



Mary Taylor, CPA
Auditor of State

MARY LOU JOHNSON - HARDIN COUNTY DISTRICT LIBRARY
HARDIN COUNTY

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Mary Lou Johnson - Hardin County District Library
Hardin County
325 E. Columbus Street
Kenton, Ohio 43326

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 Mary Lou Johnson - Hardin County District Library, Hardin County, (the "Library"), as of and for the year ended December 31, 2005, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The Library processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Library because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified-cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information, of the Library, as of December 31, 2005, and the respective changes in modified-cash financial position and the respective budgetary comparison for the General Fund, Johnson Fund, and Carl Lotz Fund thereof for the year then ended in conformity with the basis of accounting Note 1 describes.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2007, on our consideration of the Library's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

February 7, 2007

**MARY LOU JOHNSON - HARDIN COUNTY DISTRICT LIBRARY
HARDIN COUNTY**

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

This discussion and analysis of the Mary Lou Johnson - Hardin County District Library's (the "Library") 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 modified-cash basis accounting. Readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the Library's financial performance.

Highlights

Key highlights for 2005 are as follows:

- Net assets of governmental activities increased \$283,464 or 13.8 percent. The Carl Lotz Fund increased \$221,831 and the Johnson Fund increased \$97,867. The General Fund decreased \$41,182 and other funds had insignificant increases or decreases.
- The Library's general receipts are primarily library and local government support and earnings on investments. These receipts represent 55.7 and 11.9 percent respectively of the total cash received for governmental activities during the year.
- The Library resurfaced the parking lot and purchased a new property for future parking lot expansion.
- The Library received a contribution from the estate of Carl Lotz which provides funding for maintenance and improvements to the Library building.

Using the Basic Financial Statements

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

Report Components

The statement of net assets and the statement of activities provide information about the modified 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 modified cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the Library's modified cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

**MARY LOU JOHNSON - HARDIN COUNTY DISTRICT LIBRARY
HARDIN COUNTY**

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

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

Reporting the Library as a Whole

The statement of net assets and the statement of activities reflect how the Library did financially during 2005, within the limitations of modified cash basis accounting. The statement of net assets presents the modified 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 activity. Program receipts include charges paid by the recipient of the program's goods or services 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 modified-cash basis of accounting, you can think of these changes as one way to measure the Library's financial health. Over time, increases or decreases in the Library's cash position is one indicator of whether the Library's financial health is improving or deteriorating. When evaluating the Library's financial condition, you should also consider other non-financial factors as well such as the condition of the Library's capital assets and infrastructure, the reliance on non-local financial resources for operations and the need for continued growth in the major local revenue sources.

In the statement of net assets and the statement of activities, the Library discloses a single activity – governmental activities. All of the Library's basic services are reported here. Library and local government support, earnings on investments, and contributions finance these activities. Benefits provided through governmental activities are not necessarily paid for by the people receiving them.

Reporting the Library's Most Significant Funds

Fund financial statements provide detailed information about 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 operates under just one fund category, that being governmental.

Governmental Funds – All of the Library's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the Library's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the Library's programs. The Library's significant governmental funds are presented on the financial statements in separate columns. The information for non-major funds (funds shows activity or balances which 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, Johnson Fund, and the Carl Lotz Fund. The programs reported in governmental funds are related to those reported in the entity-wide statements.

**MARY LOU JOHNSON - HARDIN COUNTY DISTRICT LIBRARY
HARDIN COUNTY**

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

The Library as a Whole

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

(Table 1)
Net Assets

	Governmental Activities	
	2005	2004
Assets		
Cash and Cash Equivalents	\$915,198	\$970,910
Investments	1,422,876	1,083,700
Total Assets	2,338,074	2,054,610
Net Assets		
Restricted for:		
Capital Projects	194,527	191,790
Permanent Fund	43,926	43,516
Other Purposes	2,092,706	1,771,207
Unrestricted	6,915	48,097
Total Net Assets	\$2,338,074	\$2,054,610

As mentioned previously, net assets of governmental activities increased \$283,464 or 13.8 percent during 2005. The primary reasons for the increase in cash balances are as follows:

- The Library received a contribution from the Carl Lotz Estate which created the Carl Lotz Fund cash balance.
- The Library received more interest during 2005 than during 2004 due to higher interest rates, larger cash and investment balances and more interest and dividends on the stock portfolio.

