



**Auditor of State
Betty Montgomery**

FLESH PUBLIC LIBRARY
MIAMI COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Flesh Public Library
Miami County
124 West Greene Street
Piqua, Ohio 45356

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

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

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated July 19, 2006, on our consideration of the Library's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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



Betty Montgomery
Auditor of State

July 19, 2006

**FLESH PUBLIC LIBRARY
MIAMI COUNTY**

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

This discussion and analysis of the Flesh Public 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 Libraries cash basis of accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the Library's financial performance.

Highlights

Key highlights for 2005 are as follows:

- Net assets of governmental activities decreased \$6,237, or less than 1%, an insignificant change from the prior year. The fund most affected by the decrease in cash and cash equivalents was the General Fund, which realized the greatest burden of the increased costs in 2005; however, cost increases affected most funds.
- The Library's general receipts are primarily an entitlement from the State of Ohio's Library and Local Government Services Fund (LLGSF). These receipts represent 79% of the total cash received for governmental activities during the year. LLGSF receipts for 2005 changed very little compared to 2004 as a result of a funding "freeze" implemented by the Ohio Legislature.

Using the Basic Financial Statements

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

Report Components

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

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

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The Library has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the Library's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

**FLESH PUBLIC LIBRARY
MIAMI COUNTY**

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

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

Reporting the Government as a Whole

Flesh Public Library, Miami County, (the Library) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of Ohio. It provides various educational and literary resources. The Library is directed by a seven-member Board of Trustees appointed by the Piqua City School District Board of Education, (the Board of Education). The Library 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 the financial accountability being that of the Clerk-Treasurer.

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

The statement of net assets and the statement of activities reflect how the Library did financially during 2005, 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 activity. 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 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, the extent of the Library's debt obligations, the reliance on non-local financial resources for operations and the need for continued growth in the major revenue sources.

All activities in the statement of net assets and the statement of activities are governmental activities. All of the Library's basic services are reported here. State revenues, through the Library & Local Government Support Fund, patron fines and fees, contributions and interest finance most of these activities. Benefits provided through governmental activities are not necessarily paid for by the people receiving them.

**FLESH PUBLIC LIBRARY
MIAMI COUNTY**

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

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. All of the Library's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the Library's governmental operations and the basic services it provides.

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

The Library as a Whole

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

(Table 1) Net Assets	
	Governmental Activities 2005
Assets	
Equity in Pooled Cash and Cash Equivalents	\$828,863
Total Assets	828,863
Net Assets	
Restricted for:	
Capital Projects	493,668
Other Purposes	7,156
Unrestricted	328,039
Total Net Assets	\$828,863

**FLESH PUBLIC LIBRARY
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**MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED
(Continued)**

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

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

	Governmental Activities 2005
Receipts:	
Program Receipts:	
Charges for Services and Sales	\$ 20,074
Total Program Receipts	20,074
General Receipts:	
Unrestricted Gifts and Contributions	168,303
Grants and Entitlements Not Restricted to Specific Programs	799,937
Interest	25,728
Miscellaneous	3,114
Total General Receipts	997,082
Total Receipts	1,017,156
Disbursements:	
Library Services	992,571
Capital Outlay	30,822
Total Disbursements	1,023,393
Increase (Decrease) in Net Assets	(6,237)
Net Assets, January 1, 2005	835,100
Net Assets, December 31, 2005	\$ 828,863

Program receipts represent only 2% of total receipts and are primarily comprised of patron fines and fees and coin-operated machines income.

General receipts represent 98% of the Library's total receipts, and of this amount, 79% are state entitlements. Unrestricted gifts and contributions make up 16% and interest earnings makes up an additional 3% of the Library's total general receipts. Miscellaneous receipts are very insignificant and somewhat unpredictable revenue sources.

Disbursements for Library Services represent the overhead costs of running the Library and support services for the other Library activities. These include the costs of payroll, fringes, purchased services, books and materials.

**FLESH PUBLIC LIBRARY
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**MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
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(Continued)**

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 cost of providing these services. The major program disbursements for governmental activities are library services and capital outlay that account for 100% of all government disbursements. Library Services also represents a significant cost, also about 97%. The next column 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 that ends up being paid from money provided by unrestricted revenues. The net costs are paid from the general receipts, which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

**(Table 3)
Governmental Activities**

	Total Cost Of Services 2005	Net Cost Of Services 2005
Library Services	\$992,571	\$ 972,497
Capital Outlay	30,822	30,822
Total Expenses	\$1,023,393	\$1,003,319

The dependence upon the State entitlement is apparent as almost 80% of governmental activities are supported through these general receipts.

