



**Auditor of State
Betty Montgomery**

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Middletown Public Library
Butler County
125 S. Broad Street
Middletown, Ohio 45044

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

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Middletown Public Library, Butler County, Ohio, as of December 31, 2005 and December 31, 2004, and the respective changes in cash financial position and the respective budgetary comparison for the General Fund thereof for the year(s) then ended in conformity with the basis of accounting Note 2 describes.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 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.

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

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

Betty Montgomery
Auditor of State

October 26, 2006

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

This discussion and analysis of the 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.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 "Basic Financial Statements – and Management's Discussion and Analysis- for State and Local Governments" issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Highlights

Key highlights for 2005 are as follows:

Net assets of governmental activities decreased \$79,130 or 1.4 percent, from the prior year. Expenses relative to the completion of a new addition at West Chester resulted in an increase in total disbursements, as compared to 2004. The funds most affected by the decrease in cash and cash equivalents were the Capital Improvement Fund and General Fund, which realized the greatest burden of increased costs in 2005.

The Library's general receipts are primarily from the Library and Local Government Support Fund (LLGSF). These receipts represent 93 percent of the total cash received for governmental activities during the year. In 2005, LLGSF revenue slightly increased \$30,048 or .5 percent.

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.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

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. Under this 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 Library's use of the cash basis of accounting.

Reporting the Government as a Whole

The statement of net assets and the statement of activities reflect how the Library did financially during 2005, within the limitation of the cash basis of accounting. The statement of net assets presents the cash balances 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.

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 health is improving or deteriorating. When evaluating the Library's financial condition, you should also consider other nonfinancial factors as well such as the condition of the Library's capital assets and physical plant, the extent of the Library's debt obligations, the reliance on non-local financial resources for operations and the possible need for major local revenue sources.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

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

The Government as a Whole

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

(Table 1)

| Net Assets | | <u>Governmental Activities</u> | |
|---------------------------|--|--------------------------------|---------------------------|
| | | <u>2005</u> | <u>2004</u> |
| Assets | | | |
| Cash and Cash Equivalents | | <u>\$5,515,314</u> | <u>\$5,594,444</u> |
| Total Assets | | <u><u>\$5,515,314</u></u> | <u><u>\$5,594,444</u></u> |
| Net Assets | | | |
| Restricted for: | | | |
| Capital Outlay | | \$1,479,664 | \$1,827,708 |
| Unrestricted | | <u>4,035,650</u> | <u>3,766,736</u> |
| Total Net Assets | | <u><u>\$5,515,314</u></u> | <u><u>\$5,594,444</u></u> |

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

As mentioned previously, net assets of governmental activities decreased \$79,130 or 1.4% percent during 2004. The primary reasons contributing to the decreases in cash balances are as follows:

- The Library finished the addition of 555 square feet at the West Chester branch
- The Library completed a HVAC upgrade in the Middletown branch
- Health benefit costs grew at approximately 13%.

Table 2 reflects the changes in net assets in 2004 and 2005.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

**(Table 2)
Changes in Net Assets**

| | Governmental Activities 2005 | Governmental Activities 2004 |
|---------------------------------------|------------------------------------|------------------------------------|
| | <u>2005</u> | <u>2004</u> |
| Receipts: | | |
| Program Receipts: | | |
| Charges for Services and Sales | \$247,603 | \$235,653 |
| Total Program Receipts | <u>247,603</u> | <u>235,653</u> |
| General Receipts: | | |
| Property and Other Local Taxes | 5,481,189 | 5,451,141 |
| Unrestricted Gifts and Contributions | 13,453 | 10,098 |
| Interest | 156,331 | 66,638 |
| Miscellaneous | 20,006 | 5,770 |
| Total General Receipts | <u>5,670,979</u> | <u>5,533,647</u> |
| Total Receipts | <u>5,918,582</u> | <u>5,769,300</u> |
| Disbursements: | | |
| Library Services | | |
| Public Service and Programs | 2,270,181 | 2,313,727 |
| Collection Development and Processing | 1,524,028 | 1,588,930 |
| Support Services: | | |
| Facilities Operation and Maintenance | 686,781 | 693,289 |
| Information Services | 115,376 | 132,956 |
| Business Administration | 684,959 | 708,135 |
| Capital Outlay | <u>716,387</u> | <u>481,443</u> |
| Total Disbursements | <u>5,997,712</u> | <u>5,918,480</u> |
| Increase (Decrease) in Net Assets | (79,130) | (149,180) |
| Net Assets, Beginning of Year | <u>5,594,444</u> | <u>5,743,624</u> |
| Net Assets, End of Year | <u><u>\$5,515,314</u></u> | <u><u>5,594,444</u></u> |

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

Program receipts represent only 4.2 percent of total receipts. Program receipts are primarily comprised of charges for patron sales and services, such as fines, fees, and coin-operated machine income, as well as donations.

General receipts represent 96 percent of the Library's total receipts, and of this amount, 97 percent is from the Library and Local Government Support Fund. Interest income, rental income, and donations make up the balance of the Library's general receipts. Other receipts are very insignificant and somewhat unpredictable revenue sources.