Table 2 reflects the changes in net assets during 2005. Since the Library did not prepare financial statements in this format for 2004, a comparative analysis of government-wide data has not been presented. In future years, when prior year information is available, a comparative analysis will be presented.

(Table 2)
Changes in Net Assets

	Governmental Activities 2005
Receipts:	
Program Receipts:	
Charges and Sales	\$16,972
Operating Gifts and Contributions	277,257
General Receipts	
Grants and Entitlements Not Restricted to Specific Programs	556,964
Unrestricted Gifts and Contributions	4,521
Earnings on Investments	119,160
Miscellaneous	25,092
Total Receipts	999,966

**MARY LOU JOHNSON - HARDIN COUNTY DISTRICT LIBRARY
HARDIN COUNTY**

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

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

	Governmental Activities 2005
Disbursements:	
Library Services	640,312
Capital Outlay	76,190
Total Disbursements	716,502
 Increase (Decrease) in Net Assets	 283,464
 Net Assets, January 1, 2005	 2,054,610
Net Assets, December 31, 2005	\$2,338,074

Program receipts represent only 29.4 percent of total receipts and are primarily comprised of operating grants and contributions.

General receipts represent 70.6 percent of total receipts from which 78.9 percent is from Library and Local Government Support and 16.8 percent is from earnings on investments. Other receipts are very insignificant and somewhat unpredictable revenue sources.

Disbursements for General Government represent the overhead costs of running the Library and the support services provided for the other Library activities. These include the costs of the Library, as well as internal services such as payroll and purchasing.

Governmental Activities

If you look at the Statement of Activities, you will see that the first column lists the major services provided by the Library. The next column identifies the costs of providing these services. 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. Since the Library did not prepare financial statements in this format for 2004, a comparative analysis of government-wide data has not been presented. In future years, when prior year information is available, a comparative analysis will be presented.

**(Table 3)
Governmental Activities**

	Total Cost Of Services 2005	Net Cost Of Services 2005
General Government	\$640,312	(\$583,735)
Capital Outlay	76,190	161,462
Total Expenses	\$716,502	(\$422,273)

**MARY LOU JOHNSON - HARDIN COUNTY DISTRICT LIBRARY
HARDIN COUNTY**

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

The Library's Fund

The total governmental funds had receipts of \$999,966 and disbursements of \$716,502. The most significant fund increase was the \$221,831 balance in the Carl Lotz Fund established from an estate. The Johnson Fund increased \$97,867 from interest and dividend revenue.

General Fund receipts were less than disbursements by \$41,182 indicating that the General Fund is in a deficit spending situation, largely due to the increase of capital outlay expenditures. Management plans to reduce general fund expenditures by financing capital outlay purchases from the capital projects funds and financing maintenance or improvements to the Library building from the Carl Lotz Fun instead of liquidating General funds in the future.

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 funds are the General Fund, Johnson Fund, and Carl Lotz Fund. During 2005, the Library made no amendments to the budget.

General Fund disbursements were budgeted at \$761,860 while actual disbursements were \$661,076. Receipts were slightly less than expectations and actual disbursements were \$100,784 less than appropriations which resulted in the decrease in budgetary fund balance of \$41,182 for 2005.

Capital Assets and Debt Administration

Capital Assets

The Library does not currently keep track of its capital assets and infrastructure.

Debt

At December 31, 2005, the Library had no outstanding debt.

Current Issues

The challenge for all Libraries is to provide quality services to the public while staying within the restrictions imposed by limited, and in some cases shrinking, funding. We rely heavily on Library and Local Government Support, earnings on investments, and contributions. We reviewed our sources of revenue and determined that contributions are inconsistent while library and local government support is relatively consistent from year to year. Earnings on investment and dividends fluctuate with fund balances and economic conditions. We then reviewed the disbursement history of the Library. We have increased capital outlay and maintenance and improvements to the Library building based upon new sources of funding and reduced salaries and fringe benefits.

Contacting the Library's Financial Management

This financial report is designed to provide our citizens, investors, and creditors with a general overview of the Mary Lou Johnson – Hardin County District 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 Shirley Barrett, Clerk-Treasurer, Mary Lou Johnson – Hardin County District Library, 325 E. Columbus St., Kenton, OH 43326.

