



**CHILLICOTHE AND ROSS COUNTY PUBLIC LIBRARY
ROSS COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2005



**Auditor of State
Betty Montgomery**

**CHILLICOTHE AND ROSS COUNTY PUBLIC LIBRARY
ROSS COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Chillicothe and Ross County Public Library
Ross County
140 South Paint Street
Chillicothe, Ohio 45601

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 Chillicothe and Ross County Public Library, Ross County, Ohio, (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 modified 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 presents fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Chillicothe and Ross County Public Library, Ross County, Ohio, as of December 31, 2005, and the respective changes in modified cash financial position and the budgetary comparison for the General fund for the year then ended in conformity with the basis of accounting Note 2 describes.

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In accordance with *Government Auditing Standards*, we have also issued our report dated August 1, 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 accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Betty Montgomery
Auditor of State

August 1, 2006

**CHILLICOTHE & ROSS COUNTY PUBLIC LIBRARY
ROSS COUNTRY**

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

This discussion and analysis of the Chillicothe & Ross County Public Library's (the Library) financial performance provides an overall review of the Library's financial activities for the year ended December 31, 2004, within the limitations of the Library's cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the Library's financial performance.

Highlights

Key highlights for 2005 are as follows:

Net assets of governmental activities decreased \$148,463 or 12.8%, a slight change from the prior year. The fund most affected by the decrease in cash and cash equivalents was the Building Fund, due to the architect's and contractor's fees for the Central renovation project.

The Library's general receipts are primarily state income taxes from the Library and Local Government Support Fund. These funds represent 94.9% of the total cash received for governmental activities during the year. State income tax receipts for 2005 changed very little compared to 2004 because the Library and Local Government Support Fund was frozen by the legislature. The Library has continued to take steps to control disbursements in all areas, including a change in our health insurance carrier which saved the library several thousand dollars this year. We also discontinued our contract with Ohio Valley Area Libraries for Books by Mail service to patrons in our service area.

In late 2005, the library began fundraising efforts for the expansion of the Main Library by selling engraved bricks to be installed in the new Carnegie Plaza.

The library was awarded an LSTA Grant in the amount of \$6,322 to make available at the Main & Northside Branch library, computers and software for persons with sensory and physical disabilities.

A minimal amount of work on the Central Renovation Project has taken place as of the end of the year. Demolition of the gymnasium/kitchen area at the school has taken place and the site improvement (other than the landscaping) has been completed. Also, a contract has been signed for the new HVAC system at the Central location.

Using the Basic Financial Statements

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

Report Components

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

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

**CHILLICOTHE & ROSS COUNTY PUBLIC LIBRARY
ROSS COUNTHY**

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

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.

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 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 cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental activities of the Library at year end. The statement of activities compares cash disbursements with program receipts for each governmental program. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the Library's general receipts.

These statements report the Library's cash position and the changes in cash position. Keeping in mind the limitations of the cash basis of accounting, you can think of these changes as one way to measure the Library's financial health. Over time, increases or decreases in the Library's cash position is one indicator of whether the Library's financial health is improving or deteriorating.

In the statement of net assets and the statement of activities, the Library has one type of activity:

Governmental activities. All of the Library's basic services are reported here, including library services and capital outlay. State income taxes finance most of these activities.

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 funds of the Library are all considered governmental.

**CHILLICOTHE & ROSS COUNTY PUBLIC LIBRARY
ROSS COUNTRY**

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

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

The Library as a Whole

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

**(Table 1)
Net Assets**

	Governmental Activities	
	2005	2004
Assets		
Cash and Cash Equivalents	\$ 983,603	\$ 1,132,066
Investments	20,500	20,500
Total Assets	1,004,103	1,152,566
Net Assets		
Restricted for:		
Capital Projects	\$ 468,734	\$ 741,985
Permanent Fund:		
Expendable	756	970
Non Expendable	20,500	20,500
Other Purposes	537	674
Unrestricted	513,576	388,437
Total Net Assets	\$ 1,004,103	\$ 1,152,566

As mentioned previously, net assets of governmental activities decreased \$148,463 or 12.8% during 2005.