The Government's Funds

Total governmental funds had receipts of \$1,017,156 and disbursements of \$1,023,393. The greatest change within governmental funds occurred within the General Fund. The fund balance of the General Fund decreased \$6,110 as a result of increased costs coupled with a "freeze" on state entitlement funds. It was a recommendation of administration that a reduction in expenditures and a decrease in the year-end carryover balance were necessary. Some reductions have already been implemented for 2006 in the areas of purchased services and library materials. These reductions will not eliminate the need for additional cuts if the state funding freeze continues.

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 budgeted receipts were the same as original budgeted receipts due to the lack of growth in state funding. The difference between final budgeted receipts and actual receipts was not significant. Final disbursements were budgeted at \$942,655 (which included prior year carryover encumbrances) while actual disbursements and encumbrances were \$858,782. Although receipts failed to live up to expectations, appropriations were not reduced. The Library kept spending very close to budgeted amounts as demonstrated by the minor reported variances.

**FLESH PUBLIC LIBRARY
MIAMI COUNTY**

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

Current Issues

The challenge for all libraries is to provide quality services to patrons while staying within the restrictions imposed by limited, and in some cases, shrinking funding. We rely heavily on the state entitlement funds that appear to continue to be "frozen" at the current level for the foreseeable future. The Library is currently involved in Piqua Hotel Project that involves the Library relocating to leased space in the historic Fort Piqua Hotel. Lease negotiations are still ongoing with the City of Piqua, who is entrusted with the responsibility of refurbishing the historic structure to facilitate the operation of the library, in addition to other public uses, and some retail space.

Contacting the Library's Financial Management

This financial report is designed to provide our citizens, taxpayers, patrons and creditors with a general overview of the Library's finances and to reflect the Library's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to William H. Stump, Clerk-Treasurer, Flesh Public Library, 124 W. Greene Street, Piqua, Ohio 45356.

**FLESH PUBLIC LIBRARY
MIAMI COUNTY**

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

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$828,863
Total Assets	<u><u>\$828,863</u></u>
Net Assets	
Restricted for:	
Capital Projects	\$493,668
Other Purposes	7,156
Unrestricted	328,039
Total Net Assets	<u><u>\$828,863</u></u>

See accompanying notes to the basic financial statements.

**FLESH PUBLIC LIBRARY
MIAMI COUNTY**

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

	<u>Program Cash Receipts</u>		<u>Net (Disbursements) Receipts and Changes in Net Assets</u>
	<u>Cash Disbursements</u>	<u>Charges for Services and Sales</u>	<u>Governmental Activities</u>
Governmental Activities			
Library Services	\$992,571	\$20,074	(\$972,497)
Capital Outlay	30,822		(30,822)
Total Governmental Activities	<u>1,023,393</u>	<u>20,074</u>	<u>(1,003,319)</u>
General Receipts			
Grants and Entitlements not Restricted to Specific Programs			\$799,937
Unrestricted Gifts and Contributions			168,303
Earnings on Investments			25,728
Miscellaneous			3,114
Total General Receipts			<u>997,082</u>
Change in Net Assets			(6,237)
Net Assets Beginning of Year			<u>835,100</u>
Net Assets End of Year			<u>\$828,863</u>

See accompanying notes to the basic financial statements.

**FLESH PUBLIC LIBRARY
MIAMI COUNTY**

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

	<u>General Fund</u>	<u>Building Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Equity in Pooled Cash and Cash Equivalents	\$328,039	\$493,668	\$7,156	\$828,863
Total Assets	<u>\$328,039</u>	<u>\$493,668</u>	<u>\$7,156</u>	<u>\$828,863</u>
Fund Balances				
Reserved:				
Reserved for Encumbrances	\$18,879		\$432	\$19,311
Unreserved:				
Undesignated (Deficit), Reported in:				
General Fund	309,160			309,160
Special Revenue Funds			6,724	6,724
Capital Projects Funds		493,668		493,668
Total Fund Balances	<u>\$328,039</u>	<u>\$493,668</u>	<u>\$7,156</u>	<u>\$828,863</u>

See accompanying notes to the basic financial statements.