MARY LOU JOHNSON - HARDIN COUNTY DISTRICT LIBRARY
HARDIN COUNTY

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

	<u>Governmental Activities</u>
Assets	
Cash and Cash Equivalents	\$915,198
Investments	<u>1,422,876</u>
Total Assets	<u><u>2,338,074</u></u>
Net Assets	
Restricted for:	
Capital Projects	194,527
Permanent Fund	
Expendable	410
Nonexpendable	43,516
Other Purposes	2,092,706
Unrestricted	<u>6,915</u>
Total Net Assets	<u><u>\$2,338,074</u></u>

See accompanying notes to the basic financial statements.

**MARY LOU JOHNSON - HARDIN COUNTY DISTRICT LIBRARY
HARDIN COUNTY**

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

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets
Cash Disbursements	Charges and Sales	Operating Gifts and Contributions	Governmental Activities	
Governmental Activities				
Library Services	\$640,312	\$16,972	\$39,605	(\$583,735)
Capital Outlay	76,190		237,652	161,462
Total Governmental Activities	\$716,502	\$16,972	\$277,257	(422,273)
General Receipts				
Unrestricted Gifts and Contributions			4,521	
Grants and Entitlements not Restricted to Specific Programs			556,964	
Earnings on Investments			119,160	
Miscellaneous			25,092	
Total General Receipts			705,737	
Change in Net Assets				283,464
Net Assets Beginning of Year				2,054,610
Net Assets End of Year				\$2,338,074

See accompanying notes to the basic financial statements.

**MARY LOU JOHNSON - HARDIN COUNTY DISTRICT LIBRARY
HARDIN COUNTY**

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

	<u>General</u>	<u>Johnson</u>	<u>Carl Lotz</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Cash and Cash Equivalents	\$6,915	\$592,836	\$221,831	\$93,616	\$915,198
Investments		1,161,862		261,014	1,422,876
Total Assets	<u>6,915</u>	<u>1,754,698</u>	<u>221,831</u>	<u>354,630</u>	<u>2,338,074</u>
Fund Balances					
Unreserved, Reported in:					
General Fund	6,915				6,915
Special Revenue Funds		1,754,698	221,831	116,177	2,092,706
Capital Projects Funds				194,527	194,527
Permanent Fund:					
Expendable				410	410
NonExpendable				43,516	43,516
Total Fund Balance	<u>\$6,915</u>	<u>\$1,754,698</u>	<u>\$221,831</u>	<u>\$354,630</u>	<u>\$2,338,074</u>

See accompanying notes to the basic financial statements.

**MARY LOU JOHNSON - HARDIN COUNTY DISTRICT LIBRARY
HARDIN COUNTY**

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

	<u>General</u>	<u>Johnson</u>	<u>Carl Lotz</u>	<u>Other Governmental</u>	<u>Total</u>
Cash Receipts:					
Library and Local Government Support	\$556,964				\$556,964
Patron, Fines and Fees	16,972				16,972
Contributions, Gifts and Donations	4,321		277,257	200	281,778
Earnings on Investments	16,545	97,867		4,748	119,160
Miscellaneous	25,092				25,092
Total Cash Receipts	<u>619,894</u>	<u>97,867</u>	<u>277,257</u>	<u>4,948</u>	<u>999,966</u>
Cash Disbursements					
Current:					
Library Services	584,886		55,426		640,312
Capital Outlay	76,190				76,190
Total Cash Disbursements	<u>661,076</u>		<u>55,426</u>		<u>716,502</u>
Receipts Over (Under) Disbursements	(41,182)	97,867	221,831	4,948	283,464
Fund Balances Beginning of Year	48,097	1,656,831		349,682	2,054,610
Fund Balances End of Year	<u>\$6,915</u>	<u>\$1,754,698</u>	<u>\$221,831</u>	<u>\$354,630</u>	<u>\$2,338,074</u>

See accompanying notes to the basic financial statements.