**CHILLICOTHE & ROSS COUNTY PUBLIC LIBRARY
ROSS COUNTRY**

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

Table 2 reflects the changes in net assets in 2005 as compared to 2004.

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

	<u>Governmental Activities 2005</u>	<u>Governmental Activities 2004</u>
Receipts:		
Program Receipts:		
Charges for Services and Sales	\$63,403	\$57,909
Operating Grants and Contributions	11,729	7,966
Capital Grants and Contributions	18,732	0
Total Program Receipts	<u>93,864</u>	<u>65,875</u>
General Receipts:		
Library & Local Govt. Support	2,678,640	2,663,963
Interest	36,970	27,873
Miscellaneous	12,605	860
Total General Receipts	<u>2,728,215</u>	<u>2,692,696</u>
Total Receipts	<u>2,822,079</u>	<u>2,758,571</u>
Disbursements:		
Library Services	2,805,554	2,760,673
Capital Outlay	164,988	586,841
Total Disbursements	<u>2,970,542</u>	<u>3,347,514</u>
Decrease in Net Assets	(148,463)	(588,943)
Net Assets Beginning of the Year	<u>1,152,566</u>	<u>1,741,509</u>
Net Assets End of the Year	<u>\$1,004,103</u>	<u>\$1,152,566</u>

Program receipts represent only 3.3% of total receipts and are primarily comprised of patron fines and late fees, charges for copies and prints and restricted contributions for specific library programs such as our annual summer reading program and construction of a sidewalk.

General receipts represent 96.7% of the Library's total receipts, and of this amount, over 98.1% are from the Library & Local Government Support Fund. Other receipts are very insignificant and somewhat unpredictable revenue sources.

**CHILLICOTHE & ROSS COUNTY PUBLIC LIBRARY
ROSS COUNTHY**

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

Governmental Activities

If you look at the Statement of Activities on page 11, you will see that the first column lists the major services provided by the Library. The next column identifies the costs of providing these services. The major program disbursement for governmental activities is Library Services, which accounts for 94.4% of all governmental disbursements while capital outlay accounts for 5.6% of all governmental disbursements. The next three columns of the Statement entitled Program Cash Receipts identify amounts paid by people who are directly charged for the service and grants received by the Library that must be used to provide a specific service. The net Receipt (Disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

**(Table 3)
Governmental Activities**

	Total Cost Of Services 2005	Net Cost of Services 2005
Library Services	\$2,805,554	\$2,724,190
Capital Outlay	164,988	152,488
Total Expenses	<u>\$2,970,542</u>	<u>\$2,876,678</u>

The Library's Funds

Total governmental funds had receipts of \$2,822,079 and disbursements of \$2,970,542. The greatest change within governmental funds occurred within the Capital Project (Building) Fund. The fund balance of the Building Fund decreased \$273,251 as the result of architect's and contractor's fees for the Main Library expansion project.

General Fund receipts were more than disbursements by \$125,140 indicating that the steps taken to control spending in the General Fund have had a positive impact. However, this positive balance cannot be expected every year considering the current freeze on the Library & Local Government Support fund and the rising cost of many library expenses such as utilities and health insurance.

General Fund Budgeting Highlights

The Library's budget is prepared according to Ohio law and is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

During 2005, the Library amended its General Fund budget to reflect changing circumstances. Final budgeted receipts were below original budgeted receipts due to a slight decrease in Library & Local Government Support. The difference between final budgeted receipts and actual receipts was not significant.

**CHILLICOTHE & ROSS COUNTY PUBLIC LIBRARY
ROSS COUNTHY**

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

Final disbursements were budgeted at \$3,187,105 while actual disbursements were \$2,738,864. The Library kept spending below budgeted amounts as demonstrated by the reported variances. The result is a small increase in the General Fund balance of \$64,602 for 2005.

