



**Auditor of State
Betty Montgomery**

**KATE LOVE SIMPSON LIBRARY
MORGAN COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Kate Love Simpson Library
Morgan County
358 East Main Street
McConnelsville, Ohio 43756

To the Board of Trustees:

We have audited the accompanying financial statements of the governmental activities and each major fund of the Kate Love Simpson Library, Morgan 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 Section 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code Sections 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 present fairly, in all material respects, the respective modified cash financial position of the governmental activities and each major fund of the Kate Love Simpson Library, Morgan County, Ohio, as of December 31, 2005, and the respective changes in modified 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 June 20, 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.

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

Betty Montgomery
Auditor of State

June 20, 2006

**KATE LOVE SIMPSON LIBRARY
MORGAN COUNTY**

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

The discussion and analysis of the Kate Love Simpson Library's financial performance provides an overall review of the Library's financial activities for the year ended December 31, 2005, within the limitations of the Library's modified cash basis of accounting. The intent of this discussion and analysis is to look at the Library's financial performance as a whole. Readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the Library's financial performance.

Financial Highlights

Key financial highlights for the year 2005 are as follows:

- Net assets increased \$28,876.
- The general receipts accounted for \$551,048 or 97.4 percent of all receipts. Program receipts in the form of charges for services accounted for \$14,894 or 2.6 percent of total receipts.
- The Library had \$537,066 in disbursements relating to governmental activities; only \$14,894 of those disbursements was offset by program specific charges for services.

Using the Basic Financial Statements

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

This annual report consists of a series of financial statements and notes to the statements. The statements are organized to the reader can understand the Library as a financial whole, an entire operating entity. The statements then proceed to provide in increasingly detailed look at specific financial activities and conditions on a modified cash basis of accounting.

The Statement of Net Assets – Modified Cash Basis and Statement of Activities – Modified Cash Basis provide information about the activities of the whole Library, presenting both an aggregate view of the Library's finances and a longer-term view of those finances. 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. The statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to financial statements are an integral part of the government wide and fund financial statements and provide expanded explanation in detail regarding 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 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 the 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 in discussion within this report, the reader must keep in mind the limitations resulting from the use of the modified cash basis of accounting.

**KATE LOVE SIMPSON LIBRARY
MORGAN COUNTY**

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

Reporting the Library as a Whole

The statement of net assets and statement of activities reflect how the Library did financially during 2005, within the limitations of the modified cash basis of accounting. The Statement of Net Assets – Modified Cash Basis presents the cash balances of the governmental activities of the Library at year end. The Statement of Activities – Modified Cash Basis compares disbursements with program receipts for each governmental activity. Program receipts include charges paid by the recipient of the programs goods or services. General receipts are all receipts not classified as program receipts. The comparison of disbursements with program receipts identifies how each governmental function draws from the Library's general receipts.

The statements report the Library's cash position and the changes in cash position. Keeping in mind the limitations of the modified cash basis of accounting, you can think of these changes as one way to measure the Library's financial health. Overtime, 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 Library property tax base, the condition of the Library's capital assets, the reliance on non-local financial resources for operations and the need for continued growth.

In the Statement of Net Assets – Modified Cash Basis and in the Statement of Activities – Modified Cash Basis, the Library's major programs are reported. Charges for services financed a minimal amount of these activities. To a significant extent, benefits provided through the governmental activities are not being paid for by the people receiving them.

Reporting the Library's Most Significant Funds

Fund Financial Statements

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 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 operating funds of the Library are governmental.

Governmental Funds - The Library's activities are reported in governmental funds. The governmental fund financial statements provide a detailed short-term view of the Library's governmental operations. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the Library's operations. The Library's significant governmental funds are presented on the financial statements in separate columns. The Library's major governmental funds are the General Fund, the Branch Library Fund, and the Building Improvement Fund. The programs reported in the 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 modified cash basis. Since the 2004 financial statements were not presented in the modified cash basis format, we are unable to compare the 2005 net assets to 2004 net assets. In future years, when prior year information is available, a comparative analysis will be presented.

**KATE LOVE SIMPSON LIBRARY
MORGAN COUNTY**

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

**Table 1
Net Assets - Modified Cash Basis**

	Governmental Activities
Assets	2005
Equity in Pooled Cash and Cash Equivalents	\$ 447,543
Investments	5,250
	\$ 452,793
 Net Assets	
Unrestricted	\$ 452,793
 Total Net Assets	\$ 452,793

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
Change in Net Assets**

	Governmental Activities
Program Cash Receipts	
Charges for Sales and Services	\$ 14,894
Total Program Cash Receipts	14,894
 General Receipts	
State Library and Local Government Support	529,470
Gifts and Donations	1,517
Interest	12,741
Miscellaneous	7,320
Total General Receipts	551,048
Total Receipts	565,942
 Disbursements	
Library Services	500,382
Capital Outlay	36,684
Total Disbursements	537,066
 Change in Net Assets	28,876
 Net Assets Beginning of Year	423,917
Net Assets End of Year	\$ 452,793

**KATE LOVE SIMPSON LIBRARY
MORGAN COUNTY**

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

In 2005, 97.4 percent of the Library's total receipts were from general receipts, consisting primarily of the Library and Local Government Support Fund monies.