**FLESH PUBLIC LIBRARY
MIAMI COUNTY**

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

	General Fund	Building Fund	Other Governmental Funds	Total
Receipts				
Library and Local Government Support	\$799,937			\$799,937
Patron, Fines and Fees	20,074			20,074
Contributions, Gifts and Donations	360	\$161,262	\$6,681	168,303
Earnings on Investments	10,308	15,295	125	25,728
Miscellaneous	3,114			3,114
Total Receipts	833,793	176,557	6,806	1,017,156
Disbursements				
Current:				
Library Services	828,888	161,396	2,287	992,571
Capital Outlay	11,015	19,807		30,822
Total Disbursements	839,903	181,203	2,287	1,023,393
Net Change in Fund Balances	(6,110)	(4,646)	4,519	(6,237)
Fund Balances Beginning of Year	334,149	498,314	2,637	835,100
Fund Balances End of Year	\$328,039	\$493,668	\$7,156	\$828,863

See accompanying notes to the basic financial statements.

**FLESH PUBLIC LIBRARY
MIAMI COUNTY**

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

	<u>Budgeted Amounts</u>			(Optional) Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Receipts				
Library and Local Government Support	\$829,471	\$829,471	\$799,937	(\$29,534)
Patron, Fines and Fees	9,000	9,000	20,074	11,074
Contributions, Gifts and Donations	600	600	360	(240)
Earnings on Investments	1,500	1,500	10,308	8,808
Miscellaneous	1,150	1,150	3,114	1,964
Total receipts	<u>841,721</u>	<u>841,721</u>	<u>833,793</u>	<u>(7,928)</u>
Disbursements				
Current:				
Library Services	893,890	926,655	845,396	81,259
Capital Outlay	12,000	15,000	13,386	1,614
Total Disbursements	<u>905,890</u>	<u>941,655</u>	<u>858,782</u>	<u>82,873</u>
Excess of Receipts Over (Under) Disbursements	<u>(64,169)</u>	<u>(99,934)</u>	<u>(24,989)</u>	<u>74,945</u>
Other Financing Sources (Uses)				
Other Financing Uses	<u>(1,000)</u>	<u>(1,000)</u>		<u>1,000</u>
Total Other Financing Sources (Uses)	<u>(1,000)</u>	<u>(1,000)</u>		<u>1,000</u>
Net Change in Fund Balance	(65,169)	(100,934)	(24,989)	75,945
Fund Balance Beginning of Year	298,383	298,383	298,383	
Prior Year Encumbrances Appropriated	<u>35,765</u>	<u>35,765</u>	<u>35,765</u>	
Fund Balance End of Year	<u>\$268,979</u>	<u>\$233,214</u>	<u>\$309,159</u>	<u>\$75,945</u>

See accompanying notes to the basic financial statements.

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**FLESH PUBLIC LIBRARY
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005**

1. DESCRIPTION OF THE LIBRARY AND REPORTING ENTITY

Flesh Public Library, Miami County, (the Library) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of Ohio. It provides various educational and literary resources. The Library is directed by a seven-member Board of Trustees appointed by the Piqua City School District Board of Education, (the Board of Education). The Library 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 the financial accountability being that of the Treasurer.

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

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

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 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, the financial statements of the Ohio Public Library have been prepared on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. The most significant of the Library's accounting policies are described below.

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

**FLESH PUBLIC LIBRARY
MIAMI COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation

The library's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

1. Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the Library as a whole. The statements distinguish between those activities of the Library that are governmental and those that are considered business-type. The Library does not have any business type activities. Government activities generally are financed through intergovernmental receipts and other non-exchange transactions.

The statement of net assets presents the cash balance of the governmental activities of the library at year end. The statement of activities compares disbursements with program receipts for each of the Library's governmental 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 and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of disbursements with program receipts identifies the extent to which each governmental function is self-financing on a cash basis or draws from the Library's general receipts.

2. Fund Financial Statements

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

B. Fund Accounting

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

1. Governmental Funds

Government funds are financed primarily from intergovernmental receipts 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.