Governmental Activities

If you look at the Statement of Activities on page 11, 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 three columns of the Statement entitled Program Receipts identify amounts paid by people who are directly charged for the service 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

| | <u>Total Cost Of Services 2005</u> | <u>Net Cost Of Services 2005</u> |
|--------------------------------------|--|--|
| Library Services: | | |
| Public Service and Programs | \$2,270,181 | (\$2,022,578) |
| Collection Development/Processing | 1,524,028 | (1,524,028) |
| Support Services: | | |
| Facilities Operation and Maintenance | 686,781 | (686,781) |
| Information Services | 115,376 | (115,376) |
| Business Administration | 684,959 | (684,959) |
| Capital Outlay: | 716,387 | (716,387) |
| Debt Service: | | |
| Principal Retirement/Interest: | | |
| Total Expenses | <u>\$5,997,712</u> | <u>(\$5,750,109)</u> |

The dependence upon the Local Library Government Support Fund is apparent as over 92 percent of governmental activities are supported through these general receipts.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

The Government's Funds

Total governmental funds had receipts of \$6,168,582 and disbursements of \$6,247,712. The greatest change within governmental funds occurred within the Capital Improvement Fund. The fund balance of the Capital Improvement Fund decreased \$348,044 as the result of an addition to the West Chester branch and an upgrade to the HVAC system at Middletown.

General Fund receipts were more than disbursements by \$265,865. It was the recommendation of the administration that a reduction in disbursements was necessary to maintain current service levels in the wake of a funding freeze at the state level. These cuts will not eliminate the need for additional funds in the future if the growth in the Library and Local Government Support Fund remains even.

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.

Final disbursements were budgeted at \$7,545,395 while actual disbursements were \$5,640,237. The Library's spending was significantly below the budgeted amounts as demonstrated by the reported variances. The result is the increase in fund balance of \$265,865 for 2005.

Current Issues

The challenge for all Governments 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 the Library and Local Government Support Fund. Our newly prepared financial forecast predicts a deficit for 2006; therefore, the administration implemented a strategy to delay the deficit. This plan became effective at the end of 2004. We reviewed our sources of revenue and determined that increases were unlikely. We then reviewed the disbursement history of the Library. We have reduced staffing levels through attrition in areas where we felt it would have the least impact on services. We have reduced collection disbursements compared to the original budgeted amounts.

Contacting the Government's Financial Management

This financial report is designed to provide our citizens, taxpayers, and patrons 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 Deborah M. Preston, Clerk-Treasurer, Middletown Public Library, 125 S Broad Street, Middletown, OH 45044.

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**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY
STATEMENT OF NET ASSETS - CASH BASIS
DECEMBER 31, 2005**

| | <u>Governmental Activities</u> |
|--|------------------------------------|
| Assets | |
| Equity in Pooled Cash and Cash Equivalents | <u>\$5,515,314</u> |
| Total Assets | <u><u>\$5,515,314</u></u> |
| Net Assets | |
| Restricted for: | |
| Capital Projects | \$1,479,664 |
| Unrestricted | <u>4,035,650</u> |
| Total Net Assets | <u><u>\$5,515,314</u></u> |

See accompanying notes to the basic financial statements

**MIDDLETOWN PUBLIC LIBRARY
BUTLER 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 | Charges for Services | Operating Grants and | Capital Grants | Governmental |
| | Disbursements | and Sales | Contributions | and Contributions | Activities |
| Governmental Activities | | | | | |
| Library Services: | | | | | |
| Public Service and Programs | \$2,270,181 | \$247,603 | | | \$(2,022,578) |
| Collection Development and Processing | 1,524,028 | | | | (1,524,028) |
| Support Services: | | | | | |
| Facilities Operation and Maintenance | 686,781 | | | | (686,781) |
| Information Services | 115,376 | | | | (115,376) |
| Business Administration | 684,959 | | | | (684,959) |
| Capital Outlay | 716,387 | | | | (716,387) |
| Total Governmental Activities | \$5,997,712 | \$247,603 | \$0 | \$0 | (5,750,109) |

General Receipts

| | |
|--------------------------------------|-----------|
| Library & Local Government Receipts | 5,481,189 |
| Unrestricted Gifts and Contributions | 13,453 |
| Interest | 156,331 |
| Miscellaneous | 20,006 |
| | 20,006 |

Total General Receipts 5,670,979

Change in Net Assets (79,130)

Net Assets Beginning of Year 5,594,444

Net Assets End of Year **\$5,515,314**

See accompanying notes to the basic financial statements

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2005**

| | <u>General Fund</u> | <u>Capital Imp. Fund</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|-------------------------|------------------------------|---|---|
| Assets | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$3,958,927 | \$1,479,664 | \$76,723 | \$5,515,314 |
| <i>Total Assets</i> | <u>\$3,958,927</u> | <u>\$1,479,664</u> | <u>\$76,723</u> | <u>\$5,515,314</u> |
| Fund Balances | | | | |
| Reserved: | | | | |
| Reserved for Encumbrances | \$249,426 | \$134,952 | \$0 | \$384,378 |
| Reserved for (permanent fund purpose) | | | | |
| Unreserved: | | | | |
| Undesignated (Deficit), Reported in: | | | | |
| General Fund | 3,709,501 | | | 3,709,501 |
| Other Governmental Funds | | | 76,723 | 76,723 |
| Capital Improvement Fund | | 1,344,712 | | 1,344,712 |
| <i>Total Fund Balances</i> | <u>\$3,958,927</u> | <u>\$1,479,664</u> | <u>\$76,723</u> | <u>\$5,515,314</u> |