Current Issues

With the uncertainty of library funding in the future, the library continues to look for ways to control spending. We are also keeping a close watch on the proposed TEL Amendment that will impact Local Government Spending if it should pass.

Contacting the Library's Financial Management

This financial report is designed to provide our citizens, taxpayers, 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 Nanette L. Clary, Clerk-Treasurer, Chillicothe & Ross County Public Library, PO Box 185, 140-146 S. Paint Street, Chillicothe, OH 45601.

**CHILLICOTHE AND ROSS COUNTY PUBLIC LIBRARY
ROSS COUNTY**

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

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$983,603
Investments	<u>20,500</u>
<i>Total Assets</i>	<u><u>\$1,004,103</u></u>
Net Assets	
Restricted for:	
Capital Projects	\$468,734
Permanent Fund:	
Expendable	756
Nonexpendable	20,500
Other Purposes - Howard Young	537
Unrestricted	<u>513,576</u>
<i>Total Net Assets</i>	<u><u>\$1,004,103</u></u>

See accompanying notes to the basic financial statements

**CHILLICOTHE AND ROSS COUNTY PUBLIC LIBRARY
ROSS COUNTY**

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

	General	Building Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$513,577	\$463,765	\$6,261	\$983,603
Investments	0	0	20,500	20,500
<i>Total Assets</i>	<u>\$513,577</u>	<u>\$463,765</u>	<u>\$26,761</u>	<u>\$1,004,103</u>
Fund Balances				
Reserved:				
Reserved for Encumbrances	\$60,537	\$321,384	\$399	\$382,320
Reserved for Literacy Materials	0	0	10,500	10,500
Reserved for Purchase of Books	0	0	10,000	10,000
Unreserved:				
Undesignated, Reported in:				
General Fund	453,040	0	0	453,040
Special Revenue Funds	0	0	537	537
Capital Projects Funds	0	142,381	4,969	147,350
Permanent Funds	0	0	356	356
<i>Total Fund Balances</i>	<u>\$513,577</u>	<u>\$463,765</u>	<u>\$26,761</u>	<u>\$1,004,103</u>

See accompanying notes to the basic financial statements

**CHILLICOTHE AND ROSS COUNTY PUBLIC LIBRARY
ROSS COUNTY**

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

	General	Building Fund	Other Governmental Funds	Total Governmental Funds
Receipts				
Library and Local Government Support	\$2,678,640	\$0	\$0	\$2,678,640
Intergovernmental	\$6,232	\$0	\$0	\$6,232
Patron Fines and Fees	63,403	0	0	63,403
Contributions, Gifts and Donations	7,376	12,500	4,353	24,229
Earnings on Investments	35,211	0	1,759	36,970
Miscellaneous	12,605	0	0	12,605
<i>Total Receipts</i>	<u>2,803,467</u>	<u>12,500</u>	<u>6,112</u>	<u>2,822,079</u>
Disbursements				
Current:				
Library Services	2,601,433	197,657	6,464	2,805,554
Capital Outlay	76,894	88,094	0	164,988
<i>Total Disbursements</i>	<u>2,678,327</u>	<u>285,751</u>	<u>6,464</u>	<u>2,970,542</u>
<i>Net Change in Fund Balances</i>	125,140	(273,251)	(352)	(148,463)
<i>Fund Balances Beginning of Year</i>	<u>388,437</u>	<u>737,016</u>	<u>27,113</u>	<u>1,152,566</u>
<i>Fund Balances End of Year</i>	<u><u>\$513,577</u></u>	<u><u>\$463,765</u></u>	<u><u>\$26,761</u></u>	<u><u>\$1,004,103</u></u>