**FLESH PUBLIC LIBRARY
MIAMI COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Building Fund – The building fund accounts for monies set aside by the Board of Library Trustees specifically for major capital improvements.

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

C. Basis of Accounting

The Library's financial statements are prepared using the cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the Library's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the Library are described in the appropriate section in this note.

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

D. Budgetary Process

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

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

The appropriations resolution is subject to amendment throughout the year with the restriction that appropriations should not exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriations 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 appropriations 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."

**FLESH PUBLIC LIBRARY
MIAMI COUNTY**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Library's money market fund investment is recorded at amounts reported by Fifth Third Bank of Western Ohio.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest receipts credited to the General Fund, Museum Fund and Building Fund during 2005 amounted to \$10,308, \$125 and \$15,295 respectively.

F. Inventory and Prepaid Item

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

I. Employer Contributions to Cost-Sharing Pension Plans

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

J. Net Assets

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

K. Fund Balance Reserves

The Library reserves any portion of fund balances which is not available for appropriations or which is legally segregated for a specific future use. Unreserved fund balances 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

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 as 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.

**FLESH PUBLIC LIBRARY
MIAMI COUNTY**

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

4. BUDGETARY BASIS OF ACCOUNTING

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the general fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the modified cash basis is outstanding year end encumbrances treated as disbursements (budgetary basis) rather than as a reservation of fund balance (modified cash basis). The encumbrances outstanding at year end (budgetary basis) amounted to \$18,879 for the general fund.

5. DEPOSITS AND INVESTMENTS

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

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

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

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

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

1. United States Treasury bills, bonds, notes or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds or 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;

**FLESH PUBLIC LIBRARY
MIAMI COUNTY**

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

5. DEPOSITS AND INVESTMENTS (Continued)

- 6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
- 7. The State Treasurer's investment pool (STAR Ohio).

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

At year end, the Library had \$125 in undeposited cash on hand which is included as part of "Equity in Pooled Cash and Cash Equivalents".

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. At year end, \$729,560 of the Library's bank balance of \$863,194 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 protected by eligible securities pledged to and deposited either with the Library or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

6. RISK MANAGEMENT

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

<u>Company</u>	<u>Type of Coverage</u>	<u>Coverage</u>
Cincinnati Insurance Co.	Commercial Property	\$2,377,063
	General Liability	1,000,000
	Vehicle	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.

**FLESH PUBLIC LIBRARY
MIAMI COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
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 per cent 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 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 8.5% of their annual covered salaries. The Library's contribution rate for pension benefits for 2005 was 13.55%. The Ohio Revised Code provides statutory authority for member and employer contributions. The Library's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2005, 2004, and 2003 were \$57,730, \$56,412, and \$56,362 respectively; the full amount has been contributed for 2005, 2004 and 2003.

8. POSTEMPLOYMENT BENEFITS

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other 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% of covered payroll; 4.00% of covered payroll was the portion that was used to fund health care.

Benefits are advanced-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%, an annual increase in active employee total payroll of 4.00% compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50% to 6.30% based on additional pay increases. Health care premiums were assumed to increase 1.00% to 6.00% annually for the next eight years and 4.00% 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% of unrealized market appreciation or depreciation on investment assets annually.

**FLESH PUBLIC LIBRARY
MIAMI COUNTY**

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

8. POSTEMPLOYMENT BENEFITS (Continued)

The number of active contributing participants in the traditional and combined planes was 376,109. The actuarial value of the Ohio PERS net assets available for OPEB at December 31, 2004 is \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$29.5 billion and \$18.7 billion, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, will be effective January 1, 2007. In addition to the HCPP, Ohio PERS has action to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. As an additional component of the HCPP, member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.



Auditor of State Betty Montgomery

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

Flesh Public Library
Miami County
124 West Greene Street
Piqua, Ohio 45356

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 Flesh Public Library, Miami 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 July 19, 2006, wherein we noted the Library revised its financial statements for 2005, making them comparable to the requirements of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. We also noted the Library uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Library because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Library's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Library's management dated July 19, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the Library's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the Library's management dated July 19, 2006, we reported a matter related to noncompliance we deemed immaterial.

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

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

Betty Montgomery
Auditor of State

July 19, 2006



**Auditor of State
Betty Montgomery**

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FLESH PUBLIC LIBRARY

MIAMI COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 24, 2006**