See accompanying notes to the basic financial statements

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

| | General Fund | Capital Improvement Fund | Other Governmental Funds | Total Governmental Funds |
|--|--------------------|--------------------------------|--------------------------------|--------------------------------|
| Receipts | | | | |
| Library & Local Government Support | \$5,481,189 | | | \$5,481,189 |
| Patron Fines and Fees | 227,848 | | | 227,848 |
| Services Provided to Others | 19,755 | | | 19,755 |
| Contributions, Gifts and Donations | 2,894 | | 10,559 | 13,453 |
| Earnings on Investments | 154,410 | | 1,921 | 156,331 |
| Miscellaneous | 20,006 | | | 20,006 |
| <i>Total Receipts</i> | <u>5,906,102</u> | <u>0</u> | <u>12,480</u> | <u>5,918,582</u> |
| Disbursements | | | | |
| Current: | | | | |
| Library Services: | | | | |
| Public Service and Programs | 2,270,181 | | | 2,270,181 |
| Collection Development and Processing | 1,524,028 | | | 1,524,028 |
| Support Services: | | | | |
| Facilities Operation and Maintenance | 686,781 | | | 686,781 |
| Information Services | 115,376 | | | 115,376 |
| Business Administration | 675,528 | | 9,431 | 684,959 |
| Capital Outlay | 118,343 | 598,044 | | 716,387 |
| <i>Total Disbursements</i> | <u>5,390,237</u> | <u>598,044</u> | <u>9,431</u> | <u>5,997,712</u> |
| <i>Excess of Receipts Over (Under) Disbursements</i> | <u>515,865</u> | <u>(598,044)</u> | <u>3,049</u> | <u>(79,130)</u> |
| Other Financing Sources (Uses) | | | | |
| Transfers In | | 250,000 | | 250,000 |
| Transfers Out | (250,000) | | | (250,000) |
| <i>Total Other Financing Sources (Uses)</i> | <u>(250,000)</u> | <u>250,000</u> | <u>0</u> | <u>0</u> |
| <i>Net Change in Fund Balances</i> | 265,865 | (348,044) | 3,049 | (79,130) |
| <i>Fund Balances Beginning of Year</i> | <u>3,693,061</u> | <u>1,827,708</u> | <u>73,675</u> | <u>5,594,444</u> |
| <i>Fund Balances End of Year</i> | <u>\$3,958,926</u> | <u>\$1,479,664</u> | <u>\$76,724</u> | <u>5,515,314</u> |

See accompanying notes to the basic financial statements

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

| | Original | Final | Actual | Positive (Negative) |
|--|--------------------|--------------------|--------------------|------------------------|
| Receipts | | | | |
| Library and Local Government Support | 5,700,000 | 5,700,000 | 5,481,189 | (218,811) |
| Patron Fines and Fees | 230,000 | 230,000 | 227,848 | (2,152) |
| Services Provided to Others | 9,000 | 9,000 | 19,755 | 10,755 |
| Contributions, Gifts and Donations | 500 | 500 | 2,894 | 2,394 |
| Earnings on Investments | 70,000 | 70,000 | 154,410 | 84,410 |
| Miscellaneous | 6,000 | 6,000 | 20,006 | 14,006 |
| <i>Total Receipts</i> | <u>6,015,500</u> | <u>6,015,500</u> | <u>5,906,102</u> | <u>(109,398)</u> |
| Disbursements | | | | |
| Current: | | | | |
| Library Services: | | | | |
| Public Service and Programs | 2,767,002 | 2,767,002 | 2,270,181 | 496,821 |
| Collection Development and Processing | 2,007,136 | 2,007,136 | 1,524,028 | 483,108 |
| Support Services: | | | | |
| Facilities Operation and Maintenance | 956,825 | 956,825 | 686,781 | 270,044 |
| Information Services | 140,602 | 140,602 | 115,376 | 25,226 |
| Business Administration | 821,780 | 821,780 | 675,528 | 146,252 |
| Capital Outlay | 502,050 | 502,050 | 118,343 | 383,707 |
| Contingency | 100,000 | 100,000 | 0 | 100,000 |
| <i>Total Disbursements</i> | <u>7,295,395</u> | <u>7,295,395</u> | <u>5,390,237</u> | <u>1,905,158</u> |
| <i>Excess of Receipts Over (Under) Disbursements</i> | <u>(1,279,895)</u> | <u>(1,279,895)</u> | <u>515,865</u> | <u>1,795,760</u> |
| Other Financing Sources (Uses) | | | | |
| Transfers Out | (250,000) | (250,000) | (250,000) | 0 |
| <i>Total Other Financing Sources (Uses)</i> | <u>(250,000)</u> | <u>(250,000)</u> | <u>(250,000)</u> | <u>0</u> |
| <i>Net Change in Fund Balance</i> | (1,529,895) | (1,529,895) | 265,865 | 1,795,760 |
| <i>Fund Balance Beginning of Year</i> | 3,693,061 | 3,693,061 | 3,693,061 | 0 |
| Prior Year Encumbrances Appropriated | 247,507 | 247,507 | 247,507 | 0 |
| <i>Fund Balance End of Year</i> | <u>\$2,410,673</u> | <u>\$2,410,673</u> | <u>\$4,206,433</u> | <u>\$1,795,760</u> |

See accompanying notes to the basic financial statements

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**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

NOTE 1 – DESCRIPTION OF THE LIBRARY AND REPORTING ENTITY

The Middletown Public Library, Butler County, Ohio (the Library), was organized as a district public library in 1913 under the laws of the State of Ohio. The Library has its own Board of Trustees of seven members who are appointed by the Middletown City Council. They serve 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 Library Director and financial accountability being solely that of the Clerk-Treasurer.