See accompanying notes to the basic financial statements

**CHILLICOTHE AND ROSS COUNTY PUBLIC LIBRARY
ROSS COUNTY**

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

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Receipts				
Library and Local Government Support	\$2,778,492	\$2,678,639	\$2,678,640	\$1
Intergovernmental	\$0	\$6,232	\$6,232	\$0
Patron Fines and Fees	52,500	61,000	63,403	2,403
Contributions, Gifts and Donations	3,500	7,300	7,376	76
Earnings on Investments	20,000	33,300	35,211	1,911
Miscellaneous	700	12,200	12,605	405
<i>Total Receipts</i>	<u>2,855,192</u>	<u>2,798,671</u>	<u>2,803,467</u>	<u>4,796</u>
Disbursements				
Current:				
Library Services	2,762,600	2,800,228	2,655,869	144,359
Capital Outlay	92,254	95,926	82,995	12,931
<i>Total Disbursements</i>	<u>2,854,854</u>	<u>2,896,154</u>	<u>2,738,864</u>	<u>157,290</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>338</u>	<u>(97,483)</u>	<u>64,603</u>	<u>162,086</u>
Other Financing (Uses)				
Contingencies	(388,774)	(290,951)	0	290,951
<i>Total Other Financing (Uses)</i>	<u>(388,774)</u>	<u>(290,951)</u>	<u>0</u>	<u>290,951</u>
<i>Net Change in Fund Balance</i>	(388,436)	(388,434)	64,603	453,037
<i>Fund Balance Beginning of Year</i>	346,137	346,137	346,137	0
Prior Year Encumbrances Appropriated	42,300	42,300	42,300	0
<i>Fund Balance End of Year</i>	<u>\$1</u>	<u>\$3</u>	<u>\$453,040</u>	<u>\$453,037</u>

See accompanying notes to the basic financial statements

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**CHILLICOTHE & ROSS COUNTY PUBLIC LIBRARY
ROSS COUNTY**

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

Note 1 – Description of the Library and Reporting Entity

The Chillicothe & Ross County Public Library was organized under the laws of the State of Ohio. The Library has its own Board of Trustees made up of seven members. Four who are appointed by the Ross County Commissioners and three who are appointed by the Ross County Common Pleas Judge. 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 that of the Clerk-Treasurer.

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

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 participates in the Ohio Valley Area Libraries (OVAL), a jointly governed organization. Note 9 of the financial statements provide additional information for this entity.

The Friends of the Chillicothe & Ross County Public Library is a not-for-profit organization with a self-appointing board. The Library is not financially accountable for the organization, nor does the Library approve the budget or the issuance of debt of the organization. The Library receives an insignificant amount of resources from the Friends of the Library. Therefore, this organization has been excluded from the reporting entity of the Library.

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

**CHILlicothe & ROSS COUNTY PUBLIC LIBRARY
ROSS COUNTY**

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

Note 2 - Summary of Significant Accounting Policies

As discussed further in Note 2.C, the financial statements of the Chillicothe & Ross County Public Library have been prepared 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 statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the Library as a whole. These distinguish between those activities of the Library that are governmental and those that are considered business-type. Governmental activities generally are financed through charges for service, intergovernmental receipts and other nonexchange transactions. The Library does not have any business-type activities.

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 grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a cash basis or draws from the Library's general receipts.

Fund Financial Statements

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

B. Fund Accounting

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

CHILLICOTHE & ROSS COUNTY PUBLIC LIBRARY
ROSS COUNTY

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

Note 2 - Summary of Significant Accounting Policies (Continued)

Governmental Funds

Governmental funds are financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions. Monies are assigned to the various governmental funds according to the purposes for which they may or must be used. The following are the Library's major governmental funds:

General Fund - The general fund accounts for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the Library for any purpose provided it is expended or transferred according to the general laws of Ohio.

Building Fund - The building fund accounts for monies set aside by the Board of Library Trustees and donations specifically for the renovation and improvements to the addition to the Main Library.