**MARY LOU JOHNSON - HARDIN COUNTY DISTRICT LIBRARY
HARDIN COUNTY**

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

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Cash Receipts				
Library and Local Government Support	\$577,621	\$577,621	\$556,964	(\$20,657)
Patron, Fines and Fees	18,000	18,000	16,972	(1,028)
Contributions, Gifts and Donations	5,500	5,500	4,321	(1,179)
Earnings on Investments	5,250	5,250	16,545	11,295
Miscellaneous	28,100	28,100	25,092	(3,008)
Total Cash Receipts	<u>634,471</u>	<u>634,471</u>	<u>619,894</u>	<u>(14,577)</u>
Cash Disbursements				
Current:				
Library Services	673,900	673,900	584,886	89,014
Capital Outlay	87,960	87,960	76,190	11,770
Total Cash Disbursements	<u>761,860</u>	<u>761,860</u>	<u>661,076</u>	<u>100,784</u>
Receipts Over (Under) Disbursements	(127,389)	(127,389)	(41,182)	86,207
Fund Balance Beginning of Year	43,082	43,082	43,082	
Prior Year Encumbrances Appropriated	<u>5,015</u>	<u>5,015</u>	<u>5,015</u>	
Fund Balance End of Year	<u><u>(\$79,292)</u></u>	<u><u>(\$79,292)</u></u>	<u><u>\$6,915</u></u>	<u><u>\$86,207</u></u>

See accompanying notes to the basic financial statements.

**MARY LOU JOHNSON - HARDIN COUNTY DISTRICT LIBRARY
HARDIN COUNTY**

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
Cash Receipts				
Earnings on Investments	\$74,000	\$74,000	\$97,867	\$23,867
Total Cash Disbursements	<u>0</u>	<u>0</u>	<u>0</u>	
Receipts Over Disbursements	74,000	74,000	97,867	23,867
Fund Balance Beginning of Year	<u>1,656,831</u>	<u>1,656,831</u>	<u>1,656,831</u>	
Fund Balance End of Year	<u><u>\$1,730,831</u></u>	<u><u>\$1,730,831</u></u>	<u><u>\$1,754,698</u></u>	<u><u>\$23,867</u></u>

See accompanying notes to the basic financial statements.

**MARY LOU JOHNSON - HARDIN COUNTY DISTRICT LIBRARY
HARDIN COUNTY**

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
Cash Receipts				
Contributions, Gifts and Donations	\$270,000	\$270,000	\$277,257	\$7,257
Cash Disbursements				
Current:				
Library Services	55,500	55,500	55,426	74
Receipts Over Disbursements	214,500	214,500	221,831	7,331
Fund Balance Beginning of Year				
Fund Balance End of Year	<u>\$214,500</u>	<u>\$214,500</u>	<u>\$221,831</u>	<u>\$7,331</u>

See accompanying notes to the basic financial statements.

**MARY LOU JOHNSON – HARDIN COUNTY DISTRICT LIBRARY
HARDIN COUNTY**

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

1. REPORTING ENTITY

The Mary Lou Johnson – Hardin County District Library was organized as a public library in 1969 under the laws of the State of Ohio. The Library has its own Board of Trustees of seven members, three of which are appointed by the judge of the Court of Common Pleas, and four of which are appointed by the Board of Hardin County Commissioners. Appointments are for seven-year terms and members serve without compensation. Under Ohio statutes, the Library is a body politic and corporate capable of suing and being sued, contracting, acquiring, holding, possessing, and disposing of real property, and of exercising such other powers and privileges conferred upon it by law. The Library also determines and operates under its own budget. Control and management of the Library is governed by sections 3375.33 to 3375.39 of the Ohio Revised Code with the administration of the day-to-day operations of the Library being the responsibility of the Director and financial accountability being solely that of the Clerk-Treasurer.

Component units are legally separate organizations for which the Library is financially accountable. The Library is financially accountable for an organization if the Library appoints a voting majority of the organization's governing board and (1) the Library is able to significantly influence the programs or services performed or provided by the organization; or (2) the Library is legally entitled to or can otherwise access the organization's resources; the Library is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Library is obligated for the debt of the organization. The Library is also financially accountable for any organizations for which the Library approves the budget, the issuance of debt or the levying of taxes. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the Library, are accessible to the Library and are significant in amount to the Library. The Library has no component units.

The Friends of the Library is an 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. Even though the resources are for the direct benefit of the Library, the activity is not significant in amount to the Library, therefore the financial statements do not include activity of the Friends of the Library.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.C, these financial statements are presented on a modified cash basis of accounting. This modified 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 modified 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 financial 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.