The Library is fiscally independent of the City of Middletown, although the City serves in a ministerial capacity as the taxing district for the Library.

The Friends of the Ohio Public Library, Inc. is a not-for-profit organization with a self-appointing board. The Library is not financially accountable for the organization, nor does the Library approve the budget or the issuance of debt of the organization. Therefore, this organization has been excluded from the reporting entity of the Library.

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 Middletown Public Library have been prepared on a modified 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.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide Financial Statements

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

Fund Financial Statements

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

B. Fund Accounting

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

Governmental Funds

Governmental funds are financed primarily from library and local government receipts, 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 Improvement Fund - The capital improvement fund accounts for monies set aside by the Board of Library Trustees specifically for major capital and technology improvements.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenues 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.

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

D. Budgetary Process

All funds are legally required to be appropriated. The Appropriation Resolution is the Trustee's authorization to spend resources and sets limits on expenditures plus encumbrances at the level of control selected by the Trustees. The legal level of control has been established at the fund and or major category 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 revenues to be received for the year. These estimated revenues, together with the unencumbered carry-over balances from the prior year, set a limit on the amount the Trustees may appropriate. The estimated revenues 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 appropriation was adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts of estimated resources at the time final appropriation, if needed, was enacted by the Trustees.

The Appropriation 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."

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest receipts credited to the general fund during 2005 totaled \$154,410. Interest receipts credited to the general fund during 2004 totaled \$65,782.

F. Accumulated Leave

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused vacation leave. Unpaid leave is not reflected as a liability under the Library's 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 7 & 8, the employer contributions include portions for pension benefits and for postretirement health care benefits.

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 permanent funds.

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 (and after nonoperating receipts/disbursements in proprietary funds). Repayments from funds responsible for particular disbursements to the funds that initially paid for them are not presented in the financial statements.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

NOTE 3 – 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 presented 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 are outstanding year end encumbrances which are treated as expenditures (budgetary basis) rather than as a reservation of fund balance (cash basis). The encumbrances outstanding at year end (budgetary basis) amounted to \$249,426 for the general fund and \$134,952 (budgetary basis) for all other funds.

NOTE 4 - 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:

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;

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;

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;

Bonds and other obligations of the State of Ohio or Ohio local governments;

Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

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;

The State Treasurer's investment pool (STAR Ohio).

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

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

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

At year end, the Library had \$1,000 in un-deposited cash on hand, which is included on the balance sheet of the Library as part of "Equity in Pooled Cash and Cash Equivalents."

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

At year end, the carrying amount of the Library's deposits was \$5,515,314 and the bank balance was \$5,571,808. Of the bank balance, \$100,000 was covered by federal depository insurance and the remaining amount was covered by collateral held by third party trustees pursuant to Section 135.181 of the Revised Code, in collateralized pools securing all public funds on deposit with the specific depository institutions. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Library to a successful claim by the FDIC.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

(Continued)

NOTE 5 – 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>Type of Coverage</u> | <u>Coverage</u> |
|-------------------------|-----------------|
| Commercial Property | \$7,733,928 |
| General Liability | 1,000,000 |
| Commercial Umbrella | 3,000,000 |
| Inland Marine | 10,768,838 |
| Vehicle | 500,000 |
| Library Officials | 50,000 |
| Fidelity and Deposit | 5,000 |

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 6 – 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 of tax of LLGSF revenues, and its population. The County Budget Commission allocates these funds to the Library based on its census of population for which the library services. The Budget Commission cannot reduce its allocation of these funds based on any additional revenues the Library receives.

NOTE 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.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

NOTE 7 – DEFINED BENEFIT PENSION PLAN (Continued)

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6705 or (800) 222-7377.

For the year ended December 31, 2005, the members of all three plans were required to contribute 8.5 percent of their annual covered salaries. The Library's contribution rate for pension benefits for 2005 was 13.55 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 \$350,919, \$333,532, and \$341,591 respectively; the full amount has been contributed for 2005, 2004, and 2003.

NOTE 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, 2005, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 1.00 and 6.00 percent annually for the next eight years and 4.00 percent annually after eight years.

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

The number of active contributing participants in the traditional and combined plans was 355,287. Actual employer contributions for 2005 which were used to fund postemployment benefits were \$350,919. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2005, (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.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

NOTE 8 – POST EMPLOYMENT BENEFITS (Continued)

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

NOTE 9 - INTERFUND TRANSFERS

The general fund transferred \$250,000 to the capital improvement fund for the purchase and maintenance of various items throughout the Library.

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**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

This discussion and analysis of the Library's financial performance provides an overall review of the Library's financial activities for the year ended December 31, 2004, 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.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 "Basic Financial Statements – and Management's Discussion and Analysis- for State and Local Governments" issued June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A. However, because this is the first year of implementing the new reporting model, certain necessary comparative information of the previous year was not prepared. Considering the financial resources necessary to prepare this information of the prior year, and that the GASB Statement No. 34 permits the omission of the comparative information in the first year of the adoption of the new reporting model, the Library has elected to exclude the information in this report. Subsequent reports will include the comparative information.

