

SHELBY COUNTY LIBRARIES

Financial Statements

December 31, 2006 and 2005

with

Independent Auditors' Report



Mary Taylor, CPA

Auditor of State

Board of Trustees
Shelby County Libraries
230 East North Street
Sidney, Ohio 45365

We have reviewed the *Independent Auditors' Report* of the Shelby County Libraries, Shelby County, prepared by Clark, Schaefer, Hackett & Co., for the audit period January 1, 2005 through December 31, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Independent Auditors' Report* on your financial statements. While the Auditor of State does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Independent Auditors' Report* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Shelby County Libraries is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

August 6, 2007

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SHELBY COUNTY LIBRARIES

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Clark, Schaefer, Hackett & Co.
CERTIFIED PUBLIC ACCOUNTANTS
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Independent Auditors' Report

Shelby County Libraries
230 East North Street
Sidney, Ohio 45365

To the Board of Trustees:

We have audited the accompanying financial statements of the Shelby County Libraries (the Library) as of and for the years ended December 31, 2006 and 2005. These financial statements are the responsibility of the Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As described more fully in Note 1, the Library prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

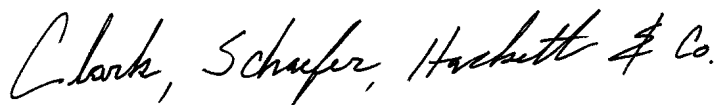
Revisions to GAAP would require the Library to reformat its financial statement presentation and make other changes effective for the years ended December 31, 2006 and 2005. Instead of the combined funds the accompanying financial statements present for 2006 and 2005, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2006 and 2005. While the Library does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Library has elected not to reformat its statements. Since this Library does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Audit of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ending December 31, 2006 and 2005 do not present fairly, in conformity with accounting principles general accepted in the United States of America, the financial position of the Library as of December 31, 2006 and 2005, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Shelby County Libraries, as of December 31, 2006 and 2005, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Library to include Management's Discussion and Analysis for the years ended December 31, 2006 and 2005. The Library has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2007 on our consideration of the Library's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.



Springfield, Ohio
June 27, 2007

SHELBY COUNTY LIBRARIES

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Governmental Fund Types</u>			<u>Total (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Other Government Grants-In-Aid	\$ 1,781,248	\$ 45,325	\$ -	\$ 1,826,573
Patron Fines and Fees	32,706	-	-	32,706
Earnings on Investments	193,423	13,381	-	206,804
Contributions, Gifts and Donations	25,385	-	-	25,385
Miscellaneous Receipts	<u>5,530</u>	<u>-</u>	<u>-</u>	<u>5,530</u>
Total Cash Receipts	<u>2,038,292</u>	<u>58,706</u>	<u>-</u>	<u>2,096,998</u>
Cash Disbursements:				
Salaries and Benefits	1,110,218	-	-	1,110,218
Purchased and Contracted Services	282,426	-	-	282,426
Supplies	76,322	-	-	76,322
Library Materials and Information	304,645	-	-	304,645
Capital Outlay	52,616	35,701	215,977	304,294
Miscellaneous	<u>7,429</u>	<u>-</u>	<u>-</u>	<u>7,429</u>
Total Cash Disbursements	<u>1,833,656</u>	<u>35,701</u>	<u>215,977</u>	<u>2,085,334</u>
Total Cash Receipts Over/(Under) Cash Disbursements	204,636	23,005	(215,977)	11,664
Fund Cash Balances, January 1	<u>1,439,659</u>	<u>1,266,577</u>	<u>1,296,934</u>	<u>4,003,170</u>
Fund Cash Balances, December 31	<u>\$ 1,644,295</u>	<u>\$ 1,289,582</u>	<u>\$ 1,080,957</u>	<u>\$ 4,014,834</u>
Reserve for Encumbrances, December 31	<u>\$ 120,349</u>	<u>\$ 11,408</u>	<u>\$ 3,136</u>	<u>\$ 134,893</u>

The notes to the financial statements are an integral part of this statement.

SHELBY COUNTY LIBRARIES

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Governmental Fund Types</u>			<u>Total (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Other Government Grants-In-Aid	\$ 1,781,248	\$ -	\$ -	\$ 1,781,248
Patron Fines and Fees	30,329	-	-	30,329
Earnings on Investments	136,400	12,312	-	148,712
Contributions, Gifts and Donations	9,388	-	-	9,388
Miscellaneous Receipts	<u>5,462</u>	<u>-</u>	<u>-</u>	<u>5,462</u>
Total Cash Receipts	<u>1,962,827</u>	<u>12,312</u>	<u>-</u>	<u>1,975,139</u>
Cash Disbursements:				
Salaries and Benefits	1,035,629	-	-	1,035,629
Purchased and Contracted Services	290,399	-	-	290,399
Supplies	62,082	-	-	62,082
Library Materials and Information	303,411	-	-	303,411
Capital Outlay	13,353	-	61,159	74,512
Miscellaneous	<u>10,245</u>	<u>-</u>	<u>-</u>	<u>10,245</u>
Total Cash Disbursements	<u>1,715,119</u>	<u>-</u>	<u>61,159</u>	<u>1,776,278</u>
Total Cash Receipts Over/(Under) Cash Disbursements	247,708	12,312	(61,159)	198,861
Fund Cash Balances, January 1	<u>1,191,951</u>	<u>1,254,265</u>	<u>1,358,093</u>	<u>3,804,309</u>
Fund Cash Balances, December 31	<u>\$ 1,439,659</u>	<u>\$ 1,266,577</u>	<u>\$ 1,296,934</u>	<u>\$ 4,003,170</u>
Reserve for Encumbrances, December 31	<u>\$ 83,974</u>	<u>\$ -</u>	<u>\$ 21,880</u>	<u>\$ 105,854</u>