Governmental Activities

If you look at the Statement of Activities – Modified Cash Basis, you'll see that the first column lists the major services provided by the Library. The next column identifies the cost of providing these services.

The next column of the Statement entitled "Program Receipts" identify amounts paid by people who are directly charged for the service.

The Net (Disbursements) Receipts 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 primarily by the State Library Local Government Support Fund. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

**Table 3
Governmental Activities**

	<u>Total Cost of Services 2005</u>	<u>Net Cost of Services 2005</u>
Library Services	\$ 500,382	\$ (485,488)
Capital Outlay	36,684	(36,684)
	<u>\$ 537,066</u>	<u>\$ (522,172)</u>

The Library's Funds

The governmental funds had total receipts of \$565,942 and disbursements of \$537,066 and an increase in the cash balance of \$28,876. The Building Improvement Fund and the Branch Library Fund had no activity in 2005.

General Fund Budgeting Highlights

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

During 2005, the Library budgeted conservatively and therefore did not amend its original estimated certificate or its appropriations.

Contacting the Library Financial Management

This financial report is designed to provide our citizens with a general overview of the Library's finances and reflect the Library's accountability for the money it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Laura M. Walker, Clerk-Treasurer, Kate Love Simpson Library, 358 East Main Street, McConnelsville, Ohio, 43756.

**KATE LOVE SIMPSON LIBRARY
MORGAN COUNTY**

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

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 447,543
Investments	5,250
Total Assets	<u>\$ 452,793</u>
Net Assets	
Unrestricted	\$ 452,793
Total Net Assets	<u>\$ 452,793</u>

See accompanying notes to the basic financial statements

**KATE LOVE SIMPSON LIBRARY
MORGAN COUNTY**

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

	Disbursements	Program Receipts Charges for Sales and Services	Net (Disbursements) Receipts and Changes in Net Assets Governmental Activities
Governmental Activities			
Library Services	\$ 500,382	\$ 14,894	\$ (485,488)
Capital Outlay	36,684		(36,684)
Total Governmental Activities	\$ 537,066	\$ 14,894	(522,172)
General Receipts			
Library and Local Government Support			529,470
Interest			12,741
Gifts and Donations			1,517
Miscellaneous			7,320
Total General Receipts			551,048
Change in Net Assets			28,876
Net Assets Beginning of Year			423,917
Net Assets End of Year			\$ 452,793

See accompanying notes to the basic financial Statements

**KATE LOVE SIMPSON LIBRARY
MORGAN COUNTY**

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

	General	Branch Library	Building Improvement	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 247,543	\$ 100,000	\$ 100,000	\$ 447,543
Investments	5,250			5,250
Total Assets	\$ 252,793	\$ 100,000	\$ 100,000	\$ 452,793
 Fund Balances				
Reserved:				
Reserved for Encumbrances	\$ 29,001	\$	\$	\$ 29,001
Unreserved:				
Undesignated (Deficit), Reported in:				
General Fund	223,792			223,792
Capital Projects Funds		100,000	100,000	200,000
Total Fund Balances	\$ 252,793	\$ 100,000	\$ 100,000	\$ 452,793

See accompanying notes to the basic financial statements

**KATE LOVE SIMPSON LIBRARY
MORGAN COUNTY**

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

	General	Branch Library	Building Improvement	Total Governmental Funds
Cash Receipts				
Library and Local Government Support	\$ 529,470	\$	\$	\$ 529,470
Patron Fines and Fees	14,894			14,894
Interest	12,741			12,741
Gifts and Donations	1,517			1,517
Miscellaneous Receipts	7,320			7,320
Total Cash Receipts	565,942	0	0	565,942
Cash Disbursements				
Library Services	500,382			500,382
Capital Outlay	36,684			36,684
Total Cash Disbursements	537,066	0	0	537,066
Net Change in Fund Balances	28,876	0	0	28,876
Fund Balances Beginning of Year	223,917	100,000	100,000	423,917
Fund Balances End of Year	<u>\$ 252,793</u>	<u>\$ 100,000</u>	<u>\$ 100,000</u>	<u>\$ 452,793</u>