Highlights

Key highlights for 2004 are as follows:

Net assets of governmental activities decreased \$149,178 or 2.6 percent, from the prior year. Expenses relative to the completion of a new book drop at West Chester resulted in an increase in total disbursements, as compared to 2003. The funds most affected by the decrease in cash and cash equivalents were the Capital Improvement Fund and General Fund, which realized the greatest burden of increased costs in 2004.

The Library's general receipts are primarily from the Library and Local Government Support Fund (LLGSF). These receipts represent 94 percent of the total cash received for governmental activities during the year. LLGSF receipts for 2004 increased by 10% compared to 2003 due to the revised census data in Middletown.

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.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

(Continued)

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. Under this 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 Library's use of the cash basis of accounting.

Reporting the Government as a Whole

The statement of net assets and the statement of activities reflect how the Library did financially during 2004, within the limitations of the cash basis of accounting. The statement of net assets presents the cash balances 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.

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 health is improving or deteriorating. When evaluating the Library's financial condition, you should also consider other nonfinancial factors as well such as the condition of the Library's capital assets and physical plant, the extent of the Library's debt obligations, the reliance on non-local financial resources for operations and the possible need for major local revenue sources.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

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

The Government as a Whole

Table 1 provides a summary of the Government's net assets for 2004 compared to 2003 on a cash basis:

(Table 1)

Net Assets

| Assets | Governmental Activities | |
|---------------------------|--------------------------------|-------------|
| | 2004 | 2003 |
| Cash and Cash Equivalents | \$5,594,444 | \$5,743,622 |
| Total Assets | \$5,594,444 | \$5,743,622 |
| Net Assets | | |
| Restricted for: | | |
| Capital Outlay | \$1,827,708 | \$1,916,121 |
| Unrestricted | 3,766,736 | 3,827,501 |
| Total Net Assets | \$5,594,444 | \$5,743,622 |

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

As mentioned previously, net assets of governmental activities decreased \$149,178 or 2.6 percent during 2004. The primary reasons contributing to the decreases in cash balances are as follows:

- The Library made significant renovations to the server room in the amount of \$65,432.
- The Library started construction of a book drop at their West Chester branch in the amount of \$91,576.
- Health benefit costs grew at approximately 13%.

Table 2 reflects the changes in net assets in 2004. Since the Library did not prepare financial statements in this format for 2003, 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.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

(Table 2)
Changes in Net Assets

| | Governmental Activities 2004 | Total 2004 |
|---------------------------------------|------------------------------------|--------------------|
| Receipts: | | |
| Program Receipts: | | |
| Charges for Services and Sales | \$235,653 | \$235,653 |
| Total Program Receipts | <u>235,653</u> | <u>235,653</u> |
| General Receipts: | | |
| Property and Other Local Taxes | 5,451,141 | 5,451,141 |
| Unrestricted Gifts and Contributions | 10,098 | 10,098 |
| Interest | 66,638 | 66,638 |
| Miscellaneous | 5,770 | 5,770 |
| Total General Receipts | <u>5,533,647</u> | <u>5,533,647</u> |
| Total Receipts | <u>5,769,300</u> | <u>5,769,300</u> |
| Disbursements: | | |
| Library Services | | |
| Public Service and Programs | 2,313,727 | 2,313,727 |
| Collection Development and Processing | 1,588,930 | 1,588,930 |
| Support Services: | | |
| Facilities Operation and Maintenance | 693,289 | 693,289 |
| Information Services | 132,956 | 132,956 |
| Business Administration | 708,135 | 708,135 |
| Capital Outlay | 481,443 | 481,443 |
| Total Disbursements | <u>5,918,480</u> | <u>5,918,480</u> |
| Increase (Decrease) in Net Assets | (149,180) | (149,180) |
| Net Assets, January 1, 2004 | 5,743,624 | 5,743,624 |
| Net Assets, December 31, 2004 | <u>\$5,594,444</u> | <u>\$5,594,444</u> |

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

Program receipts represent only 4.1 percent of total receipts. Program receipts are primarily comprised of charges for patron sales and services, such as fines, fees, and coin-operated machine income, as well as donations.

General receipts represent 96 percent of the Library's total receipts, and of this amount, 98 percent is from the Library and Local Government Support Fund. Interest income, rental income, and donations make up the balance of the Library's general receipts. Other receipts are very insignificant and somewhat unpredictable revenue sources.

Governmental Activities

If you look at the Statement of Activities on page 34, 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 three columns of the Statement entitled Program Receipts identify amounts paid by people who are directly charged for the service 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

| | <u>Total Cost Of Services 2004</u> | <u>Net Cost Of Services 2004</u> |
|--------------------------------------|--|--|
| Library Services: | | |
| Public Service and Programs | \$2,313,727 | (\$2,078,074) |
| Collection Development/Processing | 1,588,930 | (1,588,930) |
| Support Services: | | |
| Facilities Operation and Maintenance | 693,289 | (693,289) |
| Information Services | 132,956 | (132,956) |
| Business Administration | 708,135 | (708,135) |
| Capital Outlay: | 481,443 | (481,443) |
| Total Expenses | <u>\$5,918,480</u> | <u>(\$5,682,827)</u> |

The dependence upon the Local Library Government Support Fund is apparent as over 92 percent of governmental activities are supported through these general receipts.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

The Government's Funds

Total governmental funds had receipts of \$6,019,300 and disbursements of \$6,168,480. The greatest change within governmental funds occurred within the Capital Improvement Fund. The fund balance of the Capital Improvement Fund decreased \$88,412 as the result of a renovation in the server room and construction of a book drop at the West Chester branch.