**MARY LOU JOHNSON – HARDIN COUNTY DISTRICT LIBRARY
HARDIN COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the Library as a whole. These statements include the financial activities of the primary government. The statements distinguish between those activities of the Library that are governmental and those that are considered business-type. Governmental activities generally are financed through intergovernmental receipts or other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. The Library has no business-type activities.

The statement of net assets presents the cash and investment balances 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 is 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.

2. Fund Financial Statements

During the year, the Library segregates transactions related to Library functions or activities in separate funds 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 fund accounting 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. Funds are used to segregate resources that are restricted as to use. The Library funds are all classified as governmental.

1. Governmental Funds

The Library classifies funds financed primarily from intergovernmental receipts (e.g. library and local government support), earnings on investments, contributions, and other non-exchange transactions as a governmental fund. The Library's major governmental funds are the General, Johnson, and Carl Lotz Funds.

General Fund - is used to account 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.

**MARY LOU JOHNSON – HARDIN COUNTY DISTRICT LIBRARY
HARDIN COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Johnson Fund - is used to account for the financial resources willed to the Library upon the death of Mary Lou Johnson. The Johnson Fund balance is available to the Library for any purpose provided it is expended or transferred according to the general laws of Ohio.

Carl Lotz Fund - is used to account for the financial resources willed to the Library upon the death of Carl Lotz. The Carl Lotz Fund balance is available to the Library for maintenance and improvements to the Library building.

C. Basis of Accounting

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. Modifications include accounting for investments.

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

D. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the certificate of estimated resources and the appropriations ordinance, all of which are prepared on the budgetary basis of accounting.

The appropriations ordinance is the Trustee's authorization to spend resources and sets limits on disbursements plus encumbrances at the level of control selected by the Trustees. The legal level of control has been established at the fund, department, and object level for all funds. Budgetary modifications at the legal level of control may only be made by resolution of the Board of Trustees.

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

The appropriations resolution is subject to amendment throughout the year with the restriction that appropriations cannot 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.

**MARY LOU JOHNSON – HARDIN COUNTY DISTRICT LIBRARY
HARDIN COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Cash and Investments

Library records identify the purchase of specific investments by specific funds.

To improve cash management, some cash received by the Library is invested and some cash is pooled. Individual fund integrity for the pool is maintained through the Library's records.

Investments of the cash management pool and investments with an original maturity of three months or less at the time of purchase are presented on the financial statements as "Cash and Cash Equivalents". Investments with an initial maturity of more than three months that belong to specific funds and were not purchased from the pool are reported as investments.

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

During 2005, investments were limited to Certificates of Deposit, a donated stock portfolio, Federal Home Loan Mortgage Corporation Notes, and Federal National Mortgage Association Notes. These investments are reported at cost.

Investment procedures are restricted by the provisions of the Ohio Revised Code. According to the Library Board Resolution 1-2004, interest earnings are reported in the fund which owns the investment. Interest receipts in the amount of \$16,545 were credited to the General Fund and were earned on the General Fund balance.

F. Inventory and Prepaid Items

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

G. Capital Assets

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

H. Accumulated Leave

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

I. Employer Contributions to Cost-Sharing Pension Plans

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

J. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

**MARY LOU JOHNSON – HARDIN COUNTY DISTRICT LIBRARY
HARDIN COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net assets restricted for other purposes include the fund balances for the Johnson fund (which has no restrictions) and Carl Lotz Fund (which is restricted for maintenance and improvements to the Library building). The Library's policy is to first apply restricted resources when an obligation is incurred for purposes for which both restricted and unrestricted net assets are available.

K. Fund Balance Reserves

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

3. CHANGE IN BASIS OF ACCOUNTING AND ACCOUNTING PRINCIPLE

During 2004, the Library reported fund financial statements by fund type using the regulatory basis of accounting as prescribed by the State Auditor's Office. During 2005, 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 non-major funds aggregated and presented in a single column, rather than a column for each fund type.