The notes to the financial statements are an integral part of this statement.

SHELBY COUNTY LIBRARIES

Notes to the Financial Statements

December 31, 2006 and 2005

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Shelby County Libraries (the Library) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. In August 2006 the Board officially changed the name of the Library from Amos Memorial Public Library to Shelby County Libraries. The Library is a school district library comprised of seven citizens appointed by the Sidney City District Board of Education. The Library provides general services regarding books, periodicals, videos, and other items to the citizens in the city and surrounding areas.

Blended Component Unit

A blended component unit is where the component unit's governing body is substantially the same as the primary government's governing body or the component unit provides services entirely or almost entirely to the primary government or otherwise exclusively, or almost exclusively benefits the primary government.

The Sidney Library Foundation (the "Foundation") meets the criteria of a blended component unit of the Library. The financial activity of the Foundation will be included in the financial statements of the Library as a Special Revenue Fund type.

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

Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

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

Basis of Presentation - Fund Accounting

The Library uses fund accounting to segregate cash and investments that are restricted as to use. The Library classifies its funds into the following governmental fund types:

General Fund - This fund is the operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - These funds are established to account for the proceeds of specific revenue sources (other than amounts relating to capital projects) that are legally restricted to expenditures for specific purposes. The Library had the following significant Special Revenue Fund:

Library Foundation Fund - This fund is used to account for the operations of the Library Foundation which is under Board control but are not used for the day to day operations of the Library. This constitutes a blended component unit.

SHELBY COUNTY LIBRARIES

Notes to the Financial Statements

December 31, 2006 and 2005

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Amos Trust Fund – This fund receives monies from donations from the Amos family which are kept in trust to be used for future technology or improvements.

Harshbarger Trust Fund – This fund receives monies from donations from the Harshbarger family which are kept in trust to be used for future technology or improvements.

Christian Trust Fund – This fund receives monies from donations from M. Christian which are kept in trust to be used for future technology or improvements.

Graham Trust Fund - This fund receives monies from donations from E. Graham which are kept in trust to be used for future technology or improvements.

Simons Trust Fund - This fund receives monies from donations from T.B. Simons which are kept in trust to be used for future technology or improvements.

Effective January 1, 2005, the Library reclassified the Trust Funds from Expendable Trust Funds to Special Revenue Funds in accordance with Auditor of State communication.

Capital Projects Funds – These funds are used to account for receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise or trust funds). The Library had the following significant capital project fund:

Technology Fund – This fund receives monies from the transfer of funds from the General Fund, and donations from citizens and businesses in the surrounding area to be used for the purchase of automated equipment and programs for the Library.

Budgetary Process

The Board must annually approve appropriation measures and subsequent amendments. Unencumbered appropriations lapse at year end. Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function level of control. Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1.

A summary of 2006 and 2005 budgetary activity appears in Note 3.

Cash and Investments

Investments are reported in fund cash balances. 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 disbursements, respectively.

The Library invested funds in the State Treasury Assets Reserves of Ohio (STAR Ohio) during fiscal years 2006 and 2005. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2006 and 2005.

SHELBY COUNTY LIBRARIES

Notes to the Financial Statements

December 31, 2006 and 2005

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, Plant and Equipment

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

Compensated Absences

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

Total Columns on Financial Statements

Total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns are not comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 2 - DEPOSITS AND INVESTMENTS

The Library maintains a cash and investments pool used by all funds. The Ohio Revised Code prescribes allowable deposits and investments.

Cash on Hand – The Library maintained cash on hand of \$310 and \$540 as of December 31, 2006 and 2005, respectively.

The carrying amount of cash and investments at December 31 was as follows:

	<u>2006</u>	<u>2005</u>
Demand deposits	\$ 2,210,663	1,935,473
Certificates of deposit	100,339	156,215
Total deposits	<u>2,311,002</u>	<u>2,091,688</u>
Money Market Account	3,654	3,500
STAR Ohio	326,018	620,246
Mutual Fund Investments	1,373,850	1,287,196
Total investments	<u>1,703,522</u>	<u>1,910,942</u>
Total deposits and investments	<u>\$ 4,014,524</u>	<u>4,002,630</u>

Deposit: Deposits are either (1) insured by the Federal Depository Insurance Corporation, (2) collateralized by the financial institution's public entity deposit pool.