General Fund receipts were less than disbursements by \$62,071 indicating that the General Fund is in a deficit spending situation. It was the recommendation of the administration that a reduction in disbursements was necessary to maintain current service levels in the wake of a funding freeze at the state level. These cuts will not eliminate the need for additional funds in the future if the growth in the Library and Local Government Support Fund remains even.

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 2004, the Library amended its General Fund budget once to reflect changing circumstances. The difference between final budgeted receipts and actual receipts was not significant.

Final disbursements were budgeted at \$7,355,295 while actual disbursements were \$6,168,480. The Library's spending was significantly below the budgeted amounts as demonstrated by the reported variances. The result is the decrease in fund balance of only \$62,071 for 2004

Current Issues

The challenge for all Governments 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 the Library and Local Government Support Fund. Our newly prepared financial forecast predicts a deficit for 2005; therefore, the administration implemented a strategy to delay the deficit. This plan became effective for 2004. We reviewed our sources of revenue and determined that increases were unlikely. We then reviewed the disbursement history of the Library. We have reduced staffing levels through attrition in areas where we felt it would have the least impact on services. We have reduced collection disbursements compared to the original budgeted amounts.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

Contacting the Government's Financial Management

This financial report is designed to provide our citizens, taxpayers, and patrons 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 Deborah M. Preston, Clerk-Treasurer, Middletown Public Library, 125 S Broad Street, Middletown, OH 45044.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY
STATEMENT OF NET ASSETS - CASH BASIS
DECEMBER 31, 2004**

| | <u>Governmental Activities</u> |
|--|------------------------------------|
| Assets | |
| Equity in Pooled Cash and Cash Equivalents | \$5,594,444 |
| Total Assets | <u>\$5,594,444</u> |
| Net Assets | |
| Restricted for: | |
| Capital Projects | \$1,827,708 |
| Unrestricted | <u>3,766,736</u> |
| Total Net Assets | <u>\$5,594,444</u> |

See accompanying notes to the basic financial statements

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

| | Program Cash Receipts | | | Net (Disbursements) Receipts and Changes in Net Assets | |
|---------------------------------------|---|--|-------------------------------------|--|-------------|
| Cash | Charges for Services and Sales | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | |
| Disbursements | | | | | |
| Governmental Activities | | | | | |
| Library Services: | | | | | |
| Public Service and Programs | \$2,313,727 | \$235,653 | | \$(2,078,074) | |
| Collection Development and Processing | 1,588,930 | | | (1,588,930) | |
| Support Services: | | | | | |
| Facilities Operation and Maintenance | 693,289 | | | (693,289) | |
| Information Services | 132,956 | | | (132,956) | |
| Business Administration | 708,135 | | | (708,135) | |
| Capital Outlay | 481,443 | | | (481,443) | |
| Total Governmental Activities | \$5,918,480 | \$235,653 | \$0 | \$0 | (5,682,827) |

General Receipts

| | |
|--------------------------------------|--------------------|
| Library & Local Government Receipts | 5,451,141 |
| Unrestricted Gifts and Contributions | 10,098 |
| Interest | 66,638 |
| Miscellaneous | 5,770 |
| Total General Receipts | 5,533,648 |
| Change in Net Assets | (149,180) |
| Net Assets Beginning of Year | 5,743,624 |
| Net Assets End of Year | \$5,594,444 |

See accompanying notes to the basic financial statements

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

**STATEMENT OF CASH BASIS ASSETS AND FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2004**

| | General Fund | Capital Imp. Fund | Other Governmental Funds | Total Governmental Funds |
|--|--------------------|----------------------|--------------------------------|--------------------------------|
| Assets | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$3,693,061 | \$1,827,708 | \$73,675 | \$5,594,444 |
| <i>Total Assets</i> | <u>\$3,693,061</u> | <u>\$1,827,708</u> | <u>\$73,675</u> | <u>\$5,594,444</u> |
| Fund Balances | | | | |
| Reserved: | | | | |
| Reserved for Encumbrances | \$247,507 | \$375,763 | \$0 | \$623,270 |
| Unreserved: | | | | |
| Undesignated (Deficit), Reported in: | | | | |
| General Fund | 3,445,554 | | | 3,445,554 |
| Other Governmental Funds | | | 73,675 | 73,675 |
| Capital Improvement Fund | | 1,451,945 | | 1,451,945 |
| <i>Total Fund Balances</i> | <u>\$3,693,061</u> | <u>\$1,827,708</u> | <u>\$73,675</u> | <u>\$5,594,444</u> |

