants - Restricted	0	0	23,668	23,668
Patron Fines and Fees	43,935	43,935	67,217	23,282
Contributions, Gifts and Donations	1,010	1,010	34,518	33,508
Earnings on Investments	55,500	55,500	125,426	69,926
Miscellaneous	1,004	1,004	2,771	1,767
<i>Total receipts</i>	<u>1,512,169</u>	<u>1,512,169</u>	<u>1,666,569</u>	<u>154,400</u>
Disbursements				
Current:				
Library Services	1,575,800	1,626,800	1,380,767	246,033
Capital Outlay	50,000	75,000	41,060	33,940
<i>Total Disbursements</i>	<u>1,625,800</u>	<u>1,701,800</u>	<u>1,421,827</u>	<u>279,973</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(113,631)</u>	<u>(189,631)</u>	<u>244,742</u>	<u>434,373</u>
Other Financing Sources (Uses)				
Transfers Out	(250)	(23,918)	(23,858)	60
Other Financing Uses	(48,781)	(48,761)	0	48,761
<i>Total Other Financing Sources (Uses)</i>	<u>(49,031)</u>	<u>(72,679)</u>	<u>(23,858)</u>	<u>48,821</u>
<i>Net Change in Fund Balance</i>	(162,662)	(262,310)	220,884	483,194
<i>Fund Balance Beginning of Year</i>	<u>1,844,568</u>	<u>1,844,568</u>	<u>1,844,568</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$1,681,906</u>	<u>\$1,582,258</u>	<u>\$2,065,452</u>	<u>\$483,194</u>

See accompanying notes to the basic financial statements

HIGHLAND COUNTY DISTRICT LIBRARY
HIGHLAND COUNTY

STATEMENT OF NET ASSETS - CASH BASIS
DECEMBER 31, 2004

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$2,271,969</u>
<i>Total Assets</i>	<u><u>\$2,271,969</u></u>
Net Assets	
Restricted for:	
Capital Projects	\$350,369
Permanent Fund Purpose	
Expendable	766
Nonexpendable	7,000
Other Purposes	69,266
Unrestricted	<u>1,844,568</u>
<i>Total Net Assets</i>	<u><u>\$2,271,969</u></u>

See accompanying notes to the basic financial statements

**HIGHLAND COUNTY DISTRICT LIBRARY
HIGHLAND COUNTY**

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

	Cash Disbursements	Program Cash Receipts Charges for Services and Sales	Net (Disbursements) Receipts and Changes in Net Assets Governmental Activities
Governmental Activities			
Library Services	\$1,266,860	\$62,459	(1,204,401)
Capital Outlay	66,353	0	(66,353)
<i>Total Governmental Activities</i>	<u>\$1,333,213</u>	<u>\$62,459</u>	<u>(1,270,754)</u>
		General Receipts	
		Library and Local Government Support	1,405,223
		Unrestricted Gifts and Contributions	7,713
		Interest	112,965
		Miscellaneous	1,177
		<i>Total General Receipts</i>	<u>1,527,078</u>
		Change in Net Assets	256,324
		<i>Net Assets Beginning of Year</i>	<u>2,015,645</u>
		<i>Net Assets End of Year</i>	<u>\$2,271,969</u>

See accompanying notes to the basic financial statements

**HIGHLAND COUNTY DISTRICT LIBRARY
HIGHLAND COUNTY**

**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES
GOVERNMENTAL FUNDS
DECEMBER 31, 2004**

	General	Building and Repair Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$1,844,568	\$350,369	\$77,032	\$2,271,969
<i>Total Assets</i>	<u>\$1,844,568</u>	<u>\$350,369</u>	<u>\$77,032</u>	<u>\$2,271,969</u>
Fund Balances				
Unreserved:				
Undesignated, Reported in:				
General Fund	\$1,844,568	\$0	\$0	\$1,844,568
Special Revenue Funds	0	0	69,266	69,266
Capital Projects Funds	0	350,369	0	350,369
Permanent Funds	0	0	7,766	7,766
<i>Total Fund Balances</i>	<u>\$1,844,568</u>	<u>\$350,369</u>	<u>\$77,032</u>	<u>\$2,271,969</u>