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

C. Basis of Accounting

The Library's financial statements are prepared using the modified 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 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 are legally required to be appropriated. The appropriations resolution is the Trustees' authorization to spend resources and sets limits on cash disbursements plus encumbrances at the level of control selected by the Trustees. The legal level of control has been established at the function 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 resources at the time final appropriations were enacted by the Trustees.

**CHILLICOTHE & ROSS COUNTY PUBLIC LIBRARY
ROSS COUNTY**

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

Note 2 - Summary of Significant Accounting Policies (Continued)

D. Budgetary Process (Continued)

The appropriations resolution is subject to amendment throughout the year with the restriction that appropriations should not exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation ordinance for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Trustees during the year.

E. Cash and Cash Equivalents

To improve cash management, cash received by the Library is pooled and invested. Individual fund integrity is maintained through the Library's records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents."

Investments with original maturities of three months or less at the time they are purchased and investments of the cash management pool are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

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

During 2005, investments were limited to, nonnegotiable certificates of deposits, STAR Ohio and shares of common stock that were left to the Library as a restricted donation. Except for STAR Ohio these investments are recorded at cost.

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, 2005.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest receipt credited to the general fund during 2005 amounted to \$35,211.

F. Restricted Assets

Cash, cash equivalents, and investments are reported as restricted when limitations on their use change the nature or normal understanding of their use. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. The Library does not have any restricted assets.

G. 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.

CHILLICOTHE & ROSS COUNTY PUBLIC LIBRARY
ROSS COUNTY

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

Note 2 - Summary of Significant Accounting Policies (Continued)

H. 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.

I. Interfund Receivables/Payables

The Library reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

J. Accumulated Leave

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

K. 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.

L. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for capital projects include resources received for various construction and capital improvement projects completed by the Library.

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.

M. 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, literacy materials and purchase of books.

N. Interfund Transactions

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds.

The Library has no interfund transactions in 2005.

**CHILLICOTHE & ROSS COUNTY PUBLIC LIBRARY
ROSS COUNTY**

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

Note 3 – Budgetary Basis of Accounting

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the general fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis is outstanding year end encumbrances are treated as disbursements (budgetary basis) rather than as a reservation of fund balance (cash basis). The encumbrances outstanding at year end amounted to \$60,537 for the general fund.

Note 4 – 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 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;

**CHILLICOTHE & ROSS COUNTY PUBLIC LIBRARY
ROSS COUNTY**

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

Note 4 – 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).
8. Certain banker's acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

The Library may also invest any monies not required to be used for a period of six months or more in the following:

1. Bonds of the State of Ohio;
2. Bonds of any municipal corporation, village, county, township or other political subdivision of this State, as to which there is not default of principal, interest, or coupons; and,
3. Obligations of the Library.

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

At year end, the Library had \$240 in (petty cash and drawer change) 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, \$415,905 of the Library's bank balance of \$615,905 was exposed to custodial credit risk because those deposits were collateralized with securities held by the pledging financial institution.

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.

**CHILLICOTHE & ROSS COUNTY PUBLIC LIBRARY
ROSS COUNTY**

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

Note 4 – Deposits and Investments (Continued)

B. Investments

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

	Fair Value	Less Than One Year
STAR OHIO	\$399,232	\$399,232
Certificate of Deposits	10,000	10,000
Culp Fund Common Stock (Penn. Power & Light Company, Fair Market Value - \$47,040 12/31/05)	10,500	10,500
Total Investments	\$419,732	\$419,732

Certificate of Deposits is a negotiable certificate of deposit which was matched to a specific fund for the purchase of library books.

Credit Risk for investments is the risk that, in the event of failure of the counterpart to a transaction, the Library will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. STAR Ohio carries a rating of AAAM by Standard and Poor's. The Library has no investment policy dealing with investment credit risk beyond the requirements in state statutes. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service and that the money market fund be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service.