See accompanying notes to the basic financial statements

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

| | General Fund | Capital Improvement Fund | Other Governmental Funds | Total Governmental Funds |
|--|--------------------|--------------------------------|--------------------------------|--------------------------------|
| Receipts | | | | |
| Library & Local Government Support | \$5,451,141 | | | \$5,451,141 |
| Patron Fines and Fees | 222,177 | | | 222,177 |
| Services Provided to Others | 13,476 | | | 13,476 |
| Contributions, Gifts and Donations | 987 | | 9,111 | 10,098 |
| Earnings on Investments | 65,782 | | 856 | 66,638 |
| Miscellaneous | 5,770 | | | 5,770 |
| | <u>5,759,333</u> | <u>0</u> | <u>9,967</u> | <u>5,769,300</u> |
| <i>Total Receipts</i> | | | | |
| Disbursements | | | | |
| Current: | | | | |
| Library Services: | | | | |
| Public Service and Programs | 2,312,527 | | 1,200 | 2,313,727 |
| Collection Development and Processing | 1,588,930 | | | 1,588,930 |
| Support Services: | | | | |
| Facilities Operation and Maintenance | 693,289 | | | 693,289 |
| Information Services | 132,956 | | | 132,956 |
| Business Administration | 700,671 | | 7,464 | 708,135 |
| Capital Outlay | 143,031 | 338,412 | | 481,443 |
| | <u>5,571,404</u> | <u>338,412</u> | <u>8,664</u> | <u>5,918,480</u> |
| <i>Total Disbursements</i> | | | | |
| <i>Excess of Receipts Over (Under) Disbursements</i> | <u>187,929</u> | <u>(338,412)</u> | <u>1,303</u> | <u>(149,180)</u> |
| Other Financing Sources (Uses) | | | | |
| Transfers In | | 250,000 | | 250,000 |
| Transfers Out | (250,000) | | | (250,000) |
| | <u>(250,000)</u> | <u>250,000</u> | <u>0</u> | <u>0</u> |
| <i>Total Other Financing Sources (Uses)</i> | | | | |
| <i>Net Change in Fund Balances</i> | (62,071) | (88,412) | 1,303 | (149,180) |
| <i>Fund Balances Beginning of Year</i> | <u>3,755,132</u> | <u>1,916,120</u> | <u>72,372</u> | <u>5,743,624</u> |
| <i>Fund Balances End of Year</i> | <u>\$3,693,061</u> | <u>\$1,827,708</u> | <u>\$73,675</u> | <u>5,594,444</u> |

See accompanying notes to the basic financial statements

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

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

| | Budgeted Amounts | | Actual | (Optional) |
|--|--------------------|--------------------|--------------------|---|
| | Original | Final | | Variance with Final Budget Positive (Negative) |
| Receipts | | | | |
| Library and Local Government Support | \$5,440,000 | \$5,440,000 | \$5,451,141 | \$11,141 |
| Patron Fines and Fees | 225,000 | 225,000 | 222,177 | (2,823) |
| Services Provided to Others | 8,000 | 8,000 | 13,476 | 5,476 |
| Contributions, Gifts and Donations | 500 | 500 | 987 | 487 |
| Earnings on Investments | 74,000 | 74,000 | 65,783 | (8,217) |
| Miscellaneous | 1,000 | 1,000 | 5,770 | 4,770 |
| <i>Total Receipts</i> | <u>5,748,500</u> | <u>5,748,500</u> | <u>5,759,334</u> | <u>10,834</u> |
| Disbursements | | | | |
| Current: | | | | |
| Library Services: | | | | |
| Public Service and Programs | 2,765,100 | 2,765,100 | 2,312,527 | 452,573 |
| Collection Development and Processing | 2,001,125 | 2,001,125 | 1,588,930 | 412,195 |
| Support Services: | | | | |
| Facilities Operation and Maintenance | 917,805 | 917,805 | 693,288 | 224,517 |
| Information Services | 158,000 | 158,000 | 132,956 | 25,044 |
| Business Administration | 818,290 | 818,290 | 700,671 | 117,619 |
| Capital Outlay | 344,975 | 344,975 | 143,031 | 201,944 |
| Contingency | 100,000 | 100,000 | 0 | 100,000 |
| <i>Total Disbursements</i> | <u>7,105,295</u> | <u>7,105,295</u> | <u>5,571,403</u> | <u>1,533,892</u> |
| <i>Excess of Receipts Over (Under) Disbursements</i> | <u>(1,356,795)</u> | <u>(1,356,795)</u> | <u>187,931</u> | <u>1,544,726</u> |
| Other Financing Sources (Uses) | | | | |
| Transfers Out | (250,000) | (250,000) | (250,000) | 0 |
| <i>Total Other Financing Sources (Uses)</i> | <u>(250,000)</u> | <u>(250,000)</u> | <u>(250,000)</u> | <u>0</u> |
| <i>Net Change in Fund Balance</i> | (1,606,795) | (1,606,795) | (62,069) | 1,544,726 |
| <i>Fund Balance Beginning of Year</i> | 3,755,132 | 3,755,132 | 3,755,132 | 0 |
| Prior Year Encumbrances Appropriated | 231,916 | 231,916 | 231,916 | 0 |
| <i>Fund Balance End of Year</i> | <u>\$2,380,253</u> | <u>\$2,380,253</u> | <u>\$3,924,979</u> | <u>\$1,544,726</u> |

See accompanying notes to the basic financial statements

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**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

NOTE 1 – DESCRIPTION OF THE LIBRARY AND REPORTING ENTITY

The Middletown Public Library, Butler County, Ohio (the Library), was organized as a district public library in 1913 under the laws of the State of Ohio. The Library has its own Board of Trustees of seven members who are appointed by the Middletown City Council. They serve 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 Library Director and financial accountability being solely that of the Clerk-Treasurer.