See accompanying notes to the basic financial statements

**KATE LOVE SIMPSON LIBRARY
MORGAN COUNTY**

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

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance</u>
Cash Receipts				
Library and Local Government Support	\$ 527,949	\$ 527,949	\$ 529,470	\$ 1,521
Patron Fines and Fees	14,750	14,750	14,894	144
Interest	8,000	8,000	12,741	4,741
Gifts and Donations	1,000	1,000	1,517	517
Miscellaneous Receipts	8,772	8,772	7,320	(1,452)
Total Cash Receipts	<u>560,471</u>	<u>560,471</u>	<u>565,942</u>	<u>5,471</u>
Cash Disbursements				
Library Services	575,587	575,587	529,383	46,204
Capital Outlay	208,801	208,801	36,684	172,117
Total Cash Disbursements	<u>784,388</u>	<u>784,388</u>	<u>566,067</u>	<u>218,321</u>
Net Change in Fund Balances	(223,917)	(223,917)	(125)	223,792
Prior Year Encumbrances Appropriated	8,416	8,416	8,416	0
Fund Balances Beginning of Year	<u>223,917</u>	<u>223,917</u>	<u>223,917</u>	<u>0</u>
Fund Balances End of Year	<u>\$ 8,416</u>	<u>\$ 8,416</u>	<u>\$ 232,208</u>	<u>\$ 223,792</u>

See accompanying notes to the basic financial statements.

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**KATE LOVE SIMPSON LIBRARY
MORGAN COUNTY**

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

Note 1 - Reporting Entity

The Kate Love Simpson 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. The Library is directed by a seven-member Board of Trustees, four of which are appointed by the Morgan County Board of Commissioners and three of which are appointed by the Morgan County Probate/Juvenile Court Judge. Appointments are for seven-year terms and members serve without compensation. The Library also determines and operates under its own budget. Control and management of the Library is governed by Sections 3375.33 to 3375.39 of the Ohio Revised Code, with the administration of the day-to-day operations of the Library being the responsibility of the Director and financial accountability being solely that of the Clerk-Treasurer.

The Library is also affiliated with the Southeast Ohio Library Organization, a jointly governed organization. More information is presented in Note 9.

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

Note 2 - Summary of Significant Accounting Policies

As discussed further in Note 2.C, the financial statements of the 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. In the government-wide financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The most significant of the Library's accounting policies are described below.

A. Basis of Presentation

The Library's basic financial statements consist of government-wide financial statements, including a statement of net assets, the 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 statements include the financial activities of the primary government. The activity of the internal service fund is eliminated to avoid "doubling up" receipts and disbursements. The statements distinguish between those activities of the Library that are governmental and those that are considered business-type. Governmental activities generally are financed through taxes, intergovernmental receipts and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. The Library has no business-type activities.

The statement of net assets presents the cash balance of the governmental activities of the Library at year-end. The statement of activities compares disbursements and program receipts for each program or function 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.

**KATE LOVE SIMPSON LIBRARY
MORGAN COUNTY**

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

Note 2 - Summary of Significant Accounting Policies (Continued)

A. Basis of Presentation (Continued)

Government-Wide Financial Statements (Continued)

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

Fund Financial Statements

During the year, the Library segregates transactions related to certain Library functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Library at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented on a separate column. The Library had no nonmajor funds in 2005.

B. Fund Accounting

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

Governmental Funds

Governmental funds are financed primarily from 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 balances are available to the Library for any purpose provided it is expended or transferred according to the general laws of Ohio.

Building Improvement Fund - The Building Improvement Fund accounts for monies set aside by the Board of Library Trustees specifically for major capital and technology improvements.

Branch Library Fund - The Branch Library Fund accounts for monies set aside by the Board of Library Trustees for future library expansion.

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 the liability is incurred. Any such modifications made by the Library are described in the appropriate section in this note.

**KATE LOVE SIMPSON LIBRARY
MORGAN COUNTY**

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

Note 2 - Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting (Continued)

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 Board of Library Trustee's 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 fund 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 statement reflect the amounts of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statement reflect the amounts of estimated resources 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 amount reflect the first appropriation resolution 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 Investments

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.

**KATE LOVE SIMPSON LIBRARY
MORGAN COUNTY**

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

Note 2 - Summary of Significant Accounting Policies (Continued)

E. Cash and Investments (Continued)

During 2005, investments were limited to STAROhio. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio'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 receipts credited to the General Fund during 2005 amounted to \$12,741.

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.

G. Inventory and Prepaid Items

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

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. 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 modified cash basis of accounting.

J. 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.

K. 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. There were no restricted assets reported for 2005.

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.

**KATE LOVE SIMPSON LIBRARY
MORGAN COUNTY**

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

Note 2 - Summary of Significant Accounting Policies (Continued)

L. 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 and undesignated fund balances indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances.