4. COMPLIANCE

Ohio Rev. Code Sections 135.18 (specific collateral) and 135.181 (pooled collateral) require subdivisions to obtain specific or pooled collateral for deposits in excess of \$100,000. The Library failed to obtain evidence of collateral for deposits in excess of \$100,000 at three banks. The Library held investments which exceeded the maturity period allowed by Ohio Revised Code Sections 135.13 and 135.14(D).

5. 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 – Budget Basis presented for the General, Johnson, and Carl Lotz funds is prepared on the budgetary basis to provide meaningful comparison of actual results with the budget. The difference between the budgetary basis and modified cash basis is outstanding year end encumbrances are treated as disbursements (budget basis) rather than a reservation of fund balance (modified cash basis). There were no outstanding encumbrances at year end.

6. EQUITY IN CASH AND INVESTMENTS

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

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

**MARY LOU JOHNSON – HARDIN COUNTY DISTRICT LIBRARY
HARDIN COUNTY**

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

6. EQUITY IN CASH AND INVESTMENTS (Continued)

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio).

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.

A. Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Library will not be able to recover deposits or collateral securities that are in the possession of an outside party.

**MARY LOU JOHNSON – HARDIN COUNTY DISTRICT LIBRARY
HARDIN COUNTY**

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

6. EQUITY IN CASH AND INVESTMENTS (Continued)

At year end, \$1,657,307 of the Library's bank balance of \$2,107,307 was exposed to custodial credit risk because those deposits were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Library's name.

The Library has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Library or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured. The Library failed to obtain collateral for all financial institutions as noted in Note 3.

B. Investments

The Library investment policy effective June 18, 2002, indicates that the Library will invest only in certificates of deposit from local financial institutions and will continue to utilize the services of a broker for custodial care of the stock and federal security portfolio.

As of December 31, 2005, the Library had the following investments:

	<u>Carrying Value</u>	<u>Maturity</u>
Federal National Mortgage Association Notes	\$ 25,000	August 5, 2020
Federal Home Loan Mortgage Corporation Notes	26,000	August 15, 2015
Federal Home Loan Mortgage Corporation Notes	30,000	June 28, 2024
Stock Portfolio	157,426	Not Applicable
Total Investments	<u>\$238,426</u>	

The market value of the stock portfolio at December 31, 2005 was \$3,027,298

Interest rate risk arises because the fair value of investment changes as interest rates change. The Library's investment policy requires investments obtain the safest yield (not necessarily the highest) at the time of purchase.

The federal national mortgage association notes, federal home loan mortgage corporation notes and federal home loan bank notes carry a rating of AAA by Standard and Poors and Aaa by Moody's. The Library has no investment policy dealing with investment credit risk beyond the requirements in state statutes.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Library will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Library investment policy indicates that investments in the stock portfolio will be in the custodial care of The Edward Jones Company. The Edward Jones Company has signed an investment policy which indicates that Chapter 135 of the Ohio Revised Code will be adhered to at all times.

**MARY LOU JOHNSON – HARDIN COUNTY DISTRICT LIBRARY
HARDIN COUNTY**

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

7. DEFINED BENEFIT PENSION PLAN

The Library participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year).

Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

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

For the year ended December 31, 2005, the members of all three plans were required to contribute 8.55 percent of their annual covered salaries. The Library's contribution rate for pension benefits for 2005 was 9.55 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

The Library's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2005, 2004, and 2003 were \$27,782, \$27,846, and \$27,832 respectively; the full amount has been contributed for 2005, 2004, and 2003.

8. POST-EMPLOYMENT BENEFITS

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and qualified survivor benefit 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 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 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1 and 6 percent annually for the next eight years and 4 percent annually after eight years.

**MARY LOU JOHNSON – HARDIN COUNTY DISTRICT LIBRARY
HARDIN COUNTY**

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

8. POST-EMPLOYMENT BENEFITS (Continued)

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

The number of active contributing participants in the traditional and combined plans was 355,287. Actual employer contributions for 2005 which were used to fund post-employment benefits were \$11,637. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2004, (the latest information available) were \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs. Member and employer contribution rates increased as of January 1, 2006, which allow additional funds to be allocated to the health care plan.