The Library is fiscally independent of the City of Middletown, although the City serves in a ministerial capacity as the taxing district for the Library.

The Friends of the Ohio Public Library, Inc. is a not-for-profit organization with a self-appointing board. The Library is not financially accountable for the organization, nor does the Library approve the budget or the issuance of debt of the organization. Therefore, this organization has been excluded from the reporting entity of the Library.

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 Middletown Public Library have been prepared on a modified 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.

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the Library at year end. These statements include the financial activities of the primary government.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Fund Financial Statements

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

B. Fund Accounting

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

Governmental Funds

Governmental funds are financed primarily from library and local government receipts, 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 Improvement Fund - The capital improvement 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.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Accounting

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenues 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.

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

D. Budgetary Process

All funds are legally required to be appropriated. The Appropriation Resolution is the Trustee's authorization to spend resources and sets limits on expenditures plus encumbrances at the level of control selected by the Trustees. The legal level of control has been established at the fund and or major category 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 revenues to be received for the year. These estimated revenues, together with the unencumbered carry-over balances from the prior year, set a limit on the amount the Trustees may appropriate. The estimated revenues 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 appropriation was adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts of estimated resources at the time final appropriation, if needed, was enacted by the Trustees.

The Appropriation 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 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.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest receipts credited to the general fund during 2004 totaled \$65,782. Interest receipts credited to the general fund during 2003 totaled \$81,785.

F. Accumulated Leave

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused vacation leave. Unpaid leave is not reflected as a liability under the Library's 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 & 9, the employer contributions include portions for pension benefits and for postretirement health care benefits.

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 permanent funds.

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 (and after nonoperating receipts/disbursements in proprietary 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

Last year the Library reported fund financial statements by fund type using the regulatory basis of accounting as prescribed by the State Auditor's Office. This year the Library has implemented the modified 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.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

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 presented 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 are outstanding year end encumbrances which are treated as expenditures (budgetary basis) rather than as a reservation of fund balance (cash basis). The encumbrances outstanding at year end (budgetary basis) amounted to \$247,507 for the general fund and \$375,763 (budgetary basis) for all other funds.

NOTE 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:

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;

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;

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;

Bonds and other obligations of the State of Ohio or Ohio local governments;

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

(Continued)

NOTE 5 - DEPOSITS AND INVESTMENTS (Continued)

Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;

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;

The State Treasurer's investment pool (STAR Ohio).

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

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

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

At year end, the Library had \$1,000 in un-deposited cash on hand, which is included on the balance sheet of the Library as part of "Equity in Pooled Cash and Cash Equivalents."

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

At year end, the carrying amount of the Library's deposits was \$5,594,444 and the bank balance was \$5,664,546. Of the bank balance, \$100,000 was covered by federal depository insurance and the remaining amount was covered by collateral held by third party trustees pursuant to Section 135.181 of the Revised Code, in collateralized pools securing all public funds on deposit with the specific depository institutions. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Library to a successful claim by the FDIC.

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:

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

NOTE 6 – RISK MANAGEMENT (Continued)

| <u>Type of Coverage</u> | <u>Coverage</u> |
|-------------------------|-----------------|
| Commercial Property | \$7,551,572 |
| General Liability | 1,000,000 |
| Commercial Umbrella | 3,000,000 |
| Inland Marine | 11,873,157 |
| Vehicle | 500,000 |
| Library Officials | 50,000 |
| Fidelity and Deposit | 5,000 |

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 of tax of LLGSF revenues, and its population. The County Budget Commission allocates these funds to the Library based on its census of population for which the library services. The Budget Commission cannot reduce its allocation of these funds 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.

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.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

NOTE 8 – DEFINED BENEFIT PENSION PLAN (Continued)

For the year ended December 31, 2004, 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 2004 was 13.55 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, 2004, 2003, and 2002 were \$355,532, \$341,591, and \$328,075 respectively; the full amount has been contributed for 2004, 2003, and 2002.

NOTE 9 – POST EMPLOYMENT BENEFITS

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

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

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 1.00 and 6.00 percent annually for the next eight years and 4.00 percent annually after eight years.

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

The number of active contributing participants in the traditional and combined plans was 369,885. Actual employer contributions for 2004 which were used to fund postemployment benefits were \$355,532. 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.

**MIDDLETOWN PUBLIC LIBRARY
BUTLER COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Continued)**

NOTE 9 – POST EMPLOYMENT BENEFITS (Continued)

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

NOTE 10 - INTERFUND TRANSFERS

The general fund transferred \$250,000 to the capital improvement fund for the purchase and maintenance of various items throughout 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***

Middletown Public Library
Butler County
125 S. Broad Street
Middletown, Ohio 45044

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 Middletown Public Library, Butler County, Ohio (the Library), as of and for the years ended December 31, 2005 and December 31, 2004, which collectively comprise the Library's basic financial statements and have issued our report thereon dated October 26, 2006. 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 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.

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*.

Middletown Public Library
Butler 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 the audit committee, 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

October 26, 2006



**Auditor of State
Betty Montgomery**

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MIDDLETOWN PUBLIC LIBRARY

BUTLER 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 14, 2006**