Note 3 - Change in Basis of Accounting

Last year the Library reported fund financial statements by fund type using the regulatory basis of accounting as prescribed by the State Auditor's Office. This year the Library has implemented the modified cash basis of accounting described in Note 2. The fund financial statements now present each major fund in a separate column rather than a column for each fund type.

Note 4 - Budgetary Basis of Accounting

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual (Budget 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 are 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:

General Fund	\$	29,001
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Note 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:

**KATE LOVE SIMPSON LIBRARY
MORGAN COUNTY**

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

Note 5 - Deposits and Investments (Continued)

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

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.

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, \$371,310 of the Library's bank balance of \$576,560 was exposed to custodial credit risk because those deposits were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Library's name.

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

**KATE LOVE SIMPSON LIBRARY
MORGAN COUNTY**

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

Note 5 - Deposits and Investments (Continued)

Investments

As of December 31, 2005, the Library had an investment in STAROhio. The carrying and fair value of this investment at December 31, 2005 was \$5,250, with an average maturity of thirty days. STAROhio carries a rating of AAAM by Standard and Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The Library has no investment policy addressing credit risk.

Note 6 - Risk Management

The Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2005, the Library obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicle – Bookmobile;
- Crime, including employee dishonesty and theft, disappearance and destruction; and,
- Inland Marine.

Note 7 – Defined Benefit Pension Plan

Ohio Public Employees Retirement System

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) 222-6701 or (800) 222-7377.

For the year ended December 31, 2005, the members of all three plans were required to contribute 8.5 percent of their annual covered salaries. The employer contribution rate for pension benefits for 2005 was 9.55 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

The Library's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2005 and 2004, were \$46,942 and \$49,014 respectively; 100 percent has been contributed for 2005 and 100 percent for 2004. There were no contributions to member-directed plans.

**KATE LOVE SIMPSON LIBRARY
MORGAN COUNTY**

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

Note 8 – Postemployment Benefits

Ohio Public Employees Retirement System

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 benefit recipients and qualified survivor benefit recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other 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 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between 0.50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1 to 6 percent annually for the next eight years and 4 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 376,109. Actual Library contributions for 2005 which were used to fund postemployment benefits were \$20,989. The actual contribution and the actuarially required contribution amounts are the same. The actuarial value of OPERS's net assets available for payment of benefits at December 31, 2004, (the latest information available) was \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

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

Note 9 – Jointly Governed Organizations

The Southeastern Ohio Library Organization (SOLO) is a regional library system created and jointly governed according to the provisions of Ohio Rev. Code Sections 3375.90 through 3375.93. SOLO is composed of thirteen legally-separate libraries within Southeast Ohio: Barnesville Hutton Memorial Library, Bellaire Public Library, Caldwell Public Library, Guernsey County District Library, Kate Love Simpson Library, Martins Ferry Public Library, Monroe County District Library, Newark Public Library, Perry County District Library, Public Library of Steubenville and Jefferson County, Puskarich Public Library, St. Clairsville Public Library, and Washington County Public Library. SOLO is governed by a thirteen member Board of Trustees which consists of the Library Administrators or a representative from each member Library.

**KATE LOVE SIMPSON LIBRARY
MORGAN COUNTY**

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

Note 9 – Jointly Governed Organizations (Continued)

SOLO provides annual training workshops for member library employees, technical training and assistance, and a central graphics center. The Kate Love Simpson Library system's control over budgeting and financing of SOLO is limited to its voting authority and its representation on SOLO's Board of Trustees.

Note 10 – Related Party Transactions

The Library pays an annual fee to SOLO, a jointly governed organization, of which the Library is a member. The Library paid dues, website, and digital shoebox fees of \$4,750 for the period July 1, 2004 to June 30, 2005. For the period July 1, 2005 to June 30, 2006, dues, website, and digital shoebox fees of \$4,250 were paid.

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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*

Kate Love Simpson Library
Morgan County
358 East Main Street
McConnelsville, Ohio 43756

To the Board of Trustees:

We have audited the financial statements of the governmental activities and each major fund of the Kate Love Simpson Library, Morgan 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 June 20, 2006, wherein we noted the Library revised its financial presentation comparable to the requirements of Governmental Accounting Standards Board Statement No. 34. We also noted that the Library uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Library because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Library's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the basic 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 to be material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the Library's basic 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*.

743 E. State St. / Athens Mall Suite B / Athens, OH 45701
Telephone: (740) 594-3300 (800) 441-1389 Fax: (740) 594-2110
www.auditor.state.oh.us

Kate Love Simpson Library
Morgan 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 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

June 20, 2006



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

**KATE LOVE SIMPSON LIBRARY
MORGAN 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
JULY 11, 2006**