9. 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 Westfield Companies for various types of insurance coverage as follows:

<u>Company</u>	<u>Type of Coverage</u>	<u>Coverage</u>
Westfield Companies	Commercial Property	\$3,015,773
	General Liability	1,000,000
	Business Auto	1,000,000
	Inland Marine	355,736
	Commercial Crime	2,500
	Boiler and Machinery	1,125,000
	Commercial Umbrella	1,000,000

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

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

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Mary Taylor, CPA

Auditor of State

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

Mary Lou Johnson - Hardin County District Library
Hardin County
325 E. Columbus Street
Kenton, Ohio 43326

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 Mary Lou Johnson – Hardin County District Library, Hardin County (the "Library") as of and for the year ended December 31, 2005, which collectively comprise the Library's basic financial statements and have issued our report thereon dated February 7, 2007, wherein we noted the Library revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. We also noted that the Library uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Library because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Library's internal control over financial reporting to determine our auditing procedures to express our opinions on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Library's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2005-005.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable condition described above is a material weakness. In a separate letter to the Library's management dated February 7, 2007, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the Library's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2005-001 through 2005-004. In a separate letter to the Library's management dated February 7, 2007, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the management and the Board of Trustees. It is not intended for anyone other than these specified parties.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

February 7, 2007

MARY LOU JOHNSON – HARDIN COUNTY DISTRICT LIBRARY
HARDIN COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2005

FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER 2005-001

Noncompliance Citation

Ohio Rev. Code Section 135.13 states that inactive deposits shall be evidenced by time certificates of deposit, each of which shall mature not later than the end of the period of designation. Ohio Rev. Code Section 135.14 (D) states that except as provided in division (E) of this section, any investment made pursuant to this section must mature within five years from the date of settlement, unless the investment is matched to a specific obligation or debt of the subdivision.

The Library had the following investments that violated the requirements of these sections of the Ohio Revised Code:

<u>Investment</u>	<u>Amount</u>	<u>Purchased</u>	<u>Matures</u>
Federal Home Loan Mortgage Corporation	\$30,000	2002	6-28-2024
Federal National Mortgage Association	\$25,000	8-5-2005	8-5-2020
Federal Home Loan Mortgage Corporation	\$26,000	8-4-2005	8-15-2015

Purchasing investments with maturity periods longer than the period of designation and/or five years could result in the Library incurring unnecessary losses if the investments had to be sold prior to maturity.

The Library should implement control procedures to help assure that the maturity periods of investments are in compliance with the Ohio Revised Code and meet the liquidity requirements of the Library.

OFFICIAL'S RESPONSE

All of these types of bonds have final maturity dates and call dates. They can be sold at the current market value, without penalty, on any business day and therefore should meet the requirements set by the Ohio Revised Code. The Library was advised at the time of purchase that Freddie Mac notes were allowed. Bonds are rated Triple A. The bond that was purchased in 2002, with a final maturity date of 06-28-2024 has a call date of 02-21-2007. The bond that was purchased on 8-5-05 has a final maturity date of 08-05-2020, and a call date of 08-05-2008. The bond purchased on 8-4-05 with a final maturity date of 08-15-2015 has a call date of 08-15-2007.

FINDING NUMBER 2005-002

Noncompliance Citation

Ohio Rev. Code Section 135.18(A) states that the treasurer shall require the institution designated as a public depository to pledge to and deposit with the treasurer, as security for the repayment of all public moneys to be deposited in the public depository during the period of designation pursuant to the award, eligible securities of aggregate market value equal to the excess of the amount of public moneys to be at the time so deposited, over and above the portion or amount of such moneys as is at that time insured by the federal deposit insurance corporation or by any other agency or instrumentality of the federal government.

**FINDING NUMBER 2005-002
(Continued)**

Ohio Rev. Code Section 135.181(B) states that in lieu of the pledging requirements prescribed in sections 135.18 of the Revised Code, an institution designated as a public depository at its option may pledge a single pool of eligible securities to secure the repayment of all public moneys deposited in the institution and not otherwise secured pursuant to law, provided that at all times the total market value of the securities so pledged is at least equal to one hundred five per cent of the total amount of all public deposits to be secured by the pooled securities that are not covered by any federal deposit insurance.

The Library failed to obtain evidence of collateral for certificates of deposit held at three banks, which in the aggregate, exceeded federal deposit insurance by \$250,000.

The Library should obtain evidence of collateral for deposits held in each financial institution that are in excess of the federal deposit insurance.