Investments: At year end, the library has invested in STAR Ohio and mutual funds. Investments in STAR Ohio and mutual funds are not evidenced by securities that exist in physical or book entry form.

SHELBY COUNTY LIBRARIES

Notes to the Financial Statements

December 31, 2006 and 2005

NOTE 3 – BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2006 and 2005, excluding the activity of the Special Revenue Fund – Library Foundation (the blended component unit) which is not required to be budgeted, was as follows:

2006 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 1,884,798	\$ 2,038,292	\$ 153,494
Special Revenue	-	58,706	58,706
Capital Projects	-	-	-
Total	\$ 1,884,798	\$ 2,096,998	\$ 212,200

2006 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 1,975,886	\$ 1,954,005	\$ 21,881
Special Revenue	47,109	47,109	-
Capital Projects	219,113	219,113	-
Total	\$ 2,242,108	\$ 2,220,227	\$ 21,881

2005 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 1,934,994	\$ 1,962,827	\$ 27,833
Special Revenue	-	12,312	12,312
Capital Projects	-	-	-
Total	\$ 1,934,994	\$ 1,975,139	\$ 40,145

2005 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 1,949,509	\$ 1,799,093	\$ 150,416
Special Revenue	-	-	-
Capital Projects	83,496	83,039	457
Total	\$ 2,033,005	\$ 1,882,132	\$ 150,873

SHELBY COUNTY LIBRARIES

Notes to the Financial Statements

December 31, 2006 and 2005

NOTE 4 – GRANTS-IN-AID

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

NOTE 5 – RETIREMENT SYSTEMS

The Public Employees Retirement System of Ohio (PERS) is a state operated, cost-sharing, multiple employer public employee retirement system. PERS provides retirement benefits to vested employees who are eligible to retire based upon years of service. PERS also provides survivor and disability benefits to vested employees.

Contribution rates are prescribed by the Ohio Revised Code. The Library's PERS members contributed 9.0% for 2006 and 8.5% for 2005 of their gross salaries. The Library contributed an amount equal to 13.70% for 2006 and 13.55% for 2005 of participants' gross salaries. The Library has paid all contributions required through December 31, 2006.

NOTE 6 - RISK MANAGEMENT

The Library has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Officials' Liability; and,
- Errors and omissions.

The Library also provides health insurance coverage to full time employees through a private carrier.



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Report on Internal Control Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*

Shelby County Libraries
230 East North Street
Sidney, Ohio 45365

We have audited the accompanying financial statements of the Shelby County Libraries (the Library) as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated June 27, 2007, wherein we noted that the Library prepared its financial statements using accounting practices the Auditor of State prescribes or permits rather than accounting principles generally accepted in the United States of America. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Library's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Library's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Library's ability to initiate authorize, record, process, or report financial data reliably in accordance with its applicable basis of accounting, such that there is more than a remote likelihood that a misstatement of the Library's financial statements that is more than inconsequential will not be prevented or detected by the Library's internal control. We consider the deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting: 2006-001.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Library's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe the significant deficiency described above is a material weakness.

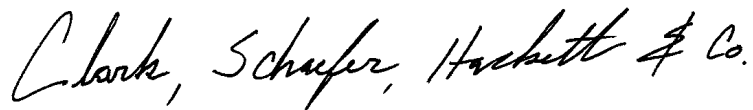
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Library in a separate letter dated June 27, 2007.

The Library's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Library's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the audit committee, management and Board of Trustees, and is not intended to be and should not be used by anyone other than these specified parties.



Springfield, Ohio
June 27, 2007

SHELBY COUNTY LIBRARIES

Schedule of Findings
December 31, 2006 and 2005

Findings Related to the Financial Statements
Required to be Reported in Accordance with GAGAS

Finding Number 2006-001: Significant Deficiency

Financial Reporting Issues

During the audit of the Library for 2006 and 2005, adjustments were made to correct interest earnings receipt postings as well as to record interest which was earned in one year but not posted until the following year in the Library's accounting system. In addition Auditor of State Bulletin 2005-005, dated October 13, 2005, instructed non-GAAP entities to reclassify certain fund types within its accounting system. One of these fund types was the expendable trust fund type which the Bulletin indicated should be reclassified as either special revenue funds or private-purpose funds. This change was effective for the 2006 reporting period. In its annual financial reports filed with the State for 2006, the Library continued to report expendable trust funds instead of reclassifying them in accordance with the guidance provided by the Auditor of State. The expendable trust funds were reclassified as special revenue funds for both 2006 and 2005 in the accompanying financial statements.

The Library should review procedures used in posting interest earning receipts to ensure they are posted to the appropriate fund and all interest earned during the period is properly posted before the accounts are closed. Additionally, the Library should reclassify the funds it is currently reporting as expendable trust funds to special revenue funds as Auditor of State Bulletin 2005-005 instructs.

Management's Response:

We were informed of and agree with the adjustments made to the financial statements. We will work to correct the problems in 2007.



Mary Taylor, CPA
Auditor of State

SHELBY COUNTY LIBRARIES

SHELBY 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 16, 2007**