See accompanying notes to the basic financial statements

**HIGHLAND COUNTY DISTRICT LIBRARY
HIGHLAND COUNTY**

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

	General	Building and Repair Fund	Other Governmental Funds	Total Governmental Funds
Receipts				
Library and Local Government Support	\$1,405,223	\$0	\$0	\$1,405,223
Patron Fines and Fees	62,459	0	0	62,459
Contributions, Gifts and Donations	7,713	0	0	7,713
Earnings on Investments	112,965	0	0	112,965
Miscellaneous	1,177	0	0	1,177
<i>Total Receipts</i>	<u>1,589,537</u>	<u>0</u>	<u>0</u>	<u>1,589,537</u>
Disbursements				
Current:				
Library Services	1,266,860	0	0	1,266,860
Capital Outlay	39,299	27,054	0	66,353
<i>Total Disbursements</i>	<u>1,306,159</u>	<u>27,054</u>	<u>0</u>	<u>1,333,213</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>283,378</u>	<u>(27,054)</u>	<u>0</u>	<u>256,324</u>
Other Financing Sources (Uses)				
Transfers In	0	0	79	79
Transfers Out	(79)	0	0	(79)
<i>Total Other Financing Sources (Uses)</i>	<u>(79)</u>	<u>0</u>	<u>79</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	283,299	(27,054)	79	256,324
<i>Fund Balances Beginning of Year</i>	<u>1,561,269</u>	<u>377,423</u>	<u>76,953</u>	<u>2,015,645</u>
<i>Fund Balances End of Year</i>	<u><u>\$1,844,568</u></u>	<u><u>\$350,369</u></u>	<u><u>\$77,032</u></u>	<u><u>\$2,271,969</u></u>

See accompanying notes to the basic financial statements

**HIGHLAND COUNTY DISTRICT LIBRARY
HIGHLAND COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Receipts				
Library and Local Government Support	\$1,410,720	\$1,410,720	\$1,405,223	(\$5,497)
Patron Fines and Fees	43,935	43,935	62,459	18,524
Contributions, Gifts and Donations	1,010	1,010	7,713	6,703
Earnings on Investments	55,500	55,500	112,965	57,465
Miscellaneous	1,004	1,004	1,177	173
<i>Total receipts</i>	<u>1,512,169</u>	<u>1,512,169</u>	<u>1,589,537</u>	<u>77,368</u>
Disbursements				
Current:				
Library Services	1,483,460	1,501,840	1,266,860	234,980
Capital Outlay	50,000	50,000	39,299	10,701
<i>Total Disbursements</i>	<u>1,533,460</u>	<u>1,551,840</u>	<u>1,306,159</u>	<u>245,681</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(21,291)</u>	<u>(39,671)</u>	<u>283,378</u>	<u>323,049</u>
Other Financing Sources (Uses)				
Transfers Out	(250)	(250)	(79)	171
Other Financing Uses	(46,011)	(46,011)	0	46,011
<i>Total Other Financing Sources (Uses)</i>	<u>(46,261)</u>	<u>(46,261)</u>	<u>(79)</u>	<u>46,182</u>
<i>Net Change in Fund Balance</i>	(67,552)	(85,932)	283,299	369,231
<i>Fund Balance Beginning of Year</i>	1,554,889	1,554,889	1,554,889	0
Prior Year Encumbrances Appropriated	6,380	6,380	6,380	0
<i>Fund Balance End of Year</i>	<u>\$1,493,717</u>	<u>\$1,475,337</u>	<u>\$1,844,568</u>	<u>\$369,231</u>

See accompanying notes to the basic financial statements

**HIGHLAND COUNTY DISTRICT LIBRARY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004 AND 2005**

Note 1 – Description of the Library and Reporting Entity

The Highland County District Library was organized as a district public library in 1878 under the laws of the State of Ohio. The Library has its own Board of Trustees of seven members who are appointed either by the Highland County Commissioners, or in some instances, the Judge of the Common Pleas Court of Highland County. 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 Board, although the Board 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.

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

Note 2 - Summary of Significant Accounting Policies

As discussed further in Note 2.C, the financial statements of the Highland County District 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. In the government-wide financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. 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.

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, except for fiduciary funds. The statements present the Governmental activities of the Library which generally are financed through taxes, intergovernmental receipts and other nonexchange transactions.

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. 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. 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.

**HIGHLAND COUNTY DISTRICT LIBRARY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004 AND 2005**

Note 2 - Summary of Significant Accounting Policies (continued)

Fund Financial Statements

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

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.