OFFICIAL'S RESPONSE

The security pledges for all financial institutions where money is on deposit has been obtained and a schedule has been created in order to see that these are updated from each on a quarterly basis.

FINDING NUMBER 2005-003

Noncompliance Citation

Ohio Rev. Code Section 1306.11 (A) states that if a law requires that a record be retained, the requirement is satisfied by retaining an electronic record of the information in the record if both of the following are satisfied:

- a) The electronic record accurately and completely reflects the information set forth in the record after it was first generated in its final form as an electronic record or otherwise.
- b) The electronic record remains accessible for later reference.

The Library obtained photocopies of the canceled checks from the bank. The photocopies did not reflect the back of the check which contains the endorsement.

Failure to obtain copies of the endorsement violates the requirement that the electronic record accurately and completely reflect the information in the record after it was first generated.

The Library should require the bank to provide electronic imaging of both the front and the back of the canceled checks.

OFFICIAL'S RESPONSE

We have contacted our bank and they will be sending us copies of both the front and back of each check in our monthly statement. The Library was receiving copies of the fronts of the checks only.

Board Resolution 1-2004 requires the Clerk-Treasurer to apply interest to the fund from which the principal was allocated. During 2005 and 2004 the Clerk-Treasurer did not record any interest, as required by this Resolution, in the Crow Fund or the Book Endowment Fund. The Book Endowment Fund has specific CD's and the Crow Fund balance is pooled with other fund balances in the public fund account. Interest for 2005 was adjusted to the appropriate funds, but was insignificant to adjust for 2004. Funds which did not receive any interest are as follows:

<u>Fund</u>	<u>2005</u>
General	(\$6,731)
Johnson	4,606
Book Endowment	856
Crow	746
Carl Russell Permanent	410

The Library should allocate interest according to the Board Resolution.

OFFICIAL'S RESPONSE

The Board has enacted a resolution retroactive to 1-1-06 that allows all interest earned to be posted to the general fund. Board Resolution #1-2004, although adopted was never implemented. All future interest earnings will be posted according to Board policy.

FINDING NUMBER 2005-005

Reportable Condition

Disposal of Library Property

An entity should have controls in place to help assure accountability over property. These controls should include procedures to help assure that the governing body approves the disposal of property and that any proceeds from the disposal of property are recorded on the books of the entity. The Library and the Friends of the Library are two separate and distinct entities. An undetermined number of books and other personal property of the Library were sold at a rummage sale on September 6, 2005 and October 5, 2005. There was no resolution by the Library Board to donate the Library property to the Friends of the Library; however the revenues, in the amount of \$1,137, from these rummage sales were all maintained by the Friends of the Library. Since no record of Library property sold at these sales was maintained, it cannot be determined what portion, if any, of the revenues retained by the Friends of the Library should have been paid to the Library.

Failure to account for Library property could result in a loss of property and/or the loss of revenue from the disposal of property.

The Board should approve the disposal of all Library property. This approval should include the method of disposal, selling price, the organization and/or funds to receive the proceeds, along with any other relevant information. To help assure accountability for property, an inventory system should be in place to track purchases and disposals. A periodic physical observation should be performed between property and the inventory system.

OFFICIAL'S RESPONSE

The Friends of the Library has since been disbanded and all funds that they had on deposit were turned over to the Library. It was deposited in the general fund under line item "special items".

**MARY LOU JOHNSON – HARDIN COUNTY DISTRICT LIBRARY
HARDIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2004-001	ORC Sec. 135.13 & 135.14(D) – Maturity periods of investment exceeded allowable period.	No	Repeated as 2005-001
2004-002	ORC Sec. 135.18(A) & 135.181(B) - Failure to obtain evidence of collateral for public deposits	No	Repeated as 2005-002
2004-003	ORC Sec. 1306.11(A) - Failure to obtain accurate electronic records for canceled checks – no copy of the back of the check with the endorsement	No	Repeated as 2005-003
2004-004	Disposal of Library Property - Library property being sold without Board approval of the items sold and the proceeds being maintained by the Friends of the Library	No	Repeated as 2005-005



Mary Taylor, CPA
Auditor of State

MARY LOU JOHNSON-HARDIN COUNTY DISTRICT LIBRARY
HARDIN 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
MARCH 22, 2007