Concentration of Credit risk is defined by the Governmental Accounting Standards Board as five percent or more in the securities of a single issuer. The Library's investment policy requires the investment of funds which will guarantee the maximum security of those funds. The following is the Library's allocation as of December 31, 2004:

Investment Issuer	Percentage of Investments
STAROhio	95.1%
Certificate of Deposits	2.4%
Donated Stock	2.5%
Total	100%

Note 5 - Risk Management

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

**CHILLICOTHE & ROSS COUNTY PUBLIC LIBRARY
ROSS COUNTY**

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

Note 5 - Risk Management (Continued)

<u>Company</u>	<u>Type of Coverage</u>	<u>Coverage</u>
Cincinnati Insurance Company	Commercial Property	\$4,922,100
Cincinnati Insurance Company	General Liability	2,000,000
Cincinnati Insurance Company	Vehicle	1,000,000
Cincinnati Insurance Company	Inland Marine	15,000
Cincinnati Insurance Company	Library Officials	1,000,000
Cincinnati Insurance Company	Clerk/Deputy Bonds	25,000/ea.
Cincinnati Insurance Company	Blanket Empl Bond	5,000
Cincinnati Insurance Company	Comm. Umbrella	1,000,000

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.

The Library provides health, life, dental and vision insurance to eligible employees through a private carrier.

Note 6 – Grants-In-Aid and Tax Receipts

The primary source of revenue for Ohio public libraries is the State Library and Local Government Support Fund (LLGSF). The State allocated LLGSF 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 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.

**CHILLICOTHE & ROSS COUNTY PUBLIC LIBRARY
ROSS COUNTY**

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

Note 7 - Defined Benefit Pension Plan (Continued)

For the year ended December 31, 2005, the members of all three plans were required to contribute 9.5 percent of their annual covered salaries. The Library's contribution rate for pension benefits for 2005 was 13.55 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

The Library's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2005, and 2004 were \$260,260 and \$271,812 respectively; the full amount has been contributed for 2005 and 2004

Note 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 Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2005 local government employer contribution rate was 13.55 percent of covered payroll; 4.00 percent of covered payroll was the portion that was used to fund health care.

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

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

The number of active contributing participants in the traditional and combined plans was 369,885. Actual employer contributions for 2005 which were used to fund postemployment benefits were \$147,863. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2004, (the latest information available) were \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$26.9 billion and \$16.4 billion, respectively.

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.

**CHILLICOTHE & ROSS COUNTY PUBLIC LIBRARY
ROSS COUNTY**

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

Note 9 – Jointly Governed Organization

The Ohio Valley area Libraries (OVAL) is an area Library service organization created and governed according to the provisions of Sections 3375.70 through 3375.73 of the Ohio Revised Code. OVAL is composed of autonomous public libraries in the Ohio counties of Athens, Fairfield, Gallia, Jackson, Lawrence, Meigs, Pickaway, Pike, Ross, Scioto and Vinton. OVAL's Board of Trustees consists of the Director from each of the member libraries. The Chillicothe & Ross County Public Library's control over budgeting and financing of OVAL is limited to its voting authority and its representation on OVAL'S Board of Trustees. The Library paid \$22,677 to OVAL in 2005 for annual dues and fees for services provided.

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Auditor of State Betty Montgomery

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

Chillicothe and Ross County Public Library
Ross County
140 South Paint Street
Chillicothe, Ohio 45601

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 Chillicothe and Ross County Public Library, Ross County, Ohio, (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 August 1, 2006, wherein we 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.

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 August 1, 2006, we reported a matter related to noncompliance we deemed immaterial.

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www.auditor.state.oh.us

Chillicothe and Ross County Public Library
Ross County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

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

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

Betty Montgomery
Auditor of State

August 1, 2006



**Auditor of State
Betty Montgomery**

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CHILLICOTHE AND ROSS COUNTY PUBLIC LIBRARY

ROSS 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
SEPTEMBER 19, 2006**