Governmental Funds

Governmental funds are financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange 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.

Building and Repair Fund - The building and repair fund accounts for monies set aside by the Board of Library Trustees specifically for major capital and 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. 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.

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 character or 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.

**HIGHLAND COUNTY DISTRICT LIBRARY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004 AND 2005**

Note 2 – Summary of Significant Accounting Policies (continued)

For control purposes, the Library estimates cash receipts to be received during 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 and 2004, the Library had no investments.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest receipts credited to the general fund during 2005 and 2004 amounted to \$125,426 and \$112,965 respectively, which included \$956 and \$766 assigned from other Library funds.

F. 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.

G. 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 8 and 9, the employer contributions include portions for pension benefits and for postretirement health care benefits.

**HIGHLAND COUNTY DISTRICT LIBRARY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004 AND 2005**

Note 2 – Summary of Significant Accounting Policies (continued)

H. 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 the purchase of books.

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.

I. Interfund Transactions

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular disbursements to the funds that initially paid for them are not presented in the financial statements.

Note 3 – Change in Basis of Accounting

During 2002 and 2003, the Library reported fund financial statements by fund type using the regulatory basis of accounting as prescribed by the State Auditor's Office. Beginning in 2004 and 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 nonmajor funds aggregated and presented in a single column, rather than a column for each fund type.

Note 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 differences between the budgetary basis and the cash basis are outstanding year end encumbrances which are treated as disbursements (budgetary basis) rather than as a reservation of fund balance (cash basis). There were no material encumbrances outstanding at year end.

Note 5 – Deposits

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.

**HIGHLAND COUNTY DISTRICT LIBRARY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004 AND 2005**

Note 5 - Deposits (continued)

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).

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 no undeposited cash on hand as part of "Equity in Pooled Cash and Cash Equivalents".

Deposits

Custodial credit risk 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 fiscal year end 2005, \$2,452,978 of the Library's bank balance of \$2,552,978 was exposed to custodial credit risk, and at the end of fiscal year end 2004, \$2,232,390 of the Library's bank balance of \$2,332,390 was exposed credit risk. These deposits were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Library's name.

**HIGHLAND COUNTY DISTRICT LIBRARY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004 AND 2005**

Note 5 - Deposits (continued)

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.

Note 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 2004, the Library contracted with several companies for various types of insurance coverage as follows:

Company	Type of Coverage	Coverage
Wilkin & Wilkin Insurance Company	Commercial Property	\$ 4,627,500
	General Liability	4,105,000
	Commercial Crime	10,000
	Inland Marine	175,000
	Vehicle	1,000,000
France & Associates	Errors and Omissions	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.

The Library pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs. The System administers and pays all claims.

Note 7 - Library and Local Government Support Fund

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

Note 8 - 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.

**HIGHLAND COUNTY DISTRICT LIBRARY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004 AND 2005**

Note 8 - 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) 222-6705 or (800) 222-7377.

For the years 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 \$93,038, \$84,444, and \$80,427 respectively; the full amount has been contributed for 2005, 2004, and 2003.

Note 9 - Postemployment Benefits

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment 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 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, 2003, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 1 and 6 percent annually for the next eight years and 4 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 which were used to fund postemployment benefits were \$3,722. 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.

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.

Note 10 – Interfund Transfers

In 2005, the general fund transferred \$23,668 in grant funds to the special revenue technology fund to support the implementation of a wireless computer lab at the Library.

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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*

Highland County District Library
Highland County
10 Willettsville Pike
Hillsboro, Ohio 45133

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 the Highland County District Library, Highland County, Ohio (the Library) as of and for the years ended December 31, 2005 and 2004, which collectively comprise the Library's basic financial statements and have issued our report thereon dated July 31, 2006, wherein, we noted the Library revised its financial presentation comparable to the requirements of Governmental Accounting Standards Board Statement No. 34. 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 in order to express our opinions 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. However, we noted a matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management on the Library in a separate letter dated July 31, 2006.

Compliance and Other Matters

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

We intend this report solely for the information and use of the audit committee, management, and 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

July 31, 2006



**Auditor of State
Betty Montgomery**

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HIGHLAND DISTRICT LIBRARY

HIGHLAND 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
AUGUST 